AIB Group (UK) p.l.c.

Annual Financial Report

For the year ended 31 December 2018

Company number: NI018800

Contents

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

How we've done

2018 Performance highlights

2017 Performance highlights

AIB UK Group's performance and key performance indicators below are presented to exclude those items that the Bank believes obscure the underlying performance trends of the business. A reconciliation to the statutory view of performance is included in the Financial review on page 9 of this report.

Profitable and Efficient	Net interest margin (NIM) **2.1%** 1.9%	Banking net interest margin **3.2%** 3.0%	NIM improvement of 20bps driven by active management of legacy higher rate deposits and maintenance of customer yields.
	Cost income ratio **47%** 47%		OneUK transformation efficiencies with lower staff costs and continued investment in our operating model.
	Profit before tax **£128m** £122m		Improved underlying profit before tax reflecting net interest income growth and efficiencies from our simplified operations.
	Return on equity (ROE) **6.1%** 5.9%		ROE improved by 20bps reflecting increased profit after tax.
Strong Balance Sheet	Total capital ratio **17.2%** 16.3%	Leverage ratio **10.4%** 9.8%	Strong and accretive capital position, stable leverage position.
	Non-default loans **£6.6b** Earning loans £6.4b	Default loans **£0.2b** Non-earning loans £0.2b	Modest growth delivered in non-default loans. Continued focus on the management of default loans.
	Customer deposits **£8.9b** £9.0b	Liquidity coverage ratio **177%** 197%	Robust funding structure. Reduction in LCR reflects the reduction of short term intercompany funding.
Franchise	New lending **£1.9b** £1.8b		Continued growth in new lending cementing our focused sector strategy.
	Transactional net promoter score (FTB) **+37** +34		Improving in 2018 following the impact of the branch closures in Northern Ireland in 2017.

At a glance

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

What we do

AIB UK is a growing UK specialist bank, servicing retail, SME and corporate customers in Great Britain and Northern Ireland.

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

In Northern Ireland, we offer business banking, personal banking and mortgages through the First Trust Bank brand.

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

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

Our divisions

Allied Irish Bank (GB)

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

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

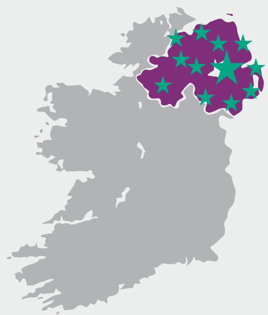
Banking services include lending, treasury, trade facilities, asset finance, invoice discounting and day-to-day transactional banking.

First Trust Bank (FTB)

FTB is a long established bank in Northern Ireland.

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

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



UK Financial Solutions Group (UK FSG)

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

Our ambition & values

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

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

How we run our business and measure our progress

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

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

Our People

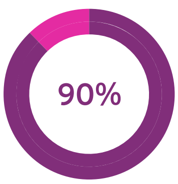
1,022
Employees (FTE)
Direct and Indirect

57%
Female

43%
Male

Employee engagement

Strong participation



Engaged outnumber actively disengaged

What makes us different

A banking relationship based on

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

Chairman's statement

"In 2018, we have built upon the considerable progress that was made on the OneUK transformation programme in 2017, by further streamlining and digitising our internal and external processes."

Peter Spratt

Introduction

When I wrote the Chairman's Statement last year we had completed the first year of a three year strategic plan to build out a sustainable, capital generative business that would support the ambitions of shareholders, staff and most importantly, our current and future customers.

In 2018, we have built upon the considerable progress that was made on the OneUK transformation programme by further streamlining and digitising our internal and external processes. This has resulted in an improved profit and a sharper focus on customers, including giving them more flexibility in how they choose to do business with us.

Neither we, nor any of our stakeholders, have been immune from the political uncertainty that continues as Brexit negotiations on the terms of the UK's departure from the European Union ('EU') in March 2019 remain extant. The uncertain consequences of this exit continue to impact on consumer confidence and investment.

Not least because of this uncertainty, UK economic growth slowed further in 2018, albeit that unemployment levels remained low, house prices increased moderately and wages also showed modest growth. The Bank of England raised interest rates in August this year while inflation fell during 2018 from its six year high at the start of the year.

Financial performance and business strategy

Despite the political and economic uncertainty during 2018, AIB UK Group increased underlying profit before taxation to £128m, and statutory profit before taxation to £129m. This primarily reflected net interest income growth and efficiencies from our simplified operations. Importantly also, our new business lending continues to grow as we focus on core customer segments. Regrettably, the level of loan redemptions also grew, all but negating the level of new lending such that, year on year, our balance sheet showed only limited net loan growth.

In 2018 the Board reaffirmed the sustainable, capital generative and customer focused strategy for the Bank and committed to maintain investment in these areas. Notwithstanding the political and economic background in which we are operating, it is heartening to see this investment paying off with the modest improvement in underlying net profit before taxation and net loans to customers.

Customers and staff

As previously noted, our purpose is to back our customers to achieve their dreams and ambitions. Delivering successfully on our purpose requires us to embed our brand values into our own culture and our peoples' day to day lives. We have a clearly defined culture within the organisation and an ambition to work openly together in putting the customer first. This is grounded in our four strategic pillars – Customer First, Simple & Efficient, Risk & Capital and Talent & Culture.

Throughout 2018 we have continued to embrace diversity and inclusion, with awareness sessions held throughout the year and employee resource groups established. We recognise this as a fundamental part of the workplace.

The results of our gender pay gap were published earlier this year, and while we are confident that men and women are being paid equally for equivalent jobs, the results show that we have an imbalance in the number of females at manager level (currently 40% female/ 60% male). We are committed to building a more gender balanced workforce and reducing the average gap in gender pay.

We encouraged and enabled our staff to give their time and skills for the benefit of local charities with the introduction of volunteering days for all staff. Hospices in GB and NI were supported in particular, and with staff free to support charities of their choosing, a wide variety of other charities have benefited from our staff volunteering and fundraising efforts.

I would like to thank management and staff throughout the organisation for their continued commitment and dedication which has helped us achieve so much in 2018. The continued support of our colleagues in our parent company is also noted as contributing to our achievements.

Board of Directors

The Board remains committed to a culture of strong governance. To this end, a good deal of the Board's time during 2018 was dedicated to ensuring the ongoing strengthening and embedding of our systems and controls. We will continue with this into 2019. Towards the end of 2018 the Board signed up to a three year development programme with an independent third party. The first phase of this was a board efficiency review, the learnings from which will also form part of our agenda for 2019.

There were a number of changes to the Board during the year as Declan Collier stepped down as Director in March and Shelley Malton commenced her role as Director to the Board in December. We would like to thank Declan for his service and to welcome Shelley.

The Board is intent on delivering the strategic plan it reaffirmed in 2018 and I look forward to working with my fellow directors and with the management and staff to deliver further on it throughout 2019.

Outlook

2019 is expected to be another challenging year with Brexit and other global issues impacting the markets. Nevertheless, our agenda for 2019 is clear; to remain focused on our customer experience, on simplifying our operations and on strengthening our governance. Success in these areas will, we believe, enable the Bank to continue growing safely for the benefit of our customers, shareholders and staff alike.

Peter Spratt

Chairman
26 February 2019

Managing Director's review

"AIB UK has been transformed in recent years, and our focus for 2018 has been to make it progressively easier for our customers to do business with us."

Brendan O'Connor

Introduction

2018 was a year characterised by a solid business performance following the significant OneUK transformation and change programme delivered in 2017. Our sector-focused strategy is bedding down and gaining momentum albeit in a market and with a customer base that was challenged by the uncertainty arising in 2018 as a result of the lack of clarity around Brexit and its potential impact on business and the economy. We adapted to this fluid and uncertain business environment over the course of the year and tightened our credit risk appetite for some sectors and for some deal types and structures in response.

We have become a simpler bank to operate and deal with in 2018, we have become more productive and cost efficient and now we have begun the journey of translating our internal progress into an improved customer journey and experience. Our purpose as a bank is to back our customers to achieve their dreams and ambitions. Living our purpose guided our strategy and actions through 2018 and will remain the driving force for everything that we do in 2019 and beyond.

Economic factors

UK economic growth slowed in 2018 with GDP growth at 1.4% as a result of subdued real consumer spending growth and the impact on business investment from Brexit uncertainty. However, the stronger global economy and the competitive value of the pound have boosted UK exports and inbound tourism. Unemployment rates have fallen to 4.1%, from 4.4% at the end of 2017. However, real earnings growth has remained moderate as a result of inflation and relatively weak productivity.

In August, the Bank of England raised interest rates to 0.75% in an effort to curb inflation. This was also an indicator of confidence in the UK economy viewed in the context of historically low rates post 2008. Further decisions on rates are not expected until towards the end of 2019 when the potential impact of the UK's departure from the EU on the economy, business conditions and the credit environment becomes manifest.

In general, borrowers displayed a cautious appetite for business investment expenditure and borrowing in 2018 which appeared to be linked to an unwillingness to make investment decisions in the absence of greater clarity on the impact of Brexit under different exit scenarios. Despite this reduced appetite, AIB UK's key lending sectors have shown a broadly positive performance in particular in the healthcare, hospitality and energy sectors.

Customer first

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

During 2018, we continued to take advantage of our significant capability, insight and experience in our chosen sectors. In Q1, four £500m funds were publicised

OUR CULTURAL AMBITION

"We act together to deliver a better future for our customers. Always open, challenging ourselves to make things quicker and easier. Stepping up and owning it. Doing it right and making it happen"

for businesses in the key economic growth sectors of manufacturing, healthcare, hotels & hospitality and professional practices. Our network of regional expertise, coupled with and supported by our centres of excellence, brings that capability, insight and experience to bear on customer relationships and transaction opportunities across the entirety of our distribution network.

In Northern Ireland, our retail network refurbishment programme is now complete and our multi-channel distribution model reflects changing behaviours in how customers wish to bank and engage with our products and services.

We continued to invest in and upgrade our digital offerings adding new and useful functionality to digital channels. Significant upgrade in our digital app capability has been implemented, including personal loan approval via the mobile app, touch login and notifications. Our personal customers now also have the choice to receive, view, accept and electronically sign loan credit agreements using a paperless, electronic process. These improvements were recognised in the Moneyfacts customer service awards 2018, in which First Trust Bank ('FTB') was awarded 3rd place in the UK in the best mobile banking app category. Migration to a new Digital Business Banking platform is underway, which will supplement and sustain our business and corporate relationship model further.

2018 saw the introduction of a new asset based lending business model where we have teamed up with a new external partner in Macquarie to significantly upgrade our capability and customer experience. The new platform significantly enhances the customer journey, helps us grow our non-interest income and has allowed us to deploy new resources and investment to increase our capability to serve the corporate market. It greatly extends the range of assets for which we can offer customers funding, provides for full digital delivery and significantly reduces the timeframe from quote to pay out with same day pay outs possible in some circumstances. We are committed to keeping our business models under review and to adapt them as our customer requirements grow and change over time. In any review we will continue to keep our commitment to 'customer first' behaviours and values first and foremost in our thinking.

Simple & efficient

In early 2018, we launched a 'ways of working' ('WoW') programme, which uses Lean principles to enable more effective, smarter and collaborative working practices. New standards for multiple end-to-end processes are now in place with the positive impacts of these new processes being felt across the Bank with early productivity and capacity benefits emerging. Our customer journey and process streamlining programme will continue into 2019. We want to make it easy and friction free for our customers to do business with us, and easier for us to support our customers as they seek to grow their businesses.

Risk & capital

Risk Adjusted Return on Capital ('RAROC'), a measure of risk-adjusted return on capital, is now embedded across our entire UK business thereby ensuring we have the appropriate balance between the risk we take on the balance sheet and the reward we earn for doing so. Our use of RAROC as a discipline and tool for making pricing decisions underpins our goal of achieving well managed asset growth in our business.

Talent & culture

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

Last year, we articulated our target culture, defining the ways of working that are true to our values, strategy and purpose. This year, we moved to operationalise this cultural ambition through initiatives such as 'tone of voice' training, 'change one thing', a new recognition programme ('Appreciate'), role swapping and the launch of a culture code booklet ('how we do things around here') amongst others. 'AIB Together' was also launched in 2018, enabling every AIB employee to avail of two volunteering days per year for a charity or not-for-profit of their choice.

A high level of employee engagement within the Bank is vital both to ensuring that everyone has the opportunity to feel valued and fulfilled at work and to driving the success of our business. Great strides were made in 2018 in this regard and our Gallup employee engagement survey results showed a material improvement in our staff engagement scores year over year – we are now in the 65th percentile for engagement of all companies in the Gallup global universe of companies that participate in this survey every year.

We made progress in 2018 in furtherance of our ambition to be a more diverse organisation, one that encourages and is welcoming of diversity in all its forms. We facilitate multiple Employee Resource Groups, such as Pride Matters and Women Matters, to create social outlets, provide support, raise awareness, lobby for change and drive improvements on employment practices related to the specific topic. We are signed up to the Women in Finance Charter, which aims to build a more gender balanced workplace and we are aiming to achieve a target of 50% female managers by 2020. It's an ambitious target and we have a way to go to reach that level of female management representation but, as is the case with all our diversity initiatives, we are committed to achieving our goals.

Regulatory and other evolving issues

The Bank, like all financial services firms, continues to operate in a demanding regulatory and political environment. During 2018, the Bank has implemented, among others, Payment Services Directive 2 ('PSD'), General Data Protection Regulation ('GDPR'), International Financial Reporting Standard ('IFRS') 9, Operational Continuity In Resolution ('OCIR') and Open Banking. Moving forward, regulatory changes to which the Bank expects to respond include Minimum Requirement for Eligible Liabilities ('MREL'), the Payment Accounts Directive and Anti-Money Laundering Directive 5 ('AMLD').

In early 2018, AIB UK achieved compliance with the Competition and Markets Authority ('CMA') Open Banking requirements for current accounts, representing a successful launch of Open Banking and our new AIB UK Application Programming Interface ('API') channel. This is a relatively soft launch and is allowing for a "live proving" period of collaboration with new third party providers before going fully live with customers. Being suitably prepared for open banking will allow us to capitalise on potential opportunities that may arise in the Fintech space, and continue to meet our customers' evolving needs.

Political and economic uncertainty is at a heightened level due to Brexit, the ongoing negotiations between the UK Government and the EU over the terms of the exit and the ongoing trading relationship. This is resulting in a subdued lending market in the UK, with clients delaying investment decisions. Recent Central Bank of Ireland ('CBI') and United Kingdom Financial Investments ('UKFI') analyses confirm a negative impact on Business sentiment and industry data shows negative growth rates in UK business borrowing since the start of 2018. Continued Northern Ireland Assembly deadlock will impact on private sector investment in NI unless resolved in 2019. While recognising that the outcome of Brexit negotiations will have little organisational/ structural impact on AIB UK itself, we continue to carefully monitor Brexit-related risks in carrying out our business.

Non-financial information statement

The following section summarises the areas of disclosure in the Annual financial report of non-financial information as required by sections of the Companies Act 2006.

Business model, principal risks & non-financial KPIs

- The Business model is set out on page 2, strategy on page 4 and 6 and principal risks from page 21.
- The key non-financial KPIs are described on page 3, with key indicators reported as follows: customer satisfaction (NPS): page 1 and employee engagement: page 3, 7 and 24.

Employees, Gender equality & diversity

- Gender equality is referenced page 3, 5 and 30 and Diversity on pages 3, 5, 7 and 30.
- We publish the Bank's Gender diversity policy and the annual Gender Pay Gap report on the respective websites.

Human rights

- AML & Financial sanctions policies are referenced on page 29.
- The Bank's Modern Slavery statement is published on the Bank's respective websites.

Environmental & social

- Social contribution through volunteering days is disclosed on pages 5 & 7.
- The environmental management programme and policies on energy, waste, green travel and procurement are published on the FTB website.

The AIB (GB) website address is **aibgb.co.uk** and FTB **firsttrustbank.co.uk**

Conclusion

To be able to back our customers to achieve their dreams and ambitions, we need to push the boundaries as it relates to the customer experience we deliver. The work we completed this year means that we are better placed to deliver on our purpose within the context of a bank and business model that is sustainable for the long term and is delivering for all its stakeholders. We believe if we deliver on our purpose, then commercial and business sustainability and success will inevitably follow.

Our success in 2018 is down to that belief as well as the commitment and professionalism of the people who work in our business and who deliver on our purpose for our customers every day, As is always the case, we have further opportunities to improve our performance as a sustainable business with the customer at the heart of our decisions and choices and that will be our focus in 2019 and beyond.

Brendan O'Connor

Managing Director
26 February 2019

Financial review

"2018 was a year of solid financial performance with growth in net lending and profit before tax reflecting our strategy for a sustainable and capital generative bank."

Rachel Lawrence

Basis of preparation

This Financial review is prepared using IFRS and non-IFRS measures. Non-IFRS measures include management and regulatory performance measures which are considered Alternative Performance Measures ('APMs'). A description of AIB UK Group's APMs and their calculation are set out on page 18.

These management performance measures are presented as they reflect the Board's view of AIB UK Group's underlying performance without distortions caused by non-recurring items that are not reflective of AIB UK Group's ongoing business activities. Management performance presented should be considered in conjunction with IFRS information as set out in the consolidated financial statements from page 48 onwards.

A reconciliation between the IFRS statutory and the underlying management performance summary income statement is set out below. 2018 figures are reported under IFRS 9 where applicable (2017: IAS 39) and balance sheet transition to IFRS 9 at 1 January 2018 is included.

Summary income statement	2018 Underlying £m	2017 Underlying £m
Net interest income	227	210
Fees, commissions and other income	45	59
Underlying operating income	272	269
Total costs	(127)	(127)
Underlying operating profit before expected credit losses	145	142
Credit impairment losses	(19)	(21)
Profit on disposal of property	2	1
Underlying profit before tax	128	122
Profit on sale of loan portfolio and assets	5	5
Voluntary severance	(5)	(19)
Past service costs	(2)	-
FSCS levy	1	2
Property strategy costs	-	(1)
Customer redress	(1)	2
Reversal of property impairment	3	-
Reallocation of group charges	-	(5)
Total underlying adjustments	1	(16)
Statutory profit before tax	129	106
Tax	(18)	(4)
Statutory profit after tax	111	102

Summary balance sheet	31 Dec 2018 £m	1 Jan 2018 £m	31 Dec 2017 £m
Gross loans to customers	**6,840**	6,637	6,637
Expected credit losses	**(118)**	(152)	(125)
Net loans	**6,722**	6,485	6,512
Other assets	**5,147**	5,329	5,323
Total assets	**11,869**	11,814	11,835
Customer accounts	**8,878**	9,034	9,034
Other liabilities	**1,162**	1,042	1,041
Shareholders' equity	**1,829**	1,738	1,760
Total liabilities and shareholders' equity	**11,869**	11,814	11,835

Income Statement Review

2018 underlying profit before tax of £128m increased by £6m (5%), reflecting strong net interest income generation and contained costs following 2017 restructuring. Fees, commissions and other income were impacted by movements on derivatives, resulting from a small number of strategic exits in the retail sector and the impact of CMA remedies, including overdraft warnings, transaction history and a standardised current account opening procedure.

Underlying operating income and net interest margin ('NIM')

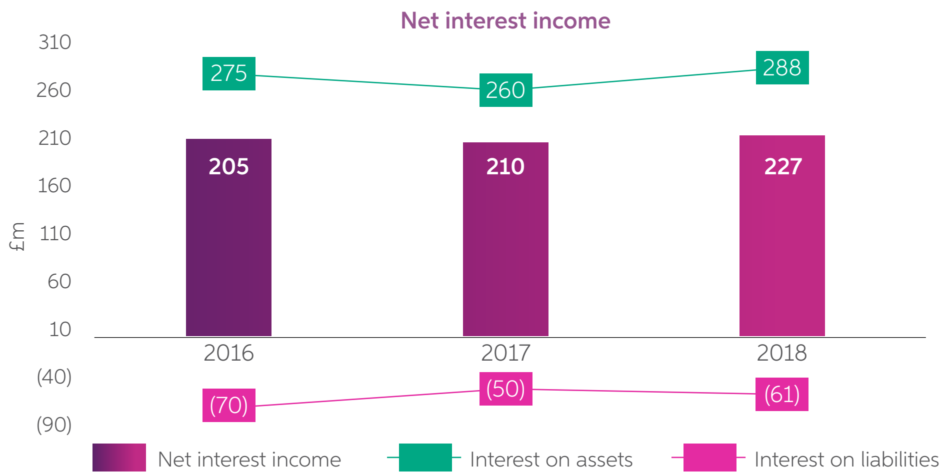
Underlying operating income
£272m
£269m

NIM
2.1%
1.9%

Banking NIM
3.2%
3.0%

Net interest income

	2018 £m	2017 £m	% change
Net interest income	**227**	210	9
Average interest earning assets	**10,821**	11,062	(2)
	%	%	% change
NIM	**2.1**	1.9	0.2
Banking NIM	**3.2**	1.3	0.2



Net interest income increased by £17m (9%) compared to 2017, driven mainly by growth in interest income reflecting the increased base rate and net lending growth.

Net interest income (continued)

	Year ended 31 December 2018			Year ended 31 December 2017		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and receivables from customers	**6,505**	**232**	**3.57**	6,631	223	3.36
Balances with central banks & other interest earning assets	**4,316**	**56**	**1.29**	4,431	37	0.84
Average interest earning assets	**10,821**	**288**	**2.66**	11,062	260	2.35
Non interest earning assets	**1,020**			984		
Total assets	**11,841**	**288**		12,046	260	
Liabilities & Equity						
Customer accounts	**6,565**	**24**	**0.37**	6,504	26	0.39
Other interest bearing liabilities	**895**	**37**	**4.10**	765	24	3.17
Average interest bearing liabilities	**7,460**	**61**	**0.81**	7,269	50	0.69
Non-interest bearing liabilities	**2,579**			3,057		
Equity	**1,802**			1,720		
Total liabilities & equity	**11,841**	**61**		12,046	50	
Net interest income	**10,821**	**227**	**2.10**	11,062	210	1.90
Banking net interest income	**6,505**	**208**	**3.20**	6,631	197	2.98

Despite a challenging market, customer yields have increased, reflecting our focus on sector strategy combined with increases in base rate.

Average interest earning assets fell as a result of reduced intercompany funding and a slow first half of the year in loans and receivable from customers.

Average cost of funds of 81bps were 12bps higher than in 2017 mainly due to the impact of base rate changes in intercompany balances partially offset by a strategic exit from higher rate deposits in the early part of 2018.

Underlying fees, commissions and other income

Other income decreased by £14m (24%) to £45m compared to 2017. This is driven largely by a loss on loan sale, impairment of a derivative during 2018 and lower current account fee income as a result of CMA regulation introduced in 2017.

Total costs and cost income ratio ('CIR')

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

Total underlying costs	**2018 £m**	2017 £m	% change
Staff costs	**64**	67	(4)
General & administrative costs	**59**	57	4
Depreciation, impairment and amortisation	**4**	3	33
Total underlying costs	**127**	127	0
Staff numbers at period end (FTE)	**1,022**	1,087	(6)
Average staff numbers	**1,043**	1,218	(14)

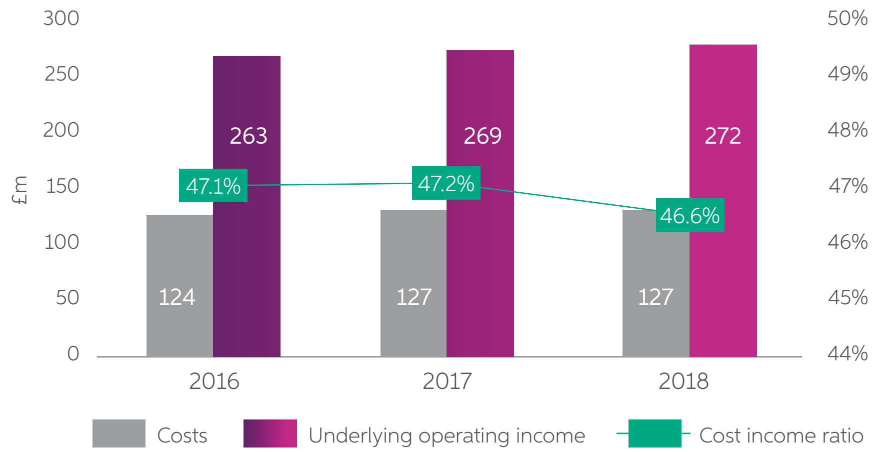
Total underlying costs were maintained at £127m overall.

Staff costs fell by £3m (4%) compared to 2017. Within this, underlying wages and salaries reduced by £4m, reflecting staff reductions from the 2017 OneUK transformation programme, offset slightly by salary inflation. Year on year headcount fell by 6%.

General & administration costs were up by £2m, mainly attributable to; higher professional fees as a result of various projects undertaken, including WoW and IFRS 9 (£4m); offset against savings in occupancy costs from the OneUK programme.

Increases in amortisation of intangible assets were as a result of the capitalisation of a number of large projects (IFRS 9 & Image Clearance System ('ICS')).

Cost income ratio



Credit impairment losses

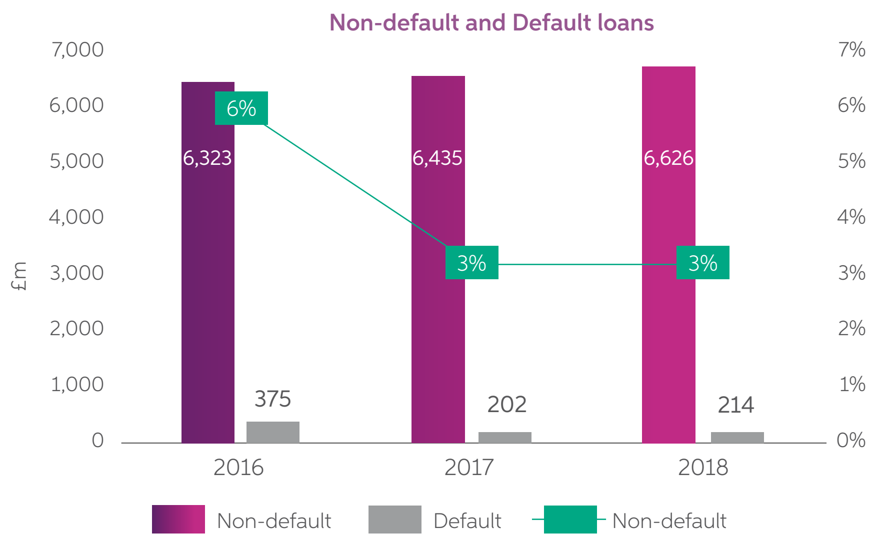
The 2018 losses of £19m were accounted for on an expected credit loss ('ECL') basis under IFRS9 and include £7m provision for ECL on undrawn loan commitments and financial guarantees. The credit impairment losses for 2017 of £21m were accounted for on an incurred loss basis under IAS 39 and included two significant unrelated credit provisions.

Balance Sheet Review

Assets

Non-default loans	Default loans	New lending	Provisions
£6.6b	**£0.2b**	**£1.9b**	**£0.1b**
£6.4b*	£0.2b*	£1.8b	£0.2b

Assets	31 Dec 2018 £m	1 Jan 2018 £m	31 Dec 2017 £m	change %
Gross loans to customers	**6,840**	6,637	6,637	3
Provisions	**(118)**	(152)	(125)	(6)
Net loans to customers	**6,722**	6,485	6,512	3
Cash and balances at central banks	**3,526**	3,583	3,583	(2)
Intercompany	**299**	461	461	(35)
Other assets	**1,322**	1,285	1,279	3
Total assets	**11,869**	11,814	11,835	0



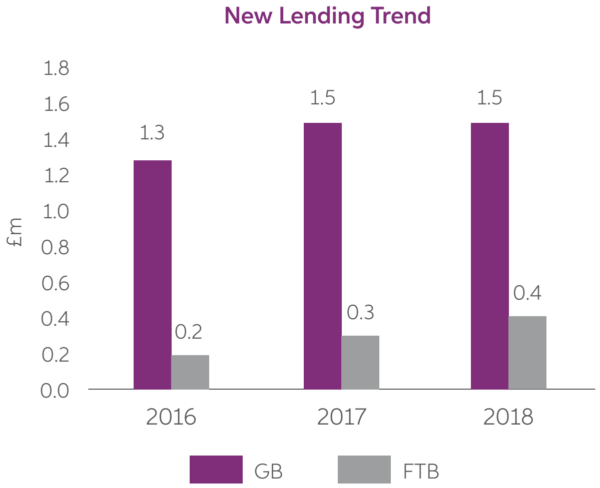
Gross loans to customers

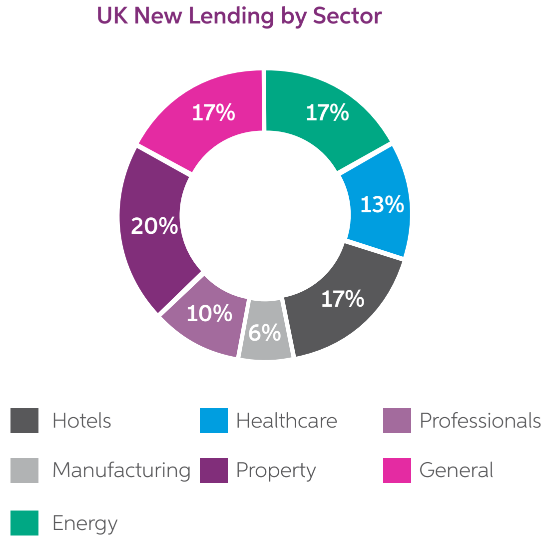
Non-default loans increased £0.2b reflecting new lending of £1.9b offset by redemptions of £1.7b. Defaulted loans as a percentage of the overall loan book remained flat at 3%*.

*Comparative loans for 2017 are on an earning/non-earning basis

Strategic report
Risk management report
Governance and oversight
Financial statements
General information

New lending and sector strategy





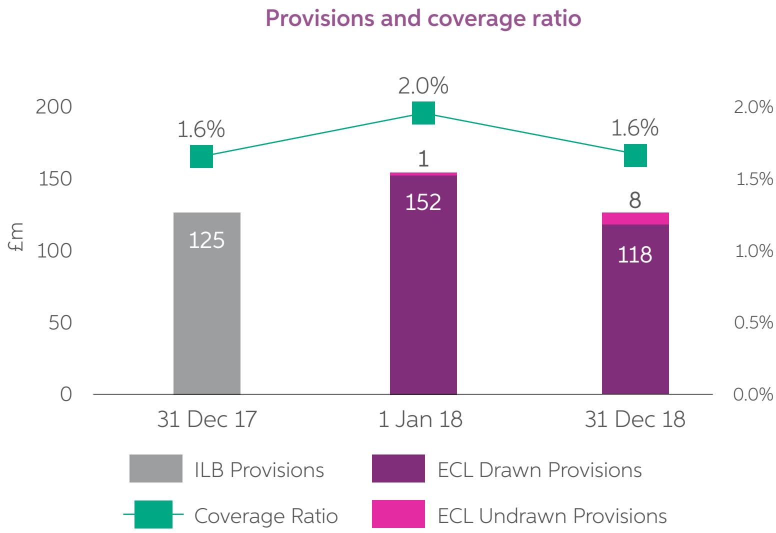
The Bank achieved new lending of £1.9b, an increase of £0.1b (6%) compared to 2017, despite challenging economic and market uncertainty in the run up to Brexit. This is primarily driven by increases in commercial lending, which has seen strong growth in the energy and hotel sectors. Growth in the customer lending book has been achieved without compromising asset quality and is a result of our customer acquisition strategy.

86% of GB new lending in 2018 was in our chosen sectors, reflecting a positive result for our sector strategy. In FTB, new lending of £0.4b finished the year on plan, which was the highest level of new business in FTB for ten years.

Provisions

Balance sheet provision for loss allowances are on an expected credit loss (ECL) basis under IFRS 9 for 2018. The ECL on loans at 31 December 2018 is £118m and ECL on undrawn facilities and guarantees is £8m. The ECL on undrawn facilities and guarantees is included in Other liabilities below.

After an initial increase on transition to IFRS 9 on 1 January 2018 of £27m, ECL provisions on loans at 31 December 2018 are £34m lower than at transition date and, although not directly comparable due to different accounting treatment, £7m lower than the IAS 39 incurred loss basis (ILB) provision at the end of December 2017. This is due to a continued focus on implementing sustainable solutions for customers and follows the sale in 2017 of certain loans as part of our deleveraging strategy.



Liabilities & equity

	31 Dec 2018 £m	1 Jan 2018 £m	31 Dec 2017 £m	change %
Customer accounts – current accounts	**5,821**	5,707	5,707	2
Customer accounts – deposits	**3,057**	3,327	3,327	(8)
Total customer accounts	**8,878**	9,034	9,034	(2)
Intercompany liabilities	**359**	469	469	(24)
Other liabilities	**803**	573	572	40
Total liabilities	**10,040**	10,076	10,075	(0)
Shareholders' equity	**1,829**	1,738	1,760	4
Total liabilities and equity	**11,869**	11,814	11,835	0
Loan to deposit ratio	**76%**	72%	72%	4

Total customer balances decreased by £0.2b (2%) in the year in line with the UK strategy to reduce excess funding. The mix profile continued to change in 2018, with current accounts increasing by £0.1b, offset by a reduction in deposits of £0.3b (8%) as higher yielding deposits in the back book were re-priced downwards.

Capital management and liquidity

Capital

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

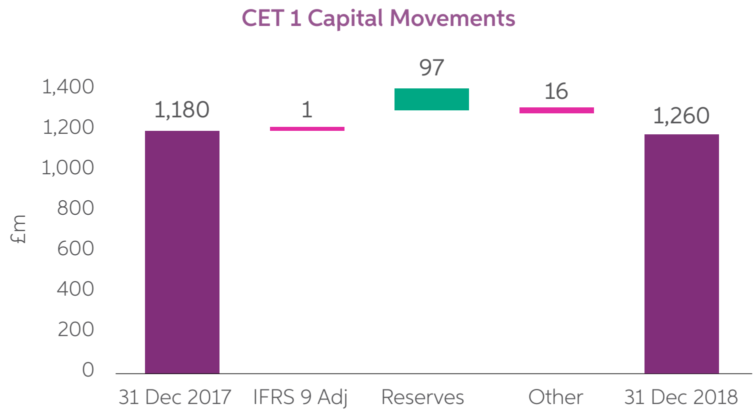
The level of capital held by AIB UK Group is influenced by the minimum regulatory requirements of the Prudential Regulation Authority ('PRA'). The adequacy of AIB UK Group's capital is assessed by comparing available regulatory capital resources with capital requirements expressed as a percentage of risk weighted assets. The minimum capital requirement under the Capital Requirements Regulation (575/2013) is a total capital (to risk weighted assets) ratio of 8% and Tier 1 capital (to risk weighted assets) ratio of 4%, from which the PRA sets individual minimum capital ratios for banks within its jurisdiction. In line with these requirements, AIB UK Group has an agreed Pillar 1 and Pillar 2a requirement of 10.73%. Our current CET 1 capital ratio stands at 17.2%.

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

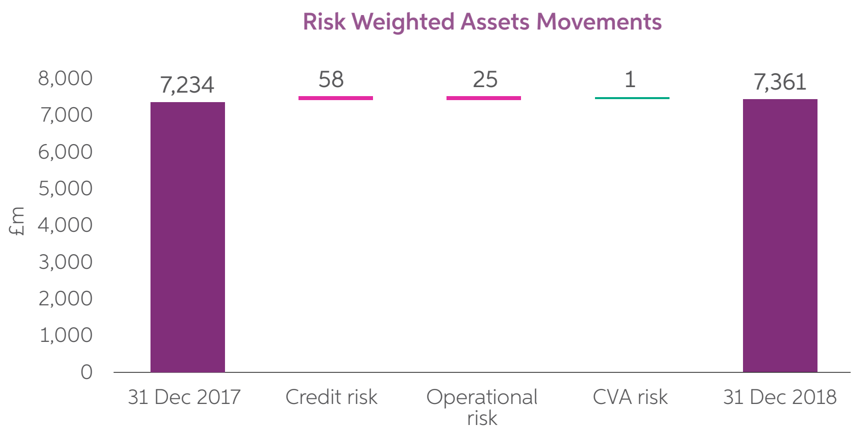
The following tables show AIB UK Group's capital resources and capital base at 31 December 2018 and 31 December 2017.

	31 Dec 2018 £m	1 Jan 2018 £m	31 Dec 2017 £m
Shareholders' equity and total capital resources	**1,829**	1,738	1,760
CET 1 capital	**1,260**	1,179	1,180
Total risk weighted assets	**7,316**	7,232	7,234
	%	%	
CET 1 capital ratio	**17.2**	16.3	16.3

Capital (continued)



CET1 increases reflect the inclusion of 2017 operating profits, offset by IFRS 9 transitional adjustment and movements in intangible assets, derivative valuations and deferred tax.



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

IFRS 9

IFRS 9 was effective as of 1 January 2018 and replaced rules under IAS 39. AIB UK Group applied transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds per Regulation (EU) 2017/2395 of the European Parliament and of the Council. The transitional arrangement for year 1 is a 5% ECL impact applied to the RWA calculation with the remainder 95% added back to Capital. A fully loaded approach for the IFRS 9 transitional arrangements would result in a decrease in the AIB UK Group consolidated CET 1 ratio from 17.2% to 17.0%.

Liquidity

AIB UK Group has a strong funding position. The loan to deposit ratio was 76% at 31 December 2018 (2017: 72%). Regulatory liquidity requirements were met at all times throughout the year.

A substantial amount of the AIB UK Group's funding is from its customer balances, which makes up 75% (2017: 76%) of its total liabilities and shareholders' equity.

Under Capital Requirements Directive IV ('CRD'), the minimum Liquidity Coverage Ratio ('LCR') requirement was introduced. Following a phase in period, the LCR Regulatory limit was set at 100% in January 2018. The Bank's LCR of 177% is significantly in excess of this minimum requirement in 2018, falling by 20% compared to the previous year (2017: 197%).

Following the Bank's successful application for inclusion in the Bank of England's Term Funding Scheme, the Bank drew down £250m of funds in early 2018 prior to the closure of the scheme. These funds were drawn against the existing pre-positioned collateral at the Bank of England, and thereby reduced the capacity available for the Discount Window Facility.

Further details are set out in the Liquidity Risk section of the Risk Management report on page 22.

Rachel Lawrence

Chief Finance Officer
26 February 2019

Alternative Performance Measures

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

Net interest margin	Net interest income divided by average interest earning assets.
Banking net interest margin	Net customer interest income divided by average customer interest earning assets.
Average interest earning assets	Average interest earning assets includes loans and receivables to customers. Averages are based on month end balances for all categories with the exception of loans and receivables, which are based on daily averages.
Average asset yield	Interest and similar income divided by average interest earning assets.
Average interest bearing liabilities	Average interest bearing liabilities includes deposits by banks, customer accounts and inter-company balances. Averages are based on month end balances for all categories with the exception of customer accounts, which are based on daily averages.
Average cost of funds	Interest expense and similar charges divided by average interest bearing liabilities.
Underlying adjustments	These are items that management believe due to their size and nature distort the comparability of performance for period to period: • **Profit on sale of loan** portfolio in 2018 • **Profit on sale of assets:** the proceeds from the sale of AIB UK Group's ownership of Vocalink in 2017. • **Voluntary severance:** the costs relating to the reduction of employees in relation to the One UK programme. • **Past service costs:** defined benefit pension scheme cost of equalising Guaranteed Minimum Pensions following High Court ruling. • **FSCS levy:** release of over provision of annual levy payable by authorised financial services firms to fund customer compensation scheme. • **Property strategy costs:** property exits in Northern Ireland relating to the OneUK restructuring programme. • **Customer redress:** movements in provisions held in relation to customer restitutions. • **Reversal of property impairment** previously charged on a First Trust property • **Reallocation of group charges:** certain Group allocations in 2017.
Cost income ratio	Total underlying operating expenses divided by underlying total operating income.
Loan to deposit ratio	Loans and receivables to customers divided by customer accounts.
Coverage ratio	Credit provisions divided by non-earning loan balances.
Return on Equity	Statutory profit after tax divided by average (month end) shareholder's equity.
Default/ Non-default loans	Under IFRS 9, loans are identified as defaulted or non-performing by a number of characteristics. The key criteria are: – Where the Bank considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount. – The credit obligor is 90 days or more past due on any material credit obligation. Date count starts where any amount of principal, interest or fee has not been paid by a credit obligor on the due date. – Loans that have, as a result of financial distress (as defined within the Parent Group's definition of default policy), received a concession from the Bank on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.
Earning / Non-earning loans	Under IAS 39, non-earning loans are identified as impaired loans where 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.

Risk management report

Introduction

Risk is inherent in the provision of financial services and AIB UK Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could cause customer detriment, damage the earnings capacity of AIB UK Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability and/or breach regulatory or legal obligations.

Consequently, effective risk management is essential to AIB UK Group and is a key part of its overall strategy in achieving well managed growth. AIB UK Group has adopted a broad set of risk management principles reflecting its risk philosophy and culture, and articulating the high standards against which risk-taking decisions are made. Every employee is required to adopt a relevant risk management objective as part of the annual performance management process to acknowledge the risk responsibilities that are inherent in their role. The key principles are to:

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

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

Role of risk management

AIB UK Group's strategy and Brand Values are critical enablers underpinning the strategic business objectives. To facilitate the successful pursuit and execution of the business strategy, Risk Management GUIDES AND PROTECTS the core purpose of the Bank by:

- Creating simple and efficient and customer orientated processes
- Ensuring the customer experience is managed throughout the lifecycle
- Working with our internal partners to create scalable and efficient models & systems.

Strategic risk objectives

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

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

Risk governance

The Board has ultimate responsibility for the governance of all risk taking activity in AIB UK Group. The Board has delegated a number of risk governance responsibilities to various committees shown in figure 1 below. The roles of the Board, the Board Audit Committee, the Board Risk Committee and the Nomination Committee are set out in the Corporate Governance report on pages 25 to 33.

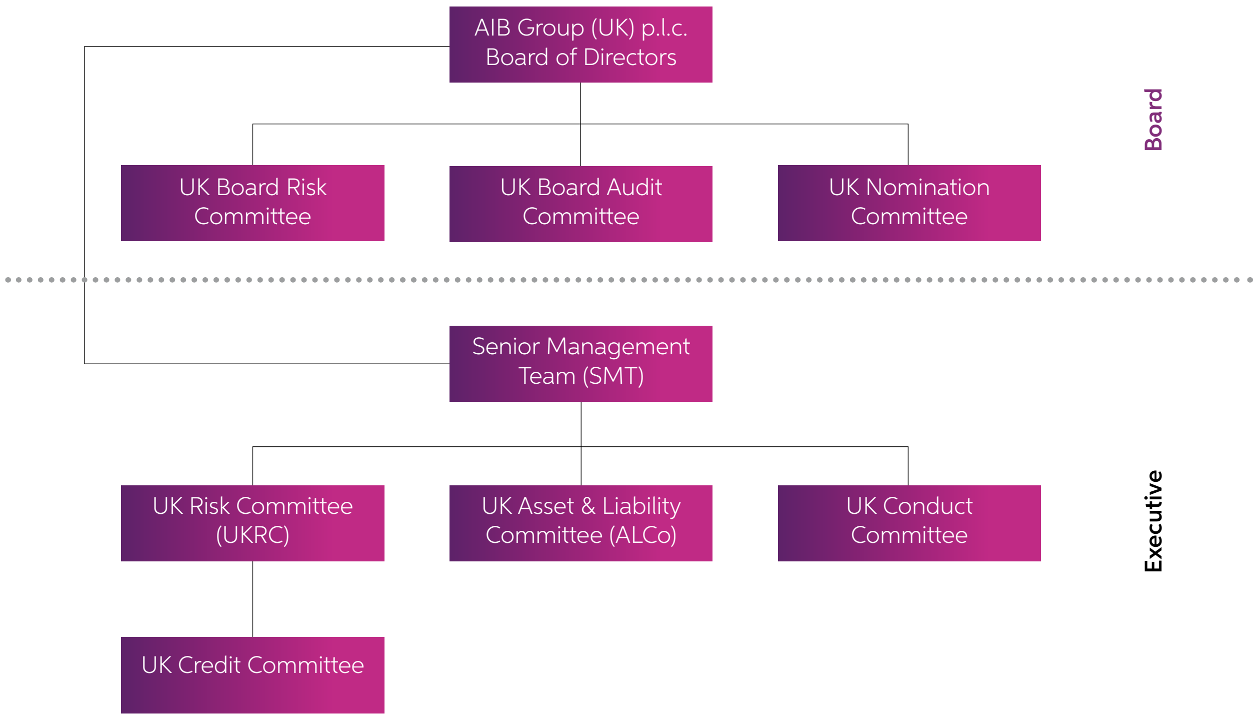


Figure 1 – Risk Governance

UK Senior Management Team (UK 'SMT')

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

UK Risk Committee ('UKRC')

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

UK Asset & Liability Committee ('UK ALCo')

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

UK Conduct Committee

The UK Conduct Committee oversees AIB UK Group's conduct risk management and promotes and supports a customer centric ethos and culture across the UK Bank. It is chaired by the Head of Customer Advocacy UK and focuses on both the current and forward looking agenda ensuring that AIB UK Group treats its customers openly, professionally and fairly in line with its Purpose and Values.

UK Credit Committee (‘UKCC’)

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

Three lines of defence

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

Risk Appetite

Risk appetite is defined as the maximum amount of risk that AIB UK Group is willing to accept to deliver on its strategic and business objectives. AIB UK Group’s Risk Appetite Statement has been approved by the Board and is aligned to the Parent Group’s risk appetite. The Risk Appetite Statement is expressed both qualitatively and quantitatively across all of AIB UK Group's material risks, and is embedded throughout the business in frameworks, policies, authorities and limits. Performance against risk appetite is monitored on a monthly basis in the CRO report.

Material risk assessment (‘MRA’)

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

The MRA identifies and assesses the material risks facing the Group in terms of their likelihood and impact. Other assessments of risk are undertaken, as required, by business areas, focussing on the nature of the risk, the adequacy of the internal control environment and whether additional management action is required. Periodic risk assessments are also undertaken in response to specific internal or external events.

As well as identifying material risks, the MRA is a key input into:

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

Material Risks	Mitigants
Credit Risk	**Outlook: Stable**
Asset Deterioration Risk The risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment that it has entered into. As a lending institution, Credit Risk is a significant risk for AIB UK Group and is heightened by Brexit considerations.	As part of the Group Credit Risk Framework, Credit policies have been reviewed to ensure that they reflect the Bank's current risk appetite. Credit assessment and underwriting standards ensure that risks are understood before they are taken onto the Bank's balance sheet. Customer performance is monitored and any deterioration is a trigger for engaging with the customer so that appropriate action is taken. In view of the uncertainties caused by Brexit, AIB UK Group has instigated enhanced, detailed portfolio monitoring recognising specific geographic and sector risks. As we have not seen any significant asset quality deterioration as a result of this additional observation, the Credit Risk outlook remains stable.
Credit Concentration Risk The risk of exposure to a significant proportion of business in a single cohort that may be negatively impacted by events.	The lending portfolio of AIB UK Group is well spread by name, sector and geography within the UK The UKRC monitors the risk profile of the Bank's lending portfolio through the CRO Report and the monthly risk appetite limits report which allows trends to be monitored and provides oversight of the management of key risks within the portfolio.
Capital Adequacy Risk	**Outlook: Stable**
The risk of breaching minimum capital requirements and internal targets either now or in the future, taking into account regulatory changes. All Material Risks can impact capital ratios.	AIB UK Group is capitalised in excess of minimum regulatory requirements and carries out regular stress testing of the capital position. The ALCo monitors the key drivers of the capital ratios on a monthly basis to ensure that regulatory expectations are exceeded at all times.
Funding & Liquidity Risk	**Outlook: Stable**
The risk that the Bank does not have available sufficient financial resources to meet its obligations when they fall due or can only access funding at an excessive cost.	As part of the Group Risk Management Framework, AIB UK Group has reviewed policies and developed and carried out stress testing. Liquidity positions are monitored daily. Any deviation from the expected risk profile is escalated through a series of monitoring and management forums up to and including the Board. A Contingency Liquidity Plan is in place to enable the Bank to manage and survive a liquidity stress situation.

Material Risks	Mitigants
External Environment Risk	**Outlook: Deteriorating**
Economic and Socio-Political Environment Risk The risk to current or prospective earnings and capital arising from changes to the economic, political or social environment in which the Bank operates. This risk is heightened by the uncertainty caused in the run up to Brexit.	AIB UK Group takes a measured approach to growth which is reflected in financial plans. It also carries out sensitivities and takes into account macroeconomic factors when setting planning assumptions and stress testing. There is a Brexit contingency plan which has identified actions which are being progressed and monitored weekly to mitigate known and potential risks.
Competitive Environment Risk The risks to the achievement of the Bank's objectives due to the actions of new or existing competitors.	AIB UK Group's clear and attractive customer proposition focused on a relationship offering seeks to protect the Bank's competitive position.
Operational Risk	**Outlook: Stable**
Process & Control Risk Operational risks arise from inadequate or failed internal processes, people and systems, or from external events.	The Group Operational Risk Management framework is supported by a comprehensive suite of policies and procedures, together with controls to test adherence. AIB UK Group has in place an ongoing systems and controls enhancement programme to implement continuous improvements and achieve higher standards.
Outsourcing Risk AIB UK Group continues to have significant dependencies on the Parent Group and third party providers for shared systems and services.	AIB UK Group assesses and monitors its dependence on outsource providers for the provision of its various systems and services on an ongoing basis.
Cyber Threats Cyber threats pose significant risk to the financial services industry.	There are systems and controls in place to counter cyber-attacks and assessments are being carried out on an ongoing basis to improve the effectiveness of those systems and controls and demonstrate they are robust.
Regulatory & Compliance Risk	**Outlook: Stable**
Regulatory Compliance A hard Brexit may increase the risk of regulatory divergence between UK and EU, potentially leading to the need for different processes and systems to deliver compliance across the Group.	A Brexit contingency plan has been developed which identifies potential risks and has mitigants in place to address them.
Financial Crime Risk The risk of a failure of the Bank's processes for anti-money laundering, counter terrorism financing, sanctions and the risk of fraud against the Bank or its customers. Focus from international law enforcement continues through, for example, the 5th EU Money Laundering Directive.	A comprehensive suite of systems and controls is in place to identify and prevent potentially fraudulent activity and prevent the Bank being used to further financial crime.

Material Risks	Mitigants
Conduct Risk	**Outlook: Stable**
The risk of unfair customer outcomes arising from inadequate customer product lifecycle processes and / or inappropriate actions by the Bank. Failure to assess and meet customer needs adequately throughout the customer lifecycle; failure to communicate transparently and simply, and if we do get it wrong, failing to react appropriately.	The Group Conduct Risk Framework outlines a set of principles that guides daily decisions with customers and colleagues. In addition, AIB UK Group has an established approval process in place for all new products, or changes to the characteristics of existing products, which identifies and assesses to ensure they are mitigated. The Group Restitution and Rectification Framework outlines the principles to be followed in the event of a restitution to ensure fair outcomes.
People and Culture Risk	**Outlook: Stable**
People Risk It is possible that AIB UK Group's ability to attract and retain talent will become more difficult as the labour market becomes more competitive post Brexit. Risks associated with low levels of employee engagement could have an adverse effect on AIB UK Group ability to achieve its strategic objectives.	A programme is in place to develop the succession plans for critical roles throughout the organisation. AIB UK Group is committed to investing in the continued personal development of its staff to build capability. Employee engagement is surveyed at least annually through Group-wide surveys, which continue to demonstrate positive trends.
Culture Risk Inadvertent or intentional behaviours by employees that are contrary to the Bank's strategy, culture and values could impact on business or financial prospects.	AIB UK Group has a clearly articulated corporate culture to enable a sustainable future for the Bank, its customers and its people.
Strategic Risk	**Outlook: Stable**
The risk to the Bank's earnings from a failure to set or implement the correct strategy for the business.	Management goes through a rigorous business planning process each year before the strategy is approved. AIB UK Group has successfully implemented a significant number of strategic change projects in recent years, and where necessary is supported by the Parent Group.

Corporate governance report

Corporate governance arrangements and practices

During 2018 the Bank adopted a Group Subsidiary Governance Framework ('Framework') which covers the leadership, direction and control of AIB Group plc and its subsidiaries. This Framework reflects UK company law and EU best practice standards and ensures that organisation and control arrangements are appropriate to the broader group's strategy.

Our own governance arrangements include:

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

The Company has developed its own governance framework, with reference to the UK Corporate Governance Code which is appropriate to a company of our nature and size. Further details can be found in the Corporate Governance Statement on page 34.

The Board

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

The Board:

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

A total of 9 Board meetings were held during 2018 (2017: 12). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors.

The various roles within the Board and the roles of the executive directors, SMT and company secretary are set out below:

Chairman

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

Deputy Chairman/Senior Independent Director ('SID')

Available to both shareholders and staff if they have concerns which contact through the normal channels have failed to resolve, or where such contact is deemed to be inappropriate. The responsibilities of the SID include Senior Manager's Regime ('SMR') accountability for both Speak Up and the external whistleblowing hotline.

Independent Non-Executive Directors

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

Executive Directors

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

Managing Director

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

SMT

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

Company Secretary

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

Effectiveness

Independent professional advice

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

Balance and independence

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

The Board has determined that the majority of Non-Executive Directors in office at the close of business on 31 December 2018 were independent. Notwithstanding each of Mark Bourke and Tom Foley's designations as non-independent under the UK Corporate Governance Code, the Board is satisfied that they both exercise independence of thought and action in fulfilling their duties.

Conflicts of interest

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

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

Performance evaluation

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

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

On reviewing the outcome of the 2018 external evaluation process, the Board concluded that each individual Director continued to make a valuable contribution and that the recommendations identified during the 2017 Third party governance review had been adequately addressed.

Terms of appointment and time commitment

Non-Executive Directors are appointed for a three year term, with the possibility of renewal for a further three years. Any term beyond six years is subject to annual review and approval by the Board.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors.

Induction and professional development

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

Management information pack

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

Board committees

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

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

Board committees

Board Audit Committee

5 meetings during 2018 (2017: 8)

Roger Perkin (Chair)
Bruce Robinson
Margaret Butler

Responsibilities

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

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

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

Activity in 2018

During 2018 the committee:

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

Board Risk Committee

9 meetings during 2018 (2017: 8)

Margaret Butler (Chair)
Graham Buckland
Declan Collier (until 1 Mar 18)
Roger Perkin
Peter Spratt (from 22 April 2018)

Responsibilities

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

- its current risk exposures and future risk strategy;
- its risk appetite and material risk policies given its strategic objectives and obligations to stakeholders;
- its material risk assessment, encompassing consideration of credit, operational, compliance and conduct, people and culture, capital and liquidity risk; and
- the embedding and maintenance of a supportive culture in relation to the management of risk across the company.

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

The committee is also responsible for making recommendations in relation to the Chief Risk Officer, including appointment, replacement, and remuneration, in conjunction with the Nomination Committee, and confirming the Chief Risk Officer's independence. The committee also has private sessions with the Chief Risk Officer and the Head of Compliance and Financial Crime Prevention at least twice in each calendar year.

Activity in 2018

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

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

Nomination Committee

5 meetings during 2018 (2017:6)

Peter Spratt (Chair)
Graham Buckland
Declan Collier (until 1 Mar 18)
Bruce Robinson

Responsibilities

The committee has oversight responsibility for:

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

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

Activity in 2018

During 2018, the committee, in addition to its responsibility of ensuring the Bank has an effective Board and committees in place, concluded its search for a new Non-Executive Director.

The committee remains committed to encouraging diversity, whilst ensuring that the dynamics and skills set of the Board continues to meet the expectations of our stakeholders. In January 2017 the committee recommended and the Company adopted a Board Diversity policy and target with regard to gender representation that the percentage of females on the Board remains at or exceeds 25 per cent. Presently female representation on the board is 33%.

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Board of Directors

	Peter Spratt	**Sir Bruce Robinson**	**Mark Bourke**	**Graham Buckland**	**Margaret Butler**
	Independent Non-Executive Chairman	Non-Executive Deputy Chairman and Senior Independent Director	Non-Executive Director and Chief Financial Officer AIB plc	Independent Non-Executive Director	Independent Non-Executive Director and Chairman of Board Risk Committee
Appointed to the Board	March 2015 (Chairman - March 2016)	August 2013 (Deputy Chairman - December 2014)	July 2017	March 2017	August 2013
Key areas of expertise	Finance, Audit, Business recovery and restructuring	Finance, Audit, Policy Development, Northern Ireland economy	Finance, Strategy	Corporate Banking	Retail Banking, Finance, Strategy, Business Transformation
Skills and experience	Peter was seconded to AIB plc from PricewaterhouseCoopers (PwC) in 2011, acting as a member of AIB plc's executive team to establish and manage the Non-Core Unit. His responsibilities were expanded in 2012 to manage the newly created Financial Solutions Group. Peter then served as Interim Chief Executive Officer ('CEO') of AIB Group (UK) plc from January to June 2013. A Chartered Accountant, Peter joined PwC in 1983, becoming a Partner in 1992. Peter has extensive experience advising on the restructuring of medium and large companies and banks in multiple countries. Peter's roles in PwC included Global Leader of PwC's Business Recovery Services and Leader of BRS' Financial Services specialism. Peter retired from PwC in June 2015.	Before joining the Board, Bruce had a career in the Northern Ireland Public sector gaining top level executive experience and building close working relationships with political leaders at regional, national and international level. As Budget Director, Bruce led successful drives to improve financial management and budgetary control and implement shared services for the Northern Ireland Executive. A Chartered Accountant, Bruce began his career at Coopers & Lybrand. He has over 25 years' experience working with companies on the profitable development of their operations in Northern Ireland.	Mark joined AIB plc in April 2014 as Chief Financial Officer and member of the Leadership Team and was co-opted onto its Board on 29 May 2014. He is also a director of AIB Group plc. He joined AIB plc from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mark began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute. Mark has indicated his intention to step down as Chief Financial Officer of AIB plc and will also step down as a director of this company during 2019.	Graham joined Barclays in 1979 and held various roles in corporate banking before moving to the Investment Bank where he was Managing Director and Deputy Head of UK Corporate Finance and was also responsible for a portfolio of Financial Times Stock Exchange ('FTSE') 100 clients. Before his retirement from Barclays in 2016 he was a Managing Director in Corporate Banking where his roles included Head of London Region and where he had responsibility for corporate clients through seven sector specialist industry teams and also with responsibility for Barclays' large corporate clients in the UK.	Margaret's career spans over 40 years in the Financial Services industry, with Clydesdale Bank, National Australia Group in Melbourne, London and Glasgow, and Northern Bank in Belfast. She has 20 years' experience in Senior and Executive positions across a wide range of disciplines including Human Resources, Planning, Strategy, Service Delivery as well as those key areas of expertise as set out above.
Key external appointments	None	Board of the Irish American Partnership, Advisory Board of KPMG Northern Ireland	IFG Securities Limited	Look Ahead Care & Support (charity)	Chair of Northern Ireland Hospice

				
Tom Foley	**Roger Perkin**	**Shelley Malton**	**Rachel Lawrence**	**Brendan O'Connor**
Non-Executive Director	Independent Non-Executive Director and Chairman of Audit Committee	Independent Non-Executive Director	Executive Director and Chief Financial Officer	Executive Director and Managing Director
April 2014	March 2017	December 2018	July 2017	October 2015
Business Banking, Treasury, Finance, Audit, Risk, Strategy, Policy Development	Finance, Audit, Banking Regulation and Risk	Operations, customer experience, people leadership, technology, outsourcing	Banking start-ups, Finance, Strategy	Business & Corporate Banking, Risk Management, Strategy & People Leadership, Organisational & Business Transformation
Tom is a Non-Executive Director of AIB plc, AIB Group plc, EBS d.a.c., Intesa SanPaolo Life d.a.c. and GCM Grosvenor ICAU Funds. He is a former Executive Director of KBC Bank Ireland, having held a variety of senior management and board positions with KBC in Ireland and the UK. He was a member of the Nyberg Commission of Investigation into the banking sector during 2010 and 2011 and the Irish Department of Finance Expert Group on Mortgage Arrears and Personal Debt during 2010. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank.	A Chartered Accountant by profession, Roger joined Arthur Young (subsequently Ernst & Young) in 1969, where he became a Partner in 1979 and remained in role until retirement in 2009. Roger previously held Board positions at Nationwide Building Society, Friends Life Holdings Ltd. and Evolution Group plc.	Shelley is currently Managing Director for Service at Experian Limited. With over 25 years of experience in the financial services industry, she has led major transformations at both Experian and Barclays, including customer experience, outsourcing, automation and operations transformations. Previous roles at Barclays included Service Delivery Director and Chief Operations and Technology Officer for Barclaycard Europe. Shelley holds an Associateship of the Chartered Institute of Bankers and is a Graduate of the Chartered Institute of Personnel and Development.	Rachel has considerable experience in finance and banking start-ups gained from a career spanning more than 20 years. She has held senior finance roles in Metro Bank, Shawbrook and Pearl Assurance. She joined the Bank in November 2016 from Shawbrook where she was Finance Director. She is a qualified chartered management accountant. Rachel also serves as a director of the Company's defined contribution pension scheme.	Brendan joined AIB plc in 1984 and has held a number of senior roles throughout the organisation both in New York and Dublin including Head of AIB Global Treasury Services, Head of Corporate Banking International and Head of AIB Business Banking. Brendan joined AIB plc's Executive Leadership Team in February 2013 as Head of Financial Solutions Group prior to taking up his current role.
Intesa Sanpaolo Life Limited	Electra Private Equity plc, TP ICAP plc and Hargreaves Lansdowne plc	Experian Limited	None	None

Report of the Directors

We present the annual report and the audited financial statements for AIB Group (UK) p.l.c. and its subsidiaries for the year to 31 December 2018. A Directors' responsibility statement is shown on page 38.

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

Strategic report	Pages 1 to 18
Risk management report	Pages 19 to 24
Corporate governance report	Pages 25 to 30
Financial statements	Pages 48 to 53

Specifically, an indication of likely future developments is given in the Strategic report on pages 2 to 8, capital management on pages 15 to 17, financial instruments in notes 36 and 37 on pages 146 to 152 and events after the reporting date in note 45, page 162.

Results

Our after tax profit for the year ended 31 December 2018 was £111 million (2017: £102 million) and was calculated as shown in the consolidated income statement on page 48.

Dividends

We did not pay a dividend during the year to 31 December 2018 or the year before.

Directors and Company Secretary

In addition to the directors detailed on pages 32 to 33 the following individuals served during the year:

- Declan Collier who resigned as a Non-Executive Director on 1 March 2018
- Iain Hamilton who served as the Company Secretary throughout the year and continues to do so at the date of this report.

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

Corporate governance statement

As a wholly owned subsidiary we are not required to comply with the UK Corporate Governance Code in its entirety. However, in preparing the financial statements, we have adopted the principles of the UK Corporate Governance Code where the Directors' deemed them appropriate for a company of our nature and size.

We consider the 2018 annual financial report to be fair, balanced and understandable and to give the necessary information to allow our shareholders to assess the Bank's performance, business models and strategy.

Going concern

We have considered whether a going concern basis for preparing the financial statements for the year ended 31 December 2018 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' note 2.2 on page 56.

Viability statement

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

We have also considered the current financial performance, funding, liquidity and capital management of AIB UK Group, as set out in the Financial Review on pages 9 to 17, and the governance and oversight through which AIB UK manages and seeks where possible to reduce its risks as described on pages 21 to 24. Finally, we performed a detailed review of all principal risks facing AIB UK Group as part of the MRA process, including those that would threaten the business operations, governance and internal control systems has been completed, the details of this are on pages 21 to 24.

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

Internal controls

Board governance and controls

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

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

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

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

Code of conduct

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

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

Supervision and regulation

Supervision

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

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

We subscribe to the Lending Code of the Lending Standards Board, which is a self-regulatory code setting minimum standards of good practice in relation to lending, including loans, credit cards and current account overdrafts. We seek to monitor actively our regulatory and compliance obligations and seek to put in place quickly appropriate steps for any regulatory change. We expect the level of regulatory change to remain high in 2018.

Legislative changes

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

Regulatory changes to enhance competition

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

Financial crime prevention

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

Conduct risk

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

Staff engagement

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

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

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

Directors’ indemnities

We have made qualifying third party indemnity provisions for our Directors. These were in place at 31 December 2018.

Auditors

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

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

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

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

By Order of the Board,

Brendan O’Connor

Managing Director
26 February 2019

Directors’ responsibility statement

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

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

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

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

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

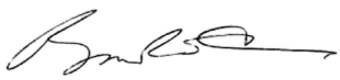
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s websites.

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 26 February 2019 and is signed on its behalf by:



Brendan O’Connor

Managing Director
26 February 2019

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

Report on the audit of the financial statements
Opinion

In our opinion:

- the financial statements of AIB Group (UK) plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

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

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan loss provisioning; and • appropriate measurement of the deferred tax asset. With the exception of the changes to our scope in relation to the group's adoption of IFRS 9, these key audit matters are consistent with the prior year.
Materiality	The materiality that we used for the group financial statements was £9,200,000 which was determined on the basis of 0.5% of total equity.
Scoping	Our audit was scoped by obtaining an understanding of the group and its environment, key processes and controls over financial reporting, and assessing risks of material misstatement at a group level. The group and the parent company, its only material component, are treated by management as if it were a single aggregated set of financial information and was audited directly by the group engagement team.
Significant changes in our approach	IFRS 9 became effective from 1 January 2018, changing the classification and measurement of financial instruments, and impairment of financial assets. The most notable impact on the results of group has been the adoption of the new requirements with respect to impairment, based on expected credit losses ("ECL") with consideration of forward-looking information. We have, therefore, revised our key audit matter in respect of loan loss provisioning to reflect the group's adoption of IFRS 9. The additional work required with respect to IFRS 9 drove the majority of our fee increase for the 2018 year end audit.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Loan loss provisioning

Key audit matter description

On 1 January 2018, the group adopted the new accounting standard for financial instruments, IFRS 9, which introduced a loan loss provisioning methodology based on expected credit losses (“ECL”), replacing the incurred-loss model in IAS 39. On transition, the loan loss provision increased by £27m as detailed in Note 3.

As detailed in the summary of critical accounting judgements and estimates in note 4 and the credit risk disclosures in note 20, the estimation of ECL is inherently uncertain and requires significant management judgement. Therefore, we have determined that there was a risk of error in or manipulation of this balance.

At 31 December 2018, the group reported £118m of ECL on total gross loans to customers of £6,840m. The most significant judgements in respect of the ECL include:

- the allocation of loans to customers to stage 1, 2 or 3 in accordance with the requirements of IFRS 9, in particular the identification of significant increases in credit risk (“SICR”) for Corporate lending;
- the timing and quantum of expected future cash flows for individually assessed loans in the Corporate and Commercial Real Estate (“CRE”) portfolios; and
- assumptions used to build the ECL models, including the estimation of collateral for Residential Mortgages.

Management also applies overlays where they believe that the model driven calculations are not appropriate, which require significant judgement. Therefore, these are also a key area of focus.

How the scope of our audit responded to the key audit matter

As IFRS 9 was adopted at the start of the year, we performed audit procedures over the opening loan loss provision balance in addition to the closing balance.

We obtained an understanding and assessed the design effectiveness of the key controls over expected credit loss, focusing on governance over the expected credit loss control process, including:

- controls that gave assurance over the identification of “criticised”, “vulnerable” and credit-impaired loans and the valuation of collateral used in the individually assessed provision calculations; and
- the review and approval of model outputs and any overlays that were subsequently applied to the modelled provision.

With the support of our internal modelling experts, we tested the assumptions, model methodology and underlying code for a sample of the group’s ECL models. To test the data used in the models, we selected a sample of inputs to the models and reconciled them to supporting documentation.

In addition, we performed the following substantive procedures in relation to the significant judgements:

- We assessed a sample of stage 1 loans for indicators of SICR. The triggers that formed part of our review included those from internal group policies and the non-exhaustive factors as set out in IFRS 9;
- For a sample of individually assessed loans, we re-performed the impairment calculation and challenged the key assumptions by independently assessing collateral valuations based on the recovery strategy for each borrower. Where management applied adjustments to collateral valuations, we inspected supporting evidence to assess whether these were necessary and appropriate; and
- We performed an independent assessment over the loss given repossession which is the key variable in the loss given default model for the residential mortgage population. This included a recalculation of the loss given repossession for the whole population of mortgages, in addition to the challenge of the key management assumptions as described above and testing of the collateral valuations used within this recalculation.

Furthermore, we reviewed and challenged the appropriateness of multiple economic scenarios, including the potential impact of a severe economic downturn.

Key observations

From our testing of the both the opening and closing loan loss provision balances, we are satisfied that they are compliant with IFRS 9 and, whilst we observed both conservative and optimistic elements, they are within a reasonable range.

Appropriate measurement of the deferred tax asset

Key audit matter description

As detailed in the summary of critical accounting judgements and estimates in note 4 and the deferred tax disclosure in note 27, management have recognised a deferred tax asset (“DTA”) of £114m (2017: £111m) as a result of significant unutilised tax losses suffered between 2009 and 2012.

Given the inherent uncertainty in forecasting beyond the immediate future, particularly given the current economic uncertainty, significant management judgement is required to determine whether future taxable profits are probable (“more likely than not”) in order to utilise the carried forward tax losses.

Furthermore, as a result of changes to tax legislation in recent years, the level of profits that banks can offset each year against brought forward losses has been curtailed. As a result, the period over which management are required to assess future taxable profits has increased fourfold; consequently management have determined that fifteen years is a reasonable estimate of the foreseeable future and have restricted recognition to the amount projected over this period (“recognition period”).

There is a risk of material misstatement that the group will not generate sufficient taxable profits to utilise the tax relief provided by the deferred tax asset. This is focused on two key judgements:

- the ability to generate future profits through the continued growth of the profit generating assets (mainly the loan book); and
- the appropriate length of the recognition period based on these profit projections.

How the scope of our audit responded to the key audit matter

We assessed the design effectiveness and implementation of the key controls over the governance, review and production of the deferred tax asset calculation, including the projection of balance sheet (loan) growth and taxable profits, and the determination of the recognition period.

With consideration of the underlying economic assumptions including “Brexit”’ considerations), we assessed whether forecast profits were reasonable by challenging the underlying assumptions, focusing on those assumptions which materially affect the profit figure (e.g. forecast net lending volumes and interest rates) with reference to historical performance.

We challenged the evidence provided by management to support for the fifteen year recoverable period, including an assessment of the historic accuracy of their forecasts.

Key observations

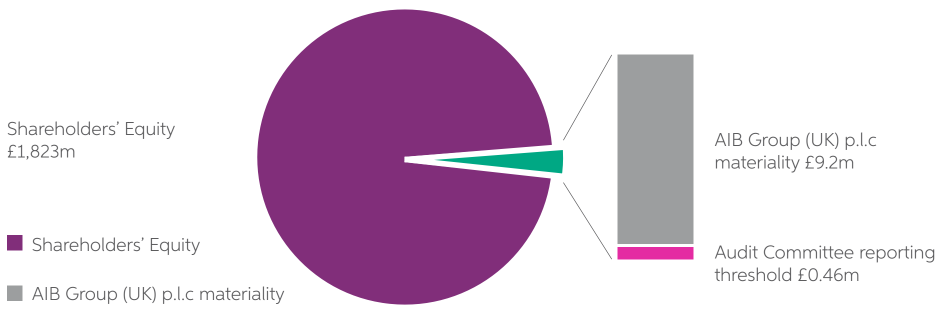
We concur with management’s assessment that sufficient profits are more likely than not for the recoverable period.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£9,200,000 (2017: £10,000,000)	£9,100,000 (2017: £9,900,000)
Basis for determining materiality	0.5% (2017: 0.6%) of Shareholders' Equity as at 31 December 2018.	The parent company materiality has been determined based on 3% of Shareholders' Equity (2017: 3%). This would result in materiality of £55.2m (2017: £50.0m), therefore, we have capped it at 99% of Group materiality.
Rationale for the benchmark applied	We recognise that profit is an important measure in the financial statements. However, due to inconsistent profitability in recent years, we believe that the equity balance currently remains a more appropriate benchmark as: • it provides a stable basis for materiality; and • represents one of the principal benchmarks used by investors, regulators and other stakeholders	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £460,000 (2017: £500,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

The audit was performed using the materiality levels set out above, for the group and the parent company only. The group audit covered 100% of total revenue, profit before tax, and total assets. The group and the parent company, its only material component, are treated by management as if it were a single aggregated set of financial information and was audited directly by the group engagement team. Where processes relevant to the group audit are performed centrally in Dublin by Allied Irish Banks plc (the "Irish Parent"), these have been audited by Deloitte Ireland under the supervision of the group engagement team.

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor’s responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group’s policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, pensions, real estate, actuarial and IT specialists and credit modelling experts, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in loan loss provisioning, specifically the key assumptions related to the significant increase in credit risk in Corporate portfolio, loss given default for the Corporate, CRE and mortgage portfolios; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those provisions of laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, prudential and financial conduct regulation, pension’s legislation and tax legislation. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group’s ability to continue as a going concern or to avoid a material penalty, such as capital and liquidity requirements.

Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant provisions of laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the Prudential Regulatory Authority, the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by AIB Group (UK) plc Board of Directors' on 5 July 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31st December 2013 to 31st December 2018.

Consistency of the audit report with the additional report to the audit committee

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

Use of our report

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

Ben Jackson (Senior statutory auditor)

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

26 February 2019

Consolidated income statement

for the year ended 31 December 2018

	Notes	2018 £m	2017 Restated* £m
Continuing operations			
Interest income	5	288	260
Interest expense	6	(61)	(50)
Net interest income		**227**	**210**
Fee and commission income	7	64	67
Fee and commission expense	7	(5)	(6)
Net trading and other financial income	8	(2)	-
Other operating income	10	3	12
Other income		**60**	**73**
Total operating income		**287**	**283**
Administrative expenses	11	(141)	(158)
Impairment and amortisation of intangible assets	23	(2)	(1)
Impairment and depreciation of property, plant and equipment	24	2	(2)
Total operating expenses		**(141)**	**(161)**
Operating profit before impairment losses and provisions		**146**	**122**
Net credit impairment losses	19	(12)	(21)
(Charge)/writeback of provisions for liabilities and commitments	32	(7)	4
Total impairment losses and provisions		**(19)**	**(17)**
Operating profit		**127**	**105**
Profit on disposal of property	24	2	1
Profit before taxation from continuing operations		**129**	**106**
Income tax charge from continuing operations	13	(18)	(4)
Profit for the year after taxation from continuing operations attributable to owners of the parent		**111**	**102**

*2017 comparatives have been restated – see note 11.

All results are derived from continuing operations.
The notes on pages 54 to 162 form an integral part of these financial statements.

Statements of comprehensive income

for the year ended 31 December 2018

		AIB UK Group		AIB UK	
		2018	2017	2018	2017
	Notes	£m	£m	£m	£m
Profit for the year		111	102	106	97
Other comprehensive income – continuing operations					
Items that will not be reclassified subsequently to profit or loss:					
Net actuarial (loss)/gain in retirement benefit schemes, net of tax	34	(15)	(27)	(15)	(27)
Total items that will not be reclassified subsequently to profit or loss		**(15)**	**(27)**	**(15)**	**(27)**
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Net change in cash flow hedges, net of tax	34	(6)	(14)	(6)	(14)
Net change in fair value of available for sale securities, net of tax	34	-	(4)	-	(4)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(6)**	**(18)**	**(6)**	**(18)**
Other comprehensive (loss)/income for the year, net of tax from continuing operations		**(21)**	**(45)**	**(21)**	**(45)**
Total comprehensive income for the year from continuing operations attributable to the owners of AIB UK		**90**	**57**	**85**	**52**
Attributable to:					
Equity holders of AIB UK		**90**	**57**	**85**	**52**

The notes on pages 54 to 162 form an integral part of these financial statements.

Statements of financial position

as at 31 December 2018

	Notes	AIB UK Group			AIB UK		
		31 Dec 2018	1 Jan 2018[1]	31 Dec 2017	31 Dec 2018	1 Jan 2018[1]	31 Dec 2017
		£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks		3,526	3,583	3,583	3,526	3,583	3,583
Items in course of collection		12	38	38	12	38	38
Derivative financial instruments	16	90	112	112	90	112	112
Loans and advances to banks	17	877	965	965	877	965	965
Loans and advances to customers	18	6,722	6,485	6,512	6,723	6,485	6,512
Investment securities	22	33	33	33	33	33	33
Intangible assets	23	34	25	25	34	25	25
Property, plant and equipment	24	20	15	15	14	12	12
Other assets	26	88	89	89	88	89	89
Deferred tax assets	27	53	47	40	53	47	40
Prepayments and accrued income		6	4	4	6	4	4
Retirement benefit assets	28	408	419	419	408	419	419
Total assets		**11,869**	**11,815**	**11,835**	**11,864**	**11,812**	**11,832**
Liabilities							
Deposits by banks	29	613	473	473	605	464	464
Customer accounts	30	8,878	9,034	9,034	8,908	9,063	9,063
Derivative financial instruments	16	102	116	116	102	116	116
Current taxation	13	10	4	4	9	4	4
Deferred tax liabilities	27	33	35	35	33	35	35
Accruals and deferred income		12	27	27	12	27	27
Other liabilities	31	368	365	365	368	364	364
Provisions for liabilities and commitments	32	24	22	21	19	16	15
Total liabilities		**10,040**	**10,076**	**10,075**	**10,056**	**10,089**	**10,088**
Shareholders' equity							
Share capital	33	2,384	2,384	2,384	2,384	2,384	2,384
Reserves		2	8	9	1	7	8
Retained earnings		(557)	(653)	(633)	(577)	(668)	(648)
Total shareholders' equity		**1,829**	**1,739**	**1,760**	**1,808**	**1,723**	**1,744**
Total liabilities and shareholders' equity		**11,869**	**11,815**	**11,835**	**11,864**	**11,812**	**11,832**

[1] The Statement of financial position as at 1 January 2018, has been restated to reflect the adoption of IFRS 9, see note 3 which applies with effect from 1 January 2018. See 'Basis of preparation' in note 2.2.

The notes on pages 54 to 162 form an integral part of these financial statements. The Company reported a profit for the financial year ended 31 December 2018 of £106m (2017: £97m).

Approved by the Directors on 26 February 2019.

Brendan O'Connor
Director

Company registration number: NI018800

Statements of cash flows

for the year ended 31 December 2018

	Notes	AIB UK Group 2018 £m	AIB UK Group 2017 £m	AIB UK 2018 £m	AIB UK 2017 £m
Cash flows from operating activities					
Profit before taxation		129	106	123	101
Adjustments for:					
Loss allowance on financial assets	19	19	21	19	21
Profit on disposal of property		(2)	(1)	(2)	(1)
Profit on disposal of investment securities		-	(6)	-	(6)
Provision for liabilities and commitments	32	-	(4)	1	(2)
Depreciation, amortisation and impairment		-	3	3	3
Retirement benefits-defined benefit income		(9)	(12)	(9)	(12)
(Increase)/decrease in prepayments and accrued income		(2)	2	(2)	2
(Decrease)/increase in accruals and deferred income		(15)	12	(15)	13
(Profit) on disposal/transfer of loans and advances		-	(4)	-	(4)
Net cash inflow from operating activities		**120**	**117**	**118**	**115**
Net (increase)/decrease in loans and advances to banks		(88)	908	(88)	893
Net increase in loans and advances to customers		(252)	(106)	(253)	(112)
Net increase/(decrease) in deposits by banks		108	(1,813)	109	(1,813)
Net (decrease)/increase in customer accounts	30	(156)	308	(155)	268
Net decrease in debt securities in issue		-	(59)	-	-
Net decrease in derivative financial instruments	16	-	(1)	-	(3)
Net decrease in items in course of collection		26	27	26	27
Net decrease in notes in circulation	31	(15)	(18)	(15)	(18)
Net decrease/(increase) in other assets		1	(9)	1	(9)
Net increase/(decrease) in other liabilities		13	(14)	14	(9)
Net cash outflow from operating assets and liabilities		**(363)**	**(777)**	**(361)**	**(776)**
Net cash outflow from operating activities before taxation		**(243)**	**(660)**	**(243)**	**(661)**
Taxation paid		(13)	(24)	(13)	(24)
Net cash outflow from operating activities		**(256)**	**(684)**	**(256)**	**(685)**
Net cash outflow from investing activities	40	**(10)**	**(10)**	**(10)**	**(9)**
Decrease in cash and cash equivalents		**(266)**	**(694)**	**(266)**	**(694)**
Opening cash and cash equivalents		3,977	4,671	3,977	4,671
Closing cash and cash equivalents	39	**3,711**	**3,977**	**3,711**	**3,977**

The notes on pages 54 to 162 form an integral part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2018

AIB UK Group	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Available for sale reserve £m	Retained earnings £m	Total equity £m
		Attributable to equity holders of AIB UK					
At 31 December 2017		2,384	2	6	1	(633)	1,760
Impact of adopting IFRS 9 at 1 January 2018 [1]		-	-	-	(1)	(20)	(21)
Restated balance at 1 January 2018		**2,384**	**2**	**6**	**-**	**(653)**	**1,739**
Profit for the year		-	-	-	-	111	111
Other comprehensive income, net of tax	34	-	-	(6)	-	(15)	(21)
Total other comprehensive income		**-**	**-**	**(6)**	**-**	**96**	**90**
At 31 December 2018		**2,384**	**2**	**-**	**-**	**(557)**	**1,829**
At 1 January 2017		2,384	3	20	5	(709)	1,703
Profit for the year		-	-	-	-	102	102
Other comprehensive income, net of tax	34	-	-	(14)	(4)	(27)	(45)
Total other comprehensive income		-	-	(14)	(4)	75	57
Other movements		-	(1)	-	-	1	-
At 31 December 2017		**2,384**	**2**	**6**	**1**	**(633)**	**1,760**

[1] See note 3.

The notes on pages 54 to 162 form an integral part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2018

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 AIB UK					
At 31 December 2017		2,384	1	6	1	(648)	1,744
Impact of adopting IFRS 9 at 1 January 2018 [1]		-	-	-	(1)	(20)	(21)
Restated balance at 1 January 2018		**2,384**	**1**	**6**	**-**	**(668)**	**1,723**
Profit for the year		-	-	-	-	106	106
Other comprehensive income, net of tax	34	-	-	(6)	-	(15)	(21)
Total other comprehensive income		**-**	**-**	**(6)**	**-**	**91**	**85**
At 31 December 2018		**2,384**	**1**	**-**	**-**	**(577)**	**1,808**
At 1 January 2017		2,384	2	20	5	(719)	1,692
Profit for the year		-	-	-	-	97	97
Other comprehensive income, net of tax	34	-	-	(14)	(4)	(27)	(45)
Total other comprehensive income		-	-	(14)	(4)	70	52
Other movements		-	(1)	-	-	1	-
At 31 December 2017		**2,384**	**1**	**6**	**1**	**(648)**	**1,744**

[1] See note 3.

The notes on pages 54 to 162 form an integral part of these financial statements.

Strategic report

Risk management report

Governance and oversight

Financial statements

General information

Notes to the financial statements

Notes to the financial statements

1. Reporting entity

AIB Group UK plc (company number NI018800) is a public company limited by shares incorporated in the United Kingdom with its registered office at 92 Ann Street, Belfast, BT1 3HH, Northern Ireland. The consolidated financial statements of AIB UK as at and for the year ended 31 December 2018 include AIB UK and its subsidiary undertakings, collectively referred to as 'AIB UK Group'. AIB UK Group provides banking and financial services to personal, commercial and corporate customers and has operations throughout the United Kingdom.

The Board of Directors approved these financial statements for issue on 26 February 2019.

Reference made to 'AIB plc' or the 'Parent', relate to Allied Irish Banks, p.l.c., a parent undertaking registered in the Republic of Ireland. From 8 December 2017, with the introduction of a new holding company above AIB plc, AIB Group plc became the ultimate parent company of AIB UK Group (see note 47). AIB Group plc is registered in the Republic of Ireland (registered number 594283) with its headquarters and registered office at AIB Bankcentre, Ballsbridge, Dublin 4, Republic of Ireland. Telephone +353(0) 16600311. Reference made to "the Parent Group" relate to AIB plc and its subsidiary undertakings, which includes AIB UK Group.

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRSs as adopted by the EU and applicable for the year ended 31 December 2018. The accounting policies have been consistently applied by the AIB UK Group entities and are consistent with the previous year, unless otherwise described.

2.2 Basis of preparation

Functional and presentation currency

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

Basis of measurement

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

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

Use of judgements and estimates

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

The judgements made in applying the significant accounting policies that have the most significant effect on the financial statements and the estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial assets; the recoverability of deferred tax asset; and retirement benefit obligations. A description of these judgements and estimates is set out in note 4, Critical accounting judgements and estimates on page 92, with reference there to the applicable note for more detail.

Going Concern

The financial statements for the year ended 31 December 2018 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 2019 to 2021 approved by the Board in December 2018, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans the Directors have considered the current UK economic environment, and forecasts for growth and employment, as well as the outlook for the Irish and Eurozone economies, and the factors and uncertainties impacting their performance.

The Directors have also considered the principal risks and uncertainties, as part of the MRA process including Brexit, which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 19 to 24. The UK's exit from the EU could lead to a deterioration in market and economic conditions in the UK and Ireland, which could adversely affect AIB UK Group's business, financial condition, results of operations and prospects. Although the overall impact of the UK's withdrawal from the EU remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on UK Gross Domestic Product (GDP') growth over the medium term, with the UK's future trading relationship with the EU post-Brexit being the key consideration in determining the extent of such deterioration. The legal and regulatory position of AIB UK Group's operations may be impacted from changes in legal or regulatory rules as a result of the UK's departure from the EU. Depending on the nature of such changes the UK exiting the EU could have a material adverse effect on AIB UK Group's business, financial condition, results of operations and prospects.

The Directors believe that the AIB UK Group's capital resources are sufficient to ensure that the Company is adequately capitalised both in a base and stress scenario. The Company's regulatory capital resources are outlined on page 15.

AIB UK Group's liquidity is outlined on page 17. The Directors are satisfied, based on the Parent's position in the Irish market place and the successful IPO in 2017, that in all reasonably foreseeable circumstances the required liquidity and funding from the Central Bank of Ireland (CBI)/ ECB will be available to the Parent during the period of assessment.

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

Adoption of new accounting standards

On 1 January 2018, AIB UK implemented the requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time.

Comparative data for 2017 has been prepared under IAS 18 Revenue and IAS 39 Financial Instruments: Recognition andMeasurement.

IFRS 9 Financial Instruments

The effective date for IFRS 9 Financial Instruments was 1 January 2018 and was adopted by AIB UK Group on that date. AIB UK Group is not restating prior periods as allowed in IFRS 9, paragraph 7.2.15. However, as required by this paragraph, if prior periods are not restated, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable).

AIB UK Group applied IFRS 9 as issued in July 2014 at 1 January 2018 and early adopted the amendments to IFRS 9 on the same date.

Since AIB UK Group is continuing to apply IAS 39 hedge accounting requirements as allowed by IFRS 9, there has been no change to the 'derivatives and hedge accounting policy' – note 2.17.

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a revised classification and measurement model for financial assets, a forward looking expected credit loss ("ECL") impairment methodology and modifies the approach to hedge accounting.

The business model assessment test required by IFRS 9 was performed as at the date of initial application. AIB UK Group assessed whether the financial assets met the conditions for recognising a change in the classification/measurement basis at that date. This classification applies retrospectively.

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

The impact net of tax on transition to IFRS 9 was £21 million representing a reduction in retained earnings and other comprehensive income, principally due to the impairment requirements.

Further details on the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to these financial statements.

IFRS 9 accounting policies

The relevant accounting policies for AIB UK under IFRS 9 are:

- Financial instruments (note 2.15);
- Recognition and initial measurement (note 2.12);
- Classification and subsequent measurement (note 2.12);
- Interest income and expense recognition (note 2.5);
- Derecognition (note 2.18); and
- Impairment of financial assets (note 2.19)

IFRS 15 Revenue from Contracts with Customers

The effective date for IFRS 15 Revenue from Contracts with Customers was 1 January 2018 and was adopted by AIB UK Group on that date.

IFRS 15 replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other accounting standards.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for fulfilling its performance obligations to a customer.

On the date of initial adoption IFRS 15 had no impact on AIB UK Group.

The accounting policy on fee and commission income set out in note 2.7 replaces the previous accounting policy implemented under IAS 18.

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 IFRS 9, 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 designated at Fair value through other comprehensive income ('FVOCI'), 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.

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

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

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and interest expense

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

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

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss), AIB UK Group presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written off. (The policy prior to the adoption of IFRS 9 on 1 January 2018 was to recognise such income in interest income).

2.6 Dividend income

Dividend income on equity investments measured at FVOCI are recognised in the income statement provided that they represent a return on capital and when the right to receive dividend income is established. Usually this is the ex-dividend date for equity securities.

2.7 Fee and commission income

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

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

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;

- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as AIB UK Group satisfies its performance obligations.

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

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

The majority of AIB UK Group's fee and commission income arises from retail banking activities.

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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Service charge income received from a fellow subsidiary, as part of the cost allocation process, is recognised within fee income for 2018. This is in accordance with IAS 1 and 2017 comparatives have been restated to reflect the same treatment. This income was previously recognised within Administrative expenses. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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

2.9 Employee benefits

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

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Assets ring-fenced within a pension funding partnership, as part of an asset backed funding arrangement established for the AIB UK defined benefit scheme in December 2013, form part of the reported scheme assets. These assets are measured at fair value by consultants using actuarial valuation techniques. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. If the scheme is in surplus it is shown as an asset and if the scheme is in deficit it is shown as a liability. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

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

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

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

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

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

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

Short-term employee benefits

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

Termination benefits

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

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

2.10 Operating leases

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

2.11 Income tax, including deferred income tax

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

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

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

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

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

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by AIB UK Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which the profits arise.

2.12 Financial assets

Recognition and initial measurement

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

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

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.

The classification and subsequent measurement of financial assets depend on:

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

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

Amortised cost

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

Fair value through other comprehensive income

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect-and-sell' business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI'). Movements in the carrying amount of these assets are taken through other comprehensive income ('OCI'), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Fair value through profit or loss

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

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

Business model assessment

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

The assessment considers the following:

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

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

Characteristics of the contractual cash flows

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

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

- Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
- Terms providing for prepayment and extension;
- Leverage features;
- Contingent events that could change the amount and timing of cash flows;

- Terms that limit AIB UK Group's claim to cash flows from specified assets; and
- Contractually linked instruments.

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

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

Investments in equity instruments
Equity instruments are classified and measured at FVTPL with gains and losses reflected in profit or loss.

On initial recognition, AIB UK Group may elect to irrevocably designate at FVOCI, an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss on derecognition of the equity instrument.

2.13 Financial liabilities

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

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

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

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

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

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

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

2.14 Leases

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

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

Group's statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives.

Lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

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

2.15 Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which AIB UK Group has access at that date. AIB UK Group considers the impact of non-performance risk when valuing its financial liabilities.

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

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

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

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

Quoted prices in active markets

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

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

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

Valuation techniques

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

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

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

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

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

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

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

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

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

Transfers between levels of the fair value hierarchy

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

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

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

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

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

2.17 Derivatives and hedge accounting

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

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

Derivatives

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

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

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

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

Hedging

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

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

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

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

AIB UK Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;

b) the derivative expires, or is sold, terminated, or exercised;

c) the hedged item matures or is sold or repaid; or

d) a forecast transaction is no longer deemed highly probable.

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

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

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

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 Derecognition

Financial assets
AIB UK Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the AIB UK Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

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

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

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

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

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

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

2.19 Impairment of financial assets

AIB UK Group recognises loss allowances for expected credit losses ('ECLs') at each balance sheet date for the following financial instruments that are not measured at FVTPL:

- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

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

ECLs are the weighted average of credit losses with the respective risks of a default occurring as the weights. When measuring ECLs, AIB UK Group takes into account:

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

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

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

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

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

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

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired (POCI). The ECL held against an asset depends on a number of factors, one of which is its stage allocation.

Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in AIB UK Group's loss given default models ('LGD').

Purchased or originated credit impaired

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

POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%.

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

At each reporting date, AIB UK Group recognises the amount of the change in lifetime expected credit losses as a credit impairment gain or loss in profit or loss. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

Modification and derecognition of financial assets

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

A modification refers to either:

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

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

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement but requires a modification gain or loss to be taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

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

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process, thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

Collateralised financial assets – Repossessions

The ECL calculation for a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are credit 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 that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI

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

Write-offs and debt forgiveness

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

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

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

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

2.20 Collateral and netting

Collateral

AIB UK Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives AIB UK Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

AIB UK Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral pledged in the form of securities is not recorded on the statement of financial position. Collateral pledged in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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

Netting

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

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

All balances and transactions with the Parent Group are subject to a master netting agreement between the Company and the Parent Group where there is a legal right to settle on a net basis if certain circumstances arise.

2.21 Financial guarantees and loan commitment contracts

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

A loan commitment is a contract with a borrower to provide a loan or credit on specified terms at a future date. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

Financial guarantees and loan commitment contracts are initially recognised in the financial statements at fair value on the date that the guarantee or loan commitment is given.

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

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

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

2.22 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 - Office properties	 up to 10 years[1] 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.

2.23 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.

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

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

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

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

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

2.25 Non-current assets held for sale

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

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

2.26 Non-credit risk provisions

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

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

Onerous lease provision

When a decision is made that a leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. Before the provision is established, AIB UK Group recognises any impairment loss on the assets associated with the lease contract.

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

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

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

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

2.27 Shareholders' equity

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

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

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

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

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

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

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

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

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

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

Capital contributions

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

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

Revenue reserves

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

2.28 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.

2.29 Prospective accounting changes

The following new accounting standards and amendments to existing standards approved by the IASB in 2017 or prior years, but not early adopted by AIB UK Group, will impact AIB UK Group's financial reporting in future periods.

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

The Interpretation specifically addresses the following:

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

IFRIC 23 is expected to have an insignificant effect on the financial statements.

Effective date: Annual periods beginning on or after 1 January 2019.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments to IAS 28 regarding long-term interests in associates and joint ventures which were issued in October 2017, clarify that:

- An entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments are not expected to have a significant impact on AIB UK Group.

Effective date: Annual reporting periods beginning on or after 1 January 2019.

Annual improvements cycles/other

Annual Improvements: 2015-2017 cycle

The IASB's annual improvements project provides a process for making amendments to IFRSs 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 IFRSs. Annual Improvements to IFRSs 2015- 2017 Cycle amends IFRSs in relation to three issues addressed during this cycle.

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

Effective date: Annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 regarding Plan Amendment, Curtailment or Settlement which were issued in February 2018, require the following change:

- If a plan amendment, curtailment or settlement occurs, it is required that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

- Amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

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

Effective date: Annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 1 and IAS 8: Definition of Material

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

- A revised definition of 'material' which is included in the defined terms

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

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

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendments to IFRS 9, which were issued in October 2017, require the following changes:

- Amends the existing requirements in IFRS 9 regarding termination rights to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The amendments also provides clarification regarding financial liabilities as follows:

- An entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange that does not result in the derecognition of the financial liability in profit or loss at the date of the modification or exchange.

Effective date: Annual reporting periods beginning on or after 1 January 2019.

However AIB UK Group has early adopted this amendment in its implementation of IFRS 9 on 1 January 2018.

IFRS 16, Leases

IFRS 16 Leases, which was issued in January 2016, replaces IAS 17, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

IFRS 16 will impact AIB UK Group as it is the lessee of a number of properties which are classified under IAS 17 as operating leases. In addition AIB UK Group is the lessee for a small number of offsite ATM locations.

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

On transition, AIB UK will apply this standard using the modified retrospective approach for leases previously classified as operating leases, under this approach AIB UK Group will not restate comparative figures. Lease liabilities will be measured at the present value of the remaining lease payments discounted at AIB UK Group's incremental borrowing rate at the date of initial application. The right-of-use assets will be measured at an amount equal to the lease liabilities. For right-of-use assets that are impaired on transition, AIB UK Group will avail of the practical expedient allowed by the standard and rely on its assessment of whether leases are onerous as an alternative to performing an impairment review.

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

AIB UK Group has assessed the impact of the transition to IFRS 16 and it is estimated that assets and liabilities in the statement of financial position will each increase by £30m on implementation. Whilst the overall impact of IFRS 16 will be neutral on the income statement over the life of a lease, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years. The estimated impact on the income statement in the first year following implementation is expected to be minimal.

Effective date: Annual periods beginning on or after 1 January 2019.

3. Transition to IFRS 9

(a) Summary

On 1 January 2018, AIB UK Group implemented the requirements of IFRS 9 Financial Instruments, a new accounting standard, replacing IAS 39 Financial Instruments: Recognition and Measurement. In addition, AIB UK Group early adopted a narrow scope amendment to IFRS 9 titled 'Prepayment features with Negative Compensation' which was endorsed by the EU in March 2018.

As permitted by IFRS 9, AIB UK Group has not restated prior periods on initial application. Accordingly, any differences arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

The information set out in this note provides details relevant to understanding the impact of IFRS 9 on AIB UK Group's financial position at 1 January 2018 and has been prepared in accordance with the requirements for initial application of IFRS 9 as set out in IFRS 7 Financial Instruments: Disclosures. These transition disclosures provide a point-in-time bridge between IAS 39 Financial Instruments: Recognition and Measurement, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRS 9 Financial Instruments and should be read in conjunction with the IFRS 9 related accounting policies set out in note 2.12, 2.18, 2.19, 2.21 and the credit impairment methodologies and judgements set out in note 20.

IFRS 9 impacts the accounting for financial instruments in the following areas:
Classification and measurement – the classification of financial assets under IFRS 9 determines how they are accounted for and how they are measured on an on-going basis. This did not result in any significant changes for AIB UK Group at initial recognition.

Impairment – IFRS 9 introduces an expected credit loss model that requires recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. This resulted in an overall increase in loss allowances of £28million for AIB UK Group.

Hedge accounting – IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. This had no impact for AIB UK Group as it is exercising a policy choice, as permitted by IFRS 9, to continue hedge accounting under IAS 39. However, AIB UK Group will implement the revised hedge accounting disclosures required by 'the amendments to IFRS 7.

The opening statement of financial position at 1 January 2018 under IFRS 9 is set out on page 82 . This shows a decrease in net assets of £21 million with a corresponding decrease in shareholders' equity driven by credit impairment provisions on loans and advances amounting to £27 million and credit impairment provisions for liabilities and commitments amounting to £1 million, net of related deferred tax amounting to £7 million.

In particular, the following table reconciles impairment provisions (specific and incurrred but not reported ('IBNR')) under IAS 39 and provisions for loan commitments and financial guarantee contracts under IAS 37 at 31 December 2017 to the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

Impairment Allowance	31 December 2017 Impairment allowance under IAS 39 or provision under IAS 37 £m	Reclassification Impact £m	Additional IFRS 9 loss allowance £m	1 January 2018 Loss allowance under IFRS 9 £m
Loans and advances to customers at amortised cost	125	-	27	152
Loans and advances to banks at amortised cost	-	-	-	-
Available for sale investments, financial investments at FVOCI	-	-	-	-
Undrawn commitments and financial guarantee contracts	-	-	1	1
Total	125	-	28	153

The following table presents a reconciliation of gross loans and advances to customers at amortised cost together with impairment provisions under IAS 39 to gross loans and advances to customers at amortised cost together with loss allowances, analysed by staging under IFRS 9.

AIB UK Group

	At 31 December 2017 (IAS 39)	IFRS 9 transition adjustments		At 1 January 2018
	£m	Reclassified £m	Remeasured £m	Total £m
Gross Loans and advances to customers	6,624	-	-	6,624
Impairment provisions/loss allowance	(125)	-	(27)	(152)
	6,499	-	(27)	6,472
Gross Loans due from AIB plc and fellow subsidiaries	13	-	-	13
Carrying amount	6,512	-	(27)	6,485

The following table presents a reconciliation of gross loans and advances to customers at amortised cost together with impairment provisions under IAS 39 to gross loans and advances to customers at amortised cost together with loss allowances, analysed by staging under IFRS 9.

AIB UK

	At 31 December 2017 (IAS 39)	IFRS 9 transition adjustments		At 1 January 2018
	£m	Reclassified £m	Remeasured £m	Total £m
Gross Loans and advances to customers	6,622	-	-	6,622
Impairment provisions/loss allowance	(125)	-	(27)	(152)
	6,497	-	(27)	6,470
Gross Loans due from AIB plc and fellow subsidiaries	15	-	-	15
Carrying amount	6,512	-	(27)	6,485

(b) Principal impacts of IFRS 9

This section details the principal impacts of IFRS 9 in relation to classification and measurement, impairment and hedge accounting.

(i) Classification and measurement

The classification of financial assets under IFRS 9 determines how they are accounted for, and, in particular, how they are measured on an on-going basis.

- 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, FVOCI and FVTPL;
- 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 SPPI;
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the loss allowance;
- There is no separation of an embedded derivative where the instrument is a financial asset;
- Investment in equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however, dividends from such investments will continue to be recognised in profit or loss;
- The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Classification and measurement of financial assets did not result in any significant changes for AIB UK Group. In general:

- loans and advances to banks and customers that were classified as 'loans and receivables' under IAS 39 are measured at amortised cost under IFRS 9;
- debt securities classified as available for sale under IAS 39 are measured at FVOCI; and
- equity investments will continue to be measured at fair value. Equity investments held at 1 January 2018 are now measured under IFRS 9 at FVTPL. Under IAS 39, all equity investments, apart from a small number held in the trading book, were classified as available for sale with fair value movements reported in 'other comprehensive income'.

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

In relation to SPPI testing which was carried out on the financial instruments portfolio, there were no loans and advances to customers that failed the SPPI test. Where applicable, such instruments are measured at FVTPL in accordance with IFRS 9. Fair value movements on these instruments will be shown in profit or loss. There was no impact on the carrying value on transition to this new measurement basis.

AIB UK Group has not currently opted to designate any financial assets at FVTPL as permitted by IFRS 9 when certain conditions are met. AIB UK Group's classification of financial liabilities is unchanged. AIB UK Group measures financial liabilities at amortised cost subsequent to initial recognition. Given that AIB UK Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

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

(ii) Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. Expected credit losses on certain loan commitments and on financial guarantee contracts together with lease receivables are also covered by this new impairment model. Under IAS 39, impairment losses were compiled on an 'incurred loss' basis where there was objective evidence of impairment.

In particular, 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, an allowance 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, an allowance for 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 losses;
- The assessment of credit risk, and the estimation of expected credit losses, are required to be unbiased and probability-weighted. They 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 losses should take into account the time value of money. As a result, the recognition and measurement of impairment is now more forward-looking than IAS 39 and the resulting credit impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of credit loss allowances, since all financial assets will be assessed for at least 12 months expected credit losses and the population of financial assets to which lifetime expected credit losses apply is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The impact of IFRS 9 on credit loss allowances is set out on subsequent pages. The credit impairment methodologies and judgements applied are set out in the 'Credit risk disclosure note in note 20 of this report on pages 107 to 126.

(iii) Hedge accounting

IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. It makes some fundamental changes to the requirements under IAS 39 by removing or amending some of the key prohibitions and rules. However, many of these changes are more relevant to non-financial corporations.

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

AIB UK Group is exercising this policy choice and will continue to account under IAS 39. However, it will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

(c) Financial statement impacts at 1 January 2018

This section sets out: the opening statement of financial position; the impact of classification and measurement on AIB UK Group's financial assets; an impairment reconciliation; and revenue reserves and other components of equity reconciliations at 1 January 2018.

(i) Opening statement of financial position
The following table reconciles the statement of financial position under IAS 39 at 31 December 2017 to that under IFRS 9 at 1 January 2018.

AIB UK Group

	31 December 2017 (IAS 39) £m	Classification and measurement £m	Loss allowance £m	Tax £m	1 January 2018 (IFRS 9) £m
Assets					
Cash and balances at central banks	3,583	-	-	-	3,583
Items in the course of collection	38	-	-	-	38
Derivative financial instruments	112	-	-	-	112
Loans and advances to banks	965	-	-	-	965
Loans and advances to customers	6,512	-	(27)	-	6,485
Investment securities	33	-	-	-	33
Intangible assets	25	-	-	-	25
Property, plant and equipment	15	-	-	-	15
Other assets	89	-	-	-	89
Deferred tax assets	40	-	-	7	47
Prepayments and accrued income	4	-	-	-	4
Retirement benefit assets	419	-	-	-	419
Total assets	11,835	-	(27)	7	11,815
Liabilities					
Deposits by banks	473	-	-	-	473
Customer accounts	9,034	-	-	-	9,034
Derivative financial instruments	116	-	-	-	116
Current taxation	4	-	-	-	4
Deferred tax liabilities	35	-	-	-	35
Accruals and deferred income	27	-	-	-	27
Other liabilities	365	-	-	-	365
Provisions for liabilities and commitments	21	-	1	-	22
Total liabilities	10,075	-	1	-	10,076
Equity					
Share capital	2,384	-	-	-	2,384
Reserves	9	-	(1)		8
Retained earnings	(633)	-	(27)	7	(653)
Total shareholders' equity	1,760	-	(28)	7	1,739
Total liabilities and shareholders' equity	11,835	-	(27)	7	11,815

(i) Opening statement of financial position (continued)

The following table reconciles the statement of financial position under IAS 39 at 31 December 2017 to that under IFRS 9 at 1 January 2018.

AIB UK

	31 December 2017 (IAS 39) £m	Classification and measurement £m	Loss allowance £m	Tax £m	1 January 2018 (IFRS 9) £m
Assets					
Cash and balances at central banks	3,583	-	-	-	3,583
Items in the course of collection	38	-	-	-	38
Derivative financial instruments	112	-	-	-	112
Loans and advances to banks	965	-	-	-	965
Loans and advances to customers	6,512	-	(27)	-	6,485
Investment securities	33	-	-	-	33
Intangible assets	25	-	-	-	25
Property, plant and equipment	12	-	-	-	12
Other assets	89	-	-	-	89
Current taxation	-	-	-	-	-
Deferred tax assets	40	-	-	7	47
Prepayments and accrued income	4	-	-	-	4
Retirement benefit assets	419	-	-	-	419
Total assets	11,832	-	(27)	7	11,812
Liabilities					
Deposits by banks	464	-	-	-	464
Customer accounts	9,063	-	-	-	9,063
Derivative financial instruments	116	-	-	-	116
Current taxation	4	-	-	-	4
Deferred tax liabilities	35	-	-	-	35
Accruals and deferred income	27	-	-	-	27
Other liabilities	364	-	-	-	364
Provisions for liabilities and commitments	15	-	1	-	16
Total liabilities	10,088	-	1	-	10,089
Equity					
Share capital	2,384	-	-	-	2,384
Reserves	8	-	(1)		7
Retained earnings	(648)	-	(27)	7	(668)
Total shareholders' equity	1,744	-	(28)	7	1,723
Total liabilities and shareholders' equity	11,832	-	(27)	7	11,812

(c) Financial statement impacts at 1 January 2018 (continued)

(ii) Financial assets- Classification and measurement
The following table summarises the impact of classification and measurement on AIB UK Group's financial assets at 1 January 2018.

AIB UK Group and AIB UK

	Original measurement category determined in accordance with IAS 39 at 31 December 2017	New measurement category determined in accordance with IFRS 9 at 1 January 2018	Carrying amount determined in accordance with IAS 39 at 31 December 2017	Carrying amount determined in accordance with IFRS 9 at 1 January 2018
Financial assets			£m	£m
Cash and balances at central banks	Loans and receivables	Amortised cost	3,583	3,583
Items in the course of collection	Loans and receivables	Amortised cost	38	38
Derivative financial instruments	Fair value	*FVTPL	112	112
Loans and advances to banks	Loans and receivables	Amortised cost	965	965
Loans and advances to customers	Loans and receivables	Amortised cost	6,512	6,485
Investment securities – equity	Available for sale	FVOCI	33	-
Investment securities – equity	Available for sale	*FVTPL	-	33
Other financial assets	Amortised cost	Amortised cost	89	89
Total assets			11,332	11,305

*mandatory – see note 2.12 Financial assets- Fair value through profit or loss.

(iii) Impairment Reconciliation

AIB UK Group and AIB UK

Financial assets at amortised cost	Impairment provision at 31 December 2017 (IAS 39) £m	Reclassification £m	Remeasurement £m	ECL 1 January 2018 (IFRS 9) £m
Loans and advances to customers	125	-	27	152
	125	-	27	152

Provisions for liabilities and commitments	Impairment provision at 31 December 2017 (IAS 39) £m	Reclassification £m	Remeasurement £m	ECL 1 January 2018 (IFRS 9) £m
Loan commitments and financial guarantees issued	-	-	1	1
	-	-	1	1

Provisions for liabilities and commitments	31 December 2017 (IAS 39) £m	Reclassification £m	Remeasurement £m	1 January 2018 (IFRS 9) £m
Impairment provision (IAS 39)/ECL allowance(IFRS 9)	125	-	27	152
Provision for liabilities and commitments (IAS 37/IFRS 9)	-	-	1	1
	125	-	28	153

For financial assets at FVOCI, the expected credit loss provision does not impact overall reserves, however, it results in a transfer between AFS and retained earnings on transition. There was no impairment in the year ended 31 December 2018.

(c) Financial statement impacts at 1 January 2018 (continued)

(iv) Retained earnings and other components of equity reconciliations
The following table sets out the impact of applying IFRS 9 on opening retained earnings and other components of equity as at 1 January 2018:

AIB UK Group

Available for sale securities reserves	Gross £m	Taxation £m	Net £m
Closing balance at 31 December 2017 (IAS 39)	2	(1)	1
Reclassification to retained earnings	(2)	1	(1)
Opening balance at 1 January 2018 (IFRS 9)	-	-	-

Retained earnings	Gross £m	Taxation £m	Net £m
Closing balance at 31 December 2017 (IAS 39)			(633)
Reclassification from available for sale reserves (IAS 39) - equities at FVTPL	2	(1)	1
Recognition of expected credit losses for loans and advances to customers at amortised cost	(27)	7	(20)
Recognition of expected credit losses for loan commitments	(1)	-	(1)
	(26)	6	(20)
Opening balance at 1 January 2018 (IFRS 9)			(653)
IFRS 9 transition adjustment to total reserves at 1 January 2018	(28)	7	(21)

(iv) Retained earnings and other components of equity reconciliations
The following table sets out the impact of applying IFRS 9 on opening revenue reserves and other components of equity as at 1 January 2018:

AIB UK

Available for sale securities reserves	Gross £m	Taxation £m	Net £m
Closing balance at 31 December 2017 (IAS 39)	2	(1)	1
Reclassification to revenue reserves	(2)	1	(1)
Opening balance at 1 January 2018 (IFRS 9)	-	-	-

Retained earnings	Gross £m	Taxation £m	Net £m
Closing balance at 31 December 2017 (IAS 39)			(648)
Reclassification from available for sale reserves (IAS 39) - equities at FVTPL	2	(1)	1
Recognition of expected credit losses for loans and advances to customers at amortised cost	(27)	7	(20)
Recognition of expected credit losses for loan commitments	(1)	-	(1)
	(26)	6	(20)
Opening balance at 1 January 2018 (IFRS 9)			(668)
IFRS 9 transition adjustment to total reserves at 1 January 2018	(28)	7	(21)

(d) Analysis of financial instruments by staging

This section provides detailed analysis of: exposures within the scope of the ECL framework by balance sheet caption and staging; loans and advances to customers by asset class and staging; off-balance sheet commitments by staging; loans and advances to customers by segment and staging; and forbearance by staging.

(i) Exposures within the scope of the ECL framework by balance sheet caption and staging
The following table analyses exposures within the scope of IFRS 9 including off-balance sheet commitments and guarantees. Exposures are shown gross of ECL.

Items outside the scope of the ECL framework such as cash and items in the course of collection are excluded from this table as it is AIB UK Group policy not to calculate an ECL for such items as they have a low risk of default with a very low risk profile. In addition, equity investments have been excluded as they are outside the scope of the ECL framework.

AIB UK Group

				1 January 2018
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Loans and advances to banks	965	-	-	965
Loans and advances to customers - third parties	5,805	536	283	6,624
Loans due from AIB plc and fellow subsidiaries	13	-	-	13
Total assets	6,783	536	283	7,602
Undrawn commitments and financial guarantee contracts	1,567	63	92	1,722
Total exposure	8,350	599	375	9,324

AIB UK

				1 January 2018
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Loans and advances to banks	965	-	-	965
Loans and advances to customers - third parties	5,803	536	283	6,622
Loans due from AIB plc and fellow subsidiaries	15	-	-	15
Total assets	6,783	536	283	7,602
Undrawn commitments and financial guarantee contracts	1,385	63	92	1,540
Total exposure	8,168	599	375	9,142

(d) Analysis of financial instruments by staging (continued)

(ii) Loans and advances to customers by asset class
The following table reconciles the carrying amount for loans and advances to customers in accordance with IAS 39 as at 31 December 2017 to the carrying amount in accordance with IFRS 9 as at 1 January 2018. Loans and advances to customers measured at amortised cost have been analysed as to ECL staging:

Measured at amortised cost

AIB UK Group and AIB UK

Gross carrying amount								1 January 2018
		Impact of adopting IFRS 9			Of which impaired under IAS 39			
	At 31 December 2017 IAS 39	Reclassifications	Remeasurement	At 1 January 2018 IFRS 9	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount by asset class	£m	£m	£m	£m	£m	£m	£m	£m
Residential mortgages	1,349	-	-	1,349	1,081	127	141	1,349
Other personal	177	-	-	177	145	23	9	177
Property and construction	1,549	-	-	1,549	1,348	123	78	1,549
Non property business	3,562	-	-	3,562	3,244	263	55	3,562
Total	6,637	-	-	6,637	5,818	536	283	6,637

AIB UK Group and AIB UK

ECL allowance

		ECL Allowance						1 January 2018			31 December 2017
		Impact of adopting IFRS 9 on ECL allowance			Impairment provisions under IAS 39						
	At 31 December 2017 Specific and IBNR provisions IAS 39	Reclassifications	Remeasurement	At 1 January 2018 IFRS 9	Stage 1	Stage 2	Stage 3	Total	Specific provisions	IBNR provisions	Total
ECL allowance by asset class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Residential mortgages	(33)	-	1	(32)	-	(2)	(30)	(32)	(29)	(4)	(33)
Other personal	(10)	-	2	(8)	(1)	(1)	(6)	(8)	(8)	(2)	(10)
Property and construction	(46)	-	(6)	(52)	(5)	(2)	(45)	(52)	(35)	(11)	(46)
Non property business	(36)	-	(24)	(60)	(19)	(15)	(26)	(60)	(15)	(21)	(36)
Total	(125)	-	(27)	(152)	(25)	(20)	(107)	(152)	(87)	(38)	(125)
Measured at amortised cost carrying amount	6,512	-	(27)	6,485	5,793	516	176	6,485			

(d) Analysis of financial instruments by staging (continued)

(iii) Off-balance sheet commitments
The following table analyses the nominal amount of off-balance sheet commitments and the opening loss allowance at 1 January 2018:

AIB UK Group

	Off-balance sheet commitments			Analysed as to:			
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m
Nominal amount	1,722	-	1,722	1,567	63	92	1,722

	ECL allowance			Analysed as to:			
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m
ECL allowance	-	1	1	-	1	-	1

AIB UK

	Off-balance sheet commitments			Analysed as to:			
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m
Nominal amount	1,540	-	1,540	1,385	63	92	1,540

	ECL allowance			Analysed as to:			
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m
ECL allowance	-	1	1	-	1	-	1

(iv) Forbearance

The following table sets out the gross carrying amount of loans and advances to customers at amortised cost and the related IAS 39 provision for impairment at 31 December 2017, and the impact of adopting IFRS 9 at 1 January 2018, analysed between forborne and non-forborne loans:

AIB UK Group and AIB UK

Forbearance

	Gross Loans			ECL allowance			
	At 31 December 2017	Impact of adopting IFRS 9 reclassification	At 1 January 2018	At 31 December 2017	Impact of adopting IFRS 9: Reclassification	Impact of adopting IFRS 9: Remeasurement	At 1 January 2018
	£m	£m	£m	£m	£m	£m	£m
Forborne	103	-	103	(12)		(24)	(36)
Non-forborne	6,534	-	6,534	(113)		(3)	(116)
Total	**6,637**	**-**	**6,637**	**(125)**	**-**	**(27)**	**(152)**

1 January 2018	Gross Loans			ECL allowance			Net carrying amount		
	Forborne	Non-forborne	Total	Forborne	Non-forborne	Total	Forborne	Non-forborne	Total
At amortised cost	£m	£m	£m	£m	£m	£m	£m	£m	£m
Stage 1	18	5,800	5,818	-	(25)	(25)	18	5,775	5,793
Stage 2	21	515	536	(1)	(19)	(20)	20	496	516
Stage 3	64	219	283	(35)	(72)	(107)	29	147	176
POCI	-	-	-	-	-	-	-	-	-
Total	**103**	**6,534**	**6,637**	**(36)**	**(116)**	**(152)**	**67**	**6,418**	**6,485**
Total loans and advances to customers							**67**	**6,418**	**6,485**

4. Critical accounting judgements and estimates

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

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

Impairment of financial assets

AIB UK Group's accounting policy for impairment of financial assets is set out in note 2.19. It reflects the requirements of IFRS 9 reporting, effective from 1 January 2018, when AIB UK Group implemented the three stage expected credit loss (ECL) impairment model. The ECL allowances for financial assets at 31 December 2018 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

The implementation of an expected credit loss model for the first time has resulted in a new methodology and basis for calculating impairment losses compared to the incurred loss model under IAS 39. The calculation of ECL allowances is complex and therefore the Bank must consider much more information in the determination of such expectations of future credit losses.

Judgement is required in:

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

Given the current political and economic uncertainty within the UK, management has considered the potential impact of a severe downturn in the UK economy and believe it is reasonable to apply a management overlay. See further details in Note 20.

Estimates are involved in the inputs into the ECL calculation including DCFs; collateral valuations; time to realisation of collateral. Further information on impairment of financial assets measurement, methodologies and judgements is set out in Note 20(a).

Recoverability of deferred tax asset

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

In recognising a deferred tax asset for unutilised losses, the Directors' make a judgement on the period of time over which it is probable there will be sufficient future taxable profits against which the losses can be used. This includes making judgements on the impact of future economic conditions including, for 2018, Brexit. Estimates of the level of future profitability are made in determining the amount of deferred tax asset on unutilised losses to recognise at the reporting date. The factors considered by management in making these judgements and assumptions for the estimates are disclosed in note 27.

Retirement benefit obligations

AIB UK Group's accounting policy for retirement benefit plans is set out in note 2.9 and details of the key assumptions and the valuation of the AIB Group (UK) Pension Scheme (the UK Scheme), at 31 December 2018 are set out in note 28.

Judgement is involved in determining the appropriate models to base the fair value, financial and demographic assumptions on. The choice of these drives the valuation of the UK Scheme assets and liabilities reported in the financial statements.

The Directors have also chosen estimates of a number of financial and demographic assumptions within an acceptable range, under advice from the Company's actuaries which include discount rate, inflation, and the expected longevity of scheme members.

The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used. The assumptions adopted for AIB UK Group's pension schemes are set out in note 28 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

5. Interest income

	2018 £m	2017 £m
Interest on loans and advances to banks at amortised cost	56	37
Interest on loans and advances to customers at amortised cost	226	216
Interest from finance leasing and hire purchase contracts	6	7
Interest income	**288**	**260**

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 £288m (2017: £260m).

In 2017, Interest income recognised on impaired loans amounted to £2m.

6. Interest expense

	2018 £m	2017 £m
Interest on deposits by banks	37	24
Interest on customer accounts	24	25
Interest on debt securities in issue	-	1
Interest expense	**61**	**50**

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 £61m (2017: £50m).

7. Net fee and commission income

	2018 £m	2017 *Restated £m
Retail banking customer fees	23	26
Credit related fees	11	10
Foreign exchange fees[1]	10	9
Service charge[2]	10	10
Credit card commission	4	4
Other fees and commission	6	8
Fee and commission income	**64**	**67**
Fee and commission expense	**(5)**	**(6)**
Net fee and commission income	**59**	**61**

[1] Customer related foreign exchange income is reported in 'Net fee and commission income' in 2018 (2017 comparative has been restated from 'Net trading income' - see note 8). In addition, customer related foreign exchange branch commission, reported within 'Retail banking customer fees' in 2017, are now reported in 'Foreign exchange fees' above.

[2] The service charge in 2018 relates to income received from a fellow subsidiary, as part of the cost allocation process, whereby AIB UK is reimbursed for staff and administration costs incurred servicing the company. The comparative figures for 2017 have been restated to reflect the amount received in 2017 of £10m as income, previously reported as a credit within Administrative expenses (note 11).

8. Net trading and other financial income

	2018 £m	2017 *Restated £m
Interest rate contracts	(2)	2
Equity index contracts and warrants[1]	-	(2)
Net trading and other financial income	**(2)**	-

[*] From 1 January 2018 customer related exchange fee income has been reported in 'Net fee and commission income' see note 7. 2017 comparatives have been restated.

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

9. Net gain on other financial assets measured at FVTPL

	2018 £m
Investment securities - equity	0.3
Net gain on other financial assets measured at FVTPL	**0.3**

The fair value gain on investment securities measured at FVTPL was £0.3m in 2018. These equity securities were accounted for as FVOCI under IAS 39 in 2017.

10. Other operating income

	2018 £m	2017 £m
Dividend income[1]	3	2
Profit on disposal of available for sale equity investments[2]	-	6
Profit on disposal of loans & advances to customers[3] & [4]	-	4
Other operating income	**3**	**12**

[1] Dividend income on equity investments measured at FVTPL amounts to £3m (2017: £2m on available for sale equity investments under IAS 39).

[2] A gain of £6m was realised on the disposal of AIB UK's equity interest in Vocalink in 2017.

[3] Profit or loss on sale of loans was a net nil for 2018. This was made up of a loss of £4m on a loan sold in 2018 with a book value of £25m and a profit of £4m from the final settlement for a portfolio of loans that were sold in 2017.

[4] During 2017, AIB UK Group sold two portfolios of loans to third parties and, after taking into account selling, post signing movement and other costs, a profit of £4m was made on these transactions. See note 15 'Transfer of financial assets'.

11. Administrative expenses

	2018 £m	2017 *Restated £m
Wages and salaries	58	76
Social security costs	6	6
Pension costs		
- Defined contribution plans (note 30)	8	8
- Defined benefit plans (note 30)	(9)	(12)
Other personnel expenses	16	17
Personnel expenses	**79**	**95**
Operating lease rentals – property and equipment	5	6
Other administrative expenses	57	57
General and administrative expenses	**62**	**63**
Administrative expenses	**141**	**158**

For the year ended 31 December 2018, a charge of £5m (2017: a charge of £19m) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB Group.

There is a charge included within administrative expenses in 2018 of £1m (2017: £1m) in respect of the Financial Services Compensation Scheme ('FSCS') levy.

Cost allocation income received in 2018 from a fellow subsidiary of £10m has been classified as a service charge within Net fee and commission income (Note 7). The comparative figures for 2017 have been restated to transfer £10m to income made up of a £8m credit from Other personnel expenses and £2m credit from Other administrative expenses above.

The average number of employees of AIB UK Group and AIB UK during the year was 1,043 (2017: 1,218).

12. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2018 and 2017, 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.

	2018 £'000	2017 £'000
Audit fees for statutory audit [1]	400	264
Other assurance services (including regulatory compliance work)[2]	118	55
Audit of pension schemes associated with AIB UK Group	58	58
Other non-audit services [3]	-	17
Auditor's remuneration	**576**	**394**

[1] The audit of subsidiaries is included within the statutory audit fee. Additional audit fees of £136K (2017: nil) were charged in 2018 due to the implementation of IFRS 9.

[2] Other Assurance services includes Bank of England Assurance Reporting, CASS Client Money Report and the Term Funding Scheme Assurance audit. Due to their nature these services are usually performed by the external auditor.

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

13. Income tax charge from continuing operations

	2018 £m	2017 £m
UK corporation tax on profits for the period	18	12
Adjustments in respect of prior periods	-	3
Current tax	**18**	**15**
Origination and reversal of temporary differences	3	3
Change in deferred tax on losses of previous not recognised losses:		
- Current period	(3)	(14)
Deferred tax[1]	**-**	**(11)**
Total tax expense	**18**	**4**

[1] See Deferred taxation note 27.

The tax charge for the period is lower (2017: lower) than the 2018 standard average rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £m	2017 £m
Corporation tax charge at standard average rate	25	20
Effects of:		
Expenses not deductible for tax purposes	(3)	1
Exempted income, income at reduced rates and tax credits	(1)	(2)
Income taxed at bank surcharge rate	5	3
Deferred tax assets not recognised/reversal of amounts previously not recognised	(8)	(18)
Other differences	-	(3)
Adjustments to tax charge in respect of previous years	-	3
Total tax expense	**18**	**4**

At 31 December 2018 the current taxation balance of AIB UK Group was a liability of £10m (2017: £4m liability). At 31 December 2018 the current taxation balance of AIB UK was a liability of £9m (2017: £4m liability).

14. Dividends on equity shares

No dividends were paid during 2018 or 2017.

15. Transfer of financial assets

Continuing involvement in derecognised financial assets

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

Sale of Assets to a Third Party
AIB UK Group sold a portfolio of loans with a net book value of £1m to a third party in May 2017 for a consideration of £5m. After taking into account selling and other costs, a profit on disposal of £2m was recorded on this transaction (see note 8). The loans were derecognised from the balance sheet at the date of the sale in May 2017. AIB UK continued to service the loans on behalf of the purchaser until transition was complete and the loans transferred in August 2017. AIB UK Group received an immaterial fee for servicing the loans while they were in transition, see note 10.

AIB UK Group sold a further portfolio of loans with a net book value of £53m to a third party on 15 December 2017 for a consideration of £64m. The loan portfolio had a net book value of £53m, and after taking into consideration selling, post signing movement and other costs, a profit on disposal of £2m was recorded on the transaction (see note 8). The sale agreement was signed on 15 December 2017, and the loans derecognised from the balance sheet of AIB UK Group at that date. A deposit of ten per cent of the agreed purchase price was paid on signing, and the remaining amount was paid in February 2018. The amount due to be received from the purchaser was £48m at 31 December 2017 which was held net of any cash received from customers that was due to be paid to the third party (see note 26 Other assets).

AIB UK Group continued to service the loans on behalf of the purchaser until transition was completed in April 2018. AIB UK Group provided this servicing of the loans at an immaterial charge while they were in transition.

16. Derivative financial instruments

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

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

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

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

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

The net movement in derivatives designated as cash flow hedges recognised directly in equity through the statement of comprehensive income during 2018 is set out in note 34.

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

The following table presents the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2018 and 2017:

	2018 £m	2017 £m
Interest rate contracts [1]		
Notional principal amount	6,731	5,509
Positive fair value	83	108
Negative fair value	(95)	(113)
Exchange rate contracts [1]		
Notional principal amount	467	250
Positive fair value	7	4
Negative fair value	(7)	(3)
Total notional principal amount	7,198	5,759
Total positive fair value [2]	90	112
Total negative fair value	(102)	(116)

[1] Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.

[2] At 31 December 2018, 21% of fair value relates to exposures to banks (2017: 19%).

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

				2018				2017
Residual maturity	< 1 year £m	1 < 5 years £m	5 years+ £m	Total £m	< 1 year £m	1 < 5 years £m	5 years+ £m	Total £m
Notional principal amount	3,047	1,556	2,595	7,198	2,328	1,163	2,267	5,759
Positive fair value	6	11	73	90	5	10	96	112

AIB UK Group has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principle amount		Positive fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
United Kingdom	7,198	5,759	90	112

The following table shows the notional principle amount:

	2018			2017		
	Notional Principal amount £m	Fair Values Assets £m	Fair Values Liabilities £m	Notional Principal amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Derivatives held for trading						
Interest rate derivatives-over the counter ("OTC")						
Interest rate swaps	**1,735**	**70**	**(85)**	1,434	90	(105)
Interest rate options bought and sold	**261**	**-**	**-**	193	-	-
Total interest rate derivatives -OTC	**1,996**	**70**	**(85)**	1,627	90	(105)
Total interest rate derivatives	**1,996**	**70**	**(85)**	1,627	90	(105)
Foreign exchange derivatives - OTC						
Foreign exchange contracts	**467**	**7**	**(7)**	250	4	(3)
Total foreign exchange derivatives	**467**	**7**	**(7)**	250	4	(3)
Total derivatives held for trading	**2,463**	**77**	**(92)**	1,877	94	(108)

	2018			2017		
	Notional Principal amount £m	Fair Values Assets £m	Fair Values Liabilities £m	Notional Principal amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Derivatives designated as cash flow hedges -OTC						
Interest rate swaps	**4,735**	**13**	**(10)**	3,882	18	(8)
Total Interest Rate Cash Flow Hedges - OTC	**4,735**	**13**	**(10)**	3,882	18	(8)
Total derivatives designated as cash flow hedges	**4,735**	**13**	**(10)**	3,882	18	(8)
Total derivatives held for hedging	**4,735**	**13**	**(10)**	3,882	18	(8)
Total derivative financial instruments	**7,198**	**90**	**(102)**	5,759	112	(116)

Cash flow hedges

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

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

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

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is nil (2017: nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a charge of £6m (2017: £14m).

Netting financial assets and financial liabilities

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

17. Loans and advances to banks

	AIB UK Group			AIB UK		
	31 December 2018	1 January 2018[1]	31 December 2017	**31 December 2018**	1 January 2018[1]	31 December 2017
	£m	£m	£m	**£m**	£m	£m
At amortised cost						
Funds placed with central banks	**526**	475	475	**526**	475	475
Funds placed with other banks	**351**	490	490	**351**	490	490
ECL allowance	**-**	-	-	**-**	-	-
Total loans and advances to banks	**877**	965	965	**877**	965	965
Amounts include:						
Due from AIB plc and fellow subsidiaries	**298**	461	461	**298**	461	461

External rating:	**Amortised Cost 31 December 2018**	31 December 2017	**Amortised Cost 31 December 2018**	31 December 2017
AA/AA-	**539**	500	**539**	500
A-/A	**39**	3	**39**	3
BB+/BBB+/BBB-	**299**	462	**299**	462
Loans and advances to banks	**877**	965	**877**	965

[1] For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

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 2018 (2017: nil) in respect of government securities. No collateral (2017: nil) was repledged to the Bank of England as collateral for BACS membership.

18. Loans and advances to customers

AIB UK Group

Loans and advances to customers	31 December 2018 £m	1 January 2018[1] £m	31 December 2017 £m
Amortised Cost			
Loans and advances to customers	**6,670**	6,461	6,461
Amounts receivable under finance leases and hire purchase contracts	**170**	176	176
Sub total	**6,840**	6,637	6,637
ECL Allowance	**(118)**	(152)	(125)
Total loans and advances to customers	**6,722**	6,485	6,512
Of which repayable on demand or at short notice:			
Amounts include:			
Due from AIB plc and fellow subsidiaries	-	13	13

[1] For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

AIB UK

Loans and advances to customers	31 December 2018 £m	1 January 2018[1] £m	31 December 2017 £m
Amortised Cost			
Loans and advances to customers	**6,672**	6,463	6,463
Amounts receivable under finance leases and hire purchase contracts	**169**	174	174
Sub total	**6,841**	6,637	6,637
ECL Allowance	**(118)**	(152)	(125)
Total loans and advances to customers	**6,723**	6,485	6,512
Of which repayable on demand or at short notice:			
Amounts include:			
Due from AIB plc and fellow subsidiaries	**2**	15	15

[1] For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.
During 2017, AIB UK sold two portfolios of loans to third parties, see note 15 for more detail.

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

The following table analyses the gross carrying amount of loans and advances to customers showing significant changes arising during the year:

AIB UK Group & AIB UK	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross carrying amount at 1 January 2018	5,805	536	283	6,624
Transferred from Stage 1 to Stage 2	(269)	269	-	-
Transferred from Stage 2 to Stage 1	127	(127)	-	-
Transferred to Stage 3	(28)	(30)	58	-
Transferred from Stage 3	10	22	(32)	-
Other changes in net exposure	497	(367)	(77)	53
Write-offs & restructures	-		(49)	(49)
Derecognised - disposals	-		(1)	(1)
Interest applied to Loans	165	33	8	206
Foreign exchange movements	4	1	-	5
Total other movements	(213)	191	24	2
Gross carrying amount as at 31 December 2018	**6,098**	**528**	**214**	**6,840**

19. Loss allowance on financial assets

The following table shows the movements on the expected credit loss on financial assets. Comparative data for 31 December 2017 has been prepared under IAS 39.

	IFRS 9	IFRS 9	IAS 39
	31 December 2018	1 January 2018[1]	31 December 2017
AIB UK Group & AIB UK	**£m**	£m	£m
At 31 December 2017	**152**	-	227
Transition to IFRS 9	**-**	152	-
At 1 January 2018	**152**	152	-
Exchange translation adjustments	**-**	-	-
Transfer in	**-**	-	-
Net remeasurement of loss allowance- banks	**-**	-	-
Net remeasurement of loss allowance- customers	**15**	-	21
Changes in ECL allowance due to write-offs	**(49)**	-	(51)
Changes in ECL allowance due to derecognition	**-**	-	(72)
At 31 December 2018	**118**	152	125
Amounts include loss allowance on:			
Loans and advances to banks measured at amortised cost	**-**	-	-
Loans and advances to customers measured at amortised cost	**118**	152	125
	118	152	125

[1] For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

Expected credit loss allowance

AIB UK Group's accounting policy for impairment of financial assets is set out in note 2.19. Whilst provisioning is a continuous process, provision adequacy is formally reviewed in AIB UK Group on a quarterly basis to determine the overall provision requirement across all credit portfolios.

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

The loss allowance in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts as AIB UK Group cannot separately identify the ECL on the loan commitment component. In cases where the expected credit losses exceed the gross carrying amount of the loan, the excess is recognised as a provision (see note 32 to the financial statements), and is not shown in this table.

Net credit impairment losses - Income Statement

The following table analyses the income statement net credit impairment writeback/(losses) on financial instruments for the year to 31 December 2018.

	2018
	Measured at amortised cost
Credit impairment writeback/(losses) on financial instruments	£m
Net measurement of loss allowance	
Loans and advances to customers	**(15)**
Loan commitments	**(5)**
Financial guarantee contracts	**(2)**
Credit impairment writeback/(losses)	**(22)**
Recoveries of amounts written off in previous years	**3**
Net credit impairment writeback/(losses)	**(19)**

	31 Dec 2017
	£m
Writeback of provisions for impairment on loans and advances	21

Comparative data for 31 December 2017 has been prepared under IAS 39.

20. Credit risk disclosures

Credit risk management objectives are to:

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

(a) Impairment of financial assets - measurement, methodologies and judgements

The methodologies used and judgements exercised by AIB UK Group in determining its expected credit loss ("ECL") for both transition to IFRS 9 at 1 January 2018 and for the year to 31 December 2018 are described below. Transition to IFRS 9 is set out at note 3 and accounting policy on Impairment of financial assets at note 2.19.

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

The AIB UK Group does not prescribe specific approaches used to estimate the ECL, but stresses that the approach must reflect the following:

– An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;

– Underlying models should be point in time – recognising economic conditions;

– The ECL must reflect the time value of money;

– A lifetime ECL is calculated for financial assets in Stage 2 and 3; and

– Models used in the ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

The ECL model applies to financial instruments measured at amortised cost or at fair value through other comprehensive income. In addition, the ECL approach applies to lease receivables, loan commitments (at the point where AIB UK Group goes on risk) and financial guarantee contracts that are not measured at fair value through profit or loss.

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

Measurement bases
Under IFRS 9, there are two measurement bases:

1. 12-month ECL (Stage 1), which applies to all financial instruments from initial recognition as long as there has been no significant deterioration in credit quality;

2. Lifetime ECL (Stages 2 and 3), which applies when a significant increase in credit risk has been identified on an individual or collective basis (Stage 2) or an account has been identified as being credit-impaired (Stage 3).

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

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

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

AIB UK Group uses a proxy origination date for facilities which originated prior to a credit risk rating model or scorecard being in place. The proxies are portfolio specific, based on information available at origination, and depend on when a model or scorecard was fully rolled out. As assets within these portfolios mature, reliance on proxies will reduce over time.

For accounts that originated prior to 1 January 2018, a neutral view of the macroeconomic outlook at the time is used, i.e. where macroeconomic variables are used in the Lifetime PD models, long-run averages are used instead of historical forecasts.

Stage 1 characteristics
Obligations are classified Stage 1 at origination, unless POCI, with a 12 month ECL being recognised and remain in Stage 1 unless there has been a significant increase in credit risk. Accounts can also return to stage 1 if they no longer meet either the stage 2 or stage 3 triggers.

Additionally, as a result of advanced forbearance solutions, accounts are assigned to Stage 1 following derecognition of the original asset.

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

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

AIB UK Group's SICR assessment is determined based on:
Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. AIB UK Group compares each obligation's annualised average probability weighted residual lifetime probability of default ('LTPD') at origination to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, AIB UK Group moves the financial asset into Stage 2. Increases in LTPD may be due to credit deterioration of the individual asset or due to macroeconomic factors. AIB UK Group has determined that an account has met the quantitative measure if the average residual LTPD at the reporting date is more than double the average residual LTPD at origination. This is subject to the difference between the LTPDs being at least 50bps.

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

The criteria for this trigger include:

– A downgrade of the borrower's/facility's credit grade reflecting the increased credit management focus on these accounts; and

– Forbearance has been provided and the account is within the probationary period.

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

Where SICR criteria is no longer a trigger and the obligor is not credit-impaired, the account can exit Stage 2.

Stage 3 characteristics
Defaulted obligations (with the exception of fundamental restructures which are in stage 1 on origination) are classified as credit impaired and allocated to Stage 3. Where default criteria is no longer met, the obligor exits Stage 3.

Two key criteria resulting in a classification of default are:

- Where AIB UK Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.

- The credit obligor is 90 days or more past due on any material credit obligation (count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).

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

Note that for the default definition, the Bank is aligned to the IFRS 9 rebuttable assumption that an account that is 90 days past due should be credit-impaired.

Purchased or originated credit impaired
POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%.

POCIs remain outside of the normal stage allocation process for the lifetime of the obligation and the ECL for POCIs is always measured at an amount equal to lifetime expected credit losses. AIB UK does not have any POCI assets.

Measurement
The measurement of ECL is estimated through one of the following approaches:

i. Standard approach: This approach is used for the majority of exposures where each ECL input parameter (Probability of Default - PD, Loss Given Default - LGD, EAD, and Prepayments - PP) is developed in line with standard modelling methodology which is set out in the Parent Group's IFRS 9 ECL Model Framework and has been approved by the Parent Group's Model Methodology Committee. All UK models have been approved by the UK Risk Committee in line with the Parent Group's Model Governance Framework. Additionally, the remaining maturity is calculated for the Lifetime ECL. Further detail on the credit risk models are in section 'Credit Risk Models' below;

ii. Simplified approach: This approach consists of applying portfolio level ECL averages, drawn from similar portfolios, where it is not possible to estimate individual parameters. As granular PDs are not available for these portfolios, a non-standard approach to staging is required with more reliance on the qualitative criteria (along with the 30 days past due back-stop).

iii. Discounted cash-flows ("DCFs"): These are used as an input to the ECL calculation for Stage 3 credit impaired obligors where the Gross credit exposure is ≥ £ 500,000.

iv. Management judgement: Where outputs from one or more of the three approaches above do not result in an ECL that is deemed appropriate by management, management judgement can be used to adjust the final outcome but it is only used in limited circumstances.

It is AIB UK Group policy that the base case DCF represents the best estimate of loss for certain credit impaired exposures, taking account of forward looking information, economic conditions and case specific attributes.

AIB UK Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. The DCF assessment produces a base case ECL.

The size of the adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management judgement. The methodology to incorporate the adjustment should consider the degree of overcollateralization (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this.

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

– AIB UK Group uses an approximation approach based on the account level interest rate when calculating ECL which is applied to both drawn and undrawn commitments.

- This approach is subject to an annual assessment that all proxies remain appropriate and do not result in a material misstatement of the ECL.
- AIB UK Group has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs under IFRS 9. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

Policy elections and simplifications

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

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

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

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

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

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

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

Credit risk models

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

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

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

Retail portfolios
For unsecured loans, a cash flow curve, which estimates the cumulative cash received following default until the loan is written off or returns to performing, is used to estimate the future recovery amount. This is discounted at the effective

interest rate and compared to the current outstanding balance. Any shortfall between the recovery amount and the outstanding balance is the ECL.

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

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

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

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

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

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

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

The expected maturity is used for assets in Stage 2, where the ECL must be estimated over the remaining life of the facility.

The expected maturity approach is:

– Term loans: the contractual maturity date, with exposure and survival probability adjusted to reflect behaviour i.e. amortisation and pre-payment;

– Revolving loan commitments: the period may extend beyond the contractual period over which AIB UK Group is exposed to credit risk, e.g. overdrafts and credit cards. AIB UK Group's approach for these is to assume a remaining term of 15 years for the purposes of ECL calculations.

Macro-economic scenarios and weightings
The macro-economic scenarios used by AIB UK Group for IFRS 9 purposes is subject to the Parent Group's existing governance process covering the development and approval of macro-economic scenarios for planning and stress testing i.e. through the Parent's Stress Test Working Group and ALCo. As outlined above, the parameter models include macro-economic factors as drivers of the risk.

Therefore, different ECLs are produced under different macro-economic scenarios. These ECL outcomes are then weighted by the assessed likelihood of the different scenarios.

Macro-economic scenarios:
AIB UK Group's approach is to use its base, downside and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with AIB UK Group's expectations of potential outcomes at a point in time. Non-linear effects are captured through the inclusion of both an upside and a downside case. The AIB Economic Research Unit provide base, downside and upside forecasts over 5 years for planning/IFRS 9. The based case is benchmarked against the outlook available from official sources (e.g. Department of Finance in Ireland, ESRI, IMF). Upside and downside scenarios are provided representing upside/downside sensitivities versus base. For IFRS 9 purposes, longer-term projections are sourced from a reputable external provider with the internal base/upside and downside scenarios converging on a linear basis to external forecasts from years 5 to 8. External long-term forecasts represent long-term base line forecasts for the parameter/economy in question. The forecasted scenarios are approved on a quarterly basis at Parent Group's ALCo. The scenarios are described below and reflect the views of the Bank at the reporting date.

Base case: As at the reporting date, this reflects a "managed/soft/orderly" Brexit outcome. Under this scenario, the Euro-Sterling exchange rate is assumed to gradually rebase to 0.80 by the end of 2020 as a softer Brexit outcome emerges. Growth in the Eurozone is expected to ease back in 2019 and continuing to trend gradually lower thereafter. These developments (in addition to tighter monetary conditions, the absorption of remaining spare capacity in the economy and some slowing due to 'Soft' Brexit effects) are reflected in a slight moderation in growth over the horizon.

Downside: This is a moderate downside scenario that considers the impact of a hard "Brexit", in addition to other less severe scenarios. UK GDP is estimated to be much lower than in the base case, with the economy experiencing a mild recession from 2019-2021. The scenario also includes a further decline in sterling.

Upside: With continued low interest rates globally, due to subdued inflation, a US fiscal stimulus and improved productivity from a pickup in investment, growth in advanced economies could strengthen. Emerging markets could also benefit if the improvement in commodity prices and trade continues. A long transition period may be agreed as part of a Brexit withdrawal agreement whereby the UK retains full access to EU markets until a final trade deal is negotiated. As a result, UK growth is higher over the 2019-21 planning horizon relative to Base.

The selection of macroeconomic parameters required and their use in models is determined as part of the Model Development and Governance function for IFRS 9 models. The sensitivity of these parameters is set out at section (i) of note 20.

Management overlay

Management judgement is an integral part of the ECL process. As part of the year end process the Directors' have concluded that an overlay is required to address their view that the modelled outcome does not adequately quantify the potential impact of a severe downturn in the UK economy.

Having considered a range of scenarios and the probability of these outcomes, the Directors' consider it reasonable to apply a management overlay of £15m at the year-end, given the current political and economic uncertainty.

(b) Maximum credit risk exposure

The maximum credit risk exposure of AIB UK Group at 31 December 2018, ignoring any collateral that may be held, is detailed below. The credit risks arising from balances at central banks and items in the course of collection are deemed to be negligible based on their maturity and counterparty status.

	2018	2017
Statement of Financial Position	**£m**	**£m**
Balances at central banks at amortised cost[1]	**3,506**	3,561
Items in course of collection	**12**	38
Derivative financial instruments at FVTPL	**90**	112
Loans and advances to banks	**877**	965
Loans and advances to customers	**6,722**	6,512
Investment securities	**33**	33
Prepayments and accrued income	**6**	4
Other assets	**88**	89
Maximum exposure to credit risk	**11,334**	**11,314**
Total off balance sheet items	**1,855**	**1,722**

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

(c) Concentration exposure

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to AIB UK Group's capital, total assets, earnings or overall risk level to threaten AIB UK Group's ability to maintain its core operations.

As set out in the Managing Director's Review on page 6, AIB UK Group has a sector focused strategy. The sectoral analysis below is a broad industry analysis of the loan book which shows the most significant sector concentrations. Some of the key sectors that AIB UK Group's strategy is focusing on, such as professional services, health, hospitality and tourism, would be included within 'Other services' below.

At 31 December 2018 the most significant concentration of exposures were to the property and construction sector, which made up 23% (2017: 23%) of loans and advances to customers, and in residential mortgages, 17% (2017: 20%) of loans and advances.

The following table sets out the concentration of credit by industry sector for loans and advances to customers together with loan commitments and financial guarantees issued showing the ECL profile. Comparative data for 31 December 2017 has been prepared under IAS 39.

							2018
	Gross carrying amount			Analysed by ECL profile			
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Agriculture	85	14	99	83	15	1	99
Energy	445	113	558	537	21	-	558
Manufacturing	317	100	417	371	42	4	417
Property and construction	1,556	585	2,141	1,947	136	58	2,141
Distribution	1,156	191	1,347	1,240	86	21	1,347
Transport	348	74	422	389	33	-	422
Financial	175	98	273	266	7	-	273
Other services	1,442	350	1,792	1,685	96	11	1,792
Personal:							
Residential mortgages	1,194	12	1,206	970	114	122	1,206
Other	122	153	275	240	29	6	275
Total	6,840	1,690	8,530	7,728	579	223	8,530

	Gross loans & receivables	%	2017 Of which, impaired
	£m		£m
Agriculture	72	1%	1
Energy	285	4%	1
Manufacturing	424	7%	4
Property and construction	1,549	23%	48
Distribution	1,116	17%	21
Transport	268	4%	-
Financial	112	2%	-
Other services	1,285	19%	4
Personal			
- Residential mortgages	1,349	20%	113
- Other personal	117	3%	10
	6,637	**100%**	**202**

(d) Credit quality of loans and advances

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review to ensure the front line team is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies, refer to Risk Management report, page 19.

The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital. Credit models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

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

In conjunction with the implementation of IFRS 9, AIB UK Group has designed and implemented a credit grading Masterscale that gives AIB UK Group the ability to categorise and contrast credit risk across different portfolios in a consistent manner. The new Masterscale consolidates complex credit information into a single attribute, aligning the output from Risk Models with the Parent Group's Definition of Default (DoD) policy. Credit grades are driven by model appropriated PDs to provide AIB UK Group with a mechanism of ranking and comparing the credit risk associated with a range of customers.

The Masterscale categorises loans into a broad range of grades which can be summarised into the following categories:

Strong/satisfactory	Accounts are considered strong/satisfactory if they have no current or recent credit distress and generally a probability of default less than 6%, are not in arrears and there are no indications they are unlikely to pay.
Criticised	Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following; Criticised Watch: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional management attention; Criticised Recovery: Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.
Non-performing	Accounts that are considered as defaulted or non-performing include: Loans are identified as defaulted or non-performing by using a number of characteristics. The key criteria resulting in a classification of non-performing are; – Where AIB UK Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount. – The credit obligor is 90 days or more past due on any material credit obligation (date count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due). – Loans that have, as a result of financial distress (as defined within AIB UK Group's definition of default policy), received a concession from AIB UK Group on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.

Credit risk – Credit profile of the loan portfolio

AIB UK Group's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

A profile of loans and advances to customers in total and by stage is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39. Details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to the condensed consolidated interim financial statements.

				2018
	Stage 1	Stage 2	Stage 3	Total
Amortised cost	£m	£m	£m	£m
Total strong/satisfactory	6,098	145	-	6,243
Criticised watch	-	222	-	222
Criticised recovery	-	161	-	161
Total criticised	-	383	-	383
Non-performing	-	-	214	214
Gross carrying amount loans and advances to customers	6,098	528	214	6,840
Loss allowance	(21)	(31)	(66)	(118)
Carrying amount of loans and advances to customers measured at amortised cost	6,077	497	148	6,722

A detailed analysis of loans and advances to customers at 31 December 2017 by asset class and internal credit ratings profile is set out below.

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

Aged analysis of contractually past due

At amortised cost					**2018**
	1–30 days	**31–60 days**	**61–90 days**	**91 + days**	**Total**
Industry sector	**£m**	**£m**	**£m**	**£m**	**£m**
Agriculture	**1**	**-**	**-**	**1**	**2**
Energy	**-**	**2**	**-**	**-**	**2**
Manufacturing	**5**	**1**	**-**	**3**	**9**
Property and construction	**11**	**9**	**4**	**29**	**53**
Distribution	**5**	**1**	**-**	**6**	**12**
Financial	**1**	**-**	**-**	**-**	**1**
Other services	**3**	**-**	**-**	**4**	**7**
Personal:					
Residential mortgages	**5**	**9**	**8**	**59**	**81**
Credit cards	**1**	**-**	**-**	**-**	**1**
Other	**2**	**-**	**-**	**4**	**6**
Total gross carrying amount	**34**	**22**	**12**	**106**	**174**
Asset quality					
Stage 1	**14**	**1**	**-**	**-**	**15**
Stage 2	**17**	**15**	**4**	**-**	**36**
Stage 3	**3**	**6**	**8**	**106**	**123**
Total	**34**	**22**	**12**	**106**	**174**
As a percentage of total gross loans	**0.5%**	**0.3%**	**0.2%**	**1.5%**	**2.5%**

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

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

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

(e) Collateral held

AIB UK Group takes collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral. In some circumstances, depending on the customers standing and/or the nature of the product, AIB UK Group may lend unsecured.

The following table shows the estimated fair value of collateral held for residential mortgage portfolio at 31 December 2018.

Comparative data for 2017 has been prepared under IAS 39.

				2018
	Measured at amortised cost			
Collateral held for residential mortgages	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Fully collateralised[1]				
Loan-to-value ratio:				
Less than 50%	412	38	29	479
50% - 70%	247	36	23	306
71% - 80%	93	15	10	118
81% - 90%	90	8	10	108
91% - 100%	53	8	15	76
Gross residential mortgages collateral value	895	105	87	1,087
Partially collateralised				
Collateral value relating to loans over 100% loan-to-value	56	8	20	84
Total collateral value	**951**	**113**	**107**	**1,171**
Gross carrying value of residential mortgages	**959**	**114**	**122**	**1,195**
ECL allowance	(1)	(1)	(22)	(24)
Carrying value of residential mortgages	**958**	**113**	**100**	**1,171**

[1] The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at 31 December 2018.

The following table shows the 2017 estimated fair value of collateral held for residential mortgages.

				2017
	Neither past due nor impaired	Past due, but not impaired	Impaired	Total
Collateral held for residential mortgages	£m	£m	£m	£m
Fully collateralised				
Loan to value ratio:				
Less than 50%	467	13	19	499
50% - 70%	302	4	18	324
71% - 80%	131	3	9	143
81% - 90%	100	2	7	109
91% - 100%	74	3	12	89
	1,074	**25**	**65**	**1,164**
Partially collateralised				
Collateral value relating to loans over 100% loan to value	114	2	28	114
Gross residential mortgages collateral value	**1,188**	**27**	**93**	**1,308**
Statement of financial position				
- Specific provisions			(29)	(29)
- IBNR provisions			-	(4)
Net residential mortgages value			**64**	**1,275**

(f) Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2018 and 31 December 2017 is set out below:

		2018		2017
	Number of repossessions	**Balance outstanding**	Number of repossessions	Balance outstanding
		£m		£m
Owner occupier	**16**	**3**	13	3
Buy to let	**2**	**-**	14	1
Total	**18**	**3**	27	4

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

(g) Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are currently unable to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary or permanent nature.

AIB UK Group offers support by way of forbearance arrangements to customers in financial difficulty in both the commercial and retail mortgage portfolios. Forbearance support is provided with due care to achieve a beneficial impact for both AIB UK Group and the customer in that it can improve collection opportunities, reduce repossessions and lower realised losses. Where a customer requests forbearance, the circumstances will be assessed on an individual case basis and the request will be considered as a potential impairment indicator, whether the forbearance proposal is agreed to or not.

The following table sets out the risk profile of forborne loans and advances to customers at amortised cost

					2018
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	£m	£m	£m	£m	£m
Strong/satisfactory:					
Total	-	-	-	-	-
Criticised:					
Stage 2	7	1	7	19	34
Total	7	1	7	19	34
Non-performing:					
Stage 3	40	2	19	8	69
Total	40	2	19	8	69
Total gross carrying amount of forborne loans and advances to customers at amortised cost	47	3	26	27	103
ECL allowance	(7)	(2)	(7)	(3)	(19)
Total carrying amount of forborne loans and advances to customers at amortised cost	40	1	19	24	84

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 2018.

	2018		2017	
	Total loans in forbearance		Total loans in forbearance	
	Number	Balance	Number	Balance
Commercial forbearance		£m		£m
Interest only	14	7	9	3
Reduced payment	4	1	7	14
Payment moratorium	2	-	-	-
Arrears capitalisation	6	-	2	-
Term extension	63	33	30	7
Restructure	84	5	47	-
Asset disposals	2	-	-	1
Other	16	7	17	6
Total	**191**	**53**	**112**	**31**

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

If a mortgage customer notifies AIB UK Group of current or likely future financial difficulties which could lead to arrears/impairment, AIB UK Group undertakes a full financial review of the customer's circumstances and submits any proposal for forbearance to its Retail FSG team.

To be acceptable, any forbearance proposals need to reasonably demonstrate that the mortgage borrowing will be sustainable over its full life. Consideration is given when forbearance is requested as to whether the level of risk merits provisioning for impairment.

Forbearance options may include:

- a period/further period of interest only payments;
- in exceptional circumstances, a moratorium of capital and interest mortgage payments where clear resumption of full repayment/clearance is evident within an acceptable timescale;
- an agreed contracted repayment amount for a defined period;
- a term extension;
- capitalisation of arrears, where no other option is feasible and the customer has met the requirements to allow this approach to be put in place.

AIB UK Group will agree the term for such forbearance proposals on a case by case basis, at the end of which payments should return to full capital and interest repayment. Loans in respect of declined applications for forbearance will remain in line with existing contracted terms.

In cases where forbearance is declined, but the customer offers a monthly contracted repayment this may be considered on a temporary basis, however, normal default procedures will continue to be applied.

If at the end of an agreed period of forbearance, the customer cannot return to full capital and interest repayment and arrears become a feature, the case will continue to be managed by its Retail FSG team. In exceptional cases only, the period of forbearance may be extended beyond the originally agreed forbearance term but such extensions require senior management approval.

The following tables analyse by type of forbearance, the owner occupier and buy-to-let mortgages that were subject to forbearance measures at 31 December 2018.

AIB UK Group and AIB UK

							2018			2017
Forbearance		At amortised cost					Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Owner Occupier Mortgages	**Number**	**Total Balance £m**	**Stage 1 Balance £m**	**Stage 2 Balance £m**	**Stage 3 Balance £m**	**Loss allowance £m**	Number	Balance £m	Number	Balance £m
Interest only	151	10	-	2	8	1	100	9	52	5
Reduced payment	56	5	-	1	4	1	27	4	16	3
Payment moratorium	140	9	-	1	8	1	51	3	24	1
Arrears capitalisation	139	11	-	1	10	1	154	11	99	8
Term extension	90	9	-	1	8	2	129	9	72	6
Total	**576**	**44**	**-**	**6**	**38**	**6**	**461**	**36**	**263**	**23**

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

							2018			2017
Forbearance		At amortised cost					Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Buy to Let Mortgages	**Number**	**Total Balance £m**	**Stage 1 Balance £m**	**Stage 2 Balance £m**	**Stage 3 Balance £m**	**Loss allowance £m**	Number	Balance £m	Number	Balance £m
Interest only	5	1	-	-	1	-	9	1	6	1
Reduced payment	9	1	-	-	1	-	3	-	-	-
Payment moratorium	3	-	-	-	-	-	2	-	1	-
Arrears capitalisation	5	-	-	-	-	-	11	1	10	1
Term extension	4	1	-	1	-	-	8	1	5	-
Total	**26**	**3**	**-**	**1**	**2**	**-**	**33**	**3**	**22**	**2**

(h) Credit profile of residential mortgages

Residential mortgages amounted to £1,195m at 31 December 2018 (2017: £1,349m).

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

– Residential mortgages – total

– Analysis of loan-to-value of residential mortgage lending

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, showing the loss allowance. Comparative data for 31 December 2017 has been prepared under IAS 39.

Residential mortgages at amortised cost			2018
	Owner-occupier	Buy-to-let	Total
Gross loans and advances to customers	£m	£m	£m
Staging Analysis			
Stage 1	880	79	959
Stage 2	105	9	114
Stage 3	114	8	122
Total gross carrying amount	**1,099**	**96**	**1,195**
ECL allowance - statement of financial position			
Stage 1	1	-	1
Stage 2	1	-	1
Stage 3	20	2	22
Total ECL allowance	22	2	24
Residential mortgages at amortised cost	**1,077**	**94**	**1,171**
ECL allowance cover percentage	%	%	%
Stage 1	0.1%	0.1%	0.1%
Stage 2	1.2%	1.6%	1.3%
Stage 3	17.1%	28.3%	17.9%

Comparative data for 31 December 2017 has been prepared under IAS 39.

	Owner occupier £m	Buy to let £m	2017 Total £m
Total residential mortgages	1,177	172	**1,349**
In arrears[1] (> 30 days past due)	86	14	**100**
In arrears[1] (> 90 days past due)	67	12	**79**
Of which are impaired	97	16	**113**
Statement of financial position specific provisions	23	6	**29**
Statement of financial position IBNR provisions	4	-	**4**
Income statement specific provisions	3	1	**4**
Income statement IBNR provisions	3	-	**3**
Specific provision/impaired loans cover	24%	38%	**26%**

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

Arrears profile

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

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

Analysis of loan-to-value of residential mortgage lending

The following table profiles the United Kingdom total residential mortgage portfolio by indexed loan-to-value ratios:

						2018
	Owner-occupier		Buy-to-let		Total	
United Kingdom	£m	%	£m	%	£m	%
Less than 50%	451	41%	28	29%	479	40%
50% to 70%	285	26%	21	22%	306	26%
71% to 80%	103	9%	15	16%	118	10%
81% to 90%	98	9%	11	11%	109	9%
91% to 100%	65	6%	11	11%	76	6%
101% to 120%	61	6%	7	7%	68	6%
121% to 150%	20	2%	1	1%	21	2%
Greater than 150%	9	1%	1	1%	10	1%
Unsecured	6	1%	1	1%	7	1%
Total	1,098	100%	96	100%	1,194	100%
Weighted average indexed loan-to-value						
Stock of residential mortgages at financial year end					60.3%	
New residential mortgages issued during the financial year					71.3%	
Credit-impaired residential mortgages					84.4%	

Comparative figures are split by neither past due nor impaired and past due and /or impaired

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

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

(i) Sensitivities

Macro-economic scenario weightings
The three scenarios detailed above are used to reflect a representative sample of possible outcomes (i.e. base, downside and upside scenarios). The final report ECL reflects a weighted average of the ECLs under the 3 scenarios.

Base forecast %	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
GDP Growth	1.2	1.6	1.7	1.6	1.5	1.5
Residential property growth	2.2	1.5	3.6	4.5	4.8	4.3
Unemployment rate	4.2	4.1	4.0	4.0	4.0	4.0
Commercial Property Price Growth	4.8	2.6	4.0	3.9	3.5	2.9

Downside forecast %	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
GDP Growth	1.2	0.0	(0.5)	(0.5)	1.0	2.0
Residential property growth	2.2	(2.9)	(5.5)	(6.0)	(1.0)	4.0
Unemployment rate	4.2	5.0	6.0	7.0	7.5	7.3
Commercial Property Price Growth	1.8	(1.5)	(5.6)	(4.2)	0.4	4.6

Upside forecast %	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
GDP Growth	1.2	2.5	3.0	3.0	2.0	1.5
Residential property growth	2.2	2.3	6.6	7.4	6.9	5.2
Unemployment rate	4.2	3.9	3.6	3.4	3.3	3.3
Commercial Property Price Growth	4.8	5	8.8	10	6.5	3.2

The weights for the scenarios are derived based on the expert judgement informed by a quantitative analysis. The quantitative analysis incorporates two approaches: a statistical analysis informed by both historic patterns in the economic data complemented by a more forward-looking approaches. These weightings have been reviewed regularly throughout 2018. The weightings have evolved over the year, predominantly driven by Brexit developments in the UK. The table below shows the evolution of the weightings throughout 2018.

The scenario weightings are approved on a quarterly basis by the Parent Group's ALCo.

The weights that have been applied as at the reporting date and approved in January 2019 are:

Scenario	Weighting	
	1 January 2018	31 December 2018
Base	60%	50%
Downside	20%	35%
Upside	20%	15%

The following table sets the sensitivity based on application of 100% weighting to each of the economic scenarios:

ECL allowance at 31 December 2018			
Loans and advances to customers	Base forecast	Downside forecast	Upside forecast
	£m	£m	£m
Residential mortgages	23	24	23
Other personal	5	5	5
Property and construction	36	37	36
Non-property business	51	56	50
Total	**115**	**122**	**114**
Off balance sheet loan commitments	5	6	5
Financial guarantee contracts	2	2	2
Total	**122**	**130**	**121**

(j) Credit ratings of contingent liabilities and commitments

The credit ratings of contingent liabilities and commitments are set out in the following table:

	2018
	£m
Strong	1,551
Satisfactory	234
Criticised watch	60
Criticised Recovery	-
Default	10
Total	**1,855**

21. Amounts receivable under finance leases and hire purchase contracts

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

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

	AIB UK Group		AIB UK	
	2018 £m	2017 £m	2018 £m	2017 £m
Gross receivables				
Not later than 1 year	63	65	63	65
Later than 1 year and not later than 5 years	109	114	108	113
Later than 5 years	2	2	2	2
Total gross receivables	174	181	173	180
Unearned future finance income	(4)	(5)	(4)	(5)
Total	170	176	169	175
Present value of minimum payments by residual maturity				
Not later than 1 year	63	64	62	64
Later than 1 year and not later than 5 years	105	110	105	109
Later than 5 years	2	2	2	2
Present value of minimum payments	170	176	169	175
Provision for uncollectible minimum payments receivable[1]	2	2	2	2

[1] Included in the provision for impairment of loans and advances to customers (note 18).

22. Investment securities

The following table sets out the carrying value of investment securities by type and by measurement category at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

AIB UK Group & AIB UK	2018 £m
Equity shares	
Equity shares: unlisted measured at FVTPL	33
Total investment securities at 31 December 2018	33

On the adoption of IFRS 9 at 1 January 2018, all equity instrument above were classified and measured at FVTPL. Previously, these investments were classified as available for sale and measured at fair value through other comprehensive income.

Equity securities (IAS 39)	2017 £m
Equity securities- available for sale	33

23. Intangible assets

AIB UK Group & AIB UK	Software Externally Purchased £m	Software Internally Generated £m	Software Under Construction £m	2018 Total £m
Cost				
At 1 January 2018	1	10	17	28
Additions	-	1	10	11
Transfers in/(out)	-	3	(3)	-
At 31 December 2018	1	14	24	39
Amortisation/impairment				
At 1 January	1	2	-	3
Impairment for the year	-	2	-	2
At 31 December 2018	1	4	-	5
Carrying value at 31 December 2018	-	10	24	34

The increase in additions and transfers in 2018 in internally generated software relate to One UK, the CMA programme and a number of other regulatory and sustainment projects completed during 2018. Software under construction driven by the UK IFRS 9/IRB programme, Open Banking and the UK Image Clearing System.

The UK IFRS 9/IRB Model is a development model to comply with IFRS 9 and Internal Ratings Based model ('IRB') has a carrying value of £16m. The asset is under construction and not yet depreciating. The project will go live in Q1 2019 and will be amortised over 5 years.

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

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

24. Property, plant and equipment

	Property			Assets under Construction	Equipment	2018 Total
	Freehold	Long Leasehold	Leasehold under 50 years			
AIB UK Group	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2018	17	6	14	2	27	66
Additions	-	-	1	1	1	3
Transfers	-	-	-	(1)	1	-
Amounts written off	-	(3)	(1)	-	(2)	(6)
At 31 December 2018	17	3	14	2	27	63
Depreciation/impairment						
At 1 January 2018	13	5	10	-	23	51
Depreciation charge for the year	-	-	-	-	1	1
Impairment	(3)[1]	-	-	-	-	(3)
Amounts written off		(3)	(1)		(2)	(6)
At 31 December 2018	10	2	9	-	22	43
Carrying value at 31 December 2018	7	1	5	2	5	20

(1) Impairment of £3m previously charged on an NI property, owned by subsidiary company Aberco Ltd, was reversed in 2018.

The net book value of property occupied by AIB UK Group for its own activities at 31 December 2018 was £13m (2017: £9m). A number of branch properties, that were surplus to requirements, were sold during 2018 generating a profit on disposal of property of £2m (2017: £1m).

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

AIB UK	Property Freehold £m	Long Leasehold £m	Leasehold under 50 years £m	Assets under Construction £m	Equipment £m	2018 Total £m
Cost						
At 1 January 2018	8	5	13	2	26	54
Additions	-	-	1	1	1	3
Transfers	-	-	-	(1)	1	-
Amounts written off	-	(3)	(1)	-	(2)	(6)
At 31 December 2018	8	2	13	2	26	51
Depreciation/impairment						
At 1 January 2018	5	4	9	-	24	42
Depreciation charge for the year	-	-	-	-	1	1
Amounts written off	-	(3)	(1)	-	(2)	(6)
At 31 December 2018	5	1	8	-	23	37
Carrying value at 31 December 2018	3	1	5	2	3	14

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

25. Investments in group undertakings

AIB UK	2018 £m	2017 £m
At 1 January	**0.3**	0.3
Shares in group undertakings	**0.3**	0.3

The subsidiary undertakings at 31 December 2018:

Subsidiary Name	Year End	Nature of Business
First Trust Financial Services Limited	31 December	Financial services
First Trust Financial Planning Limited	31 December	Financial services
Aberco Limited	31 December	Property investment
AIB Joint Ventures Limited	31 December	Investment
First Trust Leasing No.4 (Northern Ireland) Limited	31 December	Leasing

All of the companies listed above 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 2018, AIB UK Group held no investments in associated undertakings (2017: nil), accounted for in accordance with IAS 28, Investments in Associates.

The principal activities of the Company and its subsidiaries (AIB UK Group) and the nature of its operations are set out in the Strategic report on page 1.

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

The six dormant companies listed below were dissolved on 6 March 2018:

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

26. Other assets

	AIB UK Group		AIB UK	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Items in transit	**79**	29	**79**	29
Sale of loans awaiting settlement[1]	**-**	48	**-**	48
Non-current assets held for sale[2]	**-**	2	**-**	2
Other debtors	**9**	10	**9**	10
Other assets	**88**	89	**88**	89

[1] An amount of £48m was due to be received at 31 December 2017 from the purchaser of a portfolio of loans sold in December 2017. This amount was received in 2018 (see note 17 for more detail).

[2] Included in Other Assets are Non-current assets held for sale of £300,000 at 31 December 2018 (2017: £2m). The balance comprises of 7 vacant properties in Northern Ireland that are surplus to business requirements.

27. Deferred taxation

AIB UK Group & AIB UK	**31 December 2018 £m**	1 January 2018[1] £m	31 December 2017 £m
Deferred tax assets			
Unutilised tax losses	**114**	111	111
Other	**8**	9	2
Total deferred tax assets	**122**	120	113
Deferred tax liabilities			
Retirement benefits	**(102)**	(105)	(105)
Available for sale securities	**-**	(1)	(1)
Cash flow hedges	**-**	(2)	(2)
Total deferred tax liabilities	**(102)**	(108)	(108)
Net deferred tax assets	**20**	12	5

[1] For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

Represented on the statement of financial position:			
Deferred tax assets	**53**	47	40
Deferred tax liabilities	**(33)**	(35)	(35)

Analysis of movements in deferred taxation

AIB UK Group & AIB UK	2018 £m	2017 £m
Brought forward	5	(22)
Transition to IFRS 9	7	-
1 January 2018	12	(22)
Deferred tax through other comprehensive income	8	16
Income Statement - Continuing operations (note 13)	-	11
Carried forward	20	5

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

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2017: 25%), except for deferred tax on unutilised tax losses which is recognised at the relevant tax rate each year. A reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 was substantively enacted on 16 March 2016. The deferred tax asset at 31 December 2018 has been calculated based on an aggregation of a rate of 17% and the additional 8% of tax suffered in relation to the banking surcharge.

Deferred tax assets are recognised for unused tax losses to the extent it is probable there will be sufficient future taxable profits against which the losses can be used. It requires significant judgements to be made about the projection of long-term future profitability and the period over which recovery extends.

In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose. The principal positive evidence and factors include:

- AIB UK Group has achieved pre-tax profits each year since 2013;
- AIB UK Group has a sustained history of long-term positive earnings prior to pre-tax losses incurred in 2010-2012, which were one-off events that are not expected to recur;
- the Business Plan for AIB UK Group for the period 2019 to 2021, which was approved by the Board in December 2018;
- continued financial support from the Parent; and
- the absence of any expiry dates for UK tax losses.

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

- the difficulty of accurately predicting future revenues;
- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset; and
- uncertainty around the impact of Brexit on the UK economy and the continued low interest rate environment and weakness in the Eurozone and in the Irish and global economies.

Having taken into account all these factors, the Board have determined that recognition of the AIB UK deferred tax asset should continue to be restricted to the amount projected to be realised within fifteen years and is appropriately supported by forecast taxable profits, taking into account the AIB UK Group's long-term financial and strategic plans. As a result, an amount of £386m (2017: £393m) of deferred tax assets relating to unutilised tax losses has not been recognised in the financial statements.

The measurement of the deferred tax asset is dependent on judgement as to the period of recoverability and estimates of projected future income. If future profits or subsequent forecasts differ from current forecasts an adjustment may be required to the deferred tax asset. This could result in a material impact to the income statement in future years. The sensitivity of the deferred tax asset to changes in forecasts and assumptions was considered. An assumption of future profit remaining at the current 2018 pre tax level of £129m, with no future growth, and maintaining a 15 year restriction would reduce the deferred tax asset on losses held at 31 Dec 2018 by £41m to £73m.

The deferred tax asset due after more than one year is £108m (2017: £106m).

28. Retirement benefits

AIB UK Group operates a defined contribution scheme and a funded defined benefit scheme for employees.

Defined contribution scheme

Employees who joined AIB UK Group after December 1997 joined on a defined contribution basis with an enhanced matched contribution scheme being available to them from 1 January 2009. When the UK defined benefit scheme closed to future accrual on 31 December 2013, all eligible employees from the defined benefit scheme then became members of the UK defined contribution scheme. The scheme has a standard employer contribution rate of 10% plus an additional matched employer contribution, subject to total limits on age bands of 12%, 15% or 18%. For members who joined between December 1997 and 1 January 2009, and who did not opt to join the enhanced matched contribution scheme, the standard employer contribution rate is 5%.

Defined contribution members accrue benefits under S2P (the State Second Pension) and AIB UK Group also pays an amount for Permanent Health Insurance (PHI) in respect of these members.

The cost of the defined contribution scheme for 2018 was £8m (2017: £8m) and is included in administrative expenses (note 12).

Defined benefit scheme

The UK Scheme was closed to new members from December 1997 and was closed to future accrual for all existing employees from 31 December 2013. Retirement benefits for the UK Scheme are calculated by reference to service and pensionable salary at 31 December 2013. Benefits payable upon retirement are based on the average pensionable salary over the five years to 31 December 2013 and are revalued up to retirement date in line with the requirements to revalue deferred benefits. The weighted average duration of the UK Scheme at 31 December 2018 is 17 years (2017: 19 years).

Valuations and contributions

Independent actuarial valuations of the defined benefit scheme are carried out on a triennial basis by Mercer Limited, Actuaries and Consultants. The most recent valuation was carried out as at 31 December 2017 and is expected to be completed by 31 March 2019. The previous triennial valuation was carried out as at 31 December 2014 using the Projected Unit Method and it concluded that the Notional Annual Contribution Amount payable by the AIB UK Group to the Trustees of the UK Scheme would be £19m per annum payable quarterly with effect from 2016. These contributions are made as part of the asset backed funding plan described below. Based on the interim results of the 31 December 2017 valuation, the asset backed funding plan would pay the UK Scheme £15m in 2019. However, AIB UK is currently considering funding options for the UK Scheme with the Trustee.

Governance

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

Asset-liability matching strategy

The UK Scheme implemented a de-risking investment strategy in 2013 that included the elimination of all equity investments and the investment of assets in a combination of bonds and liability matching instruments. At 31 December 2018 42% (2017: 40%) of assets were invested in liability driven investments and 42% (2017: 41%) invested in bonds. A longevity swap was also entered into on 22 December 2016 to reduce the risk relating to mortality rates.

Asset backed funding

In October 2013, the Parent Group executed a series of agreements to give effect to an asset backed funding plan which grants the UK Scheme a regular income payable quarterly from 1 January 2016 to 31 December 2032. In addition, if the 31 December 2032 actuarial valuation of the UK Scheme reveals a deficit, then the UK Scheme will receive a termination payment equal to the lower of the deficit or £60m.

To effect the funding plan the Parent Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ('SLP'), to which a portfolio of loans from another Parent Group entity, AIB UK Loan Management Limited ('UKLM') was transferred. This was to enable the repayments on these loans to be ring fenced to fund future deficit payments of the UK Scheme. The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of AIB plc, has controlling power over the partnership. AIB UK Group has a junior interest in the SLP to enable payments from the SLP to the UK Scheme to be paid through the Company.

The majority of the risks and rewards are borne by the Parent Group as, while the UK scheme has a priority right to the cash flows from the partnership, it is expected that the majority of and any variability in these cash flows will be recovered by the Parent Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Parent Group has determined that the SLP should be consolidated into the Parent Group.

The cash flows from the SLP assets will be used to meet the future funding requirements of the UK Scheme. These funding requirements will change over time as the triennial valuation is updated and the agreement between the Parent Group and the UK Scheme allows for such variability in payments from the cash flows of the SLP assets. The results of the 2014 triennial valuation, agreed an annual contribution of £19m and the first quarterly instalment of £4.7m was made in April 2016. In 2018 contributions of £19m (2017: £19m) had been received by the UK scheme in the form of a transfer of cash from the SLP to the UK scheme assets.

At 31 December 2018, the Trustees of the UK Scheme recognised an additional £197m (2017: £265m) of assets from UKLM as a result of this SLP arrangement, resulting in a net defined benefit asset of £408m at 31 December 2018 (2017: £419m). The UK Scheme will benefit from the SLP assets through the receipt of funding payments, through its junior interest in the SLP, but the UK scheme does not own or control the assets. Excluding the benefit of the UK Scheme's recognition of the SLP assets, the net defined benefit asset at 31 December 2018 was £211m (2017: £154m).

Past Service Costs

An amount of £2m has been charged to the income statement in 2018 when the Scheme had to equalise certain benefits as a result of the High Court ruling in October 2018 on Guaranteed Minimum Pensions (GMP) equalisation. This liability was estimated using December 2017 membership data and it represents 0.2% of the Scheme liabilities

Benefits paid

The UK Scheme allows participants an option for the payment before retirement of a lump sum transfer from UK Scheme assets to another pension arrangement of the individual's choice, in full satisfaction of the retirement benefit entitlement under the UK Scheme. During 2018 £51m (2017: £184m) of the benefits paid from the UK Scheme related to lump sum transfer values taken under the terms of the UK Scheme.

Movement in defined benefit obligation and scheme assets

The following tables set out the movement in the defined benefit obligation and UK Scheme assets during 2018 and 2017.

	2018			2017		
	Defined benefit obligation	Fair value of scheme assets	Net defined benefit asset/ (liability)	Defined benefit obligation	Fair value of scheme assets	Net defined benefit asset/ (liability)
	£m	£m	£m	£m	£m	£m
At 1 January 2018	(974)	1,393	419	(1,141)	1,586	445
Included in income statement						
Interest (cost)/income	(23)	34	11	(28)	40	12
Past service costs	(2)	-	(2)			
	(25)	34	9	(28)	40	12
Included in other comprehensive income						
Remeasurements gain/(loss)						
Actuarial loss/(gain) arising from:						
- Experience adjustments	26	-	26	(29)	-	(29)
- Changes in demographic assumptions	6	-	6	35	-	35
- Changes in financial assumptions	49		49	(20)	-	(20)
Return on scheme assets excluding SLP	-	(46)	(46)	-	8	8
Contribution of asset from SLP to Scheme assets	-	19	19	-	19	19
Return on SLP assets	-	(74)	(74)	-	(51)	(51)
	81	(101)	(20)	(14)	(24)	(38)
Other						
Benefits paid	78	(78)	-	209	(209)	-
At 31 December 2018	(840)	1,248	408	(974)	1,393	419

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

	2018		2017	
	Value £m	Plan assets %	Value £m	Plan assets %
Bonds	525	42	576	41
Liability Driven Investments	530	42	553	40
Other	2	-	3	-
Longevity hedge	(6)	-	(4)	-
SLP	197	16	265	19
Fair value of plan assets	1,248	100	1,393	100
Actuarial value of liability	(840)		(974)	
Surplus in scheme	408		419	
Related deferred tax liability (note 27)	(102)		(105)	
Net pension asset	306		314	

The Liability Driven Investments ('LDIs') and SLP assets do not have a quoted price in an active market. There are no transferable financial instruments or property assets used by AIB UK Group included in the pension scheme assets. The longevity swap was entered into on 22 December 2016 and the fair value of this swap at 31 December 2018 was negative £6m (2017: negative £4m).

The SLP assets recognised by the UK Scheme at 31 December 2018 is management's best estimate of the valuation based on a stochastic model valuation provided by the Trustees' investment consultants.

Deferred taxation is provided on the defined pension scheme surplus at the rate of 25% (2017: 25%) being the expected corporation tax rate of 17% plus the UK bank surcharge of 8%.

Financial assumptions
The following table summarises the financial assumptions adopted for the UK Scheme in the preparation of these financial statements:

As at 31 December	2018 %	2017 %
Rate of increase of pensions in payment	3.2	3.1
Discount rate	2.9	2.5
Inflation assumptions:		
- Retail Price Index (RPI)	3.2	3.1
- Consumer Price Index (CPI)	2.2	2.1

The discount rate used to value the liability, is set by reference to high quality AA corporate bond yields, in accordance with IAS 19.

Demographic assumptions

The mortality tables used for 2018 and 2017 are based on data collected by the Continuous Mortality Investigation (CMI) in the previous year respectively. An updated future mortality projection model was adopted from 2015 and the assumptions include sufficient allowance for future improvements in mortality rates.

The life expectancies underlying the value of the scheme liabilities for the UK Scheme at 31 December 2018 and 2017 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	**2018**	2017	**2018**	2017
Male	**25.0**	25.1	**25.8**	26.0
Female	**27.0**	27.0	**27.9**	28.0

Sensitivity of assumptions

The following table shows the sensitivity of the defined benefit obligation valuation of £840m at 31 December 2018 to changes in the key financial and demographic assumptions. The changes in assumptions have been considered independently of each other:

	Increase/(decrease) in defined benefit obligation of £840m	
Assumption	if increase in assumption	if decrease in assumption
	£m	£m
Discount rate (0.25% movement)	(34)	36
Inflation (0.25% movement)	33	(32)
Mortality (1 year movement)	(26)	26

	2018	2017	2016	2015	2014	2013
History of defined benefit pension plan	**£m**	£m	£m	£m	£m	£m
Plan assets	**1,248**	1,393	1,586	1,368	1,414	1,090
Defined benefit obligation	**(840)**	(974)	(1,141)	(944)	(1,022)	(852)
Surplus/(deficit) in defined benefit pension plan	**408**	419	445	424	392	238

29. Deposits by banks

	AIB UK Group		AIB UK	
	2018	2017	2018	2017
	£m	£m	£m	£m
Other borrowings from banks	**613**	473	**604**	464
Amounts include:				
Due to AIB plc and fellow subsidiaries	**359**	469	**350**	460

At 31 December 2018 and 31 December 2017, there were no securities sold under agreements to repurchase. £250m was borrowed from the BoE in February 2018 under the Term Funding Scheme, secured against pre-positioned collateral.

30. Customer accounts

	AIB UK Group		AIB UK	
	2018	2017	2018	2017
	£m	£m	£m	£m
Current accounts	**5,821**	5,707	**5,821**	5,707
Demand deposits	**1,486**	1,595	**1,486**	1,595
Time deposits	**1,571**	1,732	**1,601**	1,761
Customer accounts	**8,878**	9,034	**8,908**	9,063
Amounts include:				
Due to AIB plc and fellow subsidiaries	**41**	57	**71**	86

31. Other liabilities

	AIB UK Group		AIB UK	
	2018	2017	2018	2017
	£m	£m	£m	£m
Notes in circulation	**280**	295	**280**	295
Items in transit	**-**	29	**-**	29
VAT payable	**1**	1	**1**	1
Other creditors	**87**	40	**87**	39
Other liabilities	**368**	365	**368**	364

32. Provision for liabilities and commitments

AIB UK Group	Customer redress £m	Empty properties £m	Litigation £m	Other £m	ECLs on loan commitments £m	ECLs on financial guarantee contracts £m	Total £m
	(a)	(b)	(c)	(d)			
At 31 December 2017	9	5	6	1	-	-	21
Impact of adopting IFRS 9 at 1 January 2019:							
Reclassification	-	-	-	-	-	-	-
Remeasurement	-	-	-	-	1	-	1
Restated balance at 1 January 2018	**9**	**5**	**6**	**1**	**1**	**-**	**22**
Amounts charged/ (released) to income statement	**1**	**-**	**-**	**(1)**	**5**	**2**	**7**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Provisions utilised	**(3)**	**(2)**	**-**	**-**	**-**	**-**	**(5)**
At 31 December 2018	**7**	**3**	**6**	**-**	**6**	**2**	**24**
At 1 January 2017	19	8	4	2	-	-	33
Amounts released to income statement	(1)	-	(2)	(1)	-	-	(4)
Reclassification	(5)	-	5	-	-	-	-
Provisions utilised	(4)	(3)	(1)	-	-	-	(8)
At 31 December 2017	9	5	6	1	-	-	21

AIB UK	Customer redress £m	Empty properties £m	Litigation £m	Other £m	ECLs on loan commitments £m	ECLs on financial guarantee contracts £m	Total £m
	(a)	(b)	(c)	(d)			
At 31 December 2017	6	5	3	1	-	-	15
Impact of adopting IFRS 9 at 1 January 2019:							
Reclassification	-	-	-	-	-	-	-
Remeasurement	-	-	-	-	1	-	-
Restated balance at 1 January 2018	**6**	**5**	**3**	**1**	**1**	**-**	**16**
Amounts charged/ (released) to income statement	**1**	**-**	**1**	**(1)**	**5**	**2**	**8**
Provisions utilised	**(3)**	**(2)**	**-**	**-**	**-**	**-**	**(5)**
At 31 December 2018	**4**	**3**	**4**	**-**	**6**	**2**	**19**
At 1 January 2017	9	8	4	2	-	-	23
Amounts (released)/ charged to income statement	-	-	(1)	(1)	-	-	(2)
Provisions utilised	(3)	(3)	-	-	-	-	(6)
At 31 December 2017	6	5	3	1	-	-	15

Notes

a) Provision is recognised for any obligation arising to refund customers for fees or charges, incurred in previous periods, where it is probable that a refund will be made and the amount can be reliably estimated. Included within customer redress at 31 December 2018 are the following provisions:

PPI provision
AIB UK Group holds a provision for PPI redress claims and associated costs. After pay-outs in 2018 of £2m (2017: £1m) the provision held as at 31 December 2018 is £2m (2017: £4m). Time barring was introduced by the FCA, the deadline for submitting claims is 30 August 2019.

Interest Rate Hedging Products (IRHP) Provision
A provision of £1m (2017: £1m) was remaining at 31 December 2018 in respect of redress to customers arising from the IRHP review instigated by FCA in 2012.

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 2018. £1m (2017: £3m) has been paid out during the year in respect of mis-selling claims and legal costs and a net £1m increase in the provision charged to the income statement leaving a provision of £4m at 31 December 2018 (2017: £4m). During 2017 £5m of the customer redress provision was reclassified as litigation provision to better reflect the nature of the provision.

b) The provision for empty property at 31 Dec 2018 of £3m (2017: £5m) relates to a number of premises that were deemed surplus to requirements and a provision was required for the costs associated with these premises. During 2018 £2m (2017: £3m) of the provision was utilised mainly on ongoing costs along with a settlement of one GB property.

c) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2018. Management believes the amount provided of £6m (2017: £6m) represents the most appropriate estimate of the financial impact of these cases. This provision is reviewed by management regularly and updated for changes to estimates and judgements.

d) Other provisions at 31 December 2018 were nil (2017: £1m) after the provision held in respect of the FSCS levy was released in 2018 when confirmation was received that there is no further liability under this scheme.

Provision is made for Voluntary Severance where the terms of severance have been agreed with an employee, and the employee has signed a compromise agreement to that effect. Due to there being no uncertainty around the amount or timing of the obligation, any such items are treated as accruals and have been included as such for 2018 and 2017, see note 11.

33. Share capital

AIB UK Group & AIB UK	2018 £m	2017 £m
Authorised, issued and fully paid ordinary shares of £1 each	**2,384**	2,384

No ordinary shares were issued in 2018 or 2017.

34. Analysis of movements in reserves in other comprehensive income

	2018			2017		
AIB UK Group & AIB UK	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	**(5)**	**1**	**(4)**	(11)	3	(8)
Change in fair value recognised in equity	**(3)**	**1**	**(2)**	(8)	2	(6)
Total	**(8)**	**2**	**(6)**	(19)	5	(14)
Available for sale financial assets						
Amount removed from equity and transferred to income statement	**-**	**-**	**-**	(6)	1	(5)
Change in fair value recognised in equity	**-**	**-**	**-**	1	-	1
Total	**-**	**-**	**-**	(5)	1	(4)
Retained earnings						
Actuarial (loss)/gain in retirement benefit schemes (note 28)	**(20)**	**5**	**(15)**	(37)	10	(27)
Total	**(20)**	**5**	**(15)**	(37)	10	(27)
Other comprehensive income	**(28)**	**7**	**(21)**	(61)	16	(45)

35. Contingent liabilities and commitments

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

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

	2018	2017
	Contract amount	Contract amount
AIB UK Group & AIB UK	£m	£m
Contingent liabilities		
Guarantees and irrevocable letters of credit	142	182
Other contingent liabilities	75	147
	217	329
Commitments		
Documentary credits and short-term trade related transactions	37	16
Undrawn credit facilities		
- One year and over	889	714
- Less than one year	712	663
	1,638	1,393
Contingent liabilities and commitments	1,855	1,722

36. Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies for financial assets in note 2.12 and financial liabilities in note 2.13 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following tables analyse the carrying amounts of the financial assets and financial liabilities by category as defined in IFRS 9 Financial Instruments: Recognition and Measurement and by statement of financial position heading at 31 December 2018 and IAS 39 for 31 December 2017.

						2018
	Carrying amount in statement of financial position					
	At fair value through profit or loss	At fair value through other comprehensive income		At amortised cost		Total
	Mandatorily	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
AIB UK Group	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	-	-	-	3,526	-	3,526
Items in the course of collection	-	-	-	12	-	12
Derivative financial instruments	77	-	13	-	-	90
Loans and advances to banks	-	-	-	877	-	877
Loans and advances to customers	-	-	-	6,722	-	6,722
Investment securities						
- Equity shares	-	33	-	-	-	33
Other assets	-	-	-	-	88	88
Retirement benefit assets	-	-	-	-	197	197
Total assets	77	33	13	11,137	285	11,545
Financial liabilities						
Derivative financial instruments	92		10	-	-	102
Deposits by banks	-		-	-	613	613
Customer accounts	-		-	-	8,878	8,878
Other financial liabilities	-		-	-	368	368
Total liabilities	92		10	-	9,859	9,961

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

37. Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the AIB UK Group has access at that date. AIB UK Group's accounting policy for the determination of fair value of financial instruments is set out in note 2.15.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the AIB UK Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of AIB UK Group as a going concern at 31 December 2018.

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. AIB UK Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable.

The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 - financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 - financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 - financial assets and liabilities measured using valuation techniques which use unobservable market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading 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 2018 are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivative's valuation model, the fair value is estimated using inputs which provide the AIB UK Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market.

Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ('CVA') and Funding Valuation Adjustment ('FVA') are applied to all uncollateralised over the counter derivatives. CVA is calculated as: (Option replacement cost x probability of default ('PD') x loss given default ('LGD')). PDs are derived from market based Credit Default Swap ('CDS') information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60% is applied.

The AIB UK Defined Benefit pension scheme entered into a longevity swap on 22 December 2016. The fair value at 31 December 2018 of £6m liability (2017:£4m) is included within the value of the retirement benefit scheme assets.

Investment securities
The fair value of 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.

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

Loans and advances to banks
The fair value of loans and advances to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and advances to customers
AIB UK Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. No adjustment is made for credit risk under IFRS 9 since the expected credit loss model takes account of expectations on credit losses over the life of the loans.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

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

Other financial assets and other financial liabilities
This caption includes accrued interest receivable and payable and other receivables (including amounts awaiting settlement and accounts payable. The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments
Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by AIB UK Group are included in note 35. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table below sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2018 and 2017:

					2018
					Fair value hierarchy
	Carrying amount	Level 1	Level 2	Level 3	Total
AIB UK Group	£m	£m	£m	£m	£m
Financial assets measured at fair value					
Derivative financial instruments	90	-	27	63	90
Equity investment securities at FVOCI	33	-	-	33	33
Financial assets not measured at fair value					
Cash and balances at central banks	3,526	20	3,506	-	3,526
Items in the course of collection	12	-	-	12	12
Loans and advances to banks	877	-	526	351	877
Loans and advances to customers	6,722	-	-	6,675	6,675
Other financial assets	88	-	-	88	88
Retirement benefit assets	197	-	-	197	197
Total assets	11,545	20	4,059	7,419	11,498
Financial liabilities measured at fair value					
Derivative financial instruments	102	-	101	1	102
Financial liabilities not measured at fair value					
Deposits by banks	613	-	245	362	607
Customer accounts	8,878	-	-	8,879	8,879
Other liabilities	368	-	-	368	368
Total liabilities	9,961	-	346	9,610	9,956

					2017
		Fair value hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Total
AIB UK Group	£m	£m	£m	£m	£m
Financial assets measured at fair value					
Derivative financial instruments	112	-	25	87	112
Investment securities					
- Equity shares	33	-	-	33	33
Financial assets not measured at fair value					
Cash and balances at central banks	3,583	22	3,561	-	3,583
Items in the course of collection	38	-	-	38	38
Loans and advances to banks	965	-	476	489	965
Loans and advances to customers	6,512	-	-	6,394	6,394
Other assets	89	-	-	89	89
Retirement benefit assets	265	-	-	265	265
Total assets	**11,597**	**22**	**4,062**	**7,395**	**11,479**
Financial liabilities measured at fair value					
Derivative financial instruments	116	-	116	-	116
Financial liabilities not measured at fair value					
Deposits by banks	473	-	-	494	494
Customer accounts	9,034	-	-	9,037	9,037
Other liabilities	365	-	-	365	365
Total liabilities	**9,988**	**-**	**116**	**9,896**	**10,012**

Reconciliation of balances in Level 3 of fair value hierarchy:

			2018
			Financial assets
	Derivatives	Investment securities Equities at FVOCI	Total
AIB UK Group	£m	£m	£m
At 1 January 2018	87	33	120
Profit or loss	(25)	-	(25)
At 31 December 2018	62	33	95

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

38. Interest rate sensitivity

Structural interest rate risk arises in AIB UK Group's banking business where assets and liabilities have different repricing dates. Part of AIB UK Group's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The tables on the following pages set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period.

Details regarding assets and liabilities which are not sensitive to interest rate movements are also included. The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other times. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories. Non-interest bearing amounts relating to loans and advances to customers include provisions for impairment. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date. Transactions without defined repricing terms are shown according to management expectations. Contractual repricing does not illustrate the potential impact of early repayment or withdrawal. Positions may not be reflective of those in adjacent and/or future periods. Major changes can be made rapidly as the market outlook fluctuates. Further, significant variability may exist within the repricing periods presented.

Interest rate sensitivity

										2018
	0-1 Mths	1-3 Mths	3-12 Mths	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	5+ Yrs	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Loans and advances to banks	649	-	-	-	-	-	-	-	228	877
Loans and advances to customers	4,083	1,948	401	117	99	86	87	56	(154)	6,722
Investment securities	-	-	-	-	-	-	-	-	33	33
Other assets	3,505	-	-	-	-	-	-	-	732	4,237
Total assets	8,238	1,948	401	117	99	86	87	56	839	11,869
Liabilities										
Deposits by banks	465	31	14	22	9	9	16	47	-	613
Customer accounts	6,048	286	546	250	3	-	-	-	1,746	8,878
Other liabilities	-	-	-	-	-	-	-	-	548	549
Shareholders' equity	-	-	-	-	-	-	-	-	1,829	1,829
Total liabilities and shareholders' equity	6,512	317	560	272	12	9	16	47	4,124	11,869
Derivative financial instruments affecting interest rate sensitivity	(72)	1,547	(288)	(330)	(82)	(80)	(88)	(607)	-	
Interest sensitivity gap	1,798	84	128	175	169	157	159	615	(3,285)	
Cumulative interest sensitivity gap	1,798	1,882	2,010	2,185	2,354	2,511	2,670	3,285	-	

Interest rate sensitivity

	0-1 Mths £m	1-3 Mths £m	3-12 Mths £m	1-2 Yrs £m	2-3 Yrs £m	3-4 Yrs £m	4-5 Yrs £m	5+ Yrs £m	Non-interest bearing £m	2017 Total £m
Assets										
Loans and advances to banks	721	-	-	-	-	-	-	-	244	965
Loans and advances to customers	4,297	1,743	247	107	88	50	64	69	(153)	6,512
Investment securities	-	-	-	-	-	-	-	-	33	33
Other assets	3,560	-	-	-	-	-	-	-	765	4,325
Total assets	8,578	1,743	247	107	88	50	64	69	889	11,835
Liabilities										
Deposits by banks	297	33	16	19	22	9	11	66	-	473
Customer accounts	5,229	366	656	172	4	-	-	-	2,607	9,034
Other liabilities	-	-	-	-	-	-	-	-	568	568
Shareholders' equity	-	-	-	-	-	-	-	-	1,760	1,760
Total liabilities and shareholders' equity	5,526	399	672	191	26	9	11	66	4,935	11,835
Derivative financial instruments affecting interest rate sensitivity	665	1,130	(593)	(258)	(113)	(113)	(109)	(609)	-	-
Interest sensitivity gap	2,387	214	168	174	175	154	162	612	(4,046)	
Cumulative interest sensitivity gap	2,387	2,601	2,769	2,943	3,118	3,272	3,434	4,046	-	

39. Cash and cash equivalents

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

	AIB UK Group		AIB UK	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Cash and balances with central banks	**3,526**	3,583	**3,526**	3,583
Loans and advances to banks[1]	**297**	474	**297**	474
Deposits by banks	**(112)**	(80)	**(112)**	(80)
Cash and cash equivalents	**3,711**	3,977	**3,711**	3,977

[1] Excluding regulatory balances with the Bank of England.

40. Statement of cash flows – investing activities

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

	AIB UK Group		AIB UK	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Sales and maturity of investment securities	**-**	7	**-**	7
Additions to property and equipment	**(3)**	(4)	**(3)**	(3)
Proceeds from disposals of property and equipment	**4**	2	**4**	2
Additions to intangible assets	**(11)**	(15)	**(11)**	(15)
Cash flows from investing activities	**(10)**	(10)	**(10)**	(9)

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	2018 Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and advances to banks	861	16	-	-	-	877
Loans and advances to customers[1]	334	118	320	3,844	2,224	6,840
	1,195	134	320	3,844	2,224	7,717
Financial liabilities						
Deposits by banks	112	63	7	331	100	613
Customer accounts	7,338	732	553	255	-	8,878
	7,450	795	560	586	100	9,491

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

[1] Shown gross of loss allowance on financial assets.

The analysis by remaining maturity of loans and advances to customers is based on contractual maturity dates, which are the earliest dates on which repayment can be demanded. Past experience would indicate repayment frequently takes place prior to contractual maturity dates.

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

						2018
	Repayable on demand	**3 months or less, but not repayable on demand**	**1 year or less, but over 3 months**	**5 years or less, but over 1 year**	**Over 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Deposits by banks	**112**	**81**	**13**	**351**	**100**	**657**
Customer accounts	**7,338**	**737**	**558**	**257**	**-**	**8,890**
Derivative financial instruments	**-**	**8**	**19**	**52**	**49**	**128**
Other liabilities	**368**	**-**	**-**	**-**	**-**	**368**
	7,818	**826**	**590**	**660**	**149**	**10,043**

						2017
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Deposits by banks	80	98	115	104	123	520
Customer accounts	7,284	906	673	180	-	9,043
Derivative financial instruments	-	6	14	58	63	141
Other liabilities	365	-	-	-	-	365
	7,729	1,010	802	342	186	10,069

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

	2018	2017
	Repayable on demand	Repayable on demand
	£m	£m
Contingent liabilities	**217**	329
Commitments	**1,638**	1,393
Contingent liabilities and commitments	**1,855**	1,722

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

43. Related party transactions

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

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

(a) Transaction, arrangements and agreements involving Directors and others
Key management personnel are those persons considered having the authority and responsibility for planning, directing and controlling the activities of AIB UK Group, directly or indirectly. They comprise executive and non-executive Directors of AIB UK Group and members of the Senior Management Team.

The number of loans and amounts outstanding at the year-end under transactions, arrangements and agreements entered into by AIB UK or its subsidiaries or the Parent with key management personnel and other related parties were:

			2018			2017
	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	**9**	**19**	**1.8**	6	13	1.3

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**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Salary and other short-term benefits	**3.2**	3.1	**0.5**	0.5
Post-employment benefits	**0.2**	0.2	**-**	-
Termination benefits	**0.1**	0.2	**-**	-
Total	**3.5**	3.5	**0.5**	0.5

In 2018 there were 23 key management personnel for all or part of the year (2017: 23). The table above represents the compensation paid in relation to the period for which they were key management personnel.

No payments to former Directors were made during the year (2017: nil).

During the year none of the key management personnel exercised share options in the Parent, AIB plc, nor were they due any amounts from long-term incentive schemes (2017: nil).

Termination benefits relate to severance payments made to key management personnel who left during 2018 and 2017.

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

AIB UK Group provides normal banking facilities for the UK Scheme and the AIB Group Employee Share Ownership Trust. Such services are provided on terms similar to those applied to third parties, except for the interest free loan to the Employee Share Ownership Trust which has been repaid in 2018 now that the related share scheme is no longer operational. 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 27. 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:

	2018		2017	
	Immediate parent	Subsidiaries	Immediate parent	Subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and advances	-	2	-	2
Deposits	1	30	2	29
Income statement				
Interest expense	-	-	-	1

(e) Ultimate parent and fellow subsidiaries

Transactions that AIB UK Group enter into with AIB plc and fellow subsidiaries are made in the ordinary course of business at normal commercial terms. During 2017 AIB UK Group moved to using derivatives to manage its interest rate risk, rather than cash positions. This has resulted in a reduction in both loans and advances and deposits with AIB plc at 31 December 2017.

The table below provides the balances that AIB UK Group has with AIB plc and fellow subsidiaries and the transactions included in the income statement:

	2018		2017	
	AIB plc	**Fellow subsidiaries**	AIB plc	Fellow subsidiaries *Restated
	£m	**£m**	£m	£m
Statement of financial position				
Loans and advances				
- Due from AIB plc and fellow subsidiaries	**298**	**-**	461	14
Deposits	**359**	**41**	467	57
Derivative financial instruments assets	**19**	**-**	21	-
Derivative financial instruments liabilities	**100**	**-**	113	-
Income statement				
Interest income	**33**	**-**	26	-
Interest expense	**35**	**-**	24	-
Net fee and commission income	**-**	**10**	-	10
Trading and other income/(expense)	**(1)**	**-**	9	-
Administrative expenses	**29**	**-**	33	-

In 2018, there were no transactions between AIB UK Group and the ultimate holding company, AIB Group plc. (2017: nil).

Cost allocation income received in 2018 from a fellow subsidiary of £10m has been classified as a service charge within Net fee and commission income and 2017 comparative figures restated to transfer the equivalent income of £10m for 2017 from Administrative expenses (note 11) to Net fee and commission income (note 7).

(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 2018 AIB UK Group recognised £2.2m (2017: £5.9m) fair value amortisation income on these loans.

(g) Transactions with Key Management Personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 6 persons; 2017: 2):

	2018	2017
Loans	**£m**	£m
Total	**4**	-

The total interest received on these loans in 2018 was nil (2017: Nil).

The loans are made on normal commercial terms, and there are no impairment provisions on any of these loans (2017: nil).

44. Capital, operating and finance lease commitments

(a) Operating lease rentals

AIB UK Group	2018 £m	2017 *Restated £m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	5	4
- Between one and five years	14	14
- Over five years	5	8
Operating lease rentals	**24**	26

AIB UK	2018 £m	2017 *Restated £m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	5	5
- Between one and five years	18	17
- Over five years	5	8
Operating lease rentals	**28**	30

The minimum lease terms remaining on the most significant leases vary from 1 year to 11 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 4 years, with the final contractual remaining terms ranging from 1 years to 11 years.

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

Operating lease payments recognised as an expense for the year were £5 million (2017: £5 million). Sublease income amounted Nil (2017: Nil).

(b) Capital expenditure not provided for in these accounts

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

(c) Finance lease commitments

There are a small number of obligations under finance leases where AIB UK Group and AIB UK is the lessee. Both the total future payments and the total present value are de minimis.

45. Events after the reporting period

There have been no significant events affecting AIB UK Group or AIB UK since the reporting date which require amendment to or disclosure in the financial statements.

46. Parent company

Reference to the immediate parent undertaking refers to AIB Holdings (NI) Limited, a company registered in Northern Ireland. AIB UK Group is the smallest group for which consolidated accounts are prepared.

AIB Group plc is the ultimate parent company of AIB UK. The Ultimate Parent Group is the largest group, of which AIB UK is a member, for which consolidated accounts are prepared. The financial statements of AIB plc and of the ultimate parent company are available from AIB Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at www.aibgroup.com.

Glossary of Terms

Arrears	Arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received.
AIB GB	Allied Irish Bank (GB)
AIB Group plc	Holding company and ultimate parent of Allied Irish Banks, p.l.c. and AIB UK
Allied Irish Banks, p.l.c.	The principal operating company
AIB UK	"AIB UK", "The Bank" or "The Company" will relate to AIB Group (UK) p.l.c.
AIB UK Group	"AIB UK Group" will relate to AIB Group (UK) p.l.c. and its subsidiaries
ALCo	Asset & Liability Committee
AMLD	Anti-money Laundering Directive
APM	Alternative performance measure
API	Application Programming Interface
BOE	Bank of England
BPS	Basis points
Brexit	An abbreviation for "British exit" referring to the UK's decision to withdraw from the European Union ('EU'), based on the referendum held on 23 June 2016 and the political process associated with the EU.
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
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1
CIR	Cost income ratio
CMA	Competition and Markets Authority
CMI	Continuous Mortality Investigation
Contractual maturity	The period when a schedule payment is due and payable in accordance with the terms of a financial instrument.
CPI	Consumer Price Index

CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive IV
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
CRAO	Credit risk at origination
CRO	Chief Risk Officer
Customer accounts	A liability of the Bank where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
CVA	Counterparty Valuation Adjustment
DCF	Discounted cash flow
DFA	Derecognised forborne asset
Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.
EAD	Exposure at Default ('EAD') is the expected or actual amount of exposure to the borrower at the time of default.
ECB	European Central Bank
ECL	Expected Credit Loss
EU	European Union
ESRI	Economic and Social Research Institute
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
Forbearance	Forbearance is the term that is used when repayment terms of the mortgage contract have been renegotiated to make payment terms more manageable for borrowers. Forbearance techniques have the common characteristics of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB UK Group include interest only, a reduction in the payment amount, a temporary deferral of payment (a moratorium), extending the term of the mortgage and capitalising arrears amounts and related interest.

FSG	Financial Solutions Group
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTB	First Trust Bank
FTE	Full time equivalent
FTSE	Financial Times Stock Exchange
FVA	Funding Valuation Adjustment
FVOCI	Fair value through other comprehensive Income
FVTPL	Fair value through profit and loss
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
IAS	International Accounting Standard Regulation
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Process
ICS	Image clearance system
ILAAP	Internal Liquidity Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Impaired loans	Loans are typically impaired when the interest thereon is 90 days past due or where a provision exists in anticipation of loss, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from the realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest is adequately secured. Upon impairment the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.
IPO	Initial Public Offering

Glossary of Terms

IRBA	Internal Ratings Based Approach allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ('PD'); Loss Given Default ('LGD'); and Exposure at Default ('EAD').
IRHP	Interest Rate Hedging Products
LCR	Liquidity Coverage Requirement
LDI	Liability Driven Investments
LGD	Loss Given Default ('LGD') is the expected or actual loss in the event of default, expressed as a percentage of "exposure at default".
LLP	Limited Liability Partnership
Loan to deposit ratio	This is the ratio of loans and advances to customers as presented in the statement of financial position compared to customer accounts.
LTPD	Lifetime probability of default
MiFID II	Markets in Financial Instruments Directive
MRA	Material Risk Assessment
MREL	Minimum Requirement for Eligible Liabilities
NIM	Net interest margin
NPS	Net Promoter Score
OCI	Other comprehensive income
OCIR	Operational Continuity in Resolution
OneUK	Transformation programme launched in 2016, implemented and delivered during 2017. Cultural change and ways of working were key elements of this programme.
OTC	Over The Counter
PHI	Permanent Health Insurance
Pillar I	Sets out the rules for calculating minimum regulatory capital. It is a variable capital requirement based on the sum of operational, market and credit risk requirements. AIB UK Group must maintain, at all times, capital resources equal to or in excess of the amount specified.
Pillar II	This Supervisory Review Process requires supervisors to ensure each bank has a sound internal process in place to assess the adequacy of its capital based on a thorough evaluation of its material risks.
Pillar III	Pillar III sets out the required detailed disclosures of each of a bank's key risks

POCI	Purchased or originated credit impaired financial assets
PPI	Payment Protection Insurance
PSD2	Payment Services Directive 2 effective from 13 January 2018
PRA	Prudential Regulation Authority
Probability of Default (PD)	Probability of Default. This is the likelihood that a borrower will default on an obligation to repay.
RAROC	Risk Adjusted Return on Capital
Repo	A sale (and) repurchase agreement.
Reverse repo	A purchase of securities with an agreement to resell them at a higher price at a specific future date.
Risk weighted assets (RWA)	A measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
ROE	Return on Equity
RPI	Retail Price Index
Securitisation	The process of aggregation and repacking on non-tradable financial instruments such as loans and advances, or company cash flow into securities that can be issued and trade in the capital markets.
SID	Senior Independent Director
SIC	Standard Interpretations Committee
SICR	Significant increase in credit risk
SLP	AIB PFP Scottish Limited Partnership
SME	Small and medium-sized enterprises (SMEs) are businesses whose personnel numbers and financial results fall below certain limits.
SMR	Senior Manager Regime
SMT	Senior Management Team
SPPI	Solely Payments of Principal and Interest
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tier 2 capital	Broadly includes qualifying subordinated debt and other Tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England (BOE) rate, at an agreed margin above the BOE rate and will increase or decrease within five days of an BOE rate movement.
UK ALCo	UK Asset & Liability Committee
UKCC	UK Credit committee
UKFI	UK Financial Investments
UKLM	AIB UK Loan Management Limited
UK SMT	UK Senior Management Team
UKRC	The AIB UK Group Risk Committee
UK Scheme	The AIB UK Group Pension Scheme
VAT	Value Added Tax
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources.
WoW	Ways of Working
WTO	World Trade Organisation

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