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

For the year ended 31 December 2016

Company number: NI018800

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

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2016 Performance Highlights

Operating performance

Profit before tax*
£170m £49m ▲
Increased profit before tax enhanced by one off nonrecurring exceptional items of £23m. The main driver of this was profit on sale of VISA Europe shares.

Net interest margin*
2.12% 18bps ▼
Reduced net interest margin as margins compress due to BoE base rate reductions coupled with higher average interest earning advances balances.

Total operating income*
£263m £9m ▲
Operating income remains flat despite falling interest rates.

Operating expenses*
£116m £8m ▼
Cost reductions in line with expectation driven by disciplined cost management. Cost/income ratio of 44%, down 5% on 2015.

Credit provision
£1m £4m ▼
Continued progress on debt restructuring, coupled with low new impairments.

Profit after tax
£66m £145m ▲
Impacted by tax charge of £104m (2015: £200m) owing to changes in tax legislation with consequences for recognition of the deferred tax asset.

Balance Sheet / Capital

Capital adequacy ratio[1]
17.0% 50bps ▲
Capital position remains strong.

[1]Common Equity Tier 1 (fully loaded)

New lending
£1.5bn £0.4bn ▼
Measured growth in key segments reflecting continued support to Corporates and SMEs in the UK.

Customer deposits
£8.7bn £0.4bn ▲
Customer balances remain stable with marginal growth in current accounts.

Impaired loans
£0.4bn £0.1bn ▼
20% reduction reflecting support for customers in difficulty through sustainable restructuring solutions for customers.

Provision coverage ratio remains at a robust level of 50% (2015 49%).

Leverage ratio
8.7% 10bps ▲
Leverage ratio remains in excess of regulatory requirements.

Loan deposit ratio
74% 3% ▼
The decreased loan deposit ratio reflects higher customer accounts and stable net loans.

*These numbers are used by management for internal reporting purposes and represent a non–statutory view.

Chairman's Statement

Peter Spratt
Chairman

My first year as Chairman of the Board has seen changes both within the Bank, in terms of organisational structure, and within the economy, as reaction to the UK vote to leave the European Union impacted on markets, albeit not to the extent initially expected. Throughout this period, I am pleased to report that AIB UK Group has performed well and has produced an improved financial performance for the year, while maintaining a strong customer focus.

Business environment

The results of the referendum, where the UK voted in favour of an exit from the European Union, impacted initially on the financial markets which resulted in the Bank of England Monetary Policy Committee introducing a number of easing measures, including a cut in base rate by 25 basis points to 0.25% in August. Since then the UK economy, whilst growth has slowed, has performed better than was originally expected. However, while growth is expected to be weaker in the medium term, the recent depreciation in the value of sterling is forecast to result in an increase in inflation over the next two years.

Financial performance and business strategy

AIB UK Group recorded a financial profit before taxation of £170m for the year. This included a one off gain of £21m from the sale of Visa Europe shares, resulting in an overall improvement of £49m on the profit before taxation in 2015 of £121m.

New business lending for the year at £1.5bn was down on 2015's new lending however the quality of the loan book improved with a reduction in non-performing loans.

From an operating model perspective, in 2016 we continued to provide specialist industry and sectoral expertise to our business banking and corporate sector customers. We also serviced our customers in First Trust Bank offering a full banking service in branch, online and through mobile channels.

A new organisational structure was announced in April resulting in a number of consequential changes to the management team during the rest of the year as the business transitioned towards the new structure. We are now ready, with a refreshed management team, to take the business forward in 2017. In particular, it is recognised by management and the Board that there is a need for cultural change within AIB UK Group to enable the Company to deliver fully on its strategy going forward. A 'One UK' transformation programme was developed in 2016 with cultural change, and ways of working, as key elements of this programme. These are going to be areas of particular focus for the Board and the Company in 2017 and, I believe, will be key to enabling success.

Customers and staff

In line with our core brand values, we continue to put our customers first and aim to provide them with services that meet their needs, through our personal relationship banking and digital channels. It was a great achievement for our GB business to receive the Business Moneyfacts 'Best Service from a Business Bank' award for a third consecutive year in 2016, and I would like to thank our loyal and valued customers for their continued support in this area.

Treating our customers fairly is also a key element of the customer experience we provide to all our customers, but most importantly to our vulnerable customers and those in financial difficulty. We registered with the Alzheimer's Society in 2016 as 'Working to become Dementia friendly' and carried out a successful pilot in one of our branches to train staff in this area. This is anfundraising events for this and numerous other charities during the year.

As I mentioned earlier, our culture is an ongoing area for development that the Board and I are focused on so that our staff feel appropriately empowered, governance remains appropriately tight, and we are all fully engaged in working in a manner that looks after our customers' interests. Considerable success has already been achieved in improving staff engagement and in embedding our brand values, and I look forward to the further successes in these and other areas. We have also signed The Women in Finance Charter, as we remain committed to broadening our diversity in all areas and levels in the business.

I would like to thank all our management and staff for their commitment and energy over the last year as well as our colleagues in our parent company who provide ongoing support.

Board of Directors

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

David Pritchard retired as Chairman of the Board in February 2016 and Stephen Kingon retired in October 2016. Both had completed nine years of service as directors and I would like to thank them for their considerable and valuable contribution to AIB UK Group.

Ger O'Keeffe left in July 2016, after over twelve years with the Bank, and Hugh O'Donnell, having completed a five year secondment to AIB UK Group as Finance Director, decided to leave AIB plc in December 2016. Both Ger and Hugh led their respective teams through periods of significant change and the Board and I are grateful for their contributions over the years. Additionally, I would like to acknowledge and thank Tiana Peck for her hard work and dedication to AIB UK Group. Tiana left in June 2016 after being with the Bank for 21 years, including 19 years as Company Secretary.

Outlook

With the new organisational structure in place and a 'One UK' transformation programme launched, I look forward to 2017 being a successful year for the UK business despite the uncertainties ahead for the UK economy with the impending exit from the European Union. In short, I believe AIB UK Group is currently well positioned to meet our customer's needs, for growth in our chosen markets, and to deliver enhancements to our business model to ensure sustainability into the future.

P Spratt
Chairman
28 February 2017

Strategic Report

Brendan O'Connor
Managing Director

1. Purpose of the Strategic Report

The Strategic Report is a statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and is intended to be fair and balanced, and to provide information that enables the Directors to be satisfied that they have complied with Section 172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the company). The Strategic Report has been presented for the year ended 31 December 2016.

2. Economic strategy

2.1 Business proposition

AIB Group (UK) p.l.c. (AIB UK), a wholly owned subsidiary of Allied Irish Banks p.l.c. (AIB plc), comprises two distinct trading entities operating in two distinct markets with different economies and operating environments: Allied Irish Bank (GB) (AIB GB) which offers full banking services to predominantly business customers across Great Britain; and First Trust Bank (FTB) which offers full banking services to business and personal customers across Northern Ireland. Both entities are supported by a single Operations function. In addition, the UK Financial Solutions Group (FSG) is dedicated to managing all UK customers in financial difficulty on a case by case basis.

AIB UK is a bank registered in the United Kingdom and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

2.1.1 Allied Irish Bank (GB)

AIB GB is a long established specialist Business Bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain, providing a full clearing and day-to-day transactional banking service to customers.

AIB GB's strategy is to be a leading niche business bank, with recognised expertise in our chosen sectors and markets, targeting mid-tier corporates/ larger SMEs in local geographies who value a high-touch relationship model. Dedicated relationship management teams work closely with our customers to establish and find solutions to their banking needs. A full range of banking services are offered, including lending, treasury, trade facilities, asset finance, invoice discounting and day-to-day transactional banking. In addition, AIB GB has 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.

AIB GB has approximately 1% of the business lending market in GB, and has clear opportunities to increase its presence and market share through its new sectorfocused strategy and people and talent renewal initiatives.

2.1.2 First Trust Bank

FTB is a long established bank in Northern Ireland, providing a full banking service, including online, mobile and telephone banking to business and personal customers.

FTB's strategic aim is to be a focused challenger Bank in Northern Ireland, offering business banking with a local market presence, a refreshed competitive mortgage proposition to customers via intermediary and direct channels, and digitally enabled personal products and services.

The overall proposition will include simplified products and improved digital capability, aligned over time to that offered by the retail operations of AIB plc in the Republic of Ireland.

To enable FTB to deliver its strategic aim, FTB is implementing the following simplified model:

- Retail Banking – Full range of personal banking services and products for personal/ retail customers across an optimised retail branch network.
- Business Banking – A segmented Relationship Manager approach, across four business centres and two satellite hubs.
- Direct Banking – Digital and telephone banking for retail and business customers to self-serve, or manage their banking needs remotely.

FTB aims to offer customers a wide choice of how to engage with the Bank in a way that is most suited to them in a modern banking setting, whether it be through traditional channels or via technology.

2.1.3 UK Financial Solutions Group

AIB UK has an established FSG to assist all our customers in difficulty. This ensures there is a centre of expertise where the right people with the appropriate skills and products can tailor solutions for each customer on a case by case basis. Wherever possible AIB UK works with its customers whether they are mortgage holders, SMEs or Corporates, to establish a path back to affordability and viability.

Our brand values describe the culture AIB UK Group aims for, and focuses on putting customers first, building trust and appreciation, empowering staff to do the right thing, making processes simpler, and working collaboratively through an optimised OneUK operating model.

CUSTOMER FIRST
We will consistently deliver exceptional customer experience through simple and innovative customer solutions

RISK & CAPITAL
We'll make the best use of our capital by having a consistent and efficient way of allocating resources that is within our risk appetite

SIMPLE & EFFICIENT
We'll make things simpler, focusing our efforts on the things that we know have the greatest impact on our customers' experiences

TALENT & CULTURE
We'll create a customer focused culture which attracts, develops and retains the best people and is powered by our brand values

2.1.4 Core Brand Values & Strategic Pillars

The ambition of the Parent Group is to be at the heart of customers' financial lives by always being useful, always informing and always providing an exceptional customer experience. The Parent Group aims to deliver a bank with compelling, sustainable capital returns and a considered, transparent and controlled risk profile. In service of this ambition, the Parent Group prioritised four key areas of focus where it will differentiate itself (Customer First, Simple & Efficient, Risk & Capital and Talent & Culture).

2.2 Our customers and people

2.2.1 Our customers

The No. 1 Brand Value at AIB UK Group is 'We put our customers first' and we pride ourselves in providing exceptional customer service.

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

AIB UK Groups' commitment to putting our customers at the heart of everything is reflected in its history of business awards. For the past three years, AIB GB has won the Business Moneyfacts award for Best Service from a Business Bank. In support of its commitment to local businesses, FTB co-brands the 'Corporate Leadership Programme' with the William J. Clinton Leadership Institute at Queen's University.[1]

A comprehensive Customer Experience framework for AIB UK Group is in place, which aims to measure customer feedback through a range of initiatives designed to focus on improving customer satisfaction levels, ranging from general service and relationship satisfaction through to confirming that needs have been assessed accurately and effectively once products have been sold.

Customers want a bank relationship that is built on an understanding of their business, a differentiated service proposition, an ability by the bank to respond and deliver in a timely fashion, flexibility when required and a consistency in their relationship management experience.

AIB UK Group is committed to keeping our business models under review and to adapt them as our customer requirements evolve and change. A key focus of our staff is to ensure all our customers are treated fairly and are provided with appropriate fit for purpose products. AIB UK Group continues to engage actively with all our customers, and our key strategy is to enhance the quality of service to our customers, whether it be through a dedicated Relationship Management team or an efficient and modern digital offering, and provide them with products that meet their requirements.

2.2.2 Digital enablement

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

Transactional activity is reported on a monthly basis and demonstrates a continuing trend away from traditional branch teller services towards digital solutions with mobile traffic increasing significantly.

Transactional by Channel*

	Dec 2016	*Movement on Prior Year*
Mobile	*73k*	*+36%*
Online	*106k*	*+2%*
Branch	*228k*	*-10%*

*FTB Personal Digital Customers

1 This programme sponsors participants on a structured, but bespoke, leadership course. Participants have been selected by open competition under a bursary arrangement and, in addition to profiling and differentiating FTB in the marketplace, the programme supports FTB's corporate social responsibility to the local NI business community.

2.2.3 *People*

Putting our customers first and delivering a sustained outstanding customer experience across all our distribution channels and franchise is only possible through our people. AIB UK Group has a highly committed and professional workforce.

A key objective of the Board and Executive Management is to continue to support and develop our people so that they are engaged, customer focused and highly motivated. This requires the right conduct based culture and tone at the top level to be in place.

We will continue to build a supportive, high performance culture that sets clear expectations, recognises performance at all levels and proactively takes action when appropriate.

AIB UK Group has signed up to the HM Treasury Women in Finance Charter, an industry-wide initiative that aims to build a more gender balanced workplace, and we are committed to achieving a target of 50% female Managers by 2020, supported by our Diversity & Inclusion agenda. A recent independent survey of salaries within AIB UK Group revealed that our gender pay gap is smaller than financial services benchmarks.

Gender Diversity Information

	Males	*Females*
All Staff	*38%*	*62%*
Managers	*53%*	*47%*
Senior Managers	*82%*	*18%*
Directors	*75%*	*25%*

2.3 Financial performance

The financial performance set out in this section, and certain items in the 2016 Performance highlights section on page 1, show an internal management reporting view of the performance of AIB UK Group and are not a statutory view. In particular the management reporting view makes reference to exceptional items, which are shown separately for internal management reporting purposes, as management believe that such one off items obscure the underlying performance trends of the business. The statutory income statement, which is set out on page 51 does not report any items as being exceptional.

2016 has been a year of further progress for AIB UK Group against a backdrop of sustained internal and external change. AIB UK Group has delivered a 40% increase in profit before tax as a result of measured balance sheet growth coupled with disciplined cost management.

The financial performance in 2016 has been achieved in an improving though still challenging economic environment alongside a banking market that remains very competitive across a number of AIB UK Group's product and customer segments.

Exceptionals

2016 includes £21m gain on sale of Visa Europe shares coupled with £5m release of previous years' redress and other provisions no longer required. Property provision increased by net £3m. The 2015 charge included business transformation costs of £14m, conduct misselling provisions of £1m offset by a £3m credit in the onerous lease provision.

Financial performance	2016	2015	Var 2016 v 2015
Income Statement[1]	**£m**	£m	£m
Total Operating Income	263	254	9
Total Costs	(116)	(124)	8
Operating profit	**147**	**130**	*17*
Total Credit Provisions	(1)	3	(4)
Profit on sale of business	1	0	1
Profit before tax (pre-exceptionals)[2]	147	133	14
Exceptional items	23	(12)	35
Profit before tax	**170**	**121**	*49*
Net interest margin %	2.12%	2.30%	
Cost income ratio %	44%	49%	

AIB UK Group achieved a measured increase in profitability of £14m, 11%, before exceptional items.

Operating income remained flat despite falling interest rates and margin compression in the market.

Costs declined 6% in the year driven by disciplined cost management.

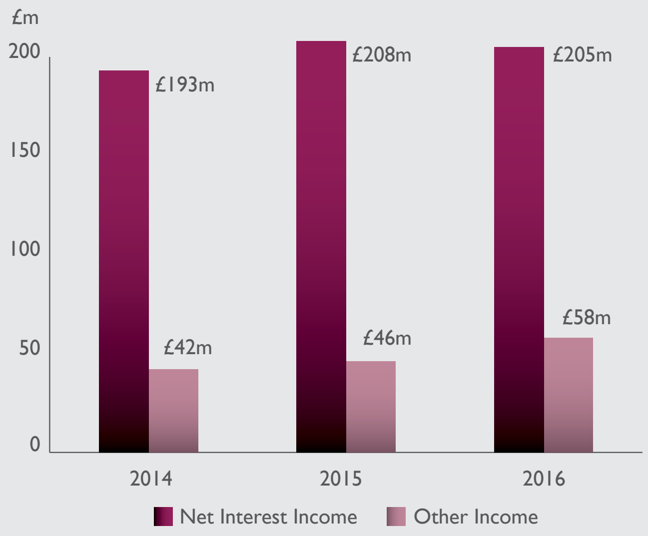
(1) Income Statement format aligns to internal management reporting.
(2) Profit before exceptional items excludes exceptional items that management believe are non-recurring and which obscure the underlying performance trends in the business.

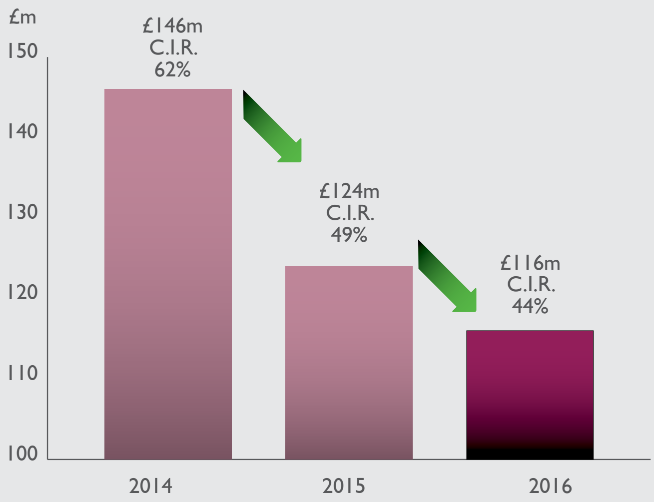
Growth in operating income

Operating Income increased £9m in the year and Net Interest Margin decreased 18bps.

Net Interest Income and margin reductions reflect the dilutive effect of the lower rate environment in the main, following the BoE base rate reduction, in August, to 0.25%.

Non-Interest Income growth is broadly neutral when adjusting for the impact in 2015 of a net loss of £9m in one-off items relating to Asset sales and mark to market valuations on customer derivative positions.





Lower costs and improved cost/income ratio

Cost discipline continues to be a key strategic objective of AIB UK Group with a goal to improving operating performance through continued focus on improving effectiveness and efficiency.

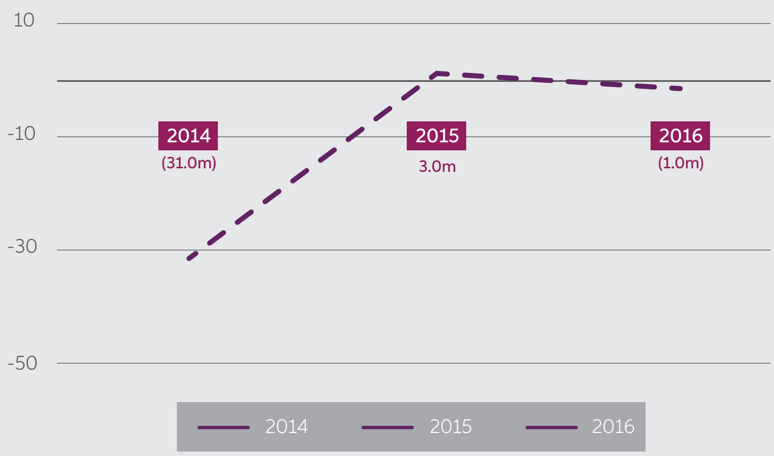
The benefit of various cost saving measures, including headcount reductions taken over recent years, continues to feed through.

The positive impact of these measures is reflected in a declining cost base and an improving cost/income ratio.

Loans provisions - net charge £1m in 2016

The impaired book continues to be managed on a proactive basis with a provision charge of £1m in 2016 (£3m recovery 2015).

In 2016 there were new to impaired charges of £10m in AIB UK Group. Measuring this as a percentage of average gross loans displays a cost of risk in AIB UK Group of 15 basis points.



Balance sheet	2016 £m	2015 £m
Earning gross loans	6,323	6,263
Impaired gross loans	375	490
Total gross loans	**6,698**	**6,753**
Specific provisions	(187)	(240)
IBNR provisions	(40)	(41)
Total net loans	**6,471**	**6,472**
Available for sale	38	54
Other assets/placings	6,865	6,391
Total assets	**13,374**	**12,917**
Current accounts	5,239	4,644
Deposits	3,487	3,683
Total customer accounts	**8,726**	**8,327**
Shareholders' equity	1,703	1,614
Other liabilities/funding	2,945	2,976
Total liabilities	**13,374**	**12,917**

Balance sheet

Net loans remained flat in the year. However, AIB GB performed well increasing the loan book by £0.2bn

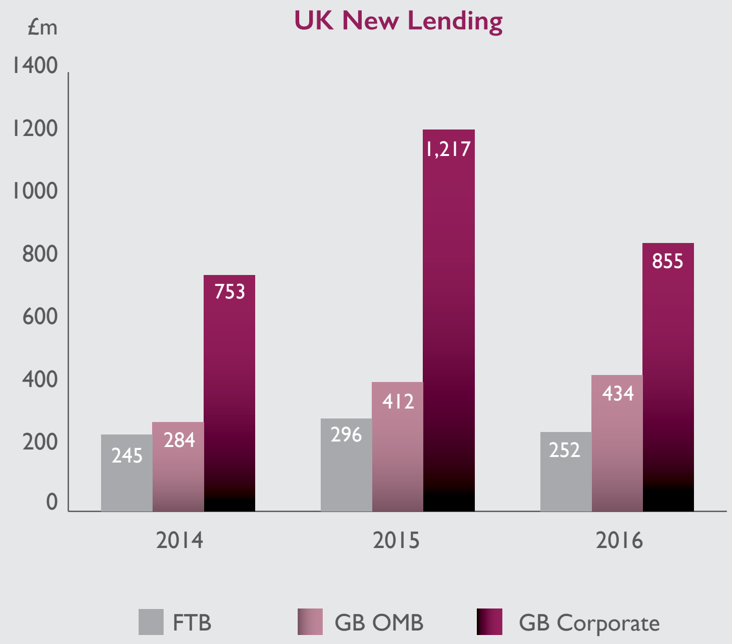
Customer accounts balances have remained resilient in 2016, with £0.4bn growth versus December 2015, in this low interest rate environment.

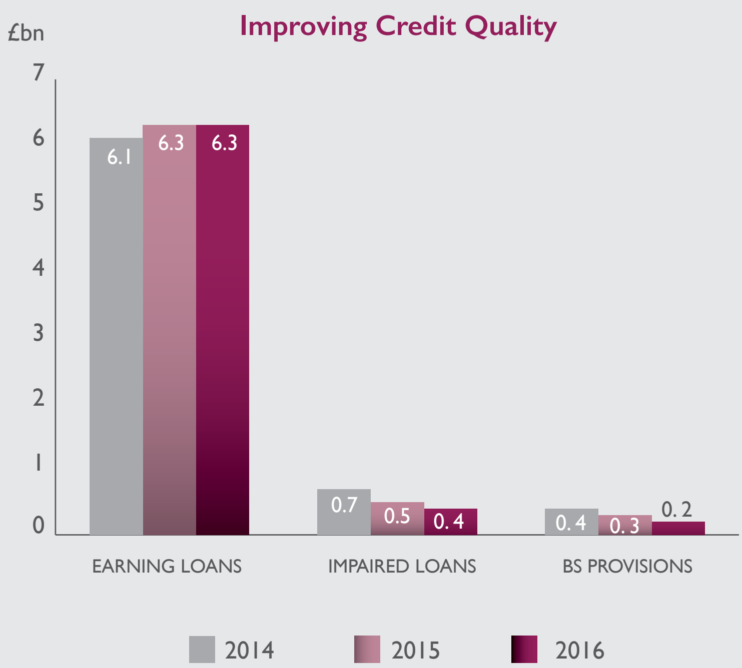
Current account balances buoyancy offsets deposits outflows as funding costs reductions continue to be targeted.

New Lending

AIB UK Group continues to develop and attract new business in both FTB and AIB GB during 2016, with new business being written across a range of key sectors.

£1.5bn of new lending drew down in 2016, representing a decrease of 20% on 2015. This reflects a measured approach to new lending in a very competitive marketplace.





Stabilisation of loan portfolio and improving credit quality

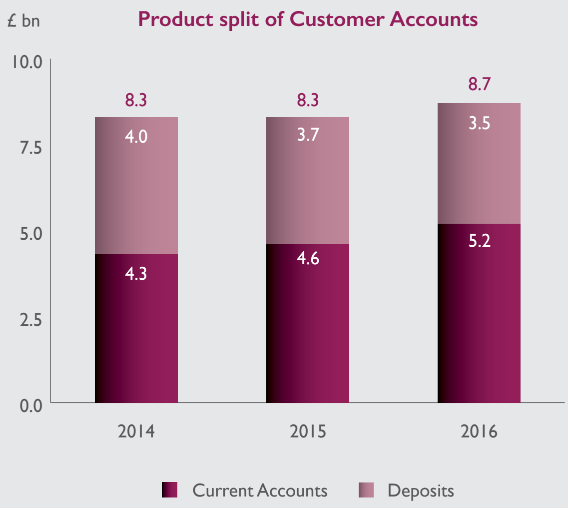
2016 delivered continued stabilisation in asset quality with net loans remaining flat.

As highlighted earlier, both the impaired loans and balance sheet provisions declined in the year. Non-impaired loans accounted for 94% of total loans at the end of 2016, compared to 93% in 2015.

Customer accounts stability

Total customer balances grew £0.4bn, (5%) in the year with outflows in deposits offset by an increase in current accounts.

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



2.4 Capital management and liquidity

2.4.1 Capital management

Capital

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

The level of capital held by AIB UK Group is influenced by the minimum regulatory requirements of the Prudential Regulation Authority (PRA). The adequacy of AIB UK Group's capital is assessed by comparing available regulatory capital resources with capital requirements expressed as a percentage of risk weighted assets. Generally the internationally agreed minimum total capital (to risk weighted assets) ratio of 8% and Tier 1 capital (to risk weighted assets) ratio of 4% are the base standards from which the PRA sets individual minimum capital ratios for banks within its jurisdiction. In line with these requirements, AIB UK Group has agreed its minimum capital requirements with the PRA.

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

Capital requirements

The following tables show AIB UK Group's capital resources and capital base at 31 December 2016 and 31 December 2015.

	2016	*2015*
Capital resources	*£m*	*£m*
Shareholders' equity	*1,703*	*1,614*
Total capital resources	*1,703*	*1,614*

Capital base	2016 £m	2015 £m
CET 1 capital	1,179	1,141
Total capital	1,179	1,141
Total risk weighted assets	6.958	7,003
Capital ratios		
CET 1 capital	17.0%	16.3%
Total	17.0%	16.3%

Capital resources increased by £89m during the year ended 31 December 2016 primarily as a result of trading profits during the year. As the deferred tax asset was already disallowed for regulatory capital purposes, the write-off of the deferred tax asset during the year as a result of legislative changes, had no impact on the regulatory capital position. AIB UK Group's risk weighted assets have remained broadly static, decreasing by less than 1% in 2016.

AIB UK Group's Common Equity Tier 1 (CET 1) ratio is 17.0% as at 31 December 2016 (2015: 16.3%). Leverage Ratio is 8.7% (2015: 8.6%*).

*Leverage ratio updated to align with a methodology change applied in 2016.

2.4.2 Liquidity

AIB UK Group has a strong funding position. The net loan to deposit ratio was 74% at 31 December 2016 (2015: 78% on a net basis). 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 65% (2015: 64%) of its total liabilities and shareholders' equity. Customer deposits make up 78% (2015: 78%) of AIB UK Group's funding when Deposits by banks that relate to Parent Group balances (which can be offset against Parent Group Loans and receivables to bank balances) are excluded. Debt funding is principally made up of AIB UK Group's mortgage backed securitisation, Tenterden Funding p.l.c., of £59m (2015: £99m).

Under CRD IV, the minimum Liquidity Coverage Requirement (LCR) requirement was introduced from 1 January 2015 at 60%, rising to 100% by 1 January 2018. The minimum Net Stable Funding Ratio (NSFR) requirement is expected to be introduced in January 2018 at 100%. The PRA introduced a minimum LCR requirement for UK Banks of 80% from 1 October 2015, increasing to 90% from 1 January 2017 and 100% from 1 January 2018. Based on the revised Basel standards and their EU implementation through the Capital Requirements Directives and Regulations, AIB UK Group is well in excess of these ratios based on its current liquidity profile.

The Bank of England's Term Funding Scheme will be a central focus of AIB UK Group's efforts to ensure a prudent funding profile is achieved. These funds can be drawn against the existing pre-positioned collateral at the Bank of England, thereby reducing the capacity available for the Discount Window Facility.

Further details on the Liquidity regulatory environment are set out in the Liquidity Risk section of the Risk Management report on page 34.

2.5 Principal risks and uncertainties

AIB UK Group is exposed to a number of material risks and implements comprehensive risk management strategies to minimise these risks. Details on AIB UK Group's risk management strategies are discussed in Section 2 of the Risk Management section of this Annual Report.

3. UK Economic factors

The UK economy grew by 2% in 2016, only slightly slower than the 2.2% rise recorded in 2015. The underlying data showed that growth remained unbalanced, with personal consumption continuing to be the main source of growth, while business investment and net trade remained weak. Meanwhile, in terms of the labour market, the unemployment rate fell to 4.8% over the autumn, though the pace of employment growth did slow in the latter part of the year.

The UK economy could be in something of a Brexit 'sweet spot' at present, benefiting from looser monetary policy (Bank of England cut interest rates by 25bps to 0.25% and increased its quantitative easing programme back in August 2016) and the weaker sterling before negative impacts such as rising inflation take hold. Overall, the UK economy is facing into a period of heightened uncertainty. Business investment could be adversely impacted by Brexit. We are already seeing some signs of weakness in the labour market and this could continue, with employers potentially holding off on hiring if they expect weaker growth and there is a lack of clarity over the UK's future trading relationship with the EU. This could also dampen consumer spending, as will rising inflation. Thus, the UK economy is expected to slow in 2017 and 2018, with GDP growth slipping below 2%.

The negotiating process to decide on the UK's EU exit terms and any new trading arrangement could drag on for quite some time. The outcome of these talks, which should begin in the coming months, will ultimately determine the long-run implications of Brexit for the economy. Most commentators consider that the impact is likely to be negative overall, leading to a more subdued pace of growth.

Meanwhile, with sterling volatility, downside risks remain for the currency, especially in 2018, when the difficult Brexit negotiations come to a head. In terms of the monetary policy outlook, markets expect the next move from the Bank of England will be a rate hike, although this is not expected until mid-2018.

4. Regulatory and other evolving issues

4.1 Increased regulation and supervision

The complexity and intensity of regulatory oversight in the banking system continues to remain very high. The Senior Managers Regime (SMR) and Certification Regime, which strengthens accountability in Banking was implemented in March 2016. There remains a significant upstream regulatory agenda including PSD 2, 4th EU AML Directive, the EU General Data Protection Regulation and the implementation of the Competition & Markets Authority (CMA) remedies. This will generate increased demands on resource (people and IT); but we have appropriate representation on Group Projects or established local initiatives (with appropriate stakeholder involvement) to ensure AIB UK Group fully implements all of these requirements.

4.2 Recovery and resolution planning

The Single Resolution Mechanism (SRM) came into effect on 1 January 2016 to ensure supervision and resolution is exercised at the same level for countries that share the supervision of banks within the Single Supervisory Mechanism (SSM). The SRM encompasses a decisionmaking body, the Single Resolution Board (SRB), and a single fund for the resolution of banks. The SRB published its preferred resolution strategy for AIB Group, including AIB UK in January and implementation of this plan will be a priority during 2017.

4.3 IRB and IFRS 9

A programme to improve AIB UK Group's credit management processes is now in its second year. The programme will transform AIB UK Group's credit risk management processes by reducing manual activities and improving data collection and quality, as well as delivering new capabilities which will contribute to a more robust risk management process. This will allow us to seek regulatory approval to use our own risk models for regulatory capital calculation (the Internal Ratings Based (IRB) approach). Furthermore, the programme will ensure AIB UK Group compliance with new impairment assessment (IFRS9) requirements from January 2018 through the delivery of risk models, business process changes and new impairment calculation and reporting processes.

4.4 Senior managers and certification regime

AIB UK is subject to the Senior Managers Regime (SMR) which came into force on 7 March 2016. The SMR replaced the Approved Persons regime and has been designed to enable the UK regulatory authorities to hold senior managers accountable for the quality of their decision making. The Certification Regime element of the SMR comes into effect from March 2017 and it extends the concept of personal accountability to the next layers of management along with those who advise customers on regulated products such as investments and mortgages.

4.5 Regulatory change horizon

UK and European regulators will continue their focus on promoting good governance and culture. As further regulatory reforms continue to emerge from both EU and UK regulators, and the potential regulatory impacts of Brexit materialise, AIB UK Group will continue to focus on the management of regulatory change and its compliance obligations.

4.6 Conclusion

We have a good reputation in our core markets and a loyal customer base who value our flexibility. We are responsive to our customers, and our relationship management and service ethos is a key attribute of our business. We have staff who are committed to the success of the bank and their customers, a favourable funding platform and a strong capital position. We believe we are well positioned to exploit our strengths, and to continue to grow our business into the future.

B O'Connor
Managing Director
28 February 2017

Risk Management

1. Principal risks and uncertainties

Introduction

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

Consequently, effective risk management is essential to AIB UK Group and is a key part of its overall strategy in achieving well managed growth. In keeping with the Parent Group, AIB UK Group has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core elements of which are set out in the AIB UK Group's risk management framework, summarised below, and have been in operation throughout the reporting period.

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

1.1 Risk philosophy

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

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

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

1.2 Macro-economic and geopolitical risk

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

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

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

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

AIB UK Group may also be impacted by regulatory and political actions by European governments in response to the European financial crisis and the outcome of the US and European elections. The emergence of antiestablishment parties, a rise in protectionist sentiment, and concerns surrounding immigration have contributed to political dislocation across Europe. The decision by the UK to leave the European Union could have an adverse effect on AIB UK Group's business and financial performance. AIB UK Group actively considers the impact of a potential exit from the EU as part of its scenario planning process.

2. Framework

Introduction

AIB GB is a long established specialist Business Bank, supporting businesses in GB for over 40 years with a strategy to be a leading niche business bank, with recognised expertise in our chosen sectors and markets, targeting mid-tier corporates/larger SMEs in local geographies who value a high-touch relationship model. Dedicated relationship management teams work closely with our customers to establish and find solutions to our customers' needs through offering a full range banking services including lending, treasury, trade facilities, asset finance, invoice discounting and day-to-day transactional banking. FTB is a long established bank in Northern Ireland, providing a full banking service. FTB's strategic aim is to be a focused challenger bank in Northern Ireland offering business banking with a local market presence, a competitive mortgage proposition to customers via intermediary and direct channels and digitally enabled products and services. AIB UK Group's strategy and Brand Values are critical enablers underpinning the Strategic Objectives. To assist in the successful pursuit and execution of the strategy, the role of risk management is to assist in:

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

Risk management is central to the delivery of these objectives. AIB UK Group's risk framework is based on the risk framework of the Parent Group. Figure 3 on Page 20 sets out the central components of AIB UK Group's integrated approach and risk management framework.

2.1 Risk management framework

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

- formulate AIB UK Group's risk appetite and ensure that the risk profile and business and financial plans are consistent with it;
- promote a strong risk culture throughout the organisation;
- 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.

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

2.2 Risk strategy and appetite

The Board is responsible for setting the business strategy. The risk strategy ensures the delivery of the business strategy within the Bank's agreed risk appetite, by ensuring Regulatory compliance, by improving the quality of credit analysis and efficiency of decision making, by reducing the risk of operational incidents and ensuring that the first line of defence has the correct risk data upon which to make informed and customer centric business decisions. Risk appetite is defined as the maximum amount of risk that AIB UK Group is willing to accept or tolerate to deliver on its strategic and business objectives. AIB UK Group's Risk Appetite Statement has been approved by the Board, is aligned to the Parent Group's risk appetite, and specifies key principles and metrics. Appetite is defined across all of AIB UK Group's material risks and is expressed both qualitatively and quantitatively in the form of limits, and watch triggers, which are embedded throughout the business.

2.3 Risk and governance

2.3.1 Risk management organisation – committees with risk management responsibilities

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

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

Specifically, the Board:

- sets the risk appetite, incorporating risk limits;
- approves UK specific risk frameworks, key UK policies and principles;
- approves stress testing and capital plans under AIB UK Group's internal capital adequacy assessment process 'ICAAP';
- approves the approach to liquidity and funding under the AIB UK Group's internal liquidity adequacy assessment process (ILAAP); and
- approves other high level risk limits as required by credit, capital, liquidity and market policies.

The UK Board Risk Committee (BRC) has responsibility for:

- providing oversight and advice to the Board in relation to current and potential future risks facing AIB UK Group and risk strategy in that regard, including AIB UK Group's risk appetite, culture, risk management framework, and tolerance;
- the effectiveness of AIB UK Group's risk management infrastructure, principles and policy; and
- considering and acting upon the implications of reviews of risk management undertaken by risk function, Group Internal Audit and/or external third parties to ensure they are consistent with the strategy, regulatory requirements, corporate governance principles and industry best practice and cognisant of the Parent Group framework.

Board is further supported by the following executive committees:

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

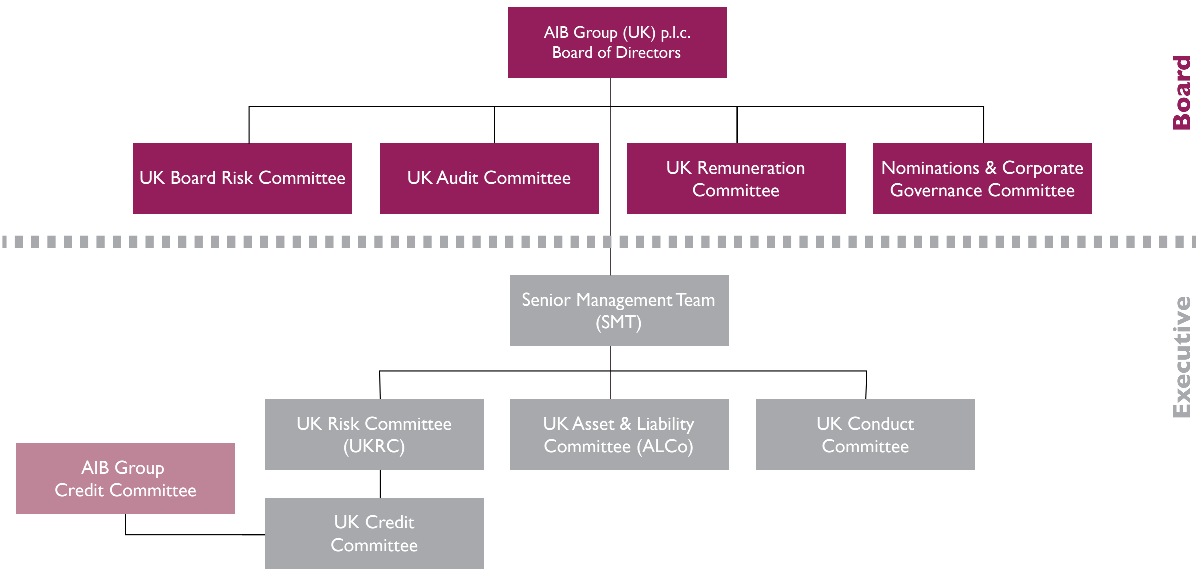
UK Risk Committee (UKRC) is responsible for governance of all risks and operates on behalf of, and derives powers from, the SMT. Chaired by the Managing Director, membership includes members of the SMT. The committee is tasked with ensuring that the risks within AIB UK Group are clearly understood, reported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

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

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

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

Figure 1 – AIB UK Group Risk Committee Structure

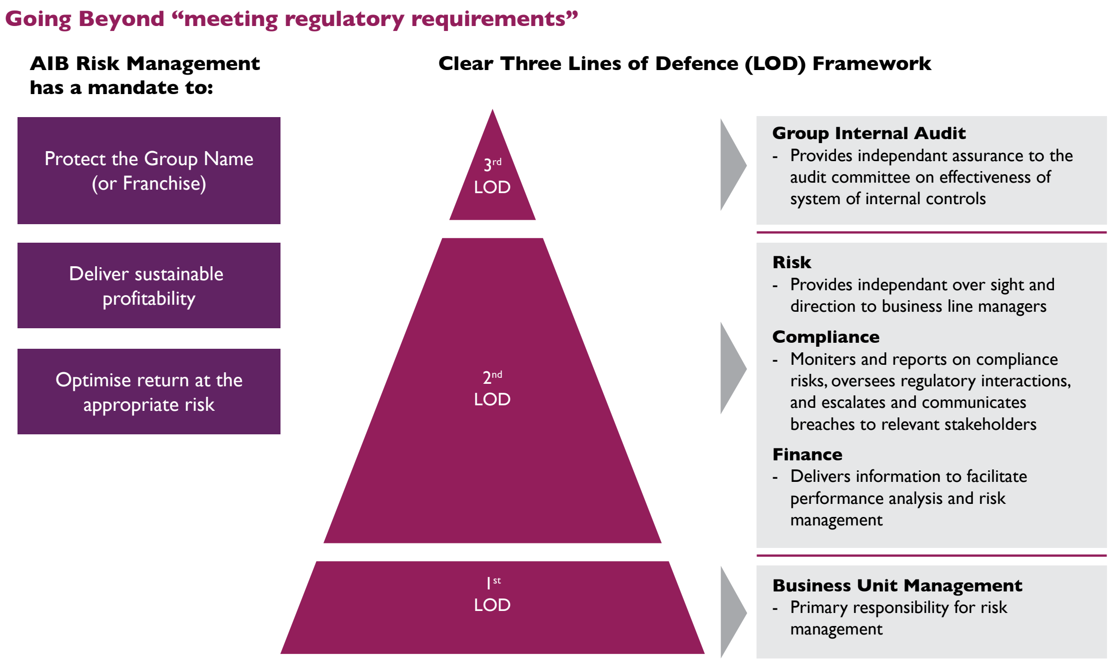


2.3.2 Three lines of defence

In line with the Parent Group policy, AIB UK Group operates a "three lines of defence" approach to risk management activities. The objective is to ensure that business decisions strike an appropriate balance between risk and reward, consistent with the Risk Appetite Statement.

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

Figure 2 – Multiple lines of defence ensures strong management culture



Responsibilities under the three lines of defence are as follows:

All Business and Support Units (First Line)

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

Risk, Compliance and Finance Functions (Second Line)

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

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

Group Internal Audit (Third Line)

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

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

2.4 Risk identification and assessment process

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

Bottom-Up Assessment

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

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

Product Approval Process

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

Top-Down Assessment

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

Material Risk Assessment

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

Figure 3 – Top down risk identification and assessment processes

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

Internal Capital Adequacy Assessment (ICAAP)

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

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

The Internal Liquidity Adequacy Assessment Process (ILAAP)

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

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

Stress Testing & Scenario Analysis

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

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

Recovery Planning

The AIB UK Group Recovery Plan is an integral part of the overall business, financial and risk management frameworks. It builds on existing processes, contingency plans and management actions identified in these Frameworks including the Risk Appetite Framework, the ICAAP and ILAAP and Liquidity Contingency Plan (LCP), the Integrated Financial Planning Framework, and the Stress Testing Framework.

The Recovery Plan for AIB UK Group, which is incorporated within the overall AIB Group Recovery Plan from 2016, is an integral part of the overall business, financial and risk management frameworks. The AIB UK Group specific sections of the AIB Group Recovery Plan are used by management to identify, assess and action material options AIB UK Group should consider undertaking in an extreme stress where the viability of AIB UK Group is in doubt. The AIB Group Recovery Plan is updated on an annual basis and includes recovery actions that focus on the preservation or generation of liquidity and capital to maintain the viability of AIB UK Group.

2.5 Risk reporting

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

At a consolidated level, a monthly Chief Risk Officer's (CRO) Report is presented to the UKRC and quarterly to BRC which sets out the risk profile of AIB UK Group and seeks to identify emerging threats and mitigating actions. A shorter consolidated version is provided monthly to the AIB UK Group Board. This report provides an integrated view of risk and provides clear information on risk profile issues, control weaknesses, performance against appetite and how well this is embedded into the operating model.

Other key risk reports presented by the CRO include the annual MRA, which is also included within the AIB UK Group ICAAP Report.

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

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

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

3. Principal risks

3.1 Credit risk

Principal risks

AIB UK Group is a provider of credit facilities to personal, commercial, and corporate customers. Any adverse changes in the economic and market environment and events impacting individuals other types of risk may lead to changes in the credit quality and/or behaviour of the customers or third parties that would reduce the value of the assets and may give rise to a loss for AIB UK Group thereby impacting profitability.

Mitigating actions

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

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

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

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

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

3.1.1 Definition of credit risk

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

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

Credit risk management objectives are to:

- establish and maintain a control framework to ensure credit risk taking is based on sound credit management principles;
- control and plan credit risk taking in line with external stakeholder expectations;
- identify, assess and measure credit risk clearly and accurately across the AIB UK and within each separate business, from the level of individual facilities up to the total portfolio; and
- monitor credit risk and adherence to agreed controls.

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

These credit related commitments are subject to the same credit assessment and management as loans and receivables.

Organisation and structure of credit risk

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

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

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

3.1.2 Measurement of credit risk

One of the objectives of credit risk management is to quantify accurately the level of credit risk to which AIB UK Group is exposed. The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital.

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

Credit grading and scoring systems 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 the management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans. In AIB UK Group, criticised loans include 'watch', 'vulnerable' and 'impaired' loans. AIB UK Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

The credit classifications are defined as follows:

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

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review to ensure the front line team is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies. The portfolio of good, watch, vulnerable and impaired assets is as follows:

2016

Neither Past Due Nor Impaired	Mortgages £m	Other Personal £m	Property & Construction £m	Non Property Business £m	Total £m
Good Upper	70	-	-	3	73
Good Lower	1,101	170	1,227	2,998	5,496
Watch	84	8	107	175	374
Vulnerable	87	7	89	90	273
Total Neither Past Due Nor Impaired	**1,342**	**185**	**1,423**	**3,266**	**6,216**

2015

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

2016

Past Due Not Impaired	Mortgages £m	Other Personal £m	Property & Construction £m	Non Property Business £m	Total £m
Good Upper	-	-	-	-	-
Good Lower	5	2	19	9	35
Watch	2	1	4	5	12
Vulnerable	21	2	23	14	60
Total Past Due Not Impaired	**28**	**5**	**46**	**28**	**107**

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

Impaired	Mortgages	Other Personal	Property & Construction	Non Property Business	2016 Total
	£m	£m	£m	£m	£m
Impaired	167	27	111	70	375
Total Impaired	**167**	**27**	**111**	**70**	**375**

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

Total Gross Loans and Receivables	Mortgages	Other Personal	Property & Construction	Non Property Business	2016 Total
	£m	£m	£m	£m	£m
Good Upper	70	-	-	3	73
Good Lower	1,106	172	1,246	3,007	5,531
Watch	86	9	111	180	386
Vulnerable	108	9	112	104	333
Impaired	167	27	111	70	375
Total Gross Loans and Receivables	**1,537**	**217**	**1,580**	**3,364**	**6,698**

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

Risk identification and assessment

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

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

Credit risk principles and policy

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

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

*Credit concentration risk**

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to AIB UK Group's capital, total assets, earnings or overall risk level to threaten AIB UK Group's ability to maintain its core operations. This is managed by AIB UK Group, through the Large Exposures Policy, and is included in the material risk assessment process within ICAAP and monitored within the Risk Appetite Limits Report.

*Credit risk on derivatives**

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

3.1.3 Exposure to and mitigation of credit risk

Credit risk exposure

*Maximum exposure to credit risk**

The table below identifies AIB UK Group's maximum exposure to credit risk, ignoring any collateral that may be held. The credit risks arising from balances at central banks and items in the course of collection are deemed to be negligible based on their maturity and counterparty status.

	2016	2015
	£m	£m
Statement of financial position items		
Balances at central banks (1)	3,428	2,621
Items in course of collection	65	63
Derivative financial instruments	155	92
Loans and receivables to banks	2,661	2,830
Loans and receivables to customers	6,471	6,472
Financial investments available for sale	38	54
Prepayments and accrued income	6	6
Other assets	32	225
Maximum exposure to credit risk	**12,856**	**12,363**
Total off balance sheet items	**1,862**	**1,947**

(1) Included within Cash and balances at central banks (does not include cash on hand). Cash at Central Banks is £3,428m.

Credit risk mitigants

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

Collateral*

Credit risk mitigation includes the requirement to obtain collateral as set out in AIB UK Group's policies and procedures. AIB UK Group maintains guidelines on the acceptability of specific classes of collateral.

The principal collateral types for loans and receivables are:

- charges over business assets such as premises, inventory and accounts receivables;
- mortgages over residential and commercial real estate; and
- charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and receivables is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

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

Credit risk monitoring*

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

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

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

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

3.1.4 Loan loss provisioning

Provisioning for impairment*

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

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

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

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

AIB UK Group has established an IFRS9 Programme to meet the new accounting standard introduced by the IASB. The UK Programme works closely with the Group IFRS9 Programme to implement the agreed design of a solution that will address the accounting requirements for financial instruments and has three main themes: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. It will replace the earlier IFRS for financial instruments, IAS39, when it becomes effective at the start of 2018.

3.1.5 Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary or permanent nature.

AIB UK Group offers support by way of Forbearance arrangements to customers in financial difficulty in both the Commercial and Retail Mortgage portfolios. Forbearance support is provided with due care 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 UK has established a Programme to deliver the changes required to meet the IFRS9 requirements that come into effect at the start of 2018. It is working closely with the Group IFRS9 Programme to ensure that a consistent approach is achieved across the Group as a whole in the treatment of forborne cases.

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 2016.

	2016		2015	
		Total loans in forbearance		Total loans in forbearance
	Number	Balance	Number	Balance
Commercial Forbearance		£m		£m
Interest only	25	18	20	15
Reduced payment	10	16	5	1
Payment moratorium	-	-	1	-
Arrears capitalisation	6	3	3	1
Term extension	45	39	60	50
Other	75	13	27	11
Total	**161**	**89**	**116**	**78**

Mortgage Forbearance strategies

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 reviews the customer's personal circumstances using its Affordability Model and submits any proposal for forbearance to its FSG Retail team.

To be acceptable, any forbearance proposals need to demonstrate reasonably that the mortgage will be sustainable over its full life. Consideration is given when forbearance is requested as to whether the level of risk merits provisioning for impairment.

Forbearance options may include:

- a period/further period of interest only payments;
- a moratorium of capital and interest mortgage payments in exceptional circumstances and where clear resumption of full repayment/clearance is evident within an acceptable timescale;
- an agreed contracted repayment amount for a defined period;
- a term extension;
- capitalisation of arrears being the last forbearance option and where the customer has met the requirements to allow this approach to be put in place;
- a sustained or defined period of normal capital and interest repayments.

AIB UK Group will agree the term for such forbearance proposals on a case by case basis, at the end of which payments should return to full capital and interest repayment. 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 amount less than the contracted capital and interest repayment but equal to or greater than the interest only equivalent monthly payment, this may be considered on a temporary basis; however, normal default procedures will continue 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 FSG Retail team. In exceptional cases only, the period of forbearance may be extended beyond the original agreed forbearance term but such extensions require senior management approval.

Details on the mortgage forbearance exposures are shown below and further information on the portfolio is set out in Note 20:

	2016				2015			
	Total loans in forbearance		**Loans > 90 days in arrears and/ or impaired**		Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Forbearance – Owner Occupier Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	54	4	29	3	33	3	14	1
Reduced payment	49	7	32	5	57	6	18	2
Payment moratorium	11	1	1	-	6	-	-	-
Arrears capitalisation	182	13	85	6	129	8	30	2
Term extension	232	18	58	6	192	16	39	5
Total	**528**	**43**	**205**	**20**	**417**	**33**	**101**	**10**

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

	2016				2015			
	Total loans in forbearance		**Loans > 90 days in arrears and/ or impaired**		Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Forbearance – Owner Occupier Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	4	-	1	-	4	0	-	-
Reduced payment	6	1	2	-	10	1	5	-
Payment moratorium	-	-	-	-	-	-	-	-
Arrears capitalisation	12	1	5	1	10	1	2	-
Term extension	20	2	2	-	20	3	3	1
Total	**42**	**4**	**10**	**1**	**44**	**5**	**10**	**1**

Risk Management

3.2 Business risk

Principal risks

AIB UK Group has a programme of continuous change and improvement which includes changes to its core systems, products and channels to create a more agile, customer facing operation which increases the level of risk during the transformation. For example, a new organisational structure was announced in April 2016 resulting in a number of consequential changes to the management team during the rest of the year as the business transitioned towards the new structure. A 'One UK' transformational programme was developed in 2016 with culture change, and ways of working, a key element of this programme.

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

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

Mitigating actions

AIB UK Group seeks to mitigate these risks through a robust change management and governance function that includes applying tight risk controls, running of pilots and leveraging initiatives used elsewhere in AIB UK Group which had already proven themselves with customers.

3.3 People risk

Principal risks

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

Under the terms of the recapitalisation of the Parent Group by the Irish Government, the Parent Group is required to comply with certain restrictive pay and compensation arrangements. As a result of these restrictions, AIB UK Group, cannot guarantee it will be able to attract, retain and remunerate highly skilled and qualified personnel in a highly competitive market. Failure by the Parent Group and AIB UK Group to staff its day-today operations appropriately including by attracting, developing, motivating and retaining highly skilled and qualified personnel could have an adverse effect on its results, financial condition and prospects.

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

Mitigating actions

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

During 2015 a new performance management initiative was rolled out to senior staff and this was phased in during 2016 to cover all staff across the business.

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

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

3.4 Operational risk

Principal risks

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

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

Mitigating actions

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

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

An overarching Operational Risk Management (ORM) framework is in place, designed to establish an effective and consistent approach across the enterprise which was reviewed and strengthened in 2016. The ORM framework is supported by a comprehensive suite of policies and procedures together with controls to test adherence to them.

AIB UK Group assesses and monitors its dependence on the Parent Group for the outsourcing of its various systems and services on an ongoing basis. The Parent Group continues to invest in enhancing its IT governance and IT infrastructure, and as these outsourcing arrangements mature and evolve, suitable adjustments are made to its Recovery Plan to take account of risks emanating from IT areas. Outsourcing arrangements between AIB UK Group and the Parent Group or 3rd parties are agreed and managed under detailed Service Level Agreements which include formal performance review meetings. The Operational Risk system for the maintenance of risk controls and incidents was replaced in 2016.

3.5 Conduct and culture risk

Principal risks

Conduct Risk is the risk that inappropriate action, or inaction, by AIB UK Group can cause unfair outcomes for its customers, and potential market instability.

Within this category, the key risks for AIB UK Group are primarily linked to customer outcomes; failure to adequately assess and meet customer needs; failure to communicate transparently and simply, and if we do get it wrong, failing to react appropriately. There is also the risk that regulators, primarily the Financial Conduct Authority, do not consider that AIB UK Group is appropriately meeting market and regulatory standards in its interactions with customers.

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

Mitigating actions

In line with its strategic objectives AIB UK Group aims to mitigate its exposure to conduct risk through consistently meeting the financial needs of its customers and delivering a sustainable future for these customers and the bank. Equally, embedding a customer focused culture which encourages and promotes the translation of Brand values into actual behaviours and actions mitigates conduct and culture risk.

AIB UK Group maintains a Conduct Governance Framework designed to support its vision and strategic aim to put the customer at the heart of everything it does. The UK Conduct Committee, chaired by the AIB UK Group MD, provides the appropriate level of oversight and assurance that customer impacts and conduct risks are assessed when making strategic decisions.

The AIB UK Group Conduct Risk management strategy is to adopt sound practices in the identification, evaluation, mitigation, monitoring and reporting of Conduct Risks to ensure they are managed in accordance with the UK and the Parent Group's Risk Appetite.

This includes embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct, the promotion of good conduct throughout the organisation, and the operation of a control environment for the measurement and management of Conduct Risk, in accordance with the relevant limits and other requirements set out in the Risk Appetite Statement.

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

Consistently delivering fair customer outcomes is a priority for AIB UK Group. In 2016, a UK Customer Care Strategy has been embedded with tangible benefits for the customer including reduction in time taken to resolve complaints and more analysis to determine the root cause.

In 2016 AIB UK Group commenced a prioritised programme of work to consider how the Bank can produce better outcomes for identified customers in vulnerable circumstances. This work programme includes working with partners in the not for profit sector and is expected to run throughout 2017 and into 2018.

AIB UK Group Product Policy requires products or services to be designed to meet the customers' requirements throughout their lifecycle and whatever delivery channel or market they are offered through.

A new product or change to an existing product must be tested and approved via a dedicated governance process prior to launch. Similarly, existing products are reviewed and evaluated through a risk based approach.

AIB UK Group seeks to promote a strong risk culture throughout the organisation which encourages the prompt identification and escalation of issues and fosters an environment of continuous improvement and 'learning from mistakes'. Risk training is an important part of fostering a sound risk culture.

A risk academy is in place which provides access to recommended training and education for risk professionals as well as supporting the ongoing development of risk skills across the organisation. AIB UK Group has participated in a range of Group initiatives aimed at enhancing risk culture, including: the incorporation of a Group Risk Culture Charter into the Group Code of Conduct; the adoption of a new performance management process called 'Aspire' which specifically includes the principles underpinning the Risk Culture Charter as a performance monitoring tool; and widening UK and Group RAS to include risk culture metrics. A Group Diversity Inclusion Board provides further support greater diversity and inclusivity and so encourages different perspectives.

3.6 Compliance risk

Principal risks

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

The complexity and intensity of regulatory oversight in the banking system continues to remain very high. The sanctions for failing to comply can significantly outweigh the costs of implementation. The Senior Managers Regime (SMR), which strengthens accountability in banking was implemented in March 2016. Some additional aspects of SMR will be come into force in March 2017. There remains a significant upstream regulatory agenda including PSD 2 and 4th EU AML Directive, that will require transfer into 'business as usual' and embedding into the core business model. Implementing this agenda generates increased demands on resource (people and IT).

Mitigating actions

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

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

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

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

3.7 Capital adequacy risk

Principal risks

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

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

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

Mitigating actions

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

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

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

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

3.8 Liquidity and funding risk

Principal risks

AIB UK Group's liquidity position is largely supported by a well spread and stable customer deposit base. However, this could be impacted by a sudden and significant withdrawal of customer balances. In an extreme stress, the wholesale markets can become less liquid which might impact the Parent Group's ability to improve AIB UK Group's liquidity position. Funding is the means by which liquidity is generated. All banks are now required to meet liquidity ratio targets.

Mitigating actions

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

Whilst the Parent Group, being historically a net lender to AIB UK Group, is considered to mitigate the risk under normal situations, the heavy reliance on the Parent Group is recognised as a potential weakness in periods of extreme financial stress. In keeping with other UK banks, arrangements have been made with the Bank of England in respect of certain assets to have access to the Discount Window Facility to provide an additional option to mitigate this potential weakness.

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

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

AIB UK Group maintains a Recovery Plan, integrated within the overall AIB Group Recovery Plan, in which includes recovery options that could be adopted to restore the viability of AIB UK Group in the event of severe stress. A Resolution Strategy for AIB Group is being developed by the SRB, in conjunction with CBI and BoE, to manage a situation where all or part of AIB Group is unable to continue to trade normally.

3.9 Market risk

Principal risks

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

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

Mitigating actions

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

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

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

The results of the IRRBB calculations are presented to AIB UK Group's ALCo and included in its capital adequacy assessment. AIB UK Group transfers all material interest rate risk to the Parent. This transferred banking book interest rate risk is managed as part of the Parent Group's overall interest rate risk position. AIB UK Group manages structural interest rate risk volatility by maintaining a portfolio of instruments with interest rates fixed for several years.

Governance & Oversight

Directors and other information as at 31 December 2016

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

Report of the Directors

The Directors of AIB Group (UK) p.l.c. present the annual report and the audited financial statements of the Company and its subsidiaries for the year to 31 December 2016. Section 414A of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Accounts. The Company has chosen, in accordance with Section 414C(ii) of the Companies Act to include certain matters in its Strategic Report that would otherwise be required to be disclosed in this Report of the Directors. An indication of likely future developments is given in this Strategic Report on pages 4 to 13. Key performance indicators are also given in the Business Review on pages 1 to 3 and the Financial Statements on pages 47 to 131.

Results

AIB UK Group's after taxation profit for the year ended 31 December 2016 attributable to the equity holders of the Parent amounted to £66m (2015: loss of £79m) and was arrived at as shown in the consolidated income statement on page 51. An analysis of performance is detailed in the Strategic Report on pages 4 to 13.

Dividends

The Directors did not pay a dividend during the years ended 31 December 2016 or 31 December 2015.

Directors

The composition of the Board, and the names of the Directors as at 31 December 2016, is set out on page 37.

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

- David Pritchard resigned as Chairman and from the Board on 29 February 2016;
- Peter Spratt was appointed Chairman on 1 March 2016;
- Tiana Peck resigned as Company Secretary on 17 June 2016;
- David O'Callaghan was appointed Company Secretary on 17 June 2016;
- Gerard O'Keeffe resigned as Executive Director on 17 June 2016;
- Stephen Kingon resigned as Non-Executive Director on 31 October 2016; and
- Hugh O'Donnell resigned as Executive Director on 14 December 2016.

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

Corporate governance statement

In preparing the financial statements, the Directors have regard to both the UK Corporate Governance Code effective for listed companies from 1 October 2014 and the amended provisions under the revised UK Corporate Governance Code published by the UK Financial Reporting Council in April 2016. AIB UK Group is not obliged to comply with the provisions of the Code, however the Directors have adopted the Code, in so far as it is appropriate for a company of this size and nature, in order to observe the high standards of Corporate Governance expected from regulated firms within the UK Financial Services industry.

The UK Corporate Governance Code requires Boards to consider the processes they have in place for preparing the annual financial report to ensure that these result in a fair, balanced and understandable presentation of the business. In compliance with the Code, the Directors consider the 2016 annual financial report to be fair, balanced and understandable, and provide the necessary information to enable shareholders to assess AIB UK Group's performance, business model and strategy.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2016 on pages 51 to 56 and have concluded that it is appropriate to prepare the financial statements on a going concern basis. The reason for this conclusion are set out in the Going Concern note 2.2 on page 59.

Governance & Oversight

Viability statement

The Directors have assessed the viability of AIB UK Group, taking into account its current position and the principal risks facing AIB UK Group over the next three years to 31 December 2019. The Directors concluded that three years was an appropriate period for the annual assessment given that this is the key period of focus within AIB UK Group's strategic planning process. The strategic plan is considered annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing AIB UK Group, including the uncertainty of the impact of the UK decision to leave the EU.

The assessment considered the current financial performance, funding & liquidity management and capital management of AIB UK Group, as set out in the Strategic Report on pages 11 to 12, and the governance and oversight through which AIB UK Group manages and seeks where possible to mitigate risk as described on pages 36 to 46. A robust assessment of the principal risks facing AIB UK Group, including those that would threaten the business operations, governance and internal control systems was also undertaken and considered, the details of which are include on pages 14 to 35.

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

Internal controls

Board Governance and Controls

The Board of Directors is responsible for AIB UK Group's system of internal control and for reviewing its effectiveness. A sound system of internal control contributes to safeguarding AIB UK Group's assets.

However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and provides only reasonable and not absolute assurance against material mis-statement or loss.

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

- a clearly defined management structure, with appropriate apportionment of responsibility, authority and accountability;
- annual planning, budgeting, business review and financial reporting, with clearly defined control policies and procedures for all areas of the business, including those related to operational and credit risks;
- regular independent review and reporting to the Senior Management Team (SMT) and to the Audit and Risk Committees on various aspects of control, through the Risk Management, Finance, Internal Audit and Compliance functions;
- the implementation of a self-assessment risk identification process across all business units and a hierarchical sign-off process to certify compliance with internal control procedures; and
- adherence to laws and regulations, including regulations and guidelines set out by the regulatory authorities, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

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

Code of Conduct

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

The Code of Conduct is supported by AIB UK Group's "Speak Up" policy and our adoption of the new arrangements with regard to whistleblowing, introduced by the Senior Managers Regime (SMR), each of which encourage employees to raise any concerns of wrongdoing through a number of channels, both internal and external, including a confidential external help-line. Employees are assured that if they raise a concern in good faith, AIB UK Group will not tolerate any victimisation or unfair treatment of the employee as a result.

Supervision and regulation

Supervision

AIB UK Group 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). It carries on business under the trading names 'Allied Irish Bank (GB)' and 'Allied Irish Bank (GB) Savings Direct' in Great Britain and 'First Trust Bank' in Northern Ireland. The FSMA is the principal legislation governing the establishment, supervision and regulation of financial services and markets in the United Kingdom.

The PRA is responsible for prudential regulation, including rules relating to capital adequacy, limits on large exposures and liquidity. The FCA is responsible for conduct of business regulation, market conduct (including market abuse), consumer credit, financial crime and enhancing competition. AIB UK Group has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name 'First Trust Bank'). In this connection, it is subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Currency and Bank Notes Act 1928, the Allied Irish Banks Act 1981, the Allied Irish Banks Act 1993 and the Allied Irish Banks Act 1996.

AIB UK Group subscribes to the Lending Code of the Lending Standards Board, which is a self-regulatory code setting minimum standards of good practice in relation to lending, including loans, credit cards and current account overdrafts. First Trust Financial Services Ltd (a company incorporated in Northern Ireland) is authorised by the FCA to advise on and arrange certain investments, including pensions, life policies, securities and noninvestment insurance contracts.

The level of regulatory risk remained high in 2016 as the regulatory landscape for the banking sector continued to evolve with a strong focus on supporting the stability of the banking system and ensuring appropriate resolution and recovery mechanisms are in place post the global financial crisis.

AIB UK Group is committed to proactively identifying regulatory and compliance obligations and ensuring timely implementation of regulatory change. The level of regulatory change is expected to remain high in 2017.

Legislative Changes

During 2016, AIB UK Group continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focussed on this throughout 2017.

The EU Single Resolution Mechanism (SRM) became fully operational on 1 January 2016, following the implementation and transposition of the Bank Recovery and Resolution Directive (BRRD). The full resolution powers of the Single Resolution Board (SRB) also apply from 1 January 2016 and AIB UK Group has been party to discussions between the Parent and the SRB on the preferred resolution strategy, implementation of which, will be progressed during 2017.

At the request of a Joint Supervisory Team of European Central Bank and the Central Bank of Ireland (JST), the UK Recovery Plan was integrated into overall Parent's Plan for 2016 allowing for greater alignment and coordination although Governance of the UK aspects of the plan still resides with the SMT and Board.

AIB UK Group is subject to most of the significant changes to European Regulation, such as 2nd Payment Services Directive, 2nd Markets in Financial Instruments Directive, 4th Anti-Money Laundering Directive and the General Data Protection Regulations and works closely with the Parent to ensure the requirements are implemented compliantly taking into consideration UK regulatory guidance. The approach to implementation of European Regulation will be reviewed in light of Brexit and any impact which this might have on applicability of such regulation to AIB Group UK.

Strengthening accountability in banking

As a UK registered bank, authorised by the PRA, the

Company is subject to the Senior Managers Regime (SMR) which came into force on 7 March 2016. The SMR replaced the Approved Persons regime and is intended to enable regulators to hold senior managers to account for the quality of their decision making. The Certification Regime, which in practice covers the next layers of management along with those who advise customers on regulated products, will be fully implemented in March 2017. As further regulatory reforms continue to emerge from the regulators, the Company will continue to focus on the management of regulatory change and its compliance obligations.

Culture, Conduct and Competition

The FCA continued to drive its "principles-based" regulation in 2016 with an ongoing focus on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers and orderly transparent markets. There has also been a drive to promote effective competition in the interests of consumers. The Competition and Markets Authority (CMA) has finalised its Retail Banking Market Investigation into the Personal Current Account and SME Banking markets in the UK. The final report, which was issued in August 2016, identified a number of adverse effects on competition and proposed draft remedies to address these. The consultation period on the Order proposing remedies closed on 23 December 2016, with the finalised remedies due to be implemented throughout 2017 and into 2018.

Conduct Risk

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

Corporate governance practices

Board responsibilities

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

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

The Board of AIB UK Group meet on a monthly basis to review the performance of the business and oversee the implementation of its strategy. Additional out-of-course Board meetings or briefings are held on specific issues when required.

Sub-committees of the Board, comprising of Non-Executive Directors, also meet to deal with specific issues as required in the absence of the Executive Directors in accordance with good governance standards. A total of 15 Board meetings were held during 2016 (2015: 14).

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

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

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

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

The Board has established four Committees comprising Non-Executive Directors. The composition of each Committee for the year-ending 31 December 2016 and the number of times they have met during the year are shown below.

Audit Committee

Stephen Kingon Chair (resigned 31 October 2016)
Bruce Robinson Interim Chair (from 1 November 2016)
Margaret Butler
Pauline Egan
Simon Turner
Number of meetings during 2016: 9 (2015: 11)

Audit Committee responsibilities

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

- the quality and integrity of AIB UK Group's accounting policies, financial statements and disclosure practices;
- compliance with relevant laws, regulations, codes of conduct and conduct of business rules;
- the independence and performance of the External Auditor (the Auditor) and the Parent's Internal Audit Function;
- the adequacy and performance of systems of internal control and the management of financial and non-financial risks; and
- ensuring that the annual report and financial statements present a fair, balanced and understandable assessment of AIB UK Group's position and prospects.

These responsibilities are discharged through its meetings and with receipt of reports from the Auditor, the Finance Director, Parent's Internal Audit Function, the Chief Risk Officer, the Head of Compliance and other senior management.

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

During 2016, the Audit Committee met on 9 occasions. The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the discharge of its responsibilities. The Committee:

- reviewed AIB UK Group's annual financial statements prior to approval by the Board, including: AIB UK Group's accounting policies and practices; reports on compliance; effectiveness of internal controls; and the findings, conclusions
- in the context of reviewing the financial statements, the Committee engaged with management in respect of accounting matters, the most significant of which related to loan impairment provisions, deferred taxation, retirement benefit obligations, a review of regulatory mis-selling provisions and going concern

considerations and, with input from the external Auditor, satisfied itself that managements' estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards. A detailed analysis of the significant matters is provided in the critical accounting policies and estimates;

- provided advice to the Board in respect of the annual financial statements, confirming that the Committee is satisfied that the annual report and accounts for the year ended 31 December 2015, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the Auditor;
- satisfied itself through regular reports from the Parent's Internal Audit function, the Finance Director, the Chief Risk Officer, the external Auditor and the Head of Compliance that the system of internal controls over financial reporting was effective;
- received regular updates from the Parent's Internal Audit function, including monthly reports detailing Internal Audit reports issued during the previous month, control issues identified and related remediation actions, and rolling quarterly updates on related progress;
- received rolling updates from the Chief Risk Officer and the Head of Compliance to satisfy itself that AIB UK Group was in compliance with all regulatory and compliance obligations and considered key developments and emerging issues, the operation of the Speak-Up process and key interactions with regulators;
- reviewed and approved the recovery and resolution plan;
- held formal confidential consultations during the year separately with the external Auditor and the Parent's Internal Audit function, in each case with only Non-Executive Directors present;
- the Committee oversees the relationship with the external auditor. During the year, the Committee considered the auditors' terms of engagement, their independence and objectivity and approved the audit plan (including methodology and risk identification processes); and
- the Committee also considered the effectiveness and performance of the auditor and the audit process and concluded that it was satisfied with the auditor's performance.

Risk Committee

Margaret Butler	Chair
Declan Collier	
David Pritchard	(resigned 29th February 2016)
Peter Spratt	
Simon Turner	

Number of meetings during 2016: 7 (2015: 8)

Risk Committee responsibilities

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

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

The responsibilities of the Committee are discharged through its meetings and receiving, commissioning and considering reports from the Chief Risk Officer, the Head of Credit, the Finance Director, the Parent's Internal Audit function and other members of management.

The following regularly attend the Committee's meetings by invitation: the Auditor, the Managing Director, the Finance Director, the Chief Risk Officer and the Parent's

Internal Audit function. Other senior executives also attend by invitation where appropriate.

During 2016 the Committee met on 7 occasions. The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

- quarterly reports from the Chief Risk Officer which provided an overview of 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 Group ICAAP reports and related stress test scenarios;
- the efficacy of management oversight and control, including:
  (a) Anti-Money Laundering/Financial Sanctions policies and frameworks;
  (b) significant operational risk events and potential risks;
  (c) credit risk performance and trends, including days past due and monthly overview of significant credit transactions;
  (d) the operating model for material outsourcing; and
  (e) regulatory developments.
- AIB UK Group's Risk Management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities.

The Committee is also responsible for making recommendations in relation to the Chief Risk Officer, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Chief Risk Officer's independence. The Committee meets individually on an annual basis with the Chief Risk Officer.

Remuneration Committee

Declan Collier (Chair)
Pauline Egan
Thomas Foley
Stephen Kingon (resigned 31 October 2016)
Simon Turner

Number of meetings during 2016: 5 (2015: 5)

Within the Parent's remuneration policy and guidelines, the AIB UK Group Remuneration Committee has responsibility for:

- recommending AIB UK Group remuneration policies and practices to the Board;
- the remuneration of the Chairman of the Board (this matter is considered in his absence);
- determining the remuneration of the Managing Director, other Executive Directors, and the other members of the SMT, under advice to the Board;
- reviewing the remuneration components of Identified Staff, who are individuals classified by the Company as 'material risk takers' in accordance with the Remuneration Guidelines of:

  - European Banking Authority (EBA); and

  - performance-related and share-based incentive schemes, when appropriate.

No Director is involved in deciding their own remuneration. The Committee met on 5 occasions in 2016.

During 2016, the Remuneration Committee, in conjunction with the Parent's Remuneration Committee, have considered and challenged the over-arching principles and parameters of UK relevant remuneration matters. The Committee have also actively been involved in overseeing the wider people and culture agenda for AIB UK Group. The Committee considered and approved the remuneration arrangements of the Chairman, the Executive Directors and other Senior Executives. Notable activities for the year included exercising oversight of people risk considerations and reviewing reports relating to employee engagement. Advisers to the Remuneration Committee during 2016 were Willis Towers Watson. Willis Towers Watson was appointed by the Parent during 2015 following a market review. The Committee is satisfied that the advice provided by Willis Towers Watson to the Committee is independent.

Nomination & Corporate Governance Committee

Peter Spratt Chair (from 1 March 2016)
David Pritchard Chair (resigned 29th February 2016)
Margaret Butler
Declan Collier (from 1 March 2016)
Bruce Robinson

*Number of meetings during 2016: 10 (2015: 24)**

** This included a number of interviews*

The Nomination & Corporate Governance Committee is responsible for:

- reviewing the size, structure and composition of the Board, including its numerical strength, the ratio of Executive to Non-Executive Directors, the balance of skills, knowledge and experience of individual members of the Board and of the Board collectively, and the diversity and service profiles of the Directors, and making recommendations to the Board with regard to any changes considered appropriate;
- identifying persons who, having regard to the criteria laid down by the Board, appear suitable for appointment to the Board, evaluating the suitability of such persons and making recommendations to the Board; Staff Engagement
- reviewing the size, structure, composition, diversity and skills of the Committees and the independence of Non-Executive Directors;
- reviewing Board and Senior Executive succession planning;
- monitoring the AIB UK Group's corporate social responsibilities and activities concerning customers, staff, the marketplace, the environment and the community;
- reviewing and assessing the adequacy of the AIB UK Group's corporate governance policies and practices.

The Committee met on 10 occasions during 2016.

During 2016, the Committee undertook a large volume of activity. In addition to its key responsibility of ensuring that AIB UK Group has an effective Board and Committees in place, the Committee commenced the search for two new Non-Executive Directors (both of whom are awaiting approval by the PRA), an interim and a permanent Chief Financial Officer. The Committee remains committed to encouraging diversity, whilst ensuring that the dynamics and skills set of the Board continues to meet the expectations of our Stakeholders. In January 2017 the Committee recommended and the Company adopted a Board Diversity Policy and target with regard to gender representation that the percentage of females on the Board remains at or exceeds 25 per cent. The Committee has also fulfilled its duty to ensure that the Board's governance arrangements are robust and that appropriate recommendations have been made to the Board to ensure that such arrangements are consistent with best practice corporate governance standards.

Staff Engagement

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

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

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

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

Directors' indemnities

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

Auditors

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

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

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

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

By Order of the Board

B O'Connor

Director

28 February 2017

Financial Statements

Directors' responsibility statement

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

The Directors are responsible for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing both the group and parent company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Each of the Directors confirm, to the best of their knowledge and belief, that:

- they have complied with the above requirements in preparing the financial statements;
- the AIB UK Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the AIB UK Group's affairs as at 31 December 2016 and of its profit for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2016;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of AIB UK Group, together with a description of the principal risks and uncertainties faced by AIB UK Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess AIB UK Group's performance, business model and strategy.

By Order of the Board

B O'Connor
Director
28 February 2017

Financial Statements

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIB GROUP (UK) PLC

We have audited the financial statements of AIB Group (UK) plc for the year ended 31 December 2016 which comprise the Group Income Statement, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 45. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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. Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Mark Rhys FCA
(Senior statutory auditor)
28 February 2017

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

Consolidated Income Statement
for the year ended 31 December 2016

	Notes	2016 £m	2015 Restated* £m
Interest and similar income	4	275	289
Interest expense and similar charges	5	(70)	(81)
Net interest income		**205**	208
Fee and commission income	6	51	50
Fee and commission expense	6	(6)	(5)
Net trading and other financial income	7	8	15
Other operating income/(expense)	8	27	(14)
Other income		**80**	46
Total operating income		**285**	254
Administrative expenses	9	(116)	(141)
Depreciation of property, plant and equipment	25	(1)	(1)
Total operating expenses		**(117)**	(142)
Operating profit before provisions		**168**	112
Provision for liabilities and commitments	32	2	6
Provision for impairment of loans and receivables	19	(1)	3
Total provisions		**1**	9
Operating profit		**169**	121
Profit on disposal of business assets	10	**1**	-
Profit before taxation from continuing activities		**170**	121
Taxation on ordinary activities	13	(104)	(200)
Profit/(Loss) for the year		66	(79)
Attributable to:		66	(79)
Equity holders of the parent			

* 2015 comparatives have been restated – see note 11.
All results are derived from continuing operations.
The notes on pages 57 to 131 form an integral part of these financial statements.

Statements of Comprehensive Income
for the year ended 31 December 2016

	Notes	AIB UK Group 2016 £m	AIB UK Group 2015 £m	AIB UK 2016 £m	AIB UK 2015 £m
Profit/(Loss) for the year		**66**	(79)	**65**	(81)
Other comprehensive income, net of tax					
Items that will not be reclassified to profit or loss:					
Net actuarial gain/(loss) in retirement benefit schemes, net of tax	34	**7**	(12)	**7**	(12)
Total items that will not be reclassified to profit or loss		**7**	(12)	**7**	(12)
Items that may be reclassified subsequently to profit or loss:					
Net change in cash flow hedges, net of tax	34	**25**	(5)	**25**	(5)
Net change in fair value of available for sale securities, net of tax	34	**(9)**	16	**(10)**	16
Total items that may be reclassified subsequently to profit or loss		**16**	11	**15**	11
Other comprehensive income for the year, net of tax		**23**	**(1)**	**22**	**(1)**
Total comprehensive income for the year		**89**	(80)	**87**	(82)
Attributable to:					
Equity holders of the parent		**89**	(80)	**87**	(82)

* 2015 comparatives have been restated – see note 11.

The notes on pages 57 to 131 form an integral part of these financial statements.

Financial Statements

Statements of Financial Position
for the year ended 31 December 2016

		AIB UK Group		AIB UK	
		2016	2015	**2016**	2015
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks		3,458	2,647	3,458	2,647
Items in course of collection		65	63	65	63
Derivative financial instruments	16	155	92	153	91
Loans and receivables to banks	17	2,661	2,830	2,646	2,811
Loans and receivables to customers	18	6,471	6,472	6,469	6,472
Financial investments available for sale	22	38	54	38	54
Prepayments and accrued income		6	6	6	6
Other assets	23	32	225	32	224
Retirement benefit assets	11	445	424	445	424
Property, plant and equipment	25	15	14	13	12
Shares in group undertakings	24	-	-	-	1
Intangible assets	26	11	3	11	3
Deferred taxation	27	17	87	17	87
Total assets		**13,374**	**12,917**	**13,353**	**12,895**
Liabilities					
Derivative financial instruments	16	141	110	141	110
Deposits by banks	28	2,255	2,281	2,246	2,272
Customer accounts	29	8,726	8,327	8,795	8,434
Debt securities in issue	30	59	99	-	-
Accruals and deferred income		15	24	14	24
Other liabilities	31	391	383	391	381
Provision for liabilities and commitments	32	33	42	23	33
Current taxation	13	12	3	12	2
Deferred taxation	27	39	34	39	34
Total liabilities		**11,671**	**11,303**	**11,661**	**11,290**
Shareholders' equity					
Share capital	33	2,384	2,384	2,384	2,384
Reserves		28	12	27	12
Retained earnings		(709)	(782)	(719)	(791)
Total shareholders' equity		**1,703**	**1,614**	**1,692**	**1,605**
Total liabilities and shareholders' equity		**13,374**	**12,917**	**13,353**	**12,895**

The notes on pages 57 to 131 form an integral part of these financial statements.
Approved by the directors on 28 February 2017.

Brendan O'Connor
Director

Company registration number: NI018800

Statements of Cash Flows

for the year ended 31 December 2016

	Notes	AIB UK Group 2016 £m	AIB UK Group 2015 £m	AIB UK 2016 £m	AIB UK 2015 £m
Cash flows from operating activities					
Profit before taxation		170	121	169	117
Adjustments for:					
Provision for impairment of loans and receivables	19	1	(3)	1	(3)
Profit on disposal of financial assets		-	-	(1)	-
(Profit) on disposal of financial investments available for sale		(21)	-	(21)	-
Provision for liabilities and commitments	32	(2)	(6)	(2)	(6)
Depreciation, amortisation and impairment		1	1	1	1
Retirement benefits-defined benefit expense		(17)	(15)	(17)	(15)
Increase/ (decrease) in accruals and deferred income		(9)	7	(10)	7
(Profit)/ loss on disposal/transfer of loans and receivables		1	18	1	18
Net cash inflow from operating activities		**124**	**123**	**121**	**119**
Net decrease in loans and receivables to banks	17	909	739	905	740
Net (increase)/ decrease in loans and receivables to customers	18	(1)	(296)	2	(296)
Net decrease in deposits by banks	28	(15)	(584)	(15)	(585)
Net increase/(decrease) in customer accounts	29	399	32	361	(8)
Net decrease in debt securities in issue	30	(40)	(40)	-	-
Net (decrease)/ increase in derivative financial instruments	16	(2)	(1)	(1)	(1)
Net (decrease in items in course of collection		(2)	(1)	(2)	(1)
Net increase/(decrease) in notes in circulation	31	1	(17)	1	(17)
Net decrease/ (increase) in other assets		172	(29)	171	(28)
Net increase/ (decrease) in other liabilities		27	(7)	28	(3)
Net cash inflow/(outflow)from operating assets and liabilities		**1,448**	**(204)**	**1,450**	**(199)**
Net cash inflow/(outflow) from operating activities before taxation		1,572	(81)	1,571	(80)
Taxation (paid) / received		(19)	(2)	(18)	(3)
Net cash inflow / (outflow) from operating activities		**1,553**	**(83)**	**1,553**	**(83)**
Investing activities (note a)		**9**	**(4)**	**9**	**(4)**
Increase/ (decrease) in cash and cash equivalents		**1,562**	**(87)**	**1,562**	**(87)**
Opening cash and cash equivalents		3,594	3,681	3,594	3,681
Closing cash and cash equivalents	39	**5,156**	**3,594**	**5,156**	**3,594**

* 2015 comparatives have been restated – see note 11.

The notes on pages 57 to 131 form an integral part of these financial statements.

Financial Statements

Statements of Cash Flows
for the year ended 31 December 2016

		AIB UK Group		AIB UK	
		2016	2015	2016	2015
	Notes	£m	£m	£m	£m
(a) Investing activities					
Sales and maturity of financial investments available for sale		19	-	19	-
Additions to property and equipment		(2)	(4)	(2)	(4)
Additions to intangible assets		(8)	-	(8)	-
Cash flows from investing activities		**9**	**(4)**	**9**	**(4)**

Statements of Changes in Equity
for the year ended 31 December 2016

AIB UK Group	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Available for sale reserve £m	Retained earnings £m	Total equity £m
		Attributable to equity holders of the parent					
At 1 January 2016		2,384	3	(5)	14	(782)	1,614
Profit for the year		-	-	-	-	66	66
Other comprehensive income, net of tax	34	-	-	25	(9)	7	23
At 31 December 2016		**2,384**	**3**	**20**	**5**	**(709)**	**1,703**
At 1 January 2015		2,384	3	-	(2)	(691)	1,694
Loss for the year		-	-	-	-	(79)	(79)
Other comprehensive income, net of tax	34	-	-	(5)	16	(12)	(1)
At 31 December 2015*		**2,384**	**3**	**(5)**	**14**	**(782)**	**1,614**

* 2015 comparatives have been restated – see note 11.

AIB UK	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Available for sale reserve £m	Retained earnings £m	Total equity £m
		Attributable to equity holders of the parent					
At 1 January 2016		2,384	2	(5)	15	(791)	1,605
Profit for the year		-	-	-	-	65	65
Other comprehensive income, net of tax	34	-	-	25	(10)	7	22
At 31 December 2016		**2,384**	**2**	**20**	**5**	**(719)**	**1,692**
At 1 January 2015		2,384	2	-	(1)	(698)	1,687
Loss for the year		-	-	-	-	(81)	(81)
Other comprehensive income, net of tax	34	-	-	(5)	16	(12)	(1)
At 31 December 2015*		**2,384**	**2**	**(5)**	**15**	**(791)**	**1,605**

* 2015 comparatives have been restated – see note 11.
The notes on pages 57 to 131 form an integral part of these financial statements.

Financial Statements

Notes to the Financial Statements

1. Reporting entity

AIB UK is domiciled in the United Kingdom and its registered office is 92 Ann Street, Belfast, BT1 3HH. The consolidated financial statements of AIB UK as at and for the year ended 31 December 2016 include AIB UK its subsidiary undertakings, collectively referred to as AIB UK Group. AIB UK Group provides banking and financial services to personal, commercial and corporate customers and has operations throughout the United Kingdom.

The Board of Directors approved these financial statements for issue on 28th February 2017.

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

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IASs) and IFRSs as issued by the International Accounting Standards Board (IASB) and IFRSs as adopted by the EU and applicable for the year ended 31 December 2016. The accounting policies have been consistently applied by the AIB UK Group entities and are consistent with the previous year, unless otherwise described.

2.2 Basis of preparation

Functional and presentation currency

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

Basis of measurement

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

The financial statements comprise the consolidated income statement, the consolidated and parent statements of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, as set out in the Risk Management section of these Financial Statements. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; regulatory mis-selling provisions; retirement benefit obligations; and provisions for liabilities and commitments. In addition, the classification of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these judgements and estimates is set out in note 3, Critical accounting judgements and estimates on pages 78 to 82.

Going Concern

AIB UK Group is dependent on the support, if required, of the Parent for its ability to meet its UK capital requirements and ultimately for its funding requirements. Throughout 2016 AIB UK Group received full support from AIB plc in meeting all its capital and liquidity commitments.

The financial statements for the year ended 31 December 2016 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 2017 to 2019 approved by the Board in December 2016, the Parent's restructuring plan approved by the European Commission in May 2014, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans the Directors have considered the current UK economic environment, and forecasts for growth and employment, as well as the stabilisation of property prices in Northern Ireland. The Directors have also considered the outlook for the Irish and Eurozone economies, and the factors and uncertainties impacting their performance.

The Directors have also considered the principal risks and uncertainties which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 14 to 35.

The Directors believe that the AIB UK Group's capital resources are sufficient to ensure that the company is adequately capitalised both in a base and stress scenario. The Company's regulatory capital resources are outlined on pages 11 to 12.

AIB UK Group's funding and liquidity profile is outlined on page 12. In relation to liquidity and funding, the Directors are also satisfied, based on the Parent's position in the Irish market place, that in all reasonable circumstances the required liquidity and funding from the Central Bank of Ireland (CBI)/ ECB will be available to the Parent during the period of assessment.

Conclusion

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

Adoption of new accounting standards

During the year to 31 December 2015,AIB UK Group adopted amendments to standards and interpretations which had an insignificant impact on these annual financial statements.

2.3 Basis of consolidation

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

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

Subsidiary undertakings

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

AIB UK Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Associated undertakings

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

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

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

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

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

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

2.4 Foreign currency translation

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

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

2.5 Interest income and expense recognition

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

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

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

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

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

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on financial investments available for sale on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges;
- Interest income and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

2.6 Dividend income

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

2.7 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation.

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

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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

2.8 Net trading income

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

2.9 Employee benefits

Retirement benefit obligations

AIB UK Group provides employees with post-retirement benefits mainly in the form of pensions.

AIB UK Group provides a number of retirement benefit schemes including defined benefit and defined contribution. In addition, AIB UK Group contributes, according to local law, 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 scheme 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. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in other comprehensive income. Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, are accounted for as a negative past service cost. These are recognised in the income statement.

The cost of providing defined benefit pension schemes to employees, comprising the service cost and net interest on the net defined benefit liability (asset), calculated by applying the discount rate to the net defined benefit liability (asset), is charged to the income statement within personnel expenses. Remeasurements of the net defined benefit liability (asset), comprising actuarial gains and losses and the return on scheme assets are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability (asset) will not be reclassified to profit or loss in a subsequent period. AIB UK Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when AIB UK Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

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

The cost of AIB UK Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability.

AIB UK Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits

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

The cost of providing subsidised staff loans is charged within personnel expenses.

Termination benefits

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

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

2.10 Operating leases

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

2.11 Income tax, including deferred income tax

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

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

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

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

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

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

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

2.12 Financial assets

AIB UK Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which AIB UK Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Available for sale

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

2.13 Financial liabilities

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

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

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

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

2.14 Leases

Lessor

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

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property and equipment on AIB UK Group's statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives.

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

Lessee

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

2.15 Determination of fair value of financial instruments

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

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

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

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

Quoted prices in active markets

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

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

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks ('contributors') publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. AIB

UK Group's valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

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

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

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

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

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

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

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

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

Transfers between levels of the fair value hierarchy

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

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

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

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

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

2.17 Derivatives and hedge accounting

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

AIB UK Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income. Non-trading derivative transactions comprise transactions held for hedging purposes as part of AIB UK Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

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

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

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

Embedded derivatives

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

Hedging

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

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

When a financial instrument is designated as a hedge, AIB UK Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. AIB

UK Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

AIB UK Group discontinues hedge accounting when:

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

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

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

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

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

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

Fair value hedge accounting

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

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

2.18 Impairment of financial assets

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

Impairment

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

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

Incurred but not reported

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

Collective evaluation for impairment

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

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

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

Impairment loss

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

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

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

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

Collateralised financial assets – repossessions

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

For loans which are impaired, AIB UK Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. AIB UK Group will then offer this repossessed collateral for sale. However, if AIB UK Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if AIB UK Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

Past due loans

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

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

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

Financial investments available for sale

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

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

Loans renegotiated and forbearance

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

Forbearance

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

There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Risk Management section on pages 28 to 30.

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

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

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

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

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to AIB UK Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

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

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

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

2.19 Collateral and netting

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

Collateral

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

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

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

Netting

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

2.20 Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees') and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, AIB UK Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the year-end reporting date. Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

2.21 Property, plant and equipment

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

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

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

[1] Subject to the maximum remaining life of the lease.

AIB UK Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that AIB UK Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, AIB UK Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life. Gains and losses on disposal of property, plant and equipment are included in the income statement. It is AIB UK Group policy not to revalue its property, plant and equipment.

2.22 Intangible assets

Computer software and other intangible assets

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

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

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

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

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

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

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

2.24 Non-current assets held for sale

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

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

2.25 Non-credit risk provisions

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

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

When a decision is made that leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, AIB UK Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

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

Legal claims and other contingencies

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

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

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

2.26 Shareholders' equity

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

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

Share capital

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

Share premium

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

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by AIB UK Group's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors.

Other capital reserves

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

Revaluation reserves

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

Cash flow hedging reserves

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

Capital contributions

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

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

Revenue reserves

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

2.27 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits (excluding regulatory balances with the Bank of England) and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

2.28 Prospective accounting changes

The following new accounting standards and amendments to existing standards approved by the IASB in 2016 or prior years, but not early adopted by AIB UK Group, will impact AIB UK Group's financial reporting in future periods. AIB UK Group is currently considering the impacts of these amendments. The new accounting standards and amendments which are more relevant to AIB UK Group are detailed below.

Amendments to IAS 7, Statement of Cash Flows

Nature of change

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

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

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

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

The amendments are subject to EU endorsement.

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

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

Nature of change

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

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

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

The amendments are subject to EU endorsement.

IASB effective date

Annual periods beginning on or after 1 January 2017.

IFRS 15, Revenue from Contracts with Customers

Nature of change

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

An AIB Group-wide project has been rolled out where the various types of revenue streams have been identified and analysed. However, due to the nature of these revenue streams, no significant change to AIB UK Group's financial statements has been highlighted as a result of the analysis. Accordingly, it is expected that any impact will be minimal, although not yet quantified.

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

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

IASB effective date

Annual periods beginning on or after 1 January 2018.

IFRS 9, Financial Instruments

Nature of change

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

Classification and measurement

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

A financial asset is measured at amortised cost if two criteria are met:

a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and

b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

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Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision.

There is no separation of an embedded derivative where the instrument is a financial asset.

Equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income.

There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss.

Impairment

IFRS 9 requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required.

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

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

Financial liabilities

The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Hedge accounting

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

Assessment of IFRS 9 impacts

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

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

Detailed planning was completed during 2015 and the design phase commenced thereafter. The programme is structured with various work streams responsible for designing and implementing the end state process and reporting model, technical accounting interpretations, building and validating IFRS 9 provision models and assessing data and systems requirements.

Classification and measurement

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

Group. Given that AIB UK Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

Impairment

To date the Programme has focused on designing and documenting accounting policy changes, identifying and remediating data gaps, developing risk modelling options and methodologies for the calculation of the impairment allowance. The Programme's focus is now on building impairment models, validating outputs, testing policy proposals and processes which are being developed, and setting up processes for 'business as usual' under the new standard.

The impairment models will impact on IT, risk management and financial reporting systems. Significant progress has been made in ensuring business readiness for all such systems. Due to the complexity of decisions required around several aspects of the impairment requirements of IFRS 9, and the interdependencies of variables within the models and the dynamic nature of some of those variables, it is considered premature at this stage to quantify the impacts of impairment under IFRS 9 with any degree of accuracy. However, it is expected that this information will be available in the 2017 Annual Financial Report.

Hedge accounting

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

However, it will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

AIB UK Group will apply the various provisions of IFRS 9 with effect from 1 January 2018, however, prior periods will not be restated. Any difference between the previous carrying amount under IAS 39 and the carrying amount at the date of initial application of IFRS 9 on 1 January 2018, will be recognised in opening retained earnings (or other component of equity as appropriate) at 1 January 2018.

A significant suite of reporting requirements are being developed for statutory, regulatory and management reporting in line with the requirements of IFRS 9 and the various regulatory bodies. In so far as possible, definitions of data items within reports are being aligned so as to assist comparability.

Furthermore, briefings to the business and various stakeholders throughout AIB UK Group have taken place and will continue throughout 2017 on the impacts of IFRS 9 and its consequences for AIB UK Group.

IASB effective date

Annual periods beginning on or after 1 January 2018.

IFRS 16, Leases

Nature of change

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

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

These amendments will impact AIB UK Group as it has leased as lessee a number of properties which are currently classified as operating leases.

AIB UK Group is currently assessing the impact of IFRS 16, however, it is not yet practicable to quantify its effects.

This standard is subject to EU endorsement.

IASB effective date

Annual periods beginning on or after 1 January 2019.

3. Critical accounting judgements and estimates

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

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

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2016 on pages 51 to 56.

Loan impairment

AIB UK Group's accounting policy for impairment of financial assets is set out in note 2.18. The provisions for impairment on loans and receivables at 31 December 2016 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

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

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and, where appropriate, loans are transferred to specialist units to help avoid default, or where in default, to help minimise loss.

The credit rating triggers the impairment assessment and if relevant the raising of specific provisions on individual loans where there is doubt about their recoverability.

The management process for the identification of loans requiring provision is underpinned by independent review.

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

Key assumptions underpinning AIB UK Group's estimates of collective and IBNR provisioning are back tested with the benefit of experience and revisited for currency movements on a regular basis. After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, AIB UK Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

Specific provisions

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding from the obligor. The amount of the specific provision made in the financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. Specific provisions are created for cases that are individually significant (i.e. above certain thresholds), and also collectively for assets that are not individually significant.

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

Incurred but not reported provisions

IBNR provisions are also maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in credit management; procedures, processes and policies; levels of credit management skills; local and international economic climates; portfolio sector profiles/industry conditions; and current estimates of loss in the portfolio.

The total amount of impairment loss in AIB UK Group's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to variation based on UK economic conditions.

Forbearance

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

Deferred taxation

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

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

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

- AIB UK Group has achieved pre-tax profits in 2013, 2014, 2015, and 2016 reversing the trend of losses of previous years;
- AIB UK Group has a sustained history of long-term positive earnings prior to pre-tax losses incurred in 2010-2012 and the losses incurred in those years were significantly impacted by the transfer of loans to AIB UK Loan Management Limited and to the Republic of Ireland's National Asset Management Agency (NAMA), which were one-off events that are not expected to recur;
- the Business Plan for AIB UK Group for the period 2017 to 2019, has been updated and approved by the Board in December 2016;
- the benefits of AIB UK Group's restructuring of the business and its associated cost base;
- the de-leveraging and de-risking of the loan portfolios in 2015;
- profit levels beyond the scope of the three year Business Plan have been held constant in future years, which is a conservative assessment as UK GDP is still forecast to grow over the long term, even factoring in a hard Brexit;
- continued substantial financial support from the Parent, and a commitment from the Parent for substantial technology and process investment in AIB UK Group;
- absence of any expiry dates for UK tax losses.

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

- losses incurred in years 2010 to 2012;
- the difficulty of accurately predicting future revenues;
- continued funding and margin pressures, in a challenging market environment;
- divergent treatment of deferred taxation from a statutory accounting and regulatory perspective;
- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset;
- reduced size of AIB UK Group's operations following re-structuring;
- the EU Referendum and uncertainty around the impact 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, AIB UK Group believes that it is more likely than not that it will achieve profits producing a sustainable market-range return on equity in the long-term.

The Directors have determined that recognition of the UK deferred tax asset is restricted to the amount projected to be realised within fifteen years. This is the period within which AIB UK Group believes that it can assess the likelihood of UK profits arising as being more likely than not.

The measurement of the deferred tax asset is dependent on projections of future income and is subject to significant management judgement. If future profits or subsequent forecasts differ from current forecasts an adjustment may be required to the deferred tax asset. This could result in a material impact to the income statement in future years.

Determination of fair value of financial instruments

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

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

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives and contingent capital instruments, the income statement.

Retirement benefit obligations

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

AIB UK Group has historically provided pension benefits for employees, either through a funded defined benefit scheme, the AIB Group (UK) Pension Scheme (the UK Scheme) or through a defined contribution scheme. The UK Scheme was closed to new members from December 1997 and was closed to future accrual for all existing employees from 31 December 2013.

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

In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Company's actuaries which include price inflation, pension increases, earnings growth and the longevity of scheme members.

The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used or when it was deemed an inability to fund discretionary increases to members. The assumptions adopted for AIB UK Group's pension schemes are set out in note 11 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

The risks in relation to the retirement benefit obligations have been mitigated by the asset backed funding arrangement established through the Scottish Limited Partnership as outlined in note 11.

Provisions for liabilities and commitments

AIB UK Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number 2.25 'Non-credit risk provisions'. AIB UK Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the AIB Group UK's liabilities and commitments are shown in note 32 to the financial statements.

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

4. Interest and similar income

	2016 £m	2015 £m
Interest on loans and receivables to banks	48	55
Interest on loans and receivables to customers	220	228
Interest from finance leasing and hire purchase contracts	7	6
Interest and similar income	**275**	**289**

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 £275m (2015: £289m).
Interest income recognised on impaired loans amounts to £5m (2015: £10m).

5. Interest expense and similar charges

	2016 £m	2015 £m
Interest on deposits by banks	35	37
Interest on customer accounts	33	37
Interest on debt securities in issue	2	7
Interest expense and similar charges	**70**	**81**

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 £70m (2015: £81m).

6. Net fee and commission income

	2016 £m	2015 £m
Retail banking customer fees	29	31
Credit related fees	10	7
Credit card commission	4	4
Other fees and commission	8	8
Fee and commission income	**51**	**50**
Fee and commission expense	**(6)**	**(5)**
Net fee and commission income	**45**	**45**

7. Net trading and other financial income

	2016 £m	2015 £m
Foreign exchange contracts	9	9
Interest rate contracts	(1)	4
Equity index contracts and warrants [1]	-	2
Net trading and other financial income	**8**	**15**

[1] In 2015 AIB Joint Venture Limited, a subsidiary of AIB UK, reassessed the value of an equity warrant that it held within an equity investment, which resulted in a recognition of £2m profit.

8. Other operating (expense)/ income

	2016 £m	2015 £m
Dividend income	5	4
Profit on disposal of financial investments available for sale[1]	21	-
Miscellaneous operating income	2	-
Loss on disposal of loans and receivables to customers[2]	(2)	(18)
Gain on transfer of loans and receivables to NAMA[3]	1	-
Other operating income	**27**	**(14)**

[1] A gain of £20m was realised on the disposal of AIB UK's equity interest in Visa Europe in June 2016 and a profit of £1m was made on the disposal of Visa Inc. shares to AIB plc in September 2016 (see note 37).
[2] In December 2015, AIB UK Group sold a portfolio of loans to a third party for a consideration of £212m. The loan portfolio had a net book value of £228m, and after taking into consideration selling and other costs, a loss on disposal of £18m was recorded on the transaction in 2015 and a further loss of £2m in 2016 when the final settlement of consideration was made. See Other assets (note 23), for further detail on the sale.
[3] NAMA finalised certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in a gain of £1m being recorded in 2016.

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9. Administrative expenses

	2016 £m	2015 £m
Wages and salaries	58	61
Social security costs	7	3
Pension costs		
- Defined contribution plans (note 11)	8	10
- Defined benefit plans (note 11)[1]	(17)	(15)
Other personnel expenses	9	14
Personnel expenses	**65**	**73**
Operating lease rentals – property and equipment	3	4
Other administrative expenses	48	64
General and administrative expenses	**51**	**68**
Administrative expenses	**116**	**141**

[1] Amount for 2015 has been restated – see note 11 on page 87

On 21 May 2012, the Parent Group announced the specific terms of a voluntary exit programme which included both an early retirement scheme and a voluntary severance scheme. In 2016 an accrual of £0.2m (2015: £3m) was made in 2016 in respect of termination benefits arising from the voluntary severance programme.

There is a charge included within administrative expenses in 2016 of £2m (2015: £4m) in respect of the Financial Services Compensation Scheme (FSCS) levy. A provision has been made for the potential levy payable for 2017/18 based on AIB UK Group's deposits at 31 December 2016 and is included within the Provision for liabilities and commitments in the income statement (note 32). The average number of employees of AIB UK Group during the year was 1,349 (2015: 1,434) and of AIB UK 1,349 (2015: 1,431).

10. Profit on disposal of business assets

	2016 £m	2015 £m
Profit on disposal of business assets	1	-

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

11. Retirement benefits

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

Defined benefit scheme

The UK Scheme was closed to new members from December 1997 and was closed to future accrual for all existing employees from 31 December 2013.

Retirement benefits for the UK Scheme are calculated by reference to service and pensionable salary at normal retirement date. Benefits payable upon retirement are based on the average pensionable salary over the five years before retirement, subject to a retiree not receiving a pension lower than their current accrued benefit.

The weighted average duration of the UK Scheme at 31 December 2016 is 20 years (2015: 19 years).

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

The Trustees of the UK Scheme are ultimately responsible for the governance of the scheme. Details of the Pension risk that AIB UK Group is exposed to are set out in the Risk Management section on page 34 of this report. In earlier years AIB UK Group accounted for 96% of the overall UK Scheme as that percentage of the UK Scheme members were employees or ex-employees of the company. Since the UK Scheme closed to future accrual, AIB UK Group has accounted for 100% of the UK Scheme.

The UK Scheme has implemented an investment strategy that includes the elimination of equity investments and investing approximately 44% of the assets invested in liability matching investments (2015: 40%). It is expected that this percentage of assets invested in matching assets will increase over time.

In October 2013, the Parent Group executed a series of agreements to give effect to an asset backed funding plan for the UK Scheme which replaced the previous funding plan. This new funding plan is secured against a loan book and allows the future contributions payable to be accounted for as current assets of the UK Scheme. The asset backed funding plan grants the UK Scheme a regular income which will be payable quarterly from 1 January 2016 to 31 December 2032. In addition, if the 31 December 2032 actuarial valuation of the UK Scheme reveals a deficit, then the UK Scheme will receive a termination payment equal to the lower of the deficit or £60m.

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

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of AIB plc has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by the Parent Group as while the pension scheme has a priority right to the cash flows from the partnership, it is expected that the majority of and any variability in these cash flows will be recovered by the Parent Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Parent Group has determined that the SLP should be consolidated into the Parent Group.

AIB UK Group has a junior interest in the SLP to enable payments from the SLP to the UK Scheme to be paid through the Company.

The new asset backed funding arrangement came into effect on 19 December 2013. The future funding period was extended from 8 to 17 years, commencing in 2016 with the implementation of the asset backed funding arrangement.

At 31 December 2016, the UK Scheme recognised an additional £308m (2015:£275m) of assets from UKLM as a result of this SLP arrangement, resulting in a net defined benefit asset of £445m at 31 December 2016 (2015: £424m). This surplus is impacted by the value of the assets in the SLP being included as pension scheme assets. The UK Scheme will benefit from the SLP assets through the receipt of funding payments, which are scheduled to be made quarterly up to 2032. The UK scheme does not own or control the assets but has a junior interest in the SLP for funding payment purposes. Excluding the benefit of the UK Scheme's recognition of the SLP assets, the net defined benefit asset at 31 December 2016 was £137m (2015: £149m).

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.

Following the receipt of the 2014 triennial valuation, which agreed an annual contribution of £19m, the first quarterly instalment of £4.7m, was made in April 2016. At 31 December 2016 contribution of £14m had been received by the UK scheme in the form of a transfer of cash from the SPL to the UK scheme assets.

The SLP assets recognised by the UK Scheme at 31 December 2016 is management's best estimate of the valuation based on the estimated change in valuation of the underlying net UK Scheme assets and liabilities. The estimate is based on the following:

- The actuarial assumptions used to derive the Technical Provisions at 31 December 2016 were based on those set out in the Statement of Funding Principles dated 22 October 2013 but updated for financial conditions at 31 December 2016.
- The Technical Provisions at 31 December 2016 were based on a projection of those determined at the formal valuation at 31 December 2014, based on the above assumptions.
- It was assumed that the discount rate which will be used to value payments to the UK Scheme from the asset backed funding arrangement will be the same as the IAS 19 discount rate applicable at 31 December 2016.

The UK Scheme entered into a longevity swap on 22 December 2016. The fair value of this swap has been determined as being nil at 31 December 2016 (see note 37 for more detail).

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

As at 31 December	**2016**	2015
	%	%
Rate of increase in salaries	-	-
Rate of increase of pensions in payment	3.2%	3.0%
Discount rate	2.7%	3.9%
Inflation assumptions:		
- Retail Price Index (RPI)	3.2%	3.0%
- Consumer Price Index (CPI)	2.2%	2.0%

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

Movement in defined benefit obligation and scheme assets

The following tables set out the movement in the defined benefit obligation and UK Scheme assets during 2016 and 2015.

	2016			2015		
	Defined benefit obligation	Fair value of scheme assets	Net defined benefit liability/ (asset)	Defined benefit obligation	Fair value of scheme assets	Net defined benefit liability/ (asset)
	£m	£m	£m	£m	£m	£m
At 1 January	944	(1,368)	(424)	1,022	(1,414)	(392)
Included in profit or loss						
Interest cost/(income)	35	(52)	(17)	37	(52)	(15)
	35	(52)	(17)	37	(52)	(15)
Included in other comprehensive income						
Remeasurements loss/(gain)	-	-	-	-	-	-
Actuarial loss/(gain) arising from:						
- Experience adjustments	(9)	-	(9)	(6)	-	(6)
- Changes in demographic assumptions	9	-	9	(27)	-	(27)
- Changes in financial assumptions	266	-	266	(38)	-	(38)
- Return on scheme assets excluding SLP	-	(234)	(234)	-	40	40
- Transfer of asset from SLP to Scheme assets	-	(14)	(14)	-	-	-
- Return on SLP assets	-	(22)	(22)	-	(14)	(14)
	266	(270)	(4)	(71)	54	(17)
Other						
Benefits paid	(104)	104	-	(44)	44	-
At 31 December	1,141	(1,586)	(445)	944	(1,368)	(424)

The 2015 comparative figures for the fair value of plan assets above reflect the reclassification of an amount of interest income on the SLP plan assets (income of £10m) and related deferred tax (charge of £2m) from Other comprehensive income to the Income Statement. This restatement has been reflected in the Consolidated income statement, the Statements of other comprehensive income, the Statements of cash flows and the Statements of changes in equity as well as in notes 9, 13 and 34.

Mortality assumptions

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

The life expectancies underlying the value of the scheme liabilities for the UK Scheme at 31 December 2016 and 2015 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	2016	2015	2016	2015
Male	25.7	25.6	26.8	26.7
Female	27.9	27.8	29.1	29.0

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

As at 31 December	2016 £m	2015 £m
Discount rate		
a. Discount rate -25 basis points	1,202	990
Assumption	2.45%	3.65%
b. Discount rate +25 basis points	1,085	902
Assumption	2.95%	4.15%
Weighted average duration of defined benefit obligation (years)	20	19
Inflation rate		
a. Inflation rate -25 basis points	1,088	929
RPI inflation assumption	2.95%	2.75%
b. Inflation rate +25 basis points	1,198	960
RPI inflation assumption	3.45%	3.25%
Mortality assumption	SN2A ("light" for males) year of birth tables weighted by 102% (males) and 88% (females), and rated down by one year for both males and females with CMI 2014 future improvements with a 1.5% per annum long term rate of improvement	SN2A ("light" for males) year of birth tables weighted by 102% (males) and 88% (females), and rated down by one year for both males and females with CMI 2014 future improvements with a 1.5% per annum long term rate of improvement

The mortality tables were updated as a result of the mortality analysis carried out as part of the Trustee's triennial actuarial valuation as at 31 December 2014. An updated future mortality projection model was adopted at the same time.

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

	2016		2015	
	Value £m	Plan assets %	Value £m	Plan assets %
Bonds	585	37	547	40
Other	3	-	3	-
Liability Driven Investments	690	44	543	40
SLP	308	19	275	20
Fair value of plan assets	**1,586**	**100**	**1,368**	**100**
Actuarial value of liability	(1,141)		(944)	
Surplus in scheme	**445**		**424**	
Related deferred tax liability (note 27)	(111)		(110)	
Net pension asset	**334**		**314**	

Deferred taxation is provided on the defined pension scheme surplus at the rate of 25% (2015:26%) being the expected corporation tax rate of 17% plus the UK bank surcharge of 8%.

The Liability Driven Investments (LDIs) and SLP assets do not have a quoted price in an active market. There are no transferable financial instruments or property assets used by AIB UK Group included in the pension scheme assets.

History of defined benefit pension plan	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Plan assets	1,586	1,368	1,414	1,090	870	829
Defined benefit obligation	(1,141)	(944)	(1,022)	(852)	(893)	(776)
Surplus/(deficit) in defined benefit pension plan	**445**	**424**	**392**	**238**	**(23)**	**53**

Defined contribution scheme

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

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

With the closure of the UK defined benefit scheme to future accrual from 31 December 2013, all eligible employees became members of the UK defined contribution scheme. As a result, the total cost in respect of defined contribution schemes for 2016 was £8m (2015: £10m).

12. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2016 and 2015, 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.

	2016 £000	2015 £000
Audit of subsidiaries[(1)]	260	250
Other assurance services (including regulatory compliance work)	70	82
Audit of pension schemes associated with AIB UK Group	51	47
Other non-audit services [(2)]	123	961
Auditor's remuneration	**504**	**1,340**

In addition to the above fees, Deloitte LLP receive an audit fee of £30k (2015: £30k) in relation to the audit of Tenterden Funding plc which is paid by that company.

(1) The audit of subsidiaries is included within the statutory audit fee.

(2) In conjunction with the Financial Conduct Authority in the UK, Deloitte LLP were appointed to undertake a Section 166 Review in AIB UK Group in 2012. Since 20 June 2013, the date Deloitte were appointed Parent Group Auditor, £8.5 million has been paid to Deloitte LLP as this review has continued into 2016. Deloitte LLP involvement will conclude in quarter 1 2017.

13. Taxation on ordinary activities

	2016 £m	2015 £m
UK corporation tax on profits for the period	27	7
Adjustments in respect of prior periods	1	1
Current tax	**28**	**8**
Origination and reversal of temporary differences[1]	7	18
Changes in tax rates	9	17
Adjustments in respect of previous periods	-	(1)
Deferred tax on losses not recognised		
- Current period	(17)	(4)
Reduction in carrying value of deferred tax asset in respect of losses	77	162
Deferred tax	**76**	**192**
Total tax expense	**104**	**200**

The tax charge for the period is higher than the 2016 standard average rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £m	2015 £m
Corporation tax charge at standard average rate[1]	34	25
Effects of:		
Expenses not deductible for tax purposes	-	1
Exempted income, income at reduced rates and tax credits	(1)	(1)
Income taxed at bank surcharge rate	10	-
Deferred tax assets not recognised/reversal of amounts previously not recognised	(25)	(4)
Other differences	(1)	-
Change in tax rates	9	17
Impact of change in tax legislation on deferred tax asset	77	162
Adjustments to tax charge in respect of previous years	1	-
Total tax expense	**104**	**200**

[1] Amount for 2015 has been restated – see note 11 on page 87

At 31 December 2016 the current tax balance of AIB UK Group was a liability of £12m (2015: £3m liability).

14. Dividends on equity shares

No dividends were paid during 2016 or 2015.

15. Transfer of financial assets

Securitisation of residential mortgages

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

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

	2016 £m	2015 £m
Loans and receivables to customers		
Carrying amount of assets currently recognised	177	216
Carrying amount of associated liabilities currently recognised	59	99

Continuing involvement in derecognised financial assets

Transfers to AIB UK Group

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

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

Transfers to AIB UKLM

In 2010 and 2011, AIB UK transferred certain impaired and vulnerable loans to AIB UKLM, a subsidiary of AIB plc. These loans were derecognised by AIB UK Group however AIB UK Group retains servicing rights in respect of the transferred financial assets which represents continuing involvement with those assets. Under the servicing arrangements AIB UK Group collects the cash flows on the transferred assets on behalf of AIB 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

As outlined in note 23, Other assets, AIB UK Group sold a portfolio of loans to a third party on 14 December 2015. The loans were derecognised from the balance sheet at that date, however, AIB UK Group continued to service the loans on behalf of the purchaser until transition was complete. The majority of the loans transferred in April 2016, with the remaining loans transferred in June 2016. AIB UK Group received an immaterial fee for servicing the loans while they were in transition, in line with TSA agreement.

16. Derivative financial instruments

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

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

Trading derivatives

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

Other derivatives classified as held for trading include derivatives that are entered into for risk management purposes but do not meet the criteria for hedge accounting under IAS 39.

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

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

The net movement in derivatives designated as cash flow hedges recognised directly in equity through the statement of comprehensive income during 2016 is set out in note 34.

The following table shows the notional amounts of derivative financial instruments, for AIB UK and AIB UK Group, analysed by product and purpose at 31 December 2016 and 2015.

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

AIB UK Group	2016 Notional principal amount £m	2016 Fair values Assets £m	2016 Fair values Liabilities £m	2015 Notional principal amount £m	2015 Fair values Assets £m	2015 Fair values Liabilities £m
Derivatives held for trading:						
Foreign exchange derivatives total	303	10	(10)	202	3	(2)
Interest rate swaps	1,162	107	(126)	1,087	83	(99)
Interest rate options	171	-	-	195	1	(1)
Interest rate contracts total	1,333	107	(126)	1,282	84	(100)
Equity index options	-	-	-	8	-	-
Equity warrants	2	2	-	2	2	-
Equity index contracts total	2	2	-	10	2	-
Total trading contracts	1,638	119	(136)	1,494	89	(102)
Derivatives held for hedging:						
Interest rate swaps	2,929	36	(5)	2,508	3	(8)
Derivatives designated as cash flow hedges total	2,929	36	(5)	2,508	3	(8)
Total derivative financial instruments	4,567	155	(141)	4,002	92	(141)

AIB UK	2016 Notional principal amount £m	2016 Fair values Assets £m	2016 Fair values Liabilities £m	2015 Notional principal amount £m	2015 Fair values Assets £m	2015 Fair values Liabilities £m
Derivatives held for trading:						
Foreign exchange derivatives total	303	10	(10)	202	3	(2)
Interest rate swaps	1,162	107	(126)	1,087	84	(99)
Interest rate options	171	-	-	195	1	(1)
Interest rate contracts total	1,333	107	(126)	1,282	85	(100)
Equity index options	-	-	-	8	-	-
Total trading contracts	1,636	117	(136)	1,492	88	(102)
Derivatives held for hedging:						
Interest rate swaps	2,929	36	(5)	2,508	3	(8)
Derivatives designated as cash flow hedges total	2,929	36	(5)	2,508	3	(8)
Total derivative financial instruments	4,565	153	(141)	4,000	91	(110)

Equity index contracts

AIB UK Group previously offered secure saver products to its customers. This product contained an option which was linked to the performance of an index. The remaining secure saver products, and the related options, matured in 2016 and no options were held at 31 December 2016. The following table shows the nominal amount of the options held by customers as part of the secure saver product at 31 December 2015.

AIB UK Group & AIB UK	2015 £m
Maturity	
1 year or less	4
Equity index contracts*	4

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

Cash flow hedges

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

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

AIB UK Group & AIB UK	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
2015					
Forecast receivable cash flows	10	12	34	28	84
Forecast payable cash flows	1	1	2	-	4

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

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

AIB UK Group & AIB UK	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
2015					
Forecast receivable cash flows	10	12	34	28	84
Forecast payable cash flows	1	1	2	-	4

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is nil (2015: nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a charge of £25m (2015: charge of £5m).

17. Loans and receivables to banks

	AIB UK Group		AIB UK	
	2016	2015	2016	2015
	£m	£m	£m	£m
Funds placed with the Bank of England	485	482	485	482
Funds placed with other banks	2,176	2,348	2,161	2,329
Loans and receivables to banks	**2,661**	**2,830**	**2,646**	**2,811**
Amounts include:				
Due from parent and fellow subsidiaries	2,127	2,251	2,127	2,251
External rating:				
AA+	-	482	-	482
AA/AA-	498	66	485	53
A-/A/A+	36	31	34	25
BB+	2,127	2,251	2,127	2,251
Loans and receivables to banks	**2,661**	**2,830**	**2,646**	**2,811**

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 2016 (2015: nil) in respect of government securities. No collateral (2015: nil) was repledged to the Bank of England as collateral for BACS membership.

18. Loans and receivables to customers

	AIB UK Group		AIB UK	
	2016	2015	2016	2015
	£m	£m	£m	£m
Loans and receivables to customers	6,516	6,604	6,514	6,605
Amounts receivable under finance leases and hire purchase contracts (note 21)	182	149	182	148
	6,698	**6,753**	**6,696**	**6,753**
Provisions for impairment (note 19)	(227)	(281)	(227)	(281)
Loans and receivables to customers	**6,471**	**6,472**	**6,469**	**6,472**
Amounts include:				
Due from parent and fellow subsidiaries	2	94	4	97

In May 2012, AIB UK securitised certain areas of its residential mortgage portfolio and the mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. The transaction did not meet the derecognition criteria of IAS 39, as AIB UK still retains the risk and rewards of ownership, therefore the mortgages are included in the loans and receivables to customers for both AIB UK Group and AIB UK as detailed above (refer to note 15 for further information on the securitisation of residential mortgages).

In December 2015, AIB UK Group sold a portfolio of loans to a third party for a consideration of £212m. The loan portfolio had a net book value of £228m, and after taking into consideration selling and other costs, a loss on disposal of £18m was recorded on the transaction. The sale agreement was signed on 14th December 2015, and the loans derecognised from the balance sheet of AIB UK Group at that date. See Other assets (note 23) for further detail on the sale.

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

19. Provision for impairment of loans and receivables

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

	2016				2015			
	Corporate/ commercial	Residential mortgages	Other	Total	Corporate/ commercial	Residential mortgages	Other	Total
AIB UK Group & AIB UK	£m	£m	£m	£m	£m	£m	£m	£m
Provision at 1 January	159	94	28	281	267	136	27	430
Exchange translation adjustments	1	-	-	1	-	-	-	
Disposals	-	-	-	-	(19)	(34)	-	(53)
Charge	4	(1)	(2)	1	4	(8)	1	(3)
Amounts written off	(37)	(17)	(2)	(56)	(93)	-	-	(93)
Provision at 31 December	**127**	**76**	**24**	**227**	**159**	**94**	**28**	**281**

Total provisions are split between specific and IBNR as follows:

	2016				2015			
	Corporate/ commercial	Residential mortgages	Other	Total	Corporate/ commercial	Residential mortgages	Other	Total
AIB UK Group & AIB UK	£m	£m	£m	£m	£m	£m	£m	£m
Specific	97	69	21	187	131	85	24	240
IBNR	30	7	3	40	28	9	4	41
Provision at 31 December	**127**	**76**	**24**	**227**	**159**	**94**	**28**	**281**

Loan impairment charge

	2016	2015
AIB UK Group & AIB UK	£m	£m
Specific release	(2)	(2)
IBNR release	(2)	(2)
Recoveries	-	(1)
Bad debts written off not already provided	5	2
Total loan impairment charge/ (release)	**1**	**(3)**

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

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20. Additional credit risk disclosures

Credit profile of total loans and receivables

Aged analysis of contractually past due but not impaired facilities

The table below sets out the aged analysis of contractually past due but not impaired loans and receivables to customers at 31 December 2016 and 31 December 2015.

	2016					2015				
	1-30 days £m	31-60 days £m	61-90 days £m	91+ days £m	Total £m	1-30 days £m	31-60 days £m	61-90 days £m	91+ days £m	Total £m
Agriculture	1	-	-	1	2	2	-	-	-	2
Manufacturing	1	1	-	-	2	17	-	-	-	17
Construction and property	26	6	10	4	46	20	11	2	11	44
Distribution	3	3	-	1	7	9	1	1	1	12
Financial	1	1	-	-	2	1	-	-	1	2
Other services	7	6	-	2	15	4	2	-	4	10
Personal										
- Residential mortgages	10	8	3	7	28	18	10	9	15	52
- Other personal	3	-	1	1	5	3	2	1	1	7
	52	25	14	16	107	74	26	13	33	146
As a percentage of total loans [(1)]	0.8%	0.4%	0.2%	0.2%	1.6%	1.1%	0.4%	0.2%	0.5%	2.2%

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

Customer loan rating profile

	2016				2015			
UK Group Masterscale grade	Corporate/ commercial £m	Residential mortgages £m	Other £m	Total £m	Corporate/ commercial £m	Residential mortgages £m	Other £m	Total £m
1 to 3	3	70	-	73	105	69	-	174
4 to 10	4,225	1,101	170	5,496	3,722	1,165	180	5,067
11 to 13	461	171	15	647	590	261	25	876
	4,689	1,342	185	6,216	4,417	1,495	205	6,117
Past due but not impaired	74	28	5	107	88	52	6	146
Impaired	181	167	27	375	269	187	34	490
	4,944	1,537	217	6,698	4,774	1,734	245	6,753

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

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

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

Credit profile of residential mortgages

Residential mortgages amounted to £1,537m at 31 December 2016 (2015: £1,734m).

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

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

Residential mortgages – total

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

	2016			2015		
	Owner occupier £m	Buy to let £m	Total £m	Owner occupier £m	Buy to let £m	Total £m
Total residential mortgages	1,339	198	1,537	1,504	230	1,734
In arrears[1] (> 30 days past due)	155	29	184	186	35	221
In arrears[1] (> 90 days past due)	146	28	174	169	33	202
Of which are impaired	138	29	167	155	32	187
Statement of financial position specific provisions	53	16	69	67	18	85
Statement of financial position IBNR provisions	6	1	7	8	1	9
Income statement specific provisions	-	1	1	5	1	6
Income statement IBNR provisions	2	-	2	4	1	5
Specific provision/impaired loans cover	38%	55%	41%	43%	56%	45%

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

Residential mortgage loans in forbearance

AIB UK Group has a number of forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments. These are described on page 28 - 30.

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 2016 and 31 December 2015.

	2016				2015			
	Total loans in forbearance		Loans > 90 days in arrears and/or impaired		Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Forbearance – Owner Occupier Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	54	4	29	3	33	3	14	1
Reduced payment	49	7	32	5	57	6	18	2
Payment moratorium	11	1	1	-	6	-	-	-
Arrears capitalisation	182	13	85	6	129	8	30	2
Term extension	232	18	58	6	192	16	39	5
Total	**528**	**43**	**205**	**20**	**417**	**33**	**101**	**10**

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

	2016				2015			
	Total loans in forbearance		Loans > 90 days in arrears and/or impaired		Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Forbearance – Buy to Let Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	4	-	1	-	4	-	-	-
Reduced payment	6	1	2	-	10	1	5	-
Arrears capitalisation	12	1	5	1	10	1	2	-
Term extension	20	2	2	-	20	3	3	1
Total	**42**	**4**	**10**	**1**	**44**	**5**	**10**	**1**

Arrears profile of residential mortgages – past due but not impaired

The following tables provide an arrears profile for the AIB UK Group residential mortgages that were past due but not impaired at 31 December 2016 and 31 December 2015:

	2016			2015		
	Owner occupier £m	Buy to let £m	Total £m	Owner occupier £m	Buy to let £m	Total £m
1 – 30 days	8	2	10	17	2	19
31 – 60 days	7	1	8	9	1	10
61 – 90 days	3	-	3	8	1	9
91 – 180 days	2	-	2	6	1	7
181 – 365 days	2	-	2	3	-	3
Over 365 days	3	-	3	5	-	5
Total past due but not impaired	**25**	**3**	**28**	**48**	**5**	**53**

Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2016 and 31 December 2015 is set out below:

	2016		2015	
	Number of repossessions	Balance outstanding £m	Number of repossessions	Balance outstanding £m
Owner occupier	37	8	46	10
Buy to let	11	1	19	2
Total	**48**	**9**	**65**	**12**

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

Analysis of loan-to-value of residential mortgage lending

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

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

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

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

Loan origination profile of residential mortgages

The following tables profile the residential mortgage book and impaired residential mortgage book at 31 December 2016 and 31 December 2015 by year of origination:

				2016				2015
	Residential mortgage loan book		**Impaired residential mortgage loan book**		Residential mortgage loan book		Impaired residential mortgage loan book	
	Number	**Balance**	**Number**	**Balance**	Number	Balance	Number	Balance
		£m		£m		£m		£m
1996 and before	1,208	24	34	2	1,466	31	35	2
1997	360	6	2	-	403	8	5	-
1998	345	8	13	-	387	9	12	-
1999	665	18	45	1	736	22	34	1
2000	703	19	27	1	793	22	30	1
2001	720	23	65	3	835	28	55	2
2002	1,204	45	70	3	1,319	53	76	3
2003	1,655	79	121	5	1,806	91	136	6
2004	1,881	104	160	8	2,059	121	151	8
2005	2,559	170	267	19	2,789	199	288	23
2006	3,437	295	344	32	3,732	341	401	41
2007	3,053	374	413	65	3,277	418	461	76
2008	1,202	144	108	20	1,307	163	110	17
2009	547	45	26	4	616	52	25	3
2010	273	24	14	4	311	29	11	4
2011	136	10	4	-	159	11	4	-
2012	146	13	1	-	170	15	1	-
2013	283	25	1	-	303	31	1	-
2014	383	49	-	-	402	54	-	-
2015	234	33	1	-	402	54	-	-
2016	207	29	-	-				
Total	**21,201**	**1,537**	**1,716**	**167**	**23,111**	**1,734**	**1,836**	**187**

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

Collateral and other credit enhancements

At 31 December 2016 24% of AIB UK Group's total loan book exposure is to property and construction (2015: 24%).

AIB UK Group takes collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral. In some circumstances, depending on the customers standing and/or the nature of the product, AIB UK Group may lend unsecured.

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

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

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

				2016				2015
Collateral held for	Neither past due nor impaired	Past due, but not impaired	Impaired	Total	Neither past due nor impaired	Past due, but not impaired	Impaired	Total
residential mortgages	£m	£m	£m	£m	£m	£m	£m	£m
Fully collateralised								
Loan-to-value ratio:								
Less than 50%	499	11	20	530	493	18	15	**526**
50% - 70%	313	5	22	340	315	13	18	**346**
71% - 80%	148	3	13	164	164	5	17	**186**
81% - 90%	111	2	9	122	130	5	11	**146**
91% - 100%	79	3	12	94	90	2	14	**106**
	1,150	**24**	**76**	**1,250**	1,192	43	75	**1,310**
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value[(1)]	159	3	39	201	244	6	52	**302**
Gross residential mortgages collateral value	**1,309**	**27**	**115**	**1,451**	**1,436**	**49**	**127**	**1,612**
Statement of financial position								
- Specific provisions	-	-	(69)	(69)	-	-	(85)	**(85)**
- IBNR provisions	-	-	-	(7)	-	-	-	**(9)**
Net residential mortgages collateral value	**1,309**	**27**	**46**	**1,375**	**1,436**	**49**	**42**	**1,518**

[(1)] The amount quoted in 2015 accounts was the Loan Value amount and not the collateral. The table has been updated to reflect the collateral amount.

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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	
	2016	2015	2016	2015
	£m	£m	£m	£m
Gross receivables				
Not later than 1 year	65	51	64	51
Later than 1 year and not later than 5 years	121	101	120	100
Later than 5 years	2	3	2	3
Total gross receivables	**188**	**155**	**186**	**154**
Unearned future finance income	(6)	(6)	(6)	(6)
Total	**182**	**149**	**180**	**148**
Present value of minimum payments by residual maturity				
Not later than 1 year	64	50	63	50
Later than 1 year and not later than 5 years	116	96	115	95
Later than 5 years	2	3	2	3
Present value of minimum payments	**182**	**149**	**180**	**148**
Provision for uncollectible minimum payments receivable (1)	**2**	**2**	**2**	**2**

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

22. Financial investments available for sale

	2016	2015
AIB UK Group & AIB UK	£m	£m
Equity shares		
Equity shares: unlisted	38	54
Financial investments available for sale	**38**	**54**

Included in financial investments available for sale at 31 December 2015 was £21m relating to shares in Visa Europe, held at fair value. These shares were disposed of in 2016. See note 38 for more details.

Financial investments available for sale (equity securities)

	2016	2015
AIB UK Group & AIB UK	£m	£m
At 1 January	54	31
Exchange translation adjustments	5	(2)
Profit on disposal of financial investments available for sale	(21)	-
Movement in unrealised gains/ (losses)	-	25
At 31 December	**38**	**54**

23. Other assets

	AIB UK Group		AIB UK	
	2016	2015	2016	2015
	£m	£m	£m	£m
Items in transit	17	21	18	20
Acceptances	-	3	-	3
Sale of loans awaiting settlement (1)	-	184	-	184
Other debtors	15	17	14	17
Other assets	**32**	**225**	**32**	**224**

(1) In December 2015, AIB UK Group sold a portfolio of loans to a third party for a consideration of £212m. The loan portfolio had a net book value of £228m, and after taking into consideration selling and other costs, a loss on disposal of £18m was recorded on the transaction. The sale agreement was signed on 14 December 2015, and the loans derecognised from the balance sheet of AIB UK Group at that date. A deposit of ten per cent of the agreed purchase price was paid on signing, and the remaining amount of £184m was received by AIB UK Group on 29 January 2016. The amount received was net of cash received from customers that was due to be paid over to the third party. A further loss of £2m on disposal of the loans was recognised in 2016 when final settlements were made.

24. Investments in group undertakings

AIB UK	2016 £m	2015 £m
At 1 January	0.8	0.8
Impairment of investment in subsidiary	(0.5)	-
Shares in group undertakings	**0.3**	**0.8**

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

As at 31 December 2016, AIB UK Group held no investments in associated undertakings (2015: nil), accounted for in accordance with IAS 28, Investments in Associates.

First Trust Financial Services Limited ceased providing advice to customers from 31 December 2012 and in 2016 sold its back book to Wren Sterling Financial Planning Limited. First Trust Financial Planning Limited terminated an Appointed Representative arrangement and ceased carrying out any new business in 2015. In 2016 it's back book was also sold to Wren Sterling Financial Planning Limited.

Following an impairment review of the investment in First Trust Financial Planning Limited, the Company impaired £0.5m of this investment in December 2016.

The subsidiary undertakings are:

Name	Year End	Nature of Business
First Trust Financial Services Limited	31 December	Financial services
First Trust Financial Planning Limited	31 December	Financial services
Aberco Limited	31 December	Property investment
AIB Joint Ventures Limited	31 December	Investment
First Trust Leasing No.4 (Northern Ireland) Limited	31 December	Leasing
First Trust Leasing No.5 (Northern Ireland) Limited (1)	31 January	Dormant
First Trust Leasing No.1 (Northern Ireland) Limited (1)	31 March	Dormant
First Trust Leasing No.2 (Northern Ireland) Limited (1)	30 June	Dormant
First Trust Leasing No.3 (Northern Ireland) Limited (1)	30 September	Dormant
First Trust Investment Managers Limited	31 December	Dormant
First Trust Commercial Services Limited	31 December	Dormant

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

Tenterden Funding p.l.c.

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

25. Property, plant and equipment

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

AIB UK Group	Property Freehold £m	Long Leasehold £m	Leasehold under 50 years £m	Assets under Construction £m	Equipment £m	Total £m
						2015
Cost						
At 1 January 2015	20	6	14	1	24	65
Additions	-	1	1	1	1	4
Amounts written off	-	-	(4)	-	(1)	(5)
At 31 December 2015	20	7	11	2	24	64
Depreciation/Impairment						
At 1 January 2015	15	5	13	-	21	54
Depreciation charge for the year	-	-	-	-	1	1
Amounts written off	-	-	(4)	-	(1)	(5)
At 31 December 2015	15	5	9	-	21	50
Carrying value at 31 December	5	2	2	2	3	14

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

AIB UK	Property: Freehold £m	Property: Long Leasehold £m	Property: Leasehold under 50 years £m	Assets under Construction £m	Equipment £m	Total 2015 £m
Cost						
At 1 January 2015	11	5	13	1	24	54
Additions	-	1	1	1	1	4
Amounts written off	-	-	(4)	-	(1)	(5)
At 31 December 2015	11	6	10	2	24	53
Depreciation/Impairment						
At 1 January 2015	7	4	12	-	22	45
Depreciation charge for the year	-	-	-	-	1	1
Amounts written off	-	-	(4)	-	(1)	(5)
At 31 December	7	4	8	-	22	41
Carrying value at 31 December 2015	4	2	2	2	2	12

The net book value of property occupied by AIB UK for its own activities at 31 December 2016 was £10m (2015: £10m).

26. Intangible assets

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

	Software Externally Purchased	Software Internally Generated	Software Under Construction	2015 Total
AIB UK Group & AIB UK	£m	£m	£m	£m
Cost				
At 1 January 2015	1	3	1	5
At 31 December 2015	1	3	1	5
Amortisation/ impairment				
At 1 January	1	1	-	2
At 31 December 2015	1	1	-	2
Carrying value of property	-	2	1	3

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27. Deferred taxation

AIB UK Group & AIB UK	2016 £m	2015 £m
Deferred tax assets		
Unutilised tax losses	95	164
Cashflow Hedges	-	2
Other	2	4
Total gross deferred tax assets	**97**	**170**
Deferred tax liabilities		
Retirement benefits	(111)	(110)
Available for sale securities	(1)	(7)
Cashflow hedges	(7)	-
Total gross deferred tax liability	**(119)**	**(117)**
Net deferred tax asset	**(22)**	**53**

Represented on the Statement of Financial Position as follows:

AIB UK Group & AIB UK	2016 £m	2015 £m
Deferred taxation asset	17	87
Deferred taxation liability	(39)	(34)

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

AIB UK Group & AIB UK	2016 £m	2015 £m
Deferred taxation at 1 January	53	279
Deferred tax through other comprehensive income (note 34)	1	(34)
Income statement (note 13)	(76)	(192)
Deferred taxation at 31 December	**(22)**	**53**

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

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2015: 26%), except for deferred tax on unutilised tax losses which is recognised at the relevant tax rate each year, reducing to 17% from 1 April 2020. The tax rate comprises the future corporation tax rate of 17%, as set out below, plus the UK corporation tax surcharge on banks of 8%.

The Finance (No.2) Act 2015 reduced the rate of UK Corporation Tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Finance Act 2016 further reduced the rate effective from 1 April 2020 from 18% to 17%. Accordingly, as the 17% rate was enacted at the balance sheet date, this rate has been applied in the measurement of AIB UK Group's deferred tax balances as at 31 December 2016.

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

Included in the deferred tax asset is £95m (2015: £164m) relating to unutilised tax losses (see note 3). The deferred tax asset due after more than one year is £91m (2015: £158m).

The recoverability of the deferred tax asset in respect of unutilised tax losses is dependent on the future profitability of AIB UK Group. In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose, as set out in Note 3 on page 80. Having taken into account these factors, AIB UK Group believes that it is more likely than not that it will achieve profits producing a sustainable market-range return on equity in the long-term.

From 1 April 2015, only 50% of a bank's annual taxable profits can be sheltered by unused tax losses arising prior to that date. As a consequence, £162m of AIB UK Group's deferred tax asset was written off in 2015. Effective from 1st April 2016, the Chancellor introduced a further reduction in the amount of annual taxable profits a bank can shelter with unused tax losses arising before 1st April 2015 from 50% to 25%. As a result a further £77m of AIB UK Group's deferred tax asset was written off in 2016. In addition, the UK corporation tax rate will reduce from 18% to 17% from 1 April 2020. Both these legislative changes were enacted during the year by Finance Act 2016.

The Directors have determined that recognition of the UK deferred tax asset is restricted to the amount projected to be realised within fifteen years. This is the period within which AIB UK Group believes that it can assess the likelihood of UK profits arising as being more likely than not. As a result of these considerations, £413m of deferred tax assets have not been recognised in the 2016 accounts (2015: £380m). The increase of £33m of unrecognised deferred tax assets is driven by UK legislative changes further restricting the utilisation of carried forward tax losses, and the reduction in UK corporation tax rates as noted above, offset to some extent by an improvement in forecast future profitability for 2017 onwards.

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

28. Deposits by banks

	AIB UK Group		AIB UK	
	2016	2015	**2016**	2015
	£m	£m	£m	£m
Other borrowings from banks	**2,255**	**2,281**	**2,246**	**2,272**
Amounts include:				
Due to parent and fellow subsidiaries	2,251	2,262	2,242	2,253

At 31 December 2016 and 31 December 2015, there were no securities sold under agreements to repurchase.

29. Customer accounts

	AIB UK Group		AIB UK	
	2016	2015	**2016**	2015
	£m	£m	£m	£m
Current accounts	5,239	4,644	5,240	4,644
Demand deposits	1,643	1,567	1,643	1,567
Time deposits	1,844	2,116	1,912	2,223
Customer accounts	**8,726**	**8,327**	**8,795**	**8,434**
Amounts include:				
Due to parent and fellow subsidiaries	44	73	113	180

30. Debt securities in issue

	AIB UK Group		AIB UK	
	2016	2015	2016	2015
	£m	£m	£m	£m
Class A notes	59	99	-	-
Debt securities in issue	59	99	-	-

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

Dated 7.9% fixed rate debentures of £45m were repaid on 31 December 2015. These debentures had been issued to the Parent Group on 30 September 1996 as consideration for the purchase of its UK banking operations.

31. Other liabilities

	AIB UK Group		AIB UK	
	2016	2015	2016	2015
	£m	£m	£m	£m
Notes in circulation	313	312	313	312
Items in transit	45	49	45	49
Acceptances	-	3	-	3
VAT payable	1	1	1	-
Other creditors	32	18	32	17
Other liabilities	391	383	391	381

32. Provisions for liabilities and commitments

AIB UK Group	Termination benefits £m	Customer redress £m	Empty properties £m	Litigation £m	Other £m	Total £m
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2016	-	27	8	4	3	42
Amounts charged to income statement*	-	4	4	1	-	9
Amounts released to income statement*	-	(8)	(1)	(1)	(1)	(11)
Provisions utilised	-	(4)	(3)	-	-	(7)
At 31 December 2016	-	19	8	4	2	33
At 1 January 2015	1	39	24	4	8	76
Amounts charged to income statement*	-	3	-	-	-	3
Amounts released to income statement*	-	(2)	(3)	-	(4)	(9)
Provisions utilised	(1)	(13)	(13)	-	(1)	(28)
At 31 December 2015	-	27	8	4	3	42

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AIB UK	Termination benefits £m	Customer redress £m	Empty properties £m	Litigation £m	Other £m	Total £m
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2016	-	18	8	4	3	33
Amounts charged to income statement*	-	3	4	1	-	8
Amounts released to income statement*	-	(8)	(1)	(1)	(1)	(11)
Provisions utilised	-	(4)	(3)	-	-	(7)
At 31 December 2016	-	9	8	4	2	23
At 1 January 2015	1	26	24	4	8	63
Amounts charged to income statement*	-	3	-	-	-	3
Amounts released to income statement*	-	(2)	(3)	-	(4)	(9)
Provisions utilised	(1)	(9)	(13)	-	(1)	(24)
At 31 December 2015	-	18	8	4	3	33

*Charge/release is included within provisions for liabilities in the Income Statement for 2015 and 2016.

Notes

(a) Provision is made for Voluntary Severance where the terms of severance have been agreed with an employee, and the employee has signed a compromise agreement to that effect. Due to there being no uncertainty around the amount or timing of the obligation, any such items are now treated as accruals and have been included as such for 2015 and 2016.

(b) Provision is recognised for any obligation arising to refund customers for fees or charges, incurred in previous periods, where it is probable that a refund will be made and the amount can be reliably estimated. Included within customer redress is a provision at 31 December 2016 of £2m (2015: £11m) in relation to potential interest rate hedging mis-selling, a provision of £5m (2015: £4m) for the cost of PPI redress, and a provision of £12m (2015: £12m) in respect of mis-selling investments products and other customer redress issues.

Interest Rate Hedging Provision (IRHP)

A provision of £40m was originally raised at 31 December 2012 for the amount of potential redress to customers arising from the IRHP review instigated by the FCA. A further provision of £40m was raised in 2013 and £5m in 2015 as a result of the FCA issuing further guidance to banks in relation to this matter. During 2014 and 2015 £71m was paid out in respect of claims agreed and settled and a further £2m was paid out in 2016. £7m of the provision was released in 2016, mainly relating to provision held for potential consequential loss claims and legal claims, and a provision of £2m (2015: £11m) was held at 31 December 2016.

PPI provision

AIB UK Group holds a provision for PPI redress claims and associated costs. During 2015 and 2016 substantial effort continued to close out proactive customer complaints. An additional provision of £2m (2015: £2m) was raised in 2016 to cover expected claims arising out of the introduction of time barring and the result of a Court ruling meaning that some PPI claims previously closed could now be eligible for redress. The provision held as at 31 December 2016 is £5m (2015: £4m).

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 2016. £1m has been paid out during the year in respect of mis-selling claims and legal costs. A review has been carried out to assess the adequacy of the provision to cover claims already made and any further potential claims and the provision was increased by £1m at 31 December 2016 as a result.

(c) A provision for empty property was raised in 2014 following an assessment of branch and head office requirements in AIB (GB). A number of premises occupied by AIB UK Group were deemed surplus to requirements and under IAS 37 'Provisions and Contingencies' a provision was required for the costs associated with these premises. The provision represented the net obligations of AIB UK Group for the rent and other occupancy costs of the premises until the next break clause in the lease, net of any contribution to the cost of the leases from sub-tenants. A number of these properties were vacated and leases exited during 2015 and 2016. The provision was increased by £4m in 2016 following a further assessment of AIB UK Group's building requirements.

(d) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2016. Management believes that this amount represents the most appropriate estimate of the financial impact of these cases. This provision is reviewed by management regularly and updated for changes to estimates and judgements.

(e) Other provisions represent various other provisions, which, in the opinion of the directors, arise as a result of past events, and are likely to materialise in the immediate future. Included within other provisions at 31 December 2016 is an amount £2m (2015: £2m) in respect of the FSCS levy for scheme year 2017/18. An amount of £1m, held at 31 December 2015 for the potential settlement of staff benefits-in-kind was released in 2016.

33. Share capital

AIB UK Group & AIB UK	2016 £m	2015 £m
Authorised, issued and fully paid ordinary shares of £1 each	2,384	2,384

No ordinary shares were issued in 2016 or 2015.

34. Analysis of movements in reserves in other comprehensive income

AIB UK Group	2016 Gross £m	2016 Tax £m	2016 Net £m	2015 Gross £m	2015 Tax £m	2015 Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	(10)	3	(7)	1	(1)	-
Change in fair value recognised in equity	43	(11)	32	(7)	2	(5)
Total	**33**	**(8)**	**25**	**(6)**	**1**	**(5)**
Available for sale financial assets						
Amount removed from equity and transferred to income statement	(21)	4	(17)	(1)	-	(1)
Change in fair value recognised in equity	6	2	8	22	(5)	17
Total	**(15)**	**6**	**(9)**	**21**	**(5)**	**16**
Retained earnings						
Actuarial (loss)/ gain in retirement benefit schemes (note 11)[(1)]	4	3	7	18	(30)	(12)
Total	**4**	**3**	**7**	**18**	**(30)**	**(12)**
Other comprehensive income	**22**	**1**	**23**	**33**	**(34)**	**(1)**

AIB UK	2016 Gross £m	2016 Tax £m	2016 Net £m	2015 Gross £m	2015 Tax £m	2015 Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	(10)	3	(7)	1	(1)	-
Change in fair value recognised in equity	43	(11)	32	(7)	2	(5)
Total	**33**	**(8)**	**25**	**(6)**	**1**	(5)
Available for sale financial assets						
Amount removed from equity and transferred to income statement	(21)	4	(17)	(1)	-	(1)
Change in fair value recognised in equity	5	2	7	22	(5)	17
Total	**(16)**	**6**	**(10)**	**21**	**(5)**	16
Retained earnings						
Actuarial gain in retirement benefit schemes (note 11)[(1)]	4	3	7	18	(30)	(12)
Total	**4**	**3**	**7**	**18**	**(30)**	(12)
Other comprehensive income	**21**	**1**	**22**	**33**	**(34)**	**(1)**

[(1)] Amount for 2015 has been restated – see note 11 on page 87

35. Share-based compensation

The share-based compensation schemes which AIB UK Group operates in respect of ordinary shares in AIB plc is the Employee Share Ownership Plan (UK).

The share price of AIB plc ordinary shares is quoted in Euro, and at 31 December 2016 was €0.05 (£0.07).

Employee Share Ownership Plan (UK)

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

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

36. Contingent liabilities and commitments

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

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

	2016	2015
	Contract amount	Contract amount
AIB UK Group & AIB UK	£m	£m
Contingent liabilities		
Guarantees and irrevocable letters of credit	295	583
Other contingent liabilities	60	63
	355	646
Commitments		
Documentary credits and short-term trade related transactions	6	2
Undrawn credit facilities		
- One year and over	724	560
- Less than one year	777	739
	1,507	1,301
Contingent liabilities and commitments	1,862	1,947

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 accounting policy number 2.15.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the AIB UK Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the AIB UK Group as a going concern at 31 December 2016.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. AIB UK Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable.

The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

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

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

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

The methods used for calculation of fair value in the year to 31 December 2016 are as follows:

Financial instruments measured at fair value in the financial statements

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

Derivative financial instruments
Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a 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 22nd December 2016. The fair value of this swap at 31 December 2016 has been maintained at the transaction date valuation of nil, as there was no evidence of a change to life expectancy or death experience between the time of entering into the swap and 31 December 2016.

Financial investments available for sale
The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Included in financial investments available for sale at 31 December 2015 was £21m relating to shares in Visa Europe, held at fair value. Visa Inc. acquired Visa Europe on 21 June 2016 and AIB UK received cash (£14m), deferred cash and preferred shares in Visa Inc. in exchange for its holding of Visa Europe shares.

In September 2016 AIB UK sold its holding of 12,785 shares in Visa Inc. to AIB plc for £6m, resulting in a profit of £1m for AIB UK. AIB plc also purchased AIB UK's interest in the deferred consideration for £1m.

The unrealised fair value gain on the Visa Europe shares of £20m at 31 December 2015 was realised upon disposal of the shares and recognised in the Income statement in 2016, together with the profit on disposal of the Visa Inc. shares of £1m (see note 8).

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

Loans and receivables to banks
The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and receivables to customers
AIB UK Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. An adjustment is made for credit risk which at 31 December 2016 took account of AIB UK Group's expectations on credit losses over the life of the loans.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

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

Other financial assets and other financial liabilities
This caption includes accrued interest receivable and payable and the carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments
Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by AIB UK Group are included in note 36. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The tables on the following pages set out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2016 and 31 December 2015:

										2016
	Carrying amount in statement of financial position						Fair value hierarchy			
	At FV through P&L	At FV through equity		At amortised cost						
	Held for trading	Cash flow hedge derivatives	Available for sale securities	Loans and receivables	Other	Total	Level 1	Level 2	Level 3	Total
AIB UK Group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets measured at fair value										
Derivative financial instruments	119	36	-	-	-	155	-	40	115	155
Financial investments available for sale										
- Equity shares	-	-	38	-	-	38	-	-	38	38
Financial assets not measured at fair value										
Cash and balances at central banks	-	-	-	3,458	-	3,458	30	3,428	-	3,458
Items in the course of collection	-	-	-	65	-	65	-	-	65	65
Loans and receivables to banks	-	-	-	2,661	-	2,661	-	-	2,661	2,661
Loans and receivables to customers	-	-	-	6,471	-	6,471	-	-	6,342	6,342
Other assets	-	-	-	-	32	32	-	-	32	32
Retirement benefits	-	-	-	-	308	308	-	-	308	308
Total assets	119	36	38	12,655	340	13,188	30	3,468	9,561	13,059
Financial liabilities measured at fair value										
Derivative financial instruments	136	5	-	-	-	141	-	141	-	141
Financial liabilities not measured at fair value										
Deposits by banks	-	-	-	-	2,255	2,255	-	-	2,281	2,281
Customer accounts	-	-	-	-	8,726	8,726	-	-	8,737	8,737
Debt securities in issue	-	-	-	-	59	59	-	59	-	59
Other liabilities	-	-	-	-	391	391	-	-	391	391
Total liabilities	136	5	-	-	11,431	11,572	-	200	11,409	11,609

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

Reconciliation of balances in Level 3 of fair value hierarchy:

AIB UK Group	Derivatives £m	Equity securities £m	Total £m
			Financial assets
At beginning of year	84	54	138
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains or losses in:	-	-	-
- Profit or loss	31	21	52
- Other comprehensive income	-	(16)	(16)
Purchases	-	-	-
Sales	-	(21)	(21)
At 31 December 2016	**115**	**38**	**153**

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

38. Interest rate sensitivity

Structural interest rate risk arises in AIB UK Group's banking business where assets and liabilities have different repricing dates. Part of AIB UK Group's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The tables on the following pages set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period.

Details regarding assets and liabilities which are not sensitive to interest rate movements are also included. The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other times. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories. Non-interest bearing amounts relating to loans and receivables to customers include provisions for impairment. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date. Transactions without defined repricing terms are shown according to management expectations. Contractual repricing does not illustrate the potential impact of early repayment or withdrawal. Positions may not be reflective of those in adjacent and / or future periods. Major changes can be made rapidly as the market outlook fluctuates. Further, significant variability may exist within the repricing periods presented.

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

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

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	
	2016	2015	2016	2015
	£m	£m	£m	£m
Cash and balances with central banks	3,458	2,647	3458	2,647
Loans and receivables to banks [1]	1,747	1,007	1747	1,007
Deposits by banks	(49)	(60)	(49)	(60)
Cash and cash equivalents	**5,156**	**3,594**	**5,156**	**3,594**

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

40. Financial assets and liabilities by contractual residual maturity

	Repayable on demand £m	3 months or less, but not repayable on demand £m	1 year or less, but over 3 months £m	5 years or less, but over 1 year £m	Over 5 years £m	Total £m
						2016
Financial assets						
Loans and receivables to banks	1,747	862	52	-	-	**2,661**
Loans and receivables to customers [(1)]	624	90	422	2,956	2,606	**6,698**
	2,371	**952**	**474**	**2,956**	**2,606**	**9,359**
Financial liabilities						
Deposits by banks	49	54	45	2,015	92	**2,255**
Customer accounts	6,926	798	607	395	-	**8,726**
Debt securities in issue	-	-	59	-	-	**59**
	6,975	**852**	**711**	**2,410**	**92**	**11,040**

	Repayable on demand £m	3 months or less, but not repayable on demand £m	1 year or less, but over 3 months £m	5 years or less, but over 1 year £m	Over 5 years £m	Total £m
						2015
Financial assets						
Loans and receivables to banks	1,006	1,573	147	104	-	**2,830**
Loans and receivables to customers [(1)]	839	86	310	2,702	2,815	**6,752**
	1,845	**1,659**	**457**	**2,806**	**2,815**	**9,582**
Financial liabilities						
Deposits by banks	60	42	48	1,993	138	**2,281**
Customer accounts	6,276	1,108	734	209	-	**8,327**
Debt securities in issue	-	-	-	99	-	**99**
	6,336	**1,150**	**782**	**2,301**	**138**	**10,707**

[(1)] Shown gross of provisions for impairment.

The analysis by remaining maturity of loans and receivables to customers is based on contractual maturity dates, which are the earliest dates on which repayment can be demanded. Past experience would indicate repayment frequently takes place prior to contractual maturity dates.

41. Financial liabilities by undiscounted contractual maturity

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

						2016
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Deposits by banks	49	54	46	2,040	127	2,316
Customer accounts	6,932	804	618	401	-	8,755
Derivative financial instruments (1)	-	2	19	62	73	156
Debt securities in issue	-	1	60	-	-	61
Other liabilities	391	-	-	-	-	391
	7,372	861	743	2,503	200	11,679

						2015
	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	60	47	61	2,040	169	2,377
Customer accounts	6,292	1,111	728	210	-	8,341
Derivative financial instruments (1)	-	1	1	1	7	10
Debt securities in issue	-	1	2	100	-	103
Other liabilities	382	-	-	-	-	382
	6,734	1,160	792	2,351	176	11,213

(1) In 2015 the expected cash flows on derivative financial instruments were netted against the expected cash flows on the matching derivatives taken out with AIB plc. The expected cash outflows on derivative financial instruments for 2016 have not been netted.

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

	2016	2015
	Repayable on demand	Repayable on demand
	£m	£m
Contingent liabilities	355	646
Commitments	1,507	1,301
Contingent liabilities and commitments	1,862	1,947

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

42. 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:

			2016			2015
	Number of persons	Number of loans	Balance at year end £m	Number of persons	Number of loans	Balance at year end £m
Key management personnel	6	15	1.0	5	11	0.5

Home and personal loans to key management personnel are made available on the same terms as are available to all staff. Commercial loans and loans to related parties are made in the ordinary course of business on normal commercial terms. The loans are primarily of a secured nature and there are no provisions raised against any of the loans.

These loans do not involve more than the normal risk of repayment or present other unfavourable features. No guarantees were given or received in relation to these transactions.

(b) Key Management Personnel compensation

The table below outlines the compensation paid to key management personnel during the year:

	Key management personnel		Highest paid key management personnel	
	2016 £m	2015 £m	2016 £m	2015 £m
Salary and other short-term benefits	3.3	2.4	0.5	0.4
Post-employment benefits	0.2	0.2	-	-
Total	**3.5**	**2.6**	**0.5**	**0.4**

In 2016 there were 25 key management personnel for all or part of the year (2015: 19). The table above represents the compensation paid in relation to the period for which they were key management personnel.

No payments to former Directors were made during the year (2015: 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 (2015: none).

Retirement benefits accrued to two key management personnel of which the accrued pension amount for the highest paid member at the end of the year was nil (2015: nil). The figure represents the accumulated total amount of accrued benefits payable at normal retirement date, as at 31 December 2016.

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

AIB UK Group provides normal banking facilities for the UK Scheme and the AIB Group Employee Share Ownership Trust. Such services are provided on terms similar to those applied to third parties, except for the interest free loan to the Employee Share Ownership Trust (note 35). These are not material to AIB UK Group.

(d) Immediate parent and subsidiary undertakings

In accordance with IAS 24, Related Party Disclosures, intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of AIB UK Group. AIB UK Group enters into transactions with the subsidiary companies listed in note 24. Funding is provided on terms similar to those that apply to third parties.

The table below provides the balances that AIB UK Group has with its immediate parent and subsidiaries and the transactions included in the income statement:

	2016		2015	
	Immediate parent £m	Subsidiaries £m	Immediate parent £m	Subsidiaries £m
Statement of financial position				
Loans and receivables	-	3	29	(2)
Deposits	-	69	17	107
Income statement				
Interest expense and similar charges	-	2	-	4

(e) Ultimate parent and fellow subsidiaries

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

	2015		2014	
	Ultimate parent £m	Fellow subsid-iaries £m	Ultimate parent £m	Fellow sub-sidiaries £m
Statement of financial position				
Loans and receivables				
- Due from parent and fellow subsidiaries	2,127	2	2,251	63
Deposits	2,251	44	2,262	55
Income statement				
Interest and similar income	36	-	41	-
Interest expense and similar charges	(35)	-	(36)	-
Trading and other income/(expense)	(51)	-	(6)	-
Administrative expenses/(income)	23	(10)	(24)	(12)

(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 2016 AIB UK Group recognised £3.1m (2015: £8m) fair value amortisation income on these loans. See note 15 for further details on the transaction.

(g) Transactions with Key Management Personnel

Connected persons

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

	Balance at 31 December 2016	Balance at 31 December 2015
	£m	£m
Loans	0.3	50.4
Total	**0.3**	50.4

The total interest received on these loans in 2016 was £0.0m (2015: £1.2m).
The balance at 31 December 2015 includes loans to connected persons of a director who resigned in 2016. These loans have not been reported as loans to connected persons at 31 December 2016, however they continue to be reported within loans and receivables to customers at this date.
The loans are made on normal commercial terms, and there are no impairment provisions on any of these loans (2015: nil).

43. Capital, operating and finance lease commitments

(a) Operating lease rentals

	2016	2015
AIB UK Group & AIB UK	£m	£m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	4	5
- Between one and five years	9	17
- Over five years	7	22
Operating lease rentals	**20**	**44**

The minimum lease terms remaining on the most significant leases vary from 1 years to 8 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 2 years with the final contractual remaining terms ranging from 1 years to 13 years.

There are no contingent rents payable.

Operating lease payments recognised as an expense for the year were £3m (2015: £4m). Sublease income amounted to Nil (2015: 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.

44. Events after the reporting period

On 22 February 2016 First Trust Bank announced its reshaping and investment programme, which will involve:

- the closure of 15 First Trust Bank branches during summer 2017,
- investments in digital enhancements to online and mobile banking, in five new business centres and in refurbishment work to the remaining First Trust Bank branches, and
- a new partnership with the Post Office from 8 May 2017.

The announcement of this programme follows an 18 month strategic review. The cost of the branch closures is estimated to be circa £11m.

45. Parent company

Reference to the immediate parent undertaking refers to AIB Holdings (NI) Limited, a company registered in Northern Ireland. AIB UK Group is the smallest group for which consolidated accounts are prepared. The ultimate parent company is AIB plc, a company registered in the Republic of Ireland. The Parent Group is the largest group of which AIB UK is a member, for which consolidated accounts are prepared. The financial statements of the ultimate parent company are available from Allied Irish Banks, p.l.c., Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at www.aibgroup.com.

Financial Statements

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 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
BOE	Bank of England
BRRD	Bank Recovery and Resolution Directive
Buy to let	A residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out.
CBI	Central Bank of Ireland
CDS	Credit Default Swap
CET 1	Common Equity Tier 1
CMI	Continuous Mortality Investigation
Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days, although maturity is commonly 30 days in the USA and 90 days in Europe.
Contractual maturity	The period when a schedule payment is due and payable in accordance with the terms of a financial instrument.
Core tier 1 capital	Called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank.
CPI	Consumer Price Index
CRD	Capital Requirements Directive
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
CRO	Chief Risk Officer

Customer accounts	A liability of the Bank where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
CVA	Counterparty Valuation Adjustment
Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.
Delinquency	Failure by a customer to repay an obligation when due or as agreed. In the case of loans and credit cards, this will arise when a payment of either capital and /or interest is 1 day or more overdue. Overdrafts are deemed to be delinquent if an approved limit is exceeded for 1 day or more.
Exposure at Default	Exposure at Default ("EAD") is the expected or actual amount of exposure to the borrower at the time of default.
ECB	European Central Bank
EU	European Union
FCA	Financial Conduct Authority
Forbearance	Forbearance is the term that is used when repayment terms of the mortgage contract have been renegotiated in order to make payment terms more manageable for borrowers. Forbearance techniques have the common characteristics of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by 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
FVA	Funding Valuation Adjustment
GDP	Gross Domestic Product
GIA	Group Internal Audit
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Process

ILAAP	Internal Liquidity Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Impaired loans	Loans are typically impaired when the interest thereon is 90 days past due or where a provision exists in anticipation of loss, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from the realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest is adequately secured. Upon impairment the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.
IPO	Initial Public Offering
IRBA	Internal Ratings Based Approach allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ("PD"); Loss Given Default ("LGD"); and Exposure at Default ("EAD").
IRHP	Interest Rate Hedging Provision
JST	Joint Supervisory Team, led by ECB and consisting of both ECB and Central Bank of Ireland supervisors.
LCR	Liquidity Coverage Requirement
LDI	Liability Driven Investments
LGD	Loss Given Default ("LGD") is the expected or actual loss in the event of default, expressed as a percentage of "exposure at default".
LIBOR	London Interbank Offered Rate
Loan to deposit ratio	This is the ratio of loans and receivables to customers as presented in the statement of financial position compared to customer accounts.

Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: - has breached an advised limit; - has been advised of a limit lower that the current outstanding's; or - has drawn credit without authorisation When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.
MREL	Minimum Requirement for own funds and Eligible Liabilities
NAMA	Republic of Ireland's National Asset Management Agency
NIRIL	Net Interest Rate Insensitive Liabilities
NSFR	Net Stable Funding Ratio, the ratio of available stable funding to required stable funding over a 1 year time horizon.
OMB	Owner Managed Businesses
OTC	Over The Counter
PHI	Permanent Health Insurance
Pillar I	Sets out the rules for calculating minimum regulatory capital. It is a variable capital requirement based on the sum of operational, market and credit risk requirements. AIB UK Group must maintain, at all times, capital resources equal to or in excess of the amount specified.
Pillar II	This Supervisory Review Process requires supervisors to ensure each bank has a sound internal process in place to assess the adequacy of its capital based on a thorough evaluation of its material risks.
Pillar III	Pillar III sets out the required detailed disclosures of each of a bank's key risks
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
Probability of Default (PD)	The PD is the likelihood that a borrower will default on an obligation to repay.

Renegotiated loan	Loans and receivables renegotiated are those facilities outstanding at the reporting date that, during the financial year have had their terms renegotiated, resulting in an upgrade from default status to performing status. This is based on subsequent good performance and/or an improvement in the profile of the borrower. Where possible, AIB UK Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.
Repo	A sale (and) repurchase agreement.
Reverse repo	A purchase of securities with an agreement to resell them at a higher price at a specific future date.
Risk weighted assets (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.
RPI	Retail Price Index
Securitisation	The process of aggregation and repacking on non-tradable financial instruments such as loans and receivables, or company cash flow into securities that can be issued and trade in the capital markets.
SIC	Standard Interpretations Committee
SLP	AIB PFP Scottish Limited Partnership
SME	Small and medium-sized enterprises (SMEs) are businesses whose personnel numbers and financial results fall below certain limits.
SMR	Senior Manager Regime
SMT	Senior Management Team
SPE	Special purpose entity (SPE) is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk.
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tier 2 capital	Broadly includes qualifying subordinated debt and other Tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England (BOE) rate, at an agreed margin above the BOE rate and will increase or decrease within five days of an BOE rate movement.
UK Scheme	The AIB Group (UK) Pension Scheme
UKLM	AIB UK Loan Management Limited
VAT	Value Added Tax
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources.
WAEP	Weighted Average Exercise Price

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