



# **AIB PFP (General Partner) LIMITED**

**DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2017**

**Company registration number: SC459496**

**PARTNERSHIP  
ACCOUNTS**

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## **DIRECTORS AND OTHER INFORMATION**

<b>DIRECTORS</b>	K Gore W R MacLeod
<b>REGISTERED OFFICE</b>	227 West George Street Glasgow G2 2ND
<b>SECRETARY</b>	I A Hamilton
<b>REGISTERED AUDITOR</b>	Deloitte LLP Statutory Auditor London United Kingdom
<b>BANKERS</b>	Allied Irish Banks, p.l.c. Bankcentre Ballsbridge Dublin 4

## STRATEGIC REPORT

The Directors present herewith their report and financial statements (which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes) of AIB PFP (General Partner) Limited ("the Company") for the year ended 31 December 2017.

### Principal activities

The principal activity of the Company is to be a General Partner to AIB PFP Scottish Limited Partnership ("the Limited Partnership"). The Limited Partnership was established pursuant to a limited partnership agreement among the Company and the Initial Limited Partners, AIB UK Loan Management Limited ("UKLM") and AIB Group (UK) p.l.c. ("AIB UK Group"), and was registered in Scotland as a limited partnership under the Limited Partnerships Act 1907. The registered office of the Limited Partnership is 227 West George Street, Glasgow, G2 2ND.

The Company's immediate parent company and controlling party is AIB UK Loan Management Limited ("UKLM"). The Company is a wholly owned subsidiary of Allied Irish Banks p.l.c ("AIB"). Pursuant to a scheme of arrangement between AIB and its shareholders, AIB Group plc became the holding company of AIB and its subsidiaries, including the Company on 8 December 2017.

There have not been any significant changes in the Company's principal activity during the period under review and no significant change in the Company's principal activity is expected.

### Results

The Company did not engage in any trading activity in the period. The Statement of Comprehensive Income for the period ended 31 December 2017 is set out on page 8.

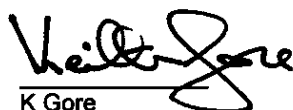
The Company did not declare nor pay any dividend for the financial year ended 31 December 2017 or in the previous financial year.

### Principal risks and uncertainties

The Company has not engaged in any trading activity in the reporting period and is not expected to do so in the future. Therefore, the Directors do not consider there to be any risks or uncertainties facing the Company.

### Capital management

The Company's capital consists of 100 £1 ordinary shares at 31 December 2017 (2016: 100 £1 ordinary shares). The policy of the Company is to maintain adequate capital resources at all times. The Company does not have externally imposed capital requirements.



K Gore  
Director

Date: 27 June 2018

## REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements of AIB PFP (General Partner) Limited ('the Company') for the year ended 31 December 2017. A Directors' responsibility statement in relation to the financial statements is on page 5.

The latest statutory financial statements of the Company and the Limited Partnership have been sent to the Registrar in accordance with Companies Act 2006, Section 441.

### Going concern

The Company is dependent on the support, if required, of AIB for its ability to meet its capital and liquidity requirements. Throughout the reporting period, the Company received full support from AIB in meeting all its capital and liquidity commitments.

The financial statements for the period ended 31 December 2017 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Company, 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 financial statements.

### Conclusion

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

### Review of business and future developments

The Company did not engage in any trading activity in the period and no significant change in the Company's principal activity is expected in the future.

The Company has no employees but is supported operationally by its ultimate parent and AIB UK Group.

### Directors

The composition of the Board, and the names of the Directors during the financial year 31 December 2017 are shown below, with effect from the dates shown:

K Gore  
W R MacLeod

I A Hamilton was appointed Secretary on 31 March 2017.

### Events after the reporting period

There were no significant events after the reporting period.

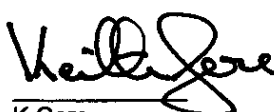
### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

### Auditor

Deloitte LLP, Statutory Auditor, have expressed their willingness to continue in office under Section 487 of the Companies Act 2006.

By Order of the Board



K Gore  
Director

Date: 27 June 2018

## DIRECTORS' RESPONSIBILITY STATEMENT

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


Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

  
K Gore  
Director

Date: 27 June 2018

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIB PFP (GENERAL PARTNER) LIMITED**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of AIB PFP (General Partner) Limited which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in shareholders' equity;
- the statement of cash flows; and
- the related notes 1 to 8.

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.

#### **Basis for opinion**

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

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

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

We have nothing to report in respect of these matters.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

#### **Responsibilities of directors**

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIB PFP (GENERAL PARTNER) LIMITED (continued)**

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Use of our report**

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

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in respect of these matters



Mark Rhys, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

29 June 2018

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## STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2017

The Company did not engage in any trading activity in the current or prior reporting periods.

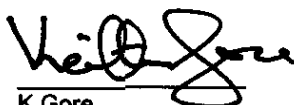
## STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Note	2017 £	2016 £
<b>Assets</b>			
Investment in partnership undertakings	4	100	100
<b>Total assets</b>		<b>100</b>	100
<b>Shareholders' equity</b>			
Share capital	5	100	100
<b>Total equity</b>		<b>100</b>	100
<b>Total equity and liabilities</b>		<b>100</b>	100

The notes on pages 12 to 16 form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 June 2018 and signed on its behalf by:



K Gore  
Director

Date: 27 June 2018

Company registration number: SC459496

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the financial year ended 31 December 2017

	Share Capital	Total
	£	£
<b>At 1 January 2017</b>	<b>100</b>	<b>100</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2017</b>	<b>100</b>	<b>100</b>
At 1 January 2016	100	100
Total comprehensive income	-	-
At 31 December 2016	100	100

The notes on pages 12 to 16 form part of these financial statements.

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## **STATEMENT OF CASH FLOWS**

for the financial year ended 31 December 2017

There were no cash flows in the current or prior reporting periods.

## NOTES TO THE FINANCIAL STATEMENTS

### General information

The Company is a private company and is registered in Scotland. Its registered office is 227 West George Street, Glasgow, G2 2ND. The principal activity of the Company is to be a General Partner to AIB PFP Scottish Limited Partnership ("the Limited Partnership"), a limited partnership registered in Scotland with the same registered office as the Company.

The Board of Directors approved these financial statements for issue on 27 June 2018.

AIB Group plc, the Company's ultimate parent company, 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.

### 1 Accounting policies

#### 1.1 Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and subsequently adopted by the European Union ("EU") and applicable for the period ended 31 December 2017.

#### 1.2 Consolidated financial statements

The Company is exempt from preparing consolidated financial statements under IAS 27.10. Consolidated financial statements, incorporating its associates, have not been prepared by the Company as it is itself a wholly owned subsidiary of AIB which has prepared consolidated financial statements incorporating the results and assets and liabilities of the Company and its associated undertakings.

#### 1.3 Functional and presentation currency

The financial statements are presented in pounds sterling, which is the functional currency of the Company.

#### 1.4 Basis of measurement

The financial statements have been prepared under the historical cost basis.

#### 1.5 Going concern

The Company is dependent on the support, if required, of AIB for its ability to meet its capital and liquidity requirements. Throughout the reporting period, the Company received full support from AIB in meeting all its capital and liquidity commitments.

The financial statements for the period ended 31 December 2017 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Company, 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 financial statements.

### Conclusion

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1 Accounting policies (continued)

#### 1.6 Accounting estimates and judgements

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.

#### 1.7 Foreign currency translation

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.

#### 1.8 Investment in partnership undertakings

The Company accounts for investments in partnership undertakings at cost less provisions for impairment.

#### 1.9 Share capital

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 the Company.

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

#### 1.10 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months from the date of acquisition.

#### 1.11 Adoption of new accounting standards

The Directors have considered all IFRSs and interpretations adopted during the period ended 31 December 2017 and confirm they do not believe they have any impact on the accounting policies, financial positioning or performance of the Company.

#### 1.12 Prospective accounting changes

The Directors have considered all IFRSs and interpretations that have been issued, but which are not yet effective and confirm that they do not believe that they will have a significant impact on how the results of operations and financial position of the Company are prepared and presented. The accounting policies that the Company applied in the preparation of the financial statements for the financial year ended 31 December 2017 are set out above.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 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.

There were no accounting policies deemed critical to the Company's results and financial position, in terms of the materiality of the items to which the policy is applied and no estimates with a significant risk of material adjustment in the next year are also discussed.

### 3 Administrative expenses

The auditor's remuneration of £6,000 (2016: £6,000) for the financial statements audit was paid on behalf of the General Partner by the Limited Partnership. This will not be recharged to the Company.

The Company had no employees during the period other than the Directors. The Directors of the Company are employed and remunerated as employees of AIB Group (UK) p.l.c. or AIB, in respect of their services to the AIB as a whole and received no remuneration from this Company.

### 4 Investment in partnership undertakings

	2017 £	2016 £
Investment in AIB PFP Scottish Limited Partnership	100	100
<b>At end of period</b>	<b>100</b>	<b>100</b>

### 5 Share Capital

	2017 £	2016 £
<b>Ordinary shares of £1 each</b>		
<i>(Authorised, Allotted, called up and fully paid)</i>		
At beginning of period	100	100
<b>At end of period</b>	<b>100</b>	<b>100</b>

The Company's capital at 31 December 2017 and 2016 consists of 100 £1 ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 6 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 the Company's case related parties comprise key management personnel, the parent and the Limited Partnership.

#### Transaction, arrangements and agreements involving directors and others

Key management personnel are those persons considered having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Board considers that the key management personnel are the directors and a number of executives of AIB UK Group and AIB, who are involved in the operations of the Company.

There were no loans or transactions entered into by the Company with key management personnel.

#### Directors' and key management personnel compensation

The Directors of the Company are employed and remunerated as employees of AIB Group (UK) p.l.c. or AIB in respect of their services to the AIB as a whole and received no remuneration from this Company.

#### Parent and partnership undertaking

The table below provides the balances that the Company has with its partnership undertaking.

	2017	2016
	Partnership undertaking	Partnership undertaking
	£	£
<b>Statement of financial position</b>		
Investment in partnership undertaking	100	100

### 7 Ultimate controlling party

Under a Scheme of Arrangement approved by the High Court of the Republic of Ireland on 6 December 2017, which became effective on 8 December 2017, a new company registered in the Republic of Ireland, AIB Group plc, was introduced as the holding company of AIB. Prior to the Scheme of Arrangement, the ultimate parent company of AIB PFP (General Partner) Limited was AIB, a company registered in the Republic of Ireland. AIB Group plc is now the ultimate parent company and ultimate controlling party of the Company.

The immediate parent company and controlling party is AIB UK Loan Management Limited, a company registered in the United Kingdom.

The financial statements of AIB and AIB Group plc are available from Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at [www.aibgroup.com](http://www.aibgroup.com).

### 8 Events after the reporting period

There were no significant events after the reporting period.



# **AIB PFP Scottish Limited Partnership**

**DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS  
For the year ended 31 December 2017**

**Company registration number: SL014428**



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## STRATEGIC REPORT

### Principal activities

The AIB PFP Scottish Limited Partnership ("the Limited Partnership") was formed by Allied Irish Banks, p.l.c. ("AIB") in order to execute a series of agreements to give effect to an asset backed funding plan for the AIB Group UK Defined Benefit Pension Scheme ("the UK Scheme"). AIB is a bank registered in Ireland.

The Limited Partnership commenced activities on 19 December 2013 when the original partners agreed to admit AIB Pensions UK Limited, in its capacity as trustee of the UK Scheme, to the Partnership as a Limited Partner and to adjust their entitlements under the Original Agreement accordingly.

Under the terms of the asset backed funding plan, the beneficial interest in a portfolio of loans was transferred to the Limited Partnership from AIB UK Loan Management Limited ("UKLM"), one of the partners in the Limited Partnership, for the purpose of ring-fencing the repayments on these loans to fund future deficit payments to the UK Scheme. This grants the UK Scheme a regular income which is payable quarterly to 31 December 2032. Total contributions of £19m were made to the UK Scheme in relation to the year ended 31 December 2017 (2016: £19m).

The portfolio of loans transferred consisted of high quality commercial loans totalling £794m. £235m of these loans were transferred by legal assignment and £559m by way of sub-participation agreement. The loans were transferred to the Limited Partnership at fair value, based on market valuation. The fair value of the loan portfolio at the date of transfer, 19 December 2013, was determined to be £587m.

The AIB PFP (General Partner) Limited ("the General Partner") in the Limited Partnership, which is an indirect subsidiary of AIB, has controlling power over the Limited Partnership. The majority of the risks and rewards will be borne by AIB as, while the UK Scheme has a priority right to the cash flows from the Limited Partnership, it is expected that the majority of and any variability in these cash flows will be recovered or suffered by AIB through UKLM. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet.

As the loans are not derecognised from UKLM's balance sheet, the Limited Partnership records its interest in the loans on its balance sheet as loans receivable from its Partner, UKLM. Although the loans are not recorded on the Limited Partnership balance sheet, information on the underlying loans is provided in the Risk Management report, as the Limited Partnership has an interest in the performance of these loans.

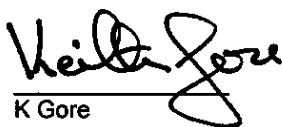
The Limited Partnership's parent undertaking and controlling entity is AIB. There have not been any significant changes in the Limited Partnership's principal activity during the period under review and no significant change in the Limited Partnership's principal activity is expected.

### Business review

The Limited Partnership's statement of comprehensive income is set out on page 10. The Limited Partnership made a profit during the year of £31m (2016: £28m).

The Limited Partnership's statement of financial position is set out on page 14. The Limited Partnership's total partners' interests at 31 December 2017 was £685m (2016: £673m).

The risk management section below sets out the Limited Partnership's and the Partners' policies for the management of credit risk and other significant risks.



K Gore  
Director

AIB PFP (General Partner) Limited  
General Partner of  
AIB PFP Scottish Limited Partnership  
27 June 2018

## RISK MANAGEMENT REPORT

The Limited Partnership has outsourced its risk management function to AIB Group (UK) p.l.c. ("AIB UK Group"). The management of the Limited Partnership's activities is based on the policies applied by AIB and the processes and procedures adopted by AIB UK Group. The UK Senior Management Team ("UK SMT") of AIB UK Group have the responsibility for ensuring risk processes and procedures for the Limited Partnership are appropriate and properly fulfilled.

Full details of AIB's risk policies and its current position on managing its market, liquidity, credit and other related risks are set out in its Annual Report. A summary of those policies and structures which affect the Limited Partnership, are set out on the following pages.

### **Risk management**

Risk taking is inherent in the provision of financial services and as a result the Limited Partnership assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Limited Partnership, increase earnings or cash flow volatility, reduce capital and/or breach regulatory or legal obligations.

Consequently, effective risk management is essential to the Limited Partnership and is a key part of its overall strategy. In keeping with AIB, the Limited Partnership has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core elements of which are set out in the risk management framework summarised below which has been in operation throughout the year.

### Risk philosophy

The UK SMT have adopted a broad set of risk management principles reflecting the Limited Partnership's risk philosophy and culture, and articulating the high-level standards against which risk taking decisions are made. The key principles are:

- to take intelligent risk, with shared responsibility between Business and Risk managers, while maintaining individual accountability;
- the Limited Partnership does not have a separately approved Risk Appetite but operates within AIB's Risk Appetite as approved by the AIB Board; and
- to take on only what can be measured, recorded and managed within the Limited Partnership's capabilities.

The General Partner approves business strategy and the objectives designed to achieve business strategy. Line management is responsible for managing these objectives within the Limited Partnership's enterprise risk framework.

### Risk appetite

The Limited Partnership adheres to a Risk Appetite Framework which seeks to encourage appropriate risk management by setting direction and boundaries to ensure that risks are aligned to business strategy and objectives. AIB's Risk Appetite Statement has been considered by the General Partner and the UK SMT, and is used as the Limited Partnership's risk framework with specific key metrics that are relevant to the Limited Partnership. The risk appetite is supported by a range of approved limits and delegated authorities within the enterprise risk management framework.

### Risk governance and risk management organisation

The Limited Partners have ultimate responsibility for the governance of all risk-taking activity in the Limited Partnership. AIB uses a 'three lines of defence' framework in the delineation of accountabilities for risk governance with each business area (the first line of defence) directly accountable for managing its own risks. The objective is to ensure that business decisions strike an appropriate balance between risk and reward, consistent with this Risk Appetite Statement. Risk (the second line of defence) provides oversight and challenge to ensure the effective implementation of policy. AIB's Internal Audit function (the third line of defence) provides independent assurance to the AIB UK Group Board about the effectiveness of the internal control framework and adherence to policy.

### Risk identification and assessment process

Risk is identified and assessed through a combination of top-down and bottom-up risk assessment processes that focus on broad risk types and common risk drivers as well as on specific individual risk events, and adopt a forward-looking view of perceived threats over the planning horizon. Risk is regularly reported on to the UK SMT. These processes are brought together in the quarterly Material Risk Assessment that directly feeds into AIB's Enterprise-wide Risk Assessment, and identifies any significant risks facing the Limited Partnership.

### Risk strategy

AIB's risk strategy is informed by its risk appetite and the risk profile which emerges from the risk assessment process. To the extent that mismatches are identified between risk appetite and the actual risks being taken, action to address such gaps is undertaken.

### **Principal risks**

Based on the assessment and quantification of the various risks being managed as part of the business, the principal risks and uncertainties facing the Limited Partnership that could have an impact on the success of delivering against the long-term strategic objectives and the key mitigating actions are set out on the next page:

## **RISK MANAGEMENT REPORT (continued)**

### **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 the Limited Partnership is unable to recover the full amount that it is owed through the realisation of any security interests. The credit risks in the Limited Partnership arise primarily from lending activities to customers. Credit risk is the most material risk to which the partnership is exposed.

The Limited Partnership is dependent on the management of the credit risk of the loans held by UKLM. While the Limited Partnership's assets are primarily receivables from UKLM, the underlying assets are loans held by UKLM. UKLM has outsourced its credit risk function to AIB UK Group.

### **Risk management and mitigation**

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

The most significant and widely used credit risk mitigation tool available to the Limited Partnership, particularly around the underwriting and credit review, is the robust internal credit risk control framework in place in AIB UK Group.

### **Risk monitoring and reporting**

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

Credit risk is monitored regularly and reported on a monthly basis to the UK Risk Committee, which reviews a suite of reports specific to the UKLM portfolio of loans, which include the loans in which the Limited Partnership has an interest, on a monthly basis. These reports include 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. A quarterly report on the performance of the Limited Partnership, which includes credit risk information, is produced for the Limited Partners.

### **Legal/regulatory risk**

The Limited Partnership is exposed to the risk that changes to applicable laws or changes in pensions legislation could change the objective of the Limited Partnership and may require the Limited Partnership structure to be unwound.

### **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems or from external events. It includes legal risk, but excludes strategic and reputational risk. In essence, operational risk is a broad collection of individual risk types which includes information technology and business continuity risk, internal and external fraud risk, fiduciary and legal risk and outsourcing and insourcing risk. The Limited Partnership adheres to all of the operational risk control processes that are in place within AIB.

### **Liquidity risk**

The objective of liquidity management is to ensure that, at all times, the Limited Partnership holds sufficient funds to meet its contracted and contingent commitments at an economic price. The Limited Partnership maintains sufficient liquid funds in its bank accounts to ensure it can meet obligations as they arise. Overall liquidity risk is managed at an overall AIB Group level.

### **Pension risk**

While the ultimate distribution of capital and profits to limited partners is dependent on the proceeds from loans and receivables (i.e. subject to credit risk), the allocation of the distribution of capital and profits between the limited partners is subject to pension risk. This arises as the capital and profits distributed to one limited partner is dependent on the valuation of the UK Pension Scheme and related cash payments due to make up any deficit in that scheme.

### **Interest rate risk**

Structural interest rate risk arises in the Limited Partnership where adverse movements in interest rates lead to a fall in floating interest rates on loans to customers held by UKLM, in which the Limited Partnership has an interest. This would lead to a reduction in cash inflows of interest from customers, which the Limited Partnership is collecting to fund deficit payments to the UK Pension Scheme.

## GENERAL PARTNER'S REPORT

AIB PFP General Partner Limited ("the General Partner") presents herewith its report and audited financial statements (which comprise the statement of comprehensive income, statement of changes in partners' interests, statement of financial position, statement of cash flows and the related notes) of AIB PFP Scottish Limited Partnership ("the Limited Partnership") for the year ended 31 December 2017.

The Limited Partnership was formed on 9 October 2013 pursuant to a limited partnership agreement among the General Partner, AIB PFP (General Partner) Limited, and the Initial Limited Partners, UKLM and AIB UK Group, and was registered in Scotland as a limited partnership under the Limited Partnerships Act 1907.

### Going concern

The financial statements for the year ended 31 December 2017 have been prepared on a going concern basis as the General Partner is satisfied, having considered the risks and uncertainties affecting the Limited Partnership, that it has the ability to continue in business for the period of assessment. The period of assessment used is twelve months from the date of approval of these annual financial statements.

The General Partner has also considered the risk factors which could materially affect the Limited Partnership's future business performance and profitability and which are outlined in the Risk Management Report. The Directors believe that the Limited Partnership's capital resources are sufficient to ensure that the Limited Partnership is adequately capitalised.

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

### Partners

The following companies were partners during the period and to the date of approval of this report:

AIB PFP (General Partner) Limited	(General Partner) founding partner
AIB Group (UK) p.l.c.	(Limited Partner) founding partner
AIB UK Loan Management Limited	(Limited Partner) founding partner
AIB Pensions UK Limited	(Limited Partner) joined partnership 19 December 2013

Partners' interests are set out on pages 11-13 of the financial statements.

The policies under which distributions are made and contributions returned to the partners are determined by the Limited Partnership Agreement.

### Directors

The following is the list of the directors who were in place during the financial year:

K Gore  
W R MacLeod

## GENERAL PARTNER'S REPORT

### Events after the reporting period

On 16 February 2018 proceeds of £5m were received relating to the sale of a loan to a third party, as part of a portfolio of loans sold by UKLM. The loan was derecognised from the Statement of financial position of the Limited Partnership in December 2017.

There have been no other significant events since the reporting date.

### Disclosure of relevant audit information

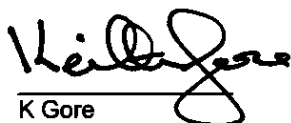
Each of the persons who is a partner at the date of approval of this annual report confirms that:

- so far as the partner is aware, there is no relevant audit information of which the Limited Partnership's auditor is unaware; and
- the partner has taken all the steps that he/she ought to have taken as a partner in order to make themselves aware of any relevant audit information and to establish that the Limited Partnership'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.

### Auditor

Deloitte LLP, Statutory Auditor, have expressed their willingness to continue in office under Section 487 of the Companies Act 2006.



K Gore  
Director  
AIB PFP (General Partner) Limited  
General Partner of  
AIB PFP Scottish Limited Partnership  
27 June 2018

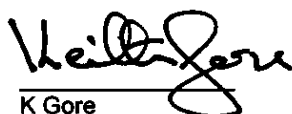
## GENERAL PARTNER'S RESPONSIBILITY STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 limited partnership and of the profit or loss of the limited partnership for that period. In preparing these financial statements, International Accounting Standard 1 requires that the partner:

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

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



K Gore  
Director  
AIB PFP (General Partner) Limited  
General Partner of  
AIB PFP Scottish Limited Partnership  
27 June 2018

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIB PFP SCOTTISH LIMITED PARTNERSHIP**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the qualifying partnership's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to qualifying partnerships.

We have audited the financial statements of AIB PFP Scottish Partnership Limited (the 'qualifying partnership') which comprise:

- the statement of comprehensive income;
- the statement of changes in partners' interests;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 14.

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.

#### **Basis for opinion**

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

We are independent of the qualifying partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

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

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

We have nothing to report in respect of these matters.

#### **Other information**

The members responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

#### **Responsibilities of members**

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIB PFP SCOTTISH LIMITED PARTNERSHIP (continued)**

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Use of our report**

This report is made solely to the qualifying partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to qualifying partnerships. Our audit work has been undertaken so that we might state to the qualifying partnership'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 qualifying partnership and the qualifying partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

In the light of the knowledge and understanding of the qualifying partnership and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the members' report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 as applied to qualifying partnerships we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



Mark Rhys, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
29 June 2018

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Interest and similar income	3	23	26
<b>Net interest income</b>		<b>23</b>	26
Finance income	4	9	3
<b>Total operating income</b>		<b>32</b>	29
Administrative expenses	5	(1)	(1)
<b>Operating profit before provisions</b>		<b>31</b>	28
<b>Profit on ordinary activities for the year</b>	9	<b>31</b>	28
<b>Total comprehensive income for the year</b>		<b>31</b>	28

All results are derived from continuing operations.

The notes on pages 16 to 34 form part of these financial statements.

## STATEMENT OF CHANGES IN PARTNERS' INTERESTS

2017

	Note	Capital account £m	Capital reserve account £m	Current account £m	Partners' interests £m
<b><u>AIB PFP (General Partner) Limited</u></b>					
Opening balance		-	-	-	-
Total comprehensive profit		-	-	-	-
<b>At 31 December 2017</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>AIB Group (UK) p.l.c. (Limited Partner)</u></b>					
Opening balance		-	-	-	-
Total comprehensive profit		-	-	-	-
<b>At 31 December 2017</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>AIB UK Loan Management Limited (Limited Partner)</u></b>					
Opening balance		-	350	20	370
Total comprehensive profit		-	-	31	31
<b><u>Allocations</u></b>					
Finance charge expense		-	-	(2)	(2)
Total comprehensive profit	9	-	-	(19)	(19)
Revaluation of Pension Scheme		-	45	-	45
<b>At 31 December 2017</b>		<b>-</b>	<b>395</b>	<b>30</b>	<b>425</b>
<b><u>AIB Pensions UK Limited (Limited Partner)</u></b>					
Opening balance		-	222	81	303
<b><u>Allocations</u></b>					
Finance charge income		-	-	2	2
Total comprehensive profit	9	-	-	19	19
Revaluation of Pension Scheme		-	(45)	-	(45)
Contribution to UK Scheme		-	(19)	-	(19)
<b>At 31 December 2017</b>		<b>-</b>	<b>158</b>	<b>102</b>	<b>260</b>
<b>Total partners' interests at 31 December 2017</b>		<b>-</b>	<b>553</b>	<b>132</b>	<b>685</b>

# STATEMENT OF CHANGES IN PARTNERS' INTERESTS (continued)

2016

	Note	Capital account £m	Capital reserve account £m	Current account £m	Partners' interests £m
<b><u>AIB PFP (General Partner) Limited</u></b>					
Opening balance		-	-	-	-
Total comprehensive profit		-	-	-	-
<b>At 31 December 2016</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>AIB Group (UK) p.l.c. (Limited Partner)</u></b>					
Opening balance		-	-	-	-
Total comprehensive profit		-	-	-	-
<b>At 31 December 2016</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>AIB UK Loan Management Limited (Limited Partner)</u></b>					
Opening balance		-	378	13	391
Total comprehensive profit		-	-	28	28
<b><u>Allocations</u></b>					
Finance charge expense		-	-	(2)	(2)
Total comprehensive profit	9	-	-	(19)	(19)
Revaluation of Pension Scheme		-	(28)	-	(28)
<b>At 31 December 2016</b>		<b>-</b>	<b>350</b>	<b>20</b>	<b>370</b>
<b><u>AIB Pensions UK Limited (Limited Partner)</u></b>					
Opening balance		-	213	60	273
<b><u>Allocations</u></b>					
Finance charge income		-	-	2	2
Total comprehensive profit	9	-	-	19	19
Revaluation of Pension Scheme		-	28	-	28
Contribution to UK Scheme		-	(19)	-	(19)
<b>At 31 December 2016</b>		<b>-</b>	<b>222</b>	<b>81</b>	<b>303</b>
<b>Total partners' interests at 31 December 2016</b>		<b>-</b>	<b>572</b>	<b>101</b>	<b>673</b>

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## STATEMENT OF CHANGES IN PARTNERS' INTERESTS (continued)

The AIB Pensions UK Limited are entitled to a regular income of £19m per annum, payable quarterly to 31 December 2032. Total contributions of £19m were made to the UK Scheme in relation to the year ended 31 December 2017 (2016: £19m). In addition, if the 31 December 2032 actuarial valuation of the UK Pension Scheme reveals a deficit, then AIB Pensions UK Limited will receive a termination payment equal to the lower of the deficit or £60m.

The present value of the amount AIB Pensions UK Limited is entitled to receive as at 31 December 2017 is £260m (2016: £303m). This valuation will change as a result of the triennial valuations of the UK Scheme. The outcome of the next triennial valuation, as at 31 December 2017, is expected to be known by the end of 2018. The finance charge represents the unwind of the present value of AIB Pensions UK Limited's interest in the Limited Partnership.

The Notes on pages 16 to 34 form part of these financial statements.

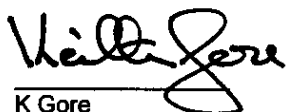
## STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 €m	2016 €m
<b>Assets</b>			
Cash and cash equivalents		24	11
Loan and receivables	6	665	671
Other assets	8	5	-
<b>Total assets</b>		<b>695</b>	<b>682</b>
<b>Liabilities</b>			
Accruals		5	4
Contributions payable to UK Scheme		5	5
<b>Total liabilities</b>		<b>10</b>	<b>9</b>
<b>Partner's interests</b>			
Partner's capital		685	673
<b>Total partners' interests</b>		<b>685</b>	<b>673</b>
<b>Total liabilities and partners' interests</b>		<b>695</b>	<b>682</b>

The Notes on pages 16 to 34 form part of these financial statements.

These financial statements were approved by the General Partner on 27 June 2018 and signed on its behalf by:



K Gore  
Director  
AIB PFP (General Partner) Limited  
General Partner of  
AIB PFP Scottish Limited Partnership  
27 June 2018

Company Registration Number: SL014428

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
<b>Cash flows from operating activities</b>			
Profit before taxation		31	28
Adjustments for:			
Interest income under effective interest rate method (non-cash portion)	3	(8)	(8)
Gain on disposal	4	(8)	(3)
Increase in accruals		1	1
<b>Net cash inflow from operating activities</b>		<b>15</b>	<b>18</b>
Net increase in loans and receivables from Parent	10	(13)	(23)
Net decrease in loans and receivables from Partner	6	30	17
<b>Net cash inflow/(outflow) from investing activities</b>		<b>17</b>	<b>(6)</b>
Contributions paid to Partner		(10)	(14)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(10)</b>	<b>(14)</b>
<b>Net movement in cash and cash equivalents</b>		<b>13</b>	<b>(2)</b>
Cash and cash equivalents at 1 January		11	13
<b>Cash and cash equivalents at 31 December</b>		<b>24</b>	<b>11</b>

The notes on pages 16 to 34 form part of these financial statements.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### General information

The Limited Partnership is domiciled in Scotland with its registered office is 227 West George Street, Glasgow, G2 2ND. The principal activity of the Limited Partnership is to act as an asset backed funding plan for the AIB (UK) Defined Benefit Pension Scheme ("the UK Scheme").

The General Partner approved these financial statements for issue on 27 June 2018.

AIB, the General Partner's immediate parent company, is a company registered in the Republic of Ireland. The address of its Headquarters and Registered Office is as follows: AIB Bankcentre, Ballsbridge, Dublin 4 Republic of Ireland.

### 1. Accounting policies

#### 1.1 Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and subsequently adopted by the European Union ("EU") and applicable for the year ended 31 December 2017.

#### 1.2 Functional and presentation currency

The financial statements are presented in pound sterling, which is the functional currency of the partnership. Except as otherwise indicated, financial information presented in pound sterling has been rounded to the nearest million.

#### 1.3 Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of loans to and receivables from partner undertakings, which are stated initially at their fair value and subsequently at amortised cost.

#### 1.4 Going concern

The financial statements for the period ended 31 December 2017 have been prepared on a going concern basis as the General Partner is satisfied, having considered the risks and uncertainties impacting the Limited Partnership, that it has the ability to continue in business for the period of assessment. The period of assessment used is twelve months from the date of approval of these annual financial statements.

The General Partner has also considered the risk factors which could materially affect the Limited Partnership's future business performance and profitability and which are outlined in the Risk Management Report. The Directors believe that the Limited Partnership's capital resources are sufficient to ensure that the Limited Partnership is adequately capitalised.

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

#### 1.5 Accounting estimates and judgements

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 the determination of the fair value of certain financial assets and financial liabilities. In addition, the classification of financial assets and financial liabilities has a significant impact on their Statement of Comprehensive Income treatment and could have a significant impact on reported income.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (*continued*)

### 1. Accounting policies (*continued*)

#### 1.6 Foreign currency translation

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 year end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

#### 1.7 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, the Limited Partnership 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, 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. The effective interest rate is used to determine the amount of amortisation released to the profit and loss account and the bad debt charge in each year.

The finance charge represents the unwind of the present value of AIB Pensions UK Limited's interest in the Limited Partnership.

Following impairment, interest income is recognised using the original effective interest rate which is used to discount the future cash flows for the purpose of measuring the impairment loss.

#### 1.8 Financial assets

The Limited Partnership classifies its financial assets into loans and receivables and financial assets held for sale. Purchases and sales of financial assets are recognised on trade date, being the date on which the Limited Partnership commits to purchase or sell the asset. Financial assets are initially recognised at fair value.

Interest is calculated using the effective interest method and credited to the income statement. Impairment losses and translation differences on monetary items are recognised in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Limited Partnership has transferred substantially all the risks and rewards of ownership and no longer controls the asset.

#### 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 the Limited Partnership has access at that date. The Limited Partnership considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and 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 the Limited Partnership 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 Statement of Comprehensive Income 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.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (*continued*)

### 1. Accounting policies (*continued*)

#### 1.8 Financial assets (*continued*)

##### **Determination of fair value of financial instruments (*continued*)**

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. Where quoted market prices have been used to value financial instruments, these have been disclosed as Level 1 in the fair value hierarchy.

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. The Limited Partnership'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. 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, the Limited Partnership considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities. Where observable market data has been used to value financial instruments, these have been disclosed as Level 2 in the fair value hierarchy.

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. Where the Limited Partnership has used unobservable market data to value financial instruments, these have been disclosed as Level 3 in the fair value hierarchy.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (*continued*)

### 1. Accounting policies (*continued*)

#### 1.8 Financial assets (*continued*)

##### **Valuation techniques (*continued*)**

The Limited Partnership 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**

The Limited Partnership recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

##### **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. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs, and are subsequently carried on an amortised cost basis.

Loans and receivables consist of loan cash flows receivable from AIB and balances with AIB undertakings.

#### 1.9 Impairment of financial assets

It is the Limited Partnership's policy to make provisions for impairment of financial assets to reflect the incurred losses in relation to those assets at the reporting date.

The underlying loans to customers have not been derecognised from UKLM's balance sheet and the Limited Partnership records its interest in the loans on its balance sheet as loans receivable from Partner undertakings, being UKLM. However, to assess the loan from UKLM for impairment, the Limited Partnership must assess the underlying loans to customers for objective evidence of impairment.

##### **Impairment**

The Limited Partnership 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 the Limited Partnership 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 the Limited Partnership 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:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies *(continued)*

#### 1.9 Impairment of financial assets *(continued)*

##### **Impairment loss**

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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

Any impairment losses recognised in respect of the relevant loans to customers on the UKLM Balance Sheet will result in an appropriate corresponding impairment of loans to and receivables from Partner undertakings in the Limited Partnership.

#### 1.10 Sale and repurchase agreements

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 the Limited Partnership. The liability to the counterparty is included separately on 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.

#### 1.11 Income tax

The Limited Partnership is a transparent entity for UK tax purposes and as such is not liable to UK corporation tax or income tax. For UK tax purposes, the profits of the Limited Partnership are apportioned to the partners in accordance with the Partnership Agreement and are taxed on the partners, depending on their individual circumstances.

#### 1.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months from the date of acquisition.

#### 1.13 Adoption of new accounting standards

The General Partner has considered all IFRSs and interpretations adopted during the period ended 31 December 2017 and confirm they do not believe they have any impact on the accounting policies, financial positioning or performance of the Limited Partnership.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (*continued*)

### 1. Accounting policies (*continued*)

#### 1.14 Prospective accounting changes

The following new accounting standards and amendments to existing standards approved by the IASB in 2017 or prior years, but not early adopted by the Limited Partnership, will affect the partnership's financial reporting in future periods. The Limited Partnership is currently considering the impacts of these amendments. The new accounting standards and amendments which are more relevant to the partnership are detailed below.

#### Annual improvements cycles/Other

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

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

#### IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Effective date:

Annual periods beginning on or after 1 January 2018.

#### IFRS 9, Financial Instruments

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

#### Classification and measurement

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

- A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI');
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision;
- There is no separation of an embedded derivative where the instrument is a financial asset;

#### Impairment

- Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required;
- The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit loss.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies *(continued)*

#### 1.14 Prospective accounting changes *(continued)*

##### IFRS 9, Financial Instruments *(continued)*

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.

##### Assessment of IFRS 9 impacts

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

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

The business model assessment test was performed as at the date of initial application. This classification applies retrospectively. The Limited Partnership assessed whether the financial assets met the conditions for recognising a change in the classification/measurement basis at that date. Impairment losses will be measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9. The Limited Partnership will apply IFRS 9 as issued at 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. The Limited Partnership will continue to refine this estimate during the transition period as new processes and systems are deployed and embedded.

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

##### Classification and measurement

Classification and measurement of financial assets will not result in any significant changes for the Limited Partnership.

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

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies *(continued)*

#### 1.14 Prospective accounting changes *(continued)*

##### IFRS 9, Financial Instruments *(continued)*

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

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

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

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

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

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

##### **Impairment**

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

The key policy principles are summarised below.

##### *Significant increase in credit risk*

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

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

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

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

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies *(continued)*

#### 1.14 Prospective accounting changes *(continued)*

##### IFRS 9, Financial Instruments *(continued)*

###### *Definition of Default*

The definition of credit impairment (stage 3) is aligned with the Limited Partnership's definition of default, with the exception of loans that meet derecognition criteria and are subsequently restructured. These are classified as stage 1 at the point of restructure. The Limited Partnership identifies defaults by using a number of characteristics, which may occur sequentially or simultaneously. The two key criteria resulting in a classification of default are:

- Where the Limited Partnership considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount;
- The credit obligor is 90 days or more past due on any material credit obligation.

Inputs to measurement of Expected Credit Losses ('ECL') The key inputs to the models in the measurement of ECLs are:

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

Models have been developed for the following key portfolios:

- (i) Small sized SMEs (Small business);
- (ii) Commercial real estate;
- (iii) Medium-sized SMEs and corporates.

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

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

###### *Forward looking macroeconomic scenarios*

The Limited Partnership uses macroeconomic scenarios for IFRS 9 that are consistent with those used for financial planning and stress testing purposes as they reflect the Limited Partnership's view of possible outcomes at a point in time without introducing undue conservatism.

###### *Hedge accounting*

IFRS 9 includes an accounting policy choice which allows entities remain with IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. The Limited Partnership 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.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies *(continued)*

#### 1.14 Prospective accounting changes *(continued)*

##### IFRS 9, Financial Instruments *(continued)*

###### *Disclosures/other*

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

Briefings to the business and various stakeholders throughout the Limited Partnership have taken place and will continue.

###### *Amendments to IFRS 9 'Prepayment Features with Negative Compensation'*

It has been determined that this amendment is not relevant for the Limited Partnership.

The amendments have yet to be endorsed by the EU.

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

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 2. Critical accounting judgements and estimates *(continued)*

#### **Loan impairment**

The Limited Partnership's accounting policy for impairment of financial assets is set out in the Accounting Policies section, Note 1.9. The provisions for impairment on loans and receivables at 31 December 2017 represent management's best estimate of the losses incurred in the loan portfolio at the reporting date and as set out in the accounting policy, this is linked to the performance of the underlying loan portfolio on the balance sheet of UKLM.

The estimation of these 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 the Limited Partnership 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. The Limited Partnership assesses its provisions and provision adequacy on a quarterly basis. These provisions are reviewed and approved by the AIB UK Credit Committee and the AIB Group Credit Committee on a quarterly basis.

#### *Specific provisions*

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

#### *Incurred but not reported provisions*

Incurred but not reported ("IBNR") provisions were not deemed necessary in the period as the loan portfolio the Limited Partnership has an interest in are managed on an individual basis, with specific provisions being raised as and when issues have been identified.

#### **Determination of fair value of financial instruments**

The Limited Partnership's accounting policy for the determination of fair value of financial instruments is set out in the Accounting Policies section, Note 1.8.

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.

The fair value of the loan portfolio at the date of transfer, 19 December 2013, was determined to be £587m. To determine this fair value, external consultants were engaged to conduct a market valuation of the portfolio at the date of transfer. The work performed by the external consultants was used as a basis for determining the fair value at which the assets would be transferred.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 3. Net interest income

	2017 £m	2016 £m
Interest and similar income		
- Interest receivable from group companies	15	18
- Amortisation of fair value adjustment*	8	8
	<b>23</b>	<b>26</b>

During 2017, Interest income recognised on impaired loans was £0.1m (2016 £0.2m).

\* This represents the amortisation of fair value discount in the year, using the effective interest rate method

### 4. Finance income

	2017 £m	2016 £m
Gains on disposal of financial assets	9	3
	<b>9</b>	<b>3</b>

The gain on disposal of financial assets included a gain of £12m (2016: £3m) from the accelerated amortisation of fair value adjustments using the effective interest rate method for unscheduled loan repayments and disposals made during the year.

In addition, a loan with a gross value of £13m and a net book value of £8m was sold to a third party for consideration of £5m, resulting in a loss of £3m, which is included in the gain on disposal of financial assets. The accelerated amortisation released from the fair value adjustment upon disposal of this loan was £5m.

### 5. Administrative expenses

	2017 £m	2016 £m
General and administrative expenses	1	1
	<b>1</b>	<b>1</b>

The total monthly average number of persons employed by the Limited Partnership during the period was nil (2016: nil).

The loans in which the Limited Partnership has an interest are held by UKLM. The loans held by UKLM are managed and serviced by AIB UK Group under a memorandum of understanding between the two companies.

AIB UK Group is remunerated by the Limited Partnership and UKLM for the cost of providing this service.

AIB UK Group recharged the Limited Partnership £1m in 2017 (2016: £1m), being the proportion of the costs of its personnel who carry out work for the Limited Partnership. This includes a charge for key management personnel who are employed by AIB UK Group, see Note 10 Related party transactions.

The auditor's remuneration of £50,400 (2016: £50,400) for the financial statements audit has been accrued within general and administrative expenses. This amount includes auditor's remuneration of £6,000 (2016: £6,000) for the financial statements audit of the General Partner.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)

### 6. Loans and receivables

	2017 £m	2016 £m
Loans and receivables from Parent (under repurchase agreements)	168	155
Loans and receivables from Partner undertakings	498	521
Less: Provision for impairment	-	(5)
<b>Loans and receivables</b>	<b>666</b>	<b>671</b>

	2017 £m	2016 £m
<b>Movement in provision for impairment of loans and receivables</b>		
<b>Specific provisions</b>		
At beginning of period	(5)	(5)
Disposal	5	-
<b>Total provisions at end of period</b>	<b>-</b>	<b>(5)</b>

<b>Maturity analysis</b>		
- over 5 years	436	471
- 5 years or less but over 1 year	4	16
- 1 year or less but over 3 months	39	10
- repayable on demand	187	174
	<b>666</b>	<b>671</b>

### 7. Credit risk disclosures

#### (a) Maximum exposure to credit risk

The table below sets out the maximum exposure to credit risk (net of existing impairments) of the loans held by UKLM that may impact the Limited Partnership, ignoring any collateral that may be held:

	2017 £m	2016 £m
Cash and cash equivalents	24	11
Loans and receivables <sup>1</sup>	666	671
<b>Maximum exposure to credit risk</b>	<b>690</b>	<b>682</b>

<sup>1</sup>Loans and receivables consist of £498m (2016: £516m) in loans to and receivables from Partner undertakings and £168m (2016: £155m) in loans to and receivables from AIB (under repurchase agreements).

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)

### 7. Credit risk disclosures (continued)

#### (b) Concentration exposure

The table below gives a breakdown of the gross loans to customers balance held by UKLM, in which the Limited Partnership has an interest, by borrower sector:

	31 December 2017		31 December 2016	
	Gross value £m	Fair value £m	Gross value £m	Fair value £m
Student accommodation	281	239	297	236
Private finance initiatives	288	277	296	266
Property investment	21	19	38	25
Housing associations	22	23	23	24
Charity and education	20	19	23	21
<b>Total loans</b>	<b>632</b>	<b>577</b>	<b>677</b>	<b>572</b>

The table below gives a breakdown of the gross loans to customers balance held by UKLM, in which the Limited Partnership has an interest, by transfer mechanism:

	31 December 2017		31 December 2016	
	Gross value £m	Fair value £m	Gross value £m	Fair value £m
Legal assignment	179	160	182	152
Sub-participation	453	417	495	420
<b>Total loans</b>	<b>632</b>	<b>577</b>	<b>677</b>	<b>572</b>

#### (c) Credit quality of loans and receivables

The table below shows the loan rating profile of the loans to customers balance held by UKLM in which the Limited Partnership has an interest:

Credit grade	31 December 2017		31 December 2016	
	Gross value £m	Fair value £m	Gross value £m	Fair value £m
1 – 3	613	558	647	556
4	19	19	-	-
8	-	-	30	16
<b>Total loans</b>	<b>632</b>	<b>577</b>	<b>677</b>	<b>572</b>

**Grades 1 – 3** would typically include strong lending at the upper end of the scale (Grade 1), satisfactorily performing exposures (Grade 2) and at the lower end of the scale (Grade 3) includes a portion of criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type).

**Grade 4** contains the remainder of the criticised loans, excluding impaired loans.

**Grade 5 – 8** contains loans in which management has lost confidence and there is a strong likelihood of loss.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)

### 7. Credit risk disclosures (continued)

#### *Past due but not impaired*

There is a loan balance of £19m in the private finance initiatives sector, that is past contractual due date, having passed its original maturity date of 31 December 2016, but is not impaired, as at 31 December 2017 (2016: £19m). The borrower has been given an extension of facilities to progress an agreed sale of the asset.

#### *(d) Collateral*

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 customer standing and/or the nature of the lending, the lending may be secured.

97% (2016: 97%) of the loans in which the Limited Partnership has an interest are secured on property. For property related lending, it is normal practice to take a charge over the property being financed. 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.

#### *(e) Forbearance*

AIB UK Group has a number of forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments. Where a customer requests forbearance, the circumstances are assessed on an individual loan case basis, and the request is considered as a potential impairment indicator, whether the forbearance is agreed to or not.

A commercial forbearance measure occurs when AIB UK Group, for reasons relating to the actual or apparent financial stress of the borrower, grants a concession or modification to the original contract terms to that borrower, which would otherwise not be justified, with a view to receiving more sustainable repayments and improved likelihood of ultimate repayment.

None of the loans in which the Limited Partnership has an interest have been identified as being subject to forbearance.

### 8. Other assets

	2017	2016
	£m	£m
Sale of loans awaiting settlement	5	-
	5	-

In December 2017, UKLM sold a portfolio of loans to a third party. The Limited Partnership had a beneficial interest in one of these loans which was sold for a consideration of £5m. The loan had a net book value of £8m and a loss on disposal of £3m has been recorded on this transaction for the Limited Partnership loan. The sale agreement was signed on 15th December 2017, and the loan derecognised from the Statement of Financial Position of the Limited Partnership at that date. A deposit was paid on signing with the remaining amount due for payment by the purchaser on 16 February 2018. The amount due to be received from the purchaser is £5m at 31 December 2017 and this amount was received from the purchaser on 16 February 2018.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 9. Partners' interests

Total comprehensive profit in the reporting period was allocated to the Partners' Current accounts, in accordance with the Limited Partnership agreement, in the order of priority shown in the table below.

Partner	Profit allocation	2017 £'000	2016 £'000
AIB PFP (General Partner) Limited	lower of 0.1% of profit, or £50,000	50	50
AIB Group (UK) p.l.c.	5% of Partner's Capital account	-	-
AIB UK Loan Management Limited	5% of Partner's Capital account	-	-
AIB Pensions UK Limited	annual contribution amount and any overdue contribution	19,190	19,100
AIB UK Loan Management Limited	remaining profit balance	12,280	8,964
		<b>31,430</b>	<b>28,114</b>

### 10. 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 the Limited Partnership's case, related parties comprise the Partners in the Limited Partnership, AIB and fellow subsidiaries of the Partners.

#### Parent and fellow subsidiaries

The table below provides the balances that the Limited Partnership has with AIB and fellow subsidiaries and the transactions included in the income statement.

	2017		2016	
	Partner £m	Partners £m	Partner £m	Partners £m
<b>Statement of Financial Position</b>				
Cash and cash equivalents	-	24	-	11
Loans to and receivables	168	488	155	516
Accruals	-	(5)	-	(4)
Contribution payable to UK scheme	-	(5)	-	(5)
<b>Statement of Comprehensive Income</b>				
Interest and similar income	-	15	-	18
Administrative expenses	-	(1)	-	(1)

#### Notes

- (a) Under the Limited Partnership agreement, cash held by the Limited Partnership can be utilised in sale and repurchase transactions with AIB on a short term basis

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 11. Fair value of financial instruments

The term “financial instrument” 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 Limited Partnership has access at that date.

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.

The fair values of the financial assets and liabilities, together with their carrying amounts shown in the statement of financial position are as follows:

	Note	2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
		£m	£m	£m	£m
<b>Assets</b>					
Cash and cash equivalents	(a)	24	24	11	11
Loans and receivables from AIB (under repurchase agreements)	(a)	168	168	155	155
Loans and receivables from Partner undertakings	(b)	400	577	516	572

#### Notes

(a) The fair value of these instruments is considered to equal the carrying value (Level 1).

(b) These instruments are carried at amortised cost. In the absence of quoted market prices, fair value is calculated using valuation techniques – primarily discounted cash flows analysis, using market data where possible (Level 3).

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)

### 12. Interest rate sensitivity

The table below sets out the re-pricing interest rate exposure of the Limited Partnership's assets and liabilities. This is the market risk to which the Limited Partnership is exposed.

The loans in which the Limited Partnership has an interest are recorded in the accounts of UKLM, not in the Limited Partnership. The Limited Partnership's interest in the loans is represented by an intercompany loans and receivables balance with UKLM. Given this accounting treatment, the interest rate re-pricing information below does not show the re-pricing dates of the underlying loans to customers in which the Limited Partnership has an interest, but the re-pricing of the intercompany assets. The interest re-pricing dates of the underlying loans to customers are included within the disclosures of UKLM's entire loan book in the financial statements of UKLM.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and maturity date. Transactions without defined re-pricing terms are shown according to management expectations. Contractual re-pricing 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 re-pricing periods presented.

							2017
	0<1 Months £m	1<3 Months £m	3<12 Months £m	1<5 Years £m	5+ Years £m	Non- interest bearing £m	Total £m
<b>Assets</b>							
Cash and cash equivalents	24	-	-	-	-	-	24
Loans and receivables*	662	-	-	-	-	(136)	666
Other assets	-	-	-	-	-	5	5
<b>Total assets</b>	<b>686</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(131)</b>	<b>695</b>
<b>Liabilities</b>							
Accruals	-	-	-	-	-	5	5
Contribution payable to UK scheme	-	-	-	-	-	5	5
Partner's capital	-	-	-	-	-	685	685
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>695</b>	<b>695</b>
<b>Interest rate sensitivity gap</b>	<b>686</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(626)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>686</b>	<b>686</b>	<b>686</b>	<b>686</b>	<b>686</b>	<b>-</b>	<b>-</b>

\* Loans and receivables re-pricing in less than one month consist of loans and receivables from partner undertakings (£632m), loans and receivables from AIB under repurchase agreements (£168m) and accrued fees (£2m). The non-interest bearing component of the loans and receivables balance consists of the unamortised fair value discount on loans transferred to the Limited Partnership (£136m).

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS *(continued)*

### 12. Interest rate sensitivity

	2016						
	0<1 Months £m	1<3 Months £m	3<12 Months £m	1<5 Years £m	5+ Years £m	Non- interest bearing £m	Total £m
<b>Assets</b>							
Cash and cash equivalents	11	-	-	-	-	-	11
Loans and receivables *	832	-	-	-	-	(161)	671
<b>Total assets</b>	<b>843</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(161)</b>	<b>682</b>
<b>Liabilities</b>							
Accruals	-	-	-	-	-	4	4
Contribution payable to UK Scheme	-	-	-	-	-	5	5
Partners' capital	-	-	-	-	-	673	673
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>682</b>	<b>682</b>
<b>Interest rate sensitivity gap</b>	<b>843</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(843)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>843</b>	<b>843</b>	<b>843</b>	<b>843</b>	<b>843</b>	<b>-</b>	<b>-</b>

\* Loans and receivables re-pricing in less than one month consist of loans and receivables from partner undertakings (£677m) and loans and receivables from AIB under repurchase agreements (£155m). The non-interest bearing component of the loans and receivables balance consists of the unamortised fair value discount on loans transferred to the Limited Partnership (£156m) and Provisions for impairment on these loans made in UKLM, subsequent to transfer (£5m).

### 13. Ultimate controlling party

The Limited Partnership is controlled by the General Partner. The parent company is AIB, a company registered in the Republic of Ireland. The financial statements of the Limited Partnership are consolidated in the financial statements of AIB. Under a Scheme of Arrangement approved by the High Court of the Republic of Ireland on 6 December 2017, which became effective on 8 December 2017, a new company registered in the Republic of Ireland, AIB Group plc, was introduced as the holding company of AIB. This is the largest undertaking of which the Limited Partnership is a member and for which group financial statements are prepared. The financial statements of AIB and AIB Group plc. are available from its registered address at Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at [www.aibgroup.com](http://www.aibgroup.com)

### 14. Events after the reporting period

On 16 February 2018 proceeds of £5m were received relating to the sale of a loan to a third party, as part of a portfolio of loans sold by UKLM. The loan was derecognised from the Statement of financial position of the Limited Partnership in December 2017.

There have been no other significant events since the reporting date.