IMPORTANT NOTICE

STRICTLY NOT TO BE FORWARDED TO ANY OTHER PERSONS

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached document and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached prospectus issued by and relating to Allied Irish Banks, p.l.c. (the "Company") dated 12 June 2017 (the "Prospectus") accessed from this page or otherwise received as a result of such access. In accessing the attached Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is confidential and intended for you only and you agree you will not reproduce, publish or forward this electronic transmission or the attached Prospectus to any other person. If you are not the intended recipient, please do not distribute or copy the information contained in the Prospectus and delete and destroy all copies of this transmission and the Prospectus. The Prospectus has been prepared solely in connection with the proposed offer by the Selling Shareholder (as defined in the Prospectus) to certain retail and institutional investors (the "Offer") of ordinary shares of the Company (the "Ordinary Shares") and the admission of all of the Company's Ordinary Shares to the primary listing segment of the Official List of the Irish Stock Exchange plc and trading on its main market for listed securities and admission of all of the Company's Ordinary Shares to the premium listing segment of the Official List of the Financial Conduct Authority (the "FCA") of the United Kingdom and to trading on the London Stock Exchange plc's main market for listed securities (together, "Admission"). The Prospectus has been approved by the Central Bank of Ireland (the "Central Bank"), as competent authority under Council Directive 2003/71/EC of 4 November 2003, as amended ("the Prospectus Directive"). Such approval relates only to the Ordinary Shares which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area (the "EEA"). The Prospectus has been made available to the public in Ireland and the United Kingdom by the same being made available, free of charge, in electronic form on the Company's website, www.aib.ie. and, free of charge in printed form, from the Company's registered office at Bankcentre, Ballsbridge, Dublin 4, Ireland, from AIB's UK office at St. Helen's, 1 Undershaft, London, EC3A 8AB, and at the offices of the following intermediaries: Campbell O'Connor & Company Limited, Cantor Fitzgerald Ireland Limited, J&E Davy, Goodbody Stockbrokers UC, Investec Capital & Investments (Ireland) Limited, Merrion Stockbrokers Limited, Redmayne-Bentley LLP and Quilter Cheviot Limited. Pricing information and other related information in connection with the Offer will also be published on this website in due course. Prospective investors are advised to access such pricing information and read the Prospectus in its entirety (and in particular the risk factors) prior to making an investment decision.

THIS ELECTRONIC TRANSMISSION AND THE ATTACHED PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND IN RELIANCE ON, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "US SECURITIES ACT") OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE US SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION AND THE ATTACHED PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QIB WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE

EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE SECURITIES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, FOR SO LONG AS THE SECURIES ARE "RESTRICTED SECURITIES" AS DEFINED IN RULE 144(a)(3) UNDER THE SECURITIES ACT, THE SECURITIES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF SECURITIES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK.

This electronic transmission and the attached Prospectus and the Offer when made are only addressed to and directed at persons in Ireland and in the United Kingdom and otherwise at persons in member states of the EEA who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors"). This electronic transmission and the attached Prospectus must not be acted on or relied on in any member state of the EEA (other than Ireland and the United Kingdom) by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to persons in Ireland and the United Kingdom and otherwise to Qualified Investors in any member state of the EEA and will be engaged in only with such persons.

Confirmation of Your Representation: This electronic transmission and the attached Prospectus is delivered to you on the basis that you are deemed to have represented to the Company and Deutsche Bank AG, London Branch, Merrill Lynch International, J&E Davy, Citibank Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc, UBS Limited and Investec Bank plc (Irish Branch) (collectively, the "Banks") that (i) you are (a) a QIB acquiring such securities for its own account or for the account of another QIB or (b) acquiring such securities in "offshore transactions", as defined in, and in reliance on, Regulation S under the Securities Act; (ii) if you are in any member state of the EEA other than Ireland or the United Kingdom, you are a Qualified Investor and/or a Qualified Investor acting on behalf of, Qualified Investors, to the extent you are acting on behalf of persons or entities in the EEA; (iii) if you are in Ireland or the United Kingdom, you are a relevant person and/or a relevant person acting on behalf of, relevant persons, to the extent you are acting on behalf of persons or entities in Ireland or the United Kingdom; (iv) any Ordinary Shares acquired by you in the Offer have not been acquired by you with a view to their offer or resale to any person in circumstance which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors; (iv) if you are not in the United States or the EEA, you are an institutional investor that is eligible to receive this Prospectus; and (v) you consent to delivery of the attached Prospectus by electronic transmission.

You have received this electronic transmission and the attached Prospectus on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. The Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Company, the Banks nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version. By accessing the attached Prospectus, you consent to receiving it in electronic form. None of the Banks nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the attached Prospectus or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the Ordinary Shares. The Banks and each of their respective affiliates, each accordingly disclaims all and any liability whether arising in tort, contract or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty express or implied, is made by any of the Banks or any of their respective affiliates as to the accuracy, completeness or sufficiency of the information set out in the attached Prospectus. Please ensure the copy of the Prospectus received by you is complete and does not appear to have been tampered with.

The distribution of this Prospectus and the offering and sale of the Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions could result in a violation of the laws of such jurisdictions. In particular, this document is not for distribution in or into Australia, Canada, Japan, South Africa, Switzerland or the United States, save in the United States for distribution to persons reasonably believed to be QIBs (as defined in Rule 144A under the US Securities Act), in Australia to persons who are wholesale clients for the purposes of section 761G of the *Corporations Act 2001* (Cth) ("Corporations Act") and are either sophisticated investors or are professional investors for the purposes of sections 708(8) or 708(11) of the Corporations Act respectively, and in Canada to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors (as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the

Securities Act (Ontario)) and are accredited clients (as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*).

The Banks are acting exclusively for the Selling Shareholder (as defined in the Prospectus) and the Company and no one else in connection with the Offer and will not regard any other person (whether or not a recipient of the Prospectus) as a client in relation to the Offer and will not be responsible to anyone other than the Selling Shareholder and the Company for providing the protections afforded to their respective clients, nor for giving advice in relation to the Offer or any transaction or arrangement referred to in the Prospectus.

You are responsible for protecting against viruses and other destructive items. Your receipt of the attached Prospectus via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Dated 12 June 2017.

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Prospectus, or as to what action you should take, you are recommended to immediately consult, if you are resident in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended) or the Investment Intermediaries Act 1995 (as amended) and, if you are resident in the United Kingdom, a person authorised under the Financial Services and Markets Act 2000 (the "FSMA") of the United Kingdom, or another appropriately authorised professional adviser if you are resident in a territory outside Ireland or the United Kingdom.

This document ("Prospectus") constitutes a prospectus for the purposes of Article 3 of the European Parliament and Council Directive 2003/71/EC of 4 November 2003, as amended (the "Prospectus Directive"), relating to Allied Irish Banks, p.l.c. (the "Company" and together with its subsidiaries, "AIB" or the "Group") and has been prepared in accordance with Chapter 1 of Part 23 of the Companies Act 2014, as amended (the "Companies Act"), Part 5 of the Prospectus (Directive 2003/71 EC) Regulations 2005 of Ireland, as amended (the "Irish Prospectus Regulations"), and Commission Regulation (EC) No. 809/2004, as amended. This Prospectus has been approved by the Central Bank of Ireland (the "Central Bank"), as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the ordinary shares of the Company (the "Ordinary Shares") which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. The Company's Ordinary Shares are currently admitted to trading on the Enterprise Securities Market of the Irish Stock Exchange (the "ESM"). Application has been made to the Irish Stock Exchange plc (the "Irish Stock Exchange") for the Ordinary Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange (the "Irish Official List") and to trading on its main market for listed securities. The Company has requested that the Central Bank provides a certificate of approval and a copy of this Prospectus to the Financial Conduct Authority (the "FCA") in the United Kingdom in connection with the offer of Ordinary Shares to the public in the United Kingdom and the application that the Company will make to the FCA for all the Ordinary Shares to be admitted to listing on the premium listing segment of the Official List of the FCA (the "UK Official List" and, together with the Irish Official List, the "Official Lists") and to the London Stock Exchange plc (the "London Stock Exchange") for all of the Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. In connection with the offer of Ordinary Shares to certain institutional and retail investors (the "Offer"), up to 678,595,310 existing Ordinary Shares (the "Offer Shares") are being made available by the Minister for Finance (the "Selling Shareholder") as further described in "*Part XX: Terms and Conditions of the Offer*". It is expected that trading in the Ordinary Shares on the ESM will be suspended at 8:00 a.m. on 23 June 2017 and that conditional dealings on the Irish Stock Exchange and the London Stock Exchange will commence at 8:00 a.m. on 23 June 2017. Admission to the Official Lists, together with admission to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange constitutes admission to official listing on a stock exchange ("Admission"). No application is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 27 June 2017. The earliest date for settlement of such dealings will be 27 June 2017. All dealings in Ordinary Shares following suspension of trading on the ESM prior to the commencement of unconditional dealings on the Irish Stock Exchange and the London Stock Exchange will be on a conditional basis, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. Immediately before Admission, the admission of the Ordinary Shares to trading on the ESM will be cancelled. This Prospectus has been made available to the public in Ireland and the United Kingdom in accordance with Part 8 of the Irish Prospectus Regulations and the UK Prospectus Rules by the same being made available, free of charge, in electronic form on the Company's website, www.aib.ie. and, free of charge in printed form, during normal business hours on each business day up until Admission from the Company's registered office at Bankcentre, Ballsbridge, Dublin 4, Ireland, from AIB's UK office at St. Helen's, 1 Undershaft, London EC3A 8AB and at the offices of the following intermediaries: Campbell O'Connor & Company Limited, Cantor Fitzgerald Ireland Limited, J&E Davy, Goodbody Stockbrokers UC, Investec Capital & Investments (Ireland) Limited, Merrion Stockbrokers Limited, Redmayne-Bentley LLP and Quilter Cheviot Limited. You should read this Prospectus in its entirety and, in particular, the risk factors set out in the section of this Prospectus entitled "*Part II: Risk Factors*".

Each of the directors of the Company, whose names appear on page 76 of this Prospectus (the "Directors"), and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

AIB

Allied Irish Banks, p.l.c.

(incorporated in Ireland and registered in Ireland under the Companies Act 2014 with registered number 24173)

Offer of up to 678,595,310 Ordinary Shares of €0.625 each at an Offer Price expected to be between €3.90 and €4.90 per Ordinary Share
and
Admission to the Official Lists of the Irish Stock Exchange and the FCA and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange

BofA Merrill Lynch
Joint Global Co-ordinator and Joint Bookrunner

Davy
Joint Global Co-ordinator, Joint Bookrunner and Retail Settlement Agent

Deutsche Bank AG
Joint Global Co-ordinator, Joint Bookrunner and Stabilising Manager

Citigroup
Joint Bookrunner

Goldman Sachs
Joint Bookrunner

J.P. Morgan Cazenove
Joint Bookrunner

UBS Investment Bank
Joint Bookrunner

Investec
Co-Lead Manager

Morgan Stanley
Joint Broker, Joint Financial Advisor and UK Sponsor

Goodbody
Joint Broker, Joint Financial Advisor, Irish Sponsor and Joint Bookrunner

Pursuant to the Offer, the Selling Shareholder is currently expected to sell up to 678,595,310 Offer Shares, representing up to 25 per cent. of the issued ordinary share capital of the Company on Admission. The Company will not receive any of the proceeds of the sale of the Offer Shares, all of which will be received by the Selling Shareholder.

The Offer Price Range and Offer Size Range have been set by the Selling Shareholder. It is currently expected that the Offer Price will be set within the Offer Price Range and that the number of Offer Shares to be sold by the Selling Shareholder will be set within the Offer Size Range. A number of factors will be considered in determining the Offer Price, the Offer Size and the basis of allocation to investors, including the level and nature of the demand for the Offer Shares, (including through the Intermediaries Offer), prevailing market conditions and the objective of encouraging an orderly after-market in the Ordinary Shares. Unless required to do so by law or regulation, the Company does not envisage publishing any supplementary prospectus or a pricing statement, as the case may be, until announcement of the Offer Price and Offer Size. A Pricing Statement containing the Offer Price, confirming the Offer Size and containing any other outstanding information is expected to be published on or around 23 June 2017. If the Offer Price is set above the Offer Price Range and/or the number of Offer Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the Irish Stock Exchange and the FCA), then the Selling Shareholder would make an announcement via a Regulatory Information Service and prospective investors would have a right to withdraw their offer to purchase Offer Shares. The arrangements for withdrawing offers to purchase Offer Shares would be made clear in any such announcement. Further details of how the Offer Price and the Offer Size will be determined are contained in "*Part XX: Terms and Conditions of the Offer*".

Deutsche Bank AG, London Branch, Merrill Lynch International and J&E Davy have been appointed as Joint Global Co-ordinators and Joint Bookrunners, Morgan Stanley & Co. International plc has been appointed as UK sponsor (the "UK Sponsor"), Joint Broker and Joint Financial Advisor, Goodbody Stockbrokers UC has been appointed as Irish sponsor (the "Irish Sponsor"), Joint Broker and Joint Financial Advisor, Citigroup Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove) and UBS Limited have been appointed as Joint Bookrunners and Investec Bank plc (Irish Branch) has been appointed as Co-Lead Manager. The Joint Bookrunners and Co-Lead Manager are collectively referred to herein as the "Underwriters". Morgan Stanley & Co. International plc (in its capacity as UK Sponsor) and Goodbody Stockbrokers UC (in its capacity as Irish Sponsor) are each acting exclusively for the Company and no one else in connection with the Offer. They will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients, nor for giving advice in relation to the Offer or any transaction or arrangement referred to in this Prospectus. The Underwriters are each acting exclusively for the Selling Shareholder and the Company and no one else in connection with the Offer. They will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Offer and will not be responsible to anyone other than the Selling Shareholder and the Company for providing the protections afforded to their respective clients, nor for giving advice in relation to the Offer or any transaction or arrangement referred to in this Prospectus.

Deutsche Bank AG is authorised under the German Banking Law (competent authority: European Central Bank (the "ECB")) and, in the United Kingdom, by the Prudential Regulation Authority (the "PRA"). It is subject to supervision by the ECB and by the German Federal Financial Supervisory Authority (*Die Bundesanstalt für Finanzdienstleistungsaufsicht*), and is subject to limited regulation in the United Kingdom by the PRA and the FCA.

J&E Davy and Goodbody Stockbrokers UC are authorised and regulated in Ireland by the Central Bank. Goodbody Stockbrokers UC is authorised and subject to limited regulation in the UK by the Financial Conduct Authority.

Investec Bank plc (Irish Branch) is authorised by the PRA in the United Kingdom and regulated by the Central Bank for conduct of business rules. Merrill Lynch International, Citigroup Global Markets Limited, Goldman Sachs International, J.P. Morgan Securities plc and UBS Limited are authorised in the United Kingdom by the PRA and regulated in the United Kingdom by the PRA and FCA.

None of Deutsche Bank AG, London Branch, Merrill Lynch International, J&E Davy, Citigroup Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc, UBS Limited or Investec Bank plc (Irish Branch) makes any representation or warranty, express or implied, in respect of the contents of this Prospectus, including its accuracy, completeness or verification, or for any other statement made or purported to be made by any of them, or on behalf of them, in connection with the Company and nothing in this Prospectus is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. In addition, none of Deutsche Bank AG, London Branch, Merrill Lynch International, J&E Davy, Citigroup Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc, UBS Limited or Investec Bank plc (Irish Branch) or persons affiliated with them accept responsibility for, or authorise the contents of, this Prospectus or its issue, including without limitation, under section 1349 of the Companies Act or Regulation 31 of the Irish Prospectus Regulations. Each of Deutsche Bank AG, London Branch, Merrill Lynch International, J&E Davy, Citigroup Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc, UBS Limited and Investec Bank plc (Irish Branch) and persons affiliated with them accordingly disclaim all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which they might otherwise have to any person in respect of this Prospectus or any such statement.

The Underwriters, the Sponsors and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company and/or the Selling Shareholder for which they would have received customary fees. None of the Underwriters or the Sponsors intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

In connection with the Offer, Deutsche Bank AG, London Branch (the "Stabilising Manager") or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilising period, the Selling Shareholder has granted to it the Over-allotment Option, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Ordinary Shares up to a maximum of 15 per cent. of the total number of Offer Shares within the final Offer Size (the "Over-allotment Shares") at the Offer Price. The Over-allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with all other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be purchased on the same terms and conditions as the Ordinary Shares sold in the Offer and will form a single class for all purposes with the other Ordinary Shares. Where the context so requires, references in this Prospectus to the "Offer Shares" include the Over-allotment Shares.

Recipients of this Prospectus are authorised solely to use it for the purpose of considering the acquisition of the Offer Shares and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Offer Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

The Company consents to the use of this Prospectus by the Intermediaries in connection with the Intermediaries Offer in Ireland and the United Kingdom on the following terms: (i) in respect of Intermediaries invited to participate in the Intermediaries Offer prior to the date of this Prospectus, from the date of this Prospectus; and (ii) in respect of Intermediaries invited to participate in the Intermediaries Offer after the date of this Prospectus, from the date on which they are invited to participate in the Intermediaries Offer and agree to adhere to and be bound by the terms of the Intermediaries Agreement, in each case until the end of the Offer Period. The Company and the Directors accept responsibility for the information contained in this Prospectus with respect to any purchaser of Offer Shares pursuant to the Intermediaries Offer. **Any Intermediary that uses this Prospectus must state on its website that it uses this document in accordance with the Company's consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any retail investor who has expressed an interest in participating in the Intermediaries Offer. Intermediaries will provide information on the terms and conditions of the Intermediaries Offer to retail investors at the time the Intermediaries Offer is made. Any application made by retail investors to any Intermediary is subject to the terms and conditions imposed by each Intermediary.**

The Offer Shares are subject to conditions and selling and transfer restrictions in certain jurisdictions. Prospective purchasers should read the conditions and restrictions contained in "*Part XX: Terms and Conditions of the Offer*". Each purchaser of the Offer Shares will be deemed to have made the relevant representations made therein.

This Prospectus does not constitute an offer to sell or an invitation to purchase, or the solicitation of an offer to buy, any Offer Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

None of the Minister for Finance, the Irish Department of Finance, the Irish Government, the National Treasury Management Agency (the "NTMA") or any person controlled by or controlling any such person, or any entity or agency of or related to the Irish State, or any director, officer, official, employee or adviser (including, without limitation, legal and financial advisers) of any such person (each such person, a "relevant person" for the purposes of this paragraph) accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the accuracy, completeness or fairness of any information in, this Prospectus or any document referred to in this Prospectus or any supplement or amendment thereto (each a "transaction document" for the purposes of this paragraph) or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Offer Shares or the Offer and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. To the fullest extent permitted by law, each relevant person expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of any transaction document or any such statement. No relevant person has authorised or will authorise the contents of any transaction document, or has recommended or endorsed the merits of the offering of securities or any other course of action contemplated by any transaction document.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Underwriters or the Sponsors by the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), the Investment Intermediaries Act 1995, the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters nor the Sponsors accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Offer Shares or the Offer and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Underwriters and the Sponsors, accordingly, disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

Prior to making any decision as to whether to invest in the Offer Shares, prospective investors should read this Prospectus in its entirety and, in particular, the risk factors set out in the section of this Prospectus entitled *"Part II: Risk Factors"*, when considering an investment in the Company. In making an investment decision, prospective investors must rely upon his or her own examination, analysis and enquiries of the Company and the terms of this Prospectus, including the merits and risks involved.

The distribution of this Prospectus and the offer of the Offer Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Selling Shareholder or the Underwriters to permit a public offering of the Offer Shares or to permit the possession, issue or distribution of this Prospectus in any jurisdiction where action for that purpose may be required other than Ireland and the United Kingdom. Accordingly, neither this Prospectus nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

In particular (other than in Ireland and the United Kingdom in relation to the Offer), no actions have been taken to allow a public offering of the Offer Shares under the applicable securities laws of any jurisdiction, including Australia, Canada, Japan, South Africa, Switzerland or the United States. Subject to certain exceptions, the Offer Shares may not be offered or sold in any jurisdiction, or to or for the account or benefit of any national, resident or citizen of any jurisdiction, including Australia, Canada, Japan, South Africa, Switzerland or the United States.

The Offer Shares have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered, sold, resold, pledged, delivered, distributed or transferred, directly or indirectly, in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Offer Shares are being offered and sold (i) outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and (ii) in the United States only to persons the sellers reasonably believe to be "qualified institutional buyers" ("QIBs") as defined in Rule 144A under the Securities Act ("Rule 144A") in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act. Prospective investors are hereby notified that the seller of the Offer Shares may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

None of the US Securities and Exchange Commission, any other US federal or state securities commission or any US regulatory authority has approved or disapproved of the Offer nor have such authorities reviewed or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.

This Prospectus is dated 12 June 2017.

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PART I
SUMMARY

Summaries are made up of disclosure requirements known as 'Elements'. These Elements are numbered in Sections A to E (A.1 to E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of "not applicable".

Section A—Introduction and Warnings		
A.1	Introduction:	**THIS SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THIS PROSPECTUS. ANY DECISION TO INVEST IN THE SHARES SHOULD BE BASED ON CONSIDERATION OF THE PROSPECTUS AS A WHOLE BY THE INVESTOR.** **Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Union ("Member States"), have to bear the costs of translating this Prospectus before the legal proceedings are initiated.** Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Subsequent resale of securities or final placement of securities by financial intermediaries:	The Intermediaries authorised at the date of this Prospectus to use this Prospectus in connection with the Intermediaries Offer are: Campbell O'Connor & Company Limited, Cantor Fitzgerald Ireland Limited, J&E Davy, Goodbody Stockbrokers UC, Investec Capital & Investments (Ireland) Limited, Merrion Stockbrokers Limited, Redmayne-Bentley LLP and Quilter Cheviot Limited. Additional intermediary financial institutions may be invited by the Minister for Finance (the "Selling Shareholder") and the Company to participate in the Intermediaries Offer after the date of this Prospectus. The Company consents to the use of this Prospectus by the Intermediaries in connection with the Intermediaries Offer in Ireland and the United Kingdom on the following terms: (i) in respect of Intermediaries invited to participate in the Intermediaries Offer prior to the date of this Prospectus, from the date of this Prospectus; and (ii) in respect of Intermediaries invited to participate in the Intermediaries Offer after the date of this Prospectus, from the date on which they are invited to participate in the Intermediaries Offer and agree to adhere to and be bound by the terms of the Intermediaries Agreement, in each case until the end of the Offer Period. The Offer will commence on the date hereof. Retail investors in Ireland and the United Kingdom interested in participating in the Intermediaries Offer should apply for Offer Shares through the Intermediaries by following their relevant application procedures. Retail investors should obtain confirmation from their chosen Intermediary as to the time and date by which their completed application to participate in the Intermediaries Offer must be received by their chosen Intermediary. **Any Intermediary that uses this Prospectus must state on its website that it uses this Prospectus in accordance with the Company's consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any retail investor who has expressed an interest in participating in the Intermediaries Offer to such Intermediary. Any application made by retail investors to any Intermediary is subject to the terms and conditions imposed by each Intermediary.**

Section B—Issuer		
B.1	Legal and commercial name of the issuer:	The legal and commercial name of the Company is Allied Irish Banks, p.l.c.
B.2	Domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation:	The Company was incorporated in Ireland on 21 September 1966 as a limited company under the former Companies Act 1963 under the name Allied Irish Banks Limited. On 2 January 1985, the Company changed its name to its present name, Allied Irish Banks, p.l.c., and was re-registered under the former Companies Acts 1963 to 1983 as a public limited company. The Company is registered under company number 24173 under the Companies Act 2014, as amended (the "Companies Act"), the principal legislation under which it operates, as a public limited company. The Company is domiciled in Ireland. Its head office and registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland (telephone number +353 1 660 0311). On 3 February 2017, AIB announced that it had been notified by the Single Resolution Board (the "SRB") that the preferred resolution strategy for AIB consists of a single point of entry bail-in at a group holding company level, which would require the establishment of a holding company directly above the Company ("HoldCo"). AIB currently expects, by the end of 2017 and subject to the receipt of necessary consent of the Minister for Finance as well as regulatory, shareholder and court approvals, to set up HoldCo as the holding company of AIB by way of a court approved scheme of arrangement which, if approved, will result in the Company's shareholders receiving, in exchange for their Ordinary Shares, new ordinary shares in HoldCo.
B.3	A description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes:	AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB had leading market shares in its core retail banking products within Ireland in 2016 including a 36 per cent. share of mortgages across all three of its mortgage brands, according to Banking and Payments Federation Ireland published figures for mortgage lending flows, as well as a 37 per cent. share of personal main current accounts, a 22 per cent. share of personal loans and a 35 per cent. share of personal credit cards, according to the Ipsos MRBI Personal Tracker Q4 2016. AIB also retains strong market shares in products for small- and medium-sized enterprises ("SMEs"), including a 44 per cent. share of business current accounts, a 36 per cent. share of main business loans, a 26 per cent. share of business leasing and a 43 per cent. share of business credit cards for 2016, according to the AIB SME Financial Monitor 2016. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB). AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Section B—Issuer		
		AIB is managed through the following segments: • Retail & Commercial Banking ("RCB"): RCB is Ireland's leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 297 locations, including 205 AIB branches, 71 EBS offices, 20 business centres and 1 digital banking location, 985 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at over 1,100 locations in Ireland, although An Post is currently completing a review of the An Post network which may lead to a reduction in the number of post offices. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS (net promoter score—a measurement tool that tracks customers' loyalty and advocacy) and underpins a broader efficiency agenda. • Wholesale, Institutional & Corporate Banking ("WIB"): WIB provides wholesale, institutional and corporate banking services to AIB's larger customers or customers requiring specific sector or product expertise. WIB serves customers through a relationship-driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB's activities in New York comprise Syndicated & International Finance activities. • AIB UK: AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and is in the process of migrating to a more integrated business model, having announced in February 2017 the closure of 15 of its 30 branches. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK's overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland. • Group: The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

Section B—Issuer		
		Within the above segments, AIB has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group (the "FSG"), AIB's standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. AIB is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.
B.4a	Most significant recent trends affecting the issuer and the industries in which it operates:	***Significant Trends*** AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB). Significant recent trends affecting AIB include: *Economic Recovery* AIB's activities in Ireland and the United Kingdom account for the majority of its business. As a result, the performance of the Irish economy is extremely important to it. Its operations in the United Kingdom also mean that it is influenced directly by political, economic and financial developments there, as well as indirectly through the impact of such developments in the United Kingdom on the Irish economy. Ireland's improved economic environment has had a very favourable impact on AIB's performance in the periods under review. Growing GDP, falling unemployment and increased consumer spending have all contributed to Ireland being one of the fastest growing Eurozone economies in each of the past three years, according to data from Business Monitor International and the Central Statistics Office of Ireland (the "CSO") Statbank. According to CSO National Accounts data, GDP in Ireland rose by 5.2 per cent. in 2016, following growth of 26.3 per cent. (which was skewed by certain one-off factors including companies relocating assets to Ireland from abroad) and 8.5 per cent. during 2015 and 2014 respectively. Despite uncertainties as to the potential impact of the United Kingdom's decision to withdraw from the European Union ("Brexit"), the Irish economy is expected to continue to grow at attractive rates over the next several years, with the Irish Department of Finance forecasting GDP growth of 4.3 per cent. for 2017, 3.7 per cent. for 2018 and 3.1 per cent. for 2019. Conditions in the Irish labour markets have also improved steadily since 2012 with growth in total employment each year. In addition, the Irish housing market has continued to show signs of recovery, albeit at low activity levels and from a very low base, with increases in mortgage approvals and transactions, as well as price increases. Similarly, GDP in the United Kingdom has continued to increase, with growth of 1.8 per cent., 2.2 per cent. and 3.1 per cent. in 2016, 2015 and 2014, respectively. The IMF has forecasted GDP growth of 2.0 per cent. in the United Kingdom for 2017. As a result of improving macro-economic conditions in Ireland and the United Kingdom, AIB's new lending volumes have been improving and its impaired loan book has been decreasing. In 2016, AIB had €8.7 billion in new lending across all segments, compared to €5.7 billion in 2014. The asset quality of AIB's loan portfolio has also been improving, with gross impaired loans decreasing from €22.2 billion as at 31 December 2014 to €8.6 billion as at 31 March 2017, while maintaining a stable asset yield. AIB expects that further improvement in economic conditions will help it to continue to achieve growth in new lending volumes and further stabilise asset quality.

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		Brexit Improved economic conditions in Ireland and the United Kingdom and trade, business and other connections between those countries are in jeopardy as a result of Brexit. Although the overall impact of the United Kingdom's withdrawal from the European Union remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. Legal, fiscal and regulatory impediments to trade and services (including banking) may be introduced between the remaining member states of the European Union (including Ireland) and the United Kingdom. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB. In Ireland, any negative impact on the economy may be disproportionate on sectors which have significant linkages to the United Kingdom, such as agriculture, tourism and the border area generally. Exports from Ireland to the United Kingdom have been and may continue to be adversely affected by weakness of the exchange rate of the pound sterling against the euro and that weakness may increase over the course of the Brexit process. *Loan Restructuring* Mortgage delinquencies increased in 2008 as interest rates continued to increase up to mid-2008 and housing oversupply persisted. This was heightened by the start of the decline of the Irish economy following the onset of the global financial crisis in 2008. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property, and residential mortgage sectors, to which AIB was heavily exposed, increased substantially. During recent years, AIB has been focused on restructuring its loan portfolio through the implementation of sustainable solutions for customers in difficulty. AIB's plan to reduce impaired loans includes restructuring as well as sales and redemptions, cures, portfolio sales and other strategic initiatives. As at 31 March 2017, AIB had €17.8 billion in criticised loans on its balance sheet, representing 27 per cent. of total loans, compared to €34.0 billion, representing 45 per cent. of total loans, as at 31 December 2014. Balance sheet provisions have decreased from €12.4 billion as at 31 December 2014 to €4.5 billion (including provisions on loans held for sale) as at 31 March 2017 due to the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty combined with improved economic conditions in Ireland and the United Kingdom. AIB recognised net credit provision writebacks on its income statement of €294 million, €925 million and €185 million in 2016, 2015 and 2014, respectively. Key drivers of the writebacks include increased security values and improved business cash flows due to the stronger economic environment, cases cured from impairment and additional security gained as part of the restructuring process. During 2016, AIB began to experience an expected slowdown in restructuring momentum as the primary restructuring period concludes and it is now primarily dealing with those cases which are of lower monetary value, more complex, more specific to an individual's circumstances and more protracted in nature. In addition, a larger proportion of the remaining loans being resolved are subject to enforcement and the legal process associated with these takes more time than a consensual process. Going forward, AIB expects that the level of impaired loans will continue to decrease but at a lower rate than has been the case to date.

Section B—Issuer		
		Capital Reorganisation The impact of the global financial crisis and the deterioration of Ireland's property market commencing in 2008 presented funding and liquidity issues for AIB and led to a rapid deterioration of its capital base. This necessitated several capital investments by the Irish Government in the Company and EBS amounting to a total of €20.8 billion. These included, in the case of the Company, the issuance of €3.5 billion of 2009 Preference Shares to the National Pensions Reserve Fund Commission (the "NPRFC") in May 2009, the issuance of €3.8 billion of new ordinary shares to the NPRFC in December 2010 (net proceeds of €3.7 billion), a placing of a further €5.0 billion of new ordinary shares to the NPRFC in July 2011, capital contributions totalling €6.1 billion from the Minister for Finance and the NPRFC also in July 2011 and the issuance of €1.6 billion of contingent capital tier 2 notes ("CCNs") at par to the Minister for Finance in July 2011 and, in the case of EBS, the issuance to the Minister for Finance of an aggregate of €625 million of Special Investment Shares in May and December 2010 and a promissory note with an initial principal amount of €250 million provided by the Minister for Finance to EBS on 17 June 2010 (the "EBS Promissory Note"). Those ordinary shares in the capital of the Company and the 2009 Preference Shares held by the NPRFC became assets of the Ireland Strategic Investment Fund (the "ISIF"), which is controlled and managed by the NTMA, in 2014. Ownership of the ISIF vests in the Minister for Finance. AIB completed the 2015 Capital Reorganisation in December 2015. The 2015 Capital Reorganisation was designed to enable AIB to return capital to the Irish Government in line with its obligations under AIB's restructuring plan approved by the European Commission ("EC") in May 2014 (the "Restructuring Plan"), contribute to growth in AIB's business, meet CRD IV regulatory requirements, allow for future dividend payments, align AIB's capital structure with market norms and investor expectations, and position AIB for a return to private ownership over time. In conjunction with the 2015 Capital Reorganisation, the Company issued €750 million of subordinated Tier 2 notes and €500 million AT1 Notes, both in the fourth quarter of 2015. The 2015 Capital Reorganisation included the partial redemption of the 2009 Preference Shares (1.36 billion of the 3.5 billion 2009 Preference Shares were redeemed for cash at 125 per cent. of the subscription price resulting in a repayment of €1.7 billion), with the remainder being converted into ordinary shares in the capital of the Company at 125 per cent. of the subscription price. Furthermore, an accrued dividend on the 2009 Preference Shares of €166 million was paid to the NTMA (as manager and controller of the ISIF). In addition, the 2015 Capital Reorganisation involved the redemption by the Minister for Finance of the EBS Promissory Note. The 2015 Capital Reorganisation received regulatory approval from the Single Supervisory Mechanism ("SSM") and was approved by the holders of Ordinary Shares (the "Shareholders") at an extraordinary general meeting ("EGM") of the Company held on 16 December 2015. On conversion of the 2009 Preference Shares, the Company had 678.6 billion ordinary shares of €0.0025 in issue. The 2015 Capital Reorganisation also included a share consolidation of the Company's ordinary shares that resulted in Shareholders receiving one new ordinary share of €0.625 for every 250 existing ordinary shares (with a rounding up of any fractional shareholdings of less than 250 ordinary shares in the capital of the Company). The Company now has approximately 2.7 billion Ordinary Shares of €0.625 each in issue.

As part of the 2015 Capital Reorganisation, the Company entered into the Warrant Agreement with the Minister for Finance and granted the Minister the right to receive warrants to subscribe for additional Ordinary Shares. On 26 April 2017, the Minister for Finance exercised his rights under the Warrant Agreement by issuing a Warrant Notice to the Company requiring the Company to issue Warrants to the Minister to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event as defined in the Warrant Agreement), (calculated on the basis that none of the Warrants have been exercised). In accordance with the terms of the Warrant Agreement, no cash consideration will be payable by the Minister for Finance to the Company in respect of the issue of the Warrants. Assuming Admission occurs, the exercise price for the Warrants is 200 per cent. of the Offer Price which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the holder of the Warrants during the period commencing on the first anniversary of Admission and ending on the tenth anniversary of Admission.

Upon the maturity and redemption of the CCNs in July 2016, the Company made a further capital repayment to the Minister for Finance of €1.6 billion, as well as a coupon payment of €160 million to the Minister for Finance. A final dividend in the amount of €250 million in respect of the Ordinary Shares for the financial year ended 31 December 2016 was approved by Shareholders at the annual general meeting of the Company held on 27 April 2017 (the "2017 AGM") and paid on 9 May 2017. The dividend equated to €0.0921 per Ordinary Share based on the number of Ordinary Shares for 2016, which was 2.714 billion.

The simplification of AIB's capital structure, in particular the maturity of the CCNs, has contributed to a reduction in the cost of its liabilities and therefore an increase in its net interest margin. AIB's net interest margin excluding ELG Scheme charge increased 28 basis points to 2.25 per cent. for the year ended 31 December 2016 from 1.97 per cent. for the year ended 31 December 2015. AIB reported a net interest margin of 2.46 per cent. for the three months ended 31 March 2017, excluding the ELG Scheme charge and one-off income for cured loans (which are defined as loans upgraded from impaired without incurring financial loss).

AIB's return to profitability in 2014, 2015 and 2016 has also resulted in strong organic capital generation. During 2015 and 2016, AIB's capital ratios have been robust, with all capital ratios being in excess of AIB's regulatory requirements, as communicated by the SSM as part of its supervisory review and evaluation process.

ELG Scheme, bank levies and other regulatory costs

ELG Scheme. As part of new regulations introduced in response to the global financial crisis, there has generally been an increase in levies and other regulatory costs for certain Irish banks, including AIB. In December 2009, in order to continue to stabilise the Irish banking sector after the establishment of the CIFS Scheme, the Irish Department of Finance established the ELG Scheme, which facilitated participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of five years. AIB joined the ELG Scheme in January 2010. With effect from 28 March 2013, the ELG Scheme was closed for all new liabilities, reflecting improved and more stabilised funding conditions. As the maximum duration of liabilities under the ELG Scheme is five years, all liabilities will roll off by no later than 29 March 2018. AIB's total liabilities guaranteed under the ELG Scheme as at 31 March 2017 amounted to €0.9 billion.

Section B—Issuer		
		Participating institutions must pay a fee to the Minister for Finance in respect of each liability guaranteed under the ELG Scheme. For the years ended 31 December 2016, 2015 and 2014, AIB paid €17 million, €30 million and €59 million, respectively, in fees in connection with the ELG Scheme. These charges are included within interest expense. The ELG Scheme charge had a negative impact of 2, 3 and 6 basis points on AIB's net interest margin for the years ended 31 December 2016, 2015 and 2014, respectively. As existing liabilities that are covered by the scheme mature, the ELG Scheme charge will continue to decrease, which will have a positive impact on AIB's net interest margin. *Bank levies and other regulatory costs.* The Irish bank levy fee, payable annually in October, is a form of stamp duty that applies through to 2021. The Deposit Guarantee Scheme, established in 2016, is a statutory deposit protection scheme requiring credit institutions to pay an annual contribution based on their covered deposits and degree of risk. The Single Resolution Fund fee, introduced in 2016, is a fee imposed pursuant to the Single Resolution Mechanism ("SRM") as part of the new regulations designed to protect the European banking system. In the year ended 31 December 2016, AIB paid bank levies and regulatory fees of €112 million, including the Irish bank levy in the amount of €60 million, the Deposit Guarantee Scheme (including its legacy fund) contribution in the amount of €35 million and the Single Resolution Fund fee in the amount of €18 million, partially offset by a €1 million credit on other regulatory fees. ***Current Trading*** AIB's performance since 31 March 2017 has been consistent with the improved outturn evidenced in the three months ended 31 March 2017, with continued strong performance in net interest income and other income, in line with the Directors' expectations. Net interest margin continues to be positively impacted by stable asset yields, lower funding costs and further redemptions of NAMA senior bonds. AIB's operating costs remain consistent with the Directors' expectations with continued focus on cost management and continued management of the factors expected to impact costs in 2017 including wage inflation, continued investment in loan restructuring and increased cost of regulatory compliance. AIB's three-year €870 million investment programme is on track and will conclude in 2017. AIB has maintained momentum in its loan book with new lending contributing to growth in earning loans and the reduction in impaired loans continuing as planned since 31 March 2017. In addition, since 31 March 2017, AIB has reached agreement with a wholly-owned subsidiary of Goldman Sachs to sell a portfolio of impaired buy-to-let loans, the vast majority of which are in deep long-term arrears. Overall, the transaction, with an approximate €0.2 billion net value, is expected to be capital accretive. On 5 April 2017, there was a further redemption of NAMA senior bonds of €0.7 billion, reducing the outstanding balance to €0.4 billion.
B.5	A description of the group and the issuer's position within the group:	The Company is the parent company of the Group. The Company has a number of direct and indirect subsidiaries, including AIB Mortgage Bank, which engages in residential lending in Ireland and issues mortgage covered securities; EBS, which offers mortgage and savings products in Ireland, and AIB Group (UK) p.l.c., which provides banking and financial services to customers in Great Britain and Northern Ireland through the trading names Allied Irish Bank (GB) and First Trust Bank, respectively.

Section B—Issuer

B.6

The name of any person who, directly or indirectly, has an interest in the issuer's capital or voting rights, together with the amount of each such person's interest:

As at the latest practicable date prior to the publication of this Prospectus, being 8 June 2017 (the "Latest Practicable Date"), the Company had been notified of or was otherwise aware of the following Shareholder who was directly or indirectly interested in 3 per cent. or more of the Ordinary Shares, and assuming that the Offer Size is set at the maximum point of the Offer Size Range and that no Over-allotment Shares are sold as part of the Over-allotment Option, the Shareholder's expected interests following Admission are as follows:

	As at the Latest Practicable Date		Following Admission	
	Number of Ordinary Shares	Percentage of Ordinary Shares	Number of Ordinary Shares	Percentage of Issued Share Capital[(2)]
Selling Shareholder[(1)]	2,710,821,149	99.8688	2,032,225,839	75

Notes:

(1) The Ordinary Shares owned by the Selling Shareholder comprise assets of the ISIF. Under the NTMA 2014 Act, these Ordinary Shares are controlled and managed by the NTMA pursuant to directions in writing given to it by the Minister for Finance from time to time. Ownership of the ISIF vests in the Minister for Finance under the NTMA 2014 Act. The Ordinary Shares owned by the Selling Shareholder are registered in the name of a professional nominee for the benefit of the Minister for Finance.

(2) Calculated (i) on the basis of the maximum number of Offer Shares in the Offer being sold by the Selling Shareholder and (ii) before taking into account any Over-allotment Shares pursuant to the Over-Allotment Option. In addition, the Minister for Finance will, 5 Business Days after Admission (or, if Admission does not occur, on any future Regulated Market Event), hold Warrants over 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event) (calculated on the basis that none of the Warrants have been exercised).

Whether the issuer's major shareholders have different voting rights if any:

Pursuant to the Offer, the Selling Shareholder is currently expected to sell up to 678,595,310 Ordinary Shares, representing up to 25 per cent. of the issued ordinary share capital of the Company on Admission. In addition, further Ordinary Shares (up to a maximum of 15 per cent. of the total number of Offer Shares within the final Offer Size) may be sold by the Selling Shareholder pursuant to the Over-allotment Option. If the Offer Size is set at the maximum point of the Offer Size Range, the maximum number of Ordinary Shares comprised in the Over-allotment Option would be 101,789,296.

Whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control

Apart from the Selling Shareholder, the Company is not aware of any person who, directly or indirectly, exercises or could exercise control over the Company as at, or immediately following, the Offer.

The Ordinary Shares owned by the Selling Shareholder after Admission will carry the same voting rights as the other Ordinary Shares.

There is a relationship agreement in place between the Company and the Minister for Finance that will be amended and restated with effect from Admission.

B.7

Selected historical key financial information regarding the issuer:

The tables below set out summary historical financial information of AIB for the three months ended 31 March 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014. The summary historical financial information presented below as at and for the years ended 31 December 2016, 2015 and 2014 to the extent it has been extracted from AIB's consolidated historical financial information for 2016, 2015 and 2014 has been audited by Deloitte. The summary historical financial information presented below as at and for the three months ended 31 March 2017 to the extent it has been extracted from AIB's condensed consolidated interim financial statements for the three months ended 31 March 2017 has been reviewed by Deloitte.

As the information set out below is only a summary, potential investors are advised to read the whole of this Prospectus and not to rely on only the summarised information set out below.

Selected Consolidated Income Statement Data

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		(audited)		
	(€ millions)				
Net interest income	536	484	2,013	1,927	1,687
Total operating income	761	645	2,919	2,628	2,532
Total operating expenses	(406)	(347)	(1,571)	(1,678)	(1,638)
Operating profit before provisions	355	298	1,348	950	894
Total writeback of provisions	7	112	298	936	188
Operating profit	362	410	1,646	1,886	1,082
Profit after taxation from continuing operations	313	372	1,356	1,380	881

In addition to the selected consolidated income statement data appearing above, AIB has presented below selected consolidated income statement data with exceptional items broken out separately, which reflects how AIB's performance is reported by management and the Board. Exceptional items include items that management believe obscure the underlying performance trends in the business.

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		(audited)		
	(€ millions)				
Net interest income	536	484	2,013	1,927	1,687
Total operating income	761	645	2,630	2,623	2,530
Total operating expenses	(349)	(345)	(1,377)	(1,292)	(1,397)
Operating profit before bank levies, regulatory fees and provisions	412	300	1,253	1,331	1,133
Total writeback of provisions	7	112	298	923	188
Operating profit	376	411	1,439	2,183	1,248
Profit from continuing operations before exceptional items	379	429	1,475	2,211	1,277
Total exceptional items	(14)	(1)	207	(297)	(166)
Profit before taxation from continuing operations	365	428	1,682	1,914	1,111

Selected Consolidated Balance Sheet Data

	As at 31 March 2017	As at 31 December		
		2016	2015	2014
	(unaudited)	(audited)		
	(€ millions)			
Assets				
Loans and receivables to customers	60,273	60,639	63,240	63,362
NAMA senior bonds	1,041	1,799	5,616	9,423
Financial investments available for sale	14,875	15,437	16,489	20,185
Total assets	92,735	95,622	103,122	107,455
Liabilities				
Deposits by central banks and banks	6,102	7,732	13,863	16,768
Customer accounts	62,640	63,502	63,383	64,018
Total liabilities	79,455	82,474	90,974	95,883
Equity				
Total equity	13,280	13,148	12,148	11,572

Key Financial Ratios

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)				
	(%, unless otherwise indicated)				
CET1 fully loaded capital ratio[(1)]	16.0%	N/A	15.3%	13.0%	11.8%[(2)]
CET1 transitional capital ratio[(3)]	19.3%	N/A	19.0%	15.9%	16.4%[(2)]
Net interest margin[(4)]	2.55%	2.10%	2.25%	1.97%	1.69%
Cost/income ratio[(5)]	53%	54%	52%	49%	55%
Credit impairment charge *(bps)*[(6)]	(3)	(63)	(44)	(126)	(22)
Loan to deposit ratio[(7)]	96%	N/A	95%	100%	99%

Notes:

(1) Based on full implementation of Basel III and CRD IV.

(2) Includes 2009 Preference Shares.

(3) Capital calculated in accordance with 'Part Ten—Transitional Provisions, Reports, Review and Amendments' of the CRR.

(4) Excluding ELG Scheme charge. Calculated as net interest income divided by average interest-earning assets.

(5) Calculated as total operating expenses before exceptional items divided by total operating income before exceptional items, as set forth above.

(6) Calculated as writeback/(provision) for impairment on loans and receivables divided by average loans and receivables to customers.

(7) Calculated as loans and receivables to customers divided by customer accounts.

Results of Operations

Three months ended 31 March 2017 and 2016

Net interest income increased by €52 million, or 11 per cent., to €536 million for the three months ended March 2017 from €484 million for the three months ended 31 March 2016. This reflected a significant reduction in the cost of funds and marginal growth in the average asset yield. The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields on interest-bearing liabilities, including the impact of the redemption of the CCNs in July 2016. The marginal growth in the average asset yield reflected the mix of assets changing to a higher percentage in loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds.
Total operating expenses before exceptional items increased by €4 million to €349 million for the three months ended 31 March 2017, compared to €345 million for the three months ended 31 March 2016. Excluding the impact of currency movements, underlying operating expenses increased by €8 million. This primarily reflected higher staff numbers and the impact of the €870 million investment programme as depreciation increases as assets come into use.

The income statement writeback of provisions for the three months ended 31 March 2017 was €7 million, compared to a writeback of €112 million for the three months ended 31 March 2016.

Years ended 31 December 2016 and 2015

Net interest income increased by €86 million, or 4 per cent., to €2,013 million for the year ended 31 December 2016 from €1,927 million for the year ended 31 December 2015. This reflected a significant reduction in the cost of funds and marginal growth in the average asset yield. The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields on interest-bearing liabilities, including the impact of the redemption of the CCNs in July 2016. The growth in the average asset yield reflected the mix of assets changing to a higher percentage in loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds.

Total operating expenses before exceptional items increased by €85 million, or 7 per cent., to €1,377 million for the year ended 31 December 2016, compared to €1,292 million for the year ended 31 December 2015. Excluding the impact of currency movements, total operating expenses increased by €105 million. This increase primarily reflected selective outsourcing and the impact of the €870 million investment programme.

The income statement net writeback of provisions for the year ended 31 December 2016 was €298 million, compared to a net writeback of €923 million for the year ended 31 December 2015.

Years ended 31 December 2015 and 2014

Net interest income increased by €240 million, or 14 per cent., to €1,927 million for the year ended 31 December 2015 from €1,687 million for the year ended 31 December 2014. The increase was mainly due to significant reductions in funding costs, growth in new lending volumes to €8.5 billion in 2015 from €5.7 billion in 2014, and a lower ELG Scheme charge. This was partly offset by the impact of customer loan redemptions, lower income from NAMA senior bonds and available for sale securities and lower yield on the variable rate mortgage portfolio following two significant rate reductions in the year. The impact of currency movements increased net interest income by €26 million in 2015. The ECB maintained low official rates and short-term EURIBOR rates moved slightly into negative territory during 2015, positively impacting short-term funding costs.

Total operating expenses before exceptional items decreased by €105 million, or 8 per cent., to €1,292 million for the year ended 31 December 2015, compared to €1,397 million for the year ended 31 December 2014. The reduction in operating expenses mainly related to ongoing cost control and management, supported by progress on AIB's transformation strategy, which facilitated staff exits as part of AIB's severance scheme. These factors were partially offset by €23 million attributable to currency movements in 2015.

The income statement provision was a net writeback of €923 million for the year ended 31 December 2015, compared to a net writeback of €188 million for the year ended 31 December 2014.

Balance sheet

As at 31 March 2017 and 31 December 2016

Gross loans and receivables to customers decreased by €0.3 billion, or 1 per cent., to €64.9 billion as at 31 March 2017, compared to €65.2 billion as at 31 December 2016.

Financial investments available for sale decreased to €14.9 billion as at 31 March 2017 (including €14.3 billion of debt securities and €0.6 billion of equity securities), compared to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities). This reduction is consistent with plans to reduce overall available for sale holdings in line with liquidity requirements.

Customer accounts decreased by €0.9 billion, or 1 per cent., to €62.6 billion as at 31 March 2017, compared to €63.5 billion as at 31 December 2016. The reduction in customer accounts included a decrease in repo balances of €0.5 billion and €0.4 billion in customer deposits.

Equity increased from €13.1 billion as at 31 December 2016 to €13.3 billion as at 31 March 2017. The increase was mainly due to profit for the period of €0.3 billion partially offset by negative other comprehensive income of €0.2 billion.

As at 31 December 2016 and 2015

Gross loans and receivables to customers decreased by €4.9 billion, or 7 per cent., to €65.2 billion as at 31 December 2016, compared to €70.1 billion as at 31 December 2015. Excluding currency movements, gross loans and receivables to customers decreased by €3.2 billion, or 4 per cent. The reduction in gross loans was due to the impact of loan restructuring of €1.8 billion and loan redemptions of €10.0 billion, partially offset by new lending of €8.7 billion.

Financial investments available for sale decreased to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities), compared to €16.5 billion as at 31 December 2015 (including €15.7 billion of debt securities and €0.8 billion of equity securities).

Customer accounts increased by €0.1 billion to €63.5 billion as at 31 December 2016, compared to €63.4 billion as at 31 December 2015. Excluding currency movements, customer accounts increased by €1.9 billion, or 3 per cent. The mix profile continued to change in 2016 with an increase of €4.7 billion in current accounts partially offset by a reduction of €2.5 billion in corporate and treasury deposits (including repos) and a reduction of €0.3 billion in retail deposits.

Equity increased by €1.0 billion, from €12.1 billion as at 31 December 2015 to €13.1 billion as at 31 December 2016. The increase was mainly due to profit for the year of €1.4 billion, partially offset by negative other comprehensive income of €0.3 billion and a distribution paid on AIB's Additional Tier 1 ("AT1") Notes of €37 million.

As at 31 December 2015 and 2014

Gross loans and receivables to customers decreased by €5.7 billion, or 8 per cent., to €70.1 billion as at 31 December 2015, compared to €75.8 billion as at 31 December 2014. Excluding currency movements, gross loans and receivables to customers decreased by €6.8 billion, or 9 per cent. The decrease in gross loans and receivables to customers was due to the impact of loan restructuring in the amount of €4.7 billion, the disposal of a portfolio of loans in the UK amounting to €0.7 billion and loan redemptions of €9.9 billion, partially offset by new lending in the amount of €8.5 billion.

Financial investments available for sale decreased to €16.5 billion as at 31 December 2015 (including €15.7 billion of debt securities and €0.8 billion of equity securities), compared to €20.2 billion as at 31 December 2014 (including €19.8 billion of debt securities and €0.4 billion of equity securities). The decrease was mainly due to a reclassification of available for sale assets of €3.5 billion in 2015 to financial investments held to maturity.

Customer accounts decreased by €0.6 billion, or 1 per cent., to €63.4 billion as at 31 December 2015, compared to €64.0 billion as at 31 December 2014. Excluding currency movements, customer accounts decreased by €1.5 billion, or 2 per cent. The reduction included a decrease in repo balances of €1.2 billion. Overall customer deposits remained broadly stable with strong growth in current accounts offset by a reduction in term deposits.

Equity increased by €0.5 billion from €11.6 billion as at 31 December 2014 to €12.1 billion as at 31 December 2015. This increase was due to profit for the year of €1.4 billion, a €0.8 billion reduction in the net pension reserve deficit and the €0.5 billion issuance of AT1 Notes, partially offset by the partial redemption of the 2009 Preference Shares, which involved the payment of €1.7 billion, and preference share dividend payments of €446 million.

Section B—Issuer		
		Non-performing exposures For regulatory reporting, European Banking Authority ("EBA") stress testing and capital planning purposes, AIB considers non-performing exposures, which includes both loans and receivables to customers and off balance sheet commitments such as loan commitments and financial guarantee contracts. Non-performing exposures are defined by the EBA to include material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due. AIB's categorisation of criticised loans encompasses but is broader than that of non-performing loans as defined by the EBA. As at 31 December 2016, AIB had €14.2 billion of non-performing loans, accounting for 22 per cent. of total gross loans. AIB is focused on reducing the level of its non-performing exposures as defined by the EBA to a normalised level in line with its European peers over the medium term. As at 31 December 2016, non-performing loans of European banks accounted for 5.1 per cent. of total loans on a weighted average basis, based on the EBA Risk Dashboard Q4 2016. Based on that figure, this would imply a reduction of non-performing loans by AIB to €3 - €4 billion over the medium term. This is, however, subject to change in line with the evolution of European banks' balance sheets over that period and the evolution and implementation of AIB's strategies to address its non-performing exposures. AIB has maintained momentum in its restructuring activity and may consider options such as further loan portfolio disposals and other strategic initiatives.
B.8	Selected key pro forma financial information:	Not applicable.
B.9	Profit forecast and estimate:	Not applicable. No profit forecast or estimate has been included in the Prospectus.
B.10	A description of the nature of any qualifications in the audit report on the historical financial information:	Not applicable. There are no qualifications to the audit report on the historical financial information.
B.11	Qualified working capital:	Not applicable. In the opinion of the Company, the working capital available to AIB is sufficient for AIB's present requirements, that is, for at least the next 12 months following the date of this Prospectus.

Section C—Securities		
C.1	A description of the type and class of securities being offered and/or admitted to trading:	The Offer comprises an offer of up to 678,595,310 Offer Shares which will be sold by the Selling Shareholder. In addition, a further 101,789,296 Over-allotment Shares are being made available by the Selling Shareholder pursuant to the Over-allotment Option. Between the announcement of the Offer Price and Admission to the Official Lists, the Ordinary Shares will be registered with a temporary ISIN and SEDOL for the period of conditional dealing. The temporary ISIN for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BZ0YPY56. The temporary SEDOL for the Irish Stock Exchange will be BZ0YPY5. The temporary SEDOL for the London Stock Exchange will be BF2P4M7. Following Admission to the Official Lists, once dealing becomes unconditional the Ordinary Shares will revert to their existing ISIN and SEDOL. The ISIN for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BYSZ9G33. The SEDOL for the Irish Stock Exchange will be BYSZ9G3. The SEDOL for the London Stock Exchange will be BF2P4N8.
C.2	Currency of the securities issue:	The Ordinary Shares are denominated in euro.
C.3	The number of shares issued and fully paid and issued and not fully paid and the par value per share:	There are, and on Admission will be, 2,714,381,238 Ordinary Shares with a nominal value of €0.625 each in issue (all of which are fully paid).
C.4	A description of the rights attached to the securities:	The Ordinary Shares rank equally in all respects and have the following rights attaching to them: • the right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares; • the right to attend and speak, in person or by proxy, at general meetings of the Company; • the right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held; • the right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company; • the right to receive (by post or electronically), at least 21 days before the annual general meeting of the Company (the "AGM"), a copy of the Directors' and Auditors' reports accompanied by (i) copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or (ii) such summary financial statements as may be permitted by the Companies Act; • the right to receive notice of general meetings of the Company; and • in a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company. The Ordinary Shares will rank in full for dividends or other distributions declared, made or paid in respect of the Ordinary Shares after Admission.

Section C—Securities		
		Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Ordinary Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years.
C.5	A description of any restrictions on the free transfer-ability of the securities:	Save as set out below, there are no restrictions on the free transferability of the Ordinary Shares set out in the constitutional documents of the Company. Subject, in the case of Ordinary Shares held in uncertificated form, to the CREST Regulations, the Directors may decline to register a transfer of Ordinary Shares in the following cases: • a lien is held by the Company on the Ordinary Shares and in the case of partly paid up Ordinary Shares; • a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or • a single transfer of Ordinary Shares which is in favour of more than four persons jointly. Ordinary Shares held in certificated form are transferable by instrument in writing in any usual form or any other form which the Directors may approve. The instrument of transfer of any certificated share shall be executed by or on behalf of the transferor and, in cases where the Ordinary Share is not fully paid, by or on behalf of the transferee. Ordinary Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system which enables title to the Ordinary Shares to be evidenced and transferred without a written instrument and in accordance with CREST Regulations. If the Directors decline to register a transfer of any Ordinary Shares, they are required to send to the transferee notice of refusal within two months of the date on which the transfer was lodged (in the case of Ordinary Shares held in certificated form), or of the date on which the instruction by the operator of the relevant system was received by the Company (in the case of Ordinary Shares held in uncertificated form). The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the register of members of the Company. Certain restrictions apply to the distribution of this Prospectus and the Offer Shares in certain jurisdictions under the securities laws of those jurisdictions.

Section C—Securities		
C.6	An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded:	Application has been made to the Irish Stock Exchange for the Ordinary Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and to trading on its main market for listed securities. Applications will be made to the UK Financial Conduct Authority ("FCA") for the Ordinary Shares to be admitted to listing on the premium listing segment of the UK Official List and to the London Stock Exchange for the Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that trading in the Ordinary Shares on the Enterprise Securities Market operated and regulated by the Irish Stock Exchange (the "ESM") will be suspended at 8:00 a.m. on 23 June 2017 and that conditional dealings on the Irish Stock Exchange and the London Stock Exchange will commence at 8:00 a.m. on 23 June 2017. Admission to the Official Lists, together with admission to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange constitutes admission to official listing on a stock exchange. No application is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 27 June 2017. The earliest date for settlement of such dealings will be 27 June 2017. All dealings in Ordinary Shares following suspension of trading on the ESM prior to the commencement of unconditional dealings the Irish Stock Exchange and the London Stock Exchange will be on a conditional basis, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. Immediately before Admission, the admission of the Ordinary Shares to trading on the ESM will be cancelled.
C.7	A description of dividend policy:	The Company's dividend approach is to work towards an annual pay-out ratio in line with normalised European banks, with capacity for excess capital levels to be returned to Shareholders through special dividends and/or share buy backs, subject to receipt of all regulatory and other approvals. A final dividend in the amount of €250 million in respect of the Ordinary Shares for the financial year ended 31 December 2016 was approved by Shareholders at the 2017 AGM and paid on 9 May 2017. The dividend equated to €0.0921 per Ordinary Share based on the number of Ordinary Shares for 2016, which was 2.714 billion. The Company did not pay any dividends in respect of the Ordinary Shares for the years ended 31 December 2015 and 2014. In accordance with the "Joint Decision of the European Central Bank and Prudential Regulation Authority of 25 November 2016", the Company is required to obtain prior approval from the SSM in order to distribute dividends to shareholders. The Company has no current intention to seek SSM approval to pay an interim dividend in 2017 but expects to seek approval in 2018 for the payment of a final dividend for the year ended 31 December 2017. The 2009 Preference Shares carried a fixed non-cumulative dividend at a rate of 8 per cent. per annum, payable annually in arrears at the discretion of the Company. Dividend payments were made in respect of the 2009 Preference Shares in accordance with their terms as follows during the period 2014 to 2015: (i) in lieu of payment of the annual dividend on the 2009 Preference Shares during the financial year ended 31 December 2014, and in accordance with the terms of the 2009 Preference Shares, 2,177,293,934 new ordinary shares of the Company were issued to the NPRFC by way of bonus issue on 13 May 2014; and (ii) €446 million was paid to the NTMA during the financial year ended 31 December 2015 (comprising a full year dividend from 14 May 2014 to 13 May 2015 of €280 million and a further accrued dividend from 14 May 2015 to 17 December 2015 of €166 million).

Section C—Securities		
		The Company is subject to the following potential restrictions on the payment of dividends on the Ordinary Shares: (i) the Relevant Banking Regulator may require the Company to observe a restriction on dividend distributions in order to improve the quality and quantity of capital in advance of full implementation of CRD IV on 1 January 2019; (ii) dividends and other distributions on Ordinary Shares as CET1 instruments under the Capital Requirements Regulation (No. 575/2013) ("CRR") can only be paid out of distributable items within the meaning of that term in article 4(128) of CRR; and (iii) in February 2017, the Minister for Finance made rules under the terms of the CIFS Scheme and ELG Scheme on the declaration and payment of dividends (the "Dividend Rules"). Pursuant to the terms of the Relationship Framework and the Dividend Rules, AIB is required to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends. Subject to the availability of sufficient distributable reserves, which is a prerequisite to paying a dividend under Irish company law, and to the aforementioned restrictions, the Directors will review, on an ongoing basis, the expected timing and quantum of any possible future dividend payments (subject to any regulatory restrictions under CRD IV and the above or other restrictions that may apply). Any decision to declare and pay dividends in the future will be, subject to the receipt of regulatory approvals, made at the discretion of the Directors and will depend on the Company's financial position, general economic conditions and other factors the Directors deem significant from time to time.

Section D—Risks		
D.1	Key information on the key risks that are specific to the issuer or its industry:	Prior to making an investment decision in relation to the Offer Shares, prospective investors should consider, together with the other information contained in this Prospectus, the factors and risks attaching to an investment in the Company, including the following risks: **Risks Relating to the Macro-economic Environment in which AIB Operates** • Deterioration in the performance of the Irish or UK economy has the potential to adversely affect AIB's overall financial condition, financial performance and/or prospects. Furthermore, given the Irish economy's linkages to the global economy, any deterioration in global and/or relevant regional economic conditions could have an adverse effect on AIB. • Geopolitical developments in recent years have given rise to significant market volatility and in certain instances have had an adverse impact on economic growth and performance globally. Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term. • Although the overall impact of the United Kingdom's withdrawal from the European Union and the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, remains uncertain, and may remain uncertain for some time, these events are expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB.

Section D—Risks		
		• Interest rates, which are impacted by factors outside of AIB's control, including the fiscal and monetary policies of governments and central banks, as well as Irish and international political and economic conditions, affect AIB in several ways. Interest rates affect the cost and availability of AIB's principal sources of funding, including customer accounts. A sustained low interest rate environment keeps AIB's cost of funding low by reducing the interest payable on its customer accounts, but also reduces incentives for customers to save. • Changes in the shape and level of interest rate curves impact the economic value of AIB's assets and liabilities. AIB's earnings are exposed to basis risk (i.e., an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar re-pricing characteristics). • The persistence of exceptionally low interest rates for an extended period, or negative interest rates, could adversely impact AIB's earnings through the compression of its net interest margin. Furthermore, in the event of a sudden large increase or frequent increases in interest rates, AIB may not be able to respond to the market or re-price its assets and liabilities at the same time, giving rise to re-pricing gaps in the short term which can adversely affect its net interest margin. Interest rates also affect the affordability of AIB's products to customers. A rise in interest rates, without sufficient improvements in customers' earnings levels, could lead to an increase in default or re-default rates. This could in turn lead to increased impairment provisions and lower profitability for AIB. • The current and future budgetary and taxation policy of Ireland and the United Kingdom and other measures adopted by the Irish and UK Governments, or by governments in other jurisdictions in which AIB operates or has business may have an adverse impact on AIB's business. In addition, multinational corporations' recognition of resources for taxation purposes has come under considerable political scrutiny recently. If these types of arrangements continue to be challenged by the EC, this could result in companies relocating from Ireland, or deciding to invest in other jurisdictions, which could have an adverse impact on the Irish economy. The introduction of more favourable corporate taxation policies in other jurisdictions may also attract capital away from Ireland.
		Risks Relating to AIB's Business • Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of AIB's businesses. In particular, AIB remains heavily exposed to the Irish property market, including the Irish residential property market both because of its mortgage lending activities and its property and construction loan book. Accordingly, any development that adversely affects the Irish property market will, including the Irish residential property market, have a disproportionate impact on AIB in comparison to other banks with less significant exposures to this market.

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• AIB has a high level of criticised loans on its statement of financial position and there can be no assurance that it will continue to be successful in reducing the level of its criticised loans. The management of criticised loans, including the enforcement and restructuring activities that AIB undertakes, may be vulnerable to challenge by its customers and/or by third parties and AIB is unable to predict the timing or outcome of any such challenges. AIB is also subject to the risk of re-default by customers even after a resolution has been achieved for a particular loan.

• As a result of the capital requirements applicable in the European Union, banks have been, and will continue to be, required to increase the quantity and the quality of their regulatory capital. No assurances can be given that AIB will be able to maintain its capital ratios or that the minimum requirements will not increase.

• While AIB is currently in a position of surplus liquidity, conditions may arise which would constrain funding or liquidity opportunities for AIB over the long term. In particular, a loss of confidence by depositors in AIB, the Irish banking industry or the Irish economy could ultimately lead to a reduction in the availability and/or increase in the cost of funding or liquidity resources.

• AIB operates in competitive markets in Ireland and the United Kingdom, with market share and associated profits depending on a combination of factors including product range, quality and pricing, reputation, brand performance, and relative sales and distribution strength, among others.

• Following the recapitalisation of AIB by the Irish Government, AIB is required to comply with certain executive pay and compensation restrictions. These restrictions have made, and will continue to make, attracting and retaining skilled personnel of high calibre or in specialist areas difficult.

• The proper functioning of information technology (“IT”) and communications systems and its related operational processes are critical to AIB’s success and these may not operate as expected, including as a result of technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events.

• AIB is exposed to the risk that personal customer data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations including as a result of human error.

• AIB’s credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of Internal Ratings-Based (“IRB”) for standardised approach or reputational risk for AIB.

• Changes to IFRS or interpretations thereof may cause AIB’s future reported results of operations and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis.

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Section D—Risks		
		Risks Relating to Supervision and Regulation • A significant number of new regulations have been issued by the various authorities that regulate AIB's business in the recent past. The challenge of meeting this degree of regulatory change may place a strain on AIB's resources, particularly during a period of significant organisational transformation. • Pursuant to the SRM Regulation (EU) No. 806/2014 ("SRM Regulation"), on 1 January 2016, the SRB became responsible for drawing up AIB's resolution plan providing for resolution actions that may be taken if AIB were to fail or be likely to fail. In drawing up AIB's resolution plan, the SRB identifies any material impediments to AIB's resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments. On 3 February 2017, AIB announced that it had been notified by the Single Resolution Board that the preferred resolution strategy for AIB consists of a single point of entry bail-in at a group holding company level, which would require the establishment of a holding company directly above Allied Irish Banks, p.l.c.. The changes and requirements to be implemented in respect of the SRM Regulation and the Banking Recovery and Single Resolution Directive may have an effect on AIB's business, financial condition or prospects. Failure by AIB to implement those changes and requirements may result in regulatory action such as increased regulatory capital levels, monetary fines or other sanctions and penalties. • AIB's borrowing costs and capital requirements could be affected by prudential regulatory developments, including CRD IV and potentially certain proposals for amendments to the CRD IV. CRD IV requirements adopted in Ireland or the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators (including but not limited to such proposals or as a result of any reforms adopted by the Basel Committee as part of Basel IV) binding regulatory technical standards to be developed by the EBA, changes to the way in which the Relevant Banking Regulator or, as applicable, the Prudential Regulation Authority (the "PRA") or the Financial Conduct Authority (the "FCA") in the United Kingdom, interprets and applies these requirements to AIB or, in the case of the United Kingdom, as a result of its withdrawal from the European Union. • AIB is exposed to conduct risk, which AIB defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of AIB's business may be determined by the Central Bank of Ireland (the "Central Bank") or other relevant regulators in various jurisdictions or by courts not to have been conducted in accordance with applicable local or, potentially, overseas laws and regulations, or in a fair and reasonable manner as determined by the local ombudsman. In particular, AIB may face scrutiny in relation to its treatment of customers in difficulty. If AIB fails to comply with any relevant laws or regulations, it may suffer reputational damage and may become subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. AIB's past practices may also be challenged under current regulations and standards.

		For example, in September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on a broader examination of tracker mortgage-related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including AIB and certain of its subsidiaries located in Ireland) (the "Tracker Mortgage Examination"). In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank's 'Principles for Redress'. In 2015, AIB provisioned €190 million relating to the Tracker Mortgage Examination. While the Directors believe that this figure is appropriate, there can be no assurance that the final cost to AIB will not be in excess of this amount, including as a result of challenge by the Central Bank to AIB's redress and compensation package, sanction by the Central Bank, rulings by the Financial Services Ombudsman (the "FSO") or customer litigation. Other Irish banks have been or are being made subject to regulatory sanctions by the Central Bank in connection with the Tracker Mortgage Examination or related exercises by the Central Bank and AIB cannot rule out the possibility of such sanctions being taken against AIB in connection with the Tracker Mortgage Examination. • Legislation and regulations introduced in 2012 and 2013 may affect AIB's customers' attitudes towards their debt obligations, and hence their interactions with AIB in relation to their mortgages. Given the required waiting periods that apply to lenders seeking to enforce security over mortgages under the Central Bank's Code of Conduct on Mortgage Arrears 2013 and the possibility of including secured debt in insolvency arrangements under the Personal Insolvency Act 2012 without the agreement of secured creditors, customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. As a result, AIB cannot be certain of the progress or outcome of its security enforcement proceedings. • The Irish Government and members of the Oireachtas (the Irish legislature) have expressed concern as to the high level of standard variable interest rates ("SVRs") charged by lenders in Ireland as compared to those charged by lenders in other EU Member States, in particular with respect to certain residential mortgage loans. In 2015, the Irish Government requested that Ireland's largest banks, including AIB, review the level of their SVR and provide options to reduce monthly repayments to new and existing principal dwelling home borrowers, such as lower SVR products, competitive fixed rate products and lower variable rates (taking into account loan-to-value ("LTV"), and indicated that if they failed to address these concerns, the Irish Government could significantly increase the bank levy then applied to these banks or could seek to give the Competition and Consumer Protection Commission of Ireland (the "CCPC") additional regulatory powers. As a result, under the Finance Act 2016, the bank levy was rebased and extended from 2016 to 2021. However, there is a risk that the Irish Government could adopt further measures to address its concerns with respect to SVR levels or the Oireachtas could pass a bill which has been initiated before it to authorise the Central Bank to impose maximum SVRs on certain residential mortgage loans in certain circumstances, which could result in a reduction in AIB's net interest income and net interest margin.

Section D—Risks		
		On 20 February 2017, the CCPC published a public consultation to gather views about the future of the Irish mortgage market in order to set out options available to the Irish Government on how to reduce the cost of secured mortgage lending and to improve competition and consumer protection. The CCPC has indicated that it will examine the market structure, legislation and regulation of the mortgage market in Ireland and that following the consultation period it intends to produce a final report of its findings. Actions taken by the Irish Government, the CCPC or the Central Bank on foot of any such report and any other actions taken by the Irish Government with respect to SVRs could have a material adverse effect on AIB's business.
		Risks Relating to AIB's Relationship with the Irish Government • The Minister for Finance has specified an amended and restated relationship framework in relation to AIB (the "Relationship Framework") which is conditional only on Admission. Under the Relationship Framework, while the authority and responsibility for strategy and commercial policies (including business plans and budgets) and the conduct of AIB's day-to-day operations rests in all cases with the Board of the Company and its management team, they are required, in connection with certain specified aspects of AIB's activities, to consult with the Minister for Finance. AIB is also subject to various obligations under the 2010 Placing Agreement and the 2011 Placing Agreement pursuant to which the Company issued ordinary shares to the NPRFC (which shares were transferred to the ISIF, itself owned by the Minister for Finance, in 2014), together with the Minister's Letter. The NAMA Act, the CIFS Scheme and the ELG Scheme place certain restrictions on, and require AIB to submit to a degree of governmental regulation in relation to, the operation of its business. Changes in the composition of the Oireachtas or the Irish Government may result in changes to the laws or the programme, policies or actions of the Irish Government, which may have a material adverse effect on AIB's business, results of operations, financial condition, ownership and prospects. • On 7 May 2014, the EC approved under state aid rules (the "State Aid Decision"), the Company's Restructuring Plan. The EC also set out certain commitments in relation to the Company, including a repayment commitment under which the State has committed, subject to receipt of all regulatory and other approvals, that prior to 31 December 2017, the Company will repay the state aid by "dividends or other means" in an amount equal to the surplus regulatory capital above the minimum CET1 ratio as set by the Central Bank (plus a buffer of 2 per cent.) on 31 December 2016. The Directors believe that the Company has met its state aid repayment commitments for 2017 for the purposes of the Commitments under the State Aid Decision, although, given their nature, the precise effect of such commitments is uncertain in some respects. The Company has paid a final dividend for the year ended 31 December 2016 of €250 million for which it received approval from the SSM. Repayment of further state aid through a further dividend or other payment by the Company in 2017 would require SSM approval for the payment.

Section D—Risks		
D.3	Key information on the key risks that are specific to the securities:	**Risks relating to the Offer and the Offer Shares** • AIB can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, that it can be sustained following the closing of the Offer. If an active trading market is not developed or sustained, the liquidity and trading price of the Ordinary Shares could be materially adversely affected. • Following the Offer, the value of the Ordinary Shares may fluctuate significantly as a result of a large number of factors, as well as period-to-period variations in operating results or changes in revenue or profit estimates by AIB, industry participants or financial analysts. • Any investment in (or upon any sale, disposal, or other transfer of) the Ordinary Shares by an investor whose principal currency is not the euro exposes such investor to foreign currency exchange risk. • The Company is subject to certain restrictions on the payment of dividends on the Ordinary Shares and any decision to declare and pay dividends in the future will be, subject to receipt of regulatory approvals, be made at the discretion of the Directors and will depend on the Company's financial position, general economic conditions and other factors the Directors deem significant from time to time.

Section E—Offer		
E.1	The total proceeds and an estimate of the total expenses of the issue/offer including estimated expenses charged to the investor by the issuer or the offeror:	The Company will not receive any proceeds from the Offer. Gross proceeds of approximately €2,986 million will be received by the Selling Shareholder from the sale of Ordinary Shares (assuming that the Offer Size is set at the maximum point of the Offer Size Range, and that the Offer Price is set at the mid-point of the Offer Price Range). The Company has agreed with the Selling Shareholder and the Underwriters to pay: (i) commissions payable to the Underwriters and Intermediaries in connection with the Offer, which are estimated to be approximately €12 million; and (ii) transaction advisory fees and expenses incurred by the Selling Shareholder and the Underwriters in respect of the Offer, which in aggregate are estimated to be approximately €4 million. The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the maximum point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Offer Price Range; and (c) the underwriting commissions payable by the Company to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Company. In addition, the aggregate expenses of, or incidental to, Admission and the Offer incurred and to be borne by the Company are estimated to be approximately €25 million (inclusive of amounts in respect of VAT), which the Company intends to pay out of existing cash resources (to the extent they have not already been paid). No expenses will be directly charged to investors in connection with Admission or the Offer by the Company or the Selling Shareholder.

Section E—Offer		
E.2a	Reasons for the offer, use of proceeds and estimated net amount of the proceeds:	The estimated gross proceeds of the Offer receivable by the Selling Shareholder are as set out in E.1 above. The Directors believe that the Offer and Admission are important steps to return the Company to private ownership over time. The Offer represents the first step of the Selling Shareholder's divestment of its Ordinary Share investment in the Company to enable a transition of the Company over time from State ownership to private sector ownership and it will return to the State part of its state aid of the Company. The Directors believe that, while the Company is not receiving any proceeds from the Offer, Admission should enhance the domestic and international profile of the Company, increase the range of investors eligible to invest in the Company and, accordingly, help provide liquidity in the Company's Ordinary Shares. In addition, Admission will provide the Selling Shareholder with the opportunity to further reduce its ownership of Ordinary Shares going forward in order to return the Company to private ownership over time. The Company will not receive any of the proceeds from the Offer. The Selling Shareholder will receive all of the proceeds of the Offer.
E.3	A description of the terms and conditions of the offer:	The Offer comprises an offer of up to 678,595,310 Offer Shares to be sold by the Selling Shareholder. The Over-allotment Shares are being made available by the Selling Shareholder pursuant to the Over-allotment Option. The Offer Price and the Offer Size will be determined by the Selling Shareholder in consultation with the Joint Global Co-ordinators and are expected to be announced on or around 23 June 2017. It is currently expected that the Offer Price and Offer Size will be within the Offer Price Range and the Offer Size Range, respectively. A number of factors will be considered in deciding the Offer Price and the Offer Size, including the level and nature of the demand for the Offer Shares, prevailing market conditions and the objective of establishing an orderly after-market in the Ordinary Shares. All Offer Shares being sold to investors pursuant to the Offer will be sold at the Offer Price. The Offer Price and Offer Size are expected to be announced on or around 23 June 2017. The Pricing Statement, which will contain, among other things, the Offer Price and the Offer Size, will (subject to certain restrictions) be published on the Company's website at www.aib.ie. If the Offer Price is set above the Offer Price Range and/or the number of Offer Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the Irish Stock Exchange and the FCA), then the Selling Shareholder would make an announcement via a Regulatory Information Service and prospective investors would have a right to withdraw their offer to purchase Offer Shares. Such withdrawal must be done within the time limits set out in the relevant announcement (if any) (which shall not be shorter than two working days after the date on which an announcement of this is published by the Selling Shareholder via a Regulatory Information Service). The arrangements for withdrawing offers to purchase Offer Shares would be made clear in the announcement. In such circumstances, the Pricing Statement would not be published until the period for exercising such withdrawal rights has ended. The expected date of publication of the Pricing Statement would be extended and the arrangements for withdrawing offers to purchase Offer Shares would be made clear in the accompanying announcement.

Section E—Offer		
		The Offer comprises an Institutional Offer and an Intermediaries Offer. Under the Institutional Offer, the Offer Shares will be offered: (i) to certain institutional investors in Ireland and the United Kingdom and elsewhere outside the United States in reliance on Regulation S and in accordance with local applicable laws and regulations; and (ii) in the United States only to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Under the Intermediaries Offer, the Offer Shares are being offered by the Selling Shareholder to Intermediaries in Ireland for onward distribution to retail investors who or which are resident or incorporated in Ireland or the United Kingdom. If the demand for Offer Shares exceeds the number of Offer Shares made available in the Offer, allocations may be scaled down at the discretion of the Selling Shareholder and applicants may be allocated Offer Shares having an aggregate value (based on the Offer Price) which is less than the sum applied for. Retail investors who apply for Offer Shares in the Intermediaries Offer shall be allocated Offer Shares on the same basis and there are no special arrangements in relation to the applications received from employees of AIB (whether located in Ireland, the United Kingdom or elsewhere). Over-allotment Shares (representing up to 15 per cent. of the total number of Offer Shares within the final Offer Size) will be made available to the Stabilising Manager pursuant to the Over-allotment Option. It is expected that trading in the Ordinary Shares on the ESM will be suspended at 8:00 a.m. on 23 June 2017 and that conditional dealings on the Irish Stock Exchange and the London Stock Exchange will commence at 8:00 a.m. on 23 June 2017. Admission to the Official Lists, together with admission to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange constitutes admission to official listing on a stock exchange ("Admission"). No application is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 27 June 2017. The earliest date for settlement of such dealings will be 27 June 2017. All dealings in Ordinary Shares following suspension of trading on the ESM prior to the commencement of unconditional dealings on the Irish Stock Exchange and the London Stock Exchange will be on a conditional basis, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. Immediately before Admission, the admission of the Ordinary Shares to trading on the ESM will be cancelled. The Offer is subject to the satisfaction or waiver of conditions contained in the Underwriting Agreement, which are customary for transactions of this type, including Admission becoming effective by no later than 8:00 a.m. on 27 June 2017 (or such later date as the Company and the Selling Shareholder may agree with the Joint Global Co-ordinators (on behalf of the Underwriters) and the Sponsors), the receipt by the Underwriters of certificates from the Company and the Selling Shareholder and certain legal opinions, and the Underwriting Agreement not having been terminated prior to Admission. The Institutional Offer is, subject to certain conditions, fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement. The Intermediaries Offer is not underwritten by the Underwriters.

Section E—Offer		
		None of the Offer Shares may be offered for sale or purchase or be delivered, or be sold or delivered, and this Prospectus and any other offering material in relation to the Offer Shares may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration. Retail investors seeking to participate in the Intermediaries Offer should obtain confirmation from their chosen Intermediary as to the time and date by which their completed application to participate in the Intermediaries Offer must be received by their chosen Intermediary and should ensure that they allow sufficient time for their applications for Offer Shares to be received by their chosen Intermediary.
E.4	A description of any interest that is material to the issue/offer, including conflicting interests:	The Company is not aware of any interest, including any conflicting interest, that is material to the Company or the Offer.
E.5	Name of the person or entity offering to sell the securities and details of any lock-up arrangements, the parties involved and indication of the period of the lock up:	The Selling Shareholder is the Minister for Finance, a corporation sole, having its address at Department of Finance, Government Buildings, Upper Merrion Street, Dublin 2, Ireland. Up to 678,595,310 Ordinary Shares are expected to be sold by the Selling Shareholder pursuant to the Offer (representing up to 25 per cent. of the issued ordinary share capital of the Company on Admission). The Company has agreed with the Underwriters that, subject to certain exceptions, it will not, for a period of 180 days from the date of the Underwriting Agreement, without the prior written consent of the Joint Global Co-ordinators, acting on behalf of the Underwriters (such consent not to be unreasonably withheld) directly or indirectly, offer, issue, lend, sell, mortgage, assign, charge, pledge or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing. Pursuant to the Underwriting Agreement, the Selling Shareholder has agreed with the Underwriters that, subject to certain exceptions, it will not, for a period of 180 days from the date of the Underwriting Agreement, without the prior written consent of the Joint Global Co-ordinators, acting on behalf of the Underwriters (such consent not to be unreasonably withheld) directly or indirectly, offer, issue, lend, sell, mortgage, assign, charge, pledge or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.
E.6	The amount and percentage of immediate dilution resulting from the offer:	Not applicable. No dilution of the existing Shareholders will result from the Offer.

Section E—Offer		
E.7	Estimated expenses charged to the investor by the issuer or the offeror:	Not applicable. No expenses will be charged to the investors by the Company or the Selling Shareholder in respect of the Offer. Any expenses incurred by an Intermediary in connection with the Intermediaries Offer are for its own account. Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Offer Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Offer Shares for them (including any fees relating to nominee and custody arrangements in relation to services provided by the Intermediary generally), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made. Any application made by retail investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary.

PART II
RISK FACTORS

Any investment in the Offer Shares is subject to a number of risks. Prior to investing in the Offer Shares, prospective investors should consider carefully the factors and risks associated with any investment in the Offer Shares, AIB's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below and should consult their professional advisors before making any investment decision in respect of the Offer Shares. Prospective investors should note that the risks relating to AIB, its industry and the Offer Shares summarised in "Part I: Summary" are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Offer Shares. However, as the risks which AIB faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in "Part I: Summary" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Offer Shares and should be used only as guidance. Additional risks and uncertainties relating to AIB that are not currently known to it, or that it currently deems immaterial, may, individually or cumulatively, also have a material adverse effect on AIB's business, financial condition, results of operations and prospects, and, if any such risk should occur, the price of the Ordinary Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Offer Shares is suitable for them in the light of the information contained in this Prospectus and their personal circumstances.

None of the statements made in the risk factors that follow in any way qualify the Company's working capital statement contained in "Part XXI: Additional Information—Working Capital".

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential impact on AIB's business, financial condition, results of operations and prospects, or the market price of the Ordinary Shares.

Risks Relating to the Macro-economic Environment in which AIB Operates

1 *AIB's business may be adversely affected by any deterioration in the Irish or UK economy or in global or relevant regional economic conditions.*

AIB's business activities are concentrated in the Irish and UK markets. Deterioration in the performance of the Irish or UK economy has the potential to adversely affect AIB's overall financial condition, financial performance and/or prospects. Furthermore, given the Irish economy's linkages to the global economy, any deterioration in global and/or relevant regional economic conditions could have an adverse effect on AIB. In particular, the United Kingdom, the European Union and the United States are Ireland's most important trading partners and accordingly the emergence of adverse economic conditions in any or all of those regions may in turn have an adverse impact on the Irish economy and therefore AIB. Any deterioration in global and/or relevant regional economic conditions could result in reductions in business activity, lower demand for AIB's products and services, reduced availability of credit, increased funding costs and/or decreased asset values.

The global financial crisis which commenced in 2008 had a severe impact on the Irish economy, with GDP contracting significantly between 2008 and 2013. The impact of the crisis on the Irish economy was particularly pronounced given Ireland's dependence on the property and construction sectors. Declining residential and commercial property prices led to a significant slowdown in the construction sector in Ireland. As a result of the contraction in GDP, loan impairments in the Irish property and construction and residential mortgage sectors increased substantially. This had, and continues to have, a material adverse effect on AIB's as well as other Irish banks' financial condition and results of operations, as a result of credit impairment charges.

Following a contraction of global GDP in 2009 and lower levels of growth in the immediately following years compared to pre-crisis levels, the global economy has been growing steadily in recent years. After a period of spending cuts and tax increases implemented by the Irish Government, the Irish economy has been improving along with the global economy. Ireland was one of the fastest growing economies in the Eurozone in 2014, 2015 and 2016, according to data from Business Monitor International (the "BMI") and the Central Statistics Office of Ireland (the "CSO") Statbank. However, there can be no guarantee that favourable economic conditions will continue. Geopolitical developments could lead to market disruption and could compromise the global recovery (see *"—Geopolitical developments, particularly in Europe and the United States, may have repercussions that could have a negative impact on global economic growth, disrupt markets and adversely affect AIB"*). Any renewed stress on or deterioration of the Irish or global economy could reduce demand for credit, and increase levels of arrears and decrease collateral values across AIB's loan book, which would have a negative impact on AIB's business, financial condition, results of operations and prospects.

Irish unemployment has also decreased recently, from a peak of 15.1 per cent. in February 2012 to 6.2 per cent. in April 2017, according to the CSO. If employment levels do not continue to increase as currently expected, or if there are reductions in borrowers' disposable income, the ability of AIB's customers to repay existing loans may be adversely affected, which could result in additional writedowns and impairment charges for AIB and demand for new lending could decrease, any of which could negatively impact its financial condition and results of operations. The annual increase in the residential property price index for 2015 and 2016 was 8.9 per cent. and 6.3 per cent., respectively, according to the CSO. If house prices continue to increase without sufficient improvements in customers' earnings levels, this could lead to a reduction in demand for mortgages as fewer customers would be able to afford to buy property.

Economic conditions in the United Kingdom have also been improving. GDP grew by 1.8 per cent. year-on-year in 2016 and unemployment in the first quarter of 2017 was 4.6 per cent., compared to 7.8 per cent. in the first quarter of 2013, according to the United Kingdom's Office for National Statistics ("ONS"). However, any deterioration in the UK economy, whether caused by the United Kingdom's exit from the European Union or otherwise, could have a similar impact on AIB's business in the United Kingdom. See "*—The United Kingdom's exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB's business, financial condition, results of operations and prospects*".

As a result of the dynamics discussed above, any deterioration in economic conditions in Ireland, the United Kingdom or the global economy could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

2 *Geopolitical developments, particularly in Europe and the United States, may have repercussions that could have a negative impact on global economic growth, disrupt markets and adversely affect AIB.*

Geopolitical developments in recent years have given rise to significant market volatility and in certain instances have had an adverse impact on economic growth and performance globally. Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term.

The European sovereign debt crisis which commenced in 2011 and the emergence of significant anti-austerity sentiment in certain Eurozone countries, including, for example, Greece and Italy, has contributed to, and may continue to contribute to, instability in the European sovereign debt markets and in the Eurozone economy generally. If one or more members of the Eurozone were to default on their debt obligations or decide to leave the common currency, this could result in the reintroduction of one or more national currencies. Should a Eurozone country exit the common currency, the resulting need to reintroduce a national currency and restate existing contractual obligations could have unpredictable financial, legal, political and social consequences. Furthermore, if a country were to exit the Eurozone, it may lead to that country subsequently leaving the European Union, which could contribute to the potential break-up of the European Union, and otherwise give rise to further uncertainty and adversely impact the overall economic climate.

Conflicts in the Middle East have also led to geopolitical uncertainty. In particular, the conflict in Syria has resulted in an influx of refugees into the European Union, which has contributed to political instability in certain member states of the European Union (the "Member States") which could affect the cohesiveness and integrity of open borders within the European Union. If hostilities in Syria or elsewhere in the world were to escalate, this could result in further instability. Terrorist activities within Europe or in other countries may also result in instability.

The United Kingdom's vote to withdraw from the European Union has resulted in significant volatility within the European political environment, as described in further detail under *"—The United Kingdom's exit from the European Union or the outcome of the general elections in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in* *market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB's business, financial condition, results of operations and prospects".*

In addition, in Northern Ireland political instability and deadlock have resulted from the resignation of the Deputy First Minister on 9 January 2017 and the collapse of negotiations to form a power-sharing government following assembly elections held on 2 March 2017. If an arrangement cannot be agreed, there is the possibility of further elections being called, or the current political structures in Northern Ireland becoming subject to significant change, including by the reinstatement of direct rule from London. The outcome of the general election in the United Kingdom held on 8 June 2017 has resulted in the two main political parties in Northern Ireland, the Democratic Unionist Party and Sinn Féin, increasing the number of their respective seats in the United Kingdom Parliament and overall, no political party having an overall majority in that Parliament. See also "*The United Kingdom's exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which would adversely affect AIB's business, financial condition, results of operation and prospects*". Depending on the timing of formation and the composition of the next UK Government, this may increase the risk of an arrangement not being agreed and increase the likelihood of the reinstatement of direct rule in Northern Ireland from London. These political developments are occurring at the point when the United Kingdom is in the process of negotiating its withdrawal from the European Union. The uncertainty resulting from these developments may have an adverse effect on economic conditions in Northern Ireland, which could in turn have an adverse effect on AIB, given its operations there.

Furthermore, the December 2016 referendum in respect of certain proposed changes to the Italian constitution led to the resignation of the Italian Prime Minister and caused instability and uncertainty in Italy. The emergence of anti-EU and anti-establishment political parties and a rise in protectionist sentiment across the European Union may also give rise to further political instability and uncertainty, particularly in light of upcoming elections in Germany and Austria in 2017.

In the United States, the election of the new president in November 2016 and his subsequent inauguration in January 2017 have contributed to an uncertain geopolitical atmosphere. While financial markets have not experienced significant disruption in the immediate aftermath of the election or inauguration, the implementation of the new administration's policies, such as trade protectionism and travel restrictions, may in the future have an adverse effect on relations between the United States and the European Union and may have an impact on economic conditions generally. For example, protectionist measures may make it uneconomical for Irish companies to export their products to the United States, which could have a negative impact on the Irish economy. Furthermore, if the US government were to take steps to significantly reduce US corporate tax rates or seek to tax accumulated profits of foreign subsidiaries of US companies, this could adversely affect inward investment into Ireland, which is currently incentivised in part by Ireland's relatively low corporate tax rate. See *"—AIB may be adversely affected by the budgetary and taxation policies of the Irish and UK Governments and by changes in taxation law and policy globally".*

The aforementioned geopolitical developments as well as any further developments may adversely affect global economic growth, heighten trading tensions and disrupt markets, which could in turn have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

3 ***The United Kingdom's exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB's business, financial condition, results of operations and prospects.***

In a referendum on the United Kingdom's membership of the European Union held on 23 June 2016, a majority voted in favour of the United Kingdom's withdrawal from the European Union ("Brexit"). Following a vote in parliament in February 2017 approving such a measure, in March 2017, the UK Government triggered the official process for withdrawing from the European Union under Article 50 of the Treaty of the European Union, leading to a process of negotiation that will determine the future terms of the United Kingdom's relationship with the European Union. The outcome of the general election held in the United Kingdom on 8 June 2017 has resulted in the Conservative Party obtaining the largest number of seats but losing its overall majority in the United Kingdom Parliament. This may result in the formation of a minority government or coalition government, a change in the Prime Minister or the holding of a further general election in the United Kingdom, any or all of which may result in political instability in the

United Kingdom or its constituent parts. These developments could adversely affect AIB because of Ireland's strong economic and other linkages with the United Kingdom, as well as AIB's operations in the United Kingdom, which accounted for 12 per cent. of its total operating income in the year ended 31 December 2016. Although the overall impact of the United Kingdom's withdrawal from the European Union remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB.

The significant decline in the pound sterling/euro exchange rate resulting from the Brexit vote has had, and is expected to continue to have, an adverse effect on exports to the United Kingdom. The United Kingdom is a significant trading partner for Ireland, with exports to the United Kingdom totalling €15.0 billion in the year to December 2016, representing 12.8 per cent. of total exports from Ireland, according to CSO Statbank. The impact may be disproportionate in relation to sectors of the Irish economy with significant linkages to the United Kingdom, including agriculture and tourism, and the impact will be exacerbated by any further weakening of the pound sterling. Furthermore, the imposition of any tariffs or customs controls as a result of the United Kingdom's withdrawal from the European Union could have an adverse effect on the export of goods or services from Ireland to the United Kingdom and, under current EU rules, Ireland would not be able to negotiate a bilateral trade agreement with the United Kingdom. Persistent uncertainty may also cause companies to delay capital expenditure, which would have an adverse impact on GDP growth. Regions of Ireland in proximity to the border with Northern Ireland may be particularly subject to negative risks from a withdrawal of the United Kingdom from the European Union due to the close day-to-day interactions between the two countries. Furthermore, the results of the referendum have caused, and the withdrawal of the United Kingdom from the European Union may in the future cause, dislocation and volatility in financial markets, including volatility in exchange rates and interest rates. Such volatility may adversely affect AIB's operations and business volumes.

The United Kingdom's withdrawal from the European Union may also have an impact on labour market conditions in Ireland. In particular, financial institutions and other financial operations currently based in the United Kingdom that rely on the EEA "passport" to access the single EEA market for financial services may seek an alternative base for their operations and relocate such operations to other jurisdictions, including Ireland. This may result in heightened competition for suitably qualified employees, which could adversely affect AIB's ability to attract and retain employees. See *"—Risks Relating to AIB's Business—Restrictions on executive fixed and variable pay, the existence of an additional tax on bonuses paid to employees of Irish banks who have received financial support from the Irish Government, the UK's withdrawal from the EU, macro-economic and other factors may adversely affect AIB's ability to recruit, retain and develop appropriate senior management, skilled and specialist personnel, and may lead to employee dissatisfaction generally".*

In addition to the macro-economic impact of Brexit discussed above, there may be legal and regulatory implications for AIB's operations in the United Kingdom. As a significant proportion of the regulatory regime applicable to AIB UK in the United Kingdom is derived from EU directives and regulations, Brexit could materially change the regulatory framework applicable to AIB UK's operations, including with respect to prudential, bank resolution, consumer regulation, data protection and employment/migration requirements. For example, AIB may be required to transfer certain of its intra-group operations currently performed by the Company in Ireland for AIB UK so that AIB UK operates on a stand-alone basis as a result of possible changes to AIB's regulatory position in the United Kingdom. If UK regulatory capital rules diverge from those of the European Union, as a result of future changes in EU law which are not mirrored by the United Kingdom or vice versa, AIB's regulatory burden may increase, which likely would increase compliance costs. Depending on the nature of the agreement reached between the United Kingdom and the European Union on migration and immigration (if any), the United Kingdom's exit from the European Union could also result in restrictions on mobility of personnel and could create difficulties for AIB in recruiting and retaining qualified employees, both in the United Kingdom and Ireland. In addition, the Company has exercised its EU "passport" rights to establish the London branch of the Company in the United Kingdom. The regulatory position of that branch in the United Kingdom may become uncertain and be subject to change as a result of the United Kingdom's withdrawal from the European Union.

Any of the foregoing could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

4 ***AIB faces risks associated with the level of, and changes in, interest rates, as well as certain other market risks.***

Interest rates, which are impacted by factors outside of AIB's control, including the fiscal and monetary policies of governments and central banks, as well as Irish and international political and economic conditions, affect AIB in several ways.

Interest rates affect the cost and availability of AIB's principal sources of funding, including customer accounts, which accounted for 70 per cent. of AIB's total funding as at 31 March 2017. A sustained low interest rate environment keeps AIB's cost of funding low by reducing the interest payable on its customer accounts, but also reduces incentives for customers to save. In addition, a negative interest rate environment erodes net interest margin due to, inter alia, the zero interest rate floor on retail customer deposits.

Changes in the shape and level of interest rate curves impact the economic value of AIB's assets and liabilities. AIB's earnings are exposed to basis risk (i.e., an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar re-pricing characteristics). The persistence of exceptionally low interest rates for an extended period, or negative interest rates, could adversely impact AIB's earnings through the compression of its net interest margin. Commencing in 2009, governments and monetary authorities around the world took action to stabilise financial markets, including by implementing highly accommodative monetary policies. Despite what appeared to be an improving growth background at the time, the European Central Bank ("ECB") cut the deposit rate to −0.30 per cent. in December 2015 and in December 2016 announced an extension of its asset purchase programme until at least December 2017. The asset purchase programme is now intended to be carried out until the end of 2017 if inflation and inflation expectations do not materially improve. In March 2016, the ECB delivered a package of measures to boost Europe's economy, including cutting its main refinancing rate to 0.0 per cent. and its deposit rate to −0.4 per cent. It remains unclear when central banks will return to more conventional monetary policies. To the extent interest rates remain low for an extended period of time, this could put pressure on AIB's net interest income and margin, and could reduce the incentives for its customers to deposit money in savings accounts, reducing funding from deposits. The accommodative monetary policies pursued by central banks may also lead to excessive inflationary pressures on relevant economies. Furthermore, in the event of a sudden large increase or frequent increases in interest rates, AIB may not be able to respond to the market or re-price its assets and liabilities at the same time, giving rise to re-pricing gaps in the short term which can adversely affect its net interest margin.

Interest rates also affect the affordability of AIB's products to customers. A rise in interest rates, without sufficient improvements in customers' earnings levels, could lead to an increase in default or re-default rates among customers with variable rate obligations (e.g., customers with variable rate mortgages or tracker mortgages, which accounted for 55 per cent. and 35 per cent., respectively, of AIB's residential mortgages in Ireland as at 31 December 2016). This could in turn lead to increased impairment provisions and lower profitability for AIB. An increase in interest rates would also result in a higher rate being used for purposes of discounting future cash flows from AIB's loan book, which would have the effect of increasing impairment provisions. A high interest rate environment may also reduce demand for mortgages and other loan products generally, as customers are less likely or less able to borrow at the same levels when interest rates are high as when interest rates are low.

In addition to interest rate risk, AIB is exposed to other market risks, such as credit spread risk. As at 31 March 2017, AIB had €14.3 billion of available for sale debt securities on its statement of financial position, which primarily included debt securities issued by Eurozone governments. As at 31 March 2017, AIB's available for sale debt securities included €5.2 billion of Irish Government securities, €2.5 billion of other European government securities, €0.2 billion of non-European government securities, €1.5 billion of securities issued by supra-national banks and government agencies, €0.4 billion of asset backed securities and €4.4 billion of securities issued by European banks. Widening credit spreads could adversely impact the fair value of these assets. Additionally, on 31 March 2017, AIB had €0.6 billion of available for sale equity securities, the value of which is sensitive to changes in equity prices.

AIB also has exposure to market risk in relation to its trading book, which encompasses positions in financial instruments (principally derivatives) that are held with trading intent or to hedge positions held with trading intent. This risk arises primarily from AIB's support of customer businesses with small residual discretionary trading positions remaining. Credit value adjustments and funding value adjustments to derivative valuations arising from customer activity can have an impact on AIB's results of operations.

Changes in foreign exchange rates, particularly the euro/sterling and euro/US dollar rates, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of the Company's non-Irish subsidiaries. Any failure to manage interest rate risk or the other market risks to which AIB is exposed could have a material adverse effect on its business, financial condition, results of operations and prospects.

5 *AIB may be adversely affected by the budgetary and taxation policies of the Irish and UK Governments and by changes in taxation law and policy elsewhere or globally.*

The current and future budgetary and taxation policy of Ireland and the United Kingdom and other measures adopted by the Irish and UK Governments, or by governments in other jurisdictions in which AIB operates or has business, may have an adverse impact on AIB's business.

For instance, the bank tax levy introduced by the Irish Government in Budget 2014 imposed an additional taxation liability on AIB that was originally intended to apply for 2014, 2015 and 2016 only. The Finance Act 2016 rebased the bank levy and extended it beyond 2016 to 2021. The annual bank tax levy paid by AIB in 2016 amounted to €60 million. In addition, in the UK Finance Act 2015, the UK Government restricted the proportion of a bank's taxable profit that can be offset by certain carried forward losses to 50 per cent., effective from 1 April 2015, resulting in a €242 million decrease in AIB's deferred tax asset for the year ended 31 December 2015. This was subsequently further reduced in the UK Finance Act 2016 to 25 per cent., effective 1 April 2016, resulting in a €92 million decrease in AIB's deferred tax asset for the year ended 31 December 2016. These changes will also result in the current tax charge being a higher portion of the income tax charge in the future. The costs associated with these and any future changes in budgetary and taxation policies globally could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

In addition, multinational corporations' recognition of resources for taxation purposes has come under considerable political scrutiny recently. The OECD, with the support of the G-20, has embarked on a project to address base erosion and profits shifting by multi-national companies, which is focused on combatting base erosion using arrangements to generate income that is not subject to meaningful taxation in any jurisdiction as well as profit shifting from high tax jurisdictions to low tax jurisdictions. In August 2016, the European Commission (the "EC") ruled that Apple Inc. had received €13 billion of illegal state aid because of its taxation arrangements with Ireland, which permitted it to pay substantially less tax than it would have been required to pay had its profits been booked in another jurisdiction. Ireland and Apple are appealing that ruling in the European Court of Justice. If these types of arrangements continue to be challenged by the EC, this could result in companies relocating from Ireland, or deciding to invest in other jurisdictions, which could have an adverse impact on the Irish economy. The introduction of more favourable corporate taxation policies in other jurisdictions may also attract capital away from Ireland. See *"—Geopolitical developments, particularly in Europe and the United States, may have repercussions that could have a negative impact on global economic growth, disrupt markets and adversely affect AIB"*. Any of the foregoing could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

Risks Relating to AIB's Business

6 *AIB is subject to credit risks in respect of customers and counterparties, including risks arising due to concentration of exposures across its loan book, and any failure to manage these risks effectively could have a material adverse effect on its business, financial condition, results of operations and prospects.*

Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of AIB's businesses. In particular, AIB remains heavily exposed to the Irish property market, including the Irish residential property market, both because of its mortgage lending activities and its property and construction loan book. See *"Part XIII: Operating and Financial Review—Statement of Financial Position—As at 31 March 2017 and 31 December 2016—Gross Loans and Receivables to Customers—Loans and Receivables to Customers by Type of Loan—Residential mortgage loan portfolio"* and "*—Property and construction"* for details of AIB's exposure to residential mortgages and property and construction loans. Accordingly, any development that adversely affects the Irish property market will have a disproportionate impact on AIB in comparison to other banks with less significant exposures to this market.

In addition to the credit exposures arising from loans to individuals, small- and medium-sized enterprises ("SMEs") and corporates, AIB has exposure to credit risk arising from its exposure to other financial institutions (for further details, see "*—AIB could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties*"), its trading portfolio, available for sale and held to maturity portfolios, derivatives and off-balance sheet guarantees and commitments. AIB may be exposed to customers or counterparties through any or all of these assets and when assessing credit risk against a particular customer or counterparty, all of these exposures are taken into account. Positions in the trading book and available for sale positions are marked to market on a daily basis and the majority of interbank derivative positions are subject to daily collateralisation.

If AIB is unable to manage its credit risk effectively, its business, results of operations, financial condition and prospects could be materially adversely affected.

7 *AIB has a high level of criticised loans on its statement of financial position and there can be no assurance that it will continue to be successful in reducing the level of these loans. The management of criticised loans also gives rise to risks, including the vulnerability to challenge by customers and/or third parties, re-default, changes in the regulatory regime, further losses, costs and the diversion of management attention and other resources from AIB's business.*

AIB has a high level of criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. Criticised loans include "watch", "vulnerable" and "impaired" loans, as described in further detail in "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*". The percentage of AIB's loan portfolio which is impaired is higher than the average of other European financial institutions and remains a main concern for the joint supervisory team for AIB at the ECB and Central Bank (the "JST") in light of the implications for AIB's profitability, capital and senior management agenda.

As at 31 March 2017, AIB had €17.8 billion in criticised loans on its balance sheet, representing 27 per cent. of total loans, of which €2.8 billion were "watch" loans, representing 4 per cent. of total loans; €6.3 billion were vulnerable loans, representing 10 per cent. of total loans; and €8.6 billion were "impaired" loans, representing 13 per cent. of total loans. As at that date, AIB had €13.1 billion in non-performing exposures, which are defined by the European Banking Authority ("EBA") to include material exposures which are more than 90 days past due and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due. For further detail on non-performing exposures and how they differ from criticised loans, see *"Part XIII: Operating and Financial Review—Non-performing Exposures"*.

AIB has been proactive in managing its criticised loans, in particular through restructuring activities and the development of a Mortgage Arrears Resolution Strategy ("MARS"), which built on and formalised the Mortgage Arrears Resolution Process ("MARP") it was required to introduce in order to comply with the Code of Conduct on Mortgage Arrears (2013) issued by the Central Bank (the "CCMA"), as well as the development of strategies for the restructuring of all asset classes of loans. See "*—Additional Credit Risk Information—Forbearance*" in note 43 of Section D and "*—Credit risk—Additional Credit Risk Information—Forbearance*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*" for more details. AIB has reduced the level of criticised loans on its statement of financial position, with criticised loans having decreased by €15.2 billion, or 44.8 per cent., from 2014 to 2016. There can be no assurance, however, that AIB will continue to be successful in reducing the level of its criticised loans, particularly since there are a number of elements outside of AIB's control, such as property values, interest rate levels and taxation policies, that will impact its criticised loan book. For example, AIB has been unable to finalise certain restructuring strategies and solutions, in line with AIB's standard customer treatment strategies, to employees, former employees and their associates due to uncertainty in relation to the application of legislation governing the tax treatment of any write-off of loans to such employees, former employees and their associates, as the restructuring of those loans that may include elements of write-off may give rise to an additional cost, even where the restructuring solution is consistent with those offered to non-employees. The management of criticised loans, including the enforcement and restructuring activities that AIB undertakes, may be vulnerable to challenge by its customers and/or by third parties and AIB is unable to predict the timing or outcome of any such challenges. AIB is also subject to the risk of re-default by customers even after a resolution has been achieved for a particular loan. As the majority of restructuring activity has taken place relatively recently, AIB has a limited empirical basis for assessing the risk of re-default and re-defaults could exceed the level anticipated by AIB. Furthermore, AIB's ability to manage non-performing loans and non-performing exposures may be adversely affected by new or additional requirements regarding the management of such loans and exposures, such as the ECB's March 2017 guidance in relation to the management of non-performing loans and non-performing exposures, other regulatory requirements, or changes in government policy. See "*—Risks Relating to Supervision and Regulation*".

The monitoring of criticised loans can also be time consuming and can require case-by-case resolution. Furthermore, even after a particular loan has been restructured, monitoring and attention will continue to be required. AIB's management has devoted significant resources (both in terms of cost and management time) to the monitoring of criticised loans and will continue to be required to do so in the future. This may divert management attention and resources from other areas of AIB's business.

Finally, AIB has begun to experience an expected slowdown in restructuring momentum and it is now primarily dealing with those cases which are of lower monetary value, more complex, more specific to an individual's circumstances and more protracted in nature. In addition, a larger proportion of the remaining loans being resolved are subject to enforcement and the legal process associated with these takes more time than a consensual process. AIB has elected and may in the future elect to adopt alternative strategies for certain cohorts of its criticised loans, such as loan disposals. In addition, since 31 March 2017, AIB has reached agreement with a wholly-owned subsidiary of Goldman Sachs to sell a portfolio of impaired buy-to-let loans, the vast majority of which are in deep long-term arrears. Overall, the transaction, with an approximate €0.2 billion net value, is expected to be capital accretive. The implementation of such strategies may represent a reputational risk to AIB and may result in customer dissatisfaction and/or customer litigation. The significant resource investment which such strategies entail may also lead to a loss of management focus in other areas of AIB's business. Failure to adequately implement such strategies would also pose significant financial, reputational and other risks to AIB. Loan disposals may occur on terms where the value realised on the disposal is less than the carrying value (net of applicable impairment provisions) in respect of the relevant loans.

If AIB is unsuccessful in reducing the level of criticised loans on its statement of financial position, if it is required to continue to devote significant resources and attention to the monitoring and management of criticised loans or if its reputation is damaged by the alternative treatment strategies it pursues, its business, results of operations, financial condition and prospects could be materially adversely affected.

8 *AIB's monitoring of its loan portfolio is dependent on the effectiveness, and efficient operation, of its processes including credit grading and scoring systems and there is a risk that these systems and processes may not be effective in evaluating credit quality.*

AIB uses processes including credit grading and scoring systems in evaluating the credit quality of its customers and to facilitate the early identification and management of any deterioration in loan quality. Changes in objective information are reflected in the credit grade of the relevant borrower with the resultant grade influencing the management of that borrower's loans. AIB pays special attention to criticised loans which include "watch", "vulnerable" and "impaired" loans. However, there is a risk that AIB's credit grading and scoring systems and processes may not be effective in evaluating the credit quality of customers or in identifying changes in loan quality in a timely manner. Any such failure in the timely identification of loan impairment could materially adversely affect AIB's business, results of operations, financial condition and prospects.

9 *AIB could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties.*

Given the high level of interdependence between financial institutions, AIB is and will continue to be subject to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions. One institution defaulting, failing a stress test or requiring bail-in by its shareholders and/or creditors and/or bail-out by a government could lead to significant liquidity problems, losses or defaults by other institutions. For example, the bankruptcy of Lehman Brothers in 2008 led to this situation, as the commercial and financial soundness of many financial institutions at the time were closely related due to their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty or major Irish financial institution may lead to market-wide liquidity problems and losses or defaults by AIB or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, industry payment systems, clearing houses, banks, securities firms and exchanges with whom AIB interacts on a daily basis. Systemic risk, particularly within the European Union or otherwise affecting Ireland, could have a material adverse effect on AIB's ability to raise new funding and on its business, financial condition, results of operations and prospects.

10 *AIB may have insufficient capital to meet increased minimum regulatory requirements.*

AIB is subject to minimum capital requirements as set out in the Capital Requirements Regulation (No. 575/2013) (the "CRR") and the Capital Requirements Directive (2013/36/EU) ("CRD" and, together with the CRR, "CRD IV") and implemented under the Single Supervisory Mechanism (the "SSM"), which granted the ECB a supervisory role to monitor the financial stability of banks based in participating states, starting from 4 November 2014. CRD IV represents the adoption in the EU of reforms by the Basel Committee commonly referred to as Basel III. CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with effect from 1 January 2014, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and (iv) the introduction of a minimum leverage ratio with effect from 1 January 2018.

As a result of these requirements, banks in the European Union have been, and will continue to be, required to increase the quantity and the quality of their regulatory capital. Furthermore, the capital requirements to which AIB is subject may become more stringent because of the proposals published by the EC on 23 November 2016 for amendments to the CRR, the CRD IV, the Banking Recovery and Resolution Directive (2014/59/EU) ("BRRD"), the Single Resolution Mechanism Regulation (EU) No.806/2014 (the "SRM Regulation") and the proposed new directive to facilitate the creation of a new asset class of "non-preferred" senior debt (the "Proposals") and/or further reforms by the Basel Committee on Banking Supervision, including the finalisation of Basel III (commonly referred to as Basel IV).

AIB evaluates the adequacy of its capital under both forecast and stress conditions as part of the Internal Capital Adequacy Assessment Process ("ICAAP"), which includes the identification and evaluation of potential capital mitigants. Nevertheless, given the evolution of minimum capital requirements and the levels of uncertainty in the current economic environment, there is a possibility that the economic performance over AIB's capital planning period may be materially worse than expected and/or that losses on AIB's credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, or capital requirements for other material risks such as operational risk or interest rate risk to increase significantly, there is a risk over the longer term that AIB's capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements, as communicated by the SSM as part of its supervisory review and evaluation process ("SREP") which is undertaken annually. Following the SREP by the ECB in December 2016, the minimum requirements for 2017 were set at 9.0 per cent. for the CET1 ratio and 12.5 per cent. for the total capital ratio. This excludes Pillar 2 guidance that is not publicly disclosed. AIB's transitional CET1 and total capital ratios as at 31 March 2017 were 19.3 per cent. and 22.0 per cent. respectively. Based on full implementation of CRD IV, AIB's leverage ratio was 9.9 per cent. as at 31 March 2017. Based on these ratios, AIB has a significant buffer above maximum distributable amount trigger levels, but no assurances can be given that AIB will be able to maintain these ratios or that the minimum requirements will not increase. The next SREP is presently anticipated in July 2017. In addition, capital levels may be negatively affected by volatility arising from AIB's pension schemes and its available for sale portfolio values. The SSM's assessment of AIB's capital position may also change as a result of any assessment and supervisory review of its capital model.

AIB is also subject to stress tests carried out by Irish and EU regulators, as described in "*Part XVII: Risk Management—Funding and Liquidity Risk—Liquidity Regulation*", with the next round of EU-wide stress tests scheduled to take place in the first half of 2018. Future assessments carried out by relevant regulatory authorities may result in AIB being required over the longer term to increase its capital or to take other appropriate actions to address matters raised in those assessments. The publication of the results of such stress tests could also lead to reputational damage or a diminution in the market valuation of AIB to the extent such results are negative or perceived to be negative. If AIB's capital position were to deteriorate, this could also impact its ability to pay dividends. See "*—Risks Relating to the Offer and the Offer Shares—There can be no assurance that the Company will pay dividends in the future and Shareholders may earn a negative or no return on their investment in AIB*". Any of the foregoing could have a material adverse effect on AIB's business, results of operations, financial condition or prospects.

11 *Constraints on AIB's access to funding, including a loss of confidence by depositors or curtailed access to wholesale funding markets, may result in AIB being required to seek alternative funding sources.*

While AIB is currently in a position of surplus liquidity, conditions may arise which would constrain funding or liquidity opportunities for AIB over the longer term. Currently, AIB funds its lending activities primarily from customer accounts, which comprised 70 per cent. of AIB's total funding as at 31 March 2017. Consequently, a loss of confidence by depositors in AIB, the Irish banking industry or the Irish economy could ultimately lead to a reduction in the availability and/or increase in the cost of funding or liquidity resources.

Other funding represented 30 per cent. of AIB's total funding as at 31 March 2017 . This was made up of 12 per cent wholesale funding, while funding from monetary authorities represented 2 per cent and the remaining 16 per cent was made up of equity funding. Concerns around debt sustainability and sovereign downgrades in the Eurozone could impede access to wholesale funding markets, adversely impacting the ability of AIB to issue debt securities or regulatory capital instruments to the market. Future wholesale funding will be subject to minimum requirement for own funds and eligible liabilities ("MREL") requirements. Meeting these requirements may cause AIB to incur higher than expected wholesale funding costs. AIB expects that the HoldCo (as defined in *"—Risks Relating to Supervision and Regulation—The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure, or take other actions which could have a significant impact on AIB's operations, structure, costs and/or capital requirements"*) will issue €3 billion to €5 billion of securities eligible for MREL purposes over the medium to long term. See *"—Risks Relating to Supervision and Regulation—AIB is subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources (including MREL) and liquidity and to satisfy specified capital, liquidity and leverage ratios, as well as changes in accounting standards that impact AIB's capital position, and any perceived or actual shortage of capital or liquidity could result in actions by regulatory authorities, including public censure and the imposition of sanctions*".

A stable customer deposit base and non-core deleveraging has allowed AIB to reduce its funding from the ECB materially. This, in turn, has facilitated an increase in AIB's unencumbered high quality liquid assets ("HQLA"). However, if AIB were to exhaust these sources of liquidity, which, based on AIB's current liquidity position and its current financial condition, is not believed to be the case for at least the next 12 months, it would be necessary to seek alternative sources of funding from the monetary authorities.

CRD IV requires banks such as AIB to meet targets set for the Basel III liquidity related ratios: the liquidity coverage ratio ("LCR"), which will require banks to have sufficient HQLA to withstand a 30-day stressed funding scenario, and the net stable funding ratio ("NSFR"), which is a long-term structural ratio designed to address liquidity mismatches. The LCR is being phased in over several years, with credit institutions obliged to hold 80 per cent. of their full LCR in 2017 and 100 per cent. in 2018. The NSFR is proposed to come into effect at the level of 100 per cent. from 1 January 2018 and the Proposals include legislative proposals regarding the NSFR. AIB's LCR was 126 per cent. and its NSFR was 118 per cent. as at 31 March 2017, both of which are within the CRD IV requirements that will apply from 1 January 2018. Nevertheless, meeting the phased implementation deadlines of these requirements could impose additional costs on AIB and the failure to demonstrate appropriate progress towards or to meet such phased requirements may lead to regulatory sanctions. Wholesale funding may also prove difficult if AIB does not achieve LCR and NSFR margins comparable to peers.

If AIB faces difficulties in accessing funding or in meeting the aforementioned liquidity ratios, its business, results of operations, financial condition and prospects could be materially adversely affected.

12 *Downgrades to AIB's, Ireland's sovereign or other Irish bank credit ratings or outlook could impair AIB's access to private sector funding, trigger additional collateral requirements and weaken its financial position.*

AIB's long-term debt (which is not covered by the Credit Institutions (Eligible Liabilities Guarantees) Scheme (the "ELG Scheme")) is rated BBB- (with a stable outlook) by Standard & Poor's Credit Market Services Europe Limited ("S&P") (from January 2017), Baa2 (with a stable outlook) by Moody's Investor Service Limited ("Moody's") (from June 2017) and BB+ (with a positive outlook) by Fitch Ratings Limited ("Fitch") (from December 2015). Each of S&P, Moody's and Fitch is registered in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. Based on AIB's current financial condition and the state of the Irish economy, AIB does not believe it will experience a credit downgrade over the next 12 months. However, the credit ratings which may be given to HoldCo may be lower than the corresponding credit ratings of AIB, and in that regard, see "*—The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure, or take other actions which could have a significant impact on AIB's operations, structure, costs and/or capital requirements.*" In addition, over the longer term, downgrades in the credit ratings of AIB could have an adverse impact on the volume and pricing of its wholesale funding and its financial position, restrict its access to the debt capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken AIB's competitive position in certain markets. Furthermore, the availability of deposits is often dependent on credit ratings, and downgrades of AIB's debt could lead to withdrawals of deposits, which could result in deterioration in AIB's funding and liquidity position. Furthermore, there can be no assurance that Ireland's sovereign credit rating will not be downgraded in the future. As a consequence of AIB's operations being focused on the Irish market and the very substantial shareholding of the Irish Government in AIB, any such downgrade would be likely to impair AIB's access to private sector funding and weaken its financial position. Given the concentration of the Irish banking market in a relatively small number of banks and the relative inter-connectivity of the Irish banks, a downgrade of one or more other Irish banks with large shares in that market could also impair AIB's access to private sector funding and weaken its financial position. Any of the foregoing could have a material adverse effect on AIB's business, results of operations, financial condition or prospects.

13 *Deferred tax assets that are recognised by AIB may be affected by changes in tax legislation, the interpretation of such legislation or relevant practices. AIB is also required under capital adequacy rules to deduct from its Common Equity Tier 1 ("CET1") the value of most of its deferred tax assets, which may result in it being required to hold more capital.*

As at 31 March 2017, AIB had €2.8 billion of deferred tax assets on its statement of financial position, substantially all of which related to unused tax losses. Changes in tax legislation or the interpretation of such legislation, regulatory requirements, accounting standards or practices of relevant authorities, could adversely affect the basis for recognition of the value of these losses. In the United Kingdom, for instance, legislation has been introduced to restrict the proportion of a bank's taxable profit that can be offset by certain carried forward losses to 50 per cent. effective from 1 April 2015, resulting in a €242 million decrease in AIB's deferred tax asset for the year ended 31 December 2015. This was subsequently further reduced to 25 per cent. effective from 1 April 2016, resulting in a €92 million decrease in AIB's deferred tax asset for the year ended 31 December 2016. This will likely continue to have a negative impact on AIB's profit after taxation in future periods. This legislation has adversely affected the value of AIB's deferred tax assets in relation to its UK operations. If similar legislation were to be introduced in Ireland, this could have a further adverse impact on the value of AIB's deferred tax assets, which could adversely affect AIB's business, results of operations, financial condition and prospects. There is also a risk that AIB may not generate the necessary future taxable profit in Ireland or the United Kingdom to support the current level of deferred tax assets. Additionally, if the time period in which the profits may be generated is too distant, then AIB may not be able to assess the likelihood of profits arising as more likely than not, which could have a negative impact on its deferred tax assets.

The capital adequacy rules under CRD IV, also require AIB, among other things, to deduct from its CET1 the value of most of its deferred tax assets, including all deferred tax assets arising from unused tax losses. This deduction from CET1 commenced in 2015 and is to be phased in evenly over 10 years, although this phasing may be subject to change. If the phasing does change, AIB may be required to hold more capital in the transitional period.

14 *AIB faces risks from the competitive environment in which it operates and its performance may vary depending on changes in the intensity and source of this competition.*

AIB operates in competitive markets in Ireland and the United Kingdom, with market share and associated profits depending on a combination of factors including product range, quality and pricing, reputation, brand performance, and relative sales and distribution strength, among others.

In the Irish market, AIB competes primarily with The Governor and Company of the Bank of Ireland ("Bank of Ireland") and Ulster Bank, which is owned by the Royal Bank of Scotland. It also competes with smaller universal service providers such as KBC and permanent tsb, with single service providers, such as Pepper Group, which only offers residential mortgages, and with credit unions. The use of intermediaries in the Irish mortgage market is relatively limited, with the sophistication and scale of operators lower than in the United Kingdom.

The Central Bank is focused on the promotion of higher levels of competitive intensity in the banking market, in common with regulators in other European jurisdictions. Mortgage interest rates in Ireland are higher than Eurozone norms and this, together with the low incidence of switching mortgage providers, is an area of focus for the Central Bank. The Irish Government is also focused on competition in the banking market and on 20 February 2017, the Competition and Consumer Protection Commission of Ireland (the "CCPC") published a public consultation to gather views about the future of the Irish mortgage market in order to set out options available to the Irish Government on how to reduce the cost of secured mortgage lending and to improve competition and consumer protection. See "*—Risks Relating to Supervision and Regulation—AIB's loan book (in particular, its residential mortgage book) may become subject to further supervision and scrutiny by the Irish Government, the Central Bank and the CCPC, which could result in regulation and control of AIB's loan book and therefore result in a reduction in AIB's level of lending, interest income and net interest margin and/or increased operational costs*."

In the near term, the intensity of the competitive landscape is likely to be influenced primarily by potential new market entrants as well as more substantial engagement by credit unions in the mortgage market, particularly should the credit markets return to sustainable growth, which would make the market more attractive, as well as by the commercial pressures facing incumbent providers to maintain or grow their current market shares.

Medium-term competitive risks include:

- more intense price-based competition from incumbent providers, committed to delivering on their strategic objective of playing a primary market role and/or returning to a normal dividend relationship with their shareholders through market share gains;
- an increase in the use of intermediaries in the mortgage market, leading to margin pressures as a result of greater price transparency and/ or the promotion of mortgage provider switching;
- the emergence of new, lower-cost, competitors in the Irish mortgage market with particular vulnerabilities for incumbents in low-LTV mortgages;
- sustained disintermediation of traditional banks, including AIB, from specialist and generalist product lines, including but not limited to merchant acquiring services, residential and commercial mortgage lending, foreign exchange transactions, personal credit and SME lending;
- the internationalisation of supply and demand for low-complexity products such as deposits, reducing the scope for intra-EU differences in pricing;
- the successful establishment of virtual banks (such as N26 in Germany), which may adversely affect traditional banks both in terms of income and customer insights, which can provide an important competitive advantage in credit markets; and
- the introduction of Payment Services Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market ("PSD2"), which may enable the emergence of payment aggregators, which could in turn significantly reduce the relevance of traditional bank platforms and weaken brand relationships.

The competitive threats facing AIB in Ireland stem from both traditional banks seeking to increase their market share and/or market reach, as well as from financial technology ("Fintech") companies, which provide services such as online transaction and payments, currency trading, mobile banking, crowdfunding and peer-to-peer lending. Examples of Fintech companies operating in the Irish market include CurrencyFair, LinkedFinance, Fundit, Realex, Kickstarter, PayPal and Apple Pay. Fintech companies often have cost bases and regulatory burdens that are lower than those of financial institutions operating under the traditional banking model, and may not have the same legacy issues such as IT systems issues and non-performing loans as such institutions.

In Northern Ireland, AIB faces direct competition from the established UK high street banks, non-bank providers (such as Tesco, Marks & Spencer, and credit unions) and Bank of Ireland. Additionally, the Northern Irish mortgage market is heavily intermediated. New competitive threats stem primarily from incumbent providers seeking to improve financial performance in what is a challenging market, as well as from Fintech disintermediation.

In Great Britain, where AIB operates as a niche SME bank, it faces competition from larger banks, such as Lloyds, RBS and Barclays, and established and emerging challenger banks, such as CYBG, Aldermore and Shawbrook. Fintech competition in the payments and credit markets is more established in Great Britain than in the Irish market, with PSD2 likely a material enabler of greater competition in the provision of specialist financial services to SMEs.

Any failure by AIB to manage the competitive dynamics to which it is exposed in Ireland and the United Kingdom could have a material adverse effect on its business, results of operations, financial condition and prospects.

15 ***Damage to AIB's brand or reputation could adversely affect its relationships with customers, staff and regulators.***

Management aims to ensure that AIB's brands, which include the AIB, EBS and Haven brands in Ireland, the Allied Irish Bank (GB) brand in Great Britain and the First Trust Bank brand in Northern Ireland, are at the heart of its customers' financial lives by being useful, informative and easy to use and providing an exceptional customer experience. AIB's relationships with its stakeholders, including its customers, staff and regulators, could be adversely affected by any circumstance that causes real or perceived damage to its brands or reputation. In particular, any regulatory investigation or inquiry, sanction, fine, litigation or actual or perceived misconduct or poor market practice in relation to customer related issues could damage AIB's brands and/or reputation. Any damage to AIB's brands and/or reputation could have a material adverse effect on AIB's business, results of operations, financial condition or prospects.

16 ***AIB's strategy may not be optimal and/or not successfully implemented.***

AIB has identified several strategic objectives for its business, as described in "*Part IX: Information on AIB—Strategy*". There can be no assurance that AIB's strategy is the optimal strategy for delivering returns to Shareholders. The various elements of AIB's strategy may be individually unnecessary or collectively incomplete. AIB's strategy may also prove to be based on flawed assumptions regarding the pace and direction of future change across the banking sector. In addition, any aspect of AIB's strategy that is dependent upon the value and competitive advantage conveyed by intellectual property rights (including trademarks) may not be adequately protected or deemed to be enforceable. Finally, AIB may not be successful in implementing its strategy in a cost effective manner. AIB's business, results of operations, financial condition and prospects could be materially adversely affected if any or all of these strategy-related risks were to materialise.

17 ***If a poor or inappropriate culture develops across AIB's business, this may adversely impact its performance and impede the achievement of its strategic goals.***

AIB must continuously develop and promote an appropriate culture that drives and influences the activities of its business and staff and its dealings with customers in relation to managing and taking risks and ensuring risk considerations continue to play a key role in business decisions. It is senior management's responsibility to ensure that the appropriate culture is embedded throughout the organisation. As was demonstrated by many banks during the global financial crisis, if an inappropriate culture develops, then a strategy or course of action could be adopted that results in poor customer outcomes. If AIB is unable to maintain an appropriate culture, this could have a negative impact on AIB's business, result of operations, financial condition and prospects.

18 ***Restrictions on executive fixed and variable pay, the existence of an additional tax on bonuses paid to employees of Irish banks who have received financial support from the Irish Government, the UK's withdrawal from the EU, macro-economic and other factors may adversely affect AIB's ability to recruit, retain and develop appropriate senior management, skilled and specialist personnel, and may lead to employee dissatisfaction generally.***

AIB's success depends on the continued service and performance of its key employees, particularly certain skilled and specialist personnel and senior management, some of whom joined AIB relatively recently, and its ability to attract, retain and develop high calibre talent. Following the recapitalisation of AIB by the Irish Government, AIB is required to comply with certain executive pay and compensation restrictions, including a cap on salaries in the amount of €500,000, as well as a ban on bonuses and similar incentive-based compensation applicable to employees of Irish banks who have received financial support from the Irish Government. These restrictions have made, and will continue to make, attracting and retaining skilled personnel of high calibre or in specialist areas difficult.

In addition, in 2011, the Irish Government introduced a special universal social charge ("USC") rate which results in an aggregate tax rate of 89 per cent. applicable to performance-related bonus payments in excess of €20,000 received by employees of financial institutions that received financial support from the Irish State, including AIB. If AIB is in the future permitted to pay bonuses to its employees, the special USC rate would apply, if still in existence at the relevant time. In the meantime, the absence of market-aligned short- and long-term variable incentive schemes restricts AIB's ability to align the remuneration of key executives with the achievement of strategic plans and prevents it from creating a lock-in to ensure achievement of those deliverables. This may have the effect of a loss in senior management and may lead to a change in the strategic ambition of AIB.

External factors such as macro-economic and geopolitical conditions, the developing and increasingly rigorous regulatory environment and/or negative media attention on the financial services industry may also adversely affect employees' retention, sentiment and engagement. The United Kingdom's withdrawal from the European Union could result in financial institutions and other financial operations currently based in the United Kingdom that rely on the EEA "passport" to access the single market for financial services to seek an alternative base for their operations and relocate such operations to other jurisdictions, including Ireland, which could in turn further increase competition in Ireland for suitably qualified employees. Such companies also would not be subject to the aforementioned restrictions on pay to which AIB is subject, which may provide them with a competitive advantage in hiring suitably qualified staff vis a vis AIB. See *"—The United Kingdom's exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB's business, financial condition, results of operations and prospects"*. Failure by AIB to attract and appropriately develop, motivate and retain highly skilled, specialist and qualified personnel, as well as senior management, could have an adverse effect on AIB's business, results of operations, financial condition and prospects.

19 ***AIB's employees have been affected by a number of developments in recent years, including significant headcount reductions, reductions in compensation and a significant level of change across the organisation, and these developments may give rise to employee dissatisfaction and/or tensions with trade unions.***

AIB's employees have been affected by a number of developments in recent years, including significant headcount reductions, restrictions in compensation and a significant level of change across the organisation, including changes in employees' roles. AIB's employees are expected to continue to be affected by change across the organisation, as AIB's business model evolves to meet customer demand and react to competitive pressures. In particular, AIB's operations in Northern Ireland are undergoing organisational changes that will affect employees in these regions, in particular its branch closures in Northern Ireland. In February 2017, AIB announced the closure of 15 of its 30 branches, which is expected to occur from June to August 2017. As was the case with similar changes that have taken place in the past, these changes may lead to employee dissatisfaction, which could in turn lead to high staff attrition. This risk is more prevalent in key specialist roles and particularly given the improvements in the Dublin and London labour markets during the past few years and the ability of AIB's staff to seek employment opportunities elsewhere.

Furthermore, while AIB has a constructive relationship with all of its employee representative unions (including the Financial Services Union (the "FSU"), which represents more than one-third of its employees across Ireland and the United Kingdom; SIPTU; and Unite), the aforementioned developments may give rise to tensions with trade unions and may result in them seeking to renegotiate the contractual terms of employment of represented employees. From 2009 to 2015, there were no pay increases across AIB. In 2015, a general pay increase of 2 per cent. (capped) was awarded. In 2016, following a joint working party between AIB and the FSU, performance-related pay was agreed and implemented, with pay increases being granted according to individual performance only. In January 2017, following discussions between AIB and the FSU at the Workplace Relations Commission (the "WRC"), it was agreed to implement performance-related salary increases ranging from 0 per cent. to 3.25 per cent. with effect from 1 April 2017 and 1 April 2018, which will result in higher labour costs in the short term. In addition, AIB may incur higher labour costs in the future by entering into further such agreements.

In addition, consultations with trade unions may not always be successful and may result in industrial action. Such consultations in the private sector may also be influenced by the outcome of similar consultations in the public sector in Ireland, as these recent or prevailing negotiations potentially influence the conclusions of the WRC and the Labour Court.

There can be no assurances that AIB will not need to reach other settlements with trade unions that result in higher labour costs in the future. If AIB were to experience a work stoppage or if it is required to significantly increase its labour costs, its business, results of operations, financial condition and prospects could be materially adversely affected.

20 ***The proper functioning of information technology ("IT") and communications systems and its related operational processes are critical to AIB's success and these may not operate as expected, including as a result of technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events.***

AIB's operational processes and its IT and related communication systems are critical to its success. These systems are fundamental to AIB's business, including in the areas of product pricing and product sales, assessing acceptable levels of risk exposure, determining product approvals, setting required levels of provisions and capital, providing and maintaining customer service and meeting regulatory requirements, for example through accurate record keeping. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events. Any failure of AIB's operational processes or IT systems or failure to integrate new platforms, including in relation to the transfer of data and customer information, or failure of third-party processes, infrastructure and services on which AIB relies, could lead to significant costs, including regulatory fines, and could have an adverse effect on AIB's ability to deliver appropriate customer outcomes during the affected period and in turn, adversely affect AIB's brand and reputation.

AIB is investing significantly in technology as a part of its three-year €870 million investment programme. The IT transformation programmes are aimed at delivering resilience, agility and a simple efficient operating model focused on improving the customer experience. See "*Part IX: Information on AIB—Information Technology—IT Transformation Programmes*" for further detail of these programmes. There can be no assurance, however, that this will be completed successfully or in a timely manner, or that it will not result in unforeseen costs or disruptions to AIB's business, including as a result of expected efficiencies not being achieved on schedule, disruptions to the business while upgrades are taking place, and the continuing use of older systems and platforms for longer than intended.

AIB, in operating within the multiple financial service zones of Ireland, the United Kingdom and New York, may be subject to failure of processes and systems across other institutions or financial market infrastructures. These other institutions or financial market infrastructures may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters or similarly disruptive events. Any failure of these institutions' or instruments' operational processes or IT systems or failure to integrate new platforms, including in relation to the transfer of data and customer information, or failure of third-party processes, infrastructure and services on which the financial service market relies, could lead to significant costs, systemic outlook and could have an adverse effect on the financial services markets' ability to deliver appropriate customer outcomes during the affected period and in turn, adversely affect the financial services markets' sentiment and reputation.

Any disruptions to AIB's, or any other institution's or financial market infrastructure's, operational processes or IT systems could adversely affect the overall operational or financial performance of its business, as well as harm AIB's reputation and/or attract increased regulatory scrutiny and intervention (including sanctions), any of which could have a material adverse effect on its business, results of operations, financial condition and prospects.

21 ***AIB is dependent on the performance of third-party service providers, including providers that have licensed certain IT systems to it, and if these providers do not perform their services or fail to provide services to AIB or renew their licences with AIB, AIB's business could be disrupted and it could incur unforeseen costs.***

AIB is dependent on the performance of third-party service providers for critical aspects of its business, including its outsourcing agreements with Total Systems Services, Inc. ("TSYS"), a third-party payments processor that acts as AIB's acquirer for all debit and credit card transactions; Wipro Limited in relation to the supply of IT operational capability and IT application development and maintenance; Infosys Limited, which provides IT application development and maintenance; Integrity Communications Limited, which supplies IT security software and hardware and security operations centre; HCL Technologies Limited for the provision of IT service desk and desktop support services; Eir for the provision of IT telecommunications and related support services; Sentenial Limited ("Sentenial") which provides a service to upload multi-formatted payment files into the Single European Payments Area ("SEPA") format for processing by AIB; Banctec to provide domestic and international cheque and drafts clearing operations; Bottomline for the provision of a SWIFT access service to EBS; G4S Cash Solutions Ireland Limited ("G4S") for the supply of ATM replenishment and maintenance and cash-in-transit services; and First

Data for the provision of card acceptance services. See "*Part XXI: Additional Information—Material Contracts—Outsourcing/Service Agreements*" for further details of these arrangements. AIB also relies on certain IT systems which have been licensed or developed for it under licence and development agreements with suppliers. If any of its third-party service providers fail to provide the agreed level of service, or if AIB is unable to renew its licences, maintenance agreements, outsourcing agreements or any other material third-party service agreements on acceptable terms, it could face a number of adverse outcomes, such as monetary damages, customer redress and/or litigation, which could have a material adverse impact on AIB's business, results of operations, financial condition and prospects.

Furthermore, AIB is exposed to a number of risks as a result of its dependence on third-party service providers, including:

- failure by such third parties to perform their contractual obligations;
- inadequate business continuity management on the part of the third-party service provider;
- inability of such third parties to retain key members of staff or large scale industrial action affecting third-party service providers;
- cost overruns in relation to the services provided by third parties;
- fraud (including financial fraud and/or theft) or misconduct by an officer, employee or agent of a third party, which could result in losses to AIB;
- disputes between AIB and the third-party service providers;
- that the conduct of third party service providers and/or AIB's business may infringe the intellectual property of third parties;
- insolvency of third parties;
- liability of AIB for the actions or omissions of such third parties;
- withdrawal of the relevant third-party service provider from the market;
- a requirement that AIB terminate contractual arrangements with third-party service providers to address any regulatory or other issues arising from the United Kingdom's withdrawal from the European Union;
- other geopolitical events that may lead to government instability or restrictions on movement in their place of establishment or operation; and
- regulatory requirements that require it to insource processes currently carried out by third parties over which it previously had no oversight.

These risks could be heightened in situations where there is a chain of outsourcing, which would result in AIB having even more limited oversight over actions by third parties.

AIB, in operating within the multiple financial service zones of Ireland, the United Kingdom and New York, may be subject to the failure of third party suppliers that other institutions or financial market infrastructures rely on. The third party suppliers of these other institutions or financial market infrastructures may not operate as expected, may not fulfil their intended purpose or may not fulfil their contractual obligations, may be insolvent, may result in fraud, or terminate the contract or similarly disruptive events. Any failure of these institutions or instruments as a result of third-party suppliers, infrastructure and services on which the financial service market relies, could lead to significant costs, systemic outlook and could have an adverse effect on the financial services markets' ability to deliver appropriate customer outcomes during the affected period and in turn, adversely affect the financial services markets' sentiment and reputation.

If AIB is unsuccessful in managing any of the foregoing risks, its business, results of operations, financial condition and prospects could be materially adversely affected.

22 *AIB may be subject to privacy or data protection failures, cybercrime and fraudulent activity in relation to personal customer data, which could result in investigations by regulators, liability to customers and/or reputational damage.*

AIB is subject to regulation regarding the processing (including disclosure and use) of personal data. AIB processes significant volumes of personal data relating to customers (including name, address and bank details) as part of its business, some of which may also be classified under legislation as sensitive personal data. AIB therefore must comply with strict data protection and privacy laws and regulations, including the Data Protection Acts 1988 and 2003 (the "DPA") and the European Communities (Electronic Communications Networks and Services) (Privacy and Electronic Communications) Regulations 2011 (the "ePrivacy Regulations"). Such laws govern AIB's collection and use of personal information of existing and potential customers, including the use of that information for marketing purposes. The ePrivacy Regulations also govern marketing to corporate customers.

Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "GDPR") will take effect from 25 May 2018, and will replace the DPA as the primary legislation governing AIB's use of customer personal data. The GDPR introduces substantial changes to data protection law, including an increased emphasis on businesses being able to demonstrate compliance with their data protection obligations, which will require significant investment by AIB in its compliance strategies. In addition, relevant supervisory authorities are given the power to issue fines of up to 4 per cent. of an undertaking's annual global group turnover or €20 million (whichever is the greater) for failure to comply with certain provisions of the GDPR. The EC recently released its proposal for a new European ePrivacy Regulation.

Apart from the GDPR, there remains significant legal uncertainty over the means by which personal data can be lawfully transferred outside the EEA; with continuing doubt over the efficacy of the EU-US Privacy Shield arrangement between the EEA and the United States, and a potential reference by the Irish High Court to the Court of Justice of the European Union over the legality of the use of model clauses as a means of cross-border transfer. In addition, the effect of the United Kingdom's withdrawal from the European Union on the legal basis for data flows between the United Kingdom and the European Union remains unclear. This uncertainty, and any potential restriction of data flows outside the European Union, may adversely affect AIB's ability to leverage technological solutions such as cloud computing or, in the case of the United Kingdom, its ability to transfer information between group companies. AIB also faces the risk of a breach in security of its systems, for example, from increasingly sophisticated attacks by cybercrime groups.

AIB seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third-party service providers, and also implements security measures to help prevent cybercrime. Notwithstanding such efforts, AIB is exposed to the risk that personal customer data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations including as a result of human error. The introduction of PSD2, which requires AIB to share customer data with account information service providers upon the request of the customer, may further increase the risk of such a privacy or data breach. If AIB or any of the third-party service providers on which it relies fails to store or transmit personal customer data in a secure manner, or if any loss of personal customer data were otherwise to occur, AIB could be subject to investigative or enforcement action by relevant regulatory authorities such as the Office of the Data Protection Commissioner and the Central Bank, and could face liability under data protection and privacy laws and regulations and/or reputational damage or damage to its brands. AIB could also be targeted by other forms of fraudulent activity. Any of these events could also result in the loss of the goodwill of its customers and deter new customers, which could have a material adverse effect on AIB's business, financial condition, results of operation and prospects.

AIB relies on remote access services through the internet, or otherwise, by customers, employees and third party service providers. Failure of any of the foregoing parties to access AIB's systems on a systemic or large scale basis could have a material adverse effect on AIB's business, financial condition, results of operation, reputation and prospects. Remote access also increases inherent exposure to cybercrime, systems compromises or information leaks, in spite of any information security technology, protocols, policies or other controls which may be in place.

23 ***AIB may be subject to losses that are completely or partially uninsured.***

AIB maintains insurance policies to cover a number of risk events. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; and directors' and officers' liability) and a suite of general insurance policies to cover such matters as property and business interruption, terrorism, combined liability and personal accident. There can be no assurance, however, that the level of insurance AIB maintains is appropriate for the risks to its business or adequate to cover all potential claims. Certain types of losses (such as losses associated with credit risk, market risk, reputational risk, non-operational risk and standard policy exclusions) are not covered by AIB's insurance policies and may be either completely or partially uninsurable or not insurable on commercially reasonable terms. If AIB were to suffer a completely or partially uninsured loss, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

24 *AIB's risk management systems, processes, guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to AIB's business.*

Risk management requires, among other things, robust systems, processes, guidelines and policies which must be forward-looking, clearly articulated, documented and communicated throughout the business for the accurate identification and control of many transactions and events. Such systems, processes, guidelines and policies must also be continually reviewed and updated and effectively communicated to all personnel to ensure that resources, governance and infrastructure are appropriate for the increasing size and complexity of the business.

Risk management also requires complex judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that AIB is willing to accept in order to achieve its business objectives, the maximum level of risk AIB can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective. Furthermore, AIB is subject to differing regulatory regimes both within and across the jurisdictions in which it operates, requiring AIB to design and implement policies that ensure compliance with regulations that may be inconsistent and address the varying priorities of different regulators. See "*—Risk Relating to Supervision and Regulation—Differing regulatory regimes across the jurisdictions in which AIB operates, including Ireland, the United Kingdom and the United States, may result in non-compliance and/or may entail additional compliance costs*." Given these complexities and the dynamic environment in which AIB operates, there is a risk that the decisions made may not be appropriate or yield the results expected or that management may be unable to recognise emerging risks for AIB quickly enough to take appropriate action in a timely manner.

As described in further detail in "*Part XVII: Risk Management*", AIB is exposed to a number of material risks that it manages through its risk management framework, including:

- Business risk, which encompasses the external and internal factors that can impact AIB's performance and strategy delivery;
- Capital adequacy risk, which is the risk that AIB breaches or may breach regulatory capital ratios and internal targets;
- Liquidity and funding risk, which is the risk that AIB will not be able to fund its assets and meet its payment obligations as they become due, without incurring unacceptable costs or losses;
- Credit risk, which is the risk that AIB will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment that it has entered into;
- Market risk, which is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of AIB. AIB is primarily exposed to market risk through the interest rate and credit spread risk factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors;
- Pension risk, which is the risk that the funding position of AIB's defined benefit schemes deteriorate to such an extent that it would be required to make additional contributions, above what is already planned, to cover its pension obligations pertaining to current and former employees, particularly in a low interest rate environment (for more information, see "*—AIB faces the risk that the funding position of its defined benefit pension schemes will deteriorate, requiring it to make additional contributions, adversely affecting its capital position"*) ;
- Regulatory and compliance risk, which is the risk of legal or regulatory sanctions, material financial loss or loss to reputation which AIB may suffer as a result of a failure to comply with the laws, regulations and self-regulatory codes which relate to its regulated banking and financial services activities;

- Operational risk, which is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, which is the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk;
- People risk, which is the risk resulting from (i) AIB's inability to recruit, retain or develop resources to support its strategic objectives, (ii) inadvertent or intentional behaviours or actions taken by employees that are not conducive to the overall delivery of objectives and AIB's targets and (iii) risks associated with levels of employee engagement;
- Culture risk, which is the risk that staff may take actions or set strategy, which are contrary to the risk culture and may result in the business, results of operations, financial condition and prospects being materially adversely affected;
- Restructure execution risk, which is the risk of not having the right structures, processes, people and controls in place to consistently deliver solutions that are fair to customers in difficulty, whilst optimising returns to AIB and meeting regulatory targets;
- Conduct risk, which is the risk that inappropriate actions or inactions by AIB may cause poor and unfair customer outcomes or market instability;
- Model risk, which is the risk of adverse consequences from decisions based on incorrect or misused model outputs and reports; and
- Competition risk, which is the risk that actions of competitors or new entrants to the market impair AIB's competitive advantage, threaten the viability of the business model or even its ability to survive.

Although AIB has developed a comprehensive risk management framework to manage such risks (as described in further detail in "*Part XVII: Risk Management*"), this may not prove to be adequate in practice. If AIB is unable to implement its business strategy or effectively manage the risks it faces, its reputation, business, financial condition, results of operations and prospects could be materially adversely affected.

25 ***AIB uses models across many, though not all, of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated.***

AIB uses models across many, though not all, of its activities including, but not limited to, capital management, credit grading, provisioning, valuations, liquidity, pricing and stress testing. AIB also uses financial models to determine the fair value of derivative financial instruments, financial instruments through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available for sale in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"). Since AIB uses risk measurement models based on historical observations, there is a risk that they underestimate or overestimate exposure to various risks to the extent that future market conditions deviate from historical experience. Furthermore, as a result of evolving regulatory requirements, the importance of models across AIB's business has been heightened and their importance may continue to increase, in particular because of reforms introduced by the Basel Committee on Banking Supervision, including Basel IV. Certain of AIB's models are subject to ongoing regulatory review.

Should AIB's models not accurately estimate its exposure to various risks, it may experience unexpected losses. AIB may also incur losses as a result of decisions made based on inaccuracies in these models, including the data used to build them or an incomplete understanding of these models. If AIB's models are not effective in estimating its exposure to various risks or determining the fair value of its financial assets and liabilities or if its models prove to be inaccurate, its business, financial condition, results of operations and prospects could be materially adversely affected.

26 ***AIB's credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of IRB for standardised approach or reputational risk for AIB.***

CRD IV provides for the use of an Internal Ratings-Based ("IRB") approach to credit risk. Subject to certain minimum conditions and disclosure requirements, banks that have received regulatory approval to use the IRB approach may rely on their own internal estimates or risk components in determining the capital requirement for a given exposure.

AIB uses a combination of standardised and IRB approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the foundation IRB approach for certain sovereign, bank and corporate exposures and to use the retail (advanced) IRB approach for certain residential mortgage exposures. As at 31 December 2016, AIB applied the IRB approach to the portfolios and exposure classes listed in the table below, having received regulatory approval to do so.

AIB portfolio:	Exposure class:
Bank	Institutions
Corporates	Corporates
Not-for-profit	Corporates
Project Finance	Corporates
Commercial/large SME	Corporates
Sovereign	Central governments and central banks
Residential mortgages (AIB in Ireland, not including EBS)	Retail

AIB has a multiyear IRB roll-out plan to continue to transition standardised portfolios to the IRB approach and thus significantly increase IRB coverage. The implementation of the transition of new portfolios to the IRB approach is dependent on regulatory approval. AIB has a formalised governance framework in relation to its internal risk rating systems.

AIB requires approval from the ECB in order to implement new models or to change existing approved models. It is also subject to reviews and inspections from the ECB and other regulatory bodies in relation to the models, such as the Targeted Review of Internal Models ("TRIM"), a process being undertaken by the ECB in systemically important banks subject to its supervision from 2017. TRIM is being undertaken to increase harmonisation in approaches to internal models used by banks across the European Union.

In order to ensure that the ECB's expectations in this area were met, following consultation and agreement with the ECB, AIB deferred the submission to the ECB of an IRB model material change request for its residential mortgage portfolio, referred to above, until the end of the third quarter of 2017. This exposes AIB to delivery risk in relation to the development and approval of this model and subsequent requests for new or updated IRB models. This delivery risk may also potentially impact on AIB's expectation of normalising its risk-weighted asset density over time and could affect in the short term the risk-weighted asset density which is currently high relative to peer banks. In addition, AIB has agreed with the ECB to defer a planned TRIM process until the fourth quarter of 2017.

Regulatory reviews and inspections may require changes to the activities impacted by the models used by AIB, such as capital management, credit management and stress testing. It may also give rise to potential adverse capital consequences, including the application of additional capital scalars, replacement of the IRB approach with the standardised approach, delay in the normalisation of risk-weighted asset density and reputational risk for AIB.

27 *AIB's financial results may be negatively affected by changes to, or application of, accounting standards.*

AIB reports its results of operations and financial position in accordance with IFRS. The preparation of AIB's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the level of impairment provisions for loans and advances, retirement benefit obligations and deferred tax assets. If the judgements, estimates and assumptions used by AIB in preparing its consolidated financial statements differ from the actual results, there could be a significant loss beyond that anticipated or provided for, which could have a material adverse effect on AIB's business, results of operations, financial condition and/or prospects. For more information, see *"Critical accounting judgements and estimates"* in note 2 of Section B of *"Part XVI: Consolidated Historical Financial Information"*.

Changes to IFRS or interpretations thereof may cause its future reported results of operations and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect AIB's regulatory capital position and regulatory ratios by requiring the recognition of additional provisions for loss on certain assets. AIB monitors potential accounting changes and when these are finalised, it determines the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential

IFRS changes, some of which could be expected to impact AIB's reported results of operations, financial position and regulatory capital in the future. Where the application of IFRS requires a large element of judgement, the risk of incorrect judgements being made may be heightened where the IFRS standard concerned is recently introduced as there is an absence of a developed practice in its application.

IFRS 9 "*Financial Instruments*", which will replace International Accounting Standard 39 ("IAS 39"), when fully adopted, will require AIB to move from an incurred loss model to an expected loss model, requiring it to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. In general, loans and receivables to banks and customers that are currently classified as 'loans and receivables' under IAS 39 will be measured at amortised cost under IFRS 9; debt securities classified as available for sale under IAS 39 will be measured at fair value through other comprehensive income; debt securities classified as held to maturity under IAS 39 will be measured at amortised cost; and all equity securities will continue to be measured at fair value. However, for individual securities, it is yet to be decided if the fair value movements will be presented in profit or loss or in other comprehensive income. It is considered premature at this stage to quantify the precise financial effects of impairment under this new standard on AIB's results of operations with any degree of certainty, although it is expected that IFRS 9 will have a significant impact for AIB (including in terms of increased provisions), as is the case for the banking industry as a whole. The estimated impact used by management in particular for capital planning and forecasting purposes is 90 to 100 basis points on AIB's fully loaded CET 1 ratio on implementation of IFRS 9. This will be subject to change as the situation evolves. The precise impact of IFRS 9 will be based on detailed financial models which are currently under development across AIB. These models are subject to ongoing regulatory review. Regulatory review and inspections on models already in use (see "*—AIB's credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of IRB for standardised approach or reputational risk for AIB"*) have the potential to impact the implementation of IFRS 9. For more information, see "*—Prospective accounting changes—IFRS 9 Financial Instruments*" and "*—Prospective accounting changes—Assessment of IFRS 9 impacts*" in accounting policy 1.31 in note 1 of Section B of "*Part XVI: Consolidated Historical Financial Information"* and "*—Risks Relating to Supervision and Regulation—AIB is subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources (including MREL) and liquidity and to satisfy specified capital, liquidity and leverage ratios, as well as changes in accounting standards that impact AIB's capital position, and any perceived or actual shortage of capital or liquidity could result in actions by regulatory authorities, including public censure and the imposition of sanctions.*"

28 ***AIB faces the risk that the funding position of its defined benefit pension schemes will deteriorate, requiring it to make additional contributions, adversely affecting its capital position.***

AIB maintains a number of defined benefit pension schemes for certain current and former employees. These defined benefit schemes were closed to future accruals from 31 December 2013. The most significant defined benefit schemes operated by AIB are the AIB Group Irish Pension Scheme (the "AIB Irish Pension Scheme") and, to a lesser extent, the AIB Group UK Pension Scheme (the "AIB UK Pension Scheme"). In relation to these schemes, AIB faces the risk that the funding position of the schemes will deteriorate. Over the longer term, this may require it to make additional contributions above what is already planned to cover its pension obligations towards current and former employees. Furthermore, pension deficits as reported are a deduction from capital under CRD IV. Accordingly, any increase in AIB's pension deficit may adversely affect its capital position.

AIB received approval from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to the regulatory minimum funding standard (the "Minimum Funding Standard" or "MFS") requirements of the AIB Irish Pension Scheme. For its defined benefit schemes in the United Kingdom, AIB established an asset backed funding vehicle to meet its statutory funding objective as per the UK Pensions Act 2004. Nonetheless, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk. Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may decrease due to market movements. Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions. Any failure by AIB to manage its pension deficit could have a material adverse effect on its business, results of operations, financial condition and prospects.

The AIB Irish Pension Scheme and related trust deed and rules provide that the trustee has discretion to grant increases to pensions in payment under the scheme but also that the decision on whether to fund increases to pensions in payment is a matter for AIB. In 2012, the Board introduced a five-year moratorium on its funding of any increases under the AIB Irish Pension Scheme which will expire at the end of 2017. As this arrangement expires, the Board has now put in place a formal annual process under which it will consider, every year, what discretionary increases it should fund for that year. As part of this process, the Board considers the advice of the actuary, the interests of the members of the AIB Irish Pension Scheme, the interests of the employees, AIB's financial circumstances and ability to pay, the views of the trustees, AIB's commercial interests and any competing obligations to the Irish State. Any increases to pensions in payment granted could increase costs to AIB and could, therefore, have a material adverse effect on its business, its operations, financial condition and prospects. Costs to AIB may also increase under the AIB UK Pension Scheme.

For the 2016 financial results, AIB made a change to the actuarial assumption regarding the nature and extent of AIB's obligations to fund discretionary increases to pensions in payment in the AIB Irish Pension Scheme, as reflected in note 10 of Section D and note 12 of Section B to *"Part XVI: Consolidated Historical Financial Information"*. This was completed following a review by the Board, having considered actuarial and external legal advice. The trustees or a member of the AIB Irish Pension Scheme may seek to challenge AIB's position by asserting that AIB is obligated to fund increases to pensions in payment linked to CPI every year. For further detail regarding AIB's pensions and the changes to the actuarial assumptions, see *"—Retirement benefit obligations"* in note 2 of Section B and note 10 of Section D and note 12 of Section B of *"Part XVI: Consolidated Historical Financial Information"*.

29 *AIB is required to comply with a wide range of laws and regulations. If AIB fails to comply with these laws and regulations, it could become subject to regulatory actions, including monetary damages, fines or other penalties, regulatory restrictions, civil litigation, criminal prosecution and/or reputational damage.*

As a financial institution, AIB must comply with numerous laws and regulations across the jurisdictions in which it operates. The level of scrutiny to which it is subject is generally increasing, particularly in the treatment of its customers. If AIB fails to comply with the laws and regulations to which it is subject, it could become subject to legal or regulatory actions. Regulatory actions pose a number of risks to AIB, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. The Central Bank, the ECB or other regulators may impose other remedies as well, including injunctive measures and regulatory restrictions on AIB's business. AIB may also be liable for damages to third parties harmed by the conduct of its business in the event it does not comply with laws and regulations. It may also face criminal prosecution in certain circumstances due to non-compliance. Furthermore, even if AIB has already taken steps to remedy its past practices to comply with regulatory standards, it could be held liable for these past practices. Actions by courts, regulators or other authorities against AIB involve the risk that current standards and requirements may be applied to past practices, even if those standards were not previously applicable. Actions by courts, regulators or other authorities against AIB may also involve the application of requirements, standards, customs or practices that are not applicable in other jurisdictions. These issues could have a negative effect on AIB's reputation and the confidence of its customers in AIB, as well as taking a significant amount of management time and resources away from the implementation of AIB's strategy.

AIB may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when AIB believes that it has no liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, AIB may, for similar reasons, reimburse counterparties for their losses even in situations where AIB does not believe that it is legally compelled to do so.

There is also a risk that pressures from the media, consumer groups and/or politicians could influence the agenda of the ECB, the Central Bank, the FCA or the PRA. For instance, a wide-ranging review of competition within the Irish banking sector has been commenced by the CCPC as part of the current programme for the Irish Government (a similar review having been completed on the UK banking sector in 2016). As a part of such a review, AIB may be required to modify its business and the pricing of its products to satisfy the regulatory requirements arising from the review. Any failure to manage the foregoing risks adequately could result in AIB's business, results of operations, financial condition and prospects being materially adversely affected.

30 ***The laws and regulations to which AIB is subject may change, including as a result of changes in interpretation or practice by courts, the ECB, the Central Bank, the FCA, the PRA or other regulators or authorities, resulting in higher compliance costs and resource commitments, and/or a failure by AIB to implement the necessary changes to its business within the time period specified.***

The legal and regulatory landscape in which AIB operates is constantly evolving and the burden of compliance with laws and regulations is increasing. As new laws or regulatory schemes are introduced, AIB may be required to invest significant resources in order to comply with the new legislation or regulations. For example, the introduction of PSD2 will result in AIB being required to introduce significant changes to its systems and processes in order to ensure compliance, while the implementation of IFRS 9 will require investment in developing an IFRS 9 compliant accounting system and models, as well as increased ongoing compliance costs. Furthermore, the laws and regulations to which AIB is already subject could change as a result of changes in interpretation or practice by courts, regulators or other authorities.

The investments made and resources committed by AIB in order to comply with evolving laws and regulations may divert funds and resources from other areas of AIB's business and may distract management. AIB may also be required to spend more than anticipated and/or may not achieve compliance by the specified deadline, which could result in fines or other regulatory sanctions with possible reputational consequences. Any of the foregoing could have a material adverse effect on AIB's business, results of operations, financial condition and prospects.

31 ***AIB could face additional liabilities in relation to the assets it has transferred to NAMA under the NAMA Programme, including the risk that if NAMA's accounts show an aggregate loss in respect of the transferred assets, a surcharge on participating institutions, including AIB, may be imposed.***

In December 2009, the Irish Government established the National Asset Management Agency ("NAMA"), which acquired certain performing and non-performing land and development and associated loans from participating banks, including AIB. Under the NAMA Act, AIB transferred approximately €20 billion of assets to NAMA during 2010 and 2011. NAMA's initial stated objective was to obtain the best achievable financial return for the Irish State over the course of a projected 10-year wind-down of the portfolio from 2009. NAMA's disposal expectations have, however, accelerated, with most sales activity envisaged to take place by the end of 2017. The NAMA Act provides for certain circumstances in which AIB could face additional liabilities in relation to assets transferred. In particular, the NAMA Act requires participating institutions to repay overpayments on NAMA Assets. AIB was also required to provide NAMA with a series of indemnities relating to the transferred assets. AIB has made provisions for transfer adjustments and potential indemnity claims in relation to NAMA, but if the adjustments or claims are higher than the provisions, this would negatively affect AIB's results of operations and financial condition. See note 31 of Section D and note 38 of Section B of "*Part XVI: Consolidated Historical Financial Information*" for details of these provisions. In addition, upon a dissolution or restructuring of NAMA, if NAMA's accounts show that an aggregate loss has been incurred during the period since its establishment, the Minister for Finance may impose a surcharge on participating institutions, including AIB. On 17 May 2017, NAMA indicated that it expected to make a profit of €3 billion over the course of its life.

Risks Relating to Supervision and Regulation

32 ***AIB is subject to increasing regulation, supervision and regulatory costs, including following the introduction of the SSM and the Single Resolution Mechanism, which may strain its resources and may have a significant impact on AIB's capital requirements and business and consequently, its reported results and financing requirements.***

A significant number of new regulations have been issued by the various authorities that regulate AIB's business in the recent past. Systemically important banks located in the Eurozone, including AIB, came under the direct supervision of, and are deemed to be authorised by, the ECB since the introduction on 4 November 2014 of the SSM. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

AIB is subject to prudential supervision by the SSM at the ECB and in the case of AIB UK, by the PRA, including through reviews and on-site inspections. Such supervision may involve assessments of whether AIB is in compliance with prudential requirements including under CRD IV and the BRRD. In the event that the ECB or PRA determines that AIB is not compliant with requirements within the scope of the relevant regulator's supervisory functions, the relevant regulator may direct AIB to ensure such compliance with those requirements and such failure may result in other regulatory actions, including monetary penalties, sanctions, public censure, or increased capital requirements as well as increased costs and management resources required to implement any corrective measures and reputational damage.

In addition, in March 2017, the ECB published guidance to banks subject to its supervision on non-performing loans. The ECB's objective in issuing the guidance is to drive strategic and operational focus on the reduction of non-performing loans, together with further harmonisation and common definitions of non-performing loans and forbearance measures. Non-compliance with the guidance may trigger supervisory measures that are not further specified in the guidance.

A Single Resolution Mechanism ("SRM") has been introduced by the ECB, including a single resolution board (the "SRB") and a single fund for the resolution of banks, which is funded by bank levies raised at the national level. The Central Bank introduced the bank resolution fund levy for Irish banks such as AIB in 2015. The requirements of the SRM are set out in the SRM Regulation and the BRRD, which came into effect in 2015. The BRRD also sets out the functions of the SSM (as the consolidated supervisor of AIB) in conjunction with the PRA (as the competent authority for AIB UK) with respect to the drawing up and maintenance by AIB on a Group basis of a recovery plan. The SRM became fully operational on 1 January 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The measures referred to above are subject to change in the future, including under the Proposals. See *"—The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure or take other actions which could have a significant impact on AIB's operations, structure, costs and/or capital requirements*".

AIB must meet the cost of all levies that are imposed on it in relation to funding the bank resolution fund established under the SRM or that are imposed on it under any other applicable compensation scheme relating to banks or other financial institutions in financial difficulty. In addition, the challenge of meeting the degree of regulatory change described above (including the drawing up of resolution plans and being under the direct supervision of a new regulatory body) may place a strain on AIB's resources, particularly during a period of significant organisational transformation.

Furthermore, at the board level, the increasing regulatory requirements that impose additional obligations and time commitments on directors, may challenge AIB's ability to retain existing, or identify and recruit new, directors. If AIB were unable to maintain an effective and balanced board membership, particularly with regard to non-executive directors, then its corporate governance and business could be negatively affected.

The challenge of balancing competing resource priorities and demands adds to the regulatory risk faced by AIB. These may also have a significant impact on the range of AIB's future product offering, distribution channels, funding sources, capital requirements, business, strategy and, consequently, reported results and financing requirements.

33 *The BRRD contains resolution tools and other measures that may have a material adverse effect on Shareholders.*

The bank recovery and resolution framework introduced in the BRRD has as its objective to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. The BRRD provides the resolution authority with explicit resolution tools that may have a material adverse effect on Shareholders. In particular, the BRRD gives the resolution authority the power to write down the share capital of a credit institution and to write down or to convert into equity its relevant capital instruments (i.e., the own funds (as such term is defined in CRD IV) instruments of the credit institution) if certain conditions are met (the "Write-Down Tool"). The Write-Down Tool would be applicable, in particular, if the resolution authority determines that unless the Write-Down Tool is applied, the credit institution will no longer be viable or if a decision has been made to provide that credit institution with extraordinary public support without which the credit institution will no longer be viable. The BRRD further provides for certain resolution powers in circumstances where the credit institution is failing or likely to fail, including the power to (i) transfer to an investor, shares, other instruments of ownership and/or all specified assets, rights or liabilities of the failing institution; (ii) transfer all or specified assets, rights or liabilities of the failing institution to a bridge institution which is wholly or partially owned by public authorities; (iii) transfer assets, rights or liabilities to a legal entity which is wholly owned by public authorities for the purpose of sale or otherwise ensuring that the business is wound down in an orderly manner, to be applied in conjunction with another resolution tool; or (iv) write down the claims of unsecured creditors of an institution and convert debt to equity, with, in broad terms, the first losses being taken by shareholders and thereafter by subordinated creditors and then senior creditors, with the objective of recapitalising an institution ((iv) being referred to as the "General Bail-In Tool" and (i) to (iv) being referred to as the "Resolution Tools").

The Write-Down Tool came into effect in Ireland on 15 July 2015 and the General Bail-In Tool was implemented in Ireland on 1 January 2016. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—The Bank Resolution Act, BRRD and SRM Regulation*" for further information on the BRRD.

In addition to the Resolution Tools, under the BRRD, resolution authorities may take early intervention measures to prevent a credit institution's financial position from deteriorating, including by the replacement of management or installing a temporary administrator in place of existing management. Furthermore, in the case of a failing credit institution the resolution authorities can appoint a special manager with management authority over the credit institution in place of its existing management and in order to implement resolution actions by the resolution authority.

If AIB were to experience financial difficulty, its Shareholders could be materially adversely affected in the event the resolution authority elected to apply the Write-Down Tool, the General Bail-In Tool or the other Resolution Tools. Existing Shareholders may experience a severe dilution, involuntary transfer or the complete loss in value of their shareholdings and may be unlikely to receive any compensation for such act or event despite the BRRD containing safeguards for shareholders and certain creditors in specific circumstances which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings. Furthermore, the ECB, the Central Bank, the FCA or the PRA, may require AIB to make changes to its legal structure and/or business model pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation.

34 *The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure, or take other actions which could have a significant impact on AIB's operations, structure, costs and/or capital requirements.*

SRB role in resolution planning

Pursuant to the SRM Regulation, on 1 January 2016, the SRB became responsible for drawing up AIB's resolution plan providing for resolution actions that may be taken if AIB were to fail or be likely to fail. In drawing up AIB's resolution plan, the SRB identifies any material impediments to AIB's resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments.

These actions may include (but are not limited to):

- legal restructuring of AIB, which could lead to high transaction costs, or could make AIB's business operations or its funding mix less optimally composed or more expensive;
- issuing additional liabilities at various levels within AIB. This may result in higher capital and funding costs for AIB, and thus adversely affect AIB's profits and its ability to pay dividends;
- reviewing and amending AIB's contracts for the purposes of ensuring (i) continuity of business operations and (ii) that such contracts do not cause any impediments to the resolvability of AIB. This may result in additional costs and operational complexity for AIB; and
- requiring AIB to enhance its data infrastructure and management information systems to facilitate an expeditious valuation of its assets and liabilities over the course of the resolution event.

If the SRB is of the view that the measures proposed by AIB would not effectively address the impediments to resolvability, the SRB may direct AIB to take alternative measures as outlined in the SRM Regulation.

On 3 February 2017, AIB announced that it had been notified by the SRB that the preferred resolution strategy for AIB consists of a single point of entry bail-in at a group holding company level, which would require the establishment of a holding company directly above the Company ("HoldCo"). AIB currently expects, by the end of 2017 and subject to the receipt of necessary consent of the Minister for Finance as well as regulatory, shareholder and court approvals, to set up HoldCo as the holding company of AIB by way of a court approved scheme of arrangement which, if approved, will result in the Company's Shareholders receiving, in exchange for their Ordinary Shares, new ordinary shares in HoldCo. On the establishment of HoldCo as AIB's holding company, in addition to the risks referred to elsewhere in this section of this Prospectus, the following risk factors become relevant:

- dividend capacity: HoldCo as a recently incorporated company without a trading record will initially not have distributable reserves, which are required inter alia to enable HoldCo to pay a dividend on its shares. As part of the establishment of HoldCo as the holding company of AIB, it is envisaged that HoldCo will undertake a capital reduction in order to create distributable reserves, which will require court approval and approval by HoldCo's shareholders;
- Tier 1 and Total Capital at consolidated Group level: as a result of the application of the CRR (articles 85-88), upon the establishment of HoldCo as the parent financial holding company of AIB, a portion of the existing Additional Tier 1 (AT1) and Tier 2 capital instruments issued by AIB will not qualify as regulatory capital at consolidated Group level. Had HoldCo been implemented as of 1 January 2017, it is estimated that AIB's transitional Tier 1 Capital ratio would reduce by approximately 0.4 per cent. and the transitional Total Capital ratio by approximately 0.8 per cent., both of which are within capital planning capacity for AIB. If, subject to regulatory approval at the relevant time, the principal existing non-equity capital instruments issued by AIB were called at their first call dates, the impact of any reductions is expected to be substantially eliminated by the end of December 2020. While the introduction of a holding company is expected to have a negative impact on the consolidated Tier 1 and Total Capital positions of AIB, it is not expected to have an impact on the consolidated Group CET1 capital position; and
- credit ratings: the credit ratings which may be given to HoldCo are not known at this point but they may be lower than the corresponding credit ratings of AIB. Lower credit ratings could raise the costs of debt instruments issued by HoldCo (including instruments issued for the purposes of meeting MREL requirements) and reduce the potential investor base in HoldCo's debt instruments (including instruments issued to meet MREL requirements).

SSM role in Recovery planning

The BRRD sets out functions of the SSM (as consolidated supervisor of AIB) in conjunction with the PRA (as competent authority for AIB UK) with respect to the drawing up and maintenance by AIB on a Group basis of a recovery plan which must set out measures to be taken by AIB to restore its financial position following a significant deterioration of that position. An assessment by the SSM in conjunction with the PRA of such recovery plan proposed by AIB may result in AIB being required, and failing satisfaction by AIB of which, directed by the SSM, to address any material deficiencies in the recovery plan or any material impediments to its implementation. Failure by AIB to satisfy such direction may result in the SSM directing AIB to do one or more of the following:

- reduce its risk profile;
- enable timely recapitalisation measures;
- review its strategy and structure;
- make changes to its funding strategy so as to improve the resilience of its business lines and critical functions;
- make changes to its governance structure.

The changes and requirements to be implemented in respect of the SRM Regulation and the BRRD may have an effect on AIB's business, financial condition or prospects. Failure by AIB to implement those changes and requirements may result in regulatory action such as, increased regulatory capital levels, monetary fines or other sanctions and penalties. Depending on the specific nature of the changes and requirements and how they are enforced, such changes and requirements could have a significant impact on AIB's operations, structure, costs and/or capital requirements.

35 *Differing regulatory regimes across the jurisdictions in which AIB operates, including Ireland, the United Kingdom and the United States, may result in non-compliance and/or may entail additional compliance costs.*

In addition to being regulated by the Central Bank and, following the introduction of the SSM, the ECB, AIB is subject to separate regulatory regimes in relation to its operations in the United Kingdom and the United States. In the United Kingdom, the Company has exercised its EU right of establishment in the case of its UK-incorporated subsidiary, AIB Group (UK) p.l.c. AIB Group (UK) p.l.c. is authorised by the

PRA and regulated by the FCA and the PRA under the FSMA to carry on a wide range of regulated activities (including accepting deposits). AIB Group (UK) p.l.c. is also subject to regulation by the PRA with respect to its requirement to draw up and maintain appropriate recovery arrangements under the BRRD. The Company is incorporated and has its head office in Ireland, and is authorised as a credit institution in Ireland by the ECB. The Company has exercised its EU "passport" rights to provide banking, treasury and corporate treasury services in the United Kingdom through the London branch of the Company. AIB must comply with FCA Conduct of Business rules in so far as they apply to its business carried out in the United Kingdom.

While the Central Bank continues to regulate AIB certain areas, including consumer protection in Ireland, it is the ECB (together with support from the Central Bank) that has primary responsibility for the prudential supervision of AIB. However, the Central Bank and the ECB must work in cooperation with the PRA in ensuring that the UK branch of the Company and UK incorporated credit institutions and investment firms which are subsidiaries of the Company in the United Kingdom maintain adequate liquidity and take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom, and with respect to a range of other regulatory matters, including the drawing up and maintenance by AIB of a recovery plan for AIB under the BRRD. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in the United Kingdom".*

In the United States, AIB is subject to federal and state banking and securities law supervision and regulation as a result of the banking activities conducted by the Company's branch in New York. In particular, it is subject to anti-money laundering, anti-terrorism and economic sanctions legislation and regulations, including the Foreign Corrupt Practices Act of 1977 as well as the Office of Foreign Assets Control ("OFAC") regulations. See "*Part XVIII: Supervision and Regulation—United States".* Thus, AIB is required to design and implement policies that ensure compliance with legislation promulgated by the FCA and the PRA in the United Kingdom and the relevant regulatory authorities in the United States. This may result in additional compliance costs as well as requiring increased management attention, which may divert focus from other areas of its business. In addition, the regulatory position of AIB's operations in the United Kingdom may become uncertain as a result of the United Kingdom's withdrawal from the European Union. See "*—Risks Relating to the Macro-economic Environment in which AIB Operates—The United Kingdom's exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB's business, financial condition, results of operations and prospects*". If AIB is unable to manage the risks associated with complying with differential regulatory regimes, its business, financial condition, results of operations and prospects could be materially adversely affected.

36 ***AIB is subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources (including MREL) and liquidity and to satisfy specified capital, liquidity and leverage ratios, as well as changes in accounting standards that impact AIB's capital position, and any perceived or actual shortage of capital or liquidity could result in actions by regulatory authorities, including public censure and the imposition of sanctions.***

AIB faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. AIB's borrowing costs and capital requirements could be affected by prudential regulatory developments, including CRD IV and potentially the Proposals, which include legislative proposals for amendments to the CRR and CRD IV.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 gave effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 gave effect to a number of technical requirements in order to ensure that the CRR can operate effectively in Irish law. CRD IV includes, among other measures, enhanced requirements for quality and quantity of capital and the introduction of the LCR, the NSFR and the leverage ratio. The LCR will require banks to have sufficient HQLA to withstand a 30-day stressed funding scenario that is specified by supervisors. The NSFR is a longer-term structural ratio designed to address liquidity mismatches. The leverage ratio is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system.

The BRRD also makes provision for the meeting by a credit institution of its MREL requirements, over time periods, as set by its resolution authority on the basis of Delegated Regulation (EU) 2016/1450 ("RTS") set out by the EBA. On the basis of the RTS, it is possible that AIB may have to issue a significant amount of additional MREL eligible liabilities in order to meet the requirements within the required timeframes. In its Final Report on MREL published on 14 December 2016, the EBA recommended that MREL should be calculated by reference to an institution's risk-weighted assets and its leverage ratio exposure amount, with a leverage ratio exposure backstop requirement, rather than as a percentage of an institution's total liabilities and own funds as previously intended. It is not yet clear whether the EBA's recommendation will be implemented. If AIB were to experience difficulties in raising MREL (including within required timeframes), then it may have to reduce its lending or investments in other operations, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, on 23 November 2016, the EC published the Proposals, which cover multiple areas, including the Pillar 2 framework, the introduction of a minimum leverage ratio, the MREL framework and the integration of the Financial Stability Board's standard on Total Loss-absorbing Capacity ("TLAC") into EU legislation. See "*Part XVIII: Supervision and Regulation*" for further information on CRD IV and the capital requirements to which AIB is subject and the Proposals. The Proposals cover, among other areas, mandatory restrictions on distributions, the NSFR, permission for reducing own funds and eligible liabilities, macro-prudential tools, the MREL framework and the integration of the TLAC standard into EU legislation.

The Proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final new package of legislation may not include all elements of the Proposals and new or amended elements may be introduced throughout the course of the legislative process. Until the Proposals are in final form, it is uncertain how the Proposals will affect AIB and the minimum capital requirements to which AIB is subject. Furthermore, if the Proposals are adopted in their current form, AIB could become subject to restrictions on its ability to make payments in respect of the Ordinary Shares following any failure by AIB to comply with its MREL requirement or its combined buffer requirement. See "*—Risks Relating to the Offer and the Offer Shares—There can be no assurance that the Company will pay dividends in the future and Shareholders may earn a negative or no return on their investment in AIB*".

CRD IV requirements adopted in Ireland or the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators (including but not limited to the Proposals or as a result of any reforms adopted by the Basel Committee as part of Basel IV), binding regulatory technical standards to be developed by the EBA, changes to the way in which the Relevant Banking Regulator or, as applicable, the PRA or the FCA in the United Kingdom, interprets and applies these requirements to AIB or, in the case of the United Kingdom, as a result of its withdrawal from the European Union. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to AIB's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

In addition, the calculation of AIB's capital ratios may be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the relevant regulator could require AIB to reflect such changes in any calculation of its capital ratios. In particular, the Directors expect that AIB will be impacted by IFRS 9 due for implementation on 1 January 2018. IFRS 9 will require AIB to move from an incurred loss model to an expected loss model requiring it to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. IFRS 9 may lead to a one-off increase in impairment allowances for financial assets on AIB's balance sheet at the time of adoption and will lead to a negative regulatory capital impact. This is likely to be partially offset by a transitional arrangement yet to be fully decided upon by the regulators. In addition, following adoption, impairment under IFRS 9 is expected to increase the complexity of AIB's impairment modelling and result in earlier recognition of credit losses than under IAS 39, which is likely to lead to an increase in total provisions.

A perceived or actual shortage of capital held by AIB could result in actions by regulatory authorities, including public censure and the imposition of sanctions. This may also affect AIB's capacity to continue its business operations, generate a sufficient return on capital, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. Such changes could have a material adverse effect on AIB's business, results of operations, financial condition and prospects.

In addition, if, in response to any such shortage, AIB raises additional capital through the issuance of share capital or capital instruments which are convertible to AIB's shares, existing Shareholders may experience a dilution of their share holdings.

37 *AIB is subject to conduct risk, including changes in laws, regulations and practices of relevant authorities and the risk that its practices are challenged under current regulations or standards, and if it is deemed to have breached any of these laws or regulations, it could suffer reputational damage or become subject to challenges by customers or competitors, or sanctions, fines or other actions.*

AIB is exposed to conduct risk, which AIB defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of AIB's business may be determined by the Central Bank or other relevant regulators in various jurisdictions or by courts not to have been conducted in accordance with applicable local or, potentially, overseas laws and regulations, or in a fair and reasonable manner as determined by the local ombudsman. In particular, AIB may face scrutiny in relation to its treatment of customers in difficulty. If AIB fails to comply with any relevant laws or regulations, it may suffer reputational damage and may become subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. See "*Part XXI: Additional Information—Litigation*". AIB's past practices may also be challenged under current regulations and standards.

For example, in September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on a broader examination of tracker mortgage-related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including the Company and certain of its subsidiaries located in Ireland) (the "Tracker Mortgage Examination"). In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank's 'Principles for Redress'. In 2015, AIB provisioned €190 million relating to the Tracker Mortgage Examination. While the Directors believe that this figure is appropriate, there can be no assurance that the final cost to AIB will not be in excess of this amount, including as a result of:

- challenge by the Central Bank, rulings by the Financial Services Ombudsman (the "FSO") or customer litigation, in particular, in relation to the entitlement of particular cohorts of customers to revert to a tracker mortgage and associated redress and compensation;
- sanction by the Central Bank; and
- challenge by the Central Bank to AIB's redress and compensation package.

Other Irish banks have been or are being made subject to regulatory sanctions by the Central Bank in connection with the Tracker Mortgage Examination or related exercises by the Central Bank and AIB cannot rule out the possibility of such sanctions being taken against AIB in connection with the Tracker Mortgage Examination.

In addition, AIB may be subject to allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are subsequently determined to have been inappropriate. This may result in customer litigation against AIB which litigation could be protracted in nature. In addition, this may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements and could adversely impact future revenues from affected products.

Changes in laws or regulations may vastly change the requirements applicable to AIB in a short period of time and/or without transitional arrangements. In addition, contractual obligations of AIB's customers and counterparties may either not be enforceable as intended or may be enforced in an adverse way to AIB's interests. AIB may also face litigation arising from the contractual obligations to which it is party. If AIB is unable to manage these risks, its business, results of operations, financial condition and prospects could be materially adversely affected.

38 ***Irish legislation and regulations in relation to mortgages, as well as judicial procedures for the enforcement of mortgages and custom, practice and interpretation of such legislation, regulations and procedures, may result in higher levels of default by AIB's customers, delays in AIB's recoveries in its mortgage portfolio and increased impairments.***

As at 31 March 2017, AIB had €35.0 billion in total gross residential mortgages on its statement of financial position, accounting for 54 per cent. of its loans and receivables to customers. As at that date, €4.4 billion were in arrears (over 90 days past due), accounting for approximately 13 per cent. of total gross residential mortgages.

Legislation and regulations introduced in 2013 may affect AIB's customers' attitudes towards their debt obligations, and hence their interactions with AIB in relation to their mortgages. On 1 July 2013, a revised CCMA came into force. The CCMA requires mortgage lenders to develop a MARP with specific procedures when dealing with borrowers experiencing arrears and financial difficulties. It applies only to mortgages on primary residences. The CCMA requires a lender to wait at least eight months from the date the arrears arose before commencing legal action against a co-operating borrower. Separately, a lender is required to give three months' notice to the borrower before it may commence legal proceedings where the lender is unwilling to offer an alternative repayment arrangement or the borrower is unwilling to accept an alternative repayment arrangement offered by the lender. Accordingly, under the CCMA, a lender is not permitted to commence legal proceedings until three months have passed from the date that such notice is issued (where the lender declines to offer an arrangement or where the borrower does not accept an arrangement offered) or eight months from the date the arrears arose, whichever date is later. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—Consumer-related Regulation—CCMA*" for further details regarding the CCMA.

In addition, the Personal Insolvency Act 2012 (the "Personal Insolvency Act") introduced a personal insolvency arrangement ("PIA") for the agreed settlement of secured debt up to an amount of €3 million (subject to extension by agreement of all of the debtor's secured creditors) and for unsecured debt, with no limit. The Bankruptcy (Amendment) Act 2015 introduced an automatic discharge from bankruptcy, subject to certain conditions, after one year instead of 3 years, as had previously been the case since 2012. The inclusion of secured debt in the personal insolvency process under the Personal Insolvency Act was a new provision in Ireland's personal insolvency regime. The Personal Insolvency Act has been amended with effect from 28 July 2015 to give the courts power to review and, where appropriate, approve personal insolvency arrangements in respect of secured debt which have been rejected by a bank or other secured creditors. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—Personal Insolvency Act*" for further details regarding the Personal Insolvency Act. As at 31 December 2016, AIB had 917 accounts in the aggregate amount of €142 million in PIA under the Personal Insolvency Act, as reported through the Sustainable Mortgage Resolution Process.

AIB has been proactive in developing forbearance solutions for borrowers experiencing arrears and financial difficulties. In accordance with Central Bank requirements, it has developed a MARS, which builds on and formalises the MARP it was required to introduce in order to comply with the CCMA. As at 31 December 2016, AIB had 7,443 accounts in the aggregate amount of €1.1 billion in the MARP framework in Ireland, as reported for its Annual Conduct of Business Return. There is a risk that legislation and regulations such as the Personal Insolvency Act and the CCMA will result in changes in customers' attitudes towards their debt obligations. Given the required waiting periods that apply to lenders seeking to enforce security over mortgages under the CCMA and the possibility of including secured debt in insolvency arrangements, customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. As a result, AIB cannot be certain of the progress or outcome of enforcement proceedings.

Furthermore, in instances where AIB seeks to enforce security on commercial or residential property (in particular over principal dwelling homes ("PDH")), AIB may encounter significant delays arising from judicial procedures, which often entail significant legal and other costs. Custom, practice and interpretation of Irish legislation, regulations and procedures may also contribute to delays or restrictions on the enforcement of security. The courts in Ireland may have particular regard to the interests and circumstances of the borrower in disputes relating to the enforcement of security above the custom and practice of courts in other jurisdictions. As a result of these factors, enforcement of security in Ireland may be more difficult, take longer and involve higher costs for lenders as compared to other jurisdictions, or it may not be feasible for AIB to enforce security. Changes in legislation, regulations or judicial procedure or their interpretation could also have an adverse effect on AIB's ability to enforce security. As a result of all of these factors, AIB cannot be certain of the progress or outcome of enforcement proceedings.

On 23 February 2017, a bill was initiated in Dáil Eireann, entitled the 'Keeping People in their Homes Bill 2017'. The bill is a private members' bill and not sponsored by the Irish Government and is subject to change through the legislative process and may not be adopted as law. However, the bill, if passed into law in its current form (or if other similar laws or regulations are introduced), would provide Irish courts with a statutory basis to effectively conduct proportionality assessments in relation to possession orders arising from mortgage arrears on people's homes. The bill seeks to facilitate Irish courts in effectively examining the proportionality of granting, adjourning, varying, postponing, suspending or executing possession orders, and to take account of certain factors when deciding whether to grant any such order, for example, whether the order pursues a legitimate aim, is justifiable by reference to a pressing social need, and the lender's compliance with regulatory requirements including the CCMA, the European Union (Consumer Mortgage Credit Agreements) Regulations 2016 (the "Mortgage Credit Regulations") and the Consumer Protection Code 2012 ("CPC").

The aforementioned factors could result in delays and reductions in AIB's recoveries in respect of its mortgage portfolio and increased costs and impairments. Furthermore, adverse public opinion regarding mortgage enforcement could negatively impact AIB's reputation. Any of the foregoing could have a material adverse effect on its business, results of operations, financial condition and prospects.

39 ***AIB's loan book (in particular, its residential mortgage book) may become subject to further supervision and scrutiny by the Irish Government, the Central Bank and the CCPC, which could result in regulation and control of AIB's loan book and therefore result in a reduction in AIB's level of lending, interest income and net interest margin and/or increased operational costs.***

In common with other residential mortgage lenders, AIB faces increased scrutiny and focus by the Irish Government, the Oireachtas (the Irish legislature) and customer or consumer protection regulators, such as the Central Bank and the CCPC, on its loan book, in particular its residential mortgage book, with respect to such matters as the interest rates it charges on loans.

The Irish Government has expressed concern as to the high level of standard variable interest rates ("SVR") charged by lenders in Ireland as compared to those charged by lenders in other EU Member States, in particular with respect to certain residential mortgage loans. SVR mortgages include mortgages where the lender has the ability unilaterally to vary the rate, unlike a fixed rate or a rate which tracks changes to an ECB official rate. In 2015, the Irish Government requested that Ireland's largest banks, including AIB, review the level of their SVR and provide options to reduce monthly repayments to new and existing PDH borrowers, such as lower SVR products, competitive fixed rate products and lower variable rates (taking into account LTV) and indicated that if they failed to address these concerns, the Irish Government could significantly increase the bank levy then applied to these banks or could seek to give the CCPC additional regulatory powers. As a result, under the Finance Act 2016, the bank levy was rebased and extended from 2016 to 2021. In 2015 and 2016 and, in part, in response to a fall in funding costs, AIB reduced SVRs for all mortgage customers across the Company, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven by up to 95 basis points. However, there is a risk that the Irish Government could adopt further measures to address its concerns with respect to SVR levels, which could result in a reduction in AIB's net interest income and net interest margin.

AIB, along with other Irish banks, is subject to the risk of a review or investigation by regulators such as the Central Bank and the CCPC, and may incur potentially serious sanctions or penalties in respect of any perceived or actual failure to act appropriately when setting interest rates on its mortgage or other loan products. On 20 February 2017, the CCPC published a public consultation to gather views about the future of the Irish mortgage market in order to set out options available to the Irish Government on how to reduce the cost of secured mortgage lending and to improve competition and consumer protection. The CCPC has indicated that it will examine the market structure, legislation and regulation of the mortgage market in Ireland and that following the consultation period it intends to produce a final report of its findings. Any such review or investigation, and any related litigation or regulatory action, or related change of law or regulation or measures introduced by the Irish Government to address its concerns regarding SVRs, could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

On 16 May 2016, a bill entitled the Central Bank (Variable Rate Mortgages) Bill 2016 was initiated in the Dáil (the lower house of the Irish legislature) which, if passed into law by the Oireachtas, would specifically authorise the Central Bank in prescribed circumstances to impose a maximum SVR on PDH mortgage loans made by AIB. The bill passed through the First stage and the Second stage of the Dáil in May 2016 and has progressed to committee stage.

The bill proposes to permit the Central Bank to carry out assessments on the state of competition in the market for PDH mortgage loans and upon completion of an assessment, the bill will permit the Central Bank to form a conclusion as to whether the state of competition in the market for PDH mortgage loans is such that a "market failure" exists. A "market failure" exists where a lender is, or lenders are, charging a variable interest rate or variable interest rates for PDH mortgage loans which are higher than what the Central Bank considers can be reasonably and objectively justified. The ECB has identified a number of concerns it has with the bill in an "Opinion of the European Central Bank of 17 November 2016 on the conferral of powers on the Central Bank of Ireland to assess competition in the market for mortgage loans and to issue lenders with directions on variable interest rates (CON/2016/54)". The Central Bank has also expressed concerns about the bill to a meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach on 8 December 2016. (Source: Oireachtas website). In a paper entitled 'Central Bank (Variable Rate Mortgages) Bill 2016—[Private Members Bill]—Observations of the Competition and Consumer Protection Commission to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach' (dated 29 March 2017 on the CCPC's website), the CCPC has stated that it has serious concerns about the bill's proposals and that the CCPC believes that, if enacted, the bill would likely limit competition in the market for PDH mortgage loans.

If the bill is passed into law in its current form (or if other similar rules or regulations are introduced), AIB's SVR PDH mortgages, which form a significant portion of its mortgage portfolio, may become subject to further supervision and scrutiny by the Central Bank. An increasing regulatory focus on AIB's SVR mortgages to customers or an alignment of the SVR with those charged by lenders in other Eurozone markets may also result in a reduction in AIB's interest income from SVR mortgages.

Any further supervision and scrutiny in relation to AIB's loan book could result in a reduction in AIB's level of lending, net interest income and net interest margin and/or increased operational costs, any of which in turn could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

40 *LTV/Loan-to-income ("LTI") related regulatory restrictions on residential mortgage lending may restrict AIB's mortgage lending activities and balance sheet growth generally.*

The Central Bank has, under the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015, as amended by the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2016, imposed restrictions on Irish residential mortgage lending by lenders which are regulated by the Central Bank (such as the Company, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven in the case of AIB). The restrictions impose limits on residential mortgage lending by reference to LTV and LTI ceilings.

The regulations impose different LTV limits for different categories of buyers. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—LTV/LTI related Regulatory Restrictions on Residential Mortgage Lending*".

AIB is required to restrict lending above 3.5 times LTI to no more than 20 per cent. of the aggregate value of the PDH loans AIB makes in the relevant period. Mortgages for non-PDH loans are exempt from the LTI limit. AIB needs to ensure that it dedicates sufficient resources to, and has the necessary procedures and controls in place to, ensure that the exception levels permitted under the regulations are monitored and not breached. These restrictions may adversely affect the level of new mortgage lending AIB can undertake and the costs of administering its residential mortgage lending, and hence may have a material adverse effect on its business, results of operations, financial condition and prospects.

41 *AIB is subject to anti-money laundering, anti-corruption and sanctions regulations and if it fails to comply with these regulations, it may face administrative sanctions, criminal penalties and/or reputational damage.*

AIB is subject to laws aimed at preventing money laundering, anti-corruption and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-corruption and sanctions rules can impose a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more stringent, resulting in several landmark fines against financial institutions. For example, the fourth anti-money laundering ("AML") directive (Directive (EU) 2015/849) ("MLD4"), partly transposed into Irish law in 2016 (with Member States required to transpose the balance of that directive by 26 June 2017), emphasises a "risk-based approach" to AML and counter-terrorist financing ("CTF") and imposes obligations on Irish incorporated bodies (such as the Company and its Irish incorporated subsidiaries) to take measures to compile information on beneficial ownership. In addition to this, the AML/CTF regulatory landscape is constantly changing with a series of proposed further amendments to MLD4 arising from events such as terrorist attacks in Europe and the release of the Panama papers as well as a desire to align European AML/CTF laws with recommendations from the Financial Action Task Force ("FATF"). The combined impact of these proposed amendments on the current text of MLD4 is commonly referred to as the "Fifth EU AML Directive" ("MLD5"). AIB will need to continue to monitor and reflect the changes under MLD4 and any subsequent changes under MLD5 in its own policies, procedure and practices, as well as updating its framework to take account of the risk-based approach and the specific manner in which these requirements are transposed into national laws by the transposing legislation in Ireland and the United Kingdom. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—Anti-Money Laundering, Counter Terrorist Financing and Financing Sanctions*" for more information. In addition, AIB cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the way existing laws might be administered or interpreted.

Although AIB has policies and procedures that it believes are sufficient to comply with currently applicable AML, anti-corruption and sanctions rules and regulations, it cannot guarantee that such policies and procedures completely prevent situations of money laundering or corruption, including actions by AIB's employees, agents, customers, third-party suppliers or other related persons for which AIB might be held responsible. The Company was subject to an investigation by the Central Bank as part of an administrative sanctions procedure for breaches of AML laws and regulations, which commenced in April 2015 and concluded in April 2017. The inspection of the Company which led to the administrative sanctions procedure was one of a number of AML related inspections carried out by the Central Bank into the banking industry's level of compliance with Criminal Justice Act 2010 in the period from 2013 to 2014. The Company was reprimanded and a monetary penalty of €2,275,000 was imposed in connection with the investigation. All "prescribed contraventions" identified by the Central Bank which led to the penalty were the subject of a comprehensive risk mitigation plan on which AIB reported progress to the Central Bank on a regular basis throughout 2014. The Central Bank accepted that all of these issues were remediated by July 2014. Other potential such events may have severe consequences, including litigation, sanctions, fines and reputational consequences, which could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

Risks Relating to AIB's Relationship with the Irish Government

42 *Pursuant to the Relationship Framework, certain other agreements entered into between the Company and the Irish Government and certain general legislative powers, the Irish Government has, and will from Admission have, the right to exercise a degree of influence over certain specified aspects of AIB's activities.*

The Minister for Finance has specified an amended and restated relationship framework in relation to AIB (the "Relationship Framework") which is conditional only on Admission. The Relationship Framework will amend and restate the relationship framework specified by the Minister for Finance in relation to AIB on 29 March 2012 (the "2012 Relationship Framework"). Under the Relationship Framework, while the authority and responsibility for strategy and commercial policies (including business plans and budgets) and the conduct of AIB's day-to-day operations rests in all cases with the Board of AIB and its management team, they are required, in connection with certain specified aspects of AIB's activities, to consult with the Minister for Finance. In particular, AIB must, subject to certain exceptions, provide the Minister for Finance with all Board and committee papers concurrently with the distribution to the Board of AIB, copies of its financial, accounting and taxation information and records, copies of relevant audit documents and any other relevant information reasonably required by the Minister for Finance (among other things) to comply with applicable law and regulations or to respond to requests from the Oireachtas (the Irish legislature). The Relationship Framework also grants the Minister for Finance the right, at all times, to nominate up to two non-executive directors for appointment to the Board of the Company. AIB is also subject to various obligations under the placing agreement dated 23 December 2010 (the "2010 Placing Agreement") and the placing agreement dated 1 July 2011 (the "2011 Placing Agreement") pursuant to which the Company issued ordinary shares to the National Pension Reserve Fund Commission (the "NPRFC") (which shares were transferred to the Ireland Strategic Investment Fund (the "ISIF"), itself owned by the Minister for Finance, in 2014), together with the letter from the Minister for Finance dated 25 July 2011 (the "Minister's Letter"). In connection with the 2009 Preference Shares, Dr Michael Somers was appointed as a Non-Executive Director (see *"Part XI: Directors, Senior Executives and Corporate Governance—Board Appointments"*). These agreements and letter impose certain requirements on AIB in relation to its lending activities and remuneration policies, among other areas, including the requirement to continue to provide the Irish Government with certain information and consultation/ consent rights, as described in further detail under *"Part X: Relationship with the Government and State Aid—Governance Restrictions"*.

In addition to these contractual rights, the Irish Government also has certain statutory powers under the NAMA Act, the CIFS Scheme and the ELG Scheme. These powers are described in detail in "*Part X: Relationship with the Government and State Aid—Governance Restrictions—Statutory*". In relation to the NAMA Act, in addition to the powers described above under "*—Risks Relating to AIB's Business—AIB could face additional liabilities in relation to the assets it has transferred to NAMA under the NAMA Programme, including the risk that if NAMA's accounts show an aggregate loss in respect of the transferred assets, a surcharge on participating institutions, including AIB, may be imposed",* the NAMA Act also obliges AIB to take reasonable steps to address any impediment it identifies to the achievement of the NAMA Act, and to follow directions which may be given by NAMA to perform management, administrative and enforcement services (or any service included in a direction by NAMA) in respect of a bank asset (as defined in the NAMA Act) which has been acquired, to facilitate the provision of those services by a third-party service provider, and, for the furtherance of the achievement of its purposes under the NAMA Act, to deal in a specified way with a bank asset which was not acquired. Also, the Minister for Finance is required to be consulted in connection with the exercise of certain rights and powers which the Relevant Banking Regulator has under the NAMA Act.

The terms and conditions of the CIFS Scheme and the ELG Scheme place certain restrictions on, and require AIB to submit to a degree of governmental regulation in relation to, the operation of AIB's business. The ELG Scheme (where the Minister for Finance's guarantee is still in effect in respect to certain liabilities) facilitated participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of five years. Under the terms of the ELG Scheme, the Minister for Finance, in consultation with the Relevant Banking Regulator, may issue directions to a participating institution that are necessary to ensure that the objectives of the ELG Scheme are met. Directions were issued on behalf of the Minister for Finance on 12 November 2012 to each participating institution under the ELG Scheme, including the AIB ELG Participating Institutions, (the "ELG Directions"). The rights conferred on the Minister for Finance under the CIFS Scheme and the ELG Scheme (as modified by the ELG Directions) include (i) the power to make rules, following consultation with the Relevant Banking Regulator, concerning the declaration and payment of dividends (and such rules were made in February 2017); (ii) the right to make directions to appoint up to two non-executive directors to the Board in order to promote the public interest, and to take steps to restructure its executive management responsibilities and improve corporate governance; (iii) the right to direct, following consultation with the Relevant Banking Regulator, AIB to draw up and comply with a restructuring plan to ensure compliance with the objectives of the CIFS Scheme; and (iv) the right to direct the Relevant Banking Regulator to require such reports from AIB as the Minister considers necessary. It is possible that the Minister for Finance may give further directions under the ELG Scheme in due course. Also, the Minister for Finance is required to be consulted in connection with the exercise of certain rights and powers which the Relevant Banking Regulator has under the CIFS Scheme and the ELG Scheme.

In the event the Irish Government elects to exercise the powers or invoke the rights described above, this may serve to limit AIB's operations and place significant demands on the reporting systems and resources of AIB.

AIB also has obligations to the Irish Government to comply with AIB's restructuring plan approved by the EC on May 2014 (the "Restructuring Plan"), described below under "*—If AIB fails to comply with the conditions and restrictions set out in its Restructuring Plan, this could lead to action by the EC.*"

The composition of the Irish Government is subject to change depending on the ability of the Irish Government to arrive at and maintain an agreed position on its programme, policies and actions, the outcome of elections for the Oireachtas and support by the Oireachtas of that programme and those policies and actions. The current Irish Government is not in a position to rely on a majority of members of the Oireachtas to support it in all circumstances. In addition on 17 May 2017, the current Taoiseach (the Irish Prime Minister) announced that he was retiring as leader of his political party, Fine Gael, and that shortly after his replacement as party leader, he would retire as Taoiseach. On 18 May 2017, the current Minister for Finance stated that he did not want to be considered for appointment to the Irish Government by the new Taoiseach but that he would carry on his duties as Minister for Finance until a successor is appointed. On 2 June 2017, Mr Leo Varadkar was elected as the new leader of Fine Gael and he is expected to be elected as Taoiseach on or about 13 June 2017 which election is expected to result in changes to the composition of the Irish Government. Changes in the composition of the Oireachtas or the Irish Government may result in changes to the laws or the programme, policies or actions of the Irish Government, which may have a material adverse effect on AIB's business, results of operations, financial condition, ownership and prospects.

Certain political parties and groups which have members in the Oireachtas do not support the sale by the Selling Shareholder of shares in the Company or the making of the Offer at this time. On 9 May 2017 the Labour Party put forward a private members motion stating that Dáil Éireann (one of the houses of the Oireachtas) calls on the Government to postpone the sale of shares in AIB until EU fiscal rules are changed to permit enhanced capital spending, rather than remit the sale proceeds to the Exchequer of the Irish Government simply to pay down the State's debt. No formal proposals to make such changes to the EU fiscal rules have been made by the competent organs of the European Union. The Labour Party does not form part of the Government and the sale referred to in that motion is that contemplated by the Offer. That motion stated that this would allow the monies received from the sale to be spent on capital investments rather than to pay down the national debt. In response, on the same day, the Minister for Finance (the Selling Shareholder) put forward a counter-motion in support of the Government's commitment to sell its banking interests where conditions permit. The Minister for Finance opposed the Labour Party's motion on a number of grounds, including the positive effect the sale would have on normalising the banking sector; the desirability of reducing the national debt and the importance of strong fiscal rules (which he noted were not imposed unilaterally but adopted by referendum by the Irish people and enshrined in the Constitution of Ireland) in protecting against future risks. Voting on the motions was postponed until 18 May 2017. At that vote, the counter-motion was declared lost, and the Labour Party motion was deemed passed because of procedural failures by members of Dáil Éireann who support the Government to object to the motion. In response, on the same day, the Irish Department of Finance published a statement by the Minister for Finance in which the Minister for Finance stated that private members motions are not legally binding on the Government and the Government position remains unchanged and as set out in the Minister for Finance's statements made in Dáil Éireann the previous week.

43 ***If AIB fails to comply with the conditions and restrictions set out in its Restructuring Plan, this could lead to action by the EC.***

On 7 May 2014, the EC approved, under state aid rules, AIB's Restructuring Plan (the "State Aid Decision"). In arriving at its final decision, the EC acknowledged the significant number of restructuring measures previously implemented by AIB, comprising business divestments, asset deleveraging, liability management exercises and significant cost reduction actions and concluded that the Restructuring Plan set out the path to restoring long-term viability.

AIB committed to a range of measures, including measures relating to customers in difficulty; cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. In the State Aid Decision, the EC considered the remuneration payable to the State in respect of the €1.6 billion of contingent capital tier 2 notes issued by the Company to the Minister for Finance on 27 July 2011 and which were redeemed on maturity on 28 July 2016 (the "CCNs") and the 2009 Preference Shares as appropriate, albeit at a low level, in light of AIB's distressed situation at the time. The EC also set out a repayment commitment under which the State has committed, subject to receipt of all regulatory and other approvals, that, prior to the end of the Restructuring Period on 31 December 2017, the Company will repay the state aid through the payment of "dividends or other means", in such amount equal to the surplus regulatory capital above the minimum CET1 ratio (on a Basel III fully implemented basis) as set by the Central Bank (plus a buffer of 2 per cent.) on 31 December 2016. This requirement to repay state aid was a condition for state aid approval and non-compliance could lead to withdrawal of approval by the EC. The Directors believe that the Company has met its state aid repayment commitments for 2017 under the State Aid Decision, although, given their nature, the precise effect of such commitments is uncertain in some respects. The Company has paid a final dividend for the year ended 31 December 2016 of €250 million for which it received approval from the SSM. Repayment of further state aid through a further dividend or other payment by the Company in 2017 would require SSM approval for the payment. Certain of the other commitments have expired while others will expire during the course of 2017 or on 31 December 2017. All of the commitments are aligned to AIB's operational plans and are supportive of AIB's return to viability. A trustee (the "monitoring trustee") has been appointed to monitor compliance with these commitments. See "*Part X: Relationship with Government and State Aid—State Aid—Commitments in the Restructuring Plan*".

The Restructuring Plan commitments impose certain restrictions which restrict AIB's ability to operate its business as it would otherwise have done so, which may have a negative impact on AIB's business, results of operations, financial condition and competitive position. In particular, AIB has committed to introducing competition measures by 1 July 2017 to enhance competition in the Irish banking market, including a "Services Package" (permitting certain of AIB's competitors to have access to certain of AIB's services and market information) and a "Customer Mobility Package" (permitting certain of AIB's competitors to advertise their services to AIB's customers). For additional details on AIB's Services Package Commitment and Customer Mobility Package Commitment, see "*Part X: Relationship with Government and State Aid—State Aid*". Thus far, while no competitors have made an application under the Services Package, KBC has made a successful application under the Customer Mobility Package. AIB's commitments in connection with the Restructuring Plan may result in the emergence of one or more new competitors and/or a material strengthening of one or more of AIB's existing competitors in the Irish banking market, which may impact AIB's competitive position.

A failure to comply with the conditions and restrictions set out in the Restructuring Plan Term Sheet could lead to the need for action by the EC, which in turn could lead to material and significant adverse outcomes for AIB. Failure to comply with the conditions imposed by the EC in the State Aid Decision (including failing to implement the Restructuring Plan in full and/or implementing unapproved changes to the Restructuring Plan) may constitute a misuse of aid. If the EC doubts that AIB is complying with the terms of the State Aid Decision, it may reopen the State Aid Decision. A reopening of the State Aid Decision would, at a minimum, create uncertainty as to AIB's business, financial condition and results of operations. The EC's investigation would form the basis for a new decision which could result in the EC (i) re-approving the aid on the same terms; (ii) re-approving the aid but imposing more onerous conditions on AIB; (iii) reducing the level of aid that AIB is permitted to receive; or (iv) declaring the aid measure incompatible (i.e., taking a negative decision). A negative decision would give the EC the power to order Ireland to recover from AIB the amount of the aid that has been received by AIB at the relevant time (together with interest). A negative outcome could have a material adverse impact on AIB's business, financial condition, results of operations and prospects.

44 *The Selling Shareholder's interests may conflict with the interests of other Shareholders and the Selling Shareholder may exercise its voting rights in a manner that has the effect of delaying, deferring or preventing AIB from undertaking certain transactions.*

Immediately following Admission, the Irish Government will continue to own, through the Selling Shareholder, 75 per cent. (assuming no exercise of the Over-allotment Option and assuming that the Offer Size is set at the maximum point of the Offer Size Range) or 71 per cent. (assuming the Over-allotment Option is exercised in full and assuming that the Offer Size is set at the maximum point of the Offer Size Range) of the issued Ordinary Share capital of the Company. The interests of the Irish Government could conflict with those of the Company's other Shareholders.

While it remains a significant shareholder of the Company, the Selling Shareholder will, subject to the terms of the Relationship Framework, which provides that the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board of AIB and its management team, continue to have the power to influence certain matters. As the Selling Shareholder will remain the beneficial owner of more than 50 per cent. of the Ordinary Shares following Admission, it will have the power to block ordinary resolutions and special resolutions of the Company. In practice, following Admission the Selling Shareholder may be able to block special resolutions of the Company in circumstances where it is the beneficial owner of less than 25 per cent. of the issued Ordinary Shares and other Shareholders do not exercise their votes in respect of the relevant special resolutions. The ability of the Irish Government to exercise voting rights as a Shareholder may have the effect of delaying, deferring or preventing AIB from effecting certain actions, including certain types of transactions that require approval by special resolution. For additional details, see "*Part XXI: Additional Information—Material Contracts—Relationship Framework*".

Furthermore, for so long as the Selling Shareholder remains the beneficial owner of 50 per cent. or more of the Ordinary Shares following Admission, the provisions of the Takeover Panel Act, Takeover Rules, 2013 (the "Takeover Rules") which protect the position of minority Shareholders will not apply. For additional details on the provisions of the Takeover Rules, see "*Part XXI: Additional Information—Mandatory takeover bids, squeeze-out and sell-out rules, Irish merger control legislation and the European Union (Capital Requirements) Regulation 2014—Mandatory takeover bids*".

45 ***The Selling Shareholder may divest the remainder of its interest in AIB, and the manner and timing of any divestment is uncertain.***

Following the expiry of the lock-up period, the Selling Shareholder will be able to sell its remaining interest in AIB. Any future sales of larger blocks of shares by the Selling Shareholder, or rumours relating to such sales, could cause the price of the Ordinary Shares to fall.

Except where bound by contract, the Irish Government is at liberty to change its policies, plans, views, expectations or intentions (as the case may be) in relation to AIB and its business and there can be no assurance that such changes will not occur in the future. Any such changes by the current or a future Irish Government as to the level of shareholding in AIB they wish to maintain and the timing of any divestment of Ordinary Shares held by the Selling Shareholder could cause the price of the Ordinary Shares to fall.

46 ***Shareholders may experience dilution as a result of the issue of additional Ordinary Shares by the Company or the issue of Warrants to the Minister for Finance.***

The Company may issue additional equity or convertible equity securities, as a result of which its existing Shareholders would suffer dilution (in their percentage ownership, and accordingly voting and economic rights), if such issues were not carried out on a pre-emptive basis. Historically, AIB has also utilised sources of funding, such as the CCNs, that have included provisions that had potential dilutive effects on Shareholders. In addition, in accordance with the terms of the Warrant Agreement and the Warrant Notice issued by the Minister for Finance on 26 April 2017, the Company is required, five Business Days after Admission (being a Regulated Market Event for the purpose of the Warrant Agreement), to enter into the Warrant Instrument and issue Warrants to the Minister for Finance to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or, if Admission does not occur, any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised). In accordance with the terms of the Warrant Agreement, no cash consideration will be payable by the Minister for Finance to the Company in respect of the issue of the Warrants. Assuming Admission occurs, the exercise price for the Warrants is 200 per cent. of the Offer Price (being the Initial Regulated Market Price for the purpose of the Warrant Agreement) which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the holder of the Warrants during the period commencing on the first anniversary of Admission and ending on the tenth anniversary of Admission. If Admission does not occur, the exercise price for the Warrants is 200 per cent. of any future Initial Regulated Market Price which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the holder of the Warrants during the period commencing on any future Regulated Market Event and ending on the tenth anniversary of that Regulated Market Event. AIB may, in the future, issue additional financial instruments that may also contain features that have a potential dilutive effect on Shareholders.

Risks Relating to the Offer and the Offer Shares

47 ***An active trading market for the Ordinary Shares may not develop or be sustained.***

Prior to the Offer, there has been only a limited trading market for the Ordinary Shares as a result of the 0.2 per cent. free float in the Ordinary Shares. The Company has applied to the Irish Stock Exchange for the Ordinary Shares to be admitted to listing on the primary listing segment of the Irish Official List and to trading on its regulated market and the Company will apply to the FCA for admission of the Ordinary Shares to the premium segment of the UK Official List and to the London Stock Exchange for admission of the Ordinary Shares to trading on its main market for listed securities. Nevertheless, the Company can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, that it can be sustained following the closing of the Offer. If an active trading market is not developed or sustained, the liquidity and trading price of the Ordinary Shares could be materially adversely affected.

48 ***The value of the Ordinary Shares may fluctuate significantly.***

Following the Offer, the value of the Ordinary Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this "*Part II: Risk Factors*", as well as period-to-period variations in operating results or changes in revenue or profit estimates by AIB, industry participants or financial analysts. The value of the Ordinary Shares could also be affected by developments unrelated to AIB's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Company, speculation about AIB in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not AIB derives significant revenue therefrom.

The market price of the Ordinary Shares could be negatively affected by sales of substantial amounts of Ordinary Shares in the public markets, including following the expiry of the lock-up restrictions applicable to the Selling Shareholder and the Company, or the perception that these sales could occur.

Sales of a substantial number of Ordinary Shares by the Selling Shareholder in the public market after these restrictions expire, or the knowledge that they will, or perception that these sales may occur, could depress the market price of the Ordinary Shares and could impair the Company's ability to raise capital through the sale of additional equity securities.

49 ***Exchange rate fluctuations may expose an investor whose principal currency is not the euro to foreign exchange rate risk.***

The Ordinary Shares will be priced in euro. To the extent that any dividends are or may be paid in respect of the Ordinary Shares, these will also be denominated and paid in euro. Any investment in (or upon any sale, disposal, or other transfer of) the Ordinary Shares by an investor whose principal currency is not the euro exposes the investor to foreign currency exchange risk. Any depreciation of the euro in relation to such foreign currency will reduce the value of the investment in the Ordinary Shares or any dividends in foreign currency terms.

50 ***There can be no assurance that the Company will pay dividends in the future and Shareholders may earn a negative or no return on their investment in AIB.***

The Company's dividend approach is to work towards an annual pay-out ratio in line with normalised European banks, with capacity for excess capital levels to be returned to Shareholders through special dividends and/or share buy backs, subject to receipt of all regulatory and other approvals. The Company is subject to the following potential restrictions on the payment of dividends on the Ordinary Shares: (i) the Relevant Banking Regulator may require AIB to observe a restriction on dividend distributions in order to improve the quality and quantity of capital in advance of full implementation of CRD IV on 1 January 2019; (ii) dividends and other distributions on Ordinary Shares as CET1 instruments under the CRR can only be paid out of distributable items within the meaning of that term in article 4(128) of CRR; and (iii) in February 2017, the Minister for Finance made rules under the terms of the CIFS Scheme and ELG Scheme (the "Government Guarantee Schemes") on the declaration and payment of dividends (for additional details, see *"Part X: Relationship with Government and State Aid—Governance Restrictions—Governance Restrictions—Statutory—CIFS Scheme and ELG Scheme"*). Pursuant to the terms of the Relationship Framework and the Dividend Rules, AIB is required to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends. Subject to the availability of sufficient distributable reserves, which is a prerequisite to paying a dividend under Irish company law, and to the aforementioned restrictions, the Directors will review, on an ongoing basis, the expected timing and quantum of any possible future dividend payments (subject to any regulatory restrictions under CRD IV and the above or other restrictions that may apply). Any decision to declare and pay dividends in the future will be, subject to the receipt of regulatory approvals, made at the discretion of the Directors and will depend on the Company's financial position, general economic conditions and other factors the Directors deem significant from time to time.

The Company is also subject to other regulatory requirements that may restrict its ability to pay dividends. On 13 December 2016, the ECB published a recommendation which specifies the requirements which credit institutions, such as the Company, should meet before being capable of paying a dividend on the Ordinary Shares. The recommendation states that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements and the outcomes of the SREP.

The recommendation also states that, to the extent that such institution does not and would not, after making such a dividend, meet its applicable minimum capital requirements (Pillar 1 requirements), its Pillar 2 requirements (following the SREP), combined buffer requirements and its CET1 ratio, Tier 1 capital ratio and total capital ratio, on a fully loaded-basis (i.e., after application of transitional pressures and the combined buffer requirements (i.e. countercyclical capital and systemic buffers and all other required buffers)), then such institution's ability to make and pay dividends should be restricted. Even where an institution meets these requirements, it must distribute its net profits in dividends in a conservative manner to enable it to continue to fulfil all requirements and outcomes of the SREP even in the case of deteriorated economic and financial conditions. Furthermore, the Company will be prohibited from paying a dividend in connection with the Ordinary Shares if and to the extent that the payment of such dividend would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of CRD (or any provision of applicable law transposing or implementing Article 141(2) of CRD), the lower of (i) the maximum distributable amount (if any) then applicable to the Company and (ii) the maximum distributable amount (if any) then applicable to AIB to be exceeded. Under the Proposals, an institution (such as AIB) will be deemed to fail to meet its combined buffer requirement, and therefore subject to the restrictions on certain discretionary payments, such as dividends on the Ordinary Shares, where it does not have own funds and eligible liabilities in an amount and quality to meet all of the following:

- its combined buffer requirement;
- its 4.5 per cent. Pillar 1 and Pillar 2 CET1 requirement;
- its 6 per cent. Pillar 1 and Pillar 2 Tier 1 requirement;
- its 8 per cent. Pillar 1 and Pillar 2 total capital requirement; and
- its MREL/TLAC requirement (subject to a potential six-month grace period).

As a result of the foregoing, there can be no assurance that the Company will pay dividends in the future.

51 *Shareholders outside Ireland and the United Kingdom may not be able to participate in future equity offerings.*

Irish company law provides for pre-emptive rights in respect of equity offerings for cash to be granted to a company's existing Shareholders, unless such rights are disapplied by shareholder resolution. However, shareholders in certain jurisdictions (including in the United States) may not be entitled to exercise these rights unless the rights and Ordinary Shares are registered under their applicable laws (for example, in the United States pursuant to a registration statement under the Securities Act or where an exemption from the registration requirements of the Securities Act is available). The Company cannot at this point predict whether it will seek such registrations in the future and intends to evaluate, at the time of any future offering of Ordinary Shares, the costs and potential liabilities associated with such registrations or qualifying for an exemption, as well as the indirect benefits to the Company of enabling Shareholders in those jurisdictions to exercise rights and any other factors it considers appropriate at the time and then to make a decision as to whether to file such a registration statement. The Company is unlikely to file a registration statement to enable US or other Shareholders outside of Ireland and the United Kingdom to exercise their pre-emptive rights or to participate in a rights offer.

52 *Any person that intends to acquire or dispose of 10 per cent. or more of the Ordinary Shares will be required to notify the ECB, the Central Bank and the FCA and any such transaction may not proceed if the ECB or such other relevant regulator opposes the transaction within the prescribed period of time.*

Under the European Union (Capital Requirements) Regulations 2014, the proposed acquisition of any direct or indirect holding of the capital or of the voting rights of a credit institution such as the Company, AIB Mortgage Bank, EBS or EBS Mortgage Finance ("Relevant Interests") which represents a level of 10 per cent. or more of the Relevant Interests is notifiable to the ECB. Any person (including a person acting in concert with one or more persons) that intends, directly or indirectly, to (i) acquire 10 per cent. or more of the issued share capital of the Company and its relevant subsidiaries; or (ii) acquire such number of Ordinary Shares as would increase its shareholding to 10 per cent. or more of the issued share capital of the Company and its relevant subsidiaries, will be required to notify the proposed acquisition to the ECB. Where Relevant Interests representing a level of 10 per cent. or more of total Relevant Interests have been notified and acquired, the proposed acquisition of further Relevant Interests which on acquisition together with existing holdings of Relevant Interests would reach or exceed a level representing 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests is also notifiable to the ECB. A proposed acquisition of Relevant Interests which would reach or exceed a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests cannot proceed unless so notified and (i) the prescribed period of time has elapsed without the ECB notifying the proposed acquirer(s) that it opposes the proposed acquisition, or (ii) the ECB has confirmed to the proposed acquirer(s) that it does not oppose the acquisition. Where an acquisition proceeds in default of the above requirements, the exercise of voting rights based on the acquisition concerned is suspended. In turn, a person may not dispose of Relevant Interests representing a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. or more of total Relevant Interests without having given prior notice to the ECB. Equivalent regulatory requirements apply with respect to certain subsidiaries of the Company which are authorised in the United Kingdom or Ireland by the PRA, the FCA or, as applicable, the Central Bank.

53 ***Overseas Shareholders may have only limited ability to bring actions or enforce judgments against the Company.***

The Company is incorporated under the laws of Ireland. The rights of holders of Ordinary Shares are governed by Irish law, including the Companies Act 2014, as amended (the "Companies Act" or, the "Companies Act 2014"), and by the articles of association of the Company ("Articles") and certain laws of the EU. These rights differ in certain respects from the rights of shareholder corporations incorporated in other jurisdictions, including in the United States. It may be difficult for Shareholders outside Ireland to serve process on or enforce foreign judgments against the Company. In particular, Irish law significantly limits the circumstances under which shareholders in Irish companies may bring derivative actions, and does not afford appraisal rights to dissenting shareholders in the form typically available to shareholders of a US corporation.

PART III
PRESENTATION OF INFORMATION

General

Investors should only rely on the information in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Offer other than the information and representations contained in this Prospectus and, if any other information or representations is or are given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, the Selling Shareholder or the Underwriters. No representation or warranty, express or implied, is made by any Underwriter or any selling agent as to the accuracy, completeness or verification of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters or any selling agent as to the past, present or future.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to the Irish Prospectus Regulations, neither the delivery of this Prospectus nor any subscription or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of AIB taken as a whole since the date hereof or that the information contained herein is correct as of any time after its date.

Save to the extent information published by the Company is republished by the press or other media, the Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Offer or AIB. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the Offer occurs prior to Admission or if this Prospectus contains any material mistake or inaccuracy. This Prospectus and any supplement thereto will be subject to approval by the Central Bank and will be made public in accordance with the Irish Prospectus Rules and Part 8 of the Irish Prospectus Regulations. If a supplement to this Prospectus is published prior to Admission, investors shall have the right to withdraw any offer to purchase Offer Shares made prior to the publication of the supplement. Such withdrawal must be done within the time limits set out in the supplement (which shall not be shorter than two working days after the day of publication of the supplement). In addition, if the Offer Price is set above the Offer Price Range and/or the number of Offer Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the Irish Stock Exchange and the FCA), then prospective investors would have a right to withdraw their offer to purchase Offer Shares in the Offer. Such withdrawal must be done within the time limits set out in the announcement (if any) (which shall not be shorter than two working days after the date on which an announcement of this is published by the Selling Shareholder via a Regulatory Information Service). The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Offer Shares. In making an investment decision, each investor must rely on his or her own examination, analysis and enquiry of the Company and the terms of the Offer, including the merits and risks involved.

In connection with the Offer, each of the Underwriters and any of their respective affiliates, may take up a portion of the Offer Shares in the Offer as a principal position and in that capacity may retain, purchase or sell for its own account such securities of the Company or other related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offer. Accordingly, references in this Prospectus to the Offer Shares being offered or otherwise dealt with should be read as including any offer to, or dealing by, the Underwriters and any of their respective affiliates in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

None of the Company, the Directors, the Selling Shareholder or the Underwriters, or any of their respective representatives is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment by such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

Apart from the responsibilities and liabilities, if any, which may be imposed under the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), the Investment Intermediaries Act 1995 (as amended), the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the accuracy, completeness or verification of the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Offer Shares or the Offer and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Underwriters, accordingly, disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

No representation or warranty, express or implied, is made by the Underwriters as to the accuracy, completeness or verification of information contained in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company and the Selling Shareholder for which they would have received customary fees. None of the Underwriters intend to disclose the extent of any such transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Prior to making any decision as to whether to purchase Offer Shares, prospective investors should read this Prospectus in its entirety, and in particular the section headed "Risk Factors" and should not just rely on key information or information summarised within it, when considering an investment in the Company. In making an investment decision, prospective investors must rely upon his or her own examination of the Company and the terms of this Prospectus, including the risks involved.

Investors who purchase Offer Shares in the Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Underwriters or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this Prospectus, and no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the Offer Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors, the Selling Shareholder or any of the Underwriters.

Presentation of historical financial information

The historical financial information in this Prospectus has been prepared specifically for the purposes of this Prospectus in accordance with the requirements of the Prospectus Directive, the Listing Rules and IFRS. The basis of preparation is further explained in note 1 of Section D and Section B of "*Part XVI: Consolidated Historical Financial Information*". The historical financial information presented in this Prospectus consists of the condensed consolidated interim financial statements of AIB for the three months ended 31 March 2017 and the consolidated financial information for the years ended 31 December 2016, 2015 and 2014. The consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of "*Part XVI: Consolidated Historical Financial Information*" has been audited by Deloitte. The condensed consolidated interim financial statements for the three months ended 31 March 2017 contained in Section D of "*Part XVI: Consolidated Historical Financial Information*" has been reviewed by Deloitte.

Alternative Performance Measures

In addition to the financial information prepared in accordance with IFRS, this Prospectus includes certain alternative performance measures ("APMs") as defined in the guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415) (the "ESMA guidelines"). The ESMA guidelines define an APM as a financial measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

AIB uses certain APMs, which have not been audited, for a better understanding of its financial performance. These measures are considered additional disclosures and in no case replace the financial information prepared under IFRS. Moreover, the way AIB defines and calculates these measures may differ from the way similar measures are calculated by other companies. Accordingly, they may not be comparable.

In "*Part XIII: Operating and Financial Review—Results of Operations*", AIB's results of operations are presented on a management basis with exceptional items reported separately. Exceptional items are items that management believes obscure the underlying performance trends in the business.

For a description of exceptional items that management believes obscure the underlying performance trends in the business and a reconciliation to each resulting APM from the most directly reconcilable IFRS line item in Sections B and D of *"Part XVI: Consolidated Historical Financial Information"*, see "*Part XIII: Operating and Financial Review—Exceptional Items"*.

In accordance with the ESMA guidelines, the following is a list of APMs that the Directors believe to be useful indicators of AIB's operating performance and financial strength.

In analysing net interest income, the following APMs are widely used by management and analysts to specifically monitor the performance of net interest income and net interest margin of financial institutions.

- *net interest margin:* net interest income divided by average interest-earning assets.

  In addition, two further measures are reported for net interest margin: net interest margin excluding the ELG Scheme charge and, for the three months ended 31 March 2017, net interest margin excluding the ELG Scheme charge and one-off income for cured loans (which are defined as loans upgraded from impaired without incurring financial loss). These additional measures have been disclosed given (i) the nature of the ELG Scheme and (ii) the impact of the additional income on assessing the actual performance for the three months ended 31 March 2017.

- *average interest-earning assets:* includes loans and receivables to customers, NAMA senior bonds, financial investments available for sale, financial investments held to maturity and other interest earning assets. Averages are based on month-end balances for all categories with the exception of loans and receivables, which are based on daily averages;

- *average asset yield:* interest and similar income divided by average interest-earning assets;

- *average interest-bearing liabilities:* includes deposits by banks, customer accounts, subordinated liabilities and other debt issued. Averages are based on month-end balances for all categories with the exception of customer accounts, which are based on daily averages;

- *average cost of funds:* interest expense and similar charges divided by average interest-bearing liabilities; and

- *cost of customer accounts:* interest expense and similar charges from customer accounts divided by average customer accounts (which are based on daily averages).

In relation to the assessment of net interest income, net interest margin, average asset yield, average interest-earning assets, average interest—bearing liabilities, average cost of funds and cost of customer accounts, see the average balance sheets set forth in "*Part XIII: Operating and Financial Review—Results of Operations—Three Months Ended 31 March 2017 and 2016—Net Interest Income Average Balance Sheet", "Part XIII: Operating and Financial Review—Results of Operations—Years Ended 31 December 2016 and 2015—Net Interest Income—Average Balance Sheet"* and "*Part XIII: Operating and Financial Review—Results of Operations—Years Ended 31 December 2015 and 2014—Net Interest Income—Average Balance Sheet"*).

In analysing operating efficiency, the following APM is widely used by management and analysts:

- *cost/income ratio:* total operating expenses excluding exceptional items and bank levies and regulatory fees divided by total operating income excluding exceptional items.

In analysing credit risk and financial institutions' credit risk appetite, the following APMs are widely used by management and analysts:

- *credit impairment charge:* writeback/(provision) for impairment on loans and receivables divided by average loans and receivables to customers;
- *loans percentage:* loan balances (criticised or impaired) divided by total loan balances; and
- *provision cover:* credit provision (specific and/or total) divided by loan balances (impaired and /or total).

In analysing funding and liquidity of a financial institution, the following APM is widely used by management and analysts:

- *loan to deposit ratio:* loans and receivables to customers divided by customer accounts.

In assessing capital efficiency of a financial institution, the following APM is a better reflection of performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity:

- *return on tangible equity:* profit after tax from continuing operations plus movement in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity. For the basis of calculation of return on tangible equity for the year ended 31 December 2016, see *"Part XIII: Operating and Financial Review—Return on Tangible Equity"*.

Currency presentation

Unless otherwise indicated, all references to the "Euro", "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community, as amended. All references in this Prospectus to "sterling", "pound sterling", "GBP", "£" or "pence" are to the lawful currency of the United Kingdom. All references to "dollars", "$" or "US$" are to the lawful currency of the United States. The Offer Price will be stated in euro.

The Company prepares its financial statements in euro.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in euro.

Exchange rates

The table below shows the high, low, average and period-end exchange rates of US dollars per Euro for each year since 2012, and for each month from January 2017 to June 2017 (through 8 June 2017), expressed as the number of US dollars per €1.00 and as published by Bloomberg. These rates may differ from the actual rates used in the preparation of the Company's financial statements and other financial information appearing in this Prospectus.

	US dollars per Euro			
	Period End(1)	Average(2)	High	Low
Year				
2012	1.3222	1.2913	1.4874	1.2053
2013	1.3789	1.3300	1.3804	1.2772
2014	1.2141	1.3286	1.3925	1.2100
2015	1.0887	1.1097	1.2141	1.0517
2016	1.0541	1.1069	1.1518	1.0379
Month				
January 2017	1.0755	1.0624	1.0755	1.0382
February 2017	1.0597	1.0645	1.0810	1.0535
March 2017	1.0691	1.0692	1.0885	1.0527
April 2017	1.0930	1.0725	1.0930	1.0600
May 2017	1.1221	1.1065	1.1247	1.0867
June 2017 (through 8 June 2017)	1.1222	1.1250	1.1276	1.1222

Notes:

(1) Represents the exchange rate on the last Business Day of the applicable period.

(2) The average rate is calculated based on the rate on the last Business Day of each month for annual averages and on each Business Day of the month for monthly averages.

The table below shows the high, low, average and period-end exchange rates of pound sterling per Euro for each year since 2012, and for each month from January 2017 to June 2017 (through 8 June 2017), expressed as the number of pound sterling per €1.00 and as published by Bloomberg. These rates may differ from the actual rates used in the preparation of the Company's financial statements and other financial information appearing in this Prospectus.

	Pound sterling per Euro			
	Period End(1)	Average(2)	High	Low
Year				
2012	0.8182	0.8126	0.8483	0.7775
2013	0.8357	0.8494	0.8748	0.8116
2014	0.7789	0.8062	0.8396	0.7786
2015	0.7340	0.7260	0.7856	0.6942
2016	0.8562	0.8196	0.9048	0.7319
Month				
January 2017	0.8611	0.8608	0.8789	0.8471
February 2017	0.8531	0.8523	0.8628	0.8440
March 2017	0.8555	0.8660	0.8759	0.8555
April 2017	0.8447	0.8478	0.8570	0.8363
May 2017	0.8737	0.8559	0.8744	0.8395
June 2017 (through 8 June 2017)	0.8668	0.8710	0.8755	0.8668

Notes:

(1) Represents the exchange rate on the last Business Day of the applicable period.

(2) The average rate is calculated based on the rate on the last Business Day of each month for annual averages and on each Business Day of the month for monthly averages.

Rounding

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. Thus, the figures shown as totals may not be the precise sum of the figures that precede them.

Market, economic and industry data

Certain information in this Prospectus, in particular the information in "*Part VIII: Industry Overview*", has been sourced by AIB from industry publications, data and reports compiled by professional organisations and analysts and data from other external sources. The Company confirms that all third-party information contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

Certain of the aforementioned third-party sources may state that the information they contain has been obtained from sources believed to be reliable. However, such third-party sources may also state that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on significant assumptions. As AIB does not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in these third-party sources, it is unable to verify such information. Information sourced from Banking & Payments Federation Ireland ("BPFI") is limited to information provided through surveys of its members, which include many, but not all, Irish banks.

Forward-looking statements

This Prospectus contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB and certain of the plans and objectives of AIB. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "may", "could", "will", "seek", "continue", "should", "assume", or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding macroeconomic and demographic trends as well as AIB's future financial position, capital structure, credit ratings, liquidity, employees, the Selling Shareholder's shareholding in the Company, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in "*Part II: Risk Factors*". In addition to matters relating to AIB's business, future performance will be impacted by Irish or other relevant economies and financial market considerations. Any forward-looking statements made by or on behalf of AIB speak only as of the date they are made. AIB cautions that the list of important factors in "*Part II: Risk Factors*" is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

Definitions

Certain terms and rules of construction used in this Prospectus, including all capitalised terms and certain technical and other terms, are defined and explained in "*Part XXII: Definitions*" and "*Part XXIII: Glossary of Technical Terms*".

Available information

The Company has agreed that, for so long as any of the Offer Shares are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934 (the "Exchange Act"), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Service of process and enforcement of civil liabilities

The Company is incorporated under the laws of Ireland. Service of process upon Directors and senior management of the Company, many of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since most directly owned assets of the Company are outside the United States, any judgment obtained in the United States against it may not be collectible within the United States. There is doubt as to the enforceability of certain civil liabilities under US federal securities laws in original actions in Irish or UK courts, and, subject to certain exceptions and time limitations, Irish and UK courts will treat a final and conclusive judgment of a US court for a liquidated amount as a debt enforceable by fresh proceedings in the Irish and UK courts, respectively.

No incorporation of website information

This Prospectus will be made available to the public in Ireland and the United Kingdom at www.aib.ie. Notwithstanding the foregoing, the contents of the Company's website, any website mentioned in this Prospectus or any website directly or indirectly linked to these websites have not been verified and do not form part of this Prospectus, and investors should not rely on such information.

PART IV
DIRECTORS, SECRETARIES, REGISTERED AND HEAD OFFICE AND ADVISERS

Directors	Richard Pym—Chairman; Non-Executive Director Simon Ball—Non-Executive Director Mark Bourke—Chief Financial Officer Bernard Byrne—Chief Executive Officer Thomas (Tom) Foley—Non-Executive Director Peter Hagan—Non-Executive Director Carolan Lennon—Non-Executive Director Brendan McDonagh—Non-Executive Director Helen Normoyle—Non-Executive Director James (Jim) O'Hara—Non-Executive Director Dr Michael Somers—Deputy Chairman; Non-Executive Director Catherine Woods—Senior Independent Non-Executive Director
Joint Company Secretaries	Sarah McLaughlin Robert Bergin
Registered and head office of the Company	Bankcentre Ballsbridge Dublin 4 Ireland
Joint Global Co-ordinator, Joint Bookrunner and Stabilising Manager	Deutsche Bank AG, London Branch 1 Great Winchester Street London EC2N 2DB United Kingdom
Joint Global Co-ordinator and Joint Bookrunner	Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom
Joint Global Co-ordinator, Joint Bookrunner and Retail Settlement Agent	J&E Davy Davy House 49 Dawson Street Dublin 2 Ireland
Joint Broker, Joint Financial Advisor and UK Sponsor	Morgan Stanley & Co. International plc 25 Cabot Square Canary Wharf London E14 4QA United Kingdom
Joint Broker, Joint Financial Advisor, Irish Sponsor and Joint Bookrunner	Goodbody Stockbrokers UC Ballsbridge Park Dublin 4 Ireland

Joint Bookrunner	Citigroup Global Markets Limited Canada Square Canary Wharf London E14 5LB United Kingdom
Joint Bookrunner	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB United Kingdom
Joint Bookrunner	J.P. Morgan Securities plc 25 Bank Street Canary Wharf London E14 5JP United Kingdom
Joint Bookrunner	UBS Limited 1 Finsbury Avenue London EC2M 2PP United Kingdom
Co-Lead Manager	Investec Bank plc (Irish Branch) The Harcourt Building Harcourt Street Dublin 2 Ireland
Irish legal advisers to the Company . .	McCann FitzGerald Solicitors Riverside One Sir John Rogerson's Quay Dublin 2 Ireland
English and US legal advisers to the Company	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Irish legal advisers to the Selling Shareholder	William Fry 2 Grand Canal Square Dublin 2 Ireland
English and US legal advisers to the Selling Shareholder	Allen & Overy LLP One Bishops Square London E1 6AD United Kingdom
Irish legal advisers to the Joint Bookrunners	A&L Goodbody IFSC North Wall Quay Dublin 1 Ireland

English and US legal advisers to the Joint Bookrunners	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG United Kingdom
Irish legal advisers to the Sponsors	Arthur Cox Earlsfort Centre Ten Earlsfort Terrace Dublin 2 Ireland
English and US Legal advisers to the Sponsors	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS United Kingdom
Reporting Accountants and Auditors	Deloitte Hardwicke House Hatch Street Dublin 2 Ireland
Registrar	Computershare Investor Services (Ireland) Limited Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland

PART V
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Expected timetable of principal events

Event	Time and Date[1]
Latest time and date for receipt by the Retail Settlement Agent of applications from Intermediaries in respect of the Intermediaries Offer[2]	11:00 a.m. on 21 June 2017
Latest time and date for receipt of indications of interest in respect of the Institutional Offer	5:00 p.m. on 22 June 2017
Announcement of Offer Price and the Offer Size, publication of the Pricing Statement and notification of allocations of Offer Shares[3]	7:00 a.m. on 23 June 2017
Suspension of trading in the Ordinary Shares on the ESM and latest time and date for trading in the Ordinary Shares on the ESM	8:00 a.m. on 23 June 2017
Commencement of conditional dealings on the Irish Stock Exchange and London Stock Exchange	8:00 a.m. on 23 June 2017
Cancellation of admission to trading of the Ordinary Shares on the ESM	7:59 a.m. on 27 June 2017
Admission to listing on the primary listing segment of the Official List of the Irish Stock Exchange and listing on the premium listing segment of the Official List of the FCA	8:00 a.m. on 27 June 2017
Commencement of unconditional dealings on the Irish Stock Exchange and the London Stock Exchange	8:00 a.m. on 27 June 2017
CREST accounts credited in respect of Offer Shares in uncertificated form	27 June 2017

Notes:

(1) References to times are to Dublin times. Each of the times and dates in the above timetable is subject to change. Prospective investors will be notified of any changes to the above timetable by an announcement via a Regulatory Information Service.

(2) Retail investors should obtain confirmation from their chosen Intermediary as to the time and date by which their completed application to participate in the Intermediaries Offer must be received by their chosen Intermediary. Retail investors who apply for Offer Shares in the Intermediaries Offer should also consult their Intermediary as to when they will be sent documents in respect of any Offer Shares they have been allocated and when they may commence dealing in any such Offer Shares.

(3) The Offer Price and Offer Size will be set out in the Pricing Statement. The Pricing Statement will not automatically be sent to persons who receive this Prospectus but it will be available (subject to certain restrictions) free of charge, in electronic form, on the Company's website at www.aib.ie. Notification of allocations of Offer Shares will be made as soon as practicable after 7:00 a.m. on 23 June 2017.

PART VI
OFFER STATISTICS

Offer Statistics

Offer Price Range (per Offer Share)(1)	€3.90 to €4.90
Number of Ordinary Shares in issue immediately prior to Admission	2,714,381,238
Number of Ordinary Shares in issue on Admission	2,714,381,238
Expected maximum number of Offer Shares in the Offer(2)	678,595,310
Expected number of Offer Shares in the Offer as a percentage of total number of Ordinary Shares in existence on Admission(2)	Up to 25%
Expected maximum number of Over-allotment Shares(3)	101,789,296
Estimated gross proceeds of the Offer receivable by the Selling Shareholder at the mid-point of the Offer Price Range and the maximum point of the Offer Size Range(2)	€2,986 million
Expected market capitalisation of the Company at the mid-point of the Offer Price Range(4)	€11,943 million

Notes:

(1) It is currently expected that the Offer Price will be within the Offer Price Range. It is expected that the Pricing Statement containing the Offer Price and the Offer Size will be published on or around 23 June 2017 and will be available (subject to certain restrictions) on the Company's website at www.aib.ie. If the Offer Price is set above the Offer Price Range, the Selling Shareholder will make an announcement via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their applications for Offer Shares.

(2) Calculated (i) on the basis that the Offer Size will be set within the Offer Size Range of up to 25 per cent. of the total number of Ordinary Shares in issue on Admission and (ii) before taking into account any Over-allotment Shares pursuant to the Over-allotment Option. It is currently expected that the Offer Size will be set within the Offer Size Range. However, the number of Offer Shares may represent a higher or lower percentage than that indicated (subject to meeting the free float requirements of the Irish Stock Exchange and the FCA). If the Offer Size is set above the Offer Size Range, then prospective investors would have a statutory right to withdraw their applications for Offer Shares. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 23 June 2017. Between the announcement of the Offer Price and Admission to the Official Lists, the Ordinary Shares will be registered with a temporary ISIN and SEDOL for the period of conditional dealing. The temporary ISIN for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BZ0YPY56. The temporary SEDOL for the Irish Stock Exchange will be BZ0YPY5. The temporary SEDOL for the London Stock Exchange will be BF2P4M7. Following Admission to the Official Lists and once dealing becomes unconditional, the Ordinary Shares will revert to their existing ISIN and SEDOL. The ISIN for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BYSZ9G33. The SEDOL for the Irish Stock Exchange will be BYSZ9G3. The SEDOL for the London Stock Exchange will be BF2P4N8.

(3) The expected maximum number of Over-allotment Shares comprised in the Over-allotment Option is, in aggregate, equal to 15 per cent. of the total number of Offer Shares within the final Offer Size. In the event that the Offer Size is set outside the Offer Size Range, the maximum number of Over-allotment Shares would correspondingly increase or decrease.

(4) The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will be equal to or exceed the Offer Price.

PART VII
USE OF PROCEEDS AND DIVIDEND POLICY

Use of Proceeds

The Company will not receive any proceeds from the Offer. The Selling Shareholder will receive all of the proceeds of the Offer.

Dividend Policy

The Company's dividend approach is to work towards an annual pay-out ratio in line with normalised European banks, with capacity for excess capital levels to be returned to Shareholders through special dividends and/or share buy backs, subject to receipt of all regulatory and other approvals. A final dividend in the amount of €250 million in respect of the Ordinary Shares for the financial year ended 31 December 2016 was approved by Shareholders at the annual general meeting of the Company held on 27 April 2017 (the "2017 AGM") and paid on 9 May 2017. The dividend equated to €0.0921 per Ordinary Share based on the number of Ordinary Shares for 2016, which was 2.714 billion. The Company did not pay any dividends in respect of the Ordinary Shares for the years ended 31 December 2015 and 2014. In accordance with the "Joint Decision of the European Central Bank and Prudential Regulation Authority of 25 November 2016", the Company is required to obtain prior approval from the SSM in order to distribute dividends to shareholders. The Company has no current intention to seek SSM approval to pay an interim dividend in 2017 but expects to seek approval in 2018 for the payment of a final dividend for the year ended 31 December 2017.

The 2009 Preference Shares carried a fixed non-cumulative dividend at a rate of 8 per cent. per annum, payable annually in arrears at the discretion of the Company. Dividend payments were made in respect of the 2009 Preference Shares in accordance with their terms as follows during the period 2014 to 2015: (i) in lieu of payment of the annual dividend on the 2009 Preference Shares during the financial year ended 31 December 2014, and in accordance with the terms of the 2009 Preference Shares, 2,177,293,934 new ordinary shares of the Company were issued to the NPRFC by way of bonus issue on 13 May 2014; and (ii) €446 million was paid to the NTMA during the financial year ended 31 December 2015 (comprising a full year dividend from 14 May 2014 to 13 May 2015 of €280 million and a further accrued dividend from 14 May 2015 to 17 December 2015 of €166 million).

The Company is subject to the following potential restrictions on the payment of dividends on the Ordinary Shares: (i) the Relevant Banking Regulator may require AIB to observe a restriction on dividend distributions in order to improve the quality and quantity of capital in advance of full implementation of CRD IV on 1 January 2019; (ii) dividends and other distributions on Ordinary Shares as CET1 instruments under the CRR can only be paid out of distributable items within the meaning of that term in article 4(128) of CRR; and (iii) in February 2017, the Minister for Finance made rules under the terms of the Government Guarantee Schemes on the declaration and payment of dividends (the "Dividend Rules") (for additional details, see *"Part X: Relationship with Government and State Aid—Governance Restrictions—Governance Restrictions—Statutory—CIFS Scheme and ELG Scheme"*). Pursuant to the terms of the Relationship Framework and the Dividend Rules, AIB is required to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends. Subject to the availability of sufficient distributable reserves, which is a prerequisite to paying a dividend under Irish company law, and to the aforementioned restrictions, the Directors will review, on an ongoing basis, the expected timing and quantum of any possible future dividend payments (subject to any regulatory restrictions under CRD IV and the above or other restrictions that may apply). Any decision to declare and pay dividends in the future will be, subject to the receipt of regulatory approvals, made at the discretion of the Directors and will depend on the Company's financial position, general economic conditions and other factors the Directors deem significant from time to time. See "*Part XXI: Additional Information—Constitution—Articles—Dividends*" and "*Part II: Risk Factors—Risks Relating to the Offer and the Offer Shares—There can be no assurance that the Company will pay dividends in the future and shareholders may earn a negative or no return on their investment in AIB.*"

PART VIII
INDUSTRY OVERVIEW

The following information relating to the banking industry in Ireland and the United Kingdom has been provided for background purposes only. The information has been extracted from a variety of sources released by public and private organisations. The information has been accurately reproduced and, as far as the Company is aware, and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Investors should read this "Part VIII: Industry Overview" in conjunction with the more detailed information contained in this Prospectus, including "Part II: Risk Factors", "Part IX: Information on AIB", "Part XIII: Operating and Financial Review" and "Part XVIII: Supervision and Regulation".

1 Market Overview

1.1 Macro-economic Context

The Irish economy experienced strong export led growth and moderate wage and price inflation between 1994 and 2000, with average annual GDP growth of 9.2 per cent. during this period, according to the CSO. Between 2000 and 2007, GDP continued to grow strongly, at an average annual rate of 5.9 per cent., according to the CSO, primarily driven by domestic economic factors. During the latter period, however, the following negative trends developed:

- There was a systematic shift away from stable and reliable tax sources, such as personal income tax, VAT and excises, and towards cyclically sensitive taxes linked to high levels of construction activity, such as stamp duties and capital gains tax.
- The loan books of Irish banks became heavily concentrated with construction and property loans. Irish banks also became very reliant on wholesale funding (Source: Report of the Commission of Investigation into the banking sector in Ireland, Nyberg, 2011). As the global financial crisis worsened, credit markets became more difficult to access, creating a capital and liquidity shortfall for Irish banks, leading to intervention by the Irish Government.
- While unemployment consistently remained below 5.0 per cent. and the number of people in employment grew from 1.7 million in 2000 to over 2.1 million in 2007 (Source: CSO Statbank National Household Survey), Irish unit labour costs increased rapidly during this period. This growth was well above the Eurozone average (3.6 per cent. per annum versus 1.5 per cent. in the euro area) (Source: OECD), indicating a substantial loss of competitiveness. This loss of competitiveness had a negative impact on Irish merchandise exports, which decreased from €94.0 billion in 2002 to €90.6 billion in 2007, according to CSO Statbank.

A combination of the aforementioned issues, along with wider systemic concerns across the Eurozone and a collapse in the Irish property market, triggered a loss of confidence in Irish sovereign bond markets in 2010. An announcement of further capital requirements for Irish banks in September 2010 triggered a further loss of confidence, pushing Irish Government 10-year bond yields above 9 per cent.

In December 2010, Ireland applied for the EU/IMF Programme, a programme of assistance, which was in place from December 2010 to December 2013. As part of the EU/IMF Programme, the Irish Government received €67.5 billion in exchange for committing to a four-year €15 billion fiscal adjustment to apply between 2011 and 2014. This incorporated a number of elements, including public expenditure reductions and tax increases to cut the budget deficit to below 3 per cent. of GDP by 2014.

Following measures to stabilise the banking sector and aided by growing exports, GDP grew by 2.0 per cent. in 2010 and remained broadly flat between 2011 and 2013 (Source: CSO Statbank National Quarterly Accounts). Subsequently, Ireland successfully exited the EU/IMF Programme in December 2013, with every fiscal target set under the programme having been met.

Since Ireland left the EU/IMF Programme in 2013, GDP grew by 8.5 per cent., 26.3 per cent. and 5.2 per cent. in 2014, 2015 and 2016, respectively. However, the 2015 growth rate was skewed by certain one-off factors including companies relocating assets to Ireland from abroad and contract manufacturing. Future GDP figures for Ireland could be similarly affected by one-off factors or challenges presented by Brexit. GDP is forecast to grow by 4.3 per cent. in 2017, 3.7 per cent. in 2018 and by 3.1 per cent. in 2019, according to the Irish Department of Finance. This is significantly higher than the forecasted Eurozone average of 1.6 per cent., 1.8 per cent., and 1.5 per cent. in 2017, 2018 and 2019, respectively, according to BMI.

Ireland's population grew from 4.588 million in 2011 to 4.762 million in 2016, representing a compound annual growth rate of 0.75 per cent. Ireland's age demographics are attractive compared to those of other European Union countries. Ireland has the youngest population in the European Union, with 33.3 per cent. of the population under the age of 25, compared to the United Kingdom, which has 30.3 per cent. of the population under the age of 25 (Source: Eurostat). AIB has a 45 per cent. market share of current account banking services for the population under the age of 25 in Ireland, according to the Ipsos MRBI Personal Tracker Q4 2016.

Employment conditions have also improved, with the total number of people in employment having increased 3.3 per cent. year-on-year in the three months ended 31 December 2016 (Source: CSO Quarterly National Household Survey, Q4 2016). The unemployment rate fell from a peak of 15.1 per cent. in February 2012 to 6.2 per cent. in April 2017 (Source: CSO Seasonally Adjusted Unemployment Rate). In addition to decreasing unemployment, there has been sustained increase in compensation per employee since 2011 with compensation per employee increasing by 1.8 per cent., 2.7 per cent. and 2.8 per cent. in 2014, 2015 and 2016 respectively (Source: Central Bank).

House prices have also recovered strongly. Irish residential property prices peaked in 2007 and fell by 54.4 per cent. between their peak in April 2007 and their low point in March 2013. In June 2013, house prices experienced the first annual increase since 2007 (Source: CSO Residential Property Price Index October 2014). Recent supply shortages and improved macro-economic drivers resulted in Irish property prices recovering to 69.3 per cent. of peak 2007 levels (Source: CSO Residential Property Price Index February 2017). The annual increase in the residential property price index for the years ended 31 December 2015 and 2016 was 8.9 per cent. and 6.3 per cent., respectively.

Personal spending has been increasing since 2013, as retail sales have grown by 8.2 per cent., 9.5 per cent. and 6.7 per cent. in 2014, 2015 and 2016 respectively (Source: CSO). Also consumer confidence has been increasing, as the Consumer Sentiment Index increased from 39.6 in July 2008 to 101.9 in March 2017 (Source: ESRI Consumer Sentiment Index March 2017).

The following table presents the macro-economic indicators highlighted above and other relevant metrics for Ireland:

	2009	2010	2011	2012	2013	2014	2015	2016	2017F(1)
Metric									
GDP (constant prices) *(year-on-year %)*(2)	(4.6)	2.0	0.0	(1.1)	1.1	8.5	26.3(3)	5.2	4.3
Unemployment (SUR) *(%)*(2)	12.0	13.8	14.6	14.7	13.1	11.2	9.5	7.9	6.4
Inflation (Harmonised index of consumer prices) *(%)*(2)	(1.7)	(1.6)	1.2	1.9	0.5	0.3	0.0	(0.2)	0.6
Base rate(4)	1.0	1.0	1.0	0.75	0.25	0.05	0.05	—	—
Domestic demand *(year-on-year %)*(5)	—	—	0.8	1.3	(1.9)	7.7	9.9	17.1	—
Population ('000)(6)	4,533	4,555	4,575	4,585	4,593	4,610	4,635	4,674	—
Population under 25 years old *(%)*(6)	35.0	34.5	34.0	33.8	33.6	33.4	33.4	33.3	—
Investment *(year-on-year %)*(7)	(16.8)	(14.9)	3.4	11.7	(5.4)	18.2	32.7	45.5	13.4
House prices *(year-on-year %)*(6)	(19.2)	(13.5)	(16.2)	(13.8)	2.7	16.8	8.9	6.3	—
House completions ('000)(8)	26.4	14.6	10.5	8.5	8.3	11.0	12.7	14.9	19.0
Current account *(% of GDP)*(6)	4.9	1.5	(2.0)	(2.6)	2.1	1.7	10.2	4.7	—

Notes:

(1) Forecasted figure.

(2) Historical—CSO (2009-2016). Forecast—Irish Department of Finance.

(3) 2015 GDP figure was affected by certain one-off factors as described above.

(4) ECB.

(5) EC.

(6) Historical—CSO (2009-2016).

(7) Historical—CSO (2009-2016). Forecast—ESRI.

(8) Historical—CSO (2009-2016). Forecast—AIB Economic Research Unit.

In January 2014, Moody's restored Ireland's sovereign credit rating to investment grade. Since the January 2014 rating upgrade, Ireland has been rated as investment grade by all three of the main ratings agencies.

The NTMA issued €13 billion of bonds during 2015 at a weighted average yield of 1.5% and €6 billion of bonds during the first six months of 2016 at a weighted average yield of 0.95%. It also repaid €18 billion of IMF loans early, refinancing the debt at a lower rate (Source: NTMA 2015 Annual Report and 2016 H1 Report).

In line with its previous commitments to the Troika and the Stability and Growth Pact, the Irish Government is continuing to manage public finances prudently. A budget deficit of 1.9 per cent. of GDP was achieved in 2015. General Government debt as a percentage of GDP has declined from its peak level of 119.5 per cent. of GDP at the end of 2012 to 78.7 per cent. of GDP at the end of 2015. As a result of the Irish Government's holdings of financial assets, net Government debt was 67.1 per cent. at the end of 2015. However, these statistics are skewed by the 2015 GDP figure as described above. Ireland's general Government debt to GDP ratio is estimated by the Irish Department of Finance to have been 75.4 per cent. in 2016 and is forecasted to be 72.9 per cent. for 2017 (Source: NTMA—Government Finance Statistics, Irish Department of Finance).

As Ireland has demonstrated the strength of its recovery across both macro-economic and fiscal indicators, the cost of borrowing for the Irish Government has fallen materially, with 10-year sovereign bond yields of 0.84 per cent. as at 3 May 2017 (Source: Reuters).

1.2 Key Industry Trends

1.2.1 Pre Global Financial Crisis

Prior to the global financial crisis commencing in 2008, the Irish banking market had experienced a period of unprecedented growth. From 2002 to 2008, the total domestic assets of the Irish banking market increased from approximately €366 billion to approximately €872 billion, representing a compound annual growth rate of 16 per cent. (Source: "Stabilising and Healing the Irish Banking System: Policy Lessons, Central Bank-CEPR-IMF Conference, 2015").

These attractive returns encouraged a number of foreign banks to enter the Irish market, particularly the Irish mortgage market. Although Irish domestic banks continued to represent a large share of the market, foreign banks had a significant impact on the market through the pricing of their offers and the introduction of new products, for example 100 per cent. LTV mortgages. Domestic banks reacted by matching the offers of foreign banks. New mortgage lending grew significantly, reaching a peak of almost €40 billion in 2006 (Source: BPFI). In 2007, approximately 15 per cent. of new mortgages had an LTV ratio of greater than 95 per cent. (Source: Central Bank Publication, The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears, 2011). Outside of the mortgage market, property-related loans to construction businesses increased from €45 billion in 2003 to €125 billion in 2008 (Source: Ireland's Economic Crisis, the Good, the Bad and the Ugly, 2013).

By the end of 2007, the loan to deposit ratio of the Irish banking sector had reached approximately 200 per cent. (Source: A Preliminary Report on the Sources of Ireland's Banking Crisis, commissioned by the Minister for Finance, 2010). A domestic funding gap resulted in an increased reliance on foreign funding.

1.2.2 Global Financial Crisis and Government Response

Ireland's economic downturn and the onset of the global financial crisis in 2008 marked the end of the period of rapid expansion in the Irish banking sector. As house prices declined and unemployment rose, there was a significant increase in arrears and defaults, which resulted in significant growth in loan provisions across the Irish banks.

With the deeper integration of euro-based wholesale funding markets (including euro-denominated borrowing in the London market), Irish banks had become increasingly reliant on international wholesale market funding with the total value of foreign deposits totalling €600.7 billion in 2008 (Source: CSO Statbank National Quarterly Accounts). As the global financial crisis began to impact international markets, obtaining funding and liquidity became increasingly difficult for Irish banks.

Depositors also lost confidence in the stability of the banking sector and withdrew funds on a large scale. This outflow of deposits, as set forth in the chart below, was predominantly driven by a reduction in foreign deposits:

	2008	2009	2010	2011	2012	2013	2014	2015	2016
					(€ millions)				
Irish household deposits	85.2	99.1	94.6	91.3	92.4	91.2	91.4	94.7	97.1
Irish non-financial corporations deposits	43.2	40.6	33.5	30.9	30.9	33.9	39.8	42.7	45.6
European foreign deposits	243.8	199.7	151.8	141.7	113.0	91.5	96.1	85.0	84.5
Non-European foreign deposits	356.9	324.9	195.3	157.4	128.5	120.1	101.7	79.6	81.9

Source: CSO

As a result of these factors, a number of measures were implemented by the Irish Government in order to restore confidence in the Irish banking system and to enhance the availability of liquidity and improve access to funding for systemically important financial institutions in Ireland.

- *CIFS Scheme:* In September 2008, the Minister for Finance introduced the CIFS Scheme, which guaranteed certain types of liabilities (the "Covered Liabilities") of certain institutions (the "Covered Institutions") until 29 September 2010.
- *Preference Shares:* On 21 December 2008, the Minister for Finance announced his intention to subscribe for €5.5 billion of preference shares in three Irish financial institutions: €2.0 billion of preference shares in the Company, €2.0 billion in Bank of Ireland and €1.5 billion in Anglo Irish Bank, in order to reinforce their capital position and ensure they could meet the economy's financial needs. In conjunction with the announcement, those financial institutions and the Minister for Finance agreed to a series of measures, including the provision of increased lending capacity for SMEs and mortgage borrowers. On 11 February 2009, following the nationalisation of Anglo Irish Bank, the amount of preference shares to be subscribed for at each of the Company and Bank of Ireland was increased to €3.5 billion and the NPRFC subscribed for the €3.5 billion 2009 Preference Shares in the Company on 13 May 2009 (which shares became assets of the ISIF, itself owned by the Minister for Finance, in 2014).
- *ELG Scheme:* On 9 December 2009, the Minister for Finance commenced the ELG Scheme, which was intended to facilitate participating institutions issuing debt securities and taking deposits with a maturity of up to five years on either a guaranteed or unguaranteed basis. On 26 February 2013, the Minister for Finance announced that the ELG Scheme would be closed for all new liabilities placed after midnight on 28 March 2013.
- *NAMA:* In addition to the CIFS Scheme and the ELG Scheme, to isolate the impact on the Irish banking system from land and development and associated loans, and to assist with the funding difficulties encountered by certain Irish banks, in April 2009 the Irish Government created NAMA. Five institutions applied to join the NAMA Programme and were designated as participating institutions in February 2010: AIB; Bank of Ireland; Irish Bank Resolution Corporation ("IBRC") under its former name Anglo Irish Bank Corporation; Irish Nationwide Building Society; and EBS.

NAMA subsequently acquired loan assets with a nominal value of €74 billion (comprising approximately 12,000 loans secured against approximately 60,000 properties). In exchange for these loans, NAMA issued approximately €30.2 billion of senior debt securities to the five participating financial institutions, which were guaranteed by the Minister for Finance, and approximately €1.6 billion of subordinated debt securities, which were not guaranteed.

(a) EU/IMF Programme and Financial Management Programme

As part of its obligations under the EU/IMF Programme, on 31 March 2011 the Central Bank introduced the Financial Measures Programme (the "FMP"). The two principal requirements of the FMP were (i) deleveraging by the participating banks, corresponding to the output of the PCAR and PLAR risk measurement tests, the results of which were also announced on 31 March 2011 and (ii) the raising of additional regulatory capital.

In 2011, as a consequence of PCAR and PLAR, the participating banks were required to hold sufficient capital to maintain a capital target of 10.5 per cent. Core Tier 1 in the base scenario and 6.0 per cent. Core Tier 1 in the stress scenario, as well as allow for an additional protective buffer. Cumulatively, AIB/EBS, Bank of Ireland and Irish Life & Permanent needed to raise €24 billion in capital in order to meet this requirement. Each bank was also required to meet a liquidity requirement of a target loan to deposit ratio of 122.5 per cent. by 2013 through a combination of run-off and disposals of non-core assets. In aggregate, the Irish Government provided capital injections of €16.5 billion, as set forth below:

	AIB/EBS(1)	Bank of Ireland	Irish Life & Permanent	Total
		(€ billions)		
Equity and capital contributions	11.1	0.2	2.3	13.5
Contingent capital notes (10 per cent. coupon)	1.6	1.0	0.4	3.0
Total(2)	12.7	1.2	2.7	16.5

Source: CSO "ESA95 accounting treatment of July 2011 capital injections into Irish banks".

Note:

(1) AIB and EBS were subject to the FMP individually. The figures relating to AIB/EBS reflect the combined contribution provided to AIB and EBS.

(2) Total figures in the table are subject to rounding.

The balance of €7.5 billion in capital requirements was raised through contributions from subordinated debt holders and the sale of assets to generate capital, as well as through private sector investors.

Following the above recapitalisation of AIB/EBS, Bank of Ireland and Irish Life & Permanent, the assets and liabilities of Irish Nationwide Building Society were transferred to IBRC. AIB acquired EBS in July 2011 and it was agreed that EBS would operate as a standalone subsidiary of AIB and continue as a separate brand.

1.3 Post Global Financial Crisis

(a) Deleveraging

The pace of expansion in lending to Irish households in the pre-crisis years was among the highest in the Eurozone. As of 31 December 2010, the average loan to deposit ratio for the four largest Irish banks (AIB, Bank of Ireland, EBS and Irish Life & Permanent) was approximately 180 per cent., compared to a loan to deposit ratio target of 122.5 per cent. set out by the Central Bank in March 2011 (Source: Central Bank).

The subsequent decline in lending was particularly significant for consumer lending, which declined from €21.7 billion in December 2008 to a low of €11.2 billion in March 2016 (Source: Central Bank). The extent of the contraction in household lending in Ireland was more pronounced than in the Eurozone as a whole. Consumer credit balances in Ireland (including term loans, hire purchase, vendor finance, credit cards and overdrafts and personal loans) contracted during the global financial crisis, although the decline has begun to reverse since February 2016. Consumer credit balances were €12.2 billion as at 31 March 2017 (Source: Central Bank). Household deleveraging has been a recent feature of the post-crisis deleveraging. Household debt as a percentage of disposable income increased from 113 per cent. at the end of 2002 to 214 per cent. at its peak in 2009. In the intervening period, this ratio has reduced to 141 per cent. as of the fourth quarter of 2016 (Source: CSO, Central Bank). The post-crisis decline in corporate and commercial lending was initially concentrated in longer-term loans, while short-term loans including the use of overdrafts continued to increase, albeit at a much slower pace. The Irish banking system's loan to deposit ratio is lower than the Eurozone average, at approximately 102 per cent. as at March 2017, compared to a 2016 average of approximately 110 per cent. in the Eurozone, as banks have reduced their wholesale funding reliance and deleveraged their loan portfolios (Source: ECB, Central Bank).

(b) Government Initiatives in Mortgages and Housing

On 27 January 2015, the Central Bank announced new macro-prudential rules to apply proportionate limits to mortgage lending by regulated financial service providers in the Irish market. These macro-prudential rules, known as the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015, came into force on 9 February 2015. Changes to the macro-prudential rules were made in November 2016 after a review by the Central Bank. The new rules, which are set out below, came into effect on 1 January 2017 and include:

- The property value threshold of €220,000 was removed, such that a 90 per cent. LTV limit applies to first-time buyers ("FTBs") and an 80 per cent. LTV limit applies to second and subsequent buyers ("SSBs");
- The structure of the proportionate caps was amended. Instead of an LTV allowance of 15 per cent. of total new lending for principal private residences, separate allowances for FTBs and SSBs were introduced. For SSBs, 20 per cent. of the value of new lending to this group is allowed above the 80 per cent. LTV limit and 5 per cent. of the value of new lending to FTBs is allowed above the 90 per cent. LTV limit for FTBs;
- The two-month valuation period was extended to four months; and
- There was a technical amendment to the scope of the non-principal private residence limit so that large commercial landlords and developers are not in-scope of the Regulations. This is being implemented by applying the Regulations to consumers based on the definition in the CPC and that used by the FSO to define the scope of its jurisdiction. This definition includes persons acting outside the course of their business, trade or profession, in addition to persons (including sole traders, companies, partnerships and other unincorporated bodies of persons) with an annual turnover of €3 million or less in the preceding financial year taking into account the combined turnover of any group of persons of which they are a member.

In July 2016, the Minister for Housing published the Government Housing Plan. The plan provides an approach to achieving many of the Government's key housing objectives, as set down in the Programme for a Partnership Government. The key objectives are: (i) to significantly increase the supply of social housing; (ii) to double the output of overall housing from the current levels to at least 25,000 per annum by 2020; (iii) to service all tenure types; and (iv) to tackle homelessness in a comprehensive manner.

In addition to the updated macro-prudential rules, the Irish Government introduced a help-to-buy scheme in October 2016. Under the new scheme, first time buyers are entitled to an income tax rebate of up to €20,000, or 5 per cent. of the purchase price of a new home valued at up to €400,000, to fund their deposit. A lower rebate was introduced for new homes costing between €400,000 and €600,000.

Due in part to the Government initiatives in mortgages and housing outlined above, there was a significant increase in housing activity in 2016 in comparison to 2015. House building commencements increased by 52 per cent. to 13,200 residential units in 2016. House completions increased by 18 per cent. to 14,900 residential units in 2016, although still below the 2006 peak of 93,400 residential unit completions. Planning permission applications increased by 45 per cent. to over 16,000 residential units up to September 2016 (Source: CSO, Department of Housing, Planning, Community and Local Government). Central Bank data shows that new lending to SMEs in construction and real estate grew by 78 per cent. in 2016 in comparison to 2015, primarily driven by domestic demand growth and GDP growth, which grew by 17.1 per cent. and 5.2 per cent. in 2016, respectively (Source: Central Bank, CSO). As a result of these trends, forecast house completions have risen to 19,000 units for 2017 and 23,000 for 2018 (Source: Quarterly Economic Bulletin, Q2 2017; Central Bank). This compares to 11,000 units completed in 2014, 12,700 in 2015 and 14,900 in 2016 (Source: CSO, Department of Housing, Planning, Community and Local Government). Furthermore, residential property prices regained momentum in the second half of 2016, with CSO data showing a year-on-year increase of 8.1 per cent. for December 2016 in residential property prices nationally (Source: CSO). Residential property prices have risen by 9.6 per cent. in the year to March 2017 (Source: CSO).

(c) Current Demographics of the Irish Banking Market

The size of the Irish mortgage lending market, in terms of total new lending, has increased from €4.9 billion in 2015 to €5.7 billion in 2016 (Source: BPFI). The increase in new mortgage lending has been supported by the Government's initiatives in mortgages and housing. The size of the Irish business lending market, in terms of total new lending, was €5.3 billion in 2016 and is expected to grow to €8.7 billion by 2020 (Source: Central Bank/BPFI). Growth in new lending in the business lending sector is expected to be helped by the year-on-year growth in GDP. The size of the Irish personal lending market, in terms of total new lending, was €1.8 billion in 2016 and is expected to grow to €3.0 billion by 2020 (Source: Central Bank/ BPFI). The expected growth in new personal lending reflects the improved consumer sentiment in Ireland, as the Consumer Sentiment Index increased from a low of 39.6 in July 2008 to 101.9 in March 2017 (Source ESRI Consumer Sentiment Index March 2017).

1.4 Competitive Landscape

The competitive landscape of the Irish banking sector has changed dramatically since the global financial crisis. Under Irish Government ownership, Anglo Irish Bank and Irish Nationwide Building Society were merged in June 2011 to form IBRC, which was subsequently put into special liquidation in February 2013. In 2011 AIB aquired EBS. Also, several foreign banks exited the Irish market. For example, Bank of Scotland (Ireland), a member of Lloyds Group, announced its withdrawal from the Irish market. Similarly, Danske Bank and ACC Bank (owned by Rabobank) closed their retail businesses in Ireland (although Danske Bank remains open to new corporate and institutional business).

The Irish banking sector is concentrated in the two largest banks in terms of total assets, AIB and Bank of Ireland, based on their publicly available financial statements. This compares to the situation in Northern Ireland and the United Kingdom, where the banking sectors are more fragmented. Other significant banks in the Irish banking sector include Ulster Bank, KBC and permanent tsb. Ulster Bank is a subsidiary of the RBS Group, which is in turn majority owned by the UK Government. KBC is a subsidiary of the Belgian bank, KBC Bank, which was previously a recipient of state aid from the Belgian government. permanent tsb also received state aid and the Irish Government currently has a 75 per cent. shareholding, according to its publicly available financial statements.

A number of Fintech companies have entered the Irish market recently, providing services such as online transaction and payments, currency trading, mobile banking, crowdfunding and peer-to-peer lending. These Fintech companies typically have lower cost bases than traditional banks, do not have legacy issues such as IT systems issues or non-performing loans and operate in a less onerous regulatory framework than traditional banks. Examples of Fintech companies operating in the Irish market include CurrencyFair, LinkedFinance, Fundit, Realex, Kickstarter, PayPal and Apple Pay. Other new entrants such as non-bank lenders have also become active in the Irish market, providing niche funding solutions to customers. Examples of non-bank lenders in the Irish market include Finance Ireland, Volkswagen Bank, Frank Mortgages, BlueBay, the Strategic Business Corporation of Ireland ("SBCI"), Pepper, Dilosk and Relm.

1.4.1 Mortgages

As at 31 December 2016, the size of the mortgage market in Ireland in terms of new lending was €5.7 billion. AIB has approximately 36 per cent. of Irish residential mortgage drawdowns in the market across all three of its mortgage brands for 2016 based on BPFI published data.

AIB had €2.0 billion in total drawdowns in 2016, a 22 per cent. increase compared to 2015.

1.4.2 Main business loans and current accounts

As at 31 December 2016, AIB and Bank of Ireland have the largest market shares in the main business loans market, with estimated market shares of 36 per cent. and 39 per cent. for 2016, respectively, based on the AIB SME Financial Monitor 2016. Ulster Bank and permanent tsb accounted for 8 per cent. and 1 per cent. of main business loans, respectively. In terms of business current accounts, AIB and Bank of Ireland are the market leaders, with estimated market shares of 44 per cent. and 38 per cent. for 2016, respectively, based on the AIB SME Financial Monitor 2016. Ulster Bank and permanent tsb accounted for 13 per cent. and 5 per cent. of business current accounts, respectively.

1.4.3 Personal loans

As at 31 December 2016, AIB and Bank of Ireland are the market leaders for personal lending within the banking sector, with estimated market shares of 22 per cent. and 13 per cent. for 2016, respectively, based on the Ipsos MRBI Personal Tracker Q4 2016. The other major players include credit unions (50 per cent. market share), Ulster Bank (4 per cent. market share) and permanent tsb (3 per cent. market share).

1.4.4 Personal main current accounts

As at 31 December 2016, AIB and Bank of Ireland have the largest market shares in personal main current accounts, with estimated market shares of 37 per cent. and 32 per cent. for 2016, respectively, based on the Ipsos MRBI Personal Tracker Q4 2016. Ulster Bank and permanent tsb accounted for 10 per cent. and 14 per cent. of personal current accounts, respectively.

1.4.5 Corporate banking

AIB is the leading bank for foreign direct investment in Ireland with a 49 per cent. market share of Irish banked new projects announced by the IDA in 2016. AIB believes its success in attracting clients who make foreign direct investment in Ireland is based on its relationship model, which is focused on building long-term relationships and supporting such clients in all aspects of banking, as well as its dedicated foreign direct investment unit's 30 years of experience.

1.5 Overview of Key Banking Products

The main trends affecting key banking products in Ireland are described below. For details of the competitive dynamics in relation to each of these products, see "*—Market Overview—Competitive Landscape*".

1.5.1 Mortgages

The volume of outstanding mortgages in March 2017 totalled approximately €73.8 billion 42 per cent. below the high in May 2008 of €127.3 billion (Source: Central Bank).

There are various types of mortgages in the Irish banking market, including SVR based mortgages, tracker mortgages and fixed-rate mortgages. In conjunction with these types of mortgages, certain banks have introduced a cash back offer on new mortgages as an incentive to consumers. As at December 2016 there was €30.3 billion of SVR based mortgages outstanding, €32.4 billion of tracker based mortgages outstanding and €10.7 billion of fixed rate mortgages outstanding in the Irish market. These figures represented 41 per cent., 44 per cent. and 15 per cent. of the Irish mortgage market (Source Central Bank).

New mortgage lending has increased recently, with the value of mortgage drawdowns for 2016 having increased by 16.2 per cent. on 2015 (Source: BPFI). Additionally, mortgage approvals by volume were 13.0 per cent. higher in 2016 than in 2015, and in 2016, mortgage approvals by value were 19.8 per cent. higher than in 2015 (Source: BPFI).

Effective interest rates have varied significantly in recent years. The effective interest rate for new house purchase related loans increased from a low of 2.76 per cent. in January 2010 to 3.19 per cent. in February 2017, although it remains significantly lower than peak levels of 5.62 per cent. in September 2008 (Source: CSO). In recent years, a number of Irish banks including Ulster Bank, KBC and AIB have reduced the effective interest rates on mortgages. The weighted average interest rate on new mortgages stood at 3.38 per cent. in February 2017. This represents a decline of 24 basis points over the past 12 months. The equivalent euro area rate was 1.80 per cent. Additionally, there was a fall in SVR mortgages on principal private residence mortgages, which fell by 35 basis points to 3.40 per cent. over the year to Q4 2016 (Source: Central Bank—Retail Interest Rates February 2017).

A combination of decreasing property prices, rising unemployment rates and the downturn in the broader economy from 2008 onwards resulted in a significant increase in the number of mortgage accounts in arrears. The number of mortgage accounts in arrears over 90 days increased from 3.3 per cent. of all outstanding mortgages on principal private residences as at the end of the third quarter of 2009 to a peak of 12.9 per cent. as at the end of the third quarter of 2013. The trend of increasing mortgage arrears has recently reversed, with the number of accounts in arrears over 90 days falling for the thirteenth consecutive quarter in the third quarter of 2016 to 11 per cent. of outstanding principal private residence mortgages, a reduction of 3.1 per cent. relative to the second quarter of 2016.

1.5.2 SME Lending

SMEs constitute a significant part of the Irish economy and are primarily focused on the domestic economy. The volume of loans outstanding to SMEs (excluding financial and property related SMEs), according to the Central Bank—H1 2015 SME Market Report, decreased by over 40 per cent. from €36.6 billion in the first quarter of 2010 to €21.4 billion in the first quarter of 2015.

SME lending has grown strongly since the start of 2015. Annualised new lending in the third quarter of 2016 totalled €3.0 billion, representing a 5.1 per cent. increase compared to the third quarter of 2015 and a 28 per cent. increase compared to the third quarter of 2014 (Source: Central Bank—H2 2016 SME Market Report). Annualised new SME lending grew in the construction (14 per cent.), agriculture (2.6 per cent.), hotel/restaurant (25 per cent.) and manufacturing sectors (37 per cent.) in the third quarter of 2016 compared to the third quarter of 2015, but declined in the wholesale/retail (−19 per cent.) and administrative services (−4.9 per cent.) sectors (Source: Central Bank—H2 2016 SME Market Report). The increase in new SME lending illustrates the improving macro-economic and SME business environment in Ireland.

Average interest rates for credit outstanding to Irish SMEs have increased slightly in recent years. The average interest rate on outstanding credit to Irish SMEs increased from 2.97 per cent. in December 2014 to 3.18 per cent. in December 2016 (Source: Central Bank).

There are no industry wide statistics available for SME loan impairments in Ireland. However, AIB and Bank of Ireland are the largest SME lenders in Ireland based on their publicly available financial statements, and their SME loan portfolios experienced high levels of impairments following the onset of the global financial crisis. Based on data from AIB and Bank of Ireland, impaired SME loans as a percentage of gross SME loans was 24.8 per cent. in 2015 but has since decreased to 20.1 per cent. in 2016.

1.5.3 Personal Loans

Personal loans to consumers decreased significantly after the global financial crisis. Personal credit outstanding in the Irish banking sector decreased from a peak of €29.0 billion in January 2009 to €12.2 billion in March 2017. The level of outstanding consumer credit in March 2017 represents an increase of €0.8 billion and €0.9 billion on both March 2015 and 2016 levels respectively (Source: CSO).

1.5.4 Current Accounts and Deposits

Based on data from the CSO, overall household deposit balances in Ireland have been relatively stable between 2010 and 2015. Household deposits in March 2017 were €98.1 billion, comprising €72.0 billion of overnight deposits, €8.1 billion of redeemable at notice deposits, €15.0 billion of deposits with up to two years maturity and €3.0 billion of deposits with more than two years maturity. These deposit categories accounted for 73.4 per cent., 8.2 per cent., 15.3 per cent. and 3.1 per cent. of total household deposits, respectively, as at March 2017.

Non-financial corporation deposits have grown from €30.9 billion in December 2011 to €45.5 billion in March 2017. Within non-financial corporation deposits, overnight deposits have steadily increased from 56 per cent. of non-financial corporation deposits in 2011 to 79 per cent. in March 2017. However, deposits with agreed maturity decreased from €12.1 billion in 2011 to €8.4 billion in March 2017 (Source: CSO).

1.6 Distribution Channels

The Irish banking industry is experiencing a shift towards digitisation. Banking has become increasingly omni-channel, as digital channels such as online and mobile banking are increasingly complementing traditional customer channels such as branches and call centres.

1.6.1 Digital

Approximately 2.3 million customers were active users of online banking during the fourth quarter of 2014, while 1.2 million were active users of mobile banking. There were more than 1 million online or mobile banking log-ins per day in 2014 and mobile banking log-ins exceeded online banking log-ins for the first time in the fourth quarter of 2014. Additionally, there were more than five million online or mobile banking payments per month in 2014, rising to almost 6 million per month in the fourth quarter of 2014. (Source: BPFI Online and Mobile Banking Report 2014—mobile banking data not collected before 2014).

1.6.2 Branch Network

Historically, banks operating in the Irish banking market have used a branch network to distribute financial products. In 2005, Irish banks had a high number of branches per capita (34.6 branches per 100,000 adults) and ranked 21st globally. Recently, however, the number of branches per capita has decreased significantly to 20.1 per 100,000 adults in 2015, placing Ireland in 64th place out of 208 countries (Source: World Bank).

1.6.3 Intermediaries

Banks operating in the Irish banking market also use intermediaries to distribute financial products. There are over 3,000 regulated intermediaries in operation in Ireland and two significant broker networks, PIBA Mortgage Services and The Irish Brokers Association (Source: Central Bank). Intermediaries in Ireland are subject to different regulation, depending on the services they offer. For example, insurance intermediaries are regulated under the European Communities Insurance Mediation Regulations 2005 while mortgage credit intermediaries are regulated under the EU (Consumer Mortgage Credit Agreements) Regulations 2016 and/or under the Consumer Credit Act 1995 (the "CCA") (Source: Central Bank).

1.7 Regulatory Developments

Regulatory developments relating to the Irish banking industry are described in "*Part II: Risk Factors—Risks Relating to Supervision and Regulation*" and "*Part XVIII: Supervision and Regulation*".

2 UK Banking Sector

2.1 Macro-economic Context

Economic indicators in the United Kingdom have grown strongly since 2013, following a prolonged period of economic weakness since the onset of the global financial crisis in 2008. GDP in the United Kingdom grew by 1.8 per cent. in 2016. The labour market has also improved considerably. In December 2016, the UK unemployment rate was 4.7 per cent., compared to 5.1 per cent. a year earlier. Consumer price inflation in December 2016 was below the 2 per cent. target set by the Bank of England. However, consumer price inflation increased to 2.7 per cent. by April 2017 as a result of upward pressure on prices brought about by the depreciation of sterling in the second half of 2016. This has resulted in a weakening in retail spending in early 2017, with growth in GDP slowing to 0.2 per cent. in the first quarter of 2017.

Base rates were reduced to 0.25 per cent. in August 2016 from 0.5 per cent. in an attempt to support economic activity in the aftermath of the Brexit vote in June 2016. The improved economic environment in recent years has also been evident in the housing market, with a 31.9 per cent. increase in the seasonally adjusted number of residential property transaction completions, with value of £40,000 or above, in 2016 compared to 2012 (Source: HMRC UK Property Transaction Statistics (April 2017). Average house prices increased by 25.9 per cent. over the same period. However, the rate of house price growth has slowed in 2017, with an increase of 4.1 per cent. in the year to March 2017, down from 5.6 per cent. in the year to February 2017. This continues the general slowdown in house prices, with house price growth down 56 per cent. in the period from June 2016 (9.4 per cent. year-on-year growth) to March 2017 (4.1 per cent. year-on-year growth) (Source: ONS).

The following table presents certain macro-economic indicators for the United Kingdom:

Metric	2009	2010	2011	2012	2013	2014	2015	2016	2017F(4)	2018F(4)
GDP *(year-on-year %)*(1)(3)	(4.3)	1.9	1.5	1.3	1.9	3.1	2.2	1.8	2.0	1.6
Unemployment (SUR)*(%)*(1)(3)	7.6	7.9	8.1	8.0	7.6	6.2	5.4	4.9	4.9	5.1
CPI *(year-on-year%)*)(1)(3)	2.2	3.3	4.5	2.8	2.6	1.5	0.0	0.7	2.4	2.3
Base rate *(%)*(2)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.25	—	—
Business investment *(year-on-year %)*(1)(3)	(16.0)	6.0	4.3	7.2	2.6	3.9	5.1	(1.5)	(0.1)	3.7
House prices *(year-on-year %)*(1)	(8.6)	5.9	(1.5)	0.4	2.6	8.0	6.0	7.3	—	—

Notes:

(1) ONS

(2) Bank of England

(3) Forecast data from Office of Budget Responsibility (March 2017 Economic and Fiscal Outlook)

(4) "F" means forecasted

Within the United Kingdom, the Northern Irish economy has also shown signs of improvement recently. Gross value added ("GVA") in Northern Ireland grew by 1.6 per cent. in 2015, with forecast growth of 1.9 per cent. and 0.9 per cent. in 2016 and 2017 respectively. This compares to forecast GVA growth of 1.8 per cent. and 0.9 per cent. in 2016 and 2017, respectively, for the United Kingdom as a whole (Source:

Danske Bank/Oxford Economics). The seasonally adjusted unemployment rate in Northern Ireland of 5.2 per cent. from December 2016 to February 2017 was a 1.1 percentage point improvement over the year (Source: NISRA). House prices in Northern Ireland also increased by an annual rate of 5.2 per cent. in Q4 2016 in comparison to Q4 2015 (Source: NISRA/NIRPPI).

The following table presents certain macro-economic indicators for Northern Ireland:

Metric	2009	2010	2011	2012	2013	2014	2015	2016F(4)	2017F(4)	2018F(4)
GVA *(year-on-year %)*(1)(5)	(3.8)	1.1	0.5	(1.0)	1.4	1.7	1.6	1.9	0.9	1.1
Unemployment *(%)*(2)(3)(5)	4.2	4.9	5.1	5.4	5.4	4.6	3.7	3.1	2.9	2.9
House prices *(year-on-year %)*(3)(5)	(7.7)	(12.3)	(10.2)	(10.9)	2.2	8.7	7.2	4.8	4.7	2.4

Notes:

(1) Danske Bank/Oxford Economics Quarterly Economic Overview.

(2) Northern Ireland Statistics and Research Agency—Claimant Count Rate.

(3) Department for Finance and Personnel and Northern Ireland Centre for Economic Policy (Winter 2016 Outlook).

(4) "F" means forecasted.

(5) Forecast data from Ulster University Economic Policy Centre Outlook Winter 2016.

2.2 Key Trends

2.2.1 Digitisation

The UK banking industry is experiencing a significant shift towards digitisation. Banking has become increasingly omni-channel focussed, as digital channels such as online and mobile banking are increasingly popular and the utilisation of traditional branches and call centres in the United Kingdom is in decline. During the ten year period to 2014, 2,153 branches closed in the United Kingdom resulting in one of the lowest density branch networks in Europe at 180 branches per million customers (Source: Deloitte Bricks and Clicks Report 2014), with a total of 9,661 branches at the end of 2014 (Source: Competition and Markets Authority (the "CMA") October 2015). Total branch visits by personal current account customers fell by 15 per cent. between 2012 and 2014.

Retail banking customers tend to use digital functionality for speed and convenience, while using human interaction at key decision points such as obtaining a mortgage. Digital functionality is typically used to conduct routine transactions and to purchase simple products such as savings accounts and credit cards (Source: Mintel—Deposit and Savings Accounts UK). Mobile banking remains the main driver of digital channel usage, with an average of 11.0 million log-ins per day, compared to 4.3 million internet banking log-ins per day in the United Kingdom in 2015 (Source: BBA—Help at Hand, 2016). Additionally, 81 per cent. of SME customers interact with their banks online, with 39 per cent. using online banking services on a daily basis in 2014 (Source: BBA—Promoting Competition, 2014).

2.2.2 Lending and Interest Rates

As at February 2017, the total UK banking market comprised of £1.7 trillion of total loans outstanding to households and private non-financial corporations and £1.7 trillion of deposits (Source: Bank of England, Sector Analysis of M4 Lending).

Growth in the outstanding amount of lending to non-financial UK businesses increased by 1.0 per cent. from February 2016 to February 2017, with positive net issuances during this period. The outstanding amount of mortgage lending for house purchases continued to rise in 2016 as the month-on-month rate of growth in the year to December 2016 ranged from 0.2 per cent. to 0.7 per cent. The outstanding amount of mortgage lending increased from £1.1 trillion in February 2016 to £1.2 trillion in February 2017. The outstanding amount of consumer credit has grown by 7.7 per cent. from February 2016 (£71.0 billion) to February 2017 (£76.5 billion), in comparison to the February 2015 to February 2016 growth rate of 9.3 per cent. (Source: Bank of England, Sector Analysis of M4 Lending).

In contrast to previous quarters, spreads on lending to large companies narrowed in the first quarter of 2017 and are expected to narrow slightly further in the second quarter of 2017. Spreads for small businesses widened in the first quarter of 2017, having previously been unchanged for five consecutive quarters. Market share objectives are expected to continue to be the main factor increasing credit availability into 2017. Demand for secured lending for house purchases decreased in the first quarter of 2017. Demand for prime lending decreased slightly and demand for buy-to-let lending decreased significantly. Demand for corporate lending was unchanged for large businesses, while demand reduced for medium businesses and were unchanged for small businesses in the first quarter of 2017. (Source: Bank of England 2017 Q1 Credit Conditions Survey).

The following table shows changes in spreads on loans to small businesses, as well as medium and large private non-financial corporations ("PNFCs"):

	2014(1)(2)(3)(4)				2015(1)(2)(3)(4)				2016(1)(2)(3)(4)				2017(1)(2)(3)(4)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Small businesses													
Past three months	3.3	3.1	3.0	3.0	0.6	4.9	12.1	(1.4)	0.7	0	0	0	(11.7)
Next three months	3.3	(4.7)	3.0	3.0	7.9	4.2	0.0	0.6	0.7	(10.5)	(11.3)	(11.7)	0
Medium PNFCs													
Past three months	14.7	35.2	29.7	41.7	37.5	43.4	25.7	4.5	9.6	0.9	20.8	(11.7)	0
Next three months	23.9	29.1	22.2	10.3	5.2	8.9	7.7	0.6	2.0	1.4	(11.8)	0.0	0
Large PNFCs													
Past three months	45.8	50.6	49.8	45.0	50.0	46.3	23.0	13.1	(1.3)	4.6	1.2	(5.3)	10.7
Next three months	42.7	30.2	25.7	20.9	8.7	5.3	7.3	7.1	0.0	0.5	0.5	(7.5)	8.6

Source: Bank of England 2017 Q1 Credit Conditions Survey

Notes:

(1) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question by their market shares. Positive balances indicate that lenders, on balance, reported/expected demand/credit availability/defaults to be higher than over the previous/current three-month period, or that the terms and conditions on which credit was provided became cheaper or looser respectively.

(2) A positive balance indicates that the changes in the factors described have served to increase credit availability/demand.

(3) A positive balance indicates an improvement in the credit quality of new borrowing.

(4) A positive balance indicates an increase in new corporate loan tenors. The sign convention was changed in 2009 Q3 and was applied to the back data accordingly.

2.2.3 Distribution Channels

Mortgages are primarily distributed through two channels in the United Kingdom; intermediaries and direct-to-consumer by lenders through high street branches, internet and telephone. Intermediaries play an important and growing role in UK mortgage distribution and accounted for more than half of mortgage origination in 2014 (Source: IRESS Annual Mortgage Efficiency Benchmark Survey 2014). According to a survey conducted by Accenture, 46 per cent. of UK SMEs prefer to interact with their bank through a relationship manager when applying for new financial products or services, followed by online (23 per cent.), branch network (13 per cent.), email (8 per cent.), telephone (5 per cent.), mobile (2 per cent.) and post (1 per cent.). When selecting a banking provider, 42 per cent. of UK SMEs determined that access to a relationship manager was an important factor in their decision process, while 28 per cent. felt that their distance from the nearest branch was an important factor (Source: Accenture SME Banking 2020). A strong digital presence is also important for SME customers as they make frequent use of online banking, with 64 per cent. of SMEs using online banking as their main channel in 2015 (Source: CMA, October 2015), up from 48 per cent. in 2010.

2.3 Competitive Landscape

The UK banking market includes a range of participants, with the large high street banks (Barclays, Lloyds, HSBC, Santander UK, RBS and Nationwide) accounting for most of the market. Challenger banks and building societies (Metro Bank, Virgin Money, CYBG, TSB, Handelsbanken, Yorkshire Building Society, Coventry Building Society and The Co-operative Bank) compete with the high street banks, typically with a more targeted product or regional focus. More recently, there has been an increase in the number of new entrants into specialist lending/niche segments of the UK banking market (Aldermore, Close Brothers, Secure Trust, Shawbrook, One Savings Bank, Investec and Paragon), joining a number of established participants. AIB UK focuses, in particular, on SMEs and competes with banks such as RBS and Handelsbanken. Incumbent banks are also facing increased competition from a range of Fintech companies including peer-to peer lenders, crowd-funding and specialist online payment firms. These companies tend to have a lower cost base than traditional banks. Fintech companies active in the UK market include Funding Circle, RateSetter, LendInvest, Lending Works, Atom Bank, Tandem Bank and Mondo.

As larger, established banks have suffered reputational damage from the global financial crisis and conduct related issues, smaller market participants have been able to benefit from high growth rates through differentiated brand and service offerings. This has been evident across personal current accounts, residential mortgage lending and SME lending.

The Northern Irish banking market is a relatively distinct regional market within the overall UK market, with four key high street banks (First Trust, Danske Bank, Ulster Bank and Bank of Ireland) dominating the market. All of these four banks are headquartered outside Northern Ireland, and only Ulster Bank, owned by RBS, is part of a pan-UK high street banking business. Santander UK has also established an organic presence in Northern Ireland with approximately 29 branches now in operation. However, barriers to entry for newer and smaller banks remain significant (Source: "Personal current accounts and small business banking not working well for customers", CMA press release, 18 July 2014). In 2014, Danske Bank and Ulster Bank together accounted for approximately 40 to 60 per cent. of the business current accounts market, whilst First Trust Bank, which is positioned as a challenger bank in the Northern Ireland banking market, and Bank of Ireland had market shares of approximately 10 per cent. to 20 per cent. each. For business credit cards, the four largest providers had a combined market share of approximately 87 per cent. in 2014 (Source: Competition and Markets Authority, "Retail banking market investigation", May 2016). The market in Northern Ireland is considered to be highly concentrated, according to the Herfindahl-Hirschman Index, with market concentration levels declining only slightly in recent years from 2,646 in 1999 to 2,454 in 2012. However, the mortgage market in Northern Ireland is less concentrated with the four main banks holding approximately 28 per cent. market share and the remaining 72 per cent. of the market primarily comprised by Santander UK, Nationwide Building Society, Halifax and Progressive Building Society (Source: Ipsos MORI MFS 2016).

2.4 Regulatory Developments

There have been a number of key regulatory developments that have impacted banks in the United Kingdom and the UK banking market in recent years.

- UK banks have been significantly impacted by legacy conduct issues arising from both retail and business banking products mis-selling, principally in relation to payment protection insurance and interest rate swaps. As a result of changing regulations, there have been significant changes to certain product offerings and to client suitability criteria.
- Prudential regulation has changed significantly, with CRD IV and PRA stress testing and leverage ratio requirements resulting in significantly higher capital ratios and liquidity and funding metrics. UK banks with core deposits of over £25 billion will also be subject to ring-fencing requirements from 1 January 2019, with a number of large banks being forced to legally and operationally separate their UK retail banking business from certain activities and business lines (e.g., non-EEA banking, investment banking).
- Competition is currently under scrutiny by politicians and regulators, in particular the CMA and the FCA.
- In 2013/2014, the CMA and the FCA jointly conducted a market study into banking services for UK SMEs, the results of which were published in July 2014. The market study focussed on two core SME banking services—(i) business current accounts and overdrafts; and (ii) business loans (excluding commercial mortgages). The study concluded that competition in the UK banking market is not working effectively for SMEs and the CMA referred both SME banking and personal current account markets for an in-depth investigation.
- In November 2014, the CMA launched a market investigation into the supply of retail banking services to personal current account customers and SMEs in the United Kingdom. The investigation concluded that there are features of the UK banking market which prevent, restrict or distort competition in the supply of personal current accounts in the United Kingdom and the supply of certain retail banking services to SMEs in the United Kingdom. The CMA set out a package of remedies to address the problems it found, including:
    - delivering open banking standards and requiring the largest banks in the United Kingdom to make data available using these standards to enable customers and SMEs to more easily identify

    products which suit their needs and to facilitate the creation of new digital services to help them manage their money;

  - enabling customers and SMEs to be able to access and compare information on providers' service quality; and

  - introducing measures to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements (Source: CMA—Retail banking market investigation final report, 9 August 2016).

- In November 2015, the FCA set out a package of proposals on payment protection insurance ("PPI") complaints. The package included imposing a deadline for making new PPI complaints and launching a consumer communications campaign to raise awareness of the PPI issue and the deadline. The FCA intends to set rules and guidance on handling PPI complaints which are due to come into force by the end of March 2017 (Source: FCA Consultation Paper, Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation, August 2016).

- The Mortgage Credit Directive, an EU framework of conduct rules for mortgage firms, was implemented in the UK in March 2016. The Mortgage Credit Directive was designed to provide better protection for consumers of financial services across the EU. Most of the Mortgage Credit Directive provisions set minimum regulatory requirements that Member States are required to meet in order to protect consumers taking out credit agreements relating to residential property. It includes residential mortgages secured against the borrower's home, and any other lending secured against property (Source: FCA—Mortgage Credit Directive, available at: https://www.fca.org.uk/firms/mortgage-credit-directive).

PART IX
INFORMATION ON AIB

Information in this "Part IX: Information on AIB" should be read in conjunction with the more detailed information contained in this Prospectus, including the financial and other information contained in "Part XIII: Operating and Financial Review". All financial information contained in this "Part IX: Information on AIB" has been extracted without material adjustment from "Part XVI: Consolidated Historical Financial Information". AIB's consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of "Part XVI: Consolidated Historical Financial Information" has been audited by Deloitte. AIB's condensed consolidated interim financial statements for the three months ended 31 March 2017 contained in Section D of "Part XVI: Consolidated Historical Financial Information" has been reviewed by Deloitte.

1 Overview

AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB had leading market shares in its core retail banking products within Ireland in 2016, including a 36 per cent. share of mortgages across all three of its mortgage brands, according to BPFI published figures for mortgage lending flows, as well as a 37 per cent. share of personal main current accounts, a 22 per cent. share of personal loans and a 35 per cent. share of personal credit cards, according to the Ipsos MRBI Personal Tracker Q4 2016. AIB also retains strong market shares in SME products, including a 44 per cent. share of business current accounts, a 36 per cent. share of main business loans, a 26 per cent. share of business leasing and a 43 per cent. share of business credit cards for 2016, according to the AIB SME Financial Monitor 2016. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB).

AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

AIB is managed through the following segments:

- Retail & Commercial Banking ("RCB"): RCB is Ireland's leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 297 locations, including 205 AIB branches, 71 EBS offices, 20 business centres and 1 digital banking location, 985 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at over 1,100 locations in Ireland, although An Post is currently completing a review of the An Post network which may lead to a reduction in the number of post offices. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS (net promoter score—a measurement tool that tracks customers' loyalty and advocacy) ("NPS") and underpins a broader efficiency agenda.
- Wholesale, Institutional & Corporate Banking ("WIB"): WIB provides wholesale, institutional and corporate banking services to AIB's larger customers or customers requiring specific sector or product expertise. WIB serves customers through a relationship-driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB's activities in New York comprise Syndicated & International Finance activities.
- AIB UK: AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and is in the process of migrating to a more integrated business model, having announced in February 2017 the

closure of 15 of its 30 branches. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK's overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.

- Group: The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

The following table provides a breakdown of net loans and customer accounts across AIB's four segments as at 31 March 2017:

	As at 31 March 2017	
	Net Loans[1]	**Customer Accounts**
	(unaudited) (€ billions)	
RCB	42.4	43.5
WIB	9.0	5.5
AIB UK[2]	8.9	10.6
Group	0.2	3.1
	60.4	62.6

Notes:

(1) Including net loans reported as held for sale.

(2) Net loans were £7.6 billion and customer accounts were £9.1 billion as at 31 March 2017. Euro amounts calculated using the pound sterling to euro exchange rate of 0.8555, being the period end exchange rate.

Within the above segments, AIB has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group (the "FSG"), AIB's standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. AIB is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

AIB's profit before taxation from continuing operations was €365 million and €428 million for the three months ended 31 March 2017 and 31 March 2016, respectively and €1,682 million, €1,914 million and €1,111 million for the years ended 31 December 2016, 2015 and 2014, respectively. As at 31 March 2017, AIB had total assets of €92.7 billion and equity of €13.3 billion. Its net loans to customers as at that date were €60.4 billion, including held for sale loans to customers of €0.2 billion.

2 History

AIB has a long history of operating in Ireland, with its predecessor organisations having been part of the Irish banking sector for almost 200 years. AIB's origins date back to the amalgamation in 1966 of three long-established banks: the Munster and Leinster Bank Limited (established 1885), the Provincial Bank of Ireland Limited (established 1825) and the Royal Bank of Ireland Limited (established 1836). The Company was incorporated as a limited company on 21 September 1966 and was subsequently re-registered as a public limited company on 2 January 1985.

In 1991, AIB merged its interests in Northern Ireland with those of TSB Northern Ireland to create First Trust Bank. In 1996, AIB's retail operations in the United Kingdom were integrated and the resulting entity was renamed AIB Group (UK) p.l.c., with two distinct trading names, First Trust Bank in Northern Ireland and Allied Irish Bank (GB) in Great Britain. During the 1980s and 1990s, AIB entered a phase of international expansion in select markets, acquiring businesses in the United States and Poland. During this period, it acquired a 100 per cent. stake in Allfirst, a US bank, which subsequently merged with M&T Bank Corporation ("M&T"), resulting in AIB owning a 22.5 per cent. stake in M&T. It also acquired a 70.5 per cent. stake in Bank Zachodni Wielkopolski Bank Kredytowy S.A. ("BZWBK"), a Polish bank.

In the context of the global financial crisis beginning in 2008, the Irish Government recognised the need to stabilise Irish financial institutions and to create greater certainty for all stakeholders. It implemented a number of measures in response to the crisis, including the introduction of the CIFS Scheme and the ELG Scheme and the establishment of NAMA, and several capital investments in AIB and EBS during 2009, 2010 and 2011 amounting to a total of €20.8 billion, which included the NPRFC making a €3.5 billion investment in AIB by way of a subscription for the 2009 Preference Shares in the Company on 13 May 2009. AIB was also required to deleverage approximately €20.5 billion of non-core assets by December 2013. During 2010 and 2011, it also disposed of substantially all of the international businesses it had acquired in the 1980s and 1990s as follows:

- on 10 September 2010, AIB announced the sale of its Polish interests to Banco Santander S.A. for a total cash consideration of €3.1 billion. This transaction was completed on 1 April 2011;
- on 4 November 2010, AIB disposed of its stake in M&T for a consideration of approximately $2.1 billion; and
- during this period, AIB also sold Goodbody Holdings Limited, AIB International Financial Services Limited; AIB Jerseytrust Limited; its 49.99 per cent. stake in Bulgarian-American Credit Bank and AIB Asset Management Holdings (Ireland) Limited, including AIB Investment Managers.

Following the issuance of €3.8 billion of new ordinary shares to the NPRFC in December 2010 (net proceeds of €3.7 billion), the Company's ordinary shares were delisted from both the Main Securities Market of the Irish Stock Exchange and from the UK Official List. The Company's ordinary shares were subsequently admitted, in January 2011, to the ESM.

On 24 February 2011, AIB acquired deposits of €7 billion and NAMA senior bonds with a nominal value of €12 billion from Anglo Irish Bank pursuant to a transfer order made by the High Court of Ireland ("High Court") under the Credit Institutions (Stabilisation) Act 2010. AIB also acquired Anglo Irish Bank Corporation (International) PLC in the Isle of Man, including customer deposits of almost €1.6 billion. In July 2011, AIB was required to strengthen and increase its capital base to help restore confidence in the Irish banking sector, which it did through placing €5.0 billion of new ordinary shares in the capital of the Company with the NPRFC, following which the NPRFC owned 99.8 per cent. of the ordinary shares in the capital of the Company; capital contributions totalling €6.1 billion from the Minister for Finance and the NPRFC; and the issue of €1.6 billion of CCNs at par to the Minister for Finance. The Minister for Finance also invested €875 million in EBS through a subscription for Special Investment Shares in EBS and the contribution to EBS of the EBS Promissory Note during 2010. AIB completed its acquisition of EBS for a nominal cash payment of €1.00 in July 2011.

In August 2011, the Company's American Depositary Shares were delisted and ceased to be traded on the New York Stock Exchange.

On 22 December 2014, under the NTMA 2014 Act, the 2009 Preference Shares and the ordinary shares in the capital of the Company held by the NPRFC, became the assets of the ISIF, a fund whose assets are owned by the Minister for Finance.

During 2012, AIB made significant progress in restructuring its balance sheet and also introduced a series of cost reduction programmes, including, in 2012, a voluntary severance scheme and an early retirement scheme. On 7 May 2014, the EC approved the Restructuring Plan under state aid rules. The EC concluded that the Restructuring Plan set out the path to restoring AIB's long-term viability. In October 2014, the results of the European-wide Comprehensive Assessment, a stress-testing exercise conducted by the EBA and the ECB in conjunction with the Central Bank, were published (the "2014 Comprehensive Assessment"). The results of the 2014 Comprehensive Assessment confirmed that AIB had capital buffers above minimum requirements under all stress test assessment scenarios, including 12.4 per cent. in the baseline scenario (minimum requirement: 8.0 per cent.), and 6.9 per cent. in the adverse scenario (minimum requirement: 5.5 per cent.) under the static balance sheet results.

On 5 March 2015, AIB announced a pre-tax profit of €1,111 million for the year ended 31 December 2014, its first annual profit since 2008. AIB has since continued its positive momentum and in December 2015 met all of the medium-term targets it had set in December 2012.

In 2015, AIB carried out the 2015 Capital Reorganisation, which entailed the partial redemption by the Company of the 2009 Preference Shares, which involved the payment of €1.7 billion, with the remainder being converted into ordinary shares in the capital of the Company at 125 per cent. of the subscription price. Further, an accrued dividend on the 2009 Preference Shares of €166 million was paid by the

Company to the NTMA and the EBS Promissory Note was redeemed by the Minister for Finance. Shareholders approved these transactions at an EGM of the Company held on 16 December 2015. (as manager and controller of the ISIF). The Company also issued in November 2015 €750 million of subordinated Tier 2 notes and €500 million Additional Tier 1 securities (the "AT1 Notes"). Upon the maturity and redemption of the CCNs in July 2016, the Company made a further capital repayment to the Minister for Finance of €1.6 billion, as well as a coupon payment of €160 million to the Minister for Finance.

AIB was subject to the 2016 EU-wide stress test conducted by the EBA, in cooperation with the Central Bank, the ECB, the EC and the SRB (the "2016 EBA stress test"), the results of which were published in July 2016. AIB's result was a 7.4 per cent. projected CET1 ratio in the adverse scenario (transitional basis), which was a 0.5 per cent. improvement over the result of the 2014 Comprehensive Assessment, and 4.3 per cent. (fully loaded basis). Unlike the 2014 Comprehensive Assessment, there was no pass/fail threshold in the 2016 EBA stress test; instead the results of the exercise were taken into account in AIB's SREP, the results of which were communicated to AIB in December 2016. AIB's minimum requirements for 2017 were set at 9.0 per cent. for the CET1 ratio and 12.5 per cent. for the total capital ratio. This excludes Pillar 2 guidance that is not publicly disclosed. See "*Part XIV: Capital—Approval of AIB Restructuring Plan and Comprehensive Assessment*". Given the strength of AIB's capital position, no mitigating capital actions were required as a result of the 2016 EBA stress test or the SREP.

Publication of the 2016 EBA stress test results and AIB's relative ranking in the list of participating banks generated some adverse commentary in the media. In response, AIB drew attention to:

- the strength of its capital position following the implementation of the 2015 Capital Reorganisation in December 2015, including the partial conversion by the Company of the 2009 Preference Shares (which increased CET1 capital on a fully loaded CRD IV basis by €1.8 billion, net of the redemption of the remaining 2009 Preference Shares) and the issuance by the Company of additional non-equity capital instruments (€500 million in AT1 Notes and €750 million in Tier 2 capital instruments); and
- having received SSM approval where required, AIB's ability to make significant capital and income payments to the State during this period, including the capital repayment by the Company of €1.6 billion, and a further coupon payment by the Company of €160 million, to the Minister for Finance upon the maturity of the CCNs in July 2016, and the €1.7 billion paid by the Company on partial redemption of the 2009 Preference Shares, together with the dividends on the 2009 Preference Shares paid by the Company to the Minister for Finance during 2015 in an aggregate amount of €446 million.

A final dividend by the Company in the amount of €250 million in respect of the Ordinary Shares for the financial year ended 31 December 2016 was approved by Shareholders at the 2017 AGM and paid on 9 May 2017, the first ordinary dividend declared by the Company since 2008. To date, including this dividend, AIB has paid approximately €6.8 billion in capital, fees, dividends, coupons and levies to the State.

3 Key Strengths

The Directors believe that AIB has the following key strengths.

Leading bank in a fast growing European economy with attractive banking dynamics

Macro-economic and demographic trends in Ireland have contributed to growth in demand for mortgages, as well as business and personal loan products. The Directors believe that these dynamics will continue to support growth across these products in future periods.

The Irish economy has been one of the fastest growing Eurozone economies in each of the past three years, according to data from the CSO Statbank and Eurostat. Despite uncertainties as to the potential impact of Brexit, the Irish economy is expected to continue to grow at attractive rates over the next several years, with the Irish Department of Finance forecasting GDP growth of 4.3 per cent. in 2017, 3.7 per cent. in 2018 and 3.1 per cent. in 2019. This compares to expected Eurozone GDP growth of 1.6 per cent., 1.8 per cent. for 2017 and 2018 according to the EC and 1.6 per cent. for 2019 from the latest IMF forecasts. Employment levels in Ireland have been increasing steadily, unemployment levels have been falling and wages have been growing, contributing to higher personal spending. The improving economic environment has led to deleveraging by Irish households, which the Directors believe is reaching a position where reducing household debt is beginning to stabilise, while still edging lower, with debt as a percentage of disposable income decreasing to 141 per cent. as at 31 December 2016, compared to 211 per cent. as at 30 September 2010 and its peak of 214 per cent. as at 31 March 2009. The improving economy has also enabled Irish borrowers to meet the stricter requirements of macro-prudential rules put in place by the Central Bank following the global financial crisis.

The demographics of the Irish banking market are also favourable to AIB. Ireland has the youngest population in the European Union, with 33.3 per cent. of its population under the age of 25, according to Eurostat, compared to 30.4 per cent., 30.3 per cent., 28.9 per cent., 25.1 per cent., 23.9 per cent. and 23.6 per cent. in France, the United Kingdom, the Netherlands, Spain, Germany and Italy, respectively. AIB has the highest market share of current account banking services among the population under the age of 35 (Source: Ipsos MRBI Personal Finance Tracker Q4 2016). The Directors believe that this is the demographic with the greatest potential for demand for banking services. Only 59 per cent. of this group is carrying debt based on data from the CSO, and this segment of the population is less likely to have experienced the peak pricing and over-leveraging experienced by older members of the population in the run up to the global financial crisis. Given its relatively high market share among this segment of the population, AIB is well positioned to capitalise on these demographics.

The Directors believe that these favourable macroeconomic and demographic developments will contribute to the normalisation of new lending in future periods. New mortgage lending across the Irish market is expected to normalise at a level of approximately €10 billion per annum in the longer term. This is based on the construction of 25,000 to 30,000 additional units per year, compared to 15,000 in 2016. The Government Action Plan for Housing and Homelessness and growth in the buy-to-let sector in order to accommodate rental demand are expected to contribute to increases in new lending. New business lending across the Irish market is expected to normalise at a level of approximately €8 billion per annum in the longer term. This is expected to be driven by the recovery of SMEs, the strong volume of start-ups, increasing demand for digital and cloud services and growth in sectors such as energy, healthcare, food and agriculture. New personal lending across the Irish market is expected to normalise at a level of approximately €4 billion per annum. This is expected to be influenced by improved consumer sentiment, digital enablement and personal current accounts serving as an anchor relationship banking product.

Re-engineered, simplified, digitally enabled business model with "Customer first" strategy driving the commercial agenda

AIB has re-engineered its business model to focus on a "Customer first" strategy based on understanding customer needs and meeting these needs through simple and innovative products delivered through its omni-channel distribution network. AIB has invested significantly as part of its three-year €870 million investment programme, which commenced in 2015, in order to achieve these aims. The investment programme has entailed investments in a resilient and agile technology platform, customer and data analytics and strategic initiatives to improve the customer experience. These investments have facilitated higher levels of customer interaction, both in person and online. In 2016, AIB reached over 1.2 million daily interactions with its customers, compared to approximately 802,000 in 2013. In 2016, this included approximately 501,000 mobile interactions (2013: 148,000), 240,000 internet banking log-ins (2013: 208,000), 100,000 branch transactions (2013: 77,000), 325,000 ATM withdrawals (2013: 351,000), 18,000 contact centre calls (2013: 18,000), 12,000 kiosk log-ins (2013: n.a.) and 16,000 tablet log-ins (2013: n.a.). With 67 per cent. of transactional customers active on digital channels in 2016, 53 per cent. of all key products were purchased via online channels and over-the-counter transactions decreased by 50 per cent. between 2013 and 2016.

As part of its "Customer first" strategy, AIB has focused on a number of personal loan customer journeys. In particular, AIB introduced online applications for personal loans with a decision within three hours, subject to appropriate risk controls. It has implemented a digital strategy across its personal lending products, with approximately 63 per cent. of such products by volume purchased through digital channels in 2016. These initiatives have contributed to growth in AIB's transactional NPS from 16 in the fourth quarter of 2014 to 45 in the fourth quarter of 2016. NPS is a measurement tool that tracks customers' loyalty and advocacy on an index ranging from −100 to 100 based on the willingness of customers to recommend a company's product or services to others.

AIB's investments in digital capabilities have contributed to its leadership in the digital sphere. Innovative digital offerings supporting AIB's core customer propositions will be an area of continued focus and investment in the future. For example, in the fourth quarter of 2016, AIB launched Android pay, offering personal and business customers the latest technology in payments via their mobile phones. Android Pay is part of AIB's digital enablement strategy and is intended to make banking more convenient and secure for its customers. AIB has also introduced a new digitised proposition for car finance intermediaries. Approximately 300 car dealerships across Ireland now have a system to enable customers to apply for credit, receive a decision and obtain the funds to purchase new and used cars through an AIB digital process which is quick and highly automated. AIB's digital capabilities serve the dual purpose of supporting a broad-based efficiency agenda as well as driving improved relationship and transactional NPS.

AIB's focus on its people has also led to higher levels of engagement across AIB's employee base, based on surveys conducted in 2016, which the Directors believe in turn leads to better engagement with customers, from in-person interactions at branches to customer service calls at AIB's contact centres.

The Directors believe that AIB's significant investment in its business since 2015 will enable it to create efficiencies, improve the customer experience and harvest digital and analytical capabilities to capitalise on opportunities in the Irish banking market. In particular, within mortgage lending, there are opportunities for further enhancement of the product suite and customer experience, continued deployment of customer analytics and leveraging of brand differentiation across AIB's three mortgage brands, AIB, EBS and Haven. Within business lending, there are opportunities to enhance AIB's sectoral profile and sectoral-based approach and expertise, expand its product suite, as well as improve customer experience through digitisation of the SME loan application processes. Within personal new lending, there is potential to further capitalise on AIB's digital platform to increase penetration of the personal lending market and customer experience. Opportunities also exist across the business for increasing the usage of predictive analytics to identify new lead generation opportunities for automation of the credit decision making process and improving "after care" in credit management, all of which are aimed at improving the overall customer experience.

Strong risk management framework resulting in improved asset quality and a reduction in impaired loans

In the aftermath of the global financial crisis, AIB's risk function was significantly reorganised and enhanced through a formal Risk Enhancement Programme. As part of the programme, a revised risk appetite and risk management approach have been fully embedded in AIB. The risk appetite framework has been significantly strengthened, with the Board leading the determination of AIB's risk appetite, an extensive suite of qualitative and quantitative risk appetite statement ("RAS") metrics across material risks, and monthly monitoring and reporting of the risk profile against AIB's risk appetite. Senior management's objectives are tied explicitly to the RAS. In addition, AIB has introduced a controlled delegation of credit approval authorities and enhanced reporting to the Board and senior management.

AIB's focus on reducing impaired loans and its strong arrears management capabilities, along with the positive effect of the momentum of the Irish economy, have helped it to achieve a significant reduction in impaired loans, with gross impaired loans decreasing from €22.2 billion as at 31 December 2014 to €8.6 billion as at 31 March 2017. Over the same period, net impaired loans decreased from €10.9 billion to €4.7 billion. This has also contributed to net credit provision writebacks of €185 million, €925 million and €294 million in 2014, 2015 and 2016, respectively.

Stable funding model and significant capital generation, delivering robust capital ratios

AIB has a strong funding profile, with a low cost of funding, stable current account and deposit base, the ability to access funding in the wholesale market and strong capital and liquidity ratios. Its average cost of funds excluding the ELG Scheme charge has been declining, from 151 basis points in 2014 to 97 basis points in 2016 due to a number of factors, including the redemption of the CCNs and changes in the funding mix, with an increase in low-yielding current accounts and the roll-off of deposits at higher rates. AIB's most significant source of funding continues to be customer accounts, which accounted for 70 per cent. of its funding base as at 31 March 2017. It has a strong and stable loan to deposit ratio, which was 96 per cent. as at 31 March 2017. This has provided AIB with the capacity to meet increased demand for lending. In the wholesale market, AIB has successfully completed covered bond and senior unsecured issuances at favourable pricing. AIB's long-term debt has also been upgraded by two rating agencies since 2014, with S&P increasing its rating from BB+ to BBB− (with a stable outlook) (from January 2017) and Moody's increasing its rating from Ba1 to Baa2 (with a stable outlook) (from June 2017).

AIB's liquidity ratios are above those introduced by CRD IV. AIB's LCR was 126 per cent. and its NSFR was 118 per cent. as at 31 March 2017, both of which are within the CRD IV requirements that will apply from 1 January 2018.

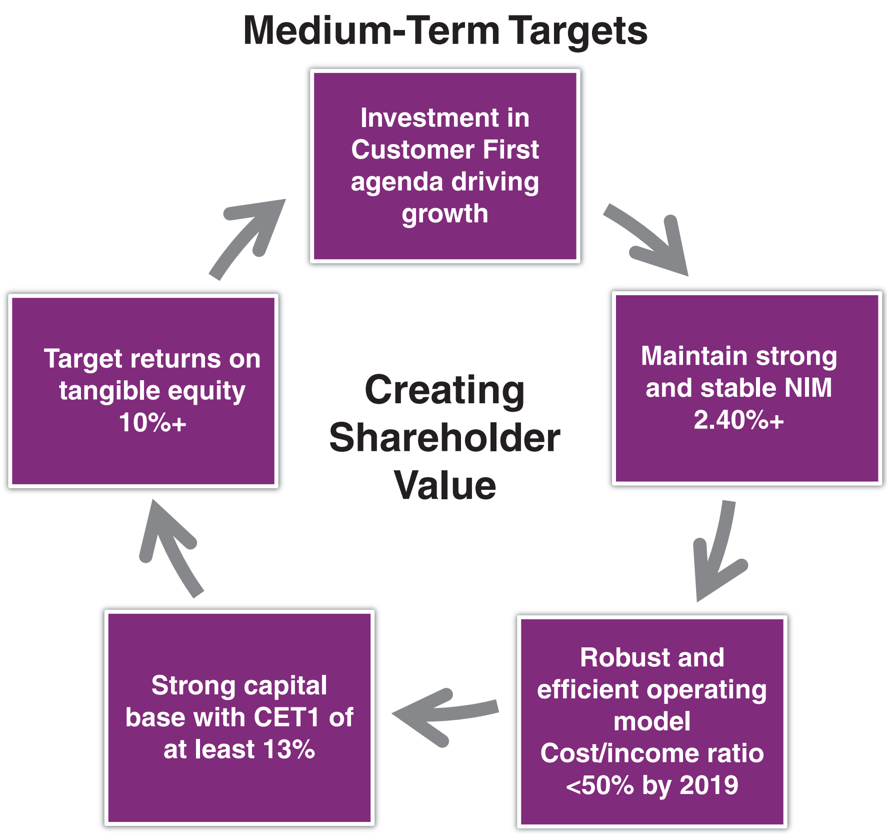
AIB has a robust capital structure, with a fully loaded CET1 ratio of 16.0 per cent. as at 31 March 2017, compared to 11.8 per cent. as at 31 December 2014 (which included the 2009 Preference Shares). The increase in AIB's capital ratios has been driven by organic capital generation underpinned by a return to profitability, as well as the 2015 Capital Reorganisation. AIB's capital ratios are significantly above the minimum requirements of 9.0 per cent. for the CET1 ratio and 12.5 per cent. for the total capital ratio set by the ECB following the SREP in December 2016. This requirement excludes Pillar 2 guidance that is not publicly disclosed. AIB's increasing capital levels are supportive of its aim to grow lending volumes and provide potential for future distributions to shareholders.

Sustainable financial performance underpinning strong momentum to achieve attractive returns and capital return to shareholders

On 5 March 2015, AIB announced a pre-tax profit of €1,111 million for the year ended 31 December 2014, its first annual profit since 2008. AIB has since continued its positive momentum, achieving a pre-tax profit of €1,682 million and €1,914 million for the years ended 31 December 2016 and 2015, respectively. AIB's net interest margin excluding the ELG Scheme charge increased from 1.69 per cent. in 2014 to 2.25 per cent. in 2016. It has also reduced its cost base significantly since 2012, with its cost/income ratio decreasing to 52 per cent. for the year ended 31 December 2016 compared to 55 per cent. for the year ended 31 December 2014. Its gross impaired loans have also decreased significantly, from €22.2 billion as at 31 December 2014 to €8.6 billion as at 31 March 2017. Over the same period, net impaired loans decreased from €10.9 billion to €4.7 billion. In addition, following significant credit impairment charges in the years following the global financial crisis, AIB recorded net credit provision writebacks during each of the years ended 31 December 2014, 2015 and 2016.

AIB's strong financial position and stable capital base, which is comfortably above minimum regulatory requirements, give AIB the ability to support its customers, grow its business and reward its shareholders. This has facilitated the return of capital to the State, including the partial redemption of the 2009 Preference Shares, involving the payment of €1.7 billion, in December 2015, which received regulatory approval from the SSM, and the capital repayment of €1.6 billion to the Minister for Finance, with a further coupon payment of €160 million, upon maturity and redemption of the CCNs in July 2016. A dividend of €250 million on the Ordinary Shares for the financial year ended 31 December 2016 was approved by Shareholders at the 2017 AGM and paid on 9 May 2017. To date, including this dividend, AIB has paid approximately €6.8 billion in capital, fees, dividends, coupons and levies to the State.

The Directors believe that AIB is well positioned to continue to achieve a strong return on tangible equity (as defined in "*Part III: Presentation of Information—Alternative Performance Measures*") and to return capital to its Shareholders, having set the medium-term targets below, which supersede the projections issued in 2014 as a part of the Restructuring Plan.



The Directors believe that AIB's achievement of the above medium term targets will be underpinned by a sustainable net interest margin due to lower funding costs (including deposit repricing actions), stable customer loan yields and the scheduled run-off of lower yielding portfolios, including tracker mortgages, partially offset by a decline in asset yield for the available for sale portfolio and the issuance of securities eligible for MREL purposes over the medium to long term. The maintenance of a strong and stable net interest margin, along with improvements in AIB's cost/income ratio and a normalisation of the credit cycle are expected to underpin its achievement of the above return on tangible equity target as well as strong organic capital generation. Given the expected capital generation and current robust capital ratios, the Directors expect to maintain a strong capital base with CETI of at least 13 per cent. while returning capital to shareholders.

Experienced and proven senior management

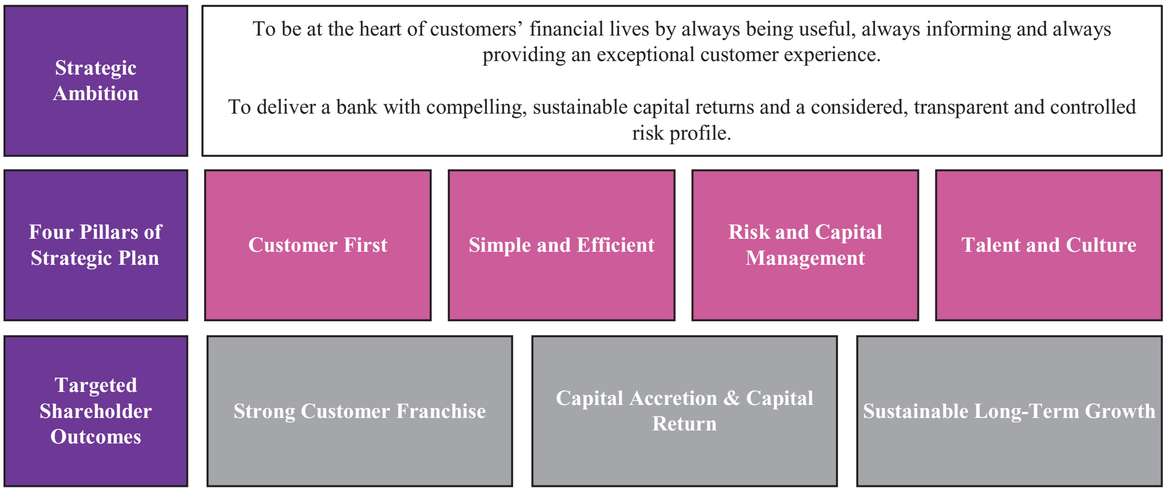
AIB has an experienced and proven senior management team, with a broad range of complementary experience, as set out in "*Part XI: Directors, Senior Executives and Corporate Governance*", and a clear strategy in relation to the future of AIB. AIB's most senior executive committee (the "Leadership Team") is led by the CEO and comprises the twelve senior executives of AIB who establish the business strategy, managing the associated risks of that strategy and AIB's risk appetite, within which the business operates.

Many members of senior management joined AIB following the global financial crisis, including CEO Bernard Byrne, who joined in May 2010 as CFO and became CEO in May 2015, and CFO Mark Bourke, who joined AIB in April 2014. A core strength of the Leadership Team is the diversity of its experience, with six of the 12 members having significant non-banking experience, including the Chief People Officer and Chief Marketing Officer. Individuals who have progressed to the Leadership Team during their careers with AIB have overseen the successful turnaround of AIB's business over the past several years, which was accomplished notwithstanding the challenges posed by compensation constraints, a rapidly changing regulatory environment and volatility in the political and economic environment globally.

4 Strategy

AIB's strategic ambition is focused on leveraging its significant investment in the business and the technology it has deployed in order to meet evolving customer needs and deliver an exceptional customer experience. AIB capitalises on its domestic franchise strengths and growth opportunities to deliver sustainable returns within a balanced, transparent and controlled risk framework.

AIB's strategic framework is set out below:



4.1 Four Pillars

4.1.1 Customer first

AIB is focused on leveraging its omni-channel distribution network to offer its customers simple and innovative products and services. AIB's local markets approach forms a key part of that strategy, and the Directors believe the recent refurbishment of a substantial part of the branch network, together with its enhanced analytical capabilities allows AIB to differentiate itself in the areas of retail excellence and sales effectiveness. In the digital channel, the "LAB" (Learn about Banking), AIB's flagship innovative digital banking location, allows AIB to test concepts in a live environment with customers. These have included concepts such as AIB's fully digitised personal lending application and mobile payment solutions, where feedback from customers helps AIB to fully understand their needs and use this information to shape product and services. The "LAB" (Learn about Banking) is situated in Dundrum Town Centre, the highest footfall retail location in Ireland.

In order to successfully embed a customer first culture, AIB continuously strives to apply the customer lens to all phases of new product development, aiming to maintain its position at the heart of customers' financial lives. A key component of AIB's product development includes the identification of both stated and unstated customer needs, analysis of customer complaints and measurement of customer satisfaction through 'Voice of the Customer' engagement models.

AIB's "Customer first" pillar also includes a focus on the pricing of its products. In 2016, AIB continued to share the reduction in its funding costs by reducing SVRs for AIB, EBS and Haven mortgage customers. This resulted in an overall cut of 100 basis points in SVRs for those customers over an 18-month period. To make it easier for non-AIB customers to switch to AIB, AIB has also introduced a proposition whereby mortgage holders will receive up to €2,000 towards fees incurred when switching mortgage provider. In 2016, AIB also responded to customer feedback in relation to personal loan pricing by implementing a reduction in its personal loan pricing, including a reduction of 4 per cent. annual percentage rate ("APR") on personal loans up to €10,000. AIB is also focused on providing pricing transparency to its mortgage customers by offering the same price to both new and existing customers, with no difference between front-book and back-book prices for its SVR mortgages.

AIB has sought to improve its complaint-handling policies and processes by using the "Customer first" approach. The complaints team successfully completed a pilot programme where complex complaints were handled by one small central team. This focussed team has more than halved the average time to resolve a complex complaint. AIB looks at complaints from a customer perspective and is developing root cause analysis capability to deal with the underlying issues and reduce the number of complaints.

Other "Customer first" strategic objectives include reducing processing and turnaround times; enhancing existing functionality of its customers' digital experience; developing brand campaigns that resonate with customers across segments and drive omni-channel engagement; and developing prioritised customer segments in order to align its services to core segment needs.

4.1.2 Simple and efficient

The simple and efficient pillar involves the simplification of AIB's business, focusing efforts in areas that will have the greatest impact on improving customer experience, operating model efficiency and risk management. To achieve this, AIB has established a customer-led design approach which has entailed significant customer journey research aimed at identifying customer needs, which informs the investments AIB needs to make in order to address those needs.

A key focus of the simple and efficient pillar has been investment in a resilient and agile technology platform. In 2014, AIB assessed its technology estate, identifying key replacement programmes, including replacement of its treasury, retail payments engine and internet business banking platform. Following this assessment, AIB enhanced its capability and agility by entering into strategic partnerships with IT service providers. AIB has six major contracts with five strategic technology partners, with approximately 500 staff transitioned to these arrangements, and has developed capabilities to leverage its relationship with these partners to improve efficiency. These relationships are instrumental to the delivery of AIB's €870 million investment programme and can be scaled down upon completion. Additionally, AIB has deployed desktop, productivity and collaboration tools, which provide AIB's staff with greater mobility.

Another key element of the simple and efficient pillar is "making processes simple" to deliver better experiences to customers and more efficient processes to AIB. In particular, significant investments have been made in business process management, scanning and other productivity tools.

AIB has also made investments in data and customer analytics, which it views as central to the delivery of customer experience in a digitally enabled bank. AIB has built capability to capture all interactions across all channels in order to provide a better customer experience.

4.1.3 Risk and capital management

AIB has developed an effective and dynamic RAS that informs its business strategy and approach to risk taking. AIB balances robust risk governance embedded across all functions with a risk appetite that is fully aligned with its ambition. AIB has taken the key lessons learned during the global financial crisis and used them to transform its credit risk culture, philosophy and operating model.

In the context of its ICAAP, AIB aims to allocate capital consistently across the organisation to optimise sustainable risk-adjusted returns. AIB has also taken steps to ensure that individual lending, pricing and investment decisions are taken based on consistent Group-wide standards and models. A key initiative in the area of risk management is AIB's use of the risk-adjusted return on capital ("RAROC") measure, which is used in new lending decisions.

4.1.4 Talent and culture

AIB aims to foster a vibrant, risk aware, diverse and progressive culture across the organisation that consistently puts the customer first while attracting and retaining the best talent. It is also focused on ensuring that its workforce is highly engaged, inspired and talented in order to deliver an exceptional customer experience. AIB aims to ensure that the right people are in the right roles, including through effective capability assessments and an emphasis on expertise and experience.

AIB has been focused on the establishment of a strong digital development function with experts in digital delivery, as well as enhancing the capabilities of its workforce in the areas of portfolio management, customer focus, product development and business transformation. In line with the strategic direction, AIB's people capability has evolved significantly from 2012 to 2016, including as a result of automation and outsourcing. However, AIB continues to focus on developing internal talent with 11 per cent. of the senior management team moving into new roles to broaden their skill sets, and since 2015, four members of the Leadership Team being promoted from the senior management team.

Despite the restructuring activity that AIB has undertaken across its workforce (as described under "*—Employees—Voluntary Severance Programme*"), employee engagement has been improving through programmes aimed at ensuring staff feel listened to, involved and energised about the part they play in delivering AIB's strategy. AIB partners with Gallup to conduct iConnect, an employee engagement survey using a standard set of 12 questions that employees answer annually on a scale of one to five. AIB's iConnect employee engagement scores increased from 3.15 in 2013 to 4.08 in 2016, which puts AIB in the 52^{nd} percentile of organisations, compared to the fifth percentile in 2013. The Directors believe that the improvements in employee engagement have played, and will continue to play, a key role in AIB's growth.

AIB is committed to seeking to better align the reward of the senior management team with the objectives of creating long-term sustainable value for customers and shareholders, simultaneously safeguarding AIB's capital, liquidity and risk positions. AIB will ensure that any strategy is in full compliance with current EBA protocols and is aligned with investor appetite.

4.2 Investment Programme

In 2014, AIB designed and approved a three-year investment programme to meet its strategic needs. This €870 million investment programme commenced in 2015 and is expected to be completed later in 2017. The programme is being funded by cash flow from operations. As at 31 March 2017, AIB had spent €664 million, 78 per cent. of which was capitalised (as at 31 December 2016, €606 million, 78 per cent. of which was capitalised). AIB's investment agenda can be categorised into four key areas: strategic ambition, resilient technology, sustainability and regulatory delivery.

AIB's strategic ambition is the delivery of enhanced customer engagement capability and simpler and more efficient processes for its employees. AIB has invested extensively in customer experience capabilities, data analytics and business process management.

To enhance the provision of a resilient technology platform AIB has invested in replacing those technology platforms that were no longer fit for purpose or are out of support. The key platforms being replaced include those used for retail payments, internet business banking and AIB's treasury services.

AIB has invested in security systems and data protection, in line with industry best practices. By prioritising these investments, AIB is able to offer customers a more secure banking experience and minimise business risks associated with attempted digital security breaches. AIB is focused on maintaining its IT systems hardware, software and processes, ensuring functionality and supportability are optimised. See "—*Information Technology—IT Transformation Programmes*" for further detail of AIB's investments in IT.

AIB's regulatory investment agenda is operated with a strategic lens ensuring the capabilities built are aligned and supportive of AIB's strategic aims, while ensuring AIB is fully compliant with applicable laws and regulations. AIB's regulatory investment increased in 2017 due to, among other things, the introduction of PSD2 and IFRS 9.

5 AIB's Business

AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Since 1 January 2017, AIB has conducted its business through four segments: RCB, WIB, AIB UK and Group. The following table presents a breakdown of contribution before exceptional items and taxation by segment for the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014:

	As at and for the three months ended 31 March	As at and for the year ended 31 December		
	2017	**2016**	**2015**	**2014**
	(unaudited)		**(audited)**	
		(€ millions)		
RCB	300	1,247	1,853	998
WIB	62	201	159	131
AIB UK[(1)]	49	193	187	45
Group	(32)	(166)	12	103
Total	379	1,475	2,211	1,277

Note:

(1) Calculated using the average pound sterling to euro exchange rate for the period, which was 0.8600, 0.8196, 0.7260 and 0.8062 for the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively.

5.1 RCB

RCB comprises AIB's core banking products and services for retail customers in Ireland, which it offers through the AIB, EBS and Haven brands, and for SME customers. RCB has approximately 2.3 million retail and SME customers. As at 31 March 2017, it had €42.4 billion in net loans and €43.5 billion in customer accounts. RCB has maintained a focus on mortgages, with mortgages accounting for 74 per cent. of RCB's lending as at 31 March 2017, and personal lending accounting for 6 per cent. and property and construction and non-property business lending accounting for 20 per cent.

AIB has the leading market share across each of the core retail products offered by RCB, according to BPFI and the Ipsos MRBI Personal Tracker 2016. AIB has experienced particular growth in its mortgage market share, due in part to its multi-brand strategy with AIB enhancing its customer base through competitive SVR positioning and loyalty propositions, EBS as a challenger brand and Haven targeting the intermediary market.

Within RCB, AIB has had success in implementing its four pillar strategy outlined above under "*—Strategy*". In particular, it has focused on digital migration of its customers and increased process automation. In 2016, AIB had over 1.2 million active digital users and over 650,000 active mobile users. AIB's mobile app was accessed almost 20 million times in December 2016. The Directors believe that AIB has a leading digital offering in the Irish banking market.

AIB is focused on new initiatives to make the application process for its products seamless for customers, including online applications for personal loans with a decision within three hours, subject to appropriate risk controls. It has implemented a digital strategy across its personal lending products, with approximately 63 per cent. of key products by volume purchased through digital channels in 2016. AIB also recently introduced the "Backing Belief" and "Backing Doing" campaigns, which are related to mortgages and car, home improvement, travel and wedding loans.

AIB is also committed to backing entrepreneurs, early start-ups and established SMEs. AIB has pursued a sector-led approach, providing customers with leading sector specialists who understand the challenges and opportunities of their industry and business. In partnership with industry bodies, AIB has commissioned in-depth research reports on various industries in order to better understand its business customers. AIB has also launched several sector specific funds for lending to business customers. The sector funds are managed by teams consisting of industry experts to add sector expertise to lending decisions. In response to feedback from business customers, AIB has rolled out a series of other initiatives, including the "Backing Brave" campaign, which is described below under "*—Banking Services—Business Banking*".

In 2016, AIB reorganised its business around its communities, creating 19 "local markets" across Ireland. This approach is designed to give its business and retail banking a local community focus. Each of AIB's 19 local market teams have a local "owner" and are tasked with delivering exceptional customer experience in their communities.

The following tables set forth certain key metrics for the RCB segment as at and for the three months ended 31 March 2017 and as at and for the years ended 31 December 2016, 2015 and 2014:

	As at and for the three months ended 31 March	As at and for the year ended 31 December		
	2017	2016	2015	2014
	(unaudited)		(audited)	
Contribution statement				
Total operating income *(€ millions)*	497	1,671	1,602	1,475
Contribution before exceptional items and taxation *(€ millions)*	300	1,247	1,853	998
Statement of financial position				
Net loans *(€ billions)*	42.4	42.7	43.7	45.4
Mortgages	31.3	31.4	32.1	32.9
Personal	2.7	2.7	2.6	2.5
Business	7.7	7.6	7.7	8.2
Legacy distressed loans(1)	0.7	1.0	1.3	1.8
Net impaired loans *(€ billions)*	4.3	4.4	5.9	9.3
New lending drawdowns *(€ billions)*(2)	1.2	3.9	3.3	2.5
Mortgages	0.5	2.0	1.7	0.4
Personal	0.2	0.7	0.5	1.3
Business	0.4	1.2	1.1	0.9
Customer accounts *(€ billions)*	43.5	42.9	40.4	37.8

Notes:

(1) Includes larger legacy distressed loans that have been subject to restructuring arrangements that are managed through the RCB workout unit.

(2) New lending for the three months ended 31 March 2017 includes new transaction lending. This information is not available for prior years.

5.1.1 Banking Services

RCB offers retail and business banking services to customers in the Irish market via its omni-channel distribution model. It offers these services through the AIB, EBS and Haven brands for retail customers and the AIB brand for SME customers.

Retail Banking

AIB is focused on the design, development and delivery of retail banking financial propositions, delivering value to meet customers' needs across youth, retail mass market and affluent segments of the market. Retail propositions are developed using a design approach focused on customer testing and feedback, ensuring that customers have the optimum customer experience during their interactions with AIB. The Retail Banking team is also responsible for increasing penetration with existing retail customers, and the acquisition of new retail customers.

Within Retail Banking, AIB's Branch Banking and Direct Banking (comprising online, mobile, tablet and telephone banking) teams are responsible for the distribution of retail banking products and services. The Direct Banking sales teams are located in Dublin and Kildare and provide a telephone banking service to retail as well as business customers.

RCB also has dedicated wealth management services that deliver wealth propositions to AIB's customers. These propositions are tailored to the needs of specific customer segments, including a private banking offering for high net worth clients.

Business Banking

The Business Banking team is responsible for the provision of banking services to AIB's business customers, typically SMEs, and the management of those relationships, through 20 business centres in Ireland. AIB's business banking strategy is firmly focused on a sectoral approach in order to best serve customers.

AIB recognises that supporting its SME customers requires a detailed understanding of the challenges and opportunities facing specific sectors within the market and the businesses which operate within those sectors. In 2013, AIB began developing its sectoral-led team comprising experts who previously worked in the relevant sectors, which include retail, exports, agriculture and technology. These experts support staff in Retail and Business Banking dealing with customers and potential transactions within these sectors.

AIB provides sector specific funds for lending, Recent examples include a €200 million Export Fund, a €300 million Long Term Care Fund and a €500 million Agriculture Fund. In conjunction with the SBCI, AIB agreed a €200 million SME Fund in February 2015 which was subsequently launched in March 2015. In December 2015, AIB signed an agreement for an additional €200 million, taking the fund to €400 million. SBCI is the state promotional bank founded during Ireland's exit from the EU/IMF programme to ensure that Irish businesses have access to long-term funding. AIB is also involved in an SBCI Agriculture Cashflow Support Loan Scheme launched in January 2017 in the amount of €150 million, of which its share is €60 million (with the remainder attributable to Bank of Ireland and Ulster Bank). This fund is now closed as AIB's €60 million has been fully subscribed. AIB has also held sector specific seminars for the agriculture and energy efficiency sectors, which were attended by AIB's customers.

AIB is increasingly focusing on asset based lending to its SME/business customers, with new asset finance business lending increasing from €431 million in 2015 to €495 million in 2016. AIB has a dedicated specialist Asset Finance Sales team of 55 working with AIB's local market network and over 600 motor and equipment suppliers to deliver asset finance products to both AIB and non-AIB customers.

AIB has also tailored solutions and products to support SME/business customers. Business Banking devises customer segment strategies for business customers, including the "Backing Brave" campaign, which it introduced in September 2014. As part of this campaign, AIB introduced a 48-hour decision commitment for all SME loans under €30,000 ("€30K in 48 Hours"). Since inception in September 2014, AIB has processed in excess of 37,000 applications which were eligible for approval under the "€30K in 48 Hours" decision commitment and this timeframe was achieved in over 90 per cent. of cases. AIB is committed to backing and supporting start-ups through the Start-up Academy programme and has a leading market share of 51 per cent. in Ireland, according to AIB SME Financial Monitor 2016.

AIB also recently launched its award winning partnership with Business Centric Services Group Limited ("BCSG"), offering eligible SME customers the "mybusiness toolkit" solution. This solution allows business customers to use a package of five apps, enabling the creation of business plans, building of a business site, efficient management of business accounts and payroll, easy recording of expenses and protection of business information. All of these tools are available "on-the-go" from smart phones, tablets or computer terminals.

In 2016, AIB launched a next generation portable card payments terminal that allows businesses to accept card payments in a more convenient manner.

5.1.2 Products and Services

RCB offers its retail customers mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. To its business customers, RCB offers finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, leasing, invoice discounting, credit cards, merchant services and payments and savings.

Mortgages

In the area of mortgages, RCB has a differentiated multi-brand approach, with the AIB brand targeted at opportunities within its existing customer base through competitive variable rate positioning and loyalty propositions as well as switching customers in key demographics and the EBS brand positioned as a challenger brand with targeted offers. (See "*—EBS and Haven*" below). For the year ended 31 December 2016, the AIB brand accounted for 60 per cent. of new mortgage lending by AIB in Ireland, with EBS and Haven accounting for 23 per cent. and 17 per cent., respectively.

AIB offers mortgages for owner-occupiers including variable rate and fixed-rate mortgages. Variable mortgages can be either SVR or LTV variable rate, where interest is based on the LTV ratio for the property. Since late 2014, AIB has reduced its SVRs for all mortgage customers by up to 100 basis points, which benefitted approximately 155,000 customers. AIB also offers split rates, which give customers the option of dividing their borrowings between fixed and variable rates. Existing AIB tracker mortgage customers that are selling their existing homes and buying a new home can also apply for a tracker retention mortgage, which allows the customer to retain his or her existing tracker interest rate (plus an additional 1 per cent. margin) on a new mortgage loan. AIB offers top-up mortgages for expenditure on mortgaged properties in minimum amounts of €10,000, subject to certain exceptions.

For first-time buyers, AIB requires a deposit of at least 10 per cent. (or 25 per cent. for one bedroom properties). For movers, a deposit of at least 20 per cent. is required (or 25 per cent. for one bedroom properties). Repayment terms of up to 35 years are available to owner-occupier mortgage customers.

AIB also offers buy-to-let mortgages at fixed and variable rates. For buy-to-let mortgages, loans up to 70 per cent. of LTV are available with repayment terms of up to 25 years. See "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—LTV/LTI Related Regulatory Restrictions on Residential Mortgage Lending*" for details of the LTV and LTI related restrictions to which AIB is subject in relation to its mortgage lending.

AIB's residential mortgages in Ireland amounted to €33.4 billion as at 31 December 2016. Of this amount, 86 per cent. were owner-occupier mortgages and 14 per cent. were buy-to-let mortgages. 35 per cent. of AIB's residential mortgages in Ireland were tracker mortgages, 55 per cent. were variable rate mortgages and 10 per cent. were fixed-rate mortgages as at that date. Total drawdowns in 2016 were €2.0 billion, of which 97 per cent. related to owner-occupier mortgages. The weighted average indexed LTV for new residential mortgages was 68.4 per cent.

Finance and loans

AIB offers personal loans including loans for specified purposes, including car loans, home improvement loans, wedding loans, travel loans and education loans. Existing customers of AIB who bank online can apply for personal loans for one to five years for amounts between €1,000 and €30,000. AIB aims to provide decisions on personal loans within three business hours and, once the decision is made, the amount is immediately disbursed to the customer's account. New customers, customers who do not bank online or customers who want to apply for a loan in excess of €30,000 need to visit an AIB branch to apply for the loan.

AIB has a further range of finance offerings for its business customers, including business loans, business overdrafts, start-up loans, asset finance, invoice discounting, prompt pay (which permits borrowers to spread the cost of one-off payments over a longer period), insurance premium finance and farmer/business credit lines.

Credit cards

AIB offers a range of credit cards, including AIB Click Visa Card, 'be' Visa/MasterCard, and the Platinum Visa Card which provides a free and exclusive cashback loyalty programme in partnership with Visa for all AIB customers who register for the programme through aib.ie. AIB also offers the AIB Student MasterCard. The minimum required salary for the AIB Click Visa Card and the 'be' Visa/MasterCard is €16,000 and for the Platinum Visa Card is €40,000. The Click Visa Card is only offered online. AIB also offers Visa business credit cards that are tailored to the needs of its business customers, including premier and executive Visa corporate credit cards.

Current accounts

AIB offers a range of current accounts, including its standard AIB Personal Current Account as well as the AIB Student Account, AIB Student Plus Account, AIB Graduate Account, AIB Advantage Account and AIB Basic Bank Account, as well as a range of business current accounts, including accounts in foreign currencies. AIB also offers AIB debit cards alongside its current accounts.

Insurance

AIB has developed strategic partnerships with a range of providers to offer general insurance and life insurance offerings to customers.

On the general insurance side, AIB offers personal customers home insurance and car insurance in partnership with AXA and travel insurance in partnership with ACE. EBS offers personal customers home insurance in partnership with Allianz. AIB's home insurance policies cover main residence, investment or rental properties, holiday homes and homes under construction. AIB also offers buildings and contents insurance.

On the life insurance side, AIB and EBS offer life insurance, mortgage protection, income protection and illness cover through a relationship with Irish Life pursuant to a distribution agreement. In addition, AIB offers inheritance tax planning products, business protection and succession planning services to business customers. AIB does not carry the risk associated with the insurance products on its statement of financial position given the receipt of profit share and commission structure contained in the distribution agreement.

Savings and investing

AIB offers a range of savings accounts, including online saver products, demand/regular saver products, fixed term/notice products, junior saver/student saver products and deposits in foreign currencies to its personal customers. AIB offers pensions products through a relationship with Irish Life pursuant to a distribution agreement. AIB offers all of its personal customers a free personalised financial review with a financial adviser to help them to plan for future financial goals such as retirement or children's education.

AIB offers its business customers deposit accounts, including demand, notice and fixed accounts, as well as foreign currency deposits; investments; and retirement and pensions products, including group pension schemes. All life and pension products are offered through AIB's relationship with Irish Life pursuant to a distribution agreement through 110 specialist advisers within AIB's local markets and direct channels. AIB also offers high net worth customers an open architecture bespoke investment offering through a private banking channel.

Merchant services

AIB Merchant Services accepts and processes debit and credit card payments through a joint venture with First Data and is Ireland's largest provider of card acceptance services. AIB Merchant Services enables customers to accept credit and debit card payments in-store, over the phone or online in multiple currencies. AIB Merchant Services also offers Clover, a next generation electronic point of sale solution that replaces the standard card payments terminal with a smart touchscreen and comes with a wide range of apps that enable businesses to handle anything from gift cards and loyalty schemes to employee management and inventory tracking.

Payments

AIB offers a range of electronic payment services for its business customers, including direct debit originator, SEPA direct debit originator, funds transfer, same day value and standing orders.

5.1.3 EBS and Haven

EBS is a wholly owned subsidiary of AIB. AIB operates EBS as a standalone challenger brand with its own distribution network of tied branch agents with an incentive based model. EBS operates in Ireland and has a nationwide network of 71 offices and a direct telephone based distribution division, EBS Direct. EBS primarily offers mortgages, although it also offers insurance, savings and investments, financial planning and current accounts. As part of its more targeted offerings to new customers, EBS launched its 'anytime' mortgage proposition in 2014, meaning that customers are able to meet a mortgage advisor at a time that suits them.

AIB also distributes mortgages through Haven Mortgages Limited ("Haven"), a wholly owned subsidiary, to independent mortgage intermediaries.

5.2 WIB

WIB serves AIB's larger customers and customers requiring specific sector or product expertise. AIB's vision is to be the wholesale bank of choice serving multiple industry sectors through the provision of an integrated suite of products, services and technology and supported by superior customer service with a focus on revenue growth and diversity. WIB accounted for €9.0 billion of net loans and €5.5 billion of customer accounts as at 31 March 2017.

WIB has pursued a lending model which is aimed at ensuring that learnings from past economic cycles are consistently applied. It is focused on a selective and risk-aware approach to new business origination using sector experts and multi-disciplinary teams, including lenders, engineers and surveyors. These teams work within WIB's improved underwriting standards, including the application of RAROC, an analysis of a property's potential cash flow for all property lending, a focus on entry and exit LTV for commercial real estate lending and a phased approach to residential development lending.

WIB operates a relationship management model with the objective of developing a deep and comprehensive understanding of its customers and their sectors and markets, enabling AIB to identify opportunities to meet a broader range of customer financial needs. WIB continuously reviews and adapts its product offering to ensure that evolving customer needs are met. WIB serves customers out of two locations: Dublin and New York. AIB's activities in the United States comprise its US Syndicated & International Finance activities and its New York branch activities. The US Syndicated & International Finance team participate in public market loan syndications, while the smaller New York branch comprises a treasury function and a corporate loan portfolio.

Within WIB, experienced sector teams work closely with customers to structure bespoke financing solutions using a range of financing options from senior debt through to mezzanine finance and in certain instances, debt capital markets issuances or equity investments.

The following tables set forth certain metrics for the WIB segment as at and for the three months ended 31 March 2017 and as at and for the years ended 31 December 2016, 2015 and 2014:

	As at and for the three months ended 31 March	As at and for the year ended 31 December		
	2017	2016	2015	2014
	(unaudited)	(audited)		
Contribution statement				
Total operating income *(€ millions)*	74	320	269	218
Contribution before exceptional items and taxation *(€ millions)*	62	201	159	131
Statement of financial position				
Net loans *(€ billions)*	9.0	9.1	8.6	7.3
Corporate	4.3	4.4	4.6	4.6
Syndicated & International	2.8	2.8	2.3	1.5
Real Estate Finance	1.8	1.7	1.5	1.2
Specialised Finance	0.1	0.2	0.2	—
New lending drawdowns *(€ billions)*(1)	0.6	2.9	2.5	1.6
Corporate	0.2	0.9	0.9	0.8
Syndicated and International	0.4	1.3	1.1	0.7
Real Estate Finance	0.1	0.6	0.3	0.1
Specialised Finance	—	0.1	0.2	—
Customer accounts *(€ billions)*	5.5	6.4	6.0	5.6

Note:

(1) New lending for the three months ended 31 March 2017 includes new transaction lending. This information is not available for prior years.

5.2.1 Sector and Product Teams

To best support customer needs and provide the necessary product and service expertise, WIB's business is organised into three sector focused teams (Corporate Banking, Real Estate Finance and the newly created Energy, Climate Change & Infrastructure Unit) and three product teams (Syndicated & International Finance, Specialised Finance and Corporate Finance), which are described below.

Corporate Banking

Corporate Banking is the cornerstone of the WIB customer franchise. It is primarily focused on domestic corporate customers with a senior debt requirement of at least €10 million. Corporate Banking teams provide senior debt and core banking products to diversified portfolio domestic companies. Within the corporate banking market, AIB targets a broad range of sectors, including hotels and leisure, food and agriculture, healthcare and student accommodation. Foreign direct investment is also an important segment of the corporate banking market for AIB.

AIB's customer relationship management teams are divided into specialist sector teams which work closely with its customers to gain a deep understanding of their banking requirements. AIB's Corporate Banking relationship management teams directly manage the end-to-end delivery of traditional credit facilities and leverage the expertise of the other customer facing units within WIB (e.g., foreign exchange and mezzanine financing) and RCB (e.g., transactional banking and leasing), to provide the full range of solutions to AIB's corporate customers.

Corporate Banking's customer base is segmented with a differentiated service approach. It has approximately 650 core corporate clients and institutional corporate clients, all of which have a dedicated relationship manager, and approximately 600 portfolio corporates, most of which are foreign direct investment clients.

In addition to its relationship management teams, Corporate Banking has a dedicated new business team that targets customers to which AIB does not currently provide banking services. Once an opportunity has been identified and the customer's needs are understood, the prospective customer is transferred to the relevant relationship management team.

As at 31 March 2017, Corporate Banking had €4.3 billion of net loans.

Real Estate Finance

AIB's Real Estate Finance team provides finance for commercial property investment and for property development and construction to domestic and international property investors. AIB's multi-disciplinary team, which is comprised of property lenders, chartered surveyors and engineers, has deep knowledge in providing finance to this specialist asset class. AIB has a strong customer relationship model, adding value through its expertise, dependability, and professionalism. From an origination perspective, the Real Estate Finance team is primarily focussed on commercial real estate investors with senior debt requirements of greater than €10 million and land and development customers with senior debt requirements of greater than €1 million.

As at 31 March 2017, Real Estate Finance had €1.8 billion of net loans.

Energy, Climate Change & Infrastructure

In 2017, AIB introduced a new centre of expertise providing integrated capital solutions with a focus on renewable energy. The Directors believe that this sector is both commercially and strategically important, given Ireland's 2020 sustainability targets and the growth potential of renewable energy.

Syndicated & International Finance

The Syndicated & International Finance team participates in public loan markets to provide senior secured debt to large and selected mid-capitalisation corporates. It also has a team based in the United States with Dublin-based governance. The team takes a highly selective approach to lending and has strong risk-adjusted returns from a well-diversified portfolio.

As at 31 March 2017, Syndicated & International Finance had €2.8 billion of net loans.

Specialised Finance

The Specialised Finance team's activities include mezzanine finance, structured finance and equity investments. AIB has a dedicated mezzanine fund, enabling it to fulfil SME and corporate customers' subordinated finance requirements. AIB also specialises in providing bespoke structured finance solutions to its corporate customers and structured finance to support institutional clients' portfolio financing requirements.

AIB has the capability to provide equity investments in support of Irish SME and corporate growth. AIB is the largest bank seed fund investor in Ireland according to the Seed and Venture Capital 2015 Report published by Enterprise Ireland in June 2016. It is a significant provider of seed, venture and growth capital funding with commitments currently totalling €140 million across eleven funds. These funds have a combined size of €800 million, a significant portion of which is used to provide equity finance to Irish SMEs with high growth potential across the technology, financial technology and life sciences sectors. AIB also has the ability to deploy equity on a selective basis to Irish SMEs to help support the Irish economy and generate a commercial return for AIB.

As at 31 March 2017, Specialised Finance had €0.1 billion of net loans.

Corporate Finance

The Corporate Finance team is a long-standing Irish corporate finance adviser with a proven track record of advising on mergers and acquisitions transactions in the Irish market. AIB offers a wide range of services, including advice in relation to disposals, acquisitions, fundraisings, management buy-outs and strategic shareholder advice. AIB has in-depth experience on complex private and public transactions and an internationally experienced team of professionals with a strong understanding of the underlying market dynamics in Ireland, which enables it to deliver significant value for clients. It is focused on the core SME/ mid-capitalisation Irish corporate customer base.

5.2.2 Products and Services

WIB directly manages the end-to-end delivery of traditional credit facilities and provides the full range of solutions to AIB's corporate and institutional customers.

Senior and subordinated term debt

AIB provides a range of bespoke senior and subordinated debt solutions to its corporate customers both directly and through syndicated deals. Each loan facility is structured to meet the customer's specific needs while minimising the risks to AIB.

Revolving credit facilities

In addition to the term debt, AIB provides revolving credit facilities to its corporate and institutional customers.

Equity investments

AIB provides equity investments either directly or through third-party funds. As described above under *"—Sector and Product Teams—Specialised Finance"*, through its equity investments capability, AIB is the largest bank seed fund investor in Ireland.

Advisory

AIB provides a range of corporate finance advisory services to customers including advisory services for disposals, acquisitions, fundraisings, management buy-outs and strategic shareholder advice.

Foreign exchange services and interest rate risk management

AIB offers a range of products to help protect its customers from adverse interest rate and foreign exchange rate movements, including interest rate swaps, spot foreign exchange, forward foreign exchange contracts, foreign exchange options, foreign exchange orders and foreign currency accounts. Foreign exchange services are transacted over electronic portals, within branches over the counter and via voice channels, supported by the treasury function.

Trade finance

AIB offers its customers a range of trade finance products to help manage the risks associated with international trade, and to help customers to win overseas contracts. Standard products include letters of credit and documentary collections as well as a range of guarantees which may be required to support the business such as bid/tender guarantees, performance guarantees and advance payment guarantees.

Cash management

AIB's cash management service provides a complete payment solution for companies trading internationally and domestically. The service includes the provision of a range of currency accounts to support efficient and streamlined payments and collections, a file upload service for supplier payments in euro and other currencies, processing of SEPA direct debits and reconciliation reports as well as the ability to deliver bank account information abroad.

Invoice discounting

Invoice discounting is a solution for customers' working capital needs, providing a confidential debt financing facility. This service helps customers with cash flow problems by offering immediate access of up to 80 per cent. of invoiced debt. While invoice discounting is primarily a working capital facility, it may also be used to fund transactions such as mergers, acquisitions, management buy-outs, management buy-ins and capital expenditure programmes.

Economic research

AIB provides its customers with leading financial research in the foreign exchange and fixed income markets, as well as research on Irish and international economics. Economic research is distributed via AIB's bespoke web portal for the treasury function and directly via e-mail to customers. Research is distributed on a daily basis to approximately 4,000 customers through these channels.

5.3 AIB UK

AIB UK comprises two distinct trading brands operating in two distinct markets with different economies and operating environments: (i) First Trust Bank, which offers full banking services to business and personal customers across Northern Ireland, and (ii) Allied Irish Bank (GB) which offers full banking services to predominantly business customers across Great Britain. Both brands are supported by a single operations function. In addition, AIB UK has units in Belfast, Birmingham and London dedicated to managing customers experiencing financial difficulty, as described below under "—*Customers in Financial Difficulty*".

AIB UK accounted for £7.6 billion of net loans (with First Trust Bank accounting for £2.3 billion and Allied Irish Bank (GB) accounting for £5.3 billion) and £9.1 billion of customer accounts (with First Trust Bank accounting for £4.2 billion and Allied Irish Bank (GB) accounting for £4.9 billion) as at 31 March 2017.

AIB UK is a bank registered in the United Kingdom and regulated by the FCA and the PRA. Although it is subject to a separate regulatory regime and has its own governance, AIB UK is closely aligned to the Company in order to achieve the most efficient operating model.

The following table sets forth certain metrics for the AIB UK segment as at and for the three months ended 31 March 2017 and as at and for the years ended 31 December 2016, 2015 and 2014:

	As at and for the three months ended 31 March	As at and for the year ended 31 December		
	2017	2016	2015	2014
	(unaudited)	(audited)		
Contribution statement				
Total operating income *(£ millions)*	63	237	219	218
Contribution before exceptional items and taxation *(£ millions)*	43	157	137	37
Statement of financial position—FTB				
Net loans *(£ billions)*	2.3	2.4	2.5	2.7
New lending drawdowns *(£ billions)*[(1)]	0.1	0.2	0.3	0.3
Customer accounts *(£ billions)*	4.2	4.2	3.8	3.8
Statement of financial position—Allied Irish Bank (GB)				
Net loans *(£ billions)*	5.3	5.1	5.1	5.4
New lending drawdowns *(£ billions)*[(1)]	0.5	1.3	1.6	1.0
Customer accounts *(£ billions)*	4.9	4.7	4.8	5.2

Note:

(1) New lending for the three months ended 31 March 2017 includes new transaction lending. This information is not available for prior years.

5.3.1 AIB UK's markets

Northern Ireland

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

First Trust Bank aims to be a focussed challenger bank in Northern Ireland, offering business banking with a local market presence, a competitive mortgage proposition to customers via intermediary and direct channels, and digitally enabled personal products and services. The overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.

In 2015, First Trust Bank began an 18-month strategic review to consider ways in which it could best meet the needs of customers while maintaining a successful and sustainable business. During this review, First Trust Bank found the number of customers using bank branches declined by almost 40 per cent. since 2010, while there was a 117 per cent. increase in mobile transactions between 2014 and 2016. Following the completion of the strategic review, it announced in February 2017 a reshaping and investment programme to focus on its digital capability, including the closure of 15 of its 30 branches and the reduction of approximately 130 full-time employees. It also announced a £10 million investment strategy for personal and business customers, including plans to open 5 new business centres across Northern Ireland. First Trust Bank also agreed an arrangement with the UK post office that will enable customers to conduct their everyday banking transactions in 500 post offices located across Northern Ireland.

To enable First Trust Bank to deliver its strategic aim, First Trust Bank is implementing a new operating model, incorporating the following:

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

In the retail sector, First Trust Bank has approximately 253,000 active personal customers. Its share of the mortgage market is approximately 5 per cent., according to the Ipsos MORI—Personal Financial Services in Northern Ireland quarterly tracker for the third quarter of 2016. First Trust Bank's share of the current account market and savings markets is higher, at 10 per cent. and 6 per cent., respectively, according to the Ipsos MORI quarterly tracker for the third quarter of 2016.

First Trust Bank continues to invest in offering customers a wide choice of how to engage with First Trust Bank in a way that is most suited to them in a modern banking setting, through traditional channels or via technology.

During 2016, First Trust Bank had an average of approximately 750 new registrations per month for its digital banking services, with approximately 100,000 customers per month now actively using the online and mobile channels.

First Trust Bank's feedback on customer service from retail customers is strong, reflected in its high NPS. It had a loan to deposit ratio of 55 per cent. as at 31 March 2017, with significant surplus liquidity available to fund future lending growth.

In the business sector, First Trust Bank has approximately 22,000 active customers, mainly in the SME sector, where it had a market share of 13 per cent. based on the PwC Northern Ireland Business Banking Tracker 2016.

Great Britain

AIB's operations in Great Britain are conducted under the Allied Irish Bank (GB) trading name. Allied Irish Bank (GB) is a niche player which aims to be recognised as the bank of choice for owner-managed businesses in Great Britain.

Allied Irish Bank (GB) is an established specialist business bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain, providing a full clearing and day-to-day transactional banking service to customers.

Allied Irish Bank (GB)'s strategy is to be a leading niche business bank, with recognised expertise in particular sectors and markets, targeting mid-tier corporates and larger SMEs in local geographies who value a high-touch relationship model. Dedicated relationship management teams work closely with customers to establish and find solutions to their banking needs.

Allied Irish Bank (GB) offers a full range of banking services, including lending, treasury, trade finance facilities, asset finance, invoice discounting and day-to-day transactional banking. In addition, Allied Irish Bank (GB) has a committed focus to British-Irish trade, meeting the needs of companies in Ireland and the United Kingdom who are operating, or want to set up operations, in either jurisdiction.

Allied Irish Bank (GB) has approximately 1 per cent. of the business lending market in Great Britain, and has clear opportunities to increase its presence and market share through its sector-focused strategy.

5.3.2 Products and Services

First Trust Bank provides a full range of transactional banking services. For retail customers, the core products offered include current accounts; ATM network (LINK); telephone, internet, tablet and mobile banking; savings and deposit accounts; personal loans (secured and unsecured) and overdrafts; mortgages; private banking and financial services (as the appointed representative of Legal & General). For business and corporate customers, it offers current accounts, iBusiness Banking ("iBB"), deposit and treasury accounts, secured loans and overdrafts; asset finance and invoice discounting; customer treasury services; business credit and debit cards; merchant services and private banking services for businesses (including mortgages).

Allied Irish Bank (GB) provides full service business banking, including term loans, revolving credit facilities, overdrafts, asset finance and invoice finance; senior and subordinated debt and equity investments for corporate customers; business current accounts; card services (Visa business and Visa debit card); merchant services; payments (including iBB, BACS and DD Originator); savings and deposit accounts; treasury services (including foreign exchange contracts and foreign exchange options, interest rate products and interest rate options); trade finance (including letters of credit and documentary credits); and personal and some private banking services (including mortgages). Allied Irish Bank (GB) also has a small centralised unit which manages all personal and small SME banking. This unit also manages a large proportion of the deposit base in Allied Irish Bank (GB).

5.4 Customers in Financial Difficulty

Within the segments set out in *"—Overview"* above, AIB has migrated the management of the vast majority of its non-performing loans to FSG, AIB's standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty and has devised an holistic "One Customer" approach through its customer treatment strategies. The "One Customer" debt management strategy is in recognition of the fact that AIB's distressed portfolio is weighted towards customers who hold multiple asset types and associated debt obligations.

AIB is moving into the mature stage of managing its customers in difficulty and non-performing loan portfolios. FSG has continued to evolve its standalone operating model to support AIB's objective to reduce its non-performing loans to more normalised European banking norms, whilst continuing to support its customers. FSG has placed increased focus on the performance of restructured customers in terms of compliance with asset disposal targets and covenants while managing the significant complexity and lengthy timeframes to support customers who are yet to be restructured. FSG teams are aligned to the non-performing loan life cycle through the following units and activities in Ireland and the United Kingdom:

- Loan Recovery: Restructuring activities for cooperating customers; managing non-cooperating customers through legal enforcement where the AIB is not able to find a consensual resolution;
- Customer Management: Post restructuring case management to ensure adherence with agreed solutions including asset disposals for all asset classes;

- Retail Arrears Credit and Collections: Retail arrears for multiple products for smaller exposures in the retail, personal and SME segments; and
- FSG UK: Retail and business customers in difficulty for the United Kingdom with teams located in Belfast, Birmingham and London.

The teams are supported by:

- Portfolio Management Unit: Business performance reporting and analysis;
- Business Services: Operational fulfilment and change management; and
- Strategy: Implementation of strategic initiatives including deleveraging initiatives.

For further detail regarding AIB's forbearance solutions and loans subject to forbearance solutions, see "*—Additional Credit Risk Information—Forbearance*" in note 43 of Section D and "*—Credit risk—Additional Credit Risk Information—Forbearance*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

5.5 Group

The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

As at 31 March 2017, the Group segment had €0.2 billion of net loans and for the three months ended 31 March 2017 and the year ended 31 December 2016, it had €117 million and €350 million of total operating income, respectively.

6 Distribution Channels

AIB has an omni-channel customer strategy which focuses on customer convenience and consistency. The omni-channel approach encompasses the branch network as well as direct and digital channels, which offer self-service capability through self-service kiosks, ATMs and cash and cheque lodgement machines ("CCLs"), telephone, internet, tablet and mobile banking. The Directors believe that AIB is the largest Irish bank in terms of mobile penetration.

In 2013, AIB opened The "LAB" (Learn about Banking). LAB is an innovative digital banking location, which allows AIB to test digital concepts in a live environment with its customers. These have included concepts such as the fully digitised personal lending application and mobile payment solutions, where feedback from customers helps AIB to fully understand their needs and use this information to shape products and services. The "LAB" (Learn about Banking) is situated in Dundrum Town Centre, the highest footfall retail location in Ireland.

As a result of continuous investment in digital platforms, AIB has received external recognition, winning the "Best Use of Mobile" at the Digital Media Awards for the AIB mobile banking application. "Best Adoption of Social Media" at the CCMA awards and "Best Innovation in Financial Services" at the Digital Media Awards.

AIB's omni-channel approach is also being adopted by AIB UK as AIB adopts a more consistent model across its operations.

6.1 Branch Network

In conjunction with its digital channels, AIB continues to maintain the largest physical distribution network in Ireland, based on management information and publicly available information from competitor banks, with 205 AIB branches, 71 EBS offices, 20 business centres, which are tailored to the needs of AIB's SME customers, and the "LAB" (Learn About Banking) outlet, which is a digital banking location, 985 ATMs, and a partnership with An Post with over 1,100 locations nationwide (An Post is currently completing a review of the An Post network which may lead to a reduction in the number of post offices). At the An Post locations, customers can carry out much of their regular banking, including depositing cash using an AIB debit card or deposit book, withdrawing up to €600 in cash per day using an AIB debit card, paying an AIB credit card bill, and depositing cheques at designated post offices.

AIB has undertaken significant rationalisation of its branch network, having reduced the number of branches by a net 23 per cent. and branch staff by 28 per cent. over the past four years. This has contributed to increasing efficiency across the branch network, and AIB will continue to maintain a branch network that is appropriately sized to meet the needs of its customers. Following this rationalisation, AIB has also completed 134 refurbishments across its branch network.

AIB divides its branches into retail, which are full sales and service branches; central, which are similar to retail branches but with relationship managers sitting at the relevant branch; retail campus, which are situated in or on college or university grounds; and sales and advisory, which provide reactive sales and machine assisted cash transactions without tellers. As at 31 March 2017, AIB had 136 retail branches, 46 central branches, 15 retail campus outlets and 8 sales and advisory outlets. AIB's "LAB" (Learn About Banking) outlet is situated in Dundrum Town Centre, the highest footfall retail location in Ireland.

AIB is focused on upgrades to self service facilities across its branch network in order to reduce the number of over-the-counter ("OTC") transactions. It has introduced CCLs, which allow customers to deposit cash and cheques, among other services. As at 31 March 2017, AIB had 413 CCLs across 171 branches. The number of CCL transactions has been increasing over the past three years, while the number of OTC transactions in branches has been declining.

In recognition of the fact that customers increasingly need to bank outside of normal working hours, AIB has extended the opening hours in many of its branch locations and also now provides an out-of-hours service.

AIB has 15 business centres in Great Britain to serve customers. In Northern Ireland, AIB provides banking services through 30 branches and outlets under the trading name First Trust Bank. In February 2017, AIB announced the closure of 15 of its 30 branches, which is expected to occur from June to August 2017. It also announced a £10 million investment strategy for personal and business customers, including plans to open five new business centres across Northern Ireland. First Trust Bank also agreed an arrangement with the UK post office that will enable customers to conduct their everyday banking transactions in approximately 500 post offices located across Northern Ireland.

6.2 Direct Channels

AIB's direct channels include telephone, internet, mobile and tablet banking. The Direct Banking sales teams are located in Dublin and Kildare and provide a telephone banking service to retail as well as, more recently, business customers. Through internet banking, customers can apply for personal loans, balance enquiries, view transactions, eStatements and eFee Advices, pay bills and manage standing orders, transfer money between accounts domestically and internationally, top up mobile phones, access online products, search for and place stop orders on cheques and view all incoming payment details.

Through the use of the AIB's mobile banking applications, customers can securely check their balances, pay their bills, transfer funds and apply for personal loans and credit cards.

iBB is an online service for AIB's business and corporate customers. These customers can access services such as payroll and supplier payments, multi-user access, higher value transactions and enhanced audit trails. In 2016, €400 billion in digital payments were made through the service across both Ireland and the United Kingdom. The total payment values for Ireland submitted through the iBB channel increased by 8.5 per cent. over 2015.

AIB has approximately 650,000 active mobile users and approximately 1.2 million digital users. In 2016, 14.8 million transactions were conducted through mobile devices, a 68 per cent. increase over 2014, and in December 2016, AIB's mobile app was accessed approximately 20 million times.

In the fourth quarter of 2016, AIB launched Android pay, offering personal and business customers the latest technology in payments via their mobile phones. Android Pay is part of AIB's digital enablement strategy and is intended to make banking more convenient and secure for its customers.

6.3 Intermediary Channel

While the use of intermediaries in the Irish mortgage market is limited, AIB has a proven track record of originating mortgages through its third-party distribution channel of mortgage intermediaries. AIB employs a selective approach to establishing and operating its mortgage intermediary panel in order to maintain the high quality of its intermediary relationships and customer service, and employs a team of experienced business development managers to manage its relationships with mortgage intermediaries. In particular, the Haven brand exclusively distributes AIB mortgages through intermediaries.

For the year ended 31 December 2016, 17 per cent. of AIB's gross new mortgage lending was originated through intermediaries, compared to 71 per cent. for branch originations and 12 per cent. for originations through AIB's direct channels. These relationships have enabled AIB to leverage its existing mortgage infrastructure, including risk management, at a low marginal cost of origination, to provide a cost-effective way of achieving mortgage portfolio growth.

7 Employees

For the three months ended 31 March 2017, AIB had an average of 10,313 employees on a full-time equivalent ("FTE") basis, including 9,095 permanent employees and 1,218 temporary employees. For the years ended 31 December 2016, 2015 and 2014, AIB had an average of 10,226, 10,663 and 11,384 employees on an FTE basis, respectively. The following table sets forth a breakdown of average employees by segment for the three months ended 31 March 2017:

	Three months ended 31 March 2017
RCB	5,437
WIB	264
AIB UK	1,334
Group	3,278
Total	10,313

7.1 Voluntary Severance Programme

Since 2012, AIB has undergone a structured exercise of cost reduction with over 3,600 employees on an FTE basis leaving under a voluntary severance programme, which comprised a voluntary severance scheme and an early retirement scheme. The reduction in employees was supported by AIB's transformation strategy which enabled the staff exits.

The voluntary severance terms were consistent with those available to staff in other banks in receipt of state aid and were based on either three weeks' annualised salary for each year of service plus statutory redundancy, or four weeks' annualised salary for each year of service, inclusive of statutory redundancy, both with an annualised salary cap of €225,000 (£190,000). The scheme was introduced on a phased basis, according to business needs and capacity, with the result that not all areas of the business were immediately within the scope of the voluntary severance scheme. The scheme continues to support the ongoing transformation programme.

An early retirement scheme was also opened for staff in defined benefit pension schemes in Ireland and the United Kingdom, with early retirement on a pro rata, actuarially-reduced basis, based on pensionable service to the date of leaving. AIB reduced the impact of actuarial reduction by an amount broadly equivalent to the comparable voluntary severance payment. A strong level of interest was expressed in the scheme, with early retirement dates phased to December 2013.

Both schemes have been positively received by staff, with an average acceptance rate of 90 per cent. on approved offers. The voluntary severance scheme is still open and has been extended to December 2019.

7.2 Unions

AIB has a long-standing history of constructive working relations with all of its employee representative unions, which include the FSU, Services Industrial Professional and Technical Union (also known as SIPTU) and Unite. The FSU is the main negotiating partner and represents more than one-third of AIB's employees across Ireland and the UK. Recently, a partnership approach to negotiation and collective agreement has evolved, which has been instrumental in the introduction of change and transformation. A new alliance initiative is currently underway between AIB and the FSU to enhance working relationships between management and union representatives at all levels across the organisation by developing more effective processes of local engagement.

7.3 Pay and Benefits Review

In 2013, the Labour Court and Labour Relations Commission issued recommendations on terms and conditions of employment for staff across AIB, which addressed future pay and pension arrangements. The Labour Court recommended that arrangements be put in place to review pay on an annual basis, commencing in January 2014. This review should have regard to such matters as cost of living, progression within bands, AIB's financial performance, market movement, performance management and other relevant considerations.

From 2009 to 2015, there were no pay increases across AIB. In 2015, a general pay increase of 2 per cent. (capped) was awarded. In 2016, following a joint working party between AIB and the FSU, performance-related pay was agreed and implemented, with pay increases being granted according to individual performance only. In January 2017, following discussions between AIB and the FSU at the WRC, it was agreed to implement performance-related pay applicable for 2017 and 2018 ranging from 0 per cent. to 3.25 per cent. with effect from 1 April 2017 and 1 April 2018. It was also agreed that any redundancies will be volunteer led where possible, and paid on the agreed voluntary severance terms until 2019 and that AIB will bear pension management fees until December 2018. The FSU has agreed to ongoing co-operation with AIB's change and restructuring plans.

Discussions are ongoing regarding other arrangements across AIB such as the introduction of a new career banded framework and, in particular, the composition and proposed structure of jobs and salary ranges within the new framework.

AIB does not currently operate any share option scheme pursuant to which employees of AIB can acquire any shares in the capital of the Company. AIB is committed to seeking to better align the reward of the senior management team with the objectives of creating long-term sustainable value for customers and shareholders, simultaneously safeguarding the bank's capital, liquidity and risk positions. AIB will ensure that any strategy is in full compliance with current EBA protocols and is aligned with investor appetite.

7.4 Learning and Development

AIB has recently made enhancements to its learning and development platform to offer classroom and web-based learning on a range of topics under the banner iLearn. There has been attendance of over 50,000 at classroom events and employees have accessed web based training over 550,000 times since iLearn was launched in February 2014. A new all-employee risk training course has been rolled out on iLearn by AIB's risk department.

Recognising the level of change across AIB, workshops have also been introduced to support people through transitions. These workshops encourage those running change programmes to consider the people aspect of change. AIB also supports its employees with training through the AIB Leadership Framework and a new Leadership Curriculum.

7.5 Code of Conduct

In 2015, AIB adopted a new Code of Conduct in relation to business ethics that applies to all employees. The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standard of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training, which are designed to ensure that the Code of Conduct is understood and that all employees act in accordance with it.

As part of the implementation of the Code of Conduct, AIB encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external. One such channel, the Speak Up channel, is designed to support any whistleblowing concerns, and includes a confidential external helpline. Employees are assured that if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the employee as a result.

8 Information Technology

The business of AIB is dependent upon IT infrastructure, services and systems. These systems support customer interactions with AIB and back office functions, including:

- Direct customer and assisted channels: providing sales and services systems for retail and business in-branch banking customers, via direct banking (i.e., internet, tablet and mobile banking) and corporate banking products and services;
- Business and customer services: providing operational systems that support customers from centralised functions, including the customer call centre, operations and technology services;
- Payments and cards: providing processing conducted through a variety of banking systems and schemes, for domestic, international (SWIFT) and Euro (SEPA) payments; and
- Enterprise functions: supporting AIB's finance, risk, and analytics and reporting systems.

8.1 Core banking systems

AIB's primary core banking systems are mainframe based and internally developed and maintained by AIB. The core systems are used across all areas of AIB's business.

8.1.1 Data Centres

AIB operates dual active-active data centres with resilient infrastructure that deliver high availability to critical business services, located approximately 15 kilometres apart from each other. The technologies within the data centres have been configured to eliminate single points of failure and to provide active-active services or near real-time recovery capabilities in the event of a components failure. Each data centre is operated by a different third-party supplier, with all assets owned and operated by AIB.

8.1.2 Network

AIB operates, through a third party, a secure segmented network which is configured to be highly available with diverse routing. AIB operates a number of security measures across its network and infrastructure, including advance threat detection and intelligence, systems auditing, password security, data loss prevention and attack mitigation.

8.1.3 Infrastructure

AIB's infrastructure solutions have been engineered to provide embedded local and cross site resilience as a common platform available to all services; including core network, content managers and firewalls, virtualisation, clusters and storage.

8.1.4 Mainframe

AIB runs core banking systems on a third-party supported mainframe environment, including proprietary software for core retail banking and third-party software for corporate, treasury and payments.

AIB has a business continuity arrangement in place with a third party that provides for data replication and an offsite backup in the event of an IT failure at the main campus.

8.2 IT Transformation Programmes

AIB is investing significantly in technology as a part of its three-year €870 million investment programme, which AIB has funded out of its cash flow from operations. This includes investments in AIB's IT systems, such as a retail payments engine replacement, a treasury platform upgrade an internet business banking replacement, digitisation and process management and data transformation.

AIB has completed an outsourcing programme to leverage the skills and capabilities of external vendors. Through a small number of global strategic partnerships, AIB utilises outsourcing arrangements to manage certain of its infrastructure and systems. Its outsourcing agreements are overseen and managed by AIB's internal technology functions. Processes and controls for AIB's systems are managed by its strategic partners, with appropriate oversight from AIB's internal functions. The Directors believe that by leveraging these partnerships, AIB is able to reduce delivery time, access more personnel with critical skills and enable greater resource flexibility.

AIB has entered into master services agreements (and related services agreements) with five service providers:

- Wipro Limited for the provision of IT hosting and storage services and related support services, and application development and maintenance services;
- Eir for the provision of IT telecommunications services and related support services;
- HCL Technologies Limited for the provision of desktop services and service desk;
- Integrity Communications Limited for the provision of IT security services and related support services; and
- Infosys Limited for the provision of IT application development and maintenance services;

The terms of each of these agreements are set out in more detail under "*Part XXI: Additional Information—Material Contracts—Outsourcing/Service Agreements—IT Outsourcing Agreements*".

PART X
RELATIONSHIP WITH GOVERNMENT AND STATE AID

This "Part X: Relationship with Government and State Aid" sets out certain information relating to the relationship between AIB and the Irish Government, including state aid received by AIB. Investors should note that the policy, plans, views, expectations and/or intentions of the Irish Government are subject to change after the date of this Prospectus. Each of the statements in this "Part X: Relationship with Government and State Aid" should be read together with the other parts of this Prospectus and, in particular, the section entitled "Part II: Risk Factors".

1 Irish State as Shareholder in AIB

As a consequence of the global financial crisis which commenced in 2008 and deterioration in AIB's capital base, AIB received capital investments from the State, as described below.

1.1 2009 Preference Shares

On 13 May 2009, the Irish Government, in the name of the NPRFC, subscribed for €3.5 billion of the 2009 Preference Shares in the Company. In conjunction with the subscription for the 2009 Preference Shares, the NPRFC was granted the 2009 Warrants (which, with the agreement of the NPRFC, were subsequently cancelled by the Company on 23 December 2010 without having been exercised in whole or in part). The annual dividend in respect of the 2009 Preference Shares, amounting to €280 million, was satisfied in each year from 2010 to 2014 by the issue of bonus ordinary shares in the capital of the Company. However, the Company's Board of Directors announced on 5 March 2015 that the 2015 annual dividend in respect of the 2009 Preference Shares would be paid in cash, which was paid on 13 May 2015.

Prior to 22 December 2014, the 2009 Preference Shares owned by the Minister for Finance were held in the name of the NPRFC. On 22 December 2014, under the NTMA 2014 Act, those shares became assets of the ISIF, a fund whose assets are owned by the Minister for Finance. Neither the National Pensions Reserve Fund ("NPRF") nor the ISIF had or has separate legal personality. The ISIF's holding of Ordinary Shares is controlled and managed by the NTMA pursuant to directions in writing given to the NTMA by the Minister for Finance from time to time.

On 17 December 2015, as part of the 2015 Capital Reorganisation, the 2009 Preference Shares were partially redeemed, which involved the payment of €1.7 billion, with the remainder being converted into ordinary shares in the capital of the Company. This resulted in the Minister for Finance, through the ISIF, holding a total of 677,705,287,273 ordinary shares in the capital of the Company with a nominal value of €0.0025 per share.

A dividend for the period from the last dividend payment of 13 May 2015 up to the date of the partial redemption and conversion of the remainder of the 2009 Preference Shares, amounting to €166 million, was paid by the Company in cash to the NTMA (as manager and controller of the ISIF) on 17 December 2015. The 2009 Preference Shares no longer form part of the Company's capital structure.

1.2 Ordinary Shares

The Irish Government has made the following equity investments in the Company since 2010:

- in December 2010, the Company issued €3.8 billion of new ordinary shares (and convertible non-voting shares that converted into ordinary shares in the capital of the Company in April 2011) to the NPRFC, resulting in the NPRFC holding 92.8 per cent. of the issued ordinary share capital of the Company; and
- in July 2011, the Company placed a further €5 billion of new ordinary shares with the NPRFC increasing the NPRFC's shareholding in the Company to 99.8 per cent.

As described above, the annual cash dividend in respect of the 2009 Preference Shares in the amount of €280 million was not paid in any of the years from 2010 to 2014. Rather, the NPRFC's dividend entitlement (as holder of the 2009 Preference Shares) was satisfied by way of bonus issues to the NPRFC by the Company of approximately 11.3 billion in aggregate ordinary shares in the capital of the Company between 2010 and 2014.

Prior to 22 December 2014, the ordinary shares in the capital of the Company currently owned by the Minister for Finance were held in the name of the NPRFC. On 22 December 2014, under the NTMA 2014

Act, those shares became assets of the ISIF, a fund whose assets are owned by the Minister for Finance, pursuant to directions in writing given to the NTMA by the Minister for Finance from time to time.

On 21 December 2015, as a further part of the 2015 Capital Reorganisation described under "*—2009 Preference Shares*" above, all ordinary shares in the capital of the Company, which each had a nominal value of €0.0025, were consolidated on the basis that for every 250 ordinary shares in the capital of the Company with a nominal value of €0.0025 per share held by a shareholder, that shareholder was issued one Ordinary Share with a nominal value of €0.625 (with a rounding up of any fractional shareholdings of less than 250 ordinary shares in the capital of the Company).

Following the above equity investments, conversion/redemption, bonus issues and share consolidation, the Minister for Finance owns 99.8688 per cent. of the Company's 2,714,381,238 Ordinary Shares in issue.

1.3 Contingent Capital Tier 2 Notes

On 27 July 2011, the Company issued €1.6 billion of CCNs to the Minister for Finance. The CCNs matured and were redeemed, in line with their scheduled maturity date, on 28 July 2016 and therefore no longer form part of the Company's capital structure. On their maturity, a capital repayment of €1.6 billion, together with a coupon payment of €160 million, was made by the Company to the Minister for Finance.

1.4 Capital Contributions

On 28 July 2011, the Minister for Finance and the NPRFC made payments to the Company by way of capital contribution totalling €6.1 billion (a capital contribution is a payment made for no consideration as a way of strengthening the capital resources of the payee entity).

1.5 Irish Government Investment in EBS

Prior to AIB's acquisition of EBS on 1 July 2011, the Irish Government invested €875 million in EBS through the following:

- on 27 May 2010, EBS issued €100 million of special investment shares to the Minister for Finance (the "Special Investment Shares");
- on 17 June 2010, the Minister for Finance contributed a promissory note for €250 million to EBS (the "EBS Promissory Note"); and
- on 14 December 2010, EBS issued a further €525 million of Special Investment Shares to the Minister for Finance.

The Special Investment Shares were converted into ordinary shares in EBS and were acquired by the Company in July 2011 as part of the EBS acquisition and the EBS Promissory Note was redeemed and cancelled by the Minister for Finance in December 2015 as part of the 2015 Capital Reorganisation.

1.6 Warrants

As part of the 2015 Capital Reorganisation, the Company entered into the Warrant Agreement with the Minister for Finance and granted the Minister the right to receive warrants to subscribe for additional Ordinary Shares. On 26 April 2017, the Minister for Finance exercised his rights under the Warrant Agreement by issuing a Warrant Notice to the Company requiring the Company to issue Warrants to the Minister to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event) (calculated on the basis that none of the Warrants have been exercised). In accordance with the terms of the Warrant Agreement, no cash consideration will be payable by the Minister for Finance to the Company in respect of the issue of the Warrants. Assuming Admission occurs, the exercise price for the Warrants is 200 per cent. of the Offer Price which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the holder of the Warrants during the period commencing on the first anniversary of Admission and ending on the tenth anniversary of Admission.

2 Irish State's Regulatory Role

Following the crisis in the Irish banking sector which commenced in 2008 and the related stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in certain other Irish banks has been and in the case of AIB continues to be considerable. This involvement includes commitments and restrictions on the operation of AIB's business under the CIFS Scheme (the guarantee under which expired in September 2010, although provisions of the CIFS Scheme as amended by the ELG Scheme remain in force), the ELG Scheme (which was closed for new liabilities in March 2013 and the guarantee under which will expire in March 2018) and the NAMA Act, all of which may serve to limit AIB's operations and place significant demands on the reporting systems and resources of AIB. Application of EU state aid rules to this involvement is described below under "*—State Aid*".

The Minister for Finance and the Central Bank have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. The relationship between AIB and the Minister for Finance is governed by the 2012 Relationship Framework, which will, conditional upon Admission, be amended and restated by the Relationship Framework, which is described below under "*—Relationship Framework*".

Further details of the regulatory role of the Irish State under the CIFS Scheme, the ELG Scheme and the NAMA Act are summarised in "*Part VIII: Industry Overview—Market Overview—Key Industry Trends—Global Financial Crisis and Government Response*" and below under "*—Governance Restrictions*". See also *"Part XVII: Supervision and Regulation"*.

3 Funding Support

During the global financial crisis, in addition to guarantees provided by the Minister for Finance to AIB under the CIFS Scheme and the ELG Scheme and emergency liquidity assistance provided by the Central Bank when required, the Central Bank provided direct funding to AIB as part of the Eurosystem. These borrowings are under ECB Monetary Policy Operations and as at 31 December 2016 amounted to €1.9 billion. Targeted Long Term Refinancing Operation II ("TLTRO II") funding from the ECB, through the Central Bank, amounted to €1.9 billion as at 31 December 2016. The interest rate on the TLTRO II is the main ECB rate which is currently 0 per cent. The term of the TLTRO II is four years with AIB having the option to repay after two years.

4 Irish Government as Customer

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. These transactions include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, fees under the ELG Scheme and the payment of regulatory fees as appropriate.

5 Relationship Framework

The Minister for Finance has specified the Relationship Framework, which is conditional only on Admission. The Relationship Framework will amend and restate the 2012 Relationship Framework. Under the Relationship Framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board and AIB's management team. Details of the governance restriction imposed on AIB by the Relationship Framework are set out in detail below under "*—Governance Restrictions*".

6 State Aid

6.1 State Aid received by AIB

AIB and EBS have each received state aid individually, which was notified to the EC in separate procedures. AIB acquired EBS on 1 July 2011, and the EC assessed the aid granted to the resulting AIB/EBS group in a separate procedure. Hence, there were three state aid procedures relating to AIB, EBS and AIB/EBS.

In respect of AIB, by decision dated 12 May 2009, the EC temporarily approved a €3.5 billion capital injection into the Company in the form of the 2009 Preference Shares on the basis of several commitments, including the submission of a restructuring plan by AIB to the EC. The 2009 Preference Shares were partially redeemed, which involved the payment of €1.7 billion, with the remainder being converted into ordinary shares in the capital of the Company as part of the 2015 Capital Reorganisation. By decision dated 21 December 2010, the EC temporarily approved a €9.8 billion rescue capital injection by the NPRFC in the Company, pending the approval by the EC of a revised restructuring plan taking into account the further aid. That capital injection was planned to take place in two stages: (i) €3.8 billion to be injected by 31 December 2010 by way of an equity placing in the Company; and (ii) €6.1 billion to be injected in the Company in February 2011 by way of a capital contribution. While the first instalment of the approved recapitalisation was carried out by the NPRFC at the end of December 2010, the second injection planned to be undertaken in February 2011 never took place but was superseded by the €5 billion ordinary share equity investment in the Company and the €6.1 billion capital contributions to the Company in July 2011 referred to below.

In respect of EBS, by decision dated 2 June 2010, the EC approved the recapitalisation of EBS for a total amount of up to €875 million. This was comprised of a €100 million capital injection through the issuance of Special Investment Shares to the Minister for Finance, a further capital injection of €250 million through a contribution by the Minister for Finance in the form of the EBS Promissory Note by the Minister for Finance to EBS and a further €525 million capital injection through the issuance of additional Special Investment Shares. The Special Investment Shares and reserve recognised by the contribution of the EBS Promissory Note qualified at the time as Core Tier 1 Capital. The Special Investment Shares were converted into ordinary shares in EBS that were acquired by the Company in July 2011 and the EBS Promissory Note was redeemed by the Minister for Finance in December 2015 as part of the 2015 Capital Reorganisation.

In addition, on an individual basis, the AIB CIFS Covered Institutions received the benefit of guarantees under the CIFS Scheme and AIB ELG participating Institutions received guarantees under the ELG Scheme. On an individual basis AIB and EBS received the benefit of a State guarantee on emergency liquidity assistance provided by the Central Bank, and asset relief measures consisting of the transfer of approximately €20 billion of assets to NAMA during 2010 and 2011.

In July 2011, the Company acquired EBS which became a fully integrated subsidiary of the Company. By a decision dated 15 July 2011, the EC approved a combined rescue package for AIB/EBS of up to €13.1 billion pending the approval of a restructuring plan for AIB to take into account the further aid provided. That capital injection comprised: (i) €5 billion injected on 27 July 2011 by way of a placing for new ordinary shares in the capital of the Company and (ii) €6.1 billion injected on 28 July 2011 by way of a capital contribution by the Minister for Finance to the Company. On 27 July 2011, the Company also issued €1.6 billion of CCNs to the Minister for Finance which matured and were repaid on 28 July 2016.

6.2 Restructuring Plan and Commitments

The Restructuring Plan was submitted to the EC on 28 September 2012. Having assessed the Restructuring Plan, the EC, by the State Aid Decision, approved the state aid received by AIB (including EBS) as restructuring aid compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union ("TFEU") in light of AIB's Restructuring Plan and the terms contained therein (the "Commitments"). The Commitments which the State has committed to implement are set out in the Annex to the State Aid Decision. Under the terms of the State Aid Decision, Ireland is required to ensure that the Restructuring Plan is implemented in full, including the Commitments. The period of the Restructuring Plan runs from 7 May 2014 to 31 December 2017 (the "Restructuring Period").

In the State Aid Decision, the EC concluded that the Restructuring Plan provided for a credible strategy to make AIB profitable. In particular, it found that AIB would operate as a smaller domestically focused bank with an improved funding profile, that AIB would increase its level of profitability notably by enhancing its net interest margin and further curbing its operating expenses and that AIB would maintain a strong capital buffer during the Restructuring Period. In addition, the EC found that AIB had already implemented a series of restructuring measures, including divestitures, asset transfers and deleveraging, liability management exercises and cost reduction measures, which contributed to its return to viability and ensured that the aid is limited to the minimum necessary.

6.3 Commitments in the Restructuring Plan

The Commitments relate to: (i) the restructuring of AIB's mortgages and SME loan portfolios and the limitation of certain new lending to the property and construction sector; (ii) the timing of the redemption of the CCNs; (iii) cost reductions; (iv) limitation of exposure to Irish sovereign bonds; (v) behavioural commitments, which include limiting acquisitions, restrictions on marketing, advertising and sponsorship in Ireland, a restriction on any steps that could lead to a capital outflow prior to repayment of the aid and a ban on discretionary coupon payments on instruments issued prior to 7 May 2014; (vi) measures to enhance competition in the Irish banking market (called competition measures and comprising a Services

Package and a Customer Mobility Package) and a commitment to contribute €500,000 per annum for a period of 3 years commencing on 1 July 2014 to a public awareness campaign to raise awareness and promote customer mobility; (vii) the appointment of the monitoring trustee to monitor compliance with the commitments; and (viii) a commitment, subject to receipt of all regulatory and other approvals, to repay state aid before the end of the Restructuring Period (which is described in more detail below under "*Remuneration and Repayment*"). Some of these commitments contained in the Restructuring Plan have expired, whilst the others will expire in the course of 2017 or on 31 December 2017. Those commitments which remain operable are described in more detail in "*Part XXI: Additional Information—Material Contracts—Restructuring Plan*".

6.4 Remuneration and Repayment

In the State Aid Decision, the EC considered the remuneration payable to the State in respect of the CCNs and the 2009 Preference Shares as appropriate, albeit at a low level, in light of AIB's distressed situation at the time. The EC also set out a repayment commitment under which the State has committed, subject to receipt of all regulatory and other approvals, that, prior to the end of the Restructuring Period on 31 December 2017, the Company will repay the state aid through the payment of "dividends or other means", in such amount equal to the surplus regulatory capital above the minimum CET1 ratio (on a Basel III fully implemented basis) as set by the Central Bank (plus a buffer of 2 per cent.) on 31 December 2016. The Directors believe that the Company has met its state aid repayment commitments for 2017 for the purposes of the Commitments under the State Aid Decision, although, given their nature, the precise effect of such commitments is uncertain in some respects. The Company has paid a final dividend for the year ended 31 December 2016 of €250 million for which it received approval from the SSM. Repayment of further state aid through a further dividend or other payment by the Company in 2017 would require SSM approval for the payment.

6.5 AIB's Services Package Commitment

Under the terms of the Services Package, AIB is required to provide certain services to qualifying competitors of AIB ("Relevant Competitors"). A "Relevant Competitor" means an undertaking which, at the date on which it requests services from AIB: (i) is licensed in Ireland or elsewhere to operate as a credit institution in Ireland; (ii) is not in receipt of state aid (i.e., banks which have received state aid and which are still in their restructuring periods are not considered "Relevant Competitors"; however, banks which have received state aid, but whose restructuring periods have ended, are considered "Relevant Competitors"); and (iii) has, by virtue of all related undertakings, a market share of less than 15 per cent. of stock or flow of the Relevant Product market in which AIB has a market share in excess of 30 per cent. of stock or flow of the Relevant Product market, based on a market share measurement by an independent external research source, including regulatory returns proposed by AIB and approved by the monitoring trustee. A "Relevant Product" means: (1) personal current accounts; (2) personal credit cards; (3) business current accounts; (4) business credit cards; (5) mortgages; and (6) SME loans and corporate loans. These services must be provided by AIB for a period of three years from 1 July 2014.

Under the Services Package, AIB is required to facilitate Relevant Competitors wishing to access (subject to security, credit and regulatory requirements):

- Ireland's bank clearing system (both servicing paper and electronic transactions);
- debit card access to any ATM network in Ireland of which AIB is a member;
- market intelligence (e.g., rate of default of customers generally and macro/micro-economic data generally) but such access is subject to compliance with all laws, codes and practices including, without limitation, those relating to data protection, confidentiality, intellectual property, contract and competition;
- cash supply and distribution services; and
- foreign exchange supply and distribution services.

AIB is required to provide the Services Package on fair, reasonable and non-discriminatory terms and on terms which recoup AIB's incremental costs (including the relevant cost of capital, being the cost of AIB's funds (e.g., debt and equity) to support this business) to Relevant Competitors.

Thus far, no competitors have made an application under the Services Package.

6.6 AIB's Customer Mobility Package Commitment

Under the terms of the Customer Mobility Package, AIB is required to provide certain services to Relevant Competitors for a total period of three years from 1 July 2014 (i.e. until 1 July 2017).

Under the Customer Mobility Package, AIB is required to facilitate Relevant Competitors wishing to have their advertising material relating to a Relevant Product mailed to a proportion of AIB's customers, on pre-determined mailing dates. No customer data will, at any stage, be transferred by AIB to a Relevant Competitor; however, customer name and address data is used to create a mailing file. That mailing file is securely held on behalf of AIB by an external mailing company with an established relationship with AIB and used to issue mailings on behalf of Relevant Competitors. The data remains at all times under the control of AIB. The manner in which this is handled, as described above, is intended to ensure that no breach of customer confidentiality obligations or applicable data protection legislation occurs.

Relevant Competitors making use of the Customer Mobility Package must reimburse AIB on commercial terms for all costs directly involved with the mailing and must take full responsibility for the lawfulness, accuracy and appropriateness of the material and provide to AIB in advance a written indemnity from and against all and any loss or damage caused or suffered by AIB in connection with the mailing.

KBC is the only competitor to have made a successful application under the Customer Mobility Package.

6.7 Potential Impact on AIB of Services Package and Customer Mobility Package Commitments

The effect of implementing the Services Package Commitment and the Customer Mobility Package Commitment under the Restructuring Plan may be the emergence of one or more new competitors and/or a material strengthening of one or more of AIB's existing competitors in the Irish banking market, which may materially impact AIB's competitive position.

7 Governance Restrictions

The governance and operations of AIB are subject to operational and behavioural restrictions arising from contractual, statutory and regulatory requirements. The sources of these restrictions include (i) those arising from the State's majority shareholding in the Company (in particular, under the terms of the 2010 Placing Agreement, the 2011 Placing Agreement, the Relationship Framework and the Minister's Letter); (ii) statutory requirements (arising from AIB's participation in the ELG Scheme, AIB's participation in the CIFS Scheme and AIB's participation in the NAMA Programme) and (iii) the Commitments. Although these restrictions derive from a number of sources, as indicated above, in terms of the Minister for Finance's direct control over the activities of AIB (controls not involving primary action by the Relevant Banking Regulator, following consultation with or the approval of the Minister for Finance), these restrictions for the most part are common or similar in type and relate to: (a) restrictions on reduction of reserves; (b) the right to appoint two non-executive directors and to require improved corporate governance; (c) restrictions on director and senior executive/employee remuneration and termination payments; (d) the right to require AIB to prepare and implement restructuring and business plans; and (e) rights to obtain information.

The relevant governance restrictions with effect from Admission are described below.

7.1 Governance restrictions—Contractual

7.1.1 2010 Placing Agreement

The 2010 Placing Agreement, which is of indefinite duration, sets out certain covenants with which AIB undertook to the Minister for Finance to comply. The covenants in the 2010 Placing Agreement are amended pursuant to the terms of the Relationship Framework which becomes effective on Admission. The amended covenants to the Minister for Finance in the 2010 Placing Agreement prescribe how AIB will manage its activities across a number of matters, including the following (with references below to the NPRFC to be read in the context of the assets of the NPRFC having become the assets of the ISIF, itself owned by the Minister for Finance, in 2014):

(i) to use all reasonable efforts to meet certain measures to promote the availability of credit;

(ii) to implement the Restructuring Plan and cooperate fully and consult where required with the Minister for Finance and the EC (including by promptly providing such assistance and information as is requested by the Minister for Finance and/or the EC) in connection with the Restructuring Plan;

(iii) without the consent of the Minister, not (I) take or omit to take any action that would result in its share premium account or any of its other distributable or undistributable reserves being reduced (other than in relation to the making or payment of any dividend or distribution), or (II) issue of any convertible securities, the conversion of which would result in any of the foregoing items at (I) being capitalised;

(iv) to take other specified steps in relation to certain matters of corporate governance, including providing access to the Minister to AIB's premises, books, records, senior executives, relevant personnel and professional advisers, developing and implementing a liability management plan and a medium term funding plan, maintaining regular, adequate and effective monitoring, reporting, risk management and audit controls and procedures and not entering into or varying any arrangement with a director or former director or connected person other than on normal commercial arms length terms agreed in the ordinary course of business;

(v) to ensure that the remuneration of its Directors, senior executives and employees, including as regards any bonus and pension arrangements, conform to the limits, prohibitions and conditions set out therein;

(vi) to comply in all respects with the terms of the Relationship Framework;

(vii) on request, to provide information to the Minister as the Minister reasonably requires for the purposes of performing its statutory functions and ensure that a copy of any information provided to the Minister for Finance or the Central Bank is provided to the NPRFC;

(viii) to apply the amount subscribed for ordinary shares in the Company pursuant to the 2010 Placing Agreement for the purpose of increasing its Core Tier 1 Capital and not use the subscription amount to make any contribution to any pension fund in excess of the amount it is required by law or any applicable regulatory authority to contribute;

(ix) not to consent to any changes to the trust deed or rules of any pension fund of AIB which may enhance or improve the retirement benefits of a senior executive of AIB without the consent of the Minister;

(x) not to give directly or indirectly financial assistance for share issues by the Company for non-cash consideration or enter into any put or call options or acquire any subsidiary or issue any shares in a member of the Group where such action is for the purpose of or in connection with a "cash box" arrangement; and

(xi) to do all necessary acts (at its own expense) to effect and/or facilitate the placing or the offer to the public, or the admission to trading of the Ordinary Shares owned by the Minister for Finance (an "Equity Transaction"), including by:

    (a) entering into an underwriting agreement, sale and purchase, placing or equivalent agreement on market terms, and entering into such other customary agreements as are reasonably required to effect the Equity Transaction;

    (b) preparing and publishing an information memorandum, listing particulars, offering circular, admission document, prospectus or similar document (an "Offer/Listing Document") in compliance with applicable laws;

    (c) permitting the use of any Offer/Listing Document prepared and published by the Company in compliance with the applicable laws for the purposes of an Equity Transaction; and

    (d) procuring that its directors accept responsibility for the contents of any Offer/Listing Document and any marketing materials relating to the transaction described therein in accordance with customary market practice and applicable law and regulation.

In addition, under the 2010 Placing Agreement, where the Company proposes to offer or sell any of its securities (except for routine offerings or sales by the Company of debt securities under customary debt issuance programmes) (a "Company Offering"), the Company is required to consult with the Minister with respect to the Company Offering and, if required by the Minister for Finance, at the Company's expense, do and execute or procure to be done and executed all necessary acts that the Minister reasonably considers necessary to effect and/or facilitate the sale of some or all of the Ordinary Shares owned by the Minister as part of the Company Offering.

Under the 2010 Placing Agreement, the Company is required to discharge all expenses of the Minister for Finance and any other State Entity (as defined therein) incurred in connection with any Equity Transaction or Company Offering.

The foregoing does not apply to an Equity Transaction or a Company Offering that is conducted in the United States as a public offering registered under the Securities Act (each a "US Offering"). Any US Offering will be governed by and conducted in accordance with the provisions of the Registration Rights Agreement.

Whereas certain powers and functions under the 2010 Placing Agreement and the 2011 Placing Agreement were previously performed by the NTMA under delegated authority from the Minister, these powers and functions are now exercised by the Minister directly. The present position in this regard has been reflected in the description above of the provisions of the 2010 Placing Agreement.

7.1.2 2011 Placing Agreement

The covenants contained in the 2011 Placing Agreement were substantially similar to the covenants in the 2010 Placing Agreement. Pursuant to the terms of the Relationship Framework which becomes effective on Admission, the covenants in the 2011 Placing Agreement are subject to similar amendments to those applicable to the covenants contained in the 2010 Placing Agreement.

7.1.3 Registration Rights Agreement

Pursuant to its obligations under the 2011 Placing Agreement, the Company entered into a Registration Rights Agreement with the NPRFC and the Minister for Finance on 1 July 2011, granting customary demand and "piggyback" registration rights in the United States under the Securities Act to the NPRFC and the Minister for Finance with respect to any securities of the Company, including the Ordinary Shares, held by the NPRFC or the Minister for Finance (for the purposes of this section only, "Registrable Securities"). Pursuant to the Registration Rights Agreement, each of the NPRFC (now the ISIF, following the ordinary shares in the capital of the Company held by the NPRFC having become assets of the ISIF in 2014) and the Minister for Finance is permitted to transfer its registration rights to any of its wholly owned, directly or indirectly, entities, as well as to any third party to whom it transfers not less than US$50 million in Registrable Securities to the public in the United States or US$75 million to the public within and outside the United States. In connection with any registered offering of Ordinary Shares by the Company under the Securities Act, any holders of Registrable Securities will have the right to participate in the offering, pursuant to customary 'piggyback' registration rights, to the extent that such participation would not prevent successful completion of the offering. In addition, all holders of Registrable Securities have 'piggyback' registration rights, on a pro rata basis, in any demand registration made by another holder pursuant to the Registration Rights Agreement.

7.1.4 Relationship Framework

Under the 2010 Placing Agreement, AIB agreed to be bound by and to comply in all respects with the terms of any relationship framework regulating the relationship between the Minister for Finance and AIB specified by the Minister for Finance in the context of EU competition law matters. On 29 March 2012, the 2012 Relationship Framework was specified by the Minister for Finance as being the document which provides the basis under which the relationship between the Minister for Finance and AIB is governed. It provides for safeguards as to the management of the State's interest in AIB, in order to ensure that those interests, and the management of those interests, do not lead to a prevention, restriction or distortion of competition in contravention of merger control or competition law rules. The 2012 Relationship Framework was amended and restated on 12 June 2017, conditional on Admission, and the description of the Relationship Framework that follows reflects the changes made in this amendment and restatement.

Under the terms of the Relationship Framework:

- The Minister for Finance expects the Board and management team of AIB to conduct AIB's commercial operations in a prudent and sustainable manner which seeks to create a commercially oriented credit institution that recognises the need to encourage and enforce implementation of lessons learned from the global financial crisis.
- The Minister for Finance recognises that AIB remains a separate economic unit with independent powers of decision and that its Board and management team retain responsibility and authority for

determining AIB's strategy and commercial policies (including business plans and budgets) and conducting its day-to-day operations.

- The Minister for Finance will ensure that the investment in AIB is managed on a commercial basis and will not intervene in day-to-day management decisions of AIB (including with respect to pricing and lending decisions).
- The Minister will, and will do all in his power to procure that each Government Entity will:

  (a) conduct transactions and arrangements with AIB at arm's length and on normal commercial terms;

  (b) not take any action that would have the effect of preventing AIB from complying with its obligations under the Listing Rules; and

  (c) not propose or procure the proposal of a shareholder resolution in respect of AIB which is intended to circumvent the proper application of the Listing Rules,

  (the "**Listing Rules Commitments**"), where the term "**Government Entity**" means any entity or body which is part of, or is controlled by, the Government of Ireland, but excluding all such entities or bodies which carry out a regulatory or supervisory function that are independent of the Minister for Finance (including, for example, but without limitation, the Central Bank of Ireland, the Revenue Commissioners and the Competition and Consumer Protection Commission).
- AIB will notify the Minister for Finance if it becomes aware of any breach or potential breach by any Government Entity of the Listing Rules Commitments.
- The Minister for Finance will engage with AIB, including in respect of the manner in which he exercises his voting rights, in accordance with best institutional practice in a manner proportionate to the shareholding interest of the State in AIB. In addition, the Minister for Finance will not and will procure (so far as the Minister for Finance has the power to do so) that each Government Entity will not (i) hold or acquire any material shareholding in any direct or indirect subsidiary of the Company, and (ii) vote on any "related party transaction" (for the purposes of the Listing Rules) involving or for the benefit of the Minister for Finance or a Government Entity as the related party.
- The Minister for Finance expects AIB to conduct its dealings with the State in a transparent, cooperative and proactive manner which fully recognises the significant level of support provided to AIB since 2008.
- The views of the Minister for Finance and the Irish Department of Finance are expected to be appropriately considered by AIB as part of any consultation process under the Relationship Framework. However, the Board and management team have full responsibility and authority for determining AIB's strategy and commercial policies.

The Relationship Framework also provides that the Minister for Finance and AIB will review the Relationship Framework from time to time when either party reasonably considers that changes to the Relationship Framework or to the State Agreements (as defined in the Relationship Framework and which include the 2010 Placing Agreement and the 2011 Placing Agreement) would be necessary or desirable to ensure that the Relationship Framework continues to reflect certain principles specified in the Relationship Framework and to enable AIB to continue to comply with its obligations under applicable law and regulations, including, but not limited to, the Listing Rules.

The Relationship Framework also imposes restrictions on AIB undertaking certain actions without the consent of, or first consulting with, the Minister for Finance. The principal restrictions are as follows:

(i) AIB is required to provide a copy of each draft business plan (a business plan must be prepared and updated at least annually by the Board) to the Minister for Finance before it is finalised and adopted by the Board, but it is noted that ultimate and final responsibility for the contents of the business plan rests with the Board;

(ii) the Board is required to consult with the Minister for Finance before appointing, removing or reappointing a chairman or a CEO of AIB. The Board is also required to consult with the Minister for Finance in respect of any proposed Board appointments;

(iii) the CEO of AIB is required to notify the Minister for Finance in writing of any senior executive appointments prior to announcement;

(iv) the Company is required to procure that up to two nominees of the Minister for Finance are appointed as Directors of the Company upon receipt of written notice from the Minister for Finance naming the proposed nominees ("Minister's Nominees"). The appointment of a Minister's Nominee is deemed to take effect on the date of the next Board meeting of the Company following the date of receipt of the notice from the Minister for Finance. If any of the Minister's Nominees are removed by a shareholder's resolution or fails to be re-elected by shareholders at a general meeting of the Company, the Company is required to procure that a replacement Minister's Nominee is appointed to the Board in accordance with the constitution of the Company. The Company is required to ensure that there are sufficient vacancies on the Board at all times to permit the appointment of the Minister's Nominees save where a resolution of the shareholders of the Company cause the maximum number of Directors permitted by the constitution of the Company to be exceeded. In these circumstances, the Board must not recommend that shareholder appointment resolution and is required to propose a shareholder resolution to increase the maximum number of Directors provided for in the constitution of the Company to accommodate the appointment of the Minister's Nominee. The Minister's Nominees are entitled to the same remuneration as the Non-Executive Directors receive for performing the role of Non-Executive Director and are permitted, subject to compliance with any regulatory requirements, to share confidential information they receive in their capacity as Directors of the Company with the Minister for Finance on a confidential basis. To date, the Minister has not appointed any Minister's Nominee under the terms of the Relationship Framework. However, Dr Michael Somers was originally appointed as a Government nominee under the terms of the 2009 Preference Shares as to which see paragraph 2 of "*Part XI—Directors, Senior Executives and Corporate Governance*";

(v) subject to any applicable regulatory requirements, AIB is required to keep the Minister for Finance informed promptly in writing of developments, including the terms of any settlement, in relation to any Material Litigation (as defined in the Relationship Framework) AIB is required to consult with the Minister for Finance prior to the conclusion of and/or before agreeing to the terms of any settlement in relation to Material Litigation to which the Minister for Finance is a party;

(vi) AIB is required to ensure that the remuneration of its executives does not breach any of the provisions of the agreements and arrangements entered into between AIB and the Minister for Finance and any other State agency or entity including the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister's Letter;

(vii) AIB is required to consult in writing with the Minister for Finance in respect of the following matters: (a) any material acquisitions, disposals, investments, realisations, reorganisations, restructurings or other transactions, (b) the declaration or payment of dividends, (c) the redemption or repurchase of any shares or securities unless such a redemption or repurchase of securities is undertaken at a redemption date or repurchase date in accordance with the terms of those securities, (d) the initiation by AIB of any liquidation, receivership, examinership or analogous statutory process in respect of AIB, (e) the entry into or variation of any transaction between AIB and a former Director or senior executive (as defined in the Relationship Framework) (a "Key Person") on terms other than on normal commercial arm's—length terms, (f) all important actions in respect of the commencement, defence, conduct or settlement of legal proceedings to which a Key Person or any connected person of a Key Person is party, and (g) any transaction or arrangement which may be classified by AIB as a "related party transaction" under the Listing Rules involving or for the benefit of any State agency or entity;

(viii) AIB is required to provide to the Minister for Finance all documents circulated for Board meetings of the Company at the same time they are provided to the Board. AIB is also required to provide the Minister for Finance with information and documentation which has been reasonably requested by the Minister from time to time. The Minister for Finance expects the Board or the CEO to bring to the attention of the Minister for Finance in writing any material matter of which the Board or the CEO becomes aware;

(ix) AIB is required to notify the Minister for Finance in writing of any public statement relating to a material matter at the earliest possible opportunity prior to making the public statement, except where AIB is required to make the public statement in advance of such notification in order to meet AIB's legal or regulatory requirements;

(x) senior management from AIB are required to meet with Irish Department of Finance officials on a monthly basis to discuss the achievement of AIB's business plan; and

(xi) AIB is required to keep the Minister for Finance informed of its lending plans, including in particular SME lending and any changes thereto by means of regular updates to officials of the Irish Department of Finance. The views of the Minister will be considered by AIB in the context of the Board's responsibility for the assessment of credit risk and the Board's responsibility for the determination of a credit risk appetite but it is noted that the Minister for Finance will have no function in individual lending decisions or the pricing of loans, both of which remain the responsibility of the Board and management of AIB.

The Minister for Finance may from time to time specify any amendments to, or revoke or replace, the Relationship Framework, provided that such amendments, revocations or replacements do not conflict with regulatory requirements. Any such amendment, revocation or replacement of the Relationship Framework will be specified or made following consultation with AIB and upon the instruction, or with the agreement, of the Directorate-General for Competition of the EC, and once specified will be notified to AIB in writing.

7.1.5 Minister's Letter

Pursuant to the 2011 Placing Agreement, the Minister for Finance wrote to the Board on 25 July 2011 (the "Minister's Letter") and created:

(i) obligations on AIB in respect of measures to promote the availability of credit, related party transactions and corporate governance that are reflected in the other agreements referred to above or that have by now been fulfilled;

(ii) undertakings on AIB's part concerning fulfilment of the Commitments; and

(iii) restrictions on executive remuneration within AIB. Under the terms of the Minister's Letter, AIB is required to ensure that the total annual remuneration of any director, senior executive or employee of AIB shall not exceed €500,000 (excluding a normal pension contribution) without the consent of the Minister for Finance. In addition, the consent of the Minister for Finance is also required in respect of any proposed introduction of a performance related element to the remuneration package of any director, senior executive or employee of AIB. In January 2017, the Minister for Finance confirmed that the current Government has no plans to deviate from the current policy of restricted pay to employees of Irish banks which have received financial support from the Irish Government.

7.2 Governance restrictions—Statutory

AIB is subject to certain governance-related obligations under the CIFS Scheme, the ELG Scheme and the NAMA Act. These governance-related obligations are legislative in nature and apply to each Irish bank which applied for and received the benefit of the Irish Government Guarantee Schemes or, as applicable, participated in the NAMA Programme put in place by the Irish Government during the banking crisis from 2008.

Each of the CIFS Scheme and the ELG Scheme is a statutory scheme set up under legislation enacted by the Oireachtas (the Irish legislature) during the banking crisis that was designed to support the participating Irish banks by providing depositors and other providers of funding with a State guarantee. Likewise, the NAMA Programme scheme is a 'bad-bank' type arrangement set up under the NAMA Act, legislation enacted during the banking crisis and dealing with the transfer of certain distressed and other related loans together with their security to a State agency, NAMA. A description of how each statutory regime may impact on the governance of AIB is set out below. The obligations imposed on participants, including those of complying with a direction of the Minister given under these statutory regimes, are designed and intended to support the purposes for which the statutory regimes were set up, and not with the purpose of enabling the Minister for Finance to exert influence over AIB (or other participating institutions) as a shareholder. These statutory regimes apply equally to all participating institutions and regardless of whether the Minister for Finance has a shareholding in the institution concerned.

These statutory regimes are distinct from any rights that the Minister for Finance has as a shareholder in the Company. As these regimes have a statutory basis under legislation, in exercising any power thereunder, the Minister for Finance or the relevant agency is subject to constitutional restrictions arising from the separation of the executive (including the Minister for Finance) arm of the Irish Government from the legislative arm under the Irish Constitution, as well as principles of administrative law, which apply to the exercise of all functions conferred by legislation. Any action which the Minister for Finance or relevant agency might take under any statutory authority is prescribed by the relevant legislation, and must be consistent with the purposes of the relevant legislation or be reasonably incidental to it and is capable of being subject to judicial review by the Irish courts.

7.2.1 CIFS Scheme and ELG Scheme

The CIFS Scheme gave effect to the Minister for Finance's guarantee of certain liabilities of certain Irish banks and certain of their subsidiaries which was announced by the Irish Government on 30 September 2008. Under the CIFS Scheme, the Minister for Finance guaranteed Covered Liabilities of Covered Institutions for the period from 30 September 2008 to 29 September 2010, whereby if a Covered Institution defaulted in respect of a Covered Liability, the Minister for Finance was obliged to pay to the creditor, on demand, an amount equal to the unpaid Covered Liabilities. As part of their accession to the CIFS Scheme as covered institutions, each of the AIB CIFS Covered Institutions (amongst other participating institutions) entered into guarantee acceptance deeds in respect of the CIFS Scheme in favour of the Minister for Finance in October and December 2008, whereby each of them consented to all of the terms and conditions of the CIFS Scheme and agreed to indemnify the Minister for Finance against any payments the Minister for Finance was required to make under the CIFS Scheme in respect of their Covered Liabilities. The terms of those guarantee acceptance deeds survive notwithstanding the expiry of the guarantee under the CIFS Scheme on 29 September 2010. On its current terms, the CIFS Scheme, as amended by the ELG Directions, survives the expiry of the guarantee under the CIFS Scheme.

In addition to the guarantee acceptance deeds related to the CIFS Scheme referred to above, and in respect of AIB's relationship with the Irish Government, AIB's governance is further restricted as a result of its continued participation in the ELG Scheme. The ELG Scheme, which came into effect on 9 December 2009, gave effect to a further guarantee by the Minister of certain liabilities of participating institutions and was closed to new liabilities on 29 March 2013. However, the liabilities under the ELG Scheme on that date remain covered until they mature and the AIB ELG Participating Institutions (amongst other participating institutions) remain participants in the ELG Scheme. As the maximum duration of liabilities under the ELG Scheme is five years, the guarantee under the ELG Scheme will cease to apply on 29 March 2018, however, on its current terms, the ELG Scheme survives the expiry of the guarantee.

Following expiry of the guarantee under the ELG Scheme, AIB intends to apply to the NTMA (as operator of the ELG Scheme) to cease to be a participating institution under the ELG Scheme and to also apply to the Minister to seek to be released from the relevant obligations of the CIFS/ELG Schemes. In that regard, the guarantee acceptance deed in relation to the ELG Scheme provides that it will remain in full force and effect until the Minister confirms to AIB that it has been released from liability under the ELG Scheme. It would be reasonable to expect that following such an application, the Irish Department of Finance would conduct a review of the continued operation and application of the CIFS/ELG Schemes with a view to concluding the CIFS/ELG Schemes and releasing both the Minister and the participating institutions from their respective obligations under the CIFS/ELG Schemes, although no assurance can be given that this will occur.

Pursuant to eligible liabilities guarantee scheme agreements in respect of the ELG Scheme entered into in January 2010 and February 2010 (together the "ELG Scheme Agreements"), each of the AIB ELG Participating Institutions has given certain covenants in favour of the Minister for Finance and also given an indemnity for costs incurred by the Minister for Finance in respect of the ELG Scheme. Each ELG Scheme Agreement also provides for the incorporation therein of the obligations and liabilities imposed on the AIB ELG Participating Institutions under the CIFS Scheme. As currently constituted, the terms of the ELG Scheme Agreements survive the expiry of the guarantee under the ELG Scheme.

The terms and conditions of the CIFS Scheme and the ELG Scheme place certain restrictions on, and require AIB to submit to a degree of governmental regulation in relation to, the operation of AIB's business. Furthermore, under paragraph 22 of the ELG Scheme, the Minister for Finance, after consultation with the Governor of the Central Bank and the Relevant Banking Regulator, is required to issue directions to participating institutions which in his or her view are necessary to ensure that the objectives of the Credit Institutions (Financial Support) Act 2008 (under which the ELG Scheme was made) and the ELG Scheme are met, including to comply with some or all of the provisions of conduct, transparency and reporting requirements applicable to Covered Institutions under the CIFS Scheme. The ELG Scheme provides (and the CIFS Scheme makes similar provision with respect to the CIFS Scheme) that the Minister for Finance had regard to the following objectives in establishing the ELG Scheme:

(a) maintaining financial stability in the best interests of the public and the economy of the State;

(b) providing participating institutions with access to a stable funding stream and longer term funding from the capital markets to ensure that they can discharge their central role in facilitating economic activity and lending to the real economy in the State;

(c) ensuring compliance with the requirements of EU state aid and competition law; and

(d) minimising the potential cost to the exchequer and taxpayers.

The ELG Directions issued to the AIB ELG Participating Institutions in some cases modify the manner in which the provisions contained in the CIFS Scheme are to apply to the AIB ELG Participating Institutions for the purposes of the ELG Scheme, and require the AIB ELG Participating Institutions to comply with obligations towards the Minister for Finance, the Relevant Banking Regulator, or both. The modifications made to the terms of certain provisions of the CIFS Scheme as applied to the AIB ELG Participating Institutions under the ELG Directions issued to the AIB ELG Participating Institutions mean that the AIB ELG Participating Institutions are deemed compliant with those provisions of the CIFS Scheme once it adheres to the terms of its banking licence and the capital adequacy and related banking regulatory requirements to which it is subject (as to which see "*Part XVIII: Supervision and Regulation*").

The rights conferred on the Minister for Finance under the CIFS Scheme and the ELG Scheme include (i) the power to make rules, following consultation with the Relevant Banking Regulator, concerning the declaration and payment of dividends (as to which, see references to Dividend Rules below); (ii) the right to make directions to appoint up to two non-executive directors to the Board in order to promote the public interest, and to take steps to restructure its executive management responsibilities and improve corporate governance, (iii) the right to direct, following consultation with the Relevant Banking Regulator, AIB to draw up and comply with a restructuring plan to ensure compliance with the objectives of the CIFS Scheme, and (iv) the right to direct the Relevant Banking Regulator to require such reports from AIB as the Minister for Finance considers necessary. In relation to (ii) above. Mr Dick Spring and Mr Declan Collier were appointed public interest directors of the Company in January 2009 under the terms of the CIFS Scheme. Mr Dick Spring retired as a public interest director in December 2014 and Mr Declan Collier retired as a public interest director in June 2012. There have been no directors, which have been appointed under that right under the CIFS Scheme, on the Board since December 2014. However, Dr Michael Somers was originally appointed as a Government nominee Director under the terms of the 2009 Preference Shares as to which see paragraph 2 of "*Part XI—Directors, Senior Executives and Corporate Governance*".

The rights conferred on the Relevant Banking Regulator under the CIFS Scheme and the ELG Scheme include the ability, following consultation with the Minister for Finance, to regulate the commercial conduct of AIB (strictly in order to achieve the objectives of the CIFS Scheme and the ELG Scheme), and the Relevant Banking Regulator is required (in consultation with the Minister for Finance) to impose conditions regulating the commercial conduct of a covered institution's business, having regard to capital ratios, market share and balance sheet growth, in order to minimise competitive distortion that might otherwise arise by virtue of the guarantee, and to require changes to the Board in order that an appropriate balance between executive and non-executive directors is represented. AIB is also required to seek the approval of the Relevant Banking Regulator, following consultation with the Minister for Finance, before engaging in buy backs or redemptions of its shares.

The CIFS Scheme and the ELG Scheme impose requirements on AIB, in favour of the Minister, the NTMA (as the CIFS Scheme and ELG Scheme operator) and the Relevant Banking Regulator, to report on and/or certify its compliance with the CIFS Scheme, the ELG Scheme and other provisions of law.

As set out above, in some cases the rights of the Relevant Banking Regulator under the CIFS Scheme and the ELG Scheme are to be exercised following consultation with the Minister, and vice versa. However, both the ELG Scheme and the CIFS Scheme, provide that nothing in the CIFS Scheme or the ELG Scheme shall prejudice the independence of the Relevant Banking Regulator.

As concerns the discretion of the Minister for Finance to issue rules in relation to the declaration and payment of dividends described above, on 28 February 2017, the Minister for Finance issued the Dividend Rules. The Dividend Rules prescribe that (i) where an agreement or deed between a covered institution and the Minister for Finance provides that a dividend may not be declared or paid by that covered institution without the consent of the Minister for Finance and/or the NTMA, the covered institution concerned must obtain the prior consent of the Minister for Finance and/or NTMA prior to declaring or paying such dividend; and (ii) where the relationship framework specified by the Minister for Finance in respect of a covered institution provides that the declaration or payment of dividend is a "Matter for

Consultation" (as defined in the relevant relationship framework), that covered institution must consult with the Minister for Finance in writing before it concludes on the declaration or payment of the dividend. The rule at (ii) above is applicable in the case of AIB because AIB has a duty to consult with the Minister in relation to the declaration and payment of dividends under the Relationship Framework. The Dividend Rules provide that the procedure for AIB consulting with the Minister and/or the NTMA, as the case may be, is that prescribed in the Relationship Framework. The Dividend Rules facilitate the payment of dividends by participating institutions under the ELG Scheme/the CIFS Scheme, including the dividend on the Ordinary Shares for the financial year ended 31 December 2016 which was approved by Shareholders at the 2017 AGM and paid on 9 May 2017.

7.2.2 NAMA Programme

Each of AIB and EBS are two of a number of participating institutions under the NAMA Act. The purposes for which the NAMA Act was introduced, as stated therein, are consistent with and not dissimilar to, the objectives of the CIFS Scheme/ELG Scheme, as outlined above. In addition to providing for a statutory framework for the process of NAMA acquiring bank assets (as defined in the NAMA Act) from participating institutions, the NAMA Act also contains provisions relating to the ongoing relationship between NAMA and the relevant participating institution following such acquisition. Section 129 of the NAMA Act obliges the participating institution to inform the Minister and NAMA of any impediment to the achievement of the purposes of the NAMA Act, the performance by the Minister and/or NAMA of their respective obligations thereunder, or the fulfilment by the participating institution of the obligations under the NAMA Act, and to take all reasonable steps to address the impediment in a manner that best furthers the purposes of the NAMA Act. Section 131 of the NAMA Act provides that a participating institution from which NAMA has acquired a bank asset may be directed by NAMA to perform, or, as the case may be, to continue to perform, management, administrative and enforcement services (or any service included in a direction by NAMA) in respect of that bank asset. In fulfilling its obligations arising from such a direction from NAMA, a participating institution must ensure that all relevant authorisations, consents and licences are in place. Section 132 of the NAMA Act provides that the participating institution shall do all such acts or things as NAMA directs to facilitate the provision of those services by a third-party service provider. In addition, Section 133 of the NAMA Act provides that NAMA may, for the furtherance of the achievement of its purposes under the NAMA Act, give directions to a participating institution to deal in a specified way with a bank asset which was not acquired. Under Section 184 of the NAMA Act, the participating institution is obliged, on NAMA's request, to provide NAMA with any assistance it reasonably requires for the purposes of proceedings relating to an acquired bank asset (as defined in the NAMA Act).

The NAMA Act also contains provisions concerning the ongoing conduct of participating institutions. Under section 206 of the NAMA Act, the Relevant Banking Regulator may, with the approval of the Minister for Finance, give a direction to a participating institution in order to achieve the purposes of the NAMA Act. A direction under this section may restrict balance sheet growth, restrict the institution's ability to take over other credit institutions, require balance sheet reductions, or restrict or require consolidation and merger of participating institutions. Under section 207 of the NAMA Act, the Relevant Banking Regulator may direct a participating institution in writing to make any report that the Relevant Banking Regulator considers necessary to monitor the participating institution's compliance with the obligations under or by virtue of the NAMA Act. Pursuant to section 208 of the NAMA Act, a participating institution may be directed by the Minister for Finance, after consultation with the Relevant Banking Regulator, to draw up, or amend, a restructuring plan and, if approved by the Minister, to put in place the plan in accordance with a timetable directed by the Minister. A participating institution may also be directed by the Minister for Finance, after consultation with the Relevant Banking Regulator, to draw up, or submit for approval, and to amend, a business plan. If the Minister for Finance approves a draft business plan, the participating institution is obliged to take all reasonable steps to implement that plan. To date, no such directions under the NAMA Act have been given by the Relevant Banking Regulator or the Minister for Finance to AIB or EBS. The NAMA Act does not prescribe a cessation date for the NAMA Programme.

The NAMA Act provides for five-year reviews by the Minister for Finance whereby the Minister for Finance is required to assess the extent to which NAMA has made progress towards achieving its overall objectives, and the Minister for Finance shall decide whether continuation of the NAMA Programme is necessary having regard to the purposes of the NAMA Act. The last review took place in July 2014. In its 2016 annual report, NAMA has described itself as in a wind-down phase, which suggests an expectation that, absent an expansion of NAMA's current mandate, NAMA may no longer be necessary at some point in the near future. NAMA has stated that it expects to redeem its subordinated bonds held by NAMA participating institutions, including AIB and EBS, in by 1 March 2020, and accordingly AIB expects its participation in the NAMA Programme should end then, although no assurance can be given that this will occur.

7.3 Governance restrictions—Commitments in the Restructuring Plan

The Commitments relate to: (i) the restructuring of AIB's mortgages and SME loan portfolios and the limitation of certain new lending to the property and construction sector; (ii) the timing of the redemption of the CCNs; (iii) cost reductions; (iv) limitation of exposure to Irish sovereign bonds; (v) behavioural commitments, which include limiting acquisitions, restrictions on marketing, advertising and sponsorship in Ireland, a restriction on any steps that could lead to a capital outflow prior to repayment of the aid and a ban on discretionary coupon payments on instruments issued prior to 7 May 2014; (vi) measures to enhance competition in the Irish banking market (called competition measures and comprising a Services Package and a Customer Mobility Package as to which see "*—Relationship with Government and State Aid—State Aid*"); (vii) the appointment of the monitoring trustee to monitor compliance with the commitments; and (viii) a commitment, subject to receipt of all regulatory and other approvals, to repay state aid before the end of the Restructuring Period (which is described in more detail above under "Remuneration and Repayment"). Some of these commitments have expired, whilst the others will expire in the course of 2017 or on 31 December 2017. Those commitments which remain operable are described in more detail in "*Part XXI: Additional Information—Material Contracts—Restructuring Plan*".

7.4 Recent Motions passed by Dáil Éireann

On 9 May 2017 the Labour Party put forward a private members motion stating that Dáil Éireann (one of the houses of the Oireachtas) calls on the Government to postpone the sale of shares in the Company until EU fiscal rules have been changed to permit enhanced capital spending, rather than remit the sale proceeds to the Exchequer of the Irish Government simply to pay down the State's debt. No formal proposals to make such changes to the EU fiscal rules have been made by the competent organs of the European Union. The Labour Party does not form part of the Government and the sale referred to in that motion is that contemplated by the Offer. That motion stated that this would allow the monies received from the sale to be spent on capital investments rather than to pay down the national debt. In response, on the same day, the Minister for Finance (the Selling Shareholder) put forward a counter-motion in support of the Government's commitment to sell its banking interests where conditions permit. The Minister for Finance opposed the Labour Party's motion on a number of grounds, including the positive effect the sale would have on normalising the banking sector; the desirability of reducing the national debt and the importance of strong fiscal rules (which he noted were not imposed unilaterally but adopted by referendum by the Irish people and enshrined in the Constitution of Ireland) in protecting against future risks.

Voting on the motions was postponed until 18 May 2017. At that vote, the counter-motion was declared lost, and the Labour Party motion was deemed passed because of procedural failures by members of Dáil Éireann who support the Government to object to the motion. In response, on the same day, the Irish Department of Finance published a statement by the Minister for Finance in which the Minister for Finance stated that private members motions are not legally binding on the Government and the Government position remains unchanged and as set out in his statements made in Dáil Éireann the previous week.

PART XI
DIRECTORS, SENIOR EXECUTIVES AND CORPORATE GOVERNANCE

1 Directors

The Board of Directors of the Company currently consists of twelve Directors. A list of the members of the Board of Directors of the Company is set forth in the table below:

Name	Age	Position	Date appointed
Richard Pym	67	Chairman; Non-Executive Director	13 October 2014(1)
Simon Ball	57	Non-Executive Director	13 October 2011
Mark Bourke	50	Chief Financial Officer	29 May 2014
Bernard Byrne	49	Chief Executive Officer	24 June 2011(2)
Thomas (Tom) Foley	63	Non-Executive Director	13 September 2012
Peter Hagan	68	Non-Executive Director	26 July 2012
Carolan Lennon	50	Non-Executive Director	27 October 2016
Brendan McDonagh	58	Non-Executive Director	27 October 2016
Helen Normoyle	49	Non-Executive Director	17 December 2015
James (Jim) O'Hara	66	Non-Executive Director	13 October 2010
Dr Michael Somers	74	Deputy Chairman; Non-Executive Director	14 January 2010
Catherine Woods	54	Senior Independent Non-Executive Director	13 October 2010(3)

Notes:

(1) Richard Pym was appointed Chairman on 1 December 2014.

(2) Bernard Byrne was appointed Chief Executive Officer on 29 May 2015.

(3) Catherine Woods was appointed Senior Independent Non-Executive Director on 30 January 2015.

The business address of each Director is Bankcentre, Ballsbridge, Dublin 4, Ireland.

Certain information in respect of the Directors is set out below. Please also refer to paragraph 6.1 of "*Part XXI: Additional Information*" for a full list of the current directorships held by each Director together with a list of the directorships held by each in the last five years.

Richard Pym—Chairman, Non-Executive Director

Mr Pym was co-opted to the Board on 13 October 2014 as Chairman Designate and Non-Executive Director and was appointed Chairman with effect from 1 December 2014. Mr Pym is a Chartered Accountant with extensive experience in financial services, having held a number of senior roles, including Group Chief Executive Officer of Alliance & Leicester plc. He is a former director and Chairman of UK Asset Resolution Limited, the entity which manages, on behalf of the UK Government, the run-off of the Government owned closed mortgage books of Bradford & Bingley plc and NRAM Limited. Mr Pym is a former Chairman of Nordax Bank AB (publ), The Co-operative Bank plc, BrightHouse Group plc and Halfords Group plc. He is a former non-executive director of The British Land Company plc, Old Mutual plc and Selfridges plc. Mr Pym is Chairman of the Nomination and Corporate Governance Committee and member of the Remuneration Committee.

Simon Ball—Non-Executive Director

Mr Ball was co-opted to the Board on 13 October 2011 as Non-Executive Director. He has previously held roles as Chairman of Anchura Group Limited, Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc and has served as Group Finance Director of 3i Group plc and the Robert Fleming Group. He has held a series of senior finance and operational roles at Dresdner Kleinwort Benson and was Director General, Finance, for HMG Department for Constitutional Affairs. Mr Ball was appointed to the board of AIB Mortgage Bank during March 2017 and is also currently a member of the board of Commonwealth Games England. He is a member of the Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee.

Mark Bourke—Chief Financial Officer, Executive Director

Mr Bourke joined the Company in April 2014 as Chief Financial Officer and member of AIB's Leadership Team and was co-opted to the Board on 29 May 2014. He joined AIB from IFG Group p.l.c. where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mr Bourke began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute.

Bernard Byrne—Chief Executive Officer, Executive Director

Mr Byrne was appointed Chief Executive Officer in May 2015. He joined the Company in May 2010 as Group Chief Financial Officer and member of AIB's Leadership Team and was co-opted to the Board on 24 June 2011. Since then he has held a number of significant roles including Director of Personal, Business & Corporate Banking and more recently Director of Retail & Business Banking. Mr Byrne is currently the President of the Institute of Banking. In January 2015, he was appointed President of BPFI and remained in this position until December 2016. Mr Byrne was also previously a director of EBS d.a.c. between July 2011 and March 2017. A Chartered Accountant by profession, Mr Byrne joined PricewaterhouseCoopers (PwC) in 1988 and moved to ESB International in 1994, where he worked as Commercial Director for International Investments. In 1998, he became the Finance Director, and later the Deputy Chief Executive Officer of IWP International plc. He later became Group Finance Director and Commercial Director with ESB, until he left to join AIB.

Thomas (Tom) Foley—Non-Executive Director

Mr Foley was co-opted to the Board on 13 September 2012. Mr Foley is a former executive director of KBC Bank Ireland, former Chief Executive Officer of KBC Homeloans and has held a variety of senior management and board positions with the KBC Group in Corporate, Treasury and Personal Banking in Ireland and the United Kingdom. He was a member of the Nyberg Commission of Investigation into the Banking Sector during 2010 and 2011 and the Department of Finance Expert Group on Mortgage Arrears and Personal Debt during 2010. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank. He is a non-executive director of AIB UK since April 2015 and of Intesa SanPaolo Life d.a.c, and he is a former non-executive director of BPV Finance (International) p.l.c. He was appointed non-executive director of EBS d.a.c. in November 2012. He is a member of the Audit Committee and the Remuneration Committee.

Peter Hagan—Non-Executive Director

Mr Hagan was co-opted to the Board on 26 July 2012. Mr Hagan is former Chairman and Chief Executive Officer of Merrill Lynch's US commercial banking subsidiaries and was also a director of Merrill Lynch International Bank (London), Merrill Lynch Bank (Swiss), ML Business Financial Services, FDS Inc. and the Thomas Edison State College Foundation. Over a period of 35 years he has held senior positions in the international banking industry, including as Vice Chairman and Representative Director of the Aozora Bank (Tokyo, Japan). During 2011 and until September 2012, he was a director of each of the US subsidiaries of IBRC and was also previously a director and treasurer of 179 East 70th Street Corporation. He is at present a consultant in the fields of financial services litigation and regulatory change. He is Chairman of the Risk Committee and a member of the Audit Committee.

Carolan Lennon—Non-Executive Director

Ms Lennon was co-opted to the Board on 27 October 2016. She is the Managing Director of Open Eir, Eir's Networks and Wholesale Division. She has held a number of senior roles in Eir, including Acting Managing Director and Consumer and Chief Commercial Officer. Prior to joining Eir, she held a number of senior roles in Vodafone Ireland. Ms Lennon is a former non-executive director of the DIT Foundation and the Irish Management Institute. She currently sits on the Council of Patrons for Special Olympics Ireland. Ms Lennon is a member of the Risk Committee and Sustainable Business Advisory Committee.

Brendan McDonagh—Non-Executive Director

Mr McDonagh was co-opted to the Board on 27 October 2016. Mr McDonagh is an independent non-executive director of UK Asset Resolution Limited, where he is the Chairman of the Audit Committee and a member of the Risk Committee and the Nomination Committee. He currently serves on the advisory board of the business school of Trinity College Dublin. He started his banking career with HSBC in 1979 and worked in Asia, Middle East, Europe and North America. Mr McDonagh is a former member of the board of the NTMA and other previous roles include Executive Chairman of the Bank of N.T.

Butterfield & Son Limited, Hamilton, Bermuda, and a former CEO of HSBC North America Holdings Inc. with responsibility for its banking and consumer finance operations in the United States and Canada. He was also Group Managing Director for HSBC Holdings Inc. and a member of the HSBC Group Management Board. He is a member of the Risk Committee.

Helen Normoyle—Non-Executive Director

Ms Normoyle was co-opted to the Board on 17 December 2015. She is currently the Marketing Director of Boots UK and Ireland. Prior to this, she was the Chief Marketing Officer of Countrywide, the UK's largest estate agency group. She also previously held the role of Chief Marketing Officer at DFS, Britain's leading upholstered furniture retailer, responsible for all aspects of the company's marketing, communications and PR. Prior to joining DFS, she was Director of Marketing & Audiences at the BBC, responsible for the corporation's marketing, research, planning and audience services. In 2003, she joined Ofcom, the UK's telecoms and communications regulator as Director of Market Research where she established and led Ofcom's market research and intelligence team and, latterly, the Media Literacy team. Before joining Ofcom, she held a range of posts over an eight-year period at Motorola, including Director of Marketing and Director of Global Consumer Insights and Product Marketing. She started her career working for one of Europe's leading market research agencies, Infratest+GfK, based in Germany. Ms Normoyle is Chairman of AIB's Sustainable Business Advisory Committee established during 2016.

James (Jim) O'Hara—Non-Executive Director

Mr O'Hara was co-opted to the Board on 13 October 2010. He is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel's technology and manufacturing group in Ireland. He is the Chairman of a number of indigenous technology start-up companies. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland and non-executive director of Fyffes p.l.c. He was appointed non-executive director of EBS in June 2012. He is Chairman of the Remuneration Committee and a member of the Audit Committee, the Nomination and Corporate Governance Committee and the Sustainable Business Advisory Committee.

Dr Michael Somers—Deputy Chairman, Non-Executive Director

Dr Somers was co-opted to the Board on 14 January 2010. He is former Chief Executive Officer of the NTMA. He is a director and Chairman of Goodbody Stockbrokers UC and a Non-Executive Director of Fexco Holdings UC and Goodbody Holdings UC, Hewlett-Packard International Bank p.l.c., the Institute of Directors, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management, in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the audit committee of the European Investment Bank and Director of the European Investment Bank and former member of the EC Monetary Committee. Dr Somers was Chairman of the group that drafted the National Development Plan 1989-1993 and of the European Community group that established the European Bank for Reconstruction and Development. He was formerly a member of the Council of the Dublin Chamber of Commerce and a non-executive director of St. Vincent's Healthcare Group Limited and Willis Group Holdings plc. On 25 May 2017, Dr Somers was appointed President of the Institute of Directors. He is a member of the Risk Committee and the Nomination and Corporate Governance Committee.

Catherine Woods—Senior Independent Non-Executive Director

Ms Woods was co-opted to the Board on 13 October 2010. She is a non-executive director of AIB Mortgage Bank and EBS d.a.c. She has been a non-executive director of Beazley Re d.a.c. since July 2015 and Chairman since March 2016 and became a director of Beazley plc in January 2016. She was appointed Senior Independent Non-Executive Director of AIB in January 2015. She is a former Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband scheme and is a former Vice President and Head of the JPMorgan European Banks Equity Research Team, where her mandates included the recapitalisation of Lloyds of London and the re-privatisation of Scandinavian banks. Ms Woods is a former Chairman of EBS d.a.c., former director of An Post, and a former member of the Electronic Communications Appeals Panel. She is Chairman of the Audit Committee and a member of the Risk Committee and Nomination and Corporate Governance Committee.

2 Board Appointments

The 2009 Preference Shares conferred on the NPRFC (now the ISIF as the holder of such shares following the 2009 Preference Share having become the assets of the ISIF in 2014, ISIF itself being owned by the Minister for Finance), the right to appoint a non-executive director to the Board. Dr Michael Somers was appointed to the Board in January 2010 for an initial term ending on 31 December 2012 and was then subsequently reappointed for a further period of one year with effect from 1 January 2013, and for a further two years with effect from 1 January 2014. He was subsequently reappointed on 15 December 2015 as a Non-Executive Director for a further two-year period to 31 December 2017 prior to the conversion and redemption of the 2009 Preference Shares described in *"Part X: Relationship with Government and State Aid—Irish State as Shareholder in AIB—2009 Preference Shares"*. Dr Somers offered himself for re-election, and was re-elected at the 2017 AGM. Nevertheless, Dr Somers continues as a Government appointed Director and his re-appointment is in accordance with his existing terms of appointment.

3 Senior Executives

The following Senior Executives are responsible for the day-to-day management of AIB's business, in addition to the executive directors of the Company ("Executive Directors") listed above:

Name	Age	Position
Helen Dooley	48	Group General Counsel
Triona Ferriter	46	Chief People Officer
Donal Galvin	44	Group Treasurer
Deirdre Hannigan	56	Chief Risk Officer
Dr Colin Hunt	46	Managing Director, WIB
Tom Kinsella	48	Chief Marketing Officer
Robert Mulhall	43	Managing Director, RCB
Brendan O'Connor	51	Managing Director, AIB UK
Jim O'Keeffe	49	Head of FSG
Tomás O'Midheach	48	Chief Operating Officer

The business address of each Senior Executive is Bankcentre, Ballsbridge, Dublin 4, Ireland save for Brendan O'Connor, whose business address is St. Helen's, 1 Undershaft, London EC3A 8AB.

Certain information in respect of the Senior Executives (in addition to those listed above) is set out below. Please refer to paragraph 6.2 of Part "*XXI: Additional Information*" below for a full list of the current directorships held by each Senior Executive together with a list of the directorships held by each in the last five years.

Helen Dooley—Group General Counsel

Ms Dooley was appointed to her current role as Group General Counsel and as a member of the Leadership Team in October 2012. In June 2014 she also assumed responsibility for the Compliance function within AIB. Ms Dooley previously held the role of Head of Legal in EBS d.a.c. Prior to this, she held a number of other senior roles in EBS d.a.c. including Head of the Regulatory Compliance Function and Company Secretary. Ms Dooley began her career in 1992 working principally as a banking and restructuring lawyer with Wilde Sapte solicitors in London, moving to Hong Kong in 1998 to work for Johnson Stokes & Master solicitors and returning to Ireland in 2001 to work for A&L Goodbody solicitors.

Triona Ferriter—Chief People Officer

Ms Ferriter joined AIB in January 2017 as Chief People Officer and a member of the Leadership Team. She has 20 years experience in human resources operating at a senior management level within both US multinational and indigenous Irish companies, working across diverse business functions, including sales and marketing, manufacturing, shared services and retail, mainly in the pharmaceutical sector. With experience in companies such as Schering-Plough/MSD, Dunnes Stores and Procter & Gamble, her responsibilities have included the full range of human resources functions both at a local organisation and pan-European level, and key areas of expertise include effective change management through organisation restructuring and development, strategic business partnering and planning, and management of industrial and employee relations in both unionised and non-unionised environments.

Donal Galvin—Group Treasurer

Mr Galvin joined AIB in 2013 as Head of Treasury and was appointed to the Leadership Team as Group Treasurer in April 2016. He has worked in domestic and international financial markets for the past 20 years. Prior to joining AIB, he was Managing Director in Mizuho Securities Asia, the investment banking arm of Japanese bank Mizuho, where he was responsible for Asian Global Markets. Before that he was Managing Director in Dutch Rabobank where his responsibilities included managing all European and Asian Global Financial Markets business as well as leading Rabobank's Global Client Structured Products division.

Deirdre Hannigan—Chief Risk Officer

Ms Hannigan joined AIB in April 2017 as Chief Risk Officer and member of the Leadership Team. Ms Hannigan began her career in retail banking at AIB before moving to AIB's corporate banking team. In 1995, she left AIB to be the Head of Corporate Banking at Rabobank Ireland Limited. Since then, Ms Hannigan has gained extensive experience in risk management, including at GE Money—Ireland as the Chief Risk Officer from 2007 to 2010, at GE Capital as Enterprise Risk Management Director (EMEA) from 2010 to 2012 and as Global Credit Risk Review Director (International) from 2012 to 2014, and most recently at the NTMA as Chief Risk Officer. Ms Hannigan is a fellow of both the Association of Chartered Certified Accountants and the Institute of Bankers. Ms Hannigan is also a Chartered Director from the Institute of Directors.

Dr Colin Hunt—Managing Director, WIB

Dr Hunt joined AIB as Managing Director, WIB and a member of the Leadership Team in August 2016. Prior to joining AIB, he was Managing Director at Macquarie Capital where he led the development of its business in Ireland. Previously, Dr Hunt was a Special Policy Adviser at the Departments of Transport and the Department of Finance, Research Director and Chief Economist at Goodbody Stockbrokers, Head of Trading Research and Senior Economist at Bank of Ireland Group Treasury and a Country Risk Analyst at NatWest.

Tom Kinsella—Chief Marketing Officer

Mr Kinsella joined AIB in November 2012 as Group Marketing Director and was appointed to his current role as Chief Marketing Officer and to the Leadership Team in November 2015. Prior to joining AIB, he worked in a variety of senior marketing roles in Diageo, working locally and internationally across Europe, Asia and the Americas on a wide variety of leading brands including Guinness and Baileys. In 2015 he was made a Fellow of the Marketing Institute of Ireland in recognition of his contribution to the profession in Ireland and his achievements in driving brand growth.

Robert Mulhall—Managing Director, RCB

Mr Mulhall has over 20 years experience in financial services, with a career which has included many roles up to senior executive management level in AIB in such areas as Digital Channels Innovation and Management, Retail Banking Distribution Management, Customer Relationship Management, Business Intelligence, Strategic Marketing, Strategy Development, and Operations and Sales Management. Mr Mulhall spent two years building and leading the Distribution & Marketing Consulting Practice for Accenture in Financial Services, North America. In this capacity he brought his industry experience to build a rapidly growing consultancy practice in the fast moving and innovative area of financial services in North America. He returned to AIB in October 2015 as Managing Director of Retail, Corporate and Business Banking and is a member of the Leadership Team.

Brendan O'Connor—Managing Director, AIB UK

Mr O'Connor joined the Leadership Team in February 2013 as Head of FSG and was appointed to his current role in October 2015. He joined AIB in 1984 and from 1988 to 2009, he worked in AIB Treasury in New York and Dublin before moving to AIB Corporate Banking in 2009. Mr O'Connor has held a number of senior roles throughout the organisation including Head of AIB Global Treasury Services, Head of Corporate Banking International, and Head of AIB Business Banking.

Jim O'Keeffe—Head of FSG

Mr O'Keeffe has over 27 years banking experience with AIB. During his career, he has worked across many aspects of banking from IT to the Retail Business. From 2004 to 2008 he relocated to AIB's then subsidiary BZWBK in Poland as Head of Personal & SME Business Development. Following his return to Ireland, from 2009 to 2011 he was Head of AIB's Direct Channels before taking up his previous role as Head of AIB's Mortgage Business in June 2011. He was appointed as Head of FSG and a member of the Leadership Team in November 2015.

Tomás O'Midheach—Chief Operating Officer

Mr O'Midheach was appointed to the role of Chief Operating Officer and a member of the Leadership Team in February 2016. He has over 22 years of experience in the financial services industry. His experience has spanned many diverse areas of banking including Finance, Data, Customer Analytics, Direct Channels and Digital. He spent 11 years with Citibank in the United Kingdom, Spain and Ireland where he held several senior positions in Finance. He joined AIB in June 2006 as Business Lead Finance Operating Model and has since held a number of senior executive positions including Head of Direct Channels and Analytics and Chief Digital Officer.

4 Board of Directors and Corporate Governance

AIB is firmly committed to the highest standards of corporate governance and maintaining an effective framework for the control and management of the business. The Board of Directors is responsible for corporate governance, encompassing leadership, direction and control of AIB, and is accountable to shareholders for financial performance. The Board meets as often as is required to satisfy its own legal, regulatory and ESM listing rules, to be replaced by Main Securities Market obligations from the date of Admission.

4.1 Compliance with Corporate Governance Requirements

4.1.1 UK Code and Irish Code

Compliance with the UK Code and Irish Code

The UK Code sets out a number of principles in relation to board leadership, effectiveness, accountability, remuneration and relations with shareholders.

The Irish Code supplements the provisions of the UK Code and contains additional corporate governance provisions that the Irish Stock Exchange requires Irish listed companies to comply with or explain against where they are companies with a primary equity listing on the Main Securities Market of the Irish Stock Exchange.

Irish companies whose shares are traded on the ESM, such as the Company, are not subject to the UK Code (or the Irish Code). From Admission, the Company will be required to comply (on a comply or explain basis) with the UK Code and the Irish Code pursuant to the Listing Rules.

Although compliance with the UK Code and the Irish Code is not required for a company whose shares are admitted to trading on the ESM, the Company has been and continues to be committed to adhering to high standards of corporate governance and accordingly some of the corporate governance practices and principles expected of companies listed on the regulated markets of the Irish and London Stock Exchanges are already established within the Company. For example, the Company has already adopted the majority of the provisions of the UK Code and has continued to disclose its compliance or otherwise with the UK Code in its Annual Report.

As at the Latest Practicable Date, the Company is in compliance with the provisions of the UK Code, save in respect of provision D.2.2 with regard to a remuneration committee's delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments: under the terms of the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister's Letter and the Relationship Framework agreed with the Minister for Finance, neither the Remuneration Committee nor the Board has autonomy in that regard.

Board of Directors' independence

The UK Code recommends that at least half the board of directors of a UK listed company (excluding the Chairman) should comprise "independent" non-executive directors. The board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. As at the date of this Prospectus, the Board consists of twelve members: the ten Non-Executive Directors (including the Chairman) and the two Executive Directors.

Notwithstanding Mr McDonagh's previous non-executive role with the NTMA, the Board determined Mr McDonagh to be independent in character and judgment on appointment to the Board on 27 October 2016.

The Board has determined that all of the Non-Executive Directors in office at the date of this Prospectus, other than Dr Michael Somers, are "independent non-executive directors" within the meaning of the UK Code and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

In 2011, the Central Bank confirmed that Dr Somers should be considered independent for the purposes of the Central Bank's Corporate Governance Requirements for Credit Institutions 2015 ("CBI Requirements") (referred to in "*—Corporate Governance Requirements for Credit Institutions*"). Notwithstanding Dr Somers' designation as a non-independent director under the UK Code, by virtue of being a shareholder-appointed director, the Board is satisfied that Dr Somers exercises independence of thought and action in fulfilling his duties as a Non-Executive Director.

Annual re-election of Directors

The UK Code recommends that directors should be subject to annual election by shareholders.

Senior Independent Non-Executive Director

The UK Code also recommends that the Board of Directors should appoint one of its independent non-executive directors to be the senior independent non-executive director (the "Senior Independent Non-Executive Director"). The Senior Independent Non-Executive Director should be available to shareholders if they have concerns that the normal channels of Chairman, CEO or other executive directors have failed to resolve or for which such channels of communication are inappropriate. The Company's Senior Independent Non-Executive Director is Ms Catherine Woods.

4.1.2 Corporate Governance Requirements for Credit Institutions

The Company is subject to the provisions of the CBI Requirements, including compliance with (1) additional obligations on high impact designated credit institutions and (2) additional corporate governance obligations on credit institutions which are deemed significant for the purposes of the CRD. The CBI Requirements impose minimum core standards upon all credit institutions licensed or authorised by the Relevant Banking Regulator while the additional obligations are imposed so as to ensure that appropriate and robust corporate governance frameworks are in place and implemented to reflect the risk and nature of high impact/significant credit institutions. For further details, see "*Part XVIII: Supervision and Regulation—Regulation of Banks in Ireland—Central Bank Regulatory Codes and Requirements—Corporate Governance Code for Credit Institutions and Insurance Undertakings*". The Directors believe that the Company complies with the CBI Requirements in all material respects.

4.1.3 Business Ethics Code of Conduct

In June 2012, AIB adopted a new Code of Conduct in relation to business ethics that applies to all employees (the "Code of Conduct"). The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standards of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training, which are designed to ensure that the Code is understood and that all employees act in accordance with it. The Code of Conduct was extensively revised and re-launched to staff in September 2014.

As part of the implementation of the Code of Conduct, AIB encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external through its Speak-Up policy. One such channel includes a confidential external helpline. Employees are assured that, if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the employee as a result.

The Protected Disclosure Act 2014 came into law in Ireland in July 2014 and provides statutory protection for whistleblowers in relation to reporting potential wrongdoing in the workplace. An extensive review of the Speak-Up policy in 2014 addressed the requirements of the Protected Disclosure Act 2014, as well as the UK Public Interest Disclosure Act 1998 (as amended in 2013) and the recommendations of the UK Whistleblowing Commission (2013).

The Code of Conduct and supporting policies are subject to annual review by management and updates are provided to the Board of Directors.

4.2 Board Committees

The Board of Directors has established an Audit Committee, Risk Committee, Nomination and Corporate Governance Committee and Remuneration Committee, each with formally delegated duties and responsibilities which are articulated in the written terms of reference. From time to time, separate committees may be set up by the Board of Directors to consider specific issues when the need arises. During 2016, a Sustainable Business Advisory Committee was established with formally delegated duties and responsibilities relating to supporting the execution of AIB's sustainable business strategy, including the development and safeguarding of AIB's 'social license to operate'.

Audit Committee

Current Members: Ms Catherine Woods (Chair), Mr Thomas (Tom) Foley, Mr Peter Hagan and Mr James (Jim) O'Hara.

The role and responsibilities of the Audit Committee are set out in its terms of reference. Those responsibilities are discharged through its meetings and receipt of reports from management, the Auditor, the CFO, the Group Internal Auditor, the CRO and the Group General Counsel.

The UK Code recommends that an audit committee should comprise at least three members, all of whom must be independent non-executive directors and that at least one such member has recent and relevant financial experience. The current members of the Audit Committee are all independent non-executive directors and the Board considers that a number of the members of the Audit Committee have recent and relevant financial experience; accordingly, the Board considers that the Company complies with the requirements of the UK Code in this respect.

The Audit Committee reviews, inter alia, AIB's annual and interim financial statements; the scope of the external audit; the findings, conclusions and recommendations of the AIB Internal Auditor and the Auditor; and the effectiveness of internal controls. The Audit Committee is responsible for making recommendations on the appointment, reappointment and removal of the Auditor, ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditor and the AIB Internal Auditor, each of whom it meets separately at least once each year, in confidential sessions, in the absence of management. Each of these parties has unrestricted access to the Chairman of the Audit Committee. There is a process in place by which the Audit Committee reviews the nature and extent of non-audit services undertaken by the Auditor and, if considered appropriate, approves, within parameters outlined in the Audit Committee-approved Non-Audit Services Fee Policy, the related fees. This ensures that the objectivity and independence of the Auditor is safeguarded. A report is submitted, annually, to the Board of Directors, regarding the activities undertaken and issues considered by the Audit Committee.

The Auditor, the CFO, the AIB Internal Auditor and the CRO attend the Audit Committee's meetings by invitation. Other senior executives also attend, where appropriate.

The Audit Committee met on seven occasions during 2016.

Risk Committee

Current Members: Mr Peter Hagan (Chair), Mr Simon Ball, Ms Carolan Lennon, Mr Brendan McDonagh, Dr Michael Somers and Ms Catherine Woods.

The Risk Committee was established to assume the risk oversight responsibilities previously delegated to the Audit Committee. The objectives of the Risk Committee are to monitor risk governance and to assist the Board of Directors in discharging its responsibilities in ensuring that risks are appropriately identified and assessed; managed, reported and controlled; and ensuring that strategy is informed by and aligned with AIB's risk appetite.

The Auditor, the Chief Executive Officer, the CFO, the CRO, the Chief Credit Officer and the AIB Internal Auditor attend the Risk Committee's meetings by invitation. Other senior executives also attend, where appropriate.

The Risk Committee met on nine occasions during 2016.

Nomination and Corporate Governance Committee

Current Members: Mr Richard Pym (Chair), Mr Simon Ball, Mr James (Jim) O'Hara, Dr Michael Somers and Ms Catherine Woods.

The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board of Directors for appointment as Directors; reviewing the size, structure and composition of the Board of Directors and the Board Committees; reviewing succession planning; and the appointment of members of the Leadership Team and related succession planning. The search for suitable candidates for the Board of Directors is a continuous process, and recommendations for appointment are made, based on merit and objective criteria, following an appraisal process and interviews. The Nomination and Corporate Governance Committee is also responsible for reviewing the Company's corporate governance policies and practices.

The UK Code recommends that a majority of members of a nomination committee should be independent non-executive directors and that the chairman of the board or an independent non-executive director should chair the nomination committee. The Company's Nomination and Corporate Governance Committee is comprised wholly of independent non-executive directors and the Chairman of the Board is chairman of the Nomination and Corporate Governance Committee; accordingly, the Board considers that the Company complies with the requirements of the UK Code in this respect.

The Nomination and Corporate Governance Committee met on seven occasions during 2016.

Remuneration Committee

Current Members: Mr James (Jim) O'Hara (Chair), Mr Simon Ball, Mr Thomas (Tom) Foley and Mr Richard Pym.

The Remuneration Committee's responsibilities include: recommending to the Board of Directors Group remuneration policies and practices; the remuneration of the Non-Executive Chairman of the Board of Directors (which matter is considered in his absence); performance-related bonus schemes for Executive Directors; and the operation of the share-based incentive schemes.

The Remuneration Committee also determines the remuneration of the Chief Executive Officer, and, in consultation with the Chief Executive Officer, the remuneration of other Executive Directors, when in office, and the other members of the Leadership Team, under advice to the Board of Directors.

The UK Code recommends that a remuneration committee should comprise at least three members, all of whom must be independent non-executive directors, and provides that the chairman of the board may also serve as a member (but not chairman) of such remuneration committee if he or she is considered independent on appointment as chairman. The current members of the Remuneration Committee of the Company (including the Chairman who is a member but not chairman of the Committee) are all independent non-executive directors; accordingly, the Board considers that the Company complies with the requirements of the UK Code in this respect.

As a result of the terms of the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister's Letter and the Relationship Framework agreed with the Minister for Finance, neither the Remuneration Committee nor the Board has autonomy to set remuneration for executive directors and the Chairman.

The Remuneration Committee met on six occasions during 2016.

5 Conflicts of Interest

In accordance with the CBI Requirements, the Company has in place a Board-approved Code of Conduct and Conflicts of Interest Policy for Directors.

Save as set out in paragraph 6.3 of Part "*XXI: Additional Information*" in respect of Dr Somers' appointment as a Government appointed Director, there are no conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties. In the event that a conflict of interest (actual, perceived or potential) does arise the Directors are required to ensure that such situations and areas of conflict (actual, perceived or potential) are promptly identified and disclosed so that in a conflict situation, the Board of Directors may acknowledge the conflict and deal with it in the best interests of the Company and all of its stakeholders. Where conflicts of interest arise, the Board ensures that they are noted in the minutes of the meeting at which such conflicts are disclosed and the Board Conflict of Interests register. If ongoing conflicts of interest arise, consideration shall be given to the relevant Directors continued membership of the Board.

PART XII
SELECTED CONSOLIDATED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The tables below set out selected historical financial information of AIB for the three months ended 31 March 2017 and 2016, for the years ended 31 December 2016, 2015 and 2014 and as at 31 March 2017, 31 December 2016, 2015 and 2014. The selected consolidated financial information of AIB as at and for the years ended 31 December 2016, 2015 and 2014 to the extent it has been extracted from AIB's consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of "Part XVI: Consolidated Historical Financial Information" has been audited by Deloitte. The selected historical financial information of AIB as at and for the three months ended 31 March 2017 to the extent it has been extracted from AIB's condensed consolidated interim financial statements for the three months ended 31 March 2017 contained in Section D of "Part XVI: Consolidated Historical Financial Information" has been reviewed by Deloitte.

The selected consolidated financial information presented below should be read in conjunction with "Part XIII: Operating and Financial Review" and Sections B and D of "Part XVI: Consolidated Historical Financial Information".

Consolidated Income Statement Data

	Three months ended 31 March		Year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
	(unaudited)			(audited)	
			(€ millions)		
Continuing operations					
Interest and similar income	620	677	2,611	2,821	2,921
Interest expense and similar charges	(84)	(193)	(598)	(894)	(1,234)
Net interest income	536	484	2,013	1,927	1,687
Dividend income	25	25	26	26	25
Fee and commission income	112	103	430	449	430
Fee and commission expense	(12)	(6)	(35)	(44)	(40)
Net trading income/(loss)	29	(16)	71	95	(1)
Profit/(loss) on disposal/transfer of loans and receivables	—	(3)	11	(22)	52
Other operating income	71	58	403	197	379
Other income	225	161	906	701	845
Total operating income	761	645	2,919	2,628	2,532
Administrative expenses	(379)	(324)	(1,462)	(1,604)	(1,527)
Impairment and amortisation of intangible assets	(16)	(13)	(70)	(39)	(65)
Depreciation of property, plant and equipment	(11)	(10)	(39)	(35)	(46)
Total operating expenses	(406)	(347)	(1,571)	(1,678)	(1,638)
Operating profit before provisions	355	298	1,348	950	894
Writeback of provisions for impairment on loans and receivables	4	109	294	925	185
Writeback of provisions for liabilities and commitments	—	2	2	11	4
(Provisions)/writeback of provisions for impairment on financial investments available for sale	3	1	2	—	(1)
Operating profit	362	410	1,646	1,886	1,082
Associated undertakings	4	18	35	25	23
Profit on disposal of property	(1)	—	—	3	6
Profit on disposal of business	—	—	1	—	—
Profit before taxation from continuing operations	365	428	1,682	1,914	1,111
Income tax charge from continuing operations	(52)	(56)	(326)	(534)	(230)
Profit after taxation from continuing operations	313	372	1,356	1,380	881
Discontinued operations					
Profit after taxation from discontinued operations	—	—	—	—	34
Profit/(loss) for the period	313	372	1,356	1,380	915

Selected Consolidated Statement of Financial Position Data

	As at March	As at 31 December		
	2017	2016	2015	2014
	(unaudited)		(audited)	
		(€ millions)		
Assets				
Cash and balances at central banks	5,091	6,519	4,950	5,393
Items in course of collection	224	134	153	146
Disposal groups and non-current assets held for sale	179	11	8	14
Trading portfolio financial assets	33	1	1	1
Derivative financial instruments	1,553	1,814	1,698	2,038
Loans and receivables to banks	1,539	1,399	2,339	1,865
Loans and receivables to customers	60,273	60,639	63,240	63,362
NAMA senior bonds	1,041	1,799	5,616	9,423
Financial investments available for sale	14,875	15,437	16,489	20,185
Financial investments held to maturity	3,326	3,356	3,483	—
Interests in associated undertakings	150	65	70	69
Intangible assets	418	392	289	171
Property, plant and equipment	349	357	344	290
Other assets	250	248	785	211
Current taxation	8	13	35	10
Deferred tax assets	2,832	2,828	2,897	3,576
Prepayments and accrued income	449	444	503	526
Retirement benefit assets	145	166	222	175
Total assets	92,735	95,622	103,122	107,455
Liabilities				
Deposits by central banks and banks	6,102	7,732	13,863	16,768
Customer accounts	62,640	63,502	63,383	64,018
Trading portfolio financial liabilities	34	—	86	—
Derivative financial instruments	1,476	1,609	1,781	2,334
Debt securities in issue	6,470	6,880	7,001	7,861
Current taxation	18	18	31	—
Deferred tax liabilities	92	81	—	—
Other liabilities	976	973	1,108	1,225
Accruals and deferred income	539	484	653	729
Retirement benefit liabilities	104	158	368	1,239
Provisions for liabilities and commitments	212	246	382	258
Subordinated liabilities and other capital instruments	792	791	2,318	1,451
Total liabilities	79,455	82,474	90,974	95,883
Equity				
Share capital	1,696	1,696	1,696	1,344
Share premium	1,386	1,386	1,386	1,752
Reserves	9,704	9,572	8,572	8,476
Total shareholders' equity	12,786	12,654	11,654	11,572
Other equity interests	494	494	494	—
Total equity	13,280	13,148	12,148	11,572
Total liabilities and equity	92,735	95,622	103,122	107,455

Key Financial Ratios

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)				
	(%, unless otherwise indicated)				
CET1 fully loaded capital ratio(1)	16.0%	N/A	15.3%	13.0%	11.8%(2)
CET1 transitional capital ratio(3)	19.3%	N/A	19.0%	15.9%	16.4%(2)
Net interest margin(4)	2.55%	2.10%	2.25%	1.97%	1.69%
Cost/income ratio(5)	53%	54%	52%	49%	55%
Credit impairment charge (bps)(6)	(3)	(63)	(44)	(126)	(22)
Loan to deposit ratio(7)	96%	N/A	95%	100%	99%

Notes:

(1) Based on full implementation of Basel III and CRD IV and includes 2009 Preference Shares. Calculated as set forth in "*Part XIV: Capital—Capital Structure*".

(2) Includes 2009 Preference Shares.

(3) Capital calculated in accordance with 'Part Ten—Transitional Provisions, Reports, Review and Amendments' of the CRR.

(4) Excluding ELG Scheme charges. Calculated as net interest income divided by average interest-earning assets. See "*Part XIII: Operating and Financial Review—Results of Operations—Three Months Ended 31 March 2017 and 2016—Net Interest Income—Average Balance Sheet*", "*Part XIII: Operating and Financial Review—Results of Operations—Years Ended 31 December 2016 and 2015—Net Interest Income—Average Balance Sheet* and "*Part XIII: Operating and Financial Review—Results of Operations—Years Ended 31 December 2015 and 2014—Net Interest Income—Average Balance Sheet*".

(5) Calculated as total operating expenses before exceptional items divided by total operating income before exceptional items.

(6) Calculated as writeback/(provision) for impairment on loans and receivables divided by average loans and receivables to customers.

(7) Calculated as loans and receivables to customers divided by customer accounts.

PART XIII
OPERATING AND FINANCIAL REVIEW

The following discussion of the financial condition and results of operations of AIB should be read in conjunction with "Part XVI: Consolidated Historical Financial Information" and the information relating to AIB's business included elsewhere in this Prospectus.

All financial information contained in this "Part XIII: Operating and Financial Review" has been extracted without material adjustment from "Part XVI: Consolidated Historical Financial Information". AIB's consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of "Part XVI: Consolidated Historical Financial Information" has been audited by Deloitte. AIB's condensed consolidated interim financial statements for the three months ended 31 March 2017 contained in Section D of "Part XVI: Consolidated Historical Financial Information" has been reviewed by Deloitte.

The following discussion is prepared in line with how AIB's performance is reported to management and the Board. Profit from continuing operations before exceptional items excludes exceptional items that management believe obscure the underlying performance trends in the business. This is referred to as 'on a management basis' when presented in this "Part XIII: Operating and Financial Review". Exceptional items are presented separately and a breakdown of the items classified as exceptional is included below under "—Exceptional Items". For a reconciliation of AIB's APMs from the most directly reconcilable IFRS line item in Sections B and D of "Part XVI: Consolidated Historical Financial Information", see *"—Exceptional items"* and note 3 of Section B and note 2 of Section D of *"Part XVI: Consolidated Historical Financial Information"*.

Some of the information contained in the following discussion contains forward-looking statements that are based on assumptions and estimates and are subject to risks and uncertainties. Investors should read "Part III: Presentation of Information—Forward-looking statements" for a discussion of the risks and uncertainties related to these statements. Investors should also read the section entitled "Part II: Risk Factors" for a discussion of certain factors that may affect AIB's business, financial condition or results of operations.

Percentages presented throughout this discussion are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers.

1 Overview

AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB had leading market shares in its core retail banking products within Ireland in 2016, including a 36 per cent. share of mortgages across all three of its mortgage brands, according to BPFI published figures for mortgage lending flows, as well as a 37 per cent. share of personal main current accounts, a 22 per cent. share of personal loans and a 35 per cent. share of personal credit cards, according to the Ipsos MRBI Personal Tracker Q4 2016. AIB also retains strong market shares in SME products, including a 44 per cent. share of business current accounts, a 36 per cent. share of main business loans, a 26 per cent. share of business leasing and a 43 per cent. share of business credit cards for 2016, according to the AIB SME Financial Monitor 2016. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB).

AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

AIB is managed through the following business segments: RCB, WIB, AIB UK and Group.

- Retail & Commercial Banking ("RCB"): RCB is Ireland's leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 297 locations, including 205 AIB branches, 71 EBS offices, 20 business centres and 1 digital banking location, 985 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at over 1,100 locations in Ireland, although An Post is currently completing a review of the An Post network which may lead to a reduction in the number of post offices.

Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS and underpins a broader efficiency agenda.

- Wholesale, Institutional & Corporate Banking ("WIB"): WIB provides wholesale, institutional and corporate banking services to AIB's larger customers or customers requiring specific sector or product expertise. WIB serves customers through a relationship-driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB's activities in New York comprise Syndicated & International Finance activities.
- AIB UK: AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and is in the process of migrating to a more integrated business model, having announced in February 2017 the closure of 15 of its 30 branches. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK's overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.
- Group: The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

The following table provides a breakdown of net loans and customer accounts across AIB's four segments as at 31 March 2017:

	As at 31 March 2017	
	Net Loans[(1)]	**Customer Accounts**
	(unaudited) (€ billions)	
RCB	42.4	43.5
WIB	9.0	5.5
AIB UK[(2)]	8.9	10.6
Group	0.2	3.1
	60.4	62.6

Notes:

(1) Including net loans reported as held for sale.

(2) Net loans were £7.6 billion and customer accounts were £9.1 billion as at 31 March 2017. Euro amounts calculated using the pound sterling to euro exchange rate of 0.8555, being the period end exchange rate.

Within the above segments, AIB has migrated the management of the vast majority of its non-performing loans to FSG, AIB's standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. AIB is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

AIB's profit before taxation from continuing operations was €365 million and €428 million for the three months ended 31 March 2017 and 31 March 2016, respectively and €1,682 million, €1,914 million and €1,111 million for the years ended 31 December 2016, 2015 and 2014, respectively. As at 31 March 2017, AIB had total assets of €92.7 billion and equity of €13.3 billion. Its net loans to customers as at that date were €60.4 billion, including held for sale loans to customers of €0.2 billion.

2 Current Trading

AIB's performance since 31 March 2017 has been consistent with the improved outturn evidenced in the three months ended 31 March 2017, with continued strong performance in net interest income and other income, in line with the Directors' expectations.

Net interest margin continues to be positively impacted by stable asset yields, lower funding costs and further redemptions of NAMA senior bonds.

AIB's operating costs remain consistent with the Directors' expectations with continued focus on cost management and continued management of the factors expected to impact costs in 2017 including wage inflation, continued investment in loan restructuring and increased cost of regulatory compliance. AIB's three-year €870 million investment programme is on track and will conclude in 2017.

AIB has maintained momentum in its loan book with new lending contributing to growth in earning loans and the reduction in impaired loans continuing as planned since 31 March 2017. In addition, since 31 March 2017, AIB has reached agreement with a wholly-owned subsidiary of Goldman Sachs to sell a portfolio of impaired buy-to-let loans, the vast majority of which are in deep long-term arrears. Overall, the transaction, with an approximate €0.2 billion net value, is expected to be capital accretive.

On 5 April 2017, there was a further redemption of NAMA senior bonds of €0.7 billion, reducing the outstanding balance to €0.4 billion.

3 Key Factors Affecting Results of Operations

3.1 Economic Recovery

AIB's activities in Ireland and the United Kingdom account for the majority of its business. As a result, the performance of the Irish economy is extremely important to it. Its operations in the United Kingdom also mean that it is influenced directly by political, economic and financial developments there, as well as indirectly through the impact of such developments in the United Kingdom on the Irish economy.

Ireland's improved economic environment has had a very favourable impact on AIB's performance in the periods under review. Growing GDP, falling unemployment and increased consumer spending have all contributed to Ireland being one of the fastest growing Eurozone economies in each of the past three years, according to data from BMI and CSO Statbank. According to CSO National Accounts data, GDP in Ireland rose by 5.2 per cent. in 2016, following growth of 26.3 per cent. (which was skewed by certain one-off factors including companies relocating assets to Ireland from abroad) and 8.5 per cent. during 2015 and 2014 respectively. Despite uncertainties as to the potential impact of the United Kingdom's decision to withdraw from the European Union, the Irish economy is expected to continue to grow at attractive rates over the next several years, with the Irish Department of Finance forecasting GDP growth of 4.3 per cent. for 2017, 3.7 per cent. for 2018 and 3.1 per cent. in 2019.

Conditions in the Irish labour markets have also improved steadily since 2012 with growth in total employment each year. In addition, the Irish housing market has continued to show signs of recovery, albeit at low activity levels and from a very low base, with increases in mortgage approvals and transactions, as well as price increases.

After having deteriorated sharply during the recession, Irish public finances continued to show improvement over the course of 2016. The Irish Department of Finance estimates that the budget deficit declined to approximately 0.9 per cent. of GDP in 2016. This compares to a high of 11.6 per cent. in 2010. As of Budget 2017, the Irish Department of Finance of Ireland is targeting a decrease in the budget deficit to 0.4 per cent. of GDP by the end of 2017.

Ireland's general Government debt to GDP ratio is estimated by the Irish Department of Finance of Ireland to have been 75.4 per cent. in 2016 and is forecasted to be 72.9 per cent. for 2017. The net debt/ GDP ratio was 66 per cent. for 2016.

Similarly, GDP in the United Kingdom has continued to increase, with growth of 1.8 per cent., 2.2 per cent. and 3.1 per cent. in 2016, 2015 and 2014, respectively. The IMF has forecasted GDP growth of 2.0 per cent. in the United Kingdom for 2017.

As a result of improving macro-economic conditions in Ireland and the United Kingdom, AIB's new lending volumes have been improving and its impaired loan book has been decreasing. In 2016, AIB had €8.7 billion in new lending across all segments, compared to €5.7 billion in 2014. The asset quality of AIB's loan portfolio has also been improving, with gross impaired loans decreasing from €22.2 billion as at 31 December 2014 to €8.6 billion as at 31 March 2017, while maintaining a stable asset yield. AIB expects that further improvement in economic conditions will help it to continue to achieve growth in new lending volumes and further stabilise asset quality.

3.2 Brexit

Improved economic conditions in Ireland and the United Kingdom and trade, business and other connections between those countries are in jeopardy as a result of Brexit. Although the overall impact of the United Kingdom's withdrawal from the European Union remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. Legal, fiscal and regulatory impediments to trade and services (including banking) may be introduced between the remaining member states of the European Union (including Ireland) and the United Kingdom. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB. In Ireland, any negative impact on the economy may be disproportionate on sectors which have significant linkages to the United Kingdom, such as agriculture, tourism and the border area generally. Exports from Ireland to the United Kingdom have been and may continue to be adversely affected by weakness of the exchange rate of the pound sterling against the euro and that weakness may increase over the course of the Brexit process.

3.3 Loan Restructuring

Mortgage delinquencies increased in 2008 as interest rates continued to increase up to mid-2008 and housing oversupply persisted. This was heightened by the start of the decline of the Irish economy following the onset of the global financial crisis in 2008. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property, and residential mortgage sectors, to which AIB was heavily exposed, increased substantially.

During recent years, AIB has been focused on restructuring its loan portfolio through the implementation of sustainable solutions for customers in difficulty. AIB's plan to reduce impaired loans includes restructuring as well as sales and redemptions, cures, portfolio sales and other strategic initiatives. As at 31 March 2017, AIB had €17.8 billion in criticised loans on its balance sheet, representing 27 per cent. of total loans, compared to €34.0 billion, representing 45 per cent. of total loans, as at 31 December 2014. Balance sheet provisions have decreased from €12.4 billion as at 31 December 2014 to €4.5 billion (including provisions on loans held for sale) as at 31 March 2017 due to the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty combined with improved economic conditions in Ireland and the United Kingdom. AIB recognised net credit provision writebacks on its income statement of €294 million, €925 million and €185 million in 2016, 2015 and 2014, respectively. Key drivers of the writebacks include increased security values and improved business cash flows due to the stronger economic environment, cases cured from impairment and additional security gained as part of the restructuring process.

During 2016, AIB began to experience an expected slowdown in restructuring momentum as the primary restructuring period concludes and it is now primarily dealing with those cases which are of lower monetary value, more complex, more specific to an individual's circumstances and more protracted in nature. In addition, a larger proportion of the remaining loans being resolved are subject to enforcement and the legal process associated with these takes more time than a consensual process. Going forward, AIB expects that the level of impaired loans will continue to decrease but at a lower rate than has been the case to date.

3.4 Capital Reorganisation

The impact of the global financial crisis and the deterioration of Ireland's property market commencing in 2008 presented funding and liquidity issues for AIB and led to a rapid deterioration of its capital base. This necessitated several capital investments by the Irish Government in the Company and EBS amounting to a total of €20.8 billion. These included, in the case of the Company, the issuance of €3.5 billion of 2009 Preference Shares to the NPRFC in May 2009, the issuance of €3.8 billion of new ordinary shares to the NPRFC in December 2010 (net proceeds of €3.7 billion), a placing of a further €5.0 billion of new ordinary shares with the NPRFC in July 2011, capital contributions totalling €6.1 billion from the Minister for

Finance and the NPRFC also in July 2011 and the issuance of €1.6 billion of CCNs at par to the Minister for Finance in July 2011 and, in the case of EBS, the issuance to the Minister for Finance of an aggregate of €625 million of Special Investment Shares in May and December 2010 and the EBS Promissory Note with an initial principal amount of €250 million provided by the Minister for Finance to EBS on 17 June 2010. Those ordinary shares in the capital of the Company and the 2009 Preference Shares held by the NPRFC became assets of the ISIF, which is controlled and managed by the NTMA, in 2014. Ownership of the ISIF vests in the Minister for Finance.

AIB completed the 2015 Capital Reorganisation in December 2015. The 2015 Capital Reorganisation was designed to enable AIB to return capital to the Irish Government in line with its obligations under the Restructuring Plan, contribute to growth in AIB's business, meet CRD IV regulatory requirements, allow for future dividend payments, align AIB's capital structure with market norms and investor expectations and position AIB for a return to private ownership over time.

In conjunction with the 2015 Capital Reorganisation, the Company issued €750 million of subordinated Tier 2 notes and €500 million AT1 Notes, both in the fourth quarter of 2015.

The 2015 Capital Reorganisation included the partial redemption of the 2009 Preference Shares (1.36 billion of the 3.5 billion 2009 Preference Shares were redeemed for cash at 125 per cent. of the subscription price resulting in a repayment of €1.7 billion), with the remainder being converted into ordinary shares in the capital of the Company at 125 per cent. of the subscription price. Furthermore, an accrued dividend on the 2009 Preference Shares of €166 million was paid to the NTMA (as manager and controller of the ISIF). In addition, the 2015 Capital Reorganisation involved the redemption by the Minister for Finance of the EBS Promissory Note. The 2015 Capital Reorganisation received regulatory approval from the SSM and was approved by Shareholders at an EGM of the Company held on 16 December 2015.

On conversion of the 2009 Preference Shares, the Company had 678.6 billion ordinary shares of €0.0025 in issue. The 2015 Capital Reorganisation also included a share consolidation of the Company's ordinary shares that resulted in Shareholders receiving one new ordinary share of €0.625 for every 250 existing ordinary shares (with a rounding up of any fractional shareholdings of less than 250 ordinary shares in the capital of the Company). The Company now has approximately 2.7 billion Ordinary Shares of €0.625 each in issue.

As part of the 2015 Capital Reorganisation, the Company entered into the Warrant Agreement with the Minister for Finance and granted the Minister the right to receive warrants to subscribe for additional Ordinary Shares. On 26 April 2017, the Minister for Finance exercised his rights under the Warrant Agreement by issuing a Warrant Notice to the Company requiring the Company to issue Warrants to the Minister to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised). In accordance with the terms of the Warrant Agreement, no cash consideration will be payable by the Minister for Finance to the Company in respect of the issue of the Warrants. Assuming Admission occurs, the exercise price for the Warrants is 200 per cent. of the Offer Price which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the holder of the Warrants during the period commencing on the first anniversary of Admission and ending on the tenth anniversary of Admission.

Upon the maturity and redemption of the CCNs in July 2016, the Company made a further capital repayment to the Minister for Finance of €1.6 billion, as well as a coupon payment of €160 million to the Minister for Finance. A final dividend in the amount of €250 million in respect of the Ordinary Shares for the financial year ended 31 December 2016 was approved by Shareholders at the 2017 AGM and paid on 9 May 2017.

The simplification of AIB's capital structure, in particular the maturity of the CCNs, has contributed to a reduction in the cost of its liabilities and therefore an increase in its net interest margin. The net interest margin excluding ELG Scheme charge increased 28 basis points to 2.25 per cent. for the year ended 31 December 2016 from 1.97 per cent. for the year ended 31 December 2015. AIB reported a net interest margin of 2.46 per cent. for the three months ended 31 March 2017, excluding the ELG Scheme charge and one-off income for cured loans (which are defined as loans upgraded from impaired without incurring financial loss).

AIB's return to profitability in 2014, 2015 and 2016 has also resulted in strong organic capital generation. During 2015 and 2016, AIB's capital ratios have been robust, with all capital ratios being in excess of AIB's regulatory requirements, as communicated by the SSM as part of its SREP.

3.5 Cost Management and Efficiency

Since 2012, AIB has undergone a structured programme of cost reduction. This contributed to a reduction in operating expenses (excluding exceptional items) of approximately €360 million from 2012 to 2016. The implementation of disciplined cost management involved lowering of costs in all key operating segments of AIB, a reduction of approximately 3,000 FTEs since 2012, significant rationalisation of the branch network and operational simplification. The reduction in FTEs was supported by AIB's transformation strategy which enabled staff exits as part of AIB's severance scheme. The cost of the severance scheme has been included in exceptional items and amounted to €24 million, €37 million and €24 million in 2014, 2015 and 2016, respectively, and €2 million in the three months ended 31 March 2017. Additionally, throughout the periods under review, AIB engaged in selective outsourcing of certain back office and support functions and with third party resources for use in projects or to facilitate seasonal additional work demands. Ongoing costs related to this outsourcing activity, and the use of other third party resources, are reported within operating expenses.

AIB is investing significantly, as a part of its three-year €870 million investment programme, in customer engagement channels, customer data and analytics. This will provide a resilient and agile technology platform while replacing sub-optimal systems and so deliver standardised, repeatable and de-risked straight-through processing end-to-end which is automated where possible. The investment programme encompasses spending on regulatory requirements, sustainment and maintenance, resilience and strategic initiatives. As at 31 March 2017, AIB had spent €664 million, 78 per cent. of which was capitalised (as at 31 December 2016, €606 million, 78 per cent. of which was capitalised). The investment programme is expected to deliver further efficiencies and productivity enhancements from further simplification and digitalisation. The focus from 2017 onwards will be on achieving a return on the digital capabilities put in place as part of the investment programme. A reduced level of investment spend is anticipated from 2018 onwards.

AIB's operating expenses (excluding exceptional items) increased by €85 million in 2016, reflecting selective outsourcing and the impact of the €870 million investment programme. Outsourcing partnerships increase reliability, resilience and quality of IT infrastructure and other enterprise services. This strategic resourcing model has enabled AIB to focus and invest in its core banking activities.

3.6 Redemptions of NAMA senior bonds

In the aftermath of the global financial crisis and the collapse of the Irish property market, the Irish Government recognised the need to stabilise Irish financial institutions and to create greater certainty for all stakeholders. One of the measures it undertook to achieve this was the introduction of the NAMA Act, pursuant to which AIB transferred financial assets to NAMA in exchange for which it received consideration in the form of NAMA senior bonds and NAMA subordinated bonds. AIB transferred approximately €20.0 billion of assets to NAMA during 2010 and 2011. The NAMA senior bonds are guaranteed by the Irish Government. Interest on the senior bonds is payable semi-annually each March and September at a rate of six-month EURIBOR.

As at 31 March 2017, AIB had €1.0 billion of NAMA senior bonds on its balance sheet, compared to €1.8 billion as at 31 December 2016, €5.6 billion as at 31 December 2015 and €9.4 billion as at 31 December 2014, following redemptions by NAMA. NAMA senior bonds are low yielding, because of this they have represented a drag on AIB's net interest margin. As the remaining NAMA senior bonds are expected to be redeemed in 2017, management expects that this will continue to have a favourable impact on AIB's net interest margin. The NAMA senior bonds had an 8 basis point impact on net interest margin in 2016.

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. Since then, AIB has reviewed its expected pattern of repayments on the NAMA senior bonds and revised the expected timing of repayments. AIB recognised a gain of €132 million, €6 million and €10 million for the years ended 31 December 2014, 2015 and 2016, respectively.

3.7 ELG Scheme, bank levies and other regulatory costs

3.7.1 ELG Scheme

As part of new regulations introduced in response to the global financial crisis, there has generally been an increase in levies and other regulatory costs for certain Irish banks, including AIB. In December 2009, in order to stabilise the Irish banking sector after the establishment of the CIFS Scheme, the Irish Department of Finance established the ELG Scheme, which facilitated participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of five years. AIB joined the ELG Scheme on 21 January 2010. With effect from 28 March 2013, the ELG Scheme was closed for all new liabilities, reflecting improved and more stabilised funding conditions. As the maximum duration of liabilities under the ELG Scheme is five years, all liabilities will roll off by no later than 29 March 2018. AIB's total liabilities guaranteed under the ELG Scheme as at 31 March 2017 amounted to €0.9 billion.

Participating institutions must pay a fee to the Minister for Finance in respect of each liability guaranteed under the ELG Scheme. For the years ended 31 December 2016, 2015 and 2014, AIB paid €17 million, €30 million and €59 million, respectively, in fees in connection with the ELG Scheme. These charges are included within interest expense. The ELG Scheme charge had a negative impact of 2, 3 and 6 basis points on AIB's net interest margin for the years ended 31 December 2016, 2015 and 2014, respectively. As existing liabilities that are covered by the scheme mature, the ELG Scheme charge will continue to decrease, which will have a favourable impact on AIB's net interest margin.

3.7.2 Bank levies and other regulatory costs

The Irish bank levy fee, payable annually in October, is a form of stamp duty that applies through to 2021. The Deposit Guarantee Scheme, established in 2016, is a statutory deposit protection scheme requiring credit institutions to pay an annual contribution based on their covered deposits and degree of risk. The Single Resolution Fund fee, introduced in 2016, is a fee imposed pursuant to the SRM as part of the new regulations designed to protect the European banking system.

The Financial Services Compensation Scheme fee, established by FSMA, applies to activities of AIB UK but not those of AIB's branches in the United Kingdom. The Financial Services Compensation Scheme ("FSCS") pays compensation to eligible customers of FCA-authorised financial services firms that are unable, or likely to be unable, to pay claims against them.

In the year ended 31 December 2016, AIB paid bank levies and regulatory fees of €112 million, including the Irish bank levy in the amount of €60 million, the Deposit Guarantee Scheme (including its legacy fund) contribution in the amount of €35 million and the Single Resolution Fund fee in the amount of €18 million, partially offset by a €1 million credit on other regulatory fees.

4 Consolidated Income Statement

The consolidated income statement data in the below table has been extracted from "*Part XVI: Consolidated Historical Financial Information*".

	Three months ended 31 March		Year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
			(€ millions)		
	(unaudited)			(audited)	
Continuing operations					
Interest and similar income	620	677	2,611	2,821	2,921
Interest expense and similar charges	(84)	(193)	(598)	(894)	(1,234)
Net interest income	536	484	2,013	1,927	1,687
Dividend income	25	25	26	26	25
Fee and commission income	112	103	430	449	430
Fee and commission expense	(12)	(6)	(35)	(44)	(40)
Net trading income/(loss)	29	(16)	71	95	(1)
Profit/(loss) on disposal/transfer of loans and receivables	—	(3)	11	(22)	52
Other operating income	71	58	403	197	379
Other income	225	161	906	701	845
Total operating income	761	645	2,919	2,628	2,532
Administrative expenses	(379)	(324)	(1,462)	(1,604)	(1,527)
Impairment and amortisation of intangible assets	(16)	(13)	(70)	(39)	(65)
Impairment and depreciation of property, plant and equipment	(11)	(10)	(39)	(35)	(46)
Total operating expenses	(406)	(347)	(1,571)	(1,678)	(1,638)
Operating profit before provisions	355	298	1,348	950	894
Writeback of provisions for impairment on loans and receivables	4	109	294	925	185
Writeback of provisions for impairment on financial investments available for sale	—	2	2	—	(1)
Writeback of provisions for liabilities and commitments	3	1	2	11	4
Operating profit	362	410	1,646	1,886	1,082
Associated undertakings	4	18	35	25	23
Profit on disposal of property	(1)	—	—	3	6
Profit on disposal of businesses	—	—	1	—	—
Profit before taxation from continuing operations	365	428	1,682	1,914	1,111
Income tax charge from continuing operations	(52)	(56)	(326)	(534)	(230)
Profit after taxation from continuing operations attributable to owners of the parent	313	372	1,356	1,380	881
Discontinued operations					
Profit after taxation from discontinued operations	—	—	—	—	34
Profit for the year	313	372	1,356	1,380	915
Attributable to:					
Owners of the parent:					
Profit from continuing operations	313	372	1,356	1,380	881
Profit from discontinued operations	—	—	—	—	34
Profit for the year	313	372	1,356	1,380	915

5 Exceptional Items

In "*Part XIII: Operating and Financial Review—Results of Operations*", AIB's results of operations are presented on a management basis with exceptional items reported separately. Exceptional items are items that management believes obscure the underlying performance trends in the business. Financial information presented on this basis represent APMs and should not be considered in isolation or as a substitute for analysis of AIB's results of operations as reported under IFRS in Sections B and D of *"Part XVI: Consolidated Historical Financial Information"*.

The tables set out below are reconciliations to each APM from the most directly reconcilable IFRS line item in Sections B and D of *"Part XVI: Consolidated Historical Financial Information"*.

The following are exceptional items that management believes obscure the underlying performance trends in the business:

5.1 Profit on disposal of Visa Europe (2016)

During 2016, AIB's membership interest in Visa Europe was disposed of when Visa Inc. acquired 100 per cent. ownership of Visa Europe. Given the nature and the materiality of this transaction, it was deemed an exceptional item. Profit amounting to €272 million comprised of €207 million for the cash and deferred cash component and €65 million, being the fair value of preferred stock acquired in Visa Inc.

5.2 Gain on transfer of financial instruments

During 2010 and 2011, AIB transferred approximately €20 billion of customer loans and receivables to NAMA. The settlement process has extended over a number of years subsequent to the transfer. Given the nature of this transaction, any subsequent valuation adjustments arising from these transfers have been viewed as exceptional. Valuation adjustments on previous transfers of financial assets were €17 million, €5 million and €2 million in 2016, 2015 and 2014, respectively.

As a result of exceptional items outlined in paragraphs 5.1 and 5.2 above, management has reported other income in "*—Results of Operations*" below with these items excluded and reported separately. The reconciliation from the consolidated income statement extracted from Section B of *"Part XVI: Consolidated Historical Financial Information"* as reported under IFRS to the APM is as follows:

	For the year ended 31 December		
Other income	**2016**	**2015**	**2014**
	(€ millions)		
Per consolidated income statement	**906**	**701**	**845**
Profit on disposal of Visa Europe	(272)	—	—
Gain on transfer of financial instruments	(17)	(5)	(2)
Total exceptional items	(289)	(5)	(2)
Other income excluding exceptional items[(1)]	**617**	**696**	**843**

Note:

(1) In *"—Results of Operations"*, other income is analysed through business income and other items.

Other income for the three months ended 31 March 2017 and 2016 were not impacted.

5.3 Restitution and restructuring expenses

AIB has identified certain legacy issues over time which have resulted in restitution to customers. In particular, in September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on the Tracker Mortgage Examination. In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank's 'Principles for Redress'. In 2015, AIB provisioned €190 million relating to the Tracker Mortgage Examination, which was included in restitution and restructuring expenses. No further provision was required in 2016.

Restructuring expenses include costs associated with transformation, reorganisation, certain provisions for liabilities and write off of intangible assets.

Due to the nature and materiality of these items, they were viewed as exceptional by management. They amounted to €3 million in the three months ended 31 March 2017 and €58 million, €250 million and €144 million in the years ended 31 December 2016, 2015 and 2014, respectively.

5.4 Termination benefits

Since 2012, AIB has undergone a structured exercise of cost reduction with over 3,600 employees on an FTE basis leaving under a voluntary severance programme. The reduction in employees was supported by AIB's transformation strategy which enabled the staff exits. Given the nature and materiality of this, the associated costs were viewed as exceptional by management. The cost of termination benefits under the voluntary severance programme were €2 million in the three months ended 31 March 2017, €1 million in the three months ended 31 March 2016 and €24 million, €37 million and €24 million in the years ended 31 December 2016, 2015 and 2014, respectively.

5.5 Other exceptional items

Other exceptional items include costs which relate to the ongoing preparedness for a future capital market event, capital reorganisation costs and other related items. Given the nature of these items, they were viewed as exceptional by management. These costs incurred in the three months ended 31 March 2017 amounted to €9 million and in the year ended 31 December 2015 amounted to €15 million.

As a result of the exceptional items outlined in paragraphs 5.3 to 5.5 above, management reported personnel expenses, general and administration expenses, depreciation, impairment and amortisation and writeback/(provisions) for liabilities and commitments in "*—Results of Operations*" below with these items excluded and reported separately. The reconciliations from the consolidated income statement extracted from "*Part XVI: Consolidated Historical Financial Information*", as reported under IFRS to the APM is as follows:

Personnel expenses	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(€ millions)				
Per consolidated income statement	**(185)**	**(181)**	**(742)**	**(763)**	**(791)**
Restitution and restructuring expenses	1	—	1	1	—
Termination benefits	2	1	24	37	24
Total exceptional items	3	1	25	38	24
Personnel expenses excluding exceptional items	**(182)**	**(180)**	**(717)**	**(725)**	**(767)**

General and administrative expenses	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(€ millions)				
Per consolidated income statement	**(194)**	**(143)**	**(720)**	**(841)**	**(736)**
Bank levies and regulatory fees(1)	43	1	112	71	73
Restitution and restructuring expenses	2	—	42	262	118
Other exceptional items	9	—	—	15	—
Total exceptional items	11	—	42	277	118
General and administrative expenses excluding exceptional items	**(140)**	**(142)**	**(566)**	**(493)**	**(545)**

Note:

(1) Bank levies and regulatory fees are reported separately on the management basis income statement. However, they are not treated as an exceptional item as they are recurring in nature. Information given above is to allow a reconciliation to general and administration expenses per the consolidated income statement. These are discussed separately in "*—Results of Operations*" below.

Depreciation, impairment and amortisation	Year ended 31 December 2016	2014
	(€ millions)	
Per consolidated income statement	**(109)**	**(111)**
Restitution and restructuring expenses	15	26
Total exceptional items	15	26
Depreciation, impairment and amortisation excluding exceptional items	**(94)**	**(85)**

Depreciation, impairment and amortisation expense for the three months ended 31 March 2017 and 2016 and the year ended 31 December 2015 were not impacted.

Writeback/(provisions) for liabilities and commitments	Year ended 31 December 2015
	(€ millions)
Per Consolidated Income Statement	**11**
Restitution and restructuring expenses	(13)
Total exceptional items	(13)
Writeback/(provisions) for liabilities and commitments excluding exceptional items	**(2)**

Writeback/(provisions) for liabilities and commitments for the three months ended 31 March 2017 and 2016 and the years ended 31 December 2016 and 2014 were not impacted.

There are no APMs for net interest income, writeback of provisions for impairment on loans and receivables, writeback of provisions for impairment on financial investments available for sale, associated undertakings, profit on disposal of property and profit on disposal of businesses. In "*—Results of Operations*", they are unchanged from the IFRS line item of the consolidated historical financial information in Sections B and D of "*Part XVI: Consolidated Historical Financial Information*".

As the result of the APM presentation of bank levies and regulatory fees and exceptional items described above, in "*—Results of Operations*", the relevant subtotals and total are correspondingly adjusted. The tables below set out the impact on these line items for the management basis of the consolidated income statement and detail the reconciliation from the most directly reconcilable IFRS line item in Sections B and D of "*Part XVI: Consolidated Historical Financial Information*".

Total operating income	Year ended 31 December 2016	2015	2014
		(€ millions)	
Per consolidated income statement	**2,919**	**2,628**	**2,532**
Adjustments to other income	(289)	(5)	(2)
Total operating income excluding exceptional items	**2,630**	**2,623**	**2,530**

Total operating income for the three months ended 31 March 2017 and 2016 were not impacted.

Total operating expenses	Three months ended 31 March 2017	2016	Year ended 31 December 2016	2015	2014
			(€ millions)		
Per consolidated income statement	**(406)**	**(347)**	**(1,571)**	**(1,678)**	**(1,638)**
Adjustments to personnel expenses	3	1	25	38	24
Adjustments to general and administrative expenses	54	1	154	348	191
Adjustments to depreciation, impairment and amortisation	—	—	15	—	26
Total operating expenses excluding exceptional items, bank levies and regulatory fees	**(349)**	**(345)**	**(1,377)**	**(1,292)**	**(1,397)**

Operating profit before provisions	Three months ended 31 March 2017	2016	Year ended 31 December 2016	2015	2014
			(€ millions)		
Per consolidated income statement	**355**	**298**	**1,348**	**950**	**894**
Adjustments to other income	—	—	(289)	(5)	(2)
Adjustments to personnel expenses	3	1	25	38	24
Adjustments to general and administrative expenses	54	1	154	348	191
Adjustments to depreciation, impairment and amortisation	—	—	15	—	26
Operating profit before provisions excluding exceptional items, bank levies and regulatory fees	**412**	**300**	**1,253**	**1,331**	**1,133**

Operating profit	Three months ended 31 March 2017	2016	Year ended 31 December 2016	2015	2014
			(€ millions)		
Per consolidated income statement	**362**	**410**	**1,646**	**1,886**	**1,082**
Adjustments to other income	—	—	(289)	(5)	(2)
Adjustments to personnel expenses	3	1	25	38	24
Adjustments to general and administrative expenses	11	—	42	277	118
Adjustments to depreciation, impairment and amortisation	—	—	15	—	26
Adjustments to writeback/(provisions) for liabilities and commitments	—	—	—	(13)	—
Operating profit excluding exceptional items	**376**	**411**	**1,439**	**2,183**	**1,248**

Profit before taxation from continuing operations	Three months ended 31 March 2017	2016	Year ended 31 December 2016	2015	2014
			(€ millions)		
Per consolidated income statement	**365**	**428**	**1,682**	**1,914**	**1,111**
Adjustments to other income	—	—	(289)	(5)	(2)
Adjustments to personnel expenses	3	1	25	38	24
Adjustments to general and administrative expenses	11	—	42	277	118
Adjustments to depreciation, impairment and amortisation	—	—	15	—	26
Adjustments to writeback/(provisions) for liabilities and commitments	—	—	—	(13)	—
Profit before taxation from continuing operations excluding exceptional items	**379**	**429**	**1,475**	**2,211**	**1,277**

6 Results of Operations

Certain information in this "*—Results of Operations*" is presented on a management basis and represent APMs. A reconciliation to each such APM from the most directly reconcilable IFRS line item is included within *"—Exceptional Items"* above. Financial information presented on this basis represent APMs and should not be considered in isolation or as a substitute for analysis of AIB's results of operations as reported under IFRS Sections B and D of "*Part XVI: Consolidated Historical Financial Information*".

6.1 Three Months Ended 31 March 2017 and 2016

AIB recorded a profit before taxation from continuing operations of €365 million for the three months ended 31 March 2017, compared to a profit of €428 million for the three months ended 31 March 2016. The reduction is driven by the continued slowdown in the net writeback of the provisions of loans and receivables as restructuring period concludes of €105 million, increase in costs of €59 million (€42 million of which related to the timing impact of bank levies in 2017 compared to 2016 and €13 million related to cost deemed exceptional) partially offset by an increase in operating income of €116 million.

The following table presents AIB's summary income statement on a management basis for the three months ended 31 March 2017 and 2016. This income statement should be considered with the reconciliations to the most directly reconcilable IFRS line item in *"—Exceptional Items"* above:

	Three months ended 31 March	
	2017	**2016**
	(€ millions)	
Net interest income	536	484
Business income	156	110
Other items	69	51
Other income	225	161
Total operating income	761	645
Personnel expenses	(182)	(180)
General and administrative expenses	(140)	(142)
Depreciation, impairment and amortisation	(27)	(23)
Total operating expenses	(349)	(345)
Operating profit before levies and provisions	412	300
Bank levies and regulatory fees	(43)	(1)
Writeback of provisions for impairment on loans and receivables	4	109
Writeback of provisions for liabilities and commitments	3	1
Writeback of provisions for impairment on financial investments available for sale	—	2
Total writeback of provisions	7	112
Operating profit	376	411
Associated undertakings	4	18
Loss on disposal of property	(1)	—
Profit from continuing operations before exceptional items	**379**	**429**
Restitution and restructuring expenses	(3)	—
Termination benefits	(2)	(1)
Other exceptional items	(9)	—
Total exceptional items	**(14)**	**(1)**
Profit before taxation from continuing operations	365	428
Income tax charge from continuing operations	(52)	(56)
Profit for the period	**313**	**372**

6.1.1 Net interest income

Net interest income increased by €52 million, or 11 per cent., to €536 million for the three months ended March 2017 from €484 million for the three months ended 31 March 2016. This reflected a significant reduction in the cost of funds and marginal growth in the average asset yield. The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields on interest-bearing liabilities, including the impact of the redemption of the CCNs in July 2016. The marginal growth in the average asset yield reflected the mix of assets changing to a higher percentage of loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds.

Net interest margin excluding the ELG Scheme charge and one-off income for cured loans (upgraded from impaired without incurring financial loss) for the three months ended 31 March 2017 was 2.46 per cent.

Including the benefit of one-off income for cured loans, AIB's net interest margin excluding the ELG Scheme charge increased to 2.55 per cent. in the three months ended 31 March 2017, compared to 2.10 per cent. in the three months ended 31 March 2016.

The following table presents trends in AIB's net interest margin for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions, unless otherwise indicated)	
Interest and similar income[(1)]	616	673
Interest expense and similar charges (excluding ELG Scheme charge)[(1)]	(77)	(184)
ELG Scheme charge	(3)	(5)
Net interest income	536	484
Average interest-earning assets	85,937	93,264
Group net interest margin	2.53%	2.08%
Impact of ELG Scheme charge	(0.02)%	(0.02)%
Group net interest margin excluding ELG Scheme charge	2.55%	2.10%
Group net interest margin excluding the ELG Scheme charge and one-off income for cured loans	2.46%	N/A

Note:

(1) Throughout "*Part XIII: Operating and Financial Review*", negative interest on liabilities in the amount of €4 million in the three months ended 31 March 2017 and 2016 is reflected in interest expense and similar charges. In note 3 of Section D of "*Part XVI: Consolidated Historical Financial Information*", negative interest on liabilities in the amount of €4 million in the three months ended 31 March 2017 and 2016 is reflected in interest and similar income.

Average asset yield

The average asset yield (defined as interest and similar income over average interest-earning assets as set forth under "—*Average Balance Sheet*" below) improved from 290 basis points to 291 basis points. Although yields on loans and receivables to customers, financial investments available for sale and other interest-earning assets decreased in the three months ended 31 March 2017 compared to 31 March 2016, the mix of assets changed to a higher percentage of loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds.

Average interest-earning assets

Average interest-earning assets decreased from €93.3 billion to €85.9 billion mainly due to a reduction in average NAMA senior bonds of €3.9 billion and lower average loans and receivables to customers of €2.2 billion, driven by restructuring activity on impaired loans. Further decreases were due to reductions in financial investments of €1.1 billion to align with liquidity requirements and a decrease in other interest-earning assets of €0.2 billion due to a reduction in loans and receivables to banks.

Average cost of funds

The average cost of funds (defined as interest expense and similar charges divided by average interest bearing liabilities as set forth under "—*Average Balance Sheet*" below) excluding the ELG Scheme charge decreased from 118 basis points to 60 basis points. The reduction in the average cost of funds was driven by the redemption of the CCNs in July 2016 and a positive mix impact from a reduction in higher interest-bearing deposits to an increase in non-interest-bearing retail current accounts. These factors combined with the ECB main refinancing operations rate moving to nil on 16 March 2016 and a further decline in the short-term EURIBOR rates. This resulted in the gap between asset yields and the cost of funds increasing from 172 basis points in the three months ended 31 March 2016 to 231 basis points in the three months ended 31 March 2017.

Average Balance Sheet[(1)]

The following table presents AIB's average balance sheet as at and for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Average balance[(2)]	Interest	Average rate	Average balance[(3)]	Interest	Average rate
	(€ millions)		(%)	(€ millions)		(%)
Assets						
Loans and receivables to customers	60,686	540	3.61	62,920	577	3.69
NAMA senior bonds	1,321	2	0.55	5,185	5	0.36
Financial investments available for sale	14,517	39	1.10	15,444	52	1.35
Financial investments held to maturity	3,341	32	3.91	3,466	33	3.78
Other interest-earning assets	6,072	3	0.19	6,249	6	0.40
Average interest-earning assets	85,937	616	2.91	93,264	673	2.90
Non-interest-earning assets[(4)]	7,456			8,188		
Total assets	93,393	616		101,452	673	
Liabilities and equity						
Deposits by banks	6,744	(2)	(0.15)	12,567	(2)	(0.07)
Customer accounts	37,216	64	0.71	40,321	91	0.91
Subordinated liabilities	792	8	4.14	2,332	79	13.62
Other debt issued	6,804	7	0.40	7,484	16	0.84
Average interest-bearing liabilities	51,556	77	0.60	62,704	184	1.18
Non-interest-bearing liabilities[(5)]	28,643			26,830		
Equity	13,194			11,918		
Total liabilities and equity	93,393	77		101,452	184	
Net interest income excluding ELG		539	2.55		489	2.10
ELG		(3)	(0.02)		(5)	(0.02)
Net interest income including ELG		536	2.53		484	2.08

Notes:

(1) Differences on the average balance sheet contained in *"Part XVI: Consolidated Historical Financial Information"* include: (a) the cost of the ELG Scheme charge in interest within liabilities and equity; and (b) other interest-earning assets are split into trading portfolio financial assets less liabilities and loans and receivables to banks.

(2) Averages are based on month-end balances for all categories with the exception of loans and receivables to customers, NAMA senior bonds, financial investments available for sale, financial investments held to maturity and customer accounts, which are based on daily averages.

(3) Averages are based on month-end balances for all categories with the exception of loans and receivables to customers and customer accounts, which are based on daily averages.

(4) Non-interest-earning assets include deferred tax asset, equity investments, prepayments and accrued income and other assets.

(5) Non-interest-bearing liabilities include non-interest-bearing customer accounts and other liabilities.

6.1.2 Business income

Business income was €156 million for the three months ended 31 March 2017 compared to €110 million for the three months ended 31 March 2016, an increase of €46 million, or 42 per cent. The following table presents business income for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions)	
Net fee and commission income	100	97
Dividend income	25	25
Net trading income/(loss)	29	(17)
Miscellaneous business income	2	5
Business income	156	110

Net fee and commission income

Net fee and commission income was €100 million for the three months ended 31 March 2017 compared to €97 million for the three months ended 31 March 2016, an increase of €3 million, due to the benefit of income from insurance profit share arrangements.

Dividend income

Dividend income was €25 million for the three months ended 31 March 2017, in line with €25 million for the three months ended 31 March 2016. In each period, €25 million was received in respect of NAMA subordinated bonds.

Net trading income

Net trading income was €29 million for the three months ended 31 March 2017 compared to a loss of €17 million for the three months ended 31 March 2016, an increase of €46 million. The increase was mainly due to the movement in valuations on AIB's long-term customer derivative positions. In the three months ended 31 March 2017, AIB had a net positive movement of €7 million, compared to a net negative movement in the three months ended 31 March 2016 of €18 million. Further, there was an increase in income on interest rate contracts and debt securities of €16 million for the three months ended 31 March 2017 compared to the three months ended 31 March 2016 and income from foreign exchange contracts increased by €7 million in the three months ended 31 March 2017 compared to the three months ended 31 March 2016.

Miscellaneous business income

Miscellaneous business income was €2 million for the three months ended 31 March 2017 compared to €5 million for the three months ended 31 March 2016, a decrease of €3 million, or 60 per cent. This reflected lower foreign exchange gains.

6.1.3 Other items

Other items were €69 million for the three months ended 31 March 2017 compared to €51 million for the three months ended 31 March 2016, an increase of €18 million, or 35 per cent. The following table presents other items for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions)	
Net profit on disposal of available for sale securities	8	18
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	—	10
Settlements and other gains	61	23
Other items	69	51

Net profit on disposal of available for sale securities

Net profit on disposal of available for sale securities was €8 million for the three months ended 31 March 2017 compared to €18 million for the three months ended 31 March 2016 and related to the disposal of available for sale debt and equity securities.

Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds

AIB recognised a gain of €10 million on NAMA senior bonds for the three months ended 31 March 2016, which reflected accelerated repayments compared to nil in the three months ended 31 March 2017.

Settlements and other gains

Settlements and other gains for the three months ended 31 March 2017 were €61 million compared to €23 million for the three months ended 31 March 2016. This mainly related to fair value gains on realisations/re-estimation of cash flows on loans previously restructured which were €61 million in the three months ended 31 March 2017 compared to €24 million in the three months ended 31 March 2016. The €61 million in the three months ended 31 March 2017 included a €46 million gain recognised in the period from a single customer connection, which related to a legacy UK property case.

6.1.4 Total operating expenses

Total operating expenses before exceptional items increased by €4 million to €349 million for the three months ended 31 March 2017, compared to €345 million for the three months ended 31 March 2016. Excluding the impact of currency movements, underlying operating expenses increased by €8 million. This primarily reflected higher staff numbers and the impact of the €870 million investment programme as depreciation increases as assets come into use.

The following table presents total operating expenses before exceptional items for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	**2016**
	(€ millions, unless otherwise indicated)	
Personnel expenses	(182)	(180)
General and administrative expenses	(140)	(142)
Depreciation, impairment and amortisation	(27)	(23)
Total operating expenses before exceptional items	(349)	(345)
Staff numbers at period end[(1)]	10,255	10,111
Average staff numbers[(1)]	10,313	10,127

Note:

(1) Staff numbers are presented on a FTE basis.

Personnel expenses

Personnel expenses increased by €2 million, or 1 per cent., to €182 million for the three months ended 31 March 2017, compared to €180 million for the three months ended 31 March 2016. The increase mainly reflected higher staff numbers and salary increases based on the recommendation of the WRC (which took effect from April 2016). Staff numbers increased as AIB continued to invest in its loan restructuring operations and responded to increasing regulatory compliance requirements.

General and administrative expenses

General and administrative expenses decreased by €2 million, or 1 per cent., to €140 million for the three months ended 31 March 2017, compared to €142 million for the three months ended 31 March 2016 reflecting cost management and control.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation increased by €4 million, or 17 per cent., to €27 million for the three months ended 31 March 2017, compared to €23 million for the three months ended 31 March 2016 due to increased levels of assets relating to the investment programme in use in 2017.

6.1.5 Bank levies and regulatory fees

Bank levies for the three months ended 31 March 2017 were €43 million, compared to €1 million for the three months ended 31 March 2016. The three months ended 31 March 2017 included the Single Resolution Fund fee of €18 million, Deposit Guarantee Scheme of €28 million and a credit of €3 million relating to previous payments. The fees were at similar levels to those incurred in 2016 (recognised in the half year to June 2016).

6.1.6 Provisions

The income statement writeback of provisions for the three months ended 31 March 2017 was €7 million, compared to a writeback of €112 million for the three months ended 31 March 2016.

The following table presents the income statement (writeback)/provision for impairment on financial assets and (writeback)/provisions for liabilities and commitments for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions)	
Specific provisions		
Individually significant loans and receivables	(38)	(137)
Individually insignificant loans and receivables	14	46
IBNR	20	(18)
Total writeback of provisions for impairment on loans and receivables to customers	(4)	(109)
Writeback of provisions for impairment on financial investments available for sale	—	(2)
Writeback of provisions for liabilities and commitments	(3)	(1)
Total	(7)	(112)

Total net writeback of provisions for impairment on loans and receivables to customers for the three months ended 31 March 2017 was €4 million, compared to a net writeback of €109 million for the three months ended 31 March 2016.

The specific provisions net writeback for the three months ended 31 March 2017 was €24 million, compared to a net writeback of €91 million for the three months ended 31 March 2016 reflecting reduced writebacks as the primary restructuring period concludes. The specific provisions net writeback for the three months ended 31 March 2017 comprises of a new to impaired charge of €68 million (three months ended 31 March 2016: €47 million) and a writeback (net of top-ups) of €92 million (three months ended 31 March 2016: €138 million).

The incurred but not reported ("IBNR") provisions charge increased to €20 million for the three months ended 31 March 2017 from a net writeback of €18 million for the three months ended 31 March 2016. Following a review during the period, the emergence period was extended for some of the portfolios, resulting in an increase in overall IBNR levels by €44 million in the three months ended March 2017, which is included in the net charge of €20 million in the three months ended 31 March 2017.

For more information on loan loss provisioning, see "*—Credit risk—Loan loss provisioning*" in note 58 of Section B of "*Part XVI: Consolidated Historical Information*."

For more information on credit quality, see "*—Balance Sheet—As at 31 March 2017 and 31 December 2016—Loans and receivables to customers*" and "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D of "*Part XVI: Consolidated Historical Financial Information*".

6.1.7 Associated undertakings

Income from associated undertakings for the three months ended 31 March 2017 was €4 million, compared to €18 million for the three months ended 31 March 2016. Profit from associates AIB Merchant Services and Aviva Undershaft Five Limited was €4 million and nil respectively in the three months ended 31 March 2017, compared to €7 million and €3 million respectively in the three months ended 31 March 2016. Income from associated undertakings included a reversal of impairment of associate, Aviva Undershaft Five Limited, of €8 million in the three months ended 31 March 2016 compared to nil for the three months ended 31 March 2017.

6.1.8 Loss on disposal of property

Loss on disposal of property for the three months ended 31 March 2017 was €1 million, compared to nil for the three months ended 31 March 2016.

6.1.9 Exceptional items

The following table presents a breakdown of exceptional items for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	**2016**
	(€ millions)	
Restitution and restructuring expenses	(3)	—
Termination benefits	(2)	(1)
Other exceptional items	(9)	—
Total exceptional items	(14)	(1)

Restitution and restructuring expenses

For the three months ended 31 March 2017, AIB recognised restitution and restructuring expenses of €3 million, which included costs associated with restitution, transformation and reorganisation, compared to nil in the three months ended 31 March 2016.

Termination benefits

The cost of the voluntary severance programme was €2 million and €1 million for the three months ended 31 March 2017 and 2016, respectively.

Other exceptional items

For the three months ended 31 March 2017, AIB recognised expenses of €9 million, which related to the ongoing preparedness for a future capital market event compared to nil for the three months ended 31 March 2016.

6.1.10 Income tax charge from continuing operations

The taxation charge for the three months ended 31 March 2017 was €52 million, compared to a total taxation charge of €56 million for the three months ended 31 March 2016 primarily reflecting the reduced level of profit in the three months ended 31 March 2017.

6.2 Years Ended 31 December 2016 and 2015

AIB recorded a profit before taxation from continuing operations of €1,682 million for the year ended 31 December 2016, compared to a profit of €1,914 million for the year ended 31 December 2015. The decrease of €232 million was largely attributable to the decrease in net writeback of provisions for impairment on loans and receivables of €631 million, which reflected the pace and quantum of writebacks moderating in accordance with the expected slowdown in restructuring momentum. This was partially offset by a decrease in costs of €107 million (€233 million related to cost deemed exceptional partially offset by a €41 million increase in bank levies in 2016 compared to 2015) and an increase in operating income of €291 million (of which a €272 million profit on disposal of Visa Europe and a €12 million increase in gain on transfer of financial instruments related to income deemed exceptional).

The following table presents AIB's summary income statement on a management basis for the years ended 31 December 2016 and 2015. This income statement should be considered with the reconciliations to the most directly reconcilable IFRS line item in *"—Exceptional Items"* above:

	Year ended 31 December	
	2016	**2015**
	(€ millions)	
Net interest income	2,013	1,927
Business income	493	533
Other items	124	163
Other income	617	696
Total operating income	2,630	2,623
Personnel expenses	(717)	(725)
General and administrative expenses	(566)	(493)
Depreciation, impairment and amortisation	(94)	(74)
Total operating expenses	(1,377)	(1,292)
Operating profit before bank levies, regulatory fees and provisions	1,253	1,331
Bank levies and regulatory fees	(112)	(71)
Writeback of provisions for impairment on loans and receivables	294	925
Writeback/(provisions) for liabilities and commitments	2	(2)
Writeback of provisions for impairment on financial investments available for sale	2	—
Total writeback of provisions	298	923
Operating profit	1,439	2,183
Associated undertakings	35	25
Profit on disposal of property	—	3
Profit on disposal of business	1	—
Profit from continuing operations before exceptional items	**1,475**	**2,211**
Restitution and restructuring expenses	(58)	(250)
Gain on transfer of financial instruments	17	5
Profit on disposal of Visa Europe	272	—
Termination benefits	(24)	(37)
Other exceptional items	—	(15)
Total exceptional items	**207**	**(297)**
Profit before taxation from continuing operations	1,682	1,914
Income tax charge from continuing operations	(326)	(534)
Profit for the year	**1,356**	**1,380**

6.2.1 Net interest income

Net interest income increased by €86 million, or 4 per cent., to €2,013 million for the year ended 31 December 2016 from €1,927 million for the year ended 31 December 2015. This reflected a significant reduction in the cost of funds and marginal growth in the average asset yield. The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields on interest bearing liabilities, including the impact of the redemption of the CCNs in July 2016. The growth in the average asset yield reflected the mix of assets changing to a higher percentage in loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds.

AIB's net interest margin increased 29 basis points to 2.23 per cent. for the year ended 31 December 2016 compared to 1.94 per cent. for the year ended 31 December 2015. The net interest margin excluding the ELG Scheme charge increased to 2.25 per cent. in 2016, compared to 1.97 per cent. in 2015. The factors contributing to the increase included the redemption of legacy instruments and the improved profile of average loans and receivables to customers.

The following table presents trends in AIB's net interest margin for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
	(€ millions, unless otherwise indicated)	
Interest and similar income[(1)]	2,590	2,821
Interest expense and similar charges (excluding ELG Scheme charge)[(1)]	(560)	(864)
ELG Scheme charge	(17)	(30)
Net interest income	2,013	1,927
Average interest-earning assets	90,181	99,272
Group net interest margin	2.23%	1.94%
Impact of ELG Scheme charge	(0.02)%	(0.03)%
Group net interest margin excluding ELG Scheme charge	2.25%	1.97%

Note:

(1) Throughout *"Part XIII: Operating and Financial Review"*, negative interest on liabilities in the amount of €21 million in 2016 is reflected in interest expense and similar charges. In note 4 of Section D of *"Part XVI: Consolidated Historical Financial Information"*, negative interest on liabilities in the amount of €21 million in 2016 is reflected in interest and similar income.

Average asset yield

The average asset yield (defined as interest and similar income over average interest-earning assets as set forth under "—*Average Balance Sheet*" below) improved from 284 basis points in 2015 to 287 basis points in 2016. Although individual asset yields decreased in 2016 compared to 2015, the mix of assets changed to a higher percentage of loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds. Yields on loans and receivables to customers remained stable with mortgage rate reductions offset by the run-off of lower yielding tracker loans (average volume in 2016 was € 1.3 billion lower than in 2015). The mortgage rate reductions were part of the multi-proposition mortgage approach, underpinning AIB's strategic focus on customers. Yields on financial investments available for sale reduced through the mix of sales, maturities and purchases and the lower market rate environment. NAMA senior bond yields, linked to market interest rates, decreased year-on-year.

Average interest-earning assets

Average interest-earning assets decreased from €99.3 billion in 2015 to €90.2 billion mainly due to a reduction in average NAMA senior bonds of €4.0 billion and lower average loans and receivables to customers of €2.8 billion, which was in turn driven by restructuring activity on impaired loans. Further decreases were due to reductions in financial investments of €1.3 billion to align with liquidity requirements and lower other interest-earning assets of €1.1 billion due to a reduction in loans and receivables to banks.

NAMA senior bond interest income decreased by €20 million as a result of the redemption of senior bonds and yields linked to market rates decreasing year-on-year in line with the market rate environment. Interest income from financial investments available for sale and held to maturity decreased by €89 million as a result of mix of sales, maturities and purchases and the lower market rate environment.

Average cost of funds

The average cost of funds (defined as interest expense and similar charges divided by average interest bearing liabilities as set forth under "—*Average Balance Sheet*" below) decreased from 126 basis points in 2015 to 97 basis points in 2016. The reduction in the cost of funds was driven by a lower funding requirement and lower average yields. The lower funding requirement was reflected in lower deposits by banks. The lower liability yields were driven by the continued downward deposit pricing actions and the positive mix impact from a reduction in high interest-bearing corporate and treasury deposits to an increase in non-interest bearing retail current accounts. These factors, combined with redemption of the CCNs in July 2016, the ECB main refinancing operations rate moving to nil and short-term EURIBOR rates further decreasing resulted in the gap between asset yields and the cost of funds increasing from 158 basis points in 2015 to 190 basis points in 2016.

The ELG Scheme charge was €17 million in 2016, compared to €30 million in 2015. The reduction in the charge was due to the cessation of the ELG Scheme in Ireland for new liabilities in March 2013. As existing liabilities that are covered by the scheme mature, the ELG Scheme charge has decreased and is expected to continue to decrease.

Average Balance Sheet[(1)]

The following table presents AIB's average balance sheet as at and for the years ended 31 December 2016 and 2015:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Average balance[(2)]	Interest	Average rate	Average balance[(2)]	Interest	Average rate
	(€ millions)		(%)	(€ millions)		(%)
Assets						
Loans and receivables to customers	62,116	2,248	3.62	64,868	2,363	3.64
NAMA senior bonds	3,644	11	0.30	7,614	31	0.41
Financial investments available for sale	14,925	182	1.22	19,503	398	2.04
Financial investments held to maturity	3,419	131	3.83	106[(3)]	4	3.76
Other interest-earning assets	6,077	18	0.30	7,181	25	0.36
Average interest-earning assets	90,181	2,590	2.87	99,272	2,821	2.84
Non-interest-earning assets[(4)]	8,005			7,557		
Total assets	98,186	2,590		106,829	2,821	
Liabilities and equity						
Deposits by banks	9,728	(13)	(0.13)	15,734	4	0.03
Customer accounts	38,894	324	0.83	43,777	490	1.12
Subordinated liabilities	1,629	199	12.22	1,625	278	17.10
Other debt issued	7,474	50	0.67	7,475	92	1.23
Average interest-bearing liabilities	57,725	560	0.97	68,611	864	1.26
Non-interest-bearing liabilities[(5)]	28,056			25,985		
Equity	12,405			12,233		
Total liabilities and equity	98,186	560		106,829	864	
Net interest income excluding ELG		2,030	2.25		1,957	1.97
ELG		(17)	(0.02)		(30)	(0.03)
Net interest income including ELG		2,013	2.23		1,927	1.94

Notes:

(1) Differences on the average balance sheet contained in *"Part XVI: Consolidated Historical Financial Information"* include: (a) the cost of the ELG Scheme charge in interest within liabilities and equity; and (b) other interest-earning assets are split into trading portfolio financial assets less liabilities and loans and receivables to banks.

(2) Averages are based on month-end balances for all categories with the exception of loans and receivables to customers and customer accounts, which are based on daily averages.

(3) Reflects decision in December 2015 to transfer €3.5 billion of the available for sale portfolio into a new held to maturity portfolio.

(4) Non-interest-earning assets include deferred tax asset, equity investments, prepayments and accrued income and other assets.

(5) Non-interest-bearing liabilities include non-interest-bearing customer accounts and other liabilities.

6.2.2 Business income

Business income was €493 million for the year ended 31 December 2016 compared to €533 million for the year ended 31 December 2015, a decrease of €40 million, or 8 per cent. The following table presents business income for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
	(€ millions)	
Net fee and commission income	395	405
Dividend income	26	26
Net trading income	68	87
Miscellaneous business income	4	15
Business income	493	533

Net fee and commission income

Net fee and commission income was €395 million in 2016, excluding the impact of currency movements was stable, compared to €405 million in 2015. The reduced card income in 2016 due to the impact of the changes in EU fee regulation on interchange rates was partially offset by increases in card spend and lending related fees.

Dividend income

Dividend income of €26 million in 2016 was in line with 2015. In each year, €25 million was received in respect of NAMA subordinated bonds.

Net trading income

Net trading income was €68 million for the year ended 31 December 2016, compared to net trading income of €87 million in 2015. The reduction was mainly due to the movement in valuations on AIB's long-term customer derivative positions following fluctuations in long-term sterling interest rates and interest rate volatility throughout 2016. In 2016, AIB had a net positive movement of €1 million, compared to a net positive movement in 2015 of €17 million.

Customer foreign exchange business income in 2016 was in line with 2015, notwithstanding the negative impact on this activity related to the UK referendum to exit the EU.

Miscellaneous business income

Miscellaneous business income was €4 million for the year ended 31 December 2016, compared to €15 million for the year ended 31 December 2015. The reduction was driven by lower foreign exchange gains.

6.2.3 Other items

There was €124 million of other items income in 2016, compared to income of €163 million in 2015. The following table presents other items for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
	(€ millions)	
Net profit on disposal of available for sale securities	31	85
Effect of acceleration/re-estimation of the timing of cash flows on NAMA senior bonds	10	6
Settlements and other gains	83	72
Other items	124	163

Net profit on disposal of available for sale securities

Net profit on disposal of available for sale securities was €31 million for the year ended 31 December 2016 compared to €85 million for the year ended 31 December 2015 due to a higher level of disposals, including Irish government bonds, in 2015.

Effect of acceleration/re-estimation of the timing of cash flows on NAMA senior bonds

AIB recognised a gain of €10 million on NAMA senior bonds for the year ended 31 December 2016, compared to a gain of €6 million for the year ended 31 December 2015. The gains reflect accelerated repayments following redemptions of €3.8 billion in each of 2016 and 2015.

Settlements and other gains

Settlements and other gains for the year ended 31 December 2016 were €83 million compared to €72 million for the year ended 31 December 2015. In 2016, settlements and other gains included €85 million from the effect of realisations/re-estimation of cash flows on loans and receivables previously restructured, €3 million fair value gain on equity warrants and €1 million net gain on buyback of debt securities in issue partially offset by €6 million loss on the disposal of loans. In 2015, settlements and other gains included a €45 million gain reflecting the effect of the realisation/re-estimation of cash flows on loans and receivables previously restructured, an €8 million fair value gain on equity warrants, an €8 million net gain on buyback of debt securities in issue, €38 million of income on settlement of claims, partially offset by a loss on disposal of loans of €27 million.

6.2.4 Total operating expenses

Total operating expenses before exceptional items increased by €85 million, or 7 per cent., to €1,377 million for the year ended 31 December 2016, compared to €1,292 million for the year ended 31 December 2015. Excluding the impact of currency movements, total operating expenses increased by €105 million. This increase primarily reflected selective outsourcing and the impact of the €870 million investment programme.

The following table presents total operating expenses before exceptional items for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	2015
	(€ millions, unless otherwise indicated)	
Personnel expenses	717	725
General and administrative expenses	566	493
Depreciation, impairment and amortisation	94	74
Total operating expenses before exceptional items	1,377	1,292
Staff numbers at year end(1)	10,376	10,204
Average staff numbers(1)	10,226	10,663

Note:

(1) Staff numbers are presented on a FTE basis.

Personnel expenses

Personnel expenses decreased by €8 million, or 1 per cent., to €717 million for the year ended 31 December 2016, compared to €725 million for the year ended 31 December 2015. The reduction in costs reflected lower average staff numbers offset by salary increases based on the recommendation of the WRC.

Average staff numbers decreased by 437, or 4 per cent., mainly due to the severance scheme in 2015 and 2016 and continued selective outsourcing. Staff numbers throughout 2016 increased as AIB continued to invest in its loan restructuring operations and responded to increasing regulatory compliance requirements.

General and administrative expenses

General and administrative expenses increased by €73 million, or 15 per cent., to €566 million for the year ended 31 December 2016, compared to €493 million for the year ended 31 December 2015. This was due to increased costs relating to selective outsourcing, marketing and spend on the investment programme.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation increased by €20 million, or 27 per cent., to €94 million for the year ended 31 December 2016, compared to €74 million for the year ended 31 December 2015 due to increased levels of assets relating to the investment programme in use in 2016.

6.2.5 Bank levies and regulatory fees

Bank levies for the year ended 31 December 2016 were €112 million, compared to €71 million for the year ended 31 December 2015. Bank levies and regulatory fees in 2016 included the Irish bank levy of €60 million, a Deposit Guarantee Scheme charge of €35 million (including a claim on the Deposit Guarantee Scheme legacy fund of €8 million) and Single Resolution Fund fees of €18 million, partially offset by a €1 million credit on other regulatory fees. In 2015, they included the Irish bank levy of €60 million, a €1 million credit in respect of the Deposit Guarantee Scheme legacy fund, Single Resolution Fund fees of €8 million and other regulatory fees of €4 million.

6.2.6 Provisions

The income statement net write back of provisions for the year ended 31 December 2016 was €298 million, compared to a net writeback of €923 million for the year ended 31 December 2015.

The following table presents the income statement (writeback)/provision for impairment on financial assets and (writeback)/provision for liabilities and commitments for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
	(€ millions)	
Specific provisions		
Individually significant loans and receivables	(154)	(633)
Individually insignificant loans and receivables	(17)	125
IBNR	(123)	(417)
Total writeback of provisions for impairment on loans and receivables to customers	(294)	(925)
Writeback of provisions for impairment on financial investments available for sale	(2)	—
(Writeback)/provisions for liabilities and commitments	(2)	2
Total	(298)	(923)

The specific provisions net writeback for the year ended 31 December 2016 was €171 million, compared to a net writeback of €508 million for the year ended 31 December 2015. The specific provisions net writeback for the year ended 31 December 2016 can be split into €281 million in new impairment provisions and a €452 million net writeback of provisions. The net writeback accounted for 3.5 per cent. of the opening impaired loan book and was driven primarily by increased security values and improved cash flows due to the stronger economic environment, cases cured from impairment and execution of additional security at fulfilment.

The IBNR provisions writeback decreased by €294 million, or 71 per cent., to €123 million for the year ended 31 December 2016 from a writeback of €417 million for the year ended 31 December 2015. The release primarily reflects the improved earning portfolio and associated probability of default as a result of observed trends in the improved economic environment.

The net writeback of provisions on loans and receivables to customers for the year ended 31 December 2016 in the amount of €294 million consisted of an €111 million net writeback on residential mortgage loans and a €183 million net writeback on other types of loans. The net writeback of provisions on loans and receivables to customers for the year ended 31 December 2015 in the amount of €925 million consisted of a €478 million net writeback on residential mortgage loans and a €447 million net writeback on other types of loans.

The net writeback of provisions for impairment on financial investments available for sale for the year ended 31 December 2016 was €2 million compared to nil for the year ended 31 December 2015.

The net writeback of provisions for liabilities and commitments for the year ended 31 December 2016 was €2 million compared to a provision charge of €2 million for the year ended 31 December 2015.

For more information on loan loss provisioning, see "*—Credit risk—Loan loss provisioning*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

For more information on credit quality, see "*—Balance Sheet—As at 31 December 2016 and 2015—Loans and receivables to customers*" and "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

6.2.7 Associated undertakings

Income from associated undertakings for the year ended 31 December 2016 was €35 million, compared to €25 million for the year ended 31 December 2015. The increase was mainly due to a reversal of an impairment in, and share of income from, AIB's share in associate Aviva Undershaft Five Limited (previously known as Aviva Health Group Ireland Limited) totalling €9 million and higher income from AIB Merchant Services of €1 million.

6.2.8 Profit on disposal of property

Profit on disposal of property for the year ended 31 December 2016 was nil, compared to €3 million for the year ended 31 December 2015.

6.2.9 Profit on disposal of business

Profit on disposal of business for the year ended 31 December 2016 was €1 million, compared to nil for the year ended 31 December 2015.

6.2.10 Exceptional items

The following table presents a breakdown of exceptional items for the years ended 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
	(€ millions)	
Restitution and restructuring expenses	(58)	(250)
Gain on transfer of financial instruments	17	5
Profit on disposal of Visa Europe	272	—
Termination benefits	(24)	(37)
Other exceptional items	—	(15)
Total exceptional items	207	(297)

Restitution and restructuring expenses

For the year ended 31 December 2016, AIB recognised restitution and restructuring expenses of €58 million, a decrease of €192 million from €250 million for the year ended 31 December 2015, which included costs associated with restitution, transformation, reorganisation, certain provisions for liabilities and write off of intangible assets. For the year ended 31 December 2015, AIB recognised expenses of €250 million, which included €190 million in relation to customer redress and compensation arising from the Tracker Mortgage Examination. The decrease in restitution and restructuring expenses in 2016 was largely due to no further provision being required in 2016 for customer redress and compensation. The remainder related to other restitution, transformation, reorganisation and certain provisions for liabilities.

Gain on transfer of financial instruments

For the years ended 31 December 2016 and 2015, AIB recognised a gain on the transfer of financial instruments to NAMA in the amount of €17 million and €5 million, respectively, which related to valuation adjustment on previous transfers of financial assets to NAMA.

Profit on disposal of Visa Europe

The profit on disposal of Visa Europe of €272 million resulted from disposal of Visa Europe by AIB to Visa Inc.

Termination benefits

The cost of the voluntary severance programme was €24 million and €37 million for the years ended 31 December 2016 and 2015, respectively.

6.2.11 Income tax charge from continuing operations

The taxation charge for the year ended 31 December 2016 was €326 million, compared to a taxation charge of €534 million for the year ended 31 December 2015. This reflected a decrease in AIB's effective tax rate from 28 per cent. in 2015 to 19 per cent. in 2016. Excluding the impact of changes in UK legislation restricting the use of tax losses, the effective tax rate would have been 14 per cent. and 15 per cent. in 2016 and 2015, respectively.

6.3 Years Ended 31 December 2015 and 2014

AIB recorded a profit before taxation from continuing operations of €1,914 million for the year ended 31 December 2015, compared to a profit of €1,111 million for the year ended 31 December 2014. The increase of €803 million was largely attributable to the increase in net writeback of provisions for impairment on loans and receivables of €740 million, which reflected the pace and quantum of writebacks of restructuring activity and an increase in operating income of €96 million (of which €3 million related to an increase in income deemed exceptional from gain on transfer of financial instruments). This was partially offset by an increase in costs of €40 million (€147 million related to costs deemed exceptional partially offset by a €2 million decrease in bank levies in 2015 compared to 2014).

The following table presents AIB's summary income statement on a management basis for the years ended 31 December 2015 and 2014. This income statement should be considered with the reconciliations to the most directly reconcilable IFRS line item in "—*Exceptional Items*" above:

	Year ended 31 December	
	2015	**2014**
	(€ millions)	
Net interest income	1,927	1,687
Business income	533	406
Other items	163	437
Other income	696	843
Total operating income	2,623	2,530
Personnel expenses	(725)	(767)
General and administrative expenses	(493)	(545)
Depreciation, impairment and amortisation	(74)	(85)
Total operating expenses	(1,292)	(1,397)
Operating profit before bank levies, regulatory fees and provisions	1,331	1,133
Bank levies and regulatory fees	(71)	(73)
Writeback of provisions for impairment on loans and receivables	925	185
(Provisions)/writeback of provisions for liabilities and commitments	(2)	4
Provisions for impairment on financial investments available for sale	—	(1)
Total writeback of provisions	923	188
Operating profit	2,183	1,248
Associated undertakings	25	23
Profit on disposal of property	3	6
Profit from continuing operations before exceptional items	**2,211**	**1,277**
Restitution and restructuring expenses	(250)	(144)
Gain on transfer of financial instruments	5	2
Termination benefits	(37)	(24)
Other exceptional items	(15)	—
Total exceptional items	**(297)**	**(166)**
Profit before taxation from continuing operations	1,914	1,111
Income tax charge from continuing operations	(534)	(230)
Profit after taxation from continuing operations	1,380	881
Profit after taxation from discontinued operations	—	34
Profit for the year	**1,380**	**915**

6.3.1 Net interest income

Net interest income increased by €240 million, or 14 per cent., to €1,927 million for the year ended 31 December 2015 from €1,687 million for the year ended 31 December 2014. The increase was mainly due to significant reductions in funding costs, growth in new lending volumes to €8.5 billion in 2015 from €5.7 billion in 2014, and a lower ELG Scheme charge. This was partly offset by the impact of customer loan redemptions, lower income from NAMA senior bonds and available for sale securities and lower yield on the variable rate mortgage portfolio following two significant rate reductions in the year. The impact of currency movements increased net interest income by €26 million in 2015. The ECB maintained low official rates and short-term EURIBOR rates moved slightly into negative territory during 2015, positively impacting short-term funding costs.

AIB's net interest margin increased 31 basis points to 1.94 per cent. for the year ended 31 December 2015. The net interest margin, excluding the ELG Scheme charge, increased 28 basis points to 1.97 per cent. for the year ended 31 December 2015. The factors contributing to the increase were an increase in the yields on interest-earning assets of 1 basis point and the impact of the decrease in the cost of funding interest-bearing liabilities of 27 basis points.

The following table presents trends in AIB's net interest margin for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Interest and similar income	2,821	2,921
Interest expense and similar charges (excluding ELG Scheme charge)	(864)	(1,175)
ELG Scheme charge	(30)	(59)
Net interest income	1,927	1,687
Average interest-earning assets	99,272	103,370
Group net interest margin	1.94%	1.63%
Impact of ELG Scheme charge	(0.03)%	(0.06)%
Group net interest margin excluding ELG Scheme charge	1.97%	1.69%

Average asset yield

The average asset yield (defined as interest and similar income over average interest-earning assets as set forth under "*—Average Balance Sheet*" below) of 284 basis points was broadly in line with 2014. The mix of assets moved in favour of loans and receivables to customers following the reduction of low-yielding NAMA senior bonds. Customer asset yields remained stable notwithstanding the reduction in the interest rate environment and two variable mortgage rate reductions. Yields on financial investments available for sale reduced by 24 basis points and yields on NAMA senior bonds reduced by 23 basis points.

Average interest-earning assets

Average interest-earning assets decreased from €103.4 billion in 2014 to €99.3 billion in 2015 as a €5 billion reduction in average NAMA senior bonds and €0.5 billion of lower loans and receivables to customers were partly offset by a €0.2 billion increase in financial investments and a €1.2 billion increase in other interest-earning assets.

Average cost of funds

The average cost of funds (defined as interest expense and similar charges divided by average interest bearing liabilities as set forth under "*—Average Balance Sheet*" below) of 126 basis points decreased from 151 basis points in 2014 as a result of continued deposit pricing actions, the change in funding mix, with an increase in low yielding current accounts and the roll-off of deposits at higher rates.

The ELG Scheme charge was €30 million for the year ended 31 December 2015, compared to €59 million for the year ended 31 December 2014. As existing liabilities that are covered by the scheme mature, the ELG charge has reduced and is expected to continue to reduce.

Average Balance Sheet[(1)]

The following table presents AIB's average balance sheet as at and for the years ended 31 December 2015 and 2014:

	Year ended 31 December 2015			Year ended 31 December 2014		
	Average balance[(2)]	Interest	Average rate	Average balance[(2)]	Interest	Average rate
	(€ millions)		(%)	(€ millions)		(%)
Assets						
Loans and receivables to customers	64,868	2,363	3.64	65,391	2,375	3.63
NAMA senior bonds	7,614	31	0.41	12,569	80	0.64
Financial investments available for sale	19,503	398	2.04	19,444	444	2.28
Financial investments held to maturity	106[(3)]	4	3.76	—	—	—
Other interest-earning assets	7,181	25	0.36	5,966	22	0.36
Average interest-earning assets	99,272	2,821	2.84	103,370	2,921	2.83
Non-interest-earning assets[(4)]	7,557			8,237		
Total assets	106,829	2,821		111,607	2,921	
Liabilities and equity						
Deposits by banks	15,734	4	0.03	18,515	46	0.25
Customer accounts	43,777	490	1.12	48,944	706	1.44
Subordinated liabilities	1,625	278	17.10	1,401	256	18.30
Other debt issued	7,475	92	1.23	8,921	167	1.87
Average interest-bearing liabilities	68,611	864	1.26	77,781	1,175	1.51
Non-interest-bearing liabilities[(5)]	25,985			22,426		
Equity	12,233			11,400		
Total liabilities and equity	106,829	864		111,607	1,175	
Net interest income excluding ELG Scheme charge		1,957	1.97		1,746	1.69
ELG		(30)	(0.03)		(59)	(0.06)
Net interest income including ELG Scheme charge		1,927	1.94		1,687	1.63

Notes:

(1) Differences on the average balance sheet contained in *"Part XVI: Consolidated Historical Financial Information"* include: (a) the cost of the ELG Scheme charge in interest within liabilities and equity; and (b) other interest-earning assets are split into trading portfolio financial assets less liabilities and loans and receivables to banks.

(2) Averages are based on month-end balances for all categories with the exception of loans and receivables to customers and customer accounts, which are based on daily averages.

(3) Reflects decision in December 2015 to transfer €3.5 billion of the available for sale portfolio into a new held to maturity portfolio.

(4) Non-interest-earning assets include deferred tax asset, equity investments, prepayments and accrued income and other assets.

(5) Non-interest-bearing liabilities include non-interest-bearing customer accounts and other liabilities.

6.3.2 Business income

Business income increased by €127 million, or 31 per cent. to €533 million for the year ended 31 December 2015 from €406 million for the year ended 31 December 2014. The following table presents business income for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	(€ millions)	
Net fee and commission income	405	390
Dividend income	26	25
Net trading income/(loss)	87	(25)
Miscellaneous business income	15	16
Business income	533	406

Net fee and commission income

Net fee and commission income increased by €15 million, or 4 per cent., to €405 million for the year ended 31 December 2015, compared to €390 million for the year ended 31 December 2014, as a result of increases in wealth commissions, insurance profit share and lending related fees. Current account fees were 3 per cent. higher than 2014, reflecting income from growth in transaction numbers, which was partially offset as customers continued to migrate to less expensive self service options.

Dividend income

Dividend income was €26 million in 2015, compared to dividend income of €25 million in 2014. In both years, €25 million was received from NAMA subordinated bonds.

Net trading income/(loss)

AIB had trading income of €87 million for the year ended 31 December 2015, compared to a trading loss of €25 million for the year ended 31 December 2014. Income from derivative contracts and debt securities was €46 million in 2015 compared to a loss of €70 million in 2014. The loss in 2014 was primarily due to a €76 million negative valuation adjustment, mainly on sterling customer derivative positions, resulting in funding and counterparty risk, which can create volatility. In 2015, due to an increase in term sterling interest rates, this negative valuation adjustment was partially reversed.

6.3.3 Other items

Other items income was €163 million in 2015, compared to €437 million in 2014. The following table presents other items for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	(€ millions)	
Net profit on disposal of available-for-sale securities	85	181
Effect of acceleration/re-estimation of the timing of cash flows on NAMA senior bonds	6	132
Settlements and other gains	72	124
Other items	163	437

Net profit on disposal of available for sale securities

Net profit on disposal of available for sale securities was €85 million for the year ended 31 December 2015 compared to €181 million for the year ended 31 December 2014 due to a lower volume of sales in 2015 of €4.3 billion from €8.0 billion in 2014.

Effect of acceleration/re-estimation of the timing of cash flows on NAMA senior bonds

AIB recognised a gain of €6 million on NAMA senior bonds for the year ended 31 December 2015, which reflected accelerated repayments following redemptions totalling €3.8 billion during the year. AIB recognised a gain of €132 million for the year ended 31 December 2014, reflecting revised expected timing of repayments including those received during the year.

Settlements and other gains

Settlements and other gains for the year ended 31 December 2015 were €72 million compared to €124 million for the year ended 31 December 2014. In 2015, settlements and other gains included a €45 million gain reflecting the effect of the realisation/re-estimation of cash flows on loans and receivables previously restructured, €38 million of income on settlement of claims, an €8 million fair value gain on equity warrants, an €8 million net gain on buyback of debt securities in issue, partially offset by a loss on disposal of loans of €27 million. In 2014, settlements and other gains included €24 million reflecting the effect of the realisation/re-estimation of cash flows on loans and receivables previously restructured, €27 million of income on settlement of claims, a €24 million gain on equity warrants, and a €50 million gain on disposal of loans, partially offset by a €1 million loss on buyback of debt securities in issue.

6.3.4 Total operating expenses

Total operating expenses before exceptional items decreased by €105 million, or 8 per cent., to €1,292 million for the year ended 31 December 2015, compared to €1,397 million for the year ended 31 December 2014. The reduction in operating expenses mainly related to ongoing cost control and management, supported by progress on AIB's transformation strategy, which facilitated staff exits as part of AIB's severance scheme. These factors were partially offset by €23 million attributable to currency movements in 2015.

The following table presents total operating expenses before exceptional items for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	**2014**
	(€ millions, unless otherwise indicated)	
Personnel expenses	725	767
General and administrative expenses	493	545
Depreciation, impairment and amortisation	74	85
Total operating expenses before exceptional items	1,292	1,397
Staff numbers at year end(1)	10,204	11,047
Average staff numbers(1)	10,663	11,384

Note:

(1) Staff numbers are presented on a FTE basis.

Personnel expenses

Personnel expenses decreased by €42 million, or 5 per cent., to €725 million for the year ended 31 December 2015, compared to €767 million for the year ended 31 December 2014. This decrease reflected lower staff numbers and capitalisation of costs relating to the investment programme during 2015.

Average staff numbers decreased by 721, or 6 per cent., which reflected the severance scheme in 2014 and 2015 and continued selective outsourcing of certain back office and support functions. Personnel expenses in 2015 also included €12 million relating to a 2 per cent. salary increase approved at the Labour Relations Commission for staff earning up to €100,000, or £80,000, per annum.

General and administrative expenses

General and administrative expenses decreased by €52 million, or 10 per cent., to €493 million for the year ended 31 December 2015, compared to €545 million for the year ended 31 December 2014. This reflected savings across most classifications as part of ongoing cost management and control, which were partly offset by an increase in costs as a result of outsourcing initiatives.

Depreciation, impairment and amortisation

Depreciation, impairment and amortisation decreased by €11 million, or 13 per cent., to €74 million for the year ended 31 December 2015, compared to €85 million for the year ended 31 December 2014, due to the timing of assets relating to the investment programme going live.

6.3.5 Bank levies and regulatory fees

Bank levies and regulatory fees were €71 million for the year ended 31 December 2015, compared to €73 million for the year ended 31 December 2014. Bank levies in 2015 and 2014 each included an Irish bank levy of €60 million. In 2015, AIB was also required to pay €8 million relating to the introduction of the BRRD levy. The Irish bank levy is a form of stamp duty which applied for the years 2014 to 2016. This has now been extended to 2021 following the announcement of Budget 2015.

6.3.6 Provisions

The income statement provision was a net writeback of €923 million for the year ended 31 December 2015, compared to a net writeback of €188 million for the year ended 31 December 2014.

The following table presents the income statement (writeback)/provision for impairment on financial assets and (writeback)/provision for liabilities and commitments for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	**2014**
	(€ millions)	
Specific provisions		
Individually significant loans and receivables	(633)	(50)
Individually insignificant loans and receivables	125	(25)
IBNR	(417)	(103)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(925)	(178)
Writeback of provisions for impairment on loans and receivables to banks	—	(7)
Provisions/(writeback) of provisions for liabilities and commitments	2	(4)
Provisions for impairment on financial investments available for sale	—	1
Total	(923)	(188)

The specific provisions net writeback increased by €433 million to €508 million for the year ended 31 December 2015 from €75 million for the year ended 31 December 2014. The specific provisions net writeback for the year ended 31 December 2015 can be split into €281 million in new impairment provisions and a €789 million net writeback). The net writeback was driven primarily by fewer new loans moving into impairment and a writeback of provisions due to significant restructuring activity.

The net writeback of IBNR provisions increased by €314 million to €417 million for the year ended 31 December 2015, compared to €103 million for the year ended 31 December 2014. The net increase in 2015 reflected a reduction in the probability of default in the portfolio reflecting improved economic conditions and changes to model parameters.

The net writeback of provisions on loans and receivables to customers for the year ended 31 December 2015 in the amount of €925 million consisted of a €478 million net writeback on residential mortgage loans and a €447 million net writeback on other types of loans. The net writeback of provisions on loans and receivables to customers for the year ended 31 December 2014 in the amount of €178 million consisted of a €76 million net writeback on residential mortgage loans and a €102 million net writeback on other types of loans.

The provision charge for liabilities and commitments for the year ended 31 December 2015 was €2 million compared to a net writeback of €4 million for the year ended 31 December 2014.

The provision charge for impairment on financial investments available for sale for the year ended 31 December 2015 was nil compared to €1 million for the year ended 31 December 2014.

For more information on loan loss provisioning, see "*—Credit risk—Loan loss provisioning*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

For more information on credit quality, see "*—Balance Sheet—As at 31 December 2015 and 2014—Loans and receivables to customers*" and "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D and note 58 of Section B of *"Part XVI: Consolidated Historical Financial Information*".

6.3.7 Associated undertakings

Income from associated undertakings for the year ended 31 December 2015 was €25 million, compared to income of €23 million for the year ended 31 December 2014. The increase was mainly due to higher profits from AIB's share in its associate, Aviva Undershaft Five Limited (previously known as Aviva Health Group Ireland Limited).

6.3.8 Profit on disposal of property

Profit on disposal of property for the year ended 31 December 2015 was €3 million, compared to €6 million for the year ended 31 December 2014.

6.3.9 Exceptional items

The following table presents a breakdown of exceptional items for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	(€ millions)	
Restitution and restructuring expenses	(250)	(144)
Gain on transfer of financial instruments	5	2
Termination benefits	(37)	(24)
Other exceptional items	(15)	—
Total exceptional items	(297)	(166)

Restitution and restructuring expenses

For the year ended 31 December 2015, AIB recognised restitution and restructuring expenses of €250 million, which included costs associated with customer redress and compensation, restitution, transformation, reorganisation and certain provisions for liabilities. Customer redress and compensation relates to the request from the Central Bank, as part of its Tracker Mortgage Examination, to lenders that offered tracker interest rate mortgages to their customers in the Irish market, including AIB and its subsidiaries located in Ireland, to conduct a broad examination of tracker mortgage related issues, comprising a review of mortgage loan books (including loans for both principal private residence and buy-to-let properties, as well as those loans that have been disposed of). AIB identified areas where customer redress is relevant and in 2015 provisioned €190 million relating to the refund of interest and other redress and compensation amounts. The remaining restitution and restructuring expenses of €60 million related to transformation, reorganisation and certain provisions for liabilities. For the year ended 31 December 2014, AIB recognised expenses of €144 million, which included costs associated with restitution, transformation, reorganisation and the writedown of intangible assets.

Gain on transfer of financial instruments

For the years ended 31 December 2015 and 2014, AIB recognised a profit on the transfer of financial instruments to NAMA in the amount of €5 million and €2 million, respectively, which related to valuation adjustment on previous transfers of financial assets to NAMA.

Termination benefits

The cost of the voluntary severance programme was €37 million and €24 million for the years ended 31 December 2015 and 2014, respectively.

Other exceptional items

For the year ended 31 December 2015, AIB had €15 million of other exceptional items, which related to capital reorganisation costs and other related items. These costs primarily related to preparations for the Offer, which commenced in 2015. No such costs were recorded in 2014.

6.3.10 Income tax charge from continuing operations

The taxation charge for the year ended 31 December 2015 was €534 million, compared to a taxation charge of €230 million for the year ended 31 December 2014. This reflected an increase in pre-tax profits together with a one-off UK deferred tax expense of €242 million arising from legislation enacted in March 2015, which only allowed 50 per cent. of a UK bank's annual trading profits to be offset by unused tax losses arising prior to 1 April 2015.

7 Balance Sheet

7.1 As at 31 March 2017 and 31 December 2016

The following table presents AIB's summary balance sheet as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ billions, unless otherwise indicated)	
Gross loans and receivables to customers	64.6	65.2
Provisions	(4.3)	(4.6)
Net loans and receivables to customers	60.3	60.6
Disposal groups and non-current assets held for sale(1)	0.2	—
Financial investments available for sale	14.9	15.4
Financial investments held to maturity	3.3	3.4
NAMA senior bonds	1.0	1.8
Other assets	13.0	14.4
Total assets	92.7	95.6
Customer accounts	62.6	63.5
Monetary authority funding	1.9	1.9
Other market funding	4.2	5.8
Debt securities in issue	6.5	6.9
Other liabilities	4.2	4.4
Total liabilities	79.4	82.5
Equity	13.3	13.1
Total liabilities and equity	92.7	95.6
Loan to deposit ratio	96%	95%

Note:

(1) Includes loans and receivables to customers held for sale.

7.1.1 Loans and receivables to customers

At 31 March 2017, certain loans and receivables to customers have been classified as held for sale and reported as part of disposal groups and non-current assets held for sale in the above table. In the following commentary and tables, loans and receivables to customers held for sale have been included within loans and receivables to customers for the purposes of understanding the credit profile of loans and receivables to customers.

The following table sets out loans and receivables to customers and loans and receivables to customers classified in disposal groups and non-current assets held for sale.

	As at 31 March 2017		
	Loans and Receivables to Customers	Disposal groups and non-current assets held for sale[(1)]	Total
		(€ billions)	
Gross Loans and Receivables to Customers	64.6	0.4	64.9
Provisions	(4.3)	(0.2)	(4.5)
Net Loans and Receivables to Customers	60.3	0.2	60.4

Note:

(1) For further information, see *"—Disposal groups and non-current assets held for sale"* in note 43 of Section D of *"Part XVI: Consolidated Historical Financial Information"*.

Therefore the total loans and receivables to customers were €64.9 billion, provisions were €4.5 billion and net loans and receivables to customers were €60.4 billion as at 31 March 2017.

Gross loans and receivables to customers decreased by €0.3 billion, or 1 per cent., to €64.9 billion as at 31 March 2017, compared to €65.2 billion as at 31 December 2016.

Earning loans (gross loans less impaired loans) increased by €0.2 billion, or 1 per cent., to €56.3 billion as at 31 March 2017, compared to €56.1 billion as at 31 December 2016 and included the benefit of €0.3 billion of loans upgraded to earning loans during the period. This also included new term lending of €2.2 billion, which represented an increase of 10 per cent. New term lending for RCB was €1.1 billion, which represented an increase of 36 per cent., new term lending for WIB was €0.5 billion, which represented a decrease of 22 per cent. and new term lending for AIB UK was €0.6 billion, which represented an increase of 12 per cent. There was also additional new transaction lending of €0.3 billion in the three months ended 31 March 2017. This was partially offset by redemptions of €2.7 billion for the three months ended 31 March 2017.

Impaired loans decreased by €0.5 billion, or 5 per cent., to €8.6 billion as at 31 March 2017 from €9.1 billion as at 31 December 2016, reflecting the continued implementation of sustainable restructure solutions for customers in difficulty and improved economic conditions.

Balance sheet provisions were €4.5 billion as at 31 March 2017, compared to €4.6 billion as at 31 December 2016, mainly reflecting the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty.

Net loans and receivables to customers including held for sale loans were €60.4 billion as at 31 March 2017, compared to €60.6 billion as at 31 December 2016.

Disposal groups and non-current assets classified as held for sale were €0.2 billion as at 31 March 2017, compared to nil as at 31 December 2016, and principally comprised loans and receivables.

The table below sets out the movement in loans and receivables to customers from 1 January 2017 to 31 March 2017:

	Earning loans	Impaired loans	Gross loans	Specific provisions	IBNR provisions	Net loans
			(€ billions)			
Opening balance (1 January 2017)	56.1	9.1	65.2	(4.1)	(0.5)	60.6
New lending volumes[(1)]	2.5	—	2.5	—	—	2.5
New impaired loans[(2)]	(0.2)	0.2	—	(0.1)	—	(0.1)
Restructures, and write-offs and disposals[(3)]	0.3	(0.4)	(0.1)	0.2	—	0.1
Redemptions of existing loans	(2.5)	(0.2)	(2.7)	—	—	(2.7)
Foreign exchange movements	—	—	—	—	—	—
Other movements	0.1	(0.1)	—	0.1	(0.1)	—
Closing balance (31 March 2017)	56.3	8.6	64.9	(3.9)	(0.6)	60.4

Notes:

(1) Includes new term lending and new transaction lending.

(2) New impaired loans include re-impaired loans.

(3) Includes write-offs not contracted with customers.

Loans and receivables to customers by type of loan

The following table presents a breakdown of gross loans and receivables to customers into residential mortgages, other personal loans, property and construction loans, and non-property business loans as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ millions)	
Residential mortgages:		
Owner-occupier	30,091	30,195
Buy-to-let	4,891	5,044
	34,982	35,239
Other personal	3,081	3,100
Property and construction	9,006	9,394
Non-property business	17,860	17,495
Total—gross loans and receivables to customers	64,929	65,288

For more information on loans and receivables to customers by type of loan, including a breakdown of loans by industry, see "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D of "*Part XVI: Consolidated Historical Financial Information*".

Residential mortgage loan portfolio

Residential mortgages decreased by 1 per cent., to €35.0 billion as at 31 March 2017, compared to €35.2 billion as at 31 December 2016. As at 31 March 2017, residential mortgages accounted for 54 per cent. of total gross loans and receivables to customers, with 95 per cent. relating to residential mortgages in RCB and 5 per cent. relating to residential mortgages in AIB UK. As at 31 December 2016, residential mortgages accounted for 54 per cent. of total loans and receivables to customers, with 95 per cent. relating to residential mortgages in RCB and 5 per cent. relating to residential mortgages in AIB UK. The split of the residential mortgage book as at 31 March 2017 was €30.1 billion, or 86 per cent., related to owner-occupier and €4.9 billion, or 14 per cent., related to buy-to-let, compared to €30.2 billion, or 86 per cent., related to owner-occupier and €5.0 billion, or 14 per cent., related to buy-to-let as at 31 December 2016.

Other personal lending

The other personal lending portfolio was €3.1 billion as at 31 March 2017, in line with €3.1 billion as at 31 December 2016. Other personal lending accounted for 5 per cent. of total gross loans and receivables to customers as at 31 March 2017 and 31 December 2016. As at 31 March 2017, the other personal lending portfolio comprised €2.3 billion of loans and overdrafts and €0.8 billion of credit card facilities compared to €2.2 billion of loans and overdrafts and €0.9 billion of credit card facilities as at 31 December 2016.

Property and construction

The property and construction portfolio decreased by €0.4 billion, or 4 per cent., to €9.0 billion as at 31 March 2017, compared to €9.4 billion as at 31 December 2016. Property and construction loans accounted for 14 per cent. of total gross loans and receivables to customers as at 31 March 2017 and as at 31 December 2016. The decrease in property and construction loans came entirely from criticised loans and was primarily due to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers.

As at 31 March 2017, the property and construction portfolio was comprised of 76 per cent. investment loans (€6.9 billion), 17 per cent. land and development loans (€1.5 billion) and 7 per cent. other property and construction loans (€0.6 billion). AIB UK accounted for 27 per cent. of the property and construction portfolio as at 31 March 2017.

The following table presents a breakdown of the property and construction portfolio by type of loan as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ millions)	
Investment		
Commercial investment	5,892	6,198
Residential investment	981	1,051
	6,873	7,249
Land and development		
Commercial development	456	444
Residential development	1,084	1,077
	1,540	1,521
Contractors	348	365
Housing associations	245	259
Total gross loans and receivables—property and construction	9,006	9,394

Investment. Property investment loans decreased by €0.4 billion, or 5 per cent., to €6.9 billion as at 31 March 2017, compared to €7.2 billion as at 31 December 2016. As at 31 March 2017, €5.9 billion of property investment loans related to commercial investment, with the remaining €1.0 billion relating to residential investment. This compared to €6.2 billion of loans related to commercial investment and €1.0 billion of loans related to residential investment as at 31 December 2016. The decrease in property investment loans was primarily due to loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs. As at 31 March 2017, €5.1 billion of the investment property portfolio related to loans for the purchase of property in RCB and WIB and €1.8 billion related to AIB UK.

Land and development. Land and development loans of €1.5 billion as at 31 March 2017, were in line with €1.5 billion as at 31 December 2016. As at 31 March 2017, €1.2 billion of this portfolio related to loans in RCB and WIB and €0.3 billion related to AIB UK. This compared to €1.2 billion and €0.3 billion as at 31 December 2016, respectively.

Non-property business

Non-property business loans increased by €0.4 billion, or 2 per cent., to €17.9 billion as at 31 March 2017, compared to €17.5 billion as at 31 December 2016. Non-property business loans accounted for 28 per cent. of total gross loans and receivables to customers as at 31 March 2017, compared to 27 per cent. as at 31 December 2016. The increase in non-property business loans was primarily due to strong demand for new lending, particularly in RCB and AIB UK, resulting in new term lending of €1.2 billion and new transaction lending of €0.2 billion partially offset by redemptions in the three months ended 31 March 2017. As at 31 March 2017, 35 per cent. of the portfolio related to RCB, 36 per cent. related to WIB and 28 per cent. related to AIB UK.

The following table presents a breakdown of non-property business lending by sector as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ millions)	
Agriculture	1,824	1,773
Distribution		
Hotels	2,373	2,311
Licensed premises	554	541
Retail/wholesale	2,358	2,339
Other distribution	257	248
	5,542	5,439
Other services	5,757	5,706
Other	4,737	4,577
Total gross loans and receivables—non-property business	17,860	17,495

The agriculture sub-sector accounted for 10 per cent. of the non-property business portfolio as at 31 March 2017.

The hotels sub-sector accounted for 13 per cent. of the non-property business portfolio as at 31 March 2017.

The licensed premises sub-sector accounted for 3 per cent. of the non-property business portfolio as at 31 March 2017.

The retail/wholesale sub-sector accounted for 13 per cent. of the non-property business portfolio as at 31 March 2017.

The other services sub-sector, which accounted for 32 per cent. of the non-property business portfolio as at 31 March 2017, includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery.

The other category, which accounted for 27 per cent. of the non-property business portfolio as at 31 March 2017, includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Credit quality of loans and receivables to customers

The following table presents a breakdown of the asset quality of loans and receivables to customers and impairment provisions for the years ended 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ millions, unless otherwise indicated)	
Analysed as to asset quality[(1)]		
Satisfactory	47,162	46,462
Watch	2,816	3,001
Vulnerable	6,335	6,629
Impaired	8,616	9,136
Total criticised loans	17,767	18,766
Total loans percentage		
Criticised loans/total loans	27%	29%
Impaired loans/total loans	13%	14%
Impairment provisions—balance sheet		
Specific	3,922	4,047
IBNR	562	542
Total impairment provisions	4,484	4,589
Provision cover percentage		
Specific provisions/impaired loans	46%	44%
Total provisions/impaired loans	52%	50%
Total provisions/total loans	7%	7%

Note:

(1) Satisfactory includes credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see "*Part XVII: Risk Management—Credit risk—Measurement of credit risk*".

Loans with satisfactory credit quality increased by €0.7 billion, or 2 per cent., to €47.2 billion as at 31 March 2017, driven primarily by new lending, compared to €46.5 billion as at 31 December 2016.

Criticised loans, including impaired loans, decreased by €1.0 billion, or 5 per cent., to €17.8 billion as at 31 March 2017, compared to €18.8 billion as at 31 December 2016. The decrease was driven by the continuing restructuring programme and the reduction in impaired loans.

Loans with assigned "Watch" status decreased by €0.2 billion, or 6 per cent., to €2.8 billion as at 31 March 2017, compared to €3.0 billion as at 31 December 2016. As at 31 March 2017, residential mortgage loans accounted for 63 per cent., other personal loans accounted for 4 per cent., property and construction loans accounted for 11 per cent. and non-property business accounted for 22 per cent. of loans assigned "Watch" status. This compared to 62 per cent., 4 per cent., 13 per cent. and 22 per cent. as at 31 December 2016, respectively.

Impairment provisions

Specific provisions as a percentage of impaired loans increased from 44 per cent. as at 31 December 2016 to 46 per cent. as at 31 March 2017. The increase occurred both in the residential mortgage portfolio where the cover increased to 39%, up from 38% at 31 December 2016, and in the non-mortgage portfolio where the cover increased to 52%, up from 51% at 31 December 2016. IBNR provisions were €0.6 billion as at 31 March 2017, compared to €0.5 billion as at 31 December 2016. The level of IBNR provisions continues to reflect a conservative estimate of unidentified incurred loss within the portfolio.

See "*—Credit Risk—Credit profile of the loan portfolio*" in note 43 of Section D of "*Part XVI: Consolidated Historical Financial Information*" for the profile of criticised and impaired loans and provisions for impairment analysed by industry, geographic and overdue structure, including the overdue structure of contractually past due but not impaired gross loans and receivables to customers.

7.1.2 Financial investments available for sale

Financial investments available for sale decreased to €14.9 billion as at 31 March 2017 (including €14.3 billion of debt securities and €0.6 billion of equity securities), compared to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities). This reduction is consistent with plans to reduce overall available for sale holdings in line with liquidity requirements.

7.1.3 Financial assets held to maturity

Financial assets held to maturity decreased to €3.3 billion as at 31 March 2017, compared to €3.4 billion as at 31 December 2016, as amortisation of the accumulated fair value gain, at the date of reclassification, continues.

7.1.4 NAMA senior bonds

AIB's holdings of NAMA senior bonds decreased to €1.0 billion as at 31 March 2017, compared to €1.8 billion as at 31 December 2016. During the three months ended 31 March 2017, €0.8 billion of NAMA senior bonds were redeemed.

7.1.5 Other assets

AIB had other assets of €13.0 billion as at 31 March 2017, compared to €14.4 billion as at 31 December 2016, comprising:

- cash and loans to banks of €6.6 billion, compared to €7.9 billion as at 31 December 2016, a decrease of 16 per cent.;
- deferred taxation of €2.8 billion, in line with €2.8 billion as at 31 December 2016;
- derivative financial instruments of €1.6 billion, compared to €1.8 billion as at 31 December 2016, a decrease of 14 per cent.; and
- remaining assets of €2.0 billion, compared to €1.9 billion as at 31 December 2016, an increase of 11 per cent.

7.1.6 Customer accounts

Customer accounts decreased by €0.9 billion, or 1 per cent., to €62.6 billion as at 31 March 2017, compared to €63.5 billion as at 31 December 2016. The reduction in customer accounts included a decrease in repo balances of €0.5 billion and €0.4 billion in customer deposits. The average cost of customer accounts decreased from 91 basis points in the three months ended 31 March 2016 to 71 basis points in the three months ended 31 March 2017.

7.1.7 Monetary authority funding

Monetary authority funding, primarily comprising ECB funding, of €1.9 billion as at 31 March 2017, was in line with €1.9 billion as at 31 December 2016.

7.1.8 Other market funding

Other market funding decreased by €1.6 billion from €5.8 billion as at 31 December 2016 to €4.2 billion as at 31 March 2017 due to reduced funding requirement following NAMA senior bond repayments and a reduction in available for sale securities.

7.1.9 Debt securities in issue

Debt securities in issue decreased by €0.4 billion from €6.9 billion as at 31 December 2016 to €6.5 billion as at 31 March 2017. The decrease of €0.4 billion reflects buyback exercise in March 2017.

7.1.10 Other liabilities

AIB had other liabilities of €4.2 billion as at 31 March 2017, compared to €4.4 billion as at 31 December 2016, comprising:

- subordinated liabilities of €0.8 billion, compared to €0.8 billion as at 31 December 2016;

- derivative financial instruments of €1.5 billion, compared to €1.6 billion as at 31 December 2016, a decrease of 8 per cent.;
- retirement benefit liabilities of €0.1 billion, compared to €0.2 billion as at 31 December 2016, a decrease of 34 per cent.; and
- remaining liabilities in the amount of €1.8 billion were in line with €1.8 billion as at 31 December 2016.

7.1.11 Equity

Equity increased from €13.1 billion as at 31 December 2016 to €13.3 billion as at 31 March 2017. The increase was mainly due to profit for the period of €0.3 billion partially offset by negative other comprehensive income of €0.2 billion.

7.2 As at 31 December 2016 and 31 December 2015

The following table presents AIB's summary balance sheet as at 31 December 2016 and 2015:

	As at 31 December	
	2016	**2015**
	(€ billions, unless otherwise indicated)	
Gross loans and receivables to customers	65.2	70.1
Provisions	(4.6)	(6.9)
Net loans and receivables to customers	60.6	63.2
Financial investments available for sale	15.4	16.5
Financial investments held to maturity	3.4	3.5
NAMA senior bonds	1.8	5.6
Other assets	14.4	14.3
Total assets	95.6	103.1
Customer accounts	63.5	63.4
Monetary authority funding	1.9	2.9
Other market funding	5.8	11.0
Debt securities in issue	6.9	7.0
Other liabilities	4.4	6.7
Total liabilities	82.5	91.0
Equity	13.1	12.1
Total liabilities and equity	95.6	103.1
Loan to deposit ratio	95%	100%

7.2.1 Loans and receivables to customers

Gross loans and receivables to customers decreased by €4.9 billion, or 7 per cent., to €65.2 billion as at 31 December 2016, compared to €70.1 billion as at 31 December 2015. Excluding currency movements, gross loans and receivables to customers decreased by €3.2 billion, or 4 per cent. The reduction in gross loans was due to the impact of loan restructuring of €1.8 billion and loan redemptions of €10.0 billion, partially offset by new lending of €8.7 billion.

Earning loans, excluding the impact of currency movements, increased by €0.6 billion, or 1 per cent., to €56.1 billion as at 31 December 2016, compared to €57.0 billion as at 31 December 2015 and included the benefit of €1.5 billion of loans upgraded to earning loans during the period. This also included new lending of €8.7 billion, which represented an increase of 2 per cent. New lending for RCB was €3.9 billion, which represented an increase of 20 per cent., new lending for WIB was €2.9 billion, which represented an increase of 11 per cent. and new lending for AIB UK was €1.9 billion, which represented a decrease of 28 per cent. Non-property business lending contributed 50 per cent. of all new lending during the year ended 31 December 2016. 24 per cent. of new lending was from mortgage lending.

Impaired loans, excluding the reduction of €0.2 billion due to the impact of currency movements, decreased by €3.8 billion, or 29 per cent., to €9.1 billion as at 31 December 2016 from €13.1 billion as at 31 December 2015, reflecting the continued implementation of sustainable restructure solutions for customers in difficulty and improved economic conditions.

Balance sheet provisions decreased by €2.3 billion, to €4.6 billion as at 31 December 2016, compared to €6.9 billion as at 31 December 2015.

Net loans and receivables to customers decreased by €2.6 billion, to €60.6 billion as at 31 December 2016, compared to €63.2 billion as at 31 December 2015. Excluding currency movements, net loans decreased by €1.0 billion, or 2 per cent.

The table below sets out the movement in loans and receivables to customers from 1 January 2016 to 31 December 2016:

	Earning loans	Impaired loans	Gross loans	Specific provisions	IBNR provisions	Net loans
			(€ billions)			
Opening balance (1 January 2016)	57.0	13.1	70.1	(6.2)	(0.7)	63.2
New lending volumes	8.7	—	8.7	—	—	8.7
New impaired loans(1)	(0.8)	0.8	—	(0.3)	—	(0.3)
Restructures, write-offs and disposals(2)	1.5	(3.3)	(1.8)	2.1	—	0.3
Redemptions of existing loans	(9.1)	(0.9)	(10.0)	—	—	(10.0)
Foreign exchange movements	(1.5)	(0.2)	(1.7)	0.1	—	(1.6)
Other movements	0.3	(0.4)	(0.1)	0.2	0.2	0.3
Closing balance (31 December 2016)	56.1	9.1	65.2	(4.1)	(0.5)	60.6

Notes:

(1) New impaired loans include re-impaired loans.

(2) Includes write-offs not contracted with customers.

Loans and receivables to customers by type of loan

The following table presents a breakdown of gross loans and receivables to customers into residential mortgages, other personal loans, property and construction loans, and non-property business loans as at 31 December 2016 and 2015:

	As at 31 December	
	2016	2015
	(€ millions)	
Residential mortgages:		
Owner-occupier	30,195	30,928
Buy-to-let	5,044	5,890
	35,239	36,818
Other personal	3,100	3,512
Property and construction	9,394	11,532
Non-property business	17,495	18,301
Total—gross loans and receivables to customers	65,228	70,163

For more information on loans and receivables to customers by type of loan, including a breakdown of loans by industry, see "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

Residential mortgage loan portfolio

Residential mortgages decreased by €1.6 billion, or 4 per cent., to €35.2 billion as at 31 December 2016, compared to €36.8 billion as at 31 December 2015. As at 31 December 2016, residential mortgages accounted for 54 per cent. of total loans and receivables to customers, with 95 per cent. relating to residential mortgages in RCB and 5 per cent. relating to residential mortgages in AIB UK. As at 31 December 2015, residential mortgages accounted for 52 per cent. of total loans and receivables to customers, with 93 per cent. relating to residential mortgages in RCB and 6 per cent. relating to residential mortgages in AIB UK. The split of the residential mortgage book as at 31 December 2016 was €30.2 billion, or 86 per cent., related to owner-occupier and €5.0 billion, or 14 per cent., related to buy-to-let, compared to €30.9 billion related to owner-occupier and €5.9 billion related to buy-to-let as at 31 December 2015.

Other personal lending

The other personal lending portfolio decreased by €0.4 billion, or 12 per cent., to €3.1 billion as at 31 December 2016, compared to €3.5 billion as at 31 December 2015. Other personal lending accounted for 5 per cent. of total loans and receivables to customers as at each of 31 December 2016 and 2015. As at 31 December 2016, the other personal lending portfolio comprised €2.2 billion of loans and overdrafts and €0.9 billion of credit card facilities.

Property and construction

The property and construction portfolio decreased by €2.1 billion, or 19 per cent., to €9.4 billion as at 31 December 2016, compared to €11.5 billion as at 31 December 2015. Property and construction loans accounted for 14 per cent. of total loans and receivables to customers as at 31 December 2016, compared to 16 per cent. as at 31 December 2015. The decrease in property and construction loans was primarily due to the continuing impact of restructuring and write-offs, amortisations and repayments resulting from asset disposals by customers, which was offset by new business written of approximately €1.4 billion. Activity in the sector has been underpinned by improved economic performance and increased investment spending which has had a positive impact on the residential and commercial land and development market.

As at 31 December 2016, the property and construction portfolio comprised 77 per cent. investment loans (€7.2 billion), 16 per cent. land and development loans (€1.5 billion) and 7 per cent. other property and construction loans (€0.6 billion). AIB UK accounted for 27 per cent. of the property and construction portfolio as at 31 December 2016.

The following table presents a breakdown of the property and construction portfolio by type of loan as at 31 December 2016 and 2015:

	As at 31 December	
	2016	**2015**
	(€ millions)	
Investment:		
Commercial investment	6,198	6,607
Residential investment	1,051	1,458
	7,249	8,065
Land and development:		
Commercial development	444	652
Residential development	1,077	1,900
	1,521	2,552
Contractors	365	435
Housing associations	259	480
Total gross loans and receivables—property and construction	9,394	11,532

Investment. Property investment loans decreased by €0.8 billion, or 10 per cent., to €7.2 billion as at 31 December 2016, compared to €8.1 billion as at 31 December 2015. As at 31 December 2016, €6.2 billion of property investment loans related to commercial investment, with the remaining €1.1 billion relating to residential investment. This compared to €6.6 billion of loans related to commercial investment and €1.5 billion of loans related to residential investment as at 31 December 2015. The decrease in property investment loans was primarily due to loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs. As at 31 December 2016, €5.5 billion of the investment property portfolio related to loans for the purchase of property in RCB and WIB and €1.8 billion related to AIB UK.

Land and development. Land and development loans decreased by €1.0 billion, or 40 per cent., to €1.5 billion as at 31 December 2016, compared to €2.6 billion as at 31 December 2015. As at 31 December 2016, €1.2 billion of this portfolio related to loans in RCB and WIB and €0.3 billion related to AIB UK.

Non-property business

Non-property business loans decreased by €0.8 billion, or 4 per cent., to €17.5 billion as at 31 December 2016, compared to €18.3 billion as at 31 December 2015. Non-property business loans accounted for 27 per cent. and 26 per cent. of total loans and receivables to customers as at 31 December 2016 and 2015, respectively. The decrease in non-property business loans was primarily due to amortisation, restructuring and sterling depreciation. This was partially offset by increased activity across most sub-sectors in the portfolio due to increased credit demand across all segments, resulting in new lending of approximately €4.4 billion in 2016. As at 31 December 2016, 34 per cent. of the portfolio related to RCB, 37 per cent. related to WIB and 27 per cent. related to AIB UK.

The following table presents a breakdown of non-property business lending by sector as at 31 December 2016 and 2015:

	As at 31 December	
	2016	2015
	(€ millions)	
Agriculture	1,773	1,795
Distribution		
Hotels	2,311	2,356
Licensed premises	541	758
Retail/wholesale	2,339	2,395
Other distribution	248	322
	5,439	5,831
Other services	5,706	5,888
Other	4,577	4,787
Total gross loans and receivables—non-property business	17,495	18,301

The agriculture sub-sector accounted for 10 per cent. of the non-property business portfolio as at 31 December 2016. The sub-sector continued to perform well in 2016, with the dairy sector recovering as milk prices increased in the second half of the year.

The hotels sub-sector accounted for 13 per cent. of the non-property business portfolio as at 31 December 2016. The sub-sector has been helped by a stronger local economy and increased number of tourists. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for available properties.

The licensed premises sub-sector accounted for 3 per cent. of the non-property business portfolio as at 31 December 2016. The sub-sector continued to perform strongly in key urban centres, but outside the main cities, trading performance showed some weakness in 2016.

The retail/wholesale sub-sector accounted for 13 per cent. of the non-property business portfolio as at 31 December 2016. The sub-sector continued to improve in 2016 due to the stronger economic environment, nevertheless, there was still stress, particularly in rural areas.

The other services sub-sector, which accounted for 33 per cent. of the non-property business portfolio as at 31 December 2016, includes businesses such as solicitors, accounting, audit, tax, computer services, R&D, consultancy, hospitals, nursing homes and plant and machinery. The sub-sector performed well in 2016 with an increase in drawdowns.

The other category, which accounted for 26 per cent. of the non-property business portfolio as at 31 December 2016, includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Credit quality of loans and receivables to customers

The following table presents a breakdown of the asset quality of loans and receivables to customers and impairment provisions for the years ended 31 December 2016 and 2015:

	As at 31 December	
	2016	**2015**
	(€ millions, unless otherwise indicated)	
Analysed as to asset quality[(1)]		
Satisfactory	46,462	45,350
Watch	3,001	4,280
Vulnerable	6,629	7,448
Impaired	9,136	13,085
Total criticised loans	18,766	24,813
Total loans percentage		
Criticised loans/total loans	29%	35%
Impaired loans/total loans	14%	19%
Impairment provisions—balance sheet		
Specific	4,047	6,158
IBNR	542	674
Total impairment provisions	4,589	6,832
Provision cover percentage		
Specific provisions/impaired loans	44%	47%
Total provisions/impaired loans	50%	52%
Total provisions/total loans	7%	10%

Note:

(1) Satisfactory includes credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see "*Part XVII: Risk Management—Credit risk—Measurement of credit risk*".

Loans with satisfactory credit quality increased by €1.1 billion, or 2 per cent., to €46.5 billion as at 31 December 2016, compared to €45.4 billion as at 31 December 2015.

Criticised loans, including impaired loans, decreased by €6.0 billion, or 24 per cent., to €18.8 billion as at 31 December 2016, compared to €24.8 billion as at 31 December 2015.

Loans with assigned "Watch" status decreased by €1.3 billion, or 30 per cent., to €3.0 billion as at 31 December 2016, compared to €4.3 billion as at 31 December 2015. As at 31 December 2016, residential mortgage loans accounted for 62 per cent., other personal loans accounted for 4 per cent., property and construction loans accounted for 13 per cent. and non-property business accounted for 22 per cent. of loans assigned "Watch" status. This compared to 53 per cent., 4 per cent., 23 per cent. and 21 per cent. as at 31 December 2015, respectively.

Impairment provisions

Specific provisions as a percentage of impaired loans decreased from 47 per cent. as at 31 December 2015 to 44 per cent. as at 31 December 2016. The reduction primarily occurred in individually assessed loans, with cover decreasing from 51 per cent. as at 31 December 2015 to 47 per cent. as at 31 December 2016. This was mainly driven by restructures, writebacks and write-offs of loans.

IBNR provisions were €542 million as at 31 December 2016, compared to €674 million as at 31 December 2015. The decrease in IBNR provisions reflected a conservative estimate of unidentified incurred losses within the portfolio.

See "*—Credit Risk—Credit profile of the loan portfolio*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*" for the profile of criticised and impaired loans and provisions for impairment analysed by industry, geographic and overdue structure, including the overdue structure of contractually past due but not impaired gross loans and receivables to customers.

7.2.2 Financial investments available for sale

Financial investments available for sale decreased to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities), compared to €16.5 billion as at 31 December 2015 (including €15.7 billion of debt securities and €0.8 billion of equity securities).

Debt securities

Debt securities available for sale decreased to €14.8 billion as at 31 December 2016, compared to €15.7 billion as at 31 December 2015. Sales, maturities and redemptions of €3.1 billion (nominal €3.5 billion) were partially offset by purchases of €2.5 billion (nominal €2.4 billion).

The decrease in fair value was due to net sales of €0.6 billion.

The external ratings profile of the portfolio remained relatively static with total investment grade ratings remaining at 99 per cent. The breakdown by rating was 31 per cent. AAA, 18 per cent. AA, 37 per cent. A, 13 per cent. BBB and 1 per cent. sub investment grade.

Republic of Ireland securities

The fair value of Irish debt securities in the available for sale category amounted to €5.6 billion as at 31 December 2016, compared to €5.9 billion as at 31 December 2015, and consisted of €5.1 billion of sovereign debt, €0.2 billion of senior unsecured bonds and €0.3 billion of covered bonds as at 31 December 2016, compared to €5.4 billion of sovereign debt, €0.2 billion of senior unsecured bonds and €0.3 billion of covered bonds as at 31 December 2015.

In addition to the Irish Government securities outlined above, AIB held NAMA senior bonds amounting to €1.8 billion as at 31 December 2016, compared to €5.6 billion as at 31 December 2015. The NAMA senior bonds are guaranteed by the Irish Government and are classified as loans and receivables.

United Kingdom securities

The fair value of UK debt securities in the available for sale category amounted to €0.5 billion as at 31 December 2016, compared to €0.6 billion as at 31 December 2015. As at 31 December 2016, UK debt securities consisted of €0.1 billion of sovereign debt, €0.1 billion of senior unsecured bonds and €0.3 billion of covered bonds, compared to €0.1 billion, €0.1 billion and €0.4 billion, respectively, as at 31 December 2015.

Euro government securities

The fair value of government securities denominated in euro (excluding those issued by the Irish Government) decreased by €0.3 billion to €2.7 billion as at 31 December 2016, compared to €3.0 billion as at 31 December 2015.

Bank securities

As at 31 December 2016, the fair value of bank securities of €4.5 billion, compared to €4.6 billion as at 31 December 2015, included €3.0 billion of covered bonds, €1.3 billion of senior unsecured bank debt and €0.2 billion of government guaranteed senior bank debt, compared to €3.2 billion, €1.2 billion and €0.2 billion, respectively, as at 31 December 2015.

Asset backed securities

Asset backed securities increased to €0.4 billion as at 31 December 2016, compared to €0.3 billion as at 31 December 2015. This was due to new purchases of AAA-rated US collateralised mortgage obligations.

Equity securities

Equity securities available for sale decreased by €176 million in 2016 due to the disposal of AIB's holding in Visa Europe which was held at a fair value of €294 million at 31 December 2015. Consideration for the disposal comprised cash of €207 million and preferred stock in Visa Inc. with a fair value of €65 million. As at 31 December 2016, equity securities included AIB's holding in Visa Inc. preferred stock at a fair value of €70 million. The fair value of NAMA subordinated bonds as at 31 December 2016 increased to €466 million compared to €432 million as at 31 December 2015 as the fair value estimate increased from 91.81 per cent. to 99.02 per cent.

7.2.3 Financial assets held to maturity

Financial assets held to maturity decreased to €3.4 billion as at 31 December 2016, compared to €3.5 billion as at 31 December 2015. This reflected amortisation during 2016. There were no further additions to the held to maturity category during 2016.

7.2.4 NAMA senior bonds

AIB's holdings of NAMA senior bonds decreased to €1.8 billion as at 31 December 2016, compared to €5.6 billion as at 31 December 2015. During the year ended 31 December 2016, €3.8 billion of NAMA senior bonds were redeemed.

7.2.5 Other assets

AIB had other assets of €14.4 billion as at 31 December 2016, compared to €14.3 billion as at 31 December 2015, comprising:

- cash and loans to banks of €7.9 billion, compared to €7.3 billion as at 31 December 2015, an increase of 9 per cent.;
- deferred taxation of €2.8 billion, compared to €2.9 billion as at 31 December 2015, a decrease of 2 per cent.;
- derivative financial instruments of €1.8 billion, compared to €1.7 billion as at 31 December 2015, an increase of 7 per cent.; and
- remaining assets of €1.9 billion, compared to €2.4 billion as at 31 December 2015, a decrease of 21 per cent. mainly due to the receipt of proceeds from the disposal in 2015 of a UK loan portfolio.

7.2.6 Customer accounts

Customer accounts increased by €0.1 billion to €63.5 billion as at 31 December 2016, compared to €63.4 billion as at 31 December 2015. Excluding currency movements, customer accounts increased by €1.9 billion, or 3 per cent. The mix profile continued to change in 2016 with an increase of €4.7 billion in current accounts partially offset by a reduction of €2.5 billion in corporate and treasury deposits (including repos) and a reduction of €0.3 billion in retail deposits. The average cost of customer accounts (defined as interest expense and similar charges from customer accounts divided by average customer accounts) decreased from 112 basis points in the year ended 31 December 2015 to 83 basis points in the year ended 31 December 2016.

The loan to deposit ratio remained strong at 95 per cent. as at 31 December 2016 compared to 100 per cent. as at 31 December 2015.

7.2.7 Monetary authority funding

Monetary authority funding decreased by €1.0 billion, or 34 per cent., to €1.9 billion as at 31 December 2016, compared to €2.9 billion as at 31 December 2015 as the overall funding requirement reduced. In 2016, the existing €1.9 billion Targeted Long Term Refinancing Operation ("TLTRO") was replaced with the TLTRO II facility, extending the term of the funding out to four years with an option to redeem after two years.

7.2.8 Other market funding

Other market funding decreased by €5.2 billion, or 47 per cent., to €5.8 billion as at 31 December 2016, compared to €11.0 billion as at 31 December 2015. This reflected reduced funding requirements following the NAMA senior bond redemptions and a reduction in available for sale securities and loans and receivables to customers. This was mainly done through a €5.2 billion reduction in repo balances.

7.2.9 Debt securities in issue

Debt securities in issue decreased by €0.1 billion from €7.0 billion as at 31 December 2015 to €6.9 billion as at 31 December 2016. €1.0 billion asset covered securities ("ACS") were issued in January 2016 offset by €0.5 billion in ACS maturities and €0.5 billion in senior debt maturities.

7.2.10 Other liabilities

AIB had other liabilities of €4.4 billion as at 31 December 2016, compared to €6.7 billion as at 31 December 2015, comprising:

- subordinated liabilities of €0.8 billion, compared to €2.3 billion as at 31 December 2015, a decrease of 65 per cent. due to the maturity of €1.6 billion CCNs in July 2016;
- derivative financial instruments of €1.6 billion, compared to €1.8 billion as at 31 December 2015, a decrease of 11 per cent.;
- retirement benefit liabilities of €0.2 billion, compared to €0.4 billion as at 31 December 2015, a decrease of 50 per cent.; and
- remaining liabilities in the amount of €1.8 billion, compared to €2.3 billion as at 31 December 2015, a decrease of 22 per cent.

7.2.11 Equity

Equity increased by €1.0 billion, from €12.1 billion as at 31 December 2015 to €13.1 billion as at 31 December 2016. The increase was mainly due to profit for the period of €1.4 billion offset by negative other comprehensive income of €0.3 billion and a distribution paid on the AT1 Notes of €37 million.

7.3 As at 31 December 2015 and 31 December 2014

The following table presents AIB's summary balance sheet as at 31 December 2015 and 2014:

	As at 31 December	
	2015	2014
	(€ billions, unless otherwise indicated)	
Gross loans and receivables to customers	70.1	75.8
Provisions	(6.9)	(12.4)
Net loans and receivables to customers	63.2	63.4
Financial investments available for sale	16.5	20.2
Financial investments held to maturity	3.5	—
NAMA senior bonds	5.6	9.4
Other assets	14.3	14.5
Total assets	103.1	107.5
Customer accounts	63.4	64.0
Monetary authority funding	2.9	3.4
Other market funding	11.0	13.4
Debt securities in issue	7.0	7.9
Other liabilities	6.7	7.2
Total liabilities	91.0	95.9
Equity	12.1	11.6
Total liabilities and equity	103.1	107.5
Loan to deposit ratio	100%	99%

7.3.1 Loans and receivables to customers

Gross loans and receivables to customers decreased by €5.7 billion, or 8 per cent., to €70.1 billion as at 31 December 2015, compared to €75.8 billion as at 31 December 2014. Excluding currency movements, gross loans and receivables to customers decreased by €6.8 billion, or 9 per cent. The decrease in gross loans and receivables to customers was due to the impact of loan restructuring in the amount of €4.7 billion, the disposal of a portfolio of loans in the UK amounting to €0.7 billion and loan redemptions of €9.9 billion, partially offset by new lending in the amount of €8.5 billion.

Earning loans, excluding the impact of currency movements, increased by €2.5 billion, or 5 per cent., to €57.0 billion as at 31 December 2015, compared to €53.6 billion as at 31 December 2014 and included the benefit of €3.2 billion of loans upgraded to earning loans during the period. This also included new lending of €8.5 billion, which represented an increase of 48 per cent. New lending for RCB was €3.3 billion, which represented an increase of 32 per cent., new lending for WIB was €2.5 billion, which represented an increase of 63 per cent. and new lending for AIB UK was €2.6 billion, which represented an increase of 60 per cent. Non-property business lending contributed 54 per cent. of all new lending in 2015. 20 per cent. of new lending in 2015 was from mortgage lending.

Impaired loans, excluding the impact of currency movements, decreased by €9.3 billion, or 41 per cent., to €13.1 billion as at 31 December 2015 from €22.2 billion as at 31 December 2014, reflecting the implementation of sustainable restructuring solutions for customers and improved economic conditions.

Balance sheet provisions decreased to €6.9 billion as at 31 December 2015 from €12.4 billion as at 31 December 2014 mainly due to the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty and write-offs. Provisions on new impaired loans were €0.3 billion for 2015.

Net loans and receivables to customers decreased by €0.2 billion to €63.2 billion as at 31 December 2015 from €63.4 billion as at 31 December 2014. Excluding currency movements, net loans decreased by €1.2 billion, or 2 per cent.

The table below sets out the movement in loans and receivables to customers from 1 January 2015 to 31 December 2015:

	Earning loans	Impaired loans	Gross loans	Specific provisions	IBNR provisions	Net loans
			(€ billions)			
Opening balance (1 January 2015)	53.6	22.2	75.8	(11.3)	(1.1)	63.4
New lending volumes	8.5	—	8.5	—	—	8.5
New impaired loans[(1)]	(0.7)	0.7	—	(0.3)	—	(0.3)
Restructures and write-offs[(2)]	3.2	(8.6)	(5.4)	5.5	—	0.1
Redemptions of existing loans	(8.3)	(1.6)	(9.9)	—	—	(9.9)
Foreign exchange movements	0.9	0.2	1.1	(0.1)	—	1.0
Other movements	(0.2)	0.2	—	—	0.4	0.4
Closing balance (31 December 2015)	57.0	13.1	70.1	(6.2)	(0.7)	63.2

Notes:

(1) New impaired loans includes re-impaired loans.

(2) Includes write-offs not contracted with customers.

Loans and receivables to customers by type of loan

The following table presents a breakdown of gross loans and receivables to customers into residential mortgages, other personal loans, property and construction loans and non-property business loans as at 31 December 2015 and 2014:

	As at 31 December	
	2015	2014
	(€ millions)	
Residential mortgages:		
Owner-occupier	30,928	31,808
Buy-to-let	5,890	7,038
	36,818	38,846
Other personal	3,512	3,837
Property and construction	11,532	15,537
Non-property business	18,301	17,612
Total—gross loans and receivables to customers	70,163	75,832

For more information on loans and receivables to customers by type of loans, including a breakdown of loans by industry, see "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

Residential mortgage loan portfolio

Residential mortgages decreased by €2.0 billion, or 5 per cent., to €36.8 billion as at 31 December 2015, compared to €38.8 billion as at 31 December 2014. As at 31 December 2015, residential mortgages accounted for 52 per cent., of total gross loans and receivables to customers, with 93 per cent. relating to RCB and 6 per cent. relating to AIB UK. As at 31 December 2014, residential mortgages accounted for 51 per cent., of total loans and receivables to customers, with 93 per cent. relating to RCB and 6 per cent. relating to AIB UK. The split of the residential mortgage book as at 31 December 2015 was €30.9 billion, or 84 per cent., related to owner-occupier and €5.9 billion, or 16 per cent., related to buy-to-let, compared to €31.8 billion (82 per cent.) related to owner-occupier and €7.0 billion (18 per cent.) related to buy-to-let as at 31 December 2014.

Other personal lending

The other personal lending portfolio decreased by €0.3 billion, or 8 per cent., to €3.5 billion as at 31 December 2015, compared to €3.8 billion as at 31 December 2014, driven primarily by write-offs of impaired loans. Other personal lending accounted for 5 per cent. of total loans and receivables to customers as at each of 31 December 2015 and 2014. As at 31 December 2015, the other personal lending portfolio comprised €2.6 billion of loans and overdrafts and €0.9 billion of credit card facilities. There was an increase in demand for personal lending products during 2015 compared to 2014, due to the improved economic environment and expanded customer offerings, including on-line approvals through internet, mobile and telephone banking applications.

Property and construction

The property and construction portfolio decreased by €4.0 billion, or 26 per cent., to €11.5 billion as at 31 December 2015, compared to €15.5 billion as at 31 December 2014. Property and construction loans accounted for 16 per cent. of total loans and receivables to customers as at 31 December 2015, compared to 20 per cent. as at 31 December 2014. The decrease in property and construction loans came entirely from criticised loans (which include "watch", "vulnerable" and "impaired" loans) and was primarily due to the impact of restructuring activity, write-offs, amortisations and customer repayments, which was offset by new business written of approximately €1.4 billion. The property and construction sector has been favourably impacted by improved economic performance and increased investment spending, which has had a positive impact on the residential and commercial land and development market.

As at 31 December 2015, the property and construction portfolio was comprised of 70 per cent. investment loans (€8.1 billion), 22 per cent. land and development loans (€2.6 billion) and 8 per cent. other property and construction loans €0.9 billion). AIB UK accounted for 30 per cent. of the property and construction portfolio as at 31 December 2015.

The following table presents a breakdown of the property and construction portfolio by type of loan as at 31 December 2015 and 2014:

	As at 31 December	
	2015	**2014**
	(€ millions)	
Investment:		
Commercial investment	6,607	8,423
Residential investment	1,458	2,233
	8,065	10,656
Land and development:		
Commercial development	652	995
Residential development	1,900	3,087
	2,552	4,082
Contractors	435	354
Housing associations	480	445
Total gross loans and receivables—property and construction	11,532	15,537

Investment. Property investment loans decreased by €2.6 billion, or 24 per cent., to €8.1 billion as at 31 December 2015, compared to €10.7 billion as at 31 December 2014. As at 31 December 2015, €6.6 billion of property investment loans related to commercial investment, with the remaining €1.5 billion relating to residential investment. This compared to €8.4 billion of loans related to commercial investment and €2.2 billion of loans related to residential investment as at 31 December 2014. The decrease in property investment loans was largely due to loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs of provisions. As at 31 December 2015, €5.6 billion of the investment property portfolio related to loans for the purchase of property in Ireland, €2.4 billion related to the United Kingdom and €0.1 billion related to other geographical locations.

Land and development. Land and development loans decreased by €1.5 billion, or 37 per cent., to €2.6 billion as at 31 December 2015, compared to €4.1 billion as at 31 December 2014. As at 31 December 2015, €1.5 billion of this portfolio related to loans in RCB, €0.2 billion related to loans in WIB and €0.8 billion related to AIB UK. This compared to €2.5 billion, €0.6 billion and €1.0 billion as at 31 December 2014, respectively.

Non-property business

Non-property business loans increased by €0.7 billion, or 4 per cent., to €18.3 billion as at 31 December 2015, compared to €17.6 billion as at 31 December 2014. Non-property business loans accounted for 26 per cent. and 23 per cent. of total loans and receivables to customers as at 31 December 2015 and 2014, respectively. The increase in non-property business loans was primarily due to increased credit demand and improved upward grade migration partially offset by continued restructuring activity, write-offs, amortisations and repayments. As at 31 December 2015, 34 per cent. of the portfolio related to RCB, 34 per cent. related to WIB and 29 per cent. related to AIB UK.

The following table presents a breakdown of non-property business lending by sector as at and for the years ended 31 December 2015 and 2014:

	As at 31 December	
	2015	**2014**
	(€ millions)	
Agriculture	1,795	1,818
Distribution:		
Hotels	2,356	2,355
Licensed premises	758	963
Retail/wholesale	2,395	2,659
Other distribution	322	277
	5,831	6,254
Other services	5,888	5,646
Other	4,787	3,894
Total gross loans and receivables—non-property business	18,301	17,612

The agriculture sub-sector, which accounted for 10 per cent. of the non-property business portfolio as at 31 December 2015, continued to perform well in 2015.

The hotels sub-sector accounted for 13 per cent. of the non-property business portfolio as at 31 December 2015. The sub-sector was helped by a strong local economy and an increased number of tourists continued through 2015. Valuations for hotels continued to increase, with a number of foreign investors and fund managers competing for available properties.

The licensed premises sub-sector accounted for 4 per cent. of the non-property business portfolio as at 31 December 2015. There continues to be some weakness in the markets, although some locations such as Dublin, central Cork and Galway demonstrated improved performances as a result of the improving economic outlook.

The retail/wholesale sub-sector, which accounted for 13 per cent. of the non-property business portfolio as at 31 December 2015, continued to improve in 2015 due to the stronger economic environment, although stress remained in the sub-sector, particularly in rural areas.

The other services sub-sector, which accounted for 32 per cent. of the non-property business portfolio as at 31 December 2015, includes businesses such as solicitors, accounting, audit, tax, computer services, R&D, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector performed well in 2015 with an increase in drawdowns.

The ‘Other’ category totalling €4.8 billion includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Credit quality of loans and receivables to customers

The following table presents a breakdown of the asset quality of loans and receivables to customers and impairment provisions for the years ended 31 December 2015 and 2014:

	As at 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Analysed as to asset quality[(1)]		
Satisfactory	45,350	41,851
Watch	4,280	5,172
Vulnerable	7,448	6,647
Impaired	13,085	22,162
Total criticised loans	24,813	33,981
Total loans percentage		
Criticised loans/total loans	35%	45%
Impaired loans/total loans	19%	29%
Impairment provisions—balance sheet		
Specific	6,158	11,315
IBNR	674	1,091
Total impairment provisions	6,832	12,406
Provision cover percentage		
Specific provisions/impaired loans	47%	51%
Total provisions/impaired loans	52%	56%
Total provisions/total loans	10%	16%

Note:

(1) Satisfactory includes credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see "*Part XVII: Risk Management—Credit risk—Measurement of credit risk*".

Loans with satisfactory credit quality increased by €3.5 billion, or 8 per cent., to €45.4 billion as at 31 December 2015, compared to €41.9 billion as at 31 December 2014.

Criticised loans, including impaired loans, decreased by €9.2 billion, or 27 per cent., to €24.8 billion as at 31 December 2015, compared to €34.0 billion as at 31 December 2014, mainly due to a reduction of €9.1 billion in impaired loans. The decrease was driven by continued progress in working with customers to restructure facilities.

Loans with assigned "Watch" status decreased by €0.9 billion, or 17 per cent., to €4.3 billion as at 31 December 2015, compared to €5.2 billion as at 31 December 2014. As at 31 December 2015, of loans assigned "Watch" status, residential mortgage loans accounted for 53 per cent., property and construction loans accounted for 23 per cent. and non-property business lending accounted for 21 per cent. This compared to 49 per cent., 23 per cent. and 24 per cent. as at 31 December 2014.

Impairment provisions

Specific provisions as a percentage of impaired loans decreased from 51 per cent. as at 31 December 2014 to 47 per cent. as at 31 December 2015. The reduction occurred in individually assessed loans, with cover decreasing from 57 per cent. as at 31 December 2014 to 51 per cent. as at 31 December 2015. This was mainly driven by restructures, writebacks, and write-offs of loans (partially or fully) with higher provision cover, which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs were generated through both restructuring agreements with customers and also where further recovery is considered unlikely. The provision cover for the collectively assessed portfolio increased from 35 per cent. as at 31 December 2014 to 42 per cent. as at 31 December 2015, driven by parameter changes to the individually insignificant mortgage model, which was updated to reflect current data on loss history and portfolio development.

IBNR provisions were €0.7 billion as at 31 December 2015, compared to €1.1 billion as at 31 December 2014, a reduction of €0.4 billion. The reduction was mainly driven by a reduction in the probability of default in the portfolio reflecting the improved economic environment as well as changes in model parameters. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

See "*—Credit Risk—Credit profile of the loan portfolio*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*" for the profile of criticised and impaired loans and provisions for impairment analysed by industry, geographic and overdue structure, including the overdue structure of contractually past due but not impaired gross loans and receivables to customers.

7.3.2 Financial investments available for sale

Financial investments available for sale decreased to €16.5 billion as at 31 December 2015 (including €15.7 billion of debt securities and €0.8 billion of equity securities), compared to €20.2 billion as at 31 December 2014 (including €19.8 billion of debt securities and €0.4 billion of equity securities). The decrease was mainly due to a reclassification of available for sale assets of €3.5 billion in 2015 to financial investments held to maturity.

Debt securities

Debt securities available for sale decreased to €15.7 billion as at 31 December 2015 from €19.8 billion as at 31 December 2014. Sales, maturities and redemptions of €4.6 billion (nominal €4.2 billion) were partially offset by purchases of €4.3 billion (nominal: €4.0 billion). The decrease was mainly due to a reclassification of available for sale assets of €3.5 billion in 2015 to financial investments held to maturity.

Within the portfolio, there was a reduction in supranational banks and government agencies (€0.8 billion) and euro government securities (€0.6 billion) as these holdings had moved to record low yields against a backdrop of ECB quantitative easing. Re-investment in euro denominated securities issued by non-European banks (€0.5 billion) was deemed to offer better relative value returns.

The decrease in fair value was due to a widening of Irish, Spanish and Italian sovereign spreads and the impact of higher interest rates on fixed rate security holdings.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99 per cent. The breakdown by rating was 29 per cent. AAA, 17 per cent. AA, 38 per cent. A, 15 per cent. BBB and 1 per cent. sub investment grade.

Republic of Ireland securities

The fair value of Irish debt securities in the available for sale category amounted to €5.9 billion as at 31 December 2015, compared to €9.4 billion as at 31 December 2014. As at 31 December 2015, Irish debt securities consisted of €5.4 billion of sovereign debt, €0.2 billion of senior unsecured bonds and €0.3 billion of covered bonds, compared to €9.1 billion, €0.1 billion and €0.1 billion, respectively, as at 31 December 2014.

In addition to the Irish government securities outlined above, AIB held €5.6 billion of NAMA senior bonds as at 31 December 2015, compared to €9.4 billion as at 31 December 2014. The NAMA senior bonds are guaranteed by the Irish Government and are classified as loans and receivables.

United Kingdom securities

The fair value of UK debt securities in the available for sale category amounted to €0.6 billion as at 31 December 2015, compared to €0.6 billion as at 31 December 2014. As at 31 December 2015, UK debt securities consisted of €0.1 billion of sovereign debt, €0.1 billion of senior unsecured bonds and €0.4 billion of covered bonds, compared to €0.1 billion, €0.1 billion and €0.4 billion, respectively, as at 31 December 2014.

Euro government securities

The fair value of government securities denominated in euro (excluding those issued by the Irish Government) decreased by €0.6 billion to €3.0 billion as at 31 December 2015, compared to €3.6 billion as at 31 December 2014. This decrease was primarily due to net sales/maturities and a fall in fair value on French government securities of €0.2 billion, German government securities of €0.1 billion, Italian government securities of €0.1 billion and Austrian government securities of €0.1 billion.

Bank Securities

As at 31 December 2015, the fair value of bank securities of €4.6 billion, compared to €3.9 billion as at 31 December 2014, included €3.2 billion in covered bonds, €1.2 billion in senior unsecured bank debt and €0.2 billion in government guaranteed senior bank debt, compared to €2.9 billion, €0.9 billion and €0.1 billion, respectively, as at 31 December 2014.

Asset backed securities

Asset backed securities increased to €0.3 billion as at 31 December 2015, compared to €0.1 billion as at 31 December 2014. This was due to new purchases of AAA rated US collateralised mortgage obligations.

Equity securities

Equity securities available for sale increased by €368 million due principally to the increase of €294 million in AIB's holding in Visa Europe. The fair value of the NAMA subordinated bonds, which are also included, as at 31 December 2015 increased to €432 million compared to €374 million as at 31 December 2014 as the fair value estimate increased from 79.4 per cent. to 91.8 per cent. due to continued improvements in NAMA's financial position and forecasts.

7.3.3 Financial investments held to maturity

Financial investments available for sale of €3.5 billion were reclassified to financial investments held to maturity during 2015 following a review of strategy and a commitment to long-term (to maturity) investments in selected Irish Government debt securities.

7.3.4 NAMA senior bonds

AIB's holdings of NAMA senior bonds decreased to €5.6 billion as at 31 December 2015, compared to €9.4 billion as at 31 December 2014. During the year ended 31 December 2015, €3.8 billion of NAMA senior bonds were redeemed.

7.3.5 Other assets

AIB had other assets of €14.3 billion as at 31 December 2015, compared to €14.5 billion as at 31 December 2015, comprising:

- cash and loans to banks of €7.3 billion, which was broadly in line with 2014;
- deferred taxation of €2.9 billion, compared to €3.6 billion as at 31 December 2014, a decrease of 19 per cent.;
- derivative financial instruments of €1.7 billion, compared to €2.0 billion as at 31 December 2014, a decrease of 15 per cent.; and
- remaining assets of €2.4 billion, compared to €1.6 billion as at 31 December 2014, an increase of 50 per cent., mainly due to proceeds of €0.4 billion awaiting settlement on the disposal of a UK loans portfolio

7.3.6 Customer accounts

Customer accounts decreased by €0.6 billion, or 1 per cent., to €63.4 billion as at 31 December 2015, compared to €64.0 billion as at 31 December 2014. Excluding currency movements, customer accounts decreased by €1.5 billion, or 2 per cent. The reduction included a decrease in repo balances of €1.2 billion. Overall customer deposits remained broadly stable with strong growth in current accounts offset by a reduction in term deposits. The average cost of customer accounts decreased from 144 basis points in the year ended 31 December 2014 to 112 basis points in the year ended 31 December 2015. The loan to deposit ratio remained strong at 100 per cent. as at 31 December 2015.

7.3.7 Monetary authority funding

Monetary authority funding, primarily comprising of ECB funding, decreased by €0.5 billion, or 15 per cent., to €2.9 billion as at 31 December 2015, compared to €3.4 billion as at 31 December 2014, as the overall funding requirement decreased.

7.3.8 Other market funding

Other market funding decreased by €2.4 billion, or 18 per cent., to €11.0 billion as at 31 December 2015 compared to €13.4 billion as at 31 December 2014, due to a €2.5 billion reduction in bilateral repo balances principally due to NAMA senior bond redemptions.

7.3.9 Debt securities in issue

Debt securities in issue decreased by €0.9 billion from €7.9 billion as at 31 December 2014 to €7.0 billion as at 31 December 2015 which reflected an overall lower funding requirement for AIB. The reduction was primarily due to the scheduled maturity of €2.2 billion of unsecured debt and €0.5 billion of secured ACS, partially offset by three debt issuances in 2015 totalling €2.0 billion. The three issuances have been part of a balanced and measured approach to funding in the wholesale markets.

7.3.10 Other liabilities

AIB had other liabilities of €6.7 billion as at 31 December 2015, compared to €7.2 billion as at 31 December 2014, comprising:

- subordinated liabilities of €2.3 billion, compared to €1.5 billion as at 31 December 2014, an increase of 60 per cent.;
- derivative financial instruments of €1.8 billion, compared to €2.3 billion as at 31 December 2014, a decrease of €0.5 billion, or 24 per cent.;
- retirement benefit liabilities of €0.4 billion, compared to €1.2 billion as at 31 December 2014, which resulted from changes in actuarial assumptions used to value the AIB Irish Pension Scheme's liabilities; and
- remaining liabilities of €2.3 billion, which were broadly in line with 2014.

7.3.11 Equity

Equity increased by €0.5 billion from €11.6 billion as at 31 December 2014 to €12.1 billion as at 31 December 2015. This increase was due to profit for the year of €1.4 billion, a €0.8 billion reduction in the net pension reserve deficit, and the €0.5 billion issuance of AT1 Notes, partially offset by the partial redemption of the 2009 Preference Shares, which involved the payment of €1.7 billion, and preference share dividend payments of €446 million.

8 Segmental Discussion

AIB is managed through the following business segments: RCB, WIB, AIB UK and Group.

RCB comprises personal and commercial banking. WIB comprises wholesale, institutional and corporate lending, including specialist sector and products teams. AIB UK offers full banking services in Northern Ireland (operating as First Trust Bank) and Great Britain (operating as Allied Irish Bank (GB)). The Group segment includes wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing risk, compliance audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in the Group segment. Funding and liquidity charges are based on each segment's funding requirements and AIB's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirements.

The funding and liquidity allocation methodology was refined further to more accurately reflect each segment's funding profile and has been implemented from 1 January 2017. The performance in the three months ended 31 March 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014 has been presented on this revised allocation methodology.

The following segmental commentary and tables include held for sale loans within net loans.

In addition to the information below, for an analysis of credit quality and provisioning by segment, see "*—Credit risk—Credit profile of the loan portfolio*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

8.1 Three Months Ended 31 March 2017 and 2016

8.1.1 RCB

The following table presents RCB's contribution statement for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions)	
Net interest income	351	318
Other income	146	104
Total operating income	497	422
Total operating expenses	(188)	(175)
Operating contribution before bank levies, regulatory fees and provisions	309	247
Total (provisions)/net writeback of provisions	(11)	100
Operating contribution	298	347
Associated undertakings	3	16
Contribution before disposal of property	301	363
Loss on disposal of property	(1)	—
Contribution before exceptional items and taxation	300	363

The following table presents certain balance sheet information for RCB as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ billions)	
Net loans	42.4	42.7
Customer accounts	43.5	42.9

The following table presents certain income statement information regarding the earning loan book of RCB for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions)	
Net interest income	318	277
Other income	146	104
Total operating income	464	381
Total operating expenses	(161)	(153)
Operating contribution before bank levies, regulatory fees and provisions	303	228

The following table presents net earning loans for RCB as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ billions)	
Net earning loans	38.1	38.3

The following table presents certain income statement information regarding the impaired loan book of RCB for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	**2016**
	(€ millions)	
Net interest income	33	41
Other income	—	—
Total operating income	33	41
Total operating expenses	(27)	(22)
Operating contribution before bank levies, regulatory fees and provisions	6	19

The following table presents net impaired loans for RCB as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ billions)	
Net impaired loans	4.3	4.4

Net interest income

Net interest income increased by €33 million, or 10 per cent., to €351 million for the three months ended 31 March 2017, compared to €318 million for the three months ended 31 March 2016. Net interest income on the earning loan book increased €41 million to €318 million for the three months ended 31 March 2017 from €277 million in the three months ended 31 March 2016. The increase was due to the continued reduction in cost of funds and increase in average earning loans. The net interest income on the impaired loan book decreased €8 million to €33 million for the three months ended 31 March 2017 from €41 million in the three months ended 31 March 2016 due to lower average net impaired loans as restructuring activity continued.

Other income

Other income increased by €42 million, or 40 per cent., to €146 million for the three months ended 31 March 2017, compared to €104 million for the three months ended 31 March 2016. The increase was due to higher gains on realisation/re-estimation of cash flows on loans previously restructured, which included a €46 million gain recognised from a single customer connection, which related to a legacy UK property case, in the three months ended 31 March 2017. Business income increased by €5 million mainly due to net fee and commission income, which was in turn mainly due to the benefit of income from insurance profit share arrangements.

Total operating expenses

Total operating expenses increased by €13 million, or 7 per cent., to €188 million for the three months ended 31 March 2017, compared to €175 million for the three months ended 31 March 2016, primarily due to salary increases based on the recommendation of the WRC, an increase in costs in relation to the workout unit and timing of assets going live.

Total provisions

Total provision charge increased by €111 million to net provision charge of €11 million for the three months ended 31 March 2017, compared to net provision writeback of €100 million for the three months ended 31 March 2016. The net charge comprised of €14 million charge in provisions for impairment of loans and receivables and writeback of €3 million in provisions for liabilities and commitments compared to €99 million writeback in provisions for impairment of loans and receivables and €1 million writeback in provisions for liabilities and commitments for the three months ended 31 March 2016.

Associated undertakings

Income from associated undertakings decreased by €13 million to €3 million for the three months ended 31 March 2017 compared to €16 million for the three months ended 31 March 2016, driven primarily by the reversal of impairment of associate of €8 million in the three months ended 31 March 2016 and a decrease in profits received of €2 million and €3 million from AIB Merchant Services and Aviva Undershaft Five Limited, respectively.

Loss on disposal of property

Loss on disposal of property for the three months ended 31 March 2017 was €1 million, compared to nil for the three months ended 31 March 2016.

Balance sheet

Net earning loans (including loans held for sale) decreased by €0.2 billion to €38.1 billion as at 31 March 2017 from €38.3 billion as at 31 December 2016 due to higher levels of redemptions partially offset by new lending. This was mainly due to the €0.2 billion redemption of a vulnerable legacy distressed loan.

New term lending of €1.1 billion increased 36 per cent. compared to the three months ended 31 March 2016. This included mortgage lending of €0.5 billion, personal lending of €0.2 billion and business lending of €0.4 billion. There was also additional new transaction lending of €0.1 billion in the three months ended 31 March 2017.

RCB has made progress and momentum in restructuring customers in financial difficulty with impaired loans reducing to €4.3 billion as at 31 March 2017 from €4.4 billion as at 31 December 2016.

Customer accounts increased by €0.6 billion, or 1 per cent. while reducing its average cost of funds, as increase was driven by non interest bearing current accounts.

8.1.2 WIB

The following table presents WIB's contribution statement for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(€ millions)	
Net interest income	65	60
Other income	9	10
Total operating income	74	70
Total operating expenses	(23)	(23)
Operating contribution before bank levies, regulatory fees and provisions	51	47
Total net writeback of provisions/(provisions)	11	(6)
Contribution before exceptional items and taxation	62	41

The following table presents certain balance sheet information for WIB as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ billions)	
Net loans	9.0	9.1
Customer accounts	5.5	6.4

Net interest income

Net interest income increased by €5 million, or 8 per cent., to €65 million for the three months ended 31 March 2017, compared to €60 million for the three months ended 31 March 2016. The increase was due to margin improvement from continued reduction in cost of funds.

Other income

Other income decreased by €1 million, or 10 per cent., to €9 million for the three months ended 31 March 2017, compared to €10 million for the three months ended 31 March 2016, which mainly includes current account fees and other lending related fees.

Total operating expenses

Total operating expenses of €23 million for the three months ended 31 March 2017, were in line with the operating expenses for the three months ended 31 March 2016.

Total provisions

Total overall net writeback increased by €17 million to €11 million for the three months ended 31 March 2017, compared to provision charge of €6 million for the three months ended 31 March 2016. The net writeback comprised of €11 million writeback in provisions for impairment on loans and receivables. In the three months ended 31 March 2016, the provision charge of €6 million related to provisions for impairment on loans and receivables.

Balance sheet

Net loans decreased by €0.1 billion to €9.0 billion as at 31 March 2017 from €9.1 billion as at 31 December 2016 as redemptions exceeded new lending in the period.

New term lending of €0.5 billion decreased by 22 per cent. compared to the three months ended 31 March 2016. There was also additional new transaction lending of €0.1 billion in the three months ended 31 March 2017.

Customer accounts decreased by €0.9 billion, or 14 per cent. mainly due to a decrease in current accounts.

8.1.3 AIB UK

The following table presents AIB UK's contribution statement for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	2016
	(£ millions, unless otherwise indicated)	
Net interest income	51	43
Other income	12	7
Total operating income	63	50
Total operating expenses	(28)	(32)
Operating contribution before bank levies, regulatory fees and provisions	35	18
Bank levies	—	(1)
Total net writeback of provisions	7	12
Operating contribution	42	29
Associated undertakings	1	1
Contribution before exceptional items and taxation	43	30
Contribution before exceptional items and taxation (*€ millions*)	49	40

The following table presents certain balance sheet information for AIB UK as at 31 March 2017 and 31 December 2016:

	As at 31 March	As at 31 December
	2017	2016
	(£ billions)	
Net loans	7.6	7.5
Customer accounts	9.1	8.9

Net interest income

Net interest income increased by £8 million, or 19 per cent., to £51 million for the three months ended 31 March 2017, compared to £43 million for the three months ended 31 March 2016. The increase reflected an increase in net loans and reduction in cost of funds.

Other income

Other income increased by £5 million, or 71 per cent., to £12 million for the three months ended 31 March 2017, compared to £7 million for the three months ended 31 March 2016. The increase was mainly due to movement in valuations of long-term customer derivative positions three months to 31 March 2016 included a net negative movement of £4 million compared to a movement of nil in the three months to 31 March 2017. Net fee and commission income was in line with the three months ended 31 March 2016.

Total operating expenses

Total operating expenses decreased by £4 million, or 13 per cent., to £28 million for the three months ended 31 March 2017, compared to £32 million for the three months ended 31 March 2016. The decrease reflects cost management and control

Total provisions

Total overall net writeback decreased by £5 million to £7 million for the three months ended 31 March 2017, compared to £12 million for the three months ended 31 March 2016.

Balance sheet

Net loans increased by £0.1 billion to £7.6 billion as at 31 March 2017 from £7.5 billion as at 31 December 2016 due to new lending being higher than redemptions.

New term lending of £0.5 billion in the three months ended 31 March 2017 increased 22 per cent. from the three months ended 31 March 2016. There was also additional new transaction lending of £0.1 billion in the three months ended 31 March 2017.

Customer accounts increased by £0.2 billion, or 2 per cent. due to an increase in current accounts partially offset by term deposits.

8.1.4 Group

The following table presents the Group segment's contribution statement for the three months ended 31 March 2017 and 2016:

	Three months ended 31 March	
	2017	**2016**
	(€ millions)	
Net interest income	61	51
Other income	56	38
Total operating income	117	89
Total operating expenses	(105)	(106)
Operating contribution before bank levies, regulatory fees and provisions	12	(17)
Bank levies and regulatory fees	(43)	—
Total (provisions)/net writeback of provisions	(1)	2
Contribution before exceptional items and taxation	(32)	(15)

The following table presents certain balance sheet information for the Group segment as at 31 March 2017 and 31 December 2016:

	As at 31 March 2017	As at 31 December 2016
	(€ billions)	
Net loans	0.2	0.1
Financial investments available for sale	14.9	15.4
Financial investments held to maturity	3.3	3.4
NAMA senior bonds	1.0	1.8
Customer accounts	3.1	3.9

Net interest income

Net interest income increased by €10 million, or 20 per cent., to €61 million for the three months ended 31 March 2017, compared to €51 million for the three months ended 31 March 2016. The increase was due to lower cost of funding, which was partially offset by lower income on NAMA senior bonds and lower income from the securities portfolio due to the sale and maturity of high yielding assets.

Other income

Other income increased by €18 million, or 47 per cent., to €56 million for the three months ended 31 March 2017, compared to €38 million for the three months ended 31 March 2016. The increase was mainly due to movement in valuations of long-term customer derivative positions in the three months ended 31 March 2016, when there was a net negative movement of €13 million compared to a net positive movement of €8 million in the three months ended 31 March 2017, and an increase in income in the three months ended 31 March 2017 of €16 million on interest rate contracts and debt securities compared to the three months ended 31 March 2016. This was partially offset by net profit on disposal of available for sale securities of €8 million for the three months ended 31 March 2017 compared to €18 million for the three months ended 31 March 2016. AIB recognised a gain of €10 million on NAMA senior bonds for the three months ended 31 March 2016, compared to nil in the three months ended 31 March 2017.

Total operating expenses

Total operating expenses in the Group segment include unallocated overheads relating to operations and technology, risk, audit, finance, general counsel, human resources and corporate affairs and strategy. Total operating expenses decreased by €1 million, or 1 per cent., to €105 million for the three months ended 31 March 2017, compared to €106 million for the three months ended 31 March 2016 reflecting cost management and control.

Bank levies and regulatory fees

Bank levies for the three months ended 31 March 2017 were €43 million, compared to nil for the three months ended 31 March 2016. The three months ended 31 March 2017 included the Single Resolution Fund fee of €18 million and Deposit Guarantee Scheme of €28 million, which were at similar levels to those incurred in 2016 (recognised in the half year to June 2016).

Balance sheet

Financial investments available for sale decreased by €0.6 billion during the first quarter of 2017, consistent with plan to reduce overall holdings of available for sale securities in line with liquidity requirements.

Financial investments held to maturity decreased by €0.1 billion in the first quarter of 2017.

NAMA senior bonds decreased by €0.8 billion in the first quarter of 2017 due to redemptions.

Customer accounts decreased by €0.8 billion in the first quarter of 2017 mainly due to the maturity of term deposits and a reduction in repo balances.

8.2 Years Ended 31 December 2016 and 2015

8.2.1 RCB

The following table presents RCB's contribution statement and certain balance sheet information as at and for the years ended 31 December 2016 and 2015:

	As at and for the year ended 31 December	
	2016	2015
	(€ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	1,273	1,220
Other income	398	382
Total operating income	1,671	1,602
Total operating expenses	(745)	(681)
Operating contribution before bank levies, regulatory fees and provisions	926	921
Total net writeback of provisions	290	907
Operating contribution	1,216	1,828
Associated undertakings	31	22
Contribution before disposal of property	1,247	1,850
Profit on disposal of property	—	3
Contribution before exceptional items and taxation	1,247	1,853
Balance sheet information		
Net loans *(€ billions)*	42.7	43.7
New lending *(€ billions)*	3.9	3.3
Customer accounts *(€ billions)*	42.9	40.4

The following table presents certain income statement and balance sheet information regarding the earning loan book of RCB as at and for the year ended 31 December 2016 and 2015:

	As at and for the year ended 31 December	
	2016	2015
	(€ millions, unless otherwise indicated)	
Income statement information		
Net interest income	1,131	1,046
Other income	398	382
Total operating income	1,529	1,428
Total operating expenses	(655)	(591)
Operating contribution before bank levies, regulatory fees and provisions	874	837
Balance sheet information		
Net loans *(€ billions)*	38.3	37.8
New lending *(€ billions)*	3.9	3.3
Customer accounts *(€ billions)*	42.9	40.4

The following table presents certain income statement and balance sheet information regarding the impaired loan book of RCB as at and for the year ended 31 December 2016 and 2015:

	As at and for the year ended 31 December	
	2016	**2015**
	(€ millions, unless otherwise indicated)	
Income statement information		
Net interest income	142	174
Other income	—	—
Total operating income	142	174
Total operating expenses	(90)	(90)
Operating contribution before bank levies, regulatory fees and provisions	52	84
Balance sheet information		
Net loans *(€ billions)*	4.4	5.9

Net interest income

Net interest income increased by €53 million, or 4 per cent., to €1,273 million for the year ended 31 December 2016, compared to €1,220 million for the year ended 31 December 2015. The increase was due to continued reduction in cost of funds partly offset by the impact of mortgage rate cuts and lower net impaired loans as restructuring activity continued.

Other income

Other income increased by €16 million, or 4 per cent., to €398 million for the year ended 31 December 2016, compared to €382 million for the year ended 31 December 2015. The increase was due to higher gains on the realisation/re-estimation of cash flows on loans previously restructured. Net fee and commission income remained stable excluding the impact of changes in the EU fee regulation on card interchange rates.

Total operating expenses

Total operating expenses increased by €64 million, or 9 per cent., to €745 million for the year ended 31 December 2016, compared to €681 million for the year ended 31 December 2015, primarily due to increased average salary costs, cost of regulatory compliance, marketing and increased costs associated with the investment programme.

Total net writeback of provisions

Total net writeback of provisions decreased by €617 million to €290 million for the year ended 31 December 2016, compared to €907 million for the year ended 31 December 2015, reflecting a moderated pace and quantum of writebacks. The total net writeback comprised €286 million in provision net writebacks for impairment on loans and receivables and €4 million in provision writebacks for liabilities and commitments, compared to €898 million in provision net writebacks for impairment on loans and receivables and €9 million in provision net writebacks for liabilities and commitments for the year ended 31 December 2015.

Balance sheet

Net loans decreased by €1.0 billion to €42.7 billion as at 31 December 2016 from €43.7 billion as at 31 December 2015 due to a €1.5 billion decrease in impaired loans. Net earning loans increased by €0.5 billion to €38.3 billion as new lending and loans upgraded to earning exceeded repayments.

New lending of €3.9 billion increased by 20 per cent. compared to year ended 31 December 2015. This included mortgage lending of €2.0 billion, personal lending of €0.7 billion and business lending of €1.2 billion. RCB has made significant progress and momentum in restructuring customers in financial difficulty with impaired loans reducing to €4.4 billion from €5.9 billion.

Customer accounts increased by €2.5 billion, or 6 per cent. due to AIB maintaining market shares while reducing its average cost of funds.

8.2.2 WIB

The following table presents WIB's contribution statement and certain balance sheet information as at and for the years ended 31 December 2016 and 2015:

	As at and for the year ended 31 December	
	2016	2015
	(€ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	269	226
Other income	51	43
Total operating income	320	269
Total operating expenses	(96)	(85)
Operating contribution before bank levies, regulatory fees and provisions	224	184
Total provisions	(23)	(25)
Contribution before exceptional items and taxation	201	159
Balance sheet information		
Net loans *(€ billions)*	9.1	8.6
New lending *(€ billions)*	2.9	2.5
Customer accounts *(€ billions)*	6.4	6.0

Net interest income

Net interest income increased by €43 million, or 19 per cent., to €269 million for the year ended 31 December 2016, compared to €226 million for the year ended 31 December 2015. The increase was due to strong net loan growth combined with margin improvement from continued reductions in cost of funds.

Other income

Other income increased by €8 million, or 19 per cent., to €51 million for the year ended 31 December 2016, compared to €43 million for the year ended 31 December 2015. The increase was due primarily to an increase of €5 million in business income, driven by credit related fees.

Total operating expenses

Total operating expenses increased by €11 million, or 13 per cent., to €96 million for the year ended 31 December 2016, compared to €85 million for the year ended 31 December 2015 due to increased average salary costs and additional resources used in response to loan growth and development of business initiatives.

Total provisions

Total provisions charge decreased by €2 million to €23 million for the year ended 31 December 2016, compared to €25 million for the year ended 31 December 2015. The total provisions comprised €21 million in provisions for impairment on loans and receivables and €2 million in provisions for liabilities and commitments. In 2015, total provisions comprised €14 million in provisions for impairment on loans and receivables and €11 million in provisions for liabilities and commitments.

Balance sheet

Net loans increased by €0.5 billion to €9.1 billion as at 31 December 2016 from €8.6 billion as at 31 December 2015. Earning loans were €8.9 billion as at 31 December 2016, an increase of €0.7 billion due to strong levels of new lending.

New lending of €2.9 billion was up 11 per cent. compared to year ended 31 December 2015. This included corporate lending of €0.9 billion, syndicated and international lending of €1.3 billion, real estate finance lending of €0.6 billion and specialised finance lending of €0.1 billion.

Customer accounts increased by €0.4 billion, or 7 per cent. due to an increase in current accounts of €1.1 billion, partly offset by a decrease in term deposits.

8.2.3 AIB UK

The following table presents AIB UK's contribution statement and certain balance sheet information as at and for the years ended 31 December 2016 and 2015:

	As at and for the year ended 31 December	
	2016	2015
	(£ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	183	183
Other income	54	36
Total operating income	237	219
Total operating expenses	(115)	(114)
Operating contribution before bank levies, regulatory fees and provisions	122	105
Bank levies and regulatory fees	1	(3)
Total net writeback of provisions	30	32
Operating contribution	153	134
Associated undertakings	3	3
Contribution before disposal of business	156	137
Profit on disposal of business	1	—
Contribution before exceptional items and taxation	157	137
Contribution before exceptional items and taxation (*€ millions*)	193	187
Balance sheet information		
Net loans *(£ billions)*	7.5	7.6
New lending *(£ billions)*	1.5	1.9
Customer accounts *(£ billions)*	8.9	8.6

Net interest income

Net interest income is in line with 2015 at £183 million for the year ended 31 December 2016, compared to £183 million for the year ended 31 December 2015. A reduction in cost of funds was offset by the disposal of a loan portfolio of £0.5 billion in the second half of 2015 and the impact of a reduction in the Bank of England base rate in August 2016.

Other income

Other income increased by £18 million, or 50 per cent., to £54 million for the year ended 31 December 2016, compared to £36 million for the year ended 31 December 2015. Net fee and commission income was in line with 2015, with an increase in lending fees, partly offset by reduced transaction fees. Loss in other items reduced in 2016 to £3 million compared to a loss of £20 million in 2015. The loss of £3 million in other items in 2016 related to the final settlement of UK loan disposals at the end of 2015. Other items in 2015 included a net loss on disposal of loans of £28 million (a loss of £29 million on the disposal of a UK loan portfolio, gain of £1 million on other loan disposals) partially offset by a net profit on disposal of available for sale securities of £4 million and a fair value gain on equity warrants of £4 million.

Total operating expenses

Total operating expenses were broadly in line with 2015 at £115 million for the year ended 31 December 2016, compared to £114 million for the year ended 31 December 2015.

Total net writeback of provisions

Total net writeback of provision decreased by £2 million to £30 million for the year ended 31 December 2016, compared to £32 million for the year ended 31 December 2015 as a result of continued restructuring activity.

Balance sheet

AIB UK net loans were broadly stable at £7.5 billion as at 31 December 2016 compared to £7.6 billion as at 31 December 2015. Net earning loans of £7.1 billion were in line with 31 December 2015 as new lending was offset by redemptions. Net impaired loans of £0.4 billion at 31 December 2016 have reduced from £0.5 billion at 31 December 2015 due to repayments and write-offs in the period.

New lending of £1.5 billion represented a decrease of £0.4 billion, or 20 per cent., from 2015.

Customer accounts increased by £0.3 billion, or 3 per cent. to £8.9 billion due to an increase in current accounts, which was partially offset by a reduction in term and treasury deposits.

8.2.4 Group

The following table presents the Group segment's contribution statement and certain balance sheet information as at and for the years ended 31 December 2016 and 2015:

	As at and for the year ended 31 December	
	2016	**2015**
	(€ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	247	229
Other income	103	221
Total operating income	350	450
Total operating expenses	(397)	(368)
Operating contribution before bank levies, regulatory fees and provisions	(47)	82
Bank levies and regulatory fees	(113)	(67)
Total provisions	(6)	(3)
Contribution before exceptional items and taxation	(166)	12
Balance sheet information		
Net loans *(€ billions)*	0.1	0.6
Financial investments available for sale *(€ billions)*	15.4	16.5
Financial investments held to maturity *(€ billions)*	3.4	3.5
NAMA senior bonds *(€ billions)*	1.8	5.6
Customer accounts *(€ billions)*	3.9	5.4

Net interest income

Net interest income increased by €18 million, or 8 per cent., to €247 million for the year ended 31 December 2016, compared to €229 million for the year ended 31 December 2015. The increase was due to lower cost of funding, which was partially offset by lower income on NAMA senior bonds and lower income from the securities portfolio due to the sale and maturity of legacy high yielding assets.

Other income

Other income decreased by €118 million, or 53 per cent., to €103 million for the year ended 31 December 2016, compared to €221 million for the year ended 31 December 2015. The decrease was due to movements in valuations on AIB's sterling derivative positions.

Total operating expenses

Total operating expenses increased by €29 million, or 8 per cent., to €397 million for the year ended 31 December 2016, compared to €368 million for the year ended 31 December 2015. The increase was due to the impact of salary inflation and costs relating to outsourcing initiatives, partially offset by reduced staff numbers. The increase was also due to increased costs associated with the investment programme including the impact on depreciation of related assets now in use.

Bank levies and regulatory fees

Bank levies and regulatory fees increased by €46 million, or 69 per cent., to €113 million for the year ended 31 December 2016, compared to €67 million for the year ended 31 December 2015. In 2016, bank levies and regulatory fees included the Irish bank levy of €60 million, a Deposit Guarantee Scheme charge (including claim on the Deposit Guarantee Scheme legacy fund of € 8 million) of €35 million and Single Resolution Fund fees of €18 million. In 2015, they included the Irish bank levy of €60 million, a €1 million credit in respect of the Deposit Guarantee Scheme legacy fund and Single Resolution Fund fees of €8 million.

Balance sheet

Net loans decreased by €0.5 billion in 2016 as legacy loans, including asset backed securities, were managed down by the treasury function.

Financial investments available for sale decreased by €1.1 billion during 2016, consistent with plans to reduce overall holdings of available for sale securities in line with liquidity requirements.

Financial investments held to maturity decreased by €0.1 billion in 2016.

NAMA senior bonds decreased by €3.8 billion in 2016 due to redemptions.

Customer accounts decreased by €1.5 billion mainly due to the maturity of high yielding term deposits and a reduction in repo balances.

8.3 Years Ended 31 December 2015 and 2014

8.3.1 RCB

The following table presents RCB's contribution statement and certain balance sheet information as at and for the years ended 31 December 2015 and 2014:

	As at and for the year ended 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	1,220	1,100
Other income	382	375
Total operating income	1,602	1,475
Total operating expenses	(681)	(757)
Operating contribution before bank levies, regulatory fees and provisions	921	718
Total net writeback of provisions	907	259
Operating contribution	1,828	977
Associated undertakings	22	18
Contribution before disposal of property	1,850	995
Profit on disposal of property	3	3
Contribution before exceptional items and taxation	1,853	998
Balance sheet information		
Net loans *(€ billions)*	43.7	45.4
New lending *(€ billions)*	3.3	2.5
Customer accounts *(€ billions)*	40.4	37.8

The following table presents certain income statement and balance sheet information regarding the earning loan book of RCB as at and for the year ended 31 December 2015 and 2014:

	As at and for the year ended 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Income statement information		
Net interest income	1,046	1,004
Other income	382	375
Total operating income	1,428	1,379
Total operating expenses	(591)	(640)
Operating contribution before bank levies, regulatory fees and provisions	837	739
Balance sheet information		
Net loans *(€ billions)*	37.8	36.1
New lending *(€ billions)*	3.3	2.5
Customer accounts *(€ billions)*	40.4	37.8

The following table presents certain income statement and balance sheet information regarding the impaired loan book of RCB as at and for the year ended 31 December 2015 and 2014:

	As at and for the year ended 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Income statement information		
Net interest income	174	96
Other income	—	—
Total operating income	174	96
Total operating expenses	(90)	(117)
Operating contribution before bank levies, regulatory fees and provisions	84	(21)
Balance sheet information		
Net loans *(€ billions)*	5.9	9.3

Net interest income

Net interest income increased by €120 million, or 11 per cent., to €1,220 million for the year ended 31 December 2015, compared to €1,100 million for the year ended 31 December 2014. The increase was due to lower funding costs while maintaining appropriate pricing on customer asset yields, including mortgage rate reductions. This was partially offset by lower average loan volumes.

Other income

Other income of €382 million for the year ended 31 December 2015 was broadly in line with other income of €375 million for the year ended 31 December 2014.

Total operating expenses

Total operating expenses decreased by €76 million, or 10 per cent., to €681 million for the year ended 31 December 2015, compared to €757 million for the year ended 31 December 2014. The decrease was due to lower staff numbers as a result of the severance scheme and cost savings across most classifications of general and administrative expenses.

Total net writeback of provisions

Total net writeback of provisions increased by €648 million to €907 million for the year ended 31 December 2015, compared to €259 million for the year ended 31 December 2014, reflecting the level of debt restructuring completed in 2015, lower new impaired loans and improving economic conditions.

Balance sheet

Net loans decreased by €1.7 billion, or 4 per cent., to €43.7 billion as at 31 December 2015, compared to €45.4 billion as at 31 December 2014 as a result of loan restructurings/redemptions/other of €5.0 billion exceeding new lending of €3.3 billion.

New lending of €3.3 billion increased by 32 per cent. compared to the year ended 31 December 2014. This included mortgage lending of €1.7 billion, personal lending of €0.5 billion and business lending of €1.1 billion.

RCB has made significant progress and momentum in restructuring customers in financial difficulty with net impaired loans decreasing to €5.9 billion from €9.3 billion.

Customer accounts increased by €2.6 billion, or 7 per cent., due to strong growth in current accounts.

8.3.2 WIB

The following table presents WIB's contribution statement and certain balance sheet information as at and for the years ended 31 December 2015 and 2014:

	As at and for the year ended 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	226	171
Other income	43	47
Total operating income	269	218
Total operating expenses	(85)	(81)
Operating contribution before bank levies, regulatory fees and provisions	184	137
Total provisions	(25)	(6)
Contribution before exceptional items and taxation	159	131
Balance sheet information		
Net loans *(€ billions)*	8.6	7.3
New lending *(€ billions)*	2.5	1.6
Customer accounts *(€ billions)*	6.0	5.6

Net interest income

Net interest income increased by €55 million, or 32 per cent., to €226 million for the year ended 31 December 2015, compared to €171 million for the year ended 31 December 2014. The increase was due to strong net loan growth combined with lower cost of funds.

Other income

Other income of €43 million for the year ended 31 December 2015 was broadly in line with other income of €47 million for the year ended 31 December 2014. This was primarily composed of net fee and commission income.

Total operating expenses

Total operating expenses increased by €4 million, or 5 per cent., to €85 million for the year ended 31 December 2015, compared to €81 million for the year ended 31 December 2014 due to resourcing for business growth.

Total provisions

Total provisions charge increased by €19 million to €25 million for the year ended 31 December 2015, compared to €6 million for the year ended 31 December 2014 primarily due to additional provision for liabilities and commitments in 2015.

Balance sheet

Net loans increased by €1.3 billion, or 18 per cent., to €8.6 billion as at 31 December 2015, compared to €7.3 billion as at 31 December 2014 as new lending exceeded redemptions during the year.

New lending of €2.5 billion increased by 63 per cent. compared to the year ended 31 December 2014. This included corporate lending of €0.9 billion, syndicated and international lending of €1.1 billion, real estate finance lending of €0.3 billion and specialised finance lending of €0.2 billion.

Customer accounts increased by €0.4 billion, or 7 per cent., as an increase in current accounts was partially offset by a decrease in deposits.

8.3.3 AIB UK

The following table presents AIB UK's contribution statement and certain balance sheet information as at and for the years ended 31 December 2015 and 2014:

	As at and for the year ended 31 December	
	2015	2014
	(£ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	183	162
Other income	36	56
Total operating income	219	218
Total operating expenses	(114)	(126)
Operating contribution before bank levies, regulatory fees and provisions	105	92
Bank levies and regulatory fees	(3)	(4)
Total net writeback/(provisions)	32	(57)
Operating contribution	134	31
Associated undertakings	3	4
Contribution before disposal of business	137	35
Profit on disposal of business	—	2
Contribution before exceptional items and taxation	137	37
Contribution before exceptional items and taxation *(€ millions)*	187	45
Balance sheet information		
Net loans *(£ billions)*	7.6	8.1
New lending *(£ billions)*	1.9	1.3
Customer accounts *(£ billions)*	8.6	9.0

Net interest income

Net interest income increased by £21 million, or 13 per cent., to £183 million for the year ended 31 December 2015, compared to £162 million for the year ended 31 December 2014. The increase was mainly due to lower funding costs while maintaining appropriate pricing on customer asset yields.

Other income

Other income decreased by £20 million, or 36 per cent., to £36 million for the year ended 31 December 2015 from £56 million for the year ended 31 December 2014. Net fee and commission income of £46 million was in line with 2014. The decrease in other income was primarily due to a loss of £29 million on the disposal of a portfolio of loans in 2015 and lower net profits on the disposal of available for sale equity securities, which was partly offset by an increase of £14 million in valuation adjustments related to sterling customer derivative positions.

Total operating expenses

Total operating expenses decreased by £12 million, or 10 per cent., to £114 million for the year ended 31 December 2015, compared to £126 million for the year ended 31 December 2014, due to lower salary and associated costs, as well as lower general and administrative expenses due to lower occupancy costs.

Total provisions

Total overall net writeback was £32 million for the year ended 31 December 2015, compared to a charge of £57 million for the year ended 31 December 2014. This was the result of continuing management action to dispose of impaired assets within the specific provisions held, low levels of new impairment and improving economic conditions.

Balance sheet

Net loans and receivables to customers decreased by £0.5 billion, or 6 per cent., to £7.6 billion as at 31 December 2015, compared to £8.1 billion as at 31 December 2014.

New lending of £1.9 billion reflected an increase of £0.6 billion, or 51 per cent., from 2014.

Customer accounts decreased by £0.4 billion, or 4 per cent., to £8.6 billion as at 31 December 2015, compared to £9.0 billion as at 31 December 2014. The decrease was due to lower deposit balances offset in part by an increase in current accounts.

8.3.4 Group

The following table presents the Group segment's contribution statement and certain balance sheet information as at and for the years ended 31 December 2015 and 2014:

	As at and for the year ended 31 December	
	2015	2014
	(€ millions, unless otherwise indicated)	
Contribution statement		
Net interest income	229	215
Other income	221	353
Total operating income	450	568
Total operating expenses	(368)	(403)
Operating contribution before bank levies, regulatory fees and provisions	82	165
Bank levies and regulatory fees	(67)	(67)
Total (provisions)/writeback of provisions	(3)	5
Contribution before exceptional items and taxation	12	103
Balance sheet information		
Net loans *(€ billions)*	0.6	0.3
Financial investments available for sale *(€ billions)*	16.5	20.2
Financial investments held to maturity *(€ billions)*	3.5	—
NAMA senior bonds *(€ billions)*	5.6	9.4
Customer accounts *(€ billions)*	5.4	9.1

Net interest income

Net interest income increased by €14 million, or 7 per cent., to €229 million for the year ended 31 December 2015, compared to €215 million for the year ended 31 December 2014.

Other income

Other income decreased by €132 million, or 37 per cent., to €221 million for the year ended 31 December 2015, compared to €353 million for the year ended 31 December 2014. The decrease was due to €95 million lower profit on disposals of the available for sale portfolio and €126 million lower impact from the effect of acceleration/re-estimation of the timing of cash flows of NAMA senior bonds, partially offset by a €75 million positive impact from the movement of sterling derivative positions and other less material items.

Total operating expenses

Total operating expenses decreased by €35 million, or 9 per cent., to €368 million for the year ended 31 December 2015, compared to €403 million for the year ended 31 December 2014. The decrease was due to ongoing cost control and management.

Bank levies and regulatory fees

Bank levies and regulatory fees were flat at €67 million for the year ended 31 December 2015 compared to the year ended 31 December 2014.

Balance sheet

Net loans increased by €0.3 billion in 2015.

Financial investments available for sale decreased by €3.7 billion during 2015 primarily due to the reclassification of €3.5 billion as held to maturity.

NAMA senior bonds decreased by €3.8 billion in 2015 due to redemptions.

Customer accounts decreased by €3.7 billion due to a reduction in repo balances and treasury deposits in line with reducing funding requirements.

9 Return on Tangible Equity

In assessing the capital efficiency of AIB, the following APM with regard to return on tangible equity is a better reflection of performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity.

Return on tangible equity is defined as profit after tax from continuing operations plus movement in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity. The following table presents the basis of calculation of return on tangible equity for the year ended 31 December 2016:

	As at and for the year ended 31 December 2016
	(unaudited) (€ millions, unless otherwise indicated)
Profit after taxation	1,356
Adjustments:	
AT1 coupon paid during 2016	(37)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	97
Adjusted profit attributable to tangible equity (numerator)	**1,416**
Tangible equity	
Targeted CET1 (13% of average risk-weighted assets—€56,739 million)(1)	7,376
Deferred tax assets—average unutilised tax losses(1)	3,111
Tangible equity (denominator)	**10,486**
Return on tangible equity *(%)*	**13.5%**

Note:

(1) Average calculated based on period end balance subject to minimal adjustments as at 31 December 2015 and as at 31 December 2016.

10 Non-Performing Exposures

In analysing the credit quality of its loan book, AIB considers criticised loans, which include "watch", "vulnerable" and "impaired" loans, as described in further detail in "*—Credit risk*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*". For regulatory reporting, EBA stress testing and capital planning purposes, AIB also considers non-performing exposures, which includes both loans and receivables to customers and off balance sheet commitments such as loan commitments and financial guarantee contracts.

Non-performing exposures are defined by the EBA to include material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due (this would include, for example, loans in respect of which the relevant collateral has been disposed as well as loans previously subject to forbearance solutions for a period of one year thereafter). Non-performing exposures will overlap with criticised loans to a certain extent.

AIB is focused on reducing the level of its non-performing exposures as defined by the EBA to a normalised level in line with its European peers over the medium term. As at 31 December 2016, non-performing loans of European banks accounted for 5.1 per cent. of total loans on a weighted average basis, based on the EBA Risk Dashboard Q4 2016. Based on that figure, this would imply a reduction of non-performing loans by AIB to €3 - €4 billion over the medium term. This is, however, subject to change in line with the evolution of European banks' balance sheets over that period and the evolution and implementation of AIB's strategies to address its non-performing exposures. AIB has maintained momentum in its restructuring activity and may consider options such as further loan portfolio disposals and other strategic initiatives.

The following tables set forth AIB's non-performing loans and receivables to customers by asset class as at 31 March 2017 and 31 December 2016 and 2015:

	As at 31 March 2017				
	Residential mortgages	**Other personal**	**Property and construction**	**Non-property business**	**Total**
	(€ millions, unless otherwise indicated)				
Total gross loans and receivables	34,982	3,081	9,006	17,860	64,929
Non-performing loans					
Impaired	4,368	426	2,562	1,260	8,616
Greater than 90 days past due but not impaired	262	46	174	163	645
Neither past due nor impaired and/or less than 90 days past due	1,702	175	1,078	921	3,876
Total non-performing loans	6,332	647	3,814	2,344	13,137
Non-performing loans as % of total gross loans *(%)*	18	21	42	13	20

	As at 31 December 2016				
	Residential mortgages	**Other personal**	**Property and construction**	**Non-property business**	**Total**
	(€ millions, unless otherwise indicated)				
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Non-performing loans					
Impaired	4,576	432	2,724	1,404	9,136
Greater than 90 days past due but not impaired	261	54	165	140	620
Neither past due nor impaired and/or less than 90 days past due	1,842	175	1,325	974	4,316
Total non-performing loans	6,679	661	4,214	2,518	14,072
Non-performing loans as % of total gross loans *(%)*	19	21	45	14	22

Total non-performing off-balance sheet commitments at 31 March 2017 amounted to €300 million (31 December 2016: €321 million).

	As at 31 December 2015				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	(€ millions, unless otherwise indicated)				
Total gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Non-performing loans					
Impaired	5,966	698	4,308	2,113	13,085
Greater than 90 days past due but not impaired	283	46	209	145	683
Neither past due nor impaired and/or less than 90 days past due	1,561	136	1,596	907	4,200
Total non-performing loans	7,810	880	6,113	3,165	17,968
Non-performing loans as % of total gross loans *(%)*	21	25	53	17	26

11 Cash Flows

The following table sets forth AIB's cash flows for the three months ended 31 March 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014:

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(€ millions)				
Net cash inflow/(outflow) from operating activities	(1,706)	(521)	3,229	(93)	(1,200)
Net cash inflow from investing activities	286	609	723	149	1,706
Net cash outflow from financing activities	—	—	(1,828)	(1,062)	(160)
Change in cash and cash equivalents	(1,420)	88	2,124	(1,006)	346
Opening cash and cash equivalents	7,164	5,672	5,672	6,384	5,730
Effect of exchange translation adjustments	(1)	(330)	(632)	294	308
Closing cash and cash equivalents	5,743	5,430	7,164	5,672	6,384

For further detail on AIB's cash flows, see the consolidated statement of cash flow and note 39 of Section D and note 50 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

12 Critical Accounting 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. For information on AIB's accounting policies and estimates, see Sections B and D of "*Part XVI: Consolidated Historical Financial Information*".

PART XIV
CAPITAL

1 Capital Structure

The following table presents AIB's regulatory capital and capital ratios on a CRD IV transitional basis and CRD IV fully loaded basis as at 31 March 2017 and 31 December 2016. AIB's consolidated statement of financial position is based on IFRS accounting standards whereas certain information in the table below has been compiled based on capital adequacy concepts and rules as contained in CRD IV:

	CRD IV transitional basis(1)		CRD fully loaded basis(2)	
	As at 31 March 2017(3)	As at 31 December 2016	As at 31 March 2017(3)	As at 31 December 2016
	(€ millions, unless otherwise indicated)			
Common equity tier 1 capital				
Equity	13,280	13,148	13,280	13,148
Less AT1 capital	(494)	(494)	(494)	(494)
Foreseeable charges (including proposed ordinary dividend)	(313)	(250)	(313)	(250)
Regulatory adjustments:				
Goodwill and intangibles	(418)	(392)	(418)	(392)
Cash flow hedging reserves	(372)	(460)	(372)	(460)
Available for sale securities reserves	(205)	(445)	—	—
Pension	(119)	(140)	(110)	(126)
Deferred tax	(857)	(610)	(2,857)	(3,050)
Expected loss deduction	—	(28)	—	(46)
Other	(47)	(22)	(44)	(16)
Total regulatory adjustments	(2,018)	(2,097)	(3,801)	(4,090)
Total common equity tier 1	10,455	10,307	8,672	8,314
AT1 capital issuance	494	494	494	494
Expected loss deduction	—	(9)	—	—
Total additional tier 1 capital	494	485	494	494
Total tier 1 capital	10,949	10,792	9,166	8,808
Tier 2 capital				
Subordinated debt	783	783	783	783
Credit provisions	161	200	9	—
Expected loss deduction	—	(9)	—	—
Other	3	6	—	—
Total tier 2 capital	947	980	792	783
Total capital	11,896	11,772	9,958	9,591
Risk-weighted assets				
Credit risk	48,566	48,843	48,660	49,027
Market risk	273	288	273	288
Operational risk	4,248	3,874	4,248	3,874
Credit valuation adjustment	1,028	1,225	1,028	1,225
Other	5	5	5	5
Total risk-weighted assets	54,120	54,235	54,214	54,419
Common equity tier 1 ratio	19.3%	19.0%	16.0%	15.3%
Tier 1 ratio	20.2%	19.9%	16.9%	16.2%
Total capital ratio	22.0%	21.7%	18.4%	17.6%

Notes:

(1) Transitional ratios are calculated applying the transitional provisions set out in Part Ten of CRD IV, which are expected to be allowed to ease the transition for banks to the "fully loaded" capital rules.

(2) Fully loaded ratios are calculated applying all requirements of CRD IV without applying the transitional requirements set out in Part Ten of CRD IV.

(3) Capital ratios as at 31 March 2017 have been presented including the benefit of the retained profit for the three months to 31 March 2017 and also takes account of foreseeable charges as at 31 March 2017.

2. Supervisory review and evaluation process

On an annual basis, AIB submits extensive documentation on the ICAAP to its regulator as prescribed in the CRD IV frameworks. This documentation includes a description of AIB's internal capital models, its risk appetite framework, an asset quality analysis and capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the ECB's SREP, the outcome of which is communicated to AIB's management.

AIB's minimum requirement set by the ECB for the transitional CET1 ratio is 9.0 per cent. and the minimum requirement for the transitional total capital is 12.5 per cent. for 2017. This requirement excludes Pillar 2 guidance that is not publicly disclosed. The transitional CET1 and total capital ratios as at 31 March 2017 were 19.3 per cent. and 22.0 per cent., respectively. Based on these ratios, AIB has a very significant buffer over maximum distributable amount trigger levels.

AIB has been designated as an other "systemically important institution" ("O-SII"). A buffer for O-SII will be applied at 0.5 per cent. from 2019, rising to 1.5 per cent. by 2021.

3 Approval of AIB Restructuring Plan and Comprehensive Assessment

On 7 May 2014, the EC approved, under state aid rules, AIB's Restructuring Plan. For additional details regarding AIB's Restructuring Plan, see "*Part X: Relationship with Government and State Aid—State Aid*".

AIB was subject to the 2016 EU-wide stress test conducted by the EBA, in conjunction with the Central Bank, the ECB, the EC and the SRB, the results of which were published in July 2016. AIB's result of a 7.4 per cent. adjusted CET1 ratio in the adverse scenario (transitional) was 0.5 per cent. higher than the result of the 2014 Comprehensive Assessment. Unlike the 2014 exercise, there was no pass/fail threshold in the 2016 EBA stress test; instead the results of the exercise were taken into account in AIB's SREP, the results of which were communicated to AIB in December 2016.

The stress tests were conducted on a static balance sheet basis based on how the balance sheet as at 31 December 2015 would perform over three years. Both the baseline and the adverse scenarios were assessed for capital under the transitional arrangements as set out in CRD IV, over a three-year period from 2015 to 2018.

AIB's capital ratios and stress test results are as outlined below:

	Static Balance Sheet
CET1 ratio at 31 December 2015	15.9%
Adjusted CET1 ratio after:	
Baseline Scenario	17.0%
Adverse Scenario	7.4%

4 Subordinated Liabilities and Other Capital Instruments

4.1 AT1 Notes

On 3 December 2015, as part of the 2015 Capital Reorganisation, the Company issued €500 million AT1 Perpetual Contingent Temporary Write-down Securities (the "AT1 Notes"). Interest on the AT1 Notes is payable semi-annually in arrears at the discretion of AIB at a fixed rate of 7.375 per cent. On the first reset date on 3 December 2020, if the AT1 Notes are not redeemed, interest will be reset to the relevant five-year rate plus a margin of 7.339 per cent.

The AT1 Notes are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, redeem all (but not some only) of the AT1 Notes on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the SSM, which has set out certain conditions in relation to redemption, purchase, cancellation and modification of the AT1 Notes. The AT1 Notes rank: (i) *pari passu* with holders of the Company's other tier 1 instruments; (ii) senior to the claims of holders of the Company's ordinary share capital; (iii) junior to the claims of holders of tier 2 instruments; and (iv) junior to the claims of senior creditors.

If AIB's CET1 ratio (solo or consolidated) falls below 7.0 per cent., the AT1 Notes maybe written down by the lower of the amount necessary to generate sufficient CET1 capital to restore the CET1 ratio to 7.0 per cent. or the amount that would reduce the prevailing principal amount to zero.

4.2 Dated loan capital

Certain dated loan capital issued under the European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of AIB.

On 26 November 2015, the Company issued €750 million Subordinated Tier 2 Notes. These notes mature on 26 November 2025, but can be redeemed in whole, but not in part, by the Company on the optional redemption date of 26 November 2020, subject to the approval of the ECB and conditional upon meeting the requirements of the CRR. Interest is payable annually in arrears at a fixed rate of 4.125 per cent. and, if the Subordinated Tier 2 Notes are not redeemed, will be reset on 26 November 2020 to the euro 5 year mid swap rate plus the initial margin of 395 basis points.

On 14 April 2011, the High Court of Ireland made the Subordinated Liabilities Order (the "SLO") in respect of certain of AIB's then outstanding subordinated notes in the aggregate nominal amounts of €1,550,784,000, £733,406,000 and U.S. $247,420,999. Pursuant to the SLO, which became effective as of 22 April 2011, the terms of AIB's relevant subordinated notes were amended as follows:

- any interest that may fall due on such liabilities will only be payable at the option of AIB (in its sole discretion); and
- the maturity date of each such liability has been extended to 25 June 2035.

Following the SLO, AIB announced on 13 May 2011 its intention to launch a liability management exercise in relation to 18 series of subordinated securities (including tier 1 and upper and lower tier 2 securities) in which AIB offered to buy back the relevant outstanding subordinated liabilities at discounts of up to 90 per cent.

Following the liability management exercise, residual balances remained outstanding on the dated loan capital instruments concerned in the aggregate nominal amounts of €25,285,000 and £79,816,035. The original liabilities were derecognised and new liabilities were recognised, based on the fair value of the relevant securities at the SLO effective date reflecting the amended terms of the instruments under the SLO.

PART XV
CAPITALISATION AND INDEBTEDNESS STATEMENT

The following table sets out AIB's capitalisation and indebtedness as at 31 March 2017, which have been derived from unaudited financial statements.

	As at 31 March 2017 (€ millions)
Indebtedness	
Current Debt[(1)]	
Debt securities in issue[(2)]	
Secured	1,735
Unsecured	145
Total current debt	1,880
Non-current Debt	
Debt securities in issue[(2)]	
Secured	3,590
Unsecured	1,000
	4,590
Subordinated liabilities	
Dated (unsecured)	792
Total non-current debt	5,382
Total Indebtedness	7,262
Capitalisation	
Share capital	1,696
Share premium	1,386
Other reserves	9,704
Additional Tier 1 securities[(3)]	494
Total capitalisation	13,280
Total capitalisation and indebtedness	20,542

Notes:

(1) Maturity up to one year.

(2) Maturity analysis of debt securities in issue is based on expected maturity.

(3) Additional Tier 1 securities with a par value of €500 million.

Indirect and contingent indebtedness, which comprises of (i) guarantees and irrevocable letters of credit, and (ii) other contingent liabilities totalled €916 million at 31 March 2017. For information on AIB's indirect and contingent indebtedness, see note 36 of Section D of "*Part XVI: Consolidated Historical Financial Information*".

PART XVI: CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

SECTION A: ACCOUNTANT'S REPORT ON THE CONSOLIDATED HISTORICAL FINANCIAL INFORMATION FOR 2016, 2015 AND 2014

Deloitte.

The Board of Directors
on behalf of Allied Irish Banks, p.l.c.
Bankcentre
Ballsbridge
Dublin 4
Ireland

Dear Sirs

Allied Irish Banks, p.l.c. (the 'Company')

We report on the historical financial information set out in Section B of *"Part XVI: "Consolidated Historical Financial Information"* for the periods ended 31 December 2016, 31 December 2015 and 31 December 2014. This historical financial information has been prepared for inclusion in the prospectus dated 12 June 2017 of the Company (the "Prospectus") on the basis of the accounting policies set out in note 1 of Section B of *"Part XVI: "Consolidated Historical Financial Information"*. This report is required by paragraph 20.1 of Annex I of the Commission Regulation (EC) No. 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the historical financial information on the basis of preparation set out in note 1 of Section B of *"Part XVI: "Consolidated Historical Financial Information"*.

It is our responsibility to form an opinion on the historical financial information and to report our opinion to you.

Save for any responsibility arising under paragraph 2(2) (f) of Schedule 1 to the Prospectus (Directive 2003/71/EC) Regulations 2005 (S.I. No 324 of 2005), as amended, to any person and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting (SIR) 2000 issued by the Auditing Practices Board in the United Kingdom and Ireland. Our work included an assessment of evidence relevant to the amounts and disclosures in the historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the historical financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the historical financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on historical financial information

In our opinion, the historical financial information gives, for the purposes of the Prospectus dated 12 June 2017, a true and fair view of the assets, liabilities and financial position of the Company as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 1 of Section B of *"Part XVI: "Consolidated Historical Financial Information"*.

Declaration

For the purposes of paragraph 2(2) (f) of Schedule 1 to the Prospectus (Directive 2003/71/EC) Regulations 2005 (S.I. No. 324 of 2005), as amended we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

Deloitte
Chartered Accountants

Date: 12 June 2017

SECTION B: CONSOLIDATED HISTORICAL FINANCIAL INFORMATION FOR 2016, 2015 AND 2014

Consolidated income statement

	Notes	2016	2015	2014
		Year ended 31 December (€ millions)		
Continuing operations				
Interest and similar income	4	2,611	2,821	2,921
Interest expense and similar charges	4	(598)	(894)	(1,234)
Net interest income		2,013	1,927	1,687
Dividend income	5	26	26	25
Fee and commission income	6	430	449	430
Fee and commission expense	6	(35)	(44)	(40)
Net trading income/(loss)	7	71	95	(1)
Profit/(loss) on disposal/transfer of loans and receivables	8	11	(22)	52
Other operating income	9	403	197	379
Other income		906	701	845
Total operating income		2,919	2,628	2,532
Administrative expenses	10	(1,462)	(1,604)	(1,527)
Impairment and amortisation of intangible assets	30	(70)	(39)	(65)
Impairment and depreciation of property, plant and equipment	31	(39)	(35)	(46)
Total operating expenses		(1,571)	(1,678)	(1,638)
Operating profit before provisions		1,348	950	894
Writeback of provisions for impairment on loans and receivables	25	294	925	185
Writeback of provisions/(provisions) for impairment on financial investments available for sale	13	2	—	(1)
Writeback of provisions for liabilities and commitments	38	2	11	4
Operating profit		1,646	1,886	1,082
Associated undertakings	29	35	25	23
Profit on disposal of property	14	—	3	6
Profit on disposal of businesses	15	1	—	—
Profit before taxation from continuing operations		1,682	1,914	1,111
Income tax charge from continuing operations	17	(326)	(534)	(230)
Profit after taxation from continuing operations attributable to owners of the parent		1,356	1,380	881
Discontinued operations				
Profit after taxation from discontinued operations	16	—	—	34
Profit for the year		1,356	1,380	915
Attributable to:				
Owners of the parent:				
Profit from continuing operations		1,356	1,380	881
Profit from discontinued operations	16	—	—	34
		1,356	1,380	915
Basic earnings per share				
Continuing operations	18(a)	48.6c	44.0c	42.2c
Discontinued operations	18(a)	—	—	1.6c
		48.6c	44.0c	43.8c
Diluted earnings per share				
Continuing operations	18(b)	47.9c	43.0c	40.9c
Discontinued operations	18(b)	—	—	1.2c
		47.9c	43.0c	42.1c

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2016	2015	2014
		(€ millions)		
Profit for the year		1,356	1,380	915
Other comprehensive income—continuing operations				
Items that will not be reclassified to profit or loss:				
Net change in property revaluation reserves	17	(1)	—	(1)
Net actuarial gains/(losses) in retirement benefit schemes, net of tax	17	103	743	(939)
Total items that will not be reclassified to profit or loss		102	743	(940)
Items that may be reclassified subsequently to profit or loss when specific conditions are met:				
Net change in foreign currency translation reserves	17	(168)	31	27
Net change in cash flow hedges, net of tax	17	106	(29)	348
Net change in fair value of available for sale securities, net of tax	17	(359)	103	728
Total items that may be reclassified subsequently to profit or loss when specific conditions are met:		(421)	105	1,103
Other comprehensive income for the year, net of tax from continuing operations		(319)	848	163
Total comprehensive income for the year		1,037	2,228	1,078
Attributable to:				
Owners of the parent:				
Continuing operations		1,037	2,228	1,044
Discontinued operations		—	—	34
		1,037	2,228	1,078

Consolidated statement of financial position

	Notes	Year ended 31 December 2016	2015	2014
			(€ millions)	
Assets				
Cash and balances at central banks	50	6,519	4,950	5,393
Items in course of collection		134	153	146
Disposal groups and non-current assets held for sale	20	11	8	14
Trading portfolio financial assets	21	1	1	1
Derivative financial instruments	22	1,814	1,698	2,038
Loans and receivables to banks	23	1,399	2,339	1,865
Loans and receivables to customers	24	60,639	63,240	63,362
NAMA senior bonds	26	1,799	5,616	9,423
Financial investments available for sale	27	15,437	16,489	20,185
Financial investments held to maturity	28	3,356	3,483	—
Interests in associated undertakings	29	65	70	69
Intangible assets	30	392	289	171
Property, plant and equipment	31	357	344	290
Other assets		248	785	211
Current taxation		13	35	10
Deferred taxation	32	2,828	2,897	3,576
Prepayments and accrued income		444	503	526
Retirement benefit assets	12	166	222	175
Total assets		95,622	103,122	107,455
Liabilities				
Deposits by central banks and banks	33	7,732	13,863	16,768
Customer accounts	34	63,502	63,383	64,018
Trading portfolio financial liabilities	35	—	86	—
Derivative financial instruments	22	1,609	1,781	2,334
Debt securities in issue	36	6,880	7,001	7,861
Current taxation		18	31	—
Deferred tax liabilities	32	81	—	—
Other liabilities	37	973	1,108	1,225
Accruals and deferred income		484	653	729
Retirement benefit liabilities	12	158	368	1,239
Provisions for liabilities and commitments	38	246	382	258
Subordinated liabilities and other capital instruments	39	791	2,318	1,451
Total liabilities		82,474	90,974	95,883
Equity				
Share capital	40	1,696	1,696	1,344
Share premium	40	1,386	1,386	1,752
Reserves		9,572	8,572	8,476
Total shareholders' equity		12,654	11,654	11,572
Other equity interests	42	494	494	—
Total equity		13,148	12,148	11,572
Total liabilities and shareholders' equity		95,622	103,122	107,455

Consolidated statement of cash flows

	Notes	Year ended 31 December 2016	2015	2014
		(€ millions)		
Cash flows from operating activities				
Profit before taxation for the year from continuing operations		1,682	1,914	1,111
Adjustments for:				
—Non-cash and other items	50	(266)	(875)	(573)
—Change in operating assets	50	6,507	4,230	9,449
—Change in operating liabilities	50	(4,588)	(5,353)	(11,161)
—Taxation paid		(106)	(9)	(26)
Net cash (outflow) from operating activities		3,229	(93)	(1,200)
Cash flows from investing activities				
Purchase of financial investments available for sale	27	(2,477)[(1)]	(4,270)	(7,336)
Proceeds from sales and maturity of financial investments available for sale		3,386[(2)]	4,624[(3)]	8,791
Additions to property, plant and equipment	31	(55)	(89)	(47)
Disposal of business	15	1	—	—
Disposal of property, plant and equipment		1	16	9
Additions to intangible assets	30	(173)	(156)	(60)
Proceeds of disposal of investment in associated undertakings		—	—	2
Proceeds of disposal of investment in businesses and subsidiaries		—	—	336[(4)]
Dividends received from associated undertakings	29	40	24	11
Net cash inflow from investing activities		723	149	1,706
Cash flows from financing activities				
Net proceeds on issue of Additional Tier 1 Securities	42	—	494	—
Net proceeds on issue of €750 million Tier 2 Notes due 2025	39	—	750	—
Redemption of 2009 Preference Shares	40	—	(1,700)	—
Redemption of Contingent Capital Notes	39	(1,600)	—	—
Distribution paid on other equity interests	19	(37)	—	—
Dividends paid on 2009 Preference Shares	19	—	(446)	—
Interest paid on subordinated liabilities and other capital instruments		(191)	(160)	(160)
Net cash outflow from financing activities		(1,828)	(1,062)	(160)
Change in cash and cash equivalents		2,124	(1,006)	346
Opening cash and cash equivalents		5,672	6,384	5,730
Effect of exchange translation adjustments		(632)	294	308
Closing cash and cash equivalents	50	7,164	5,672	6,384

Notes:

(1) Excludes non-cash acquisition of €65 million.

(2) Excludes non-cash disposal consideration of €84 million.

(3) Transfer from financial investments available for sale to financial investment held to maturity of €3,487 million not reflected in cash flows (note 28).

(4) Disposal of Ark Life Assurance Company Limited.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash Flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	Attributable to equity holders of parent										
						(€ millions)					
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the year											
Profit for the year	—	—	—	—	—	—	—	—	1,356	—	1,356
Other comprehensive income (note 17)	—	—	—	—	—	(1)	(359)	106	103	(168)	(319)
Total comprehensive income for the year	—	—	—	—	—	(1)	(359)	106	1,459	(168)	1,037
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of AIB											
Capital contributions (note 43)	—	—	—	(361)	—	—	—	—	361	—	—
Distribution on other equity interests	—	—	—	—	—	—	—	—	(37)	—	(37)
Total contributions by and distributions to owners of AIB	—	—	—	(361)	—	—	—	—	324	—	(37)
At 31 December 2016	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148

Consolidated statement of changes in equity (Continued)
for the year ended 31 December 2015

	Notes	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign current translation reserves	Treasury shares	Share based payments reserves	Total
		Attributable to equity holders of parent												
								(€ millions)						
At 1 January 2015		1,344	1,752	—	1,958	—	17	1,369	383	5,621	(415)	(462)	5	11,572
Total comprehensive income for the year														
Profit for the year		—	—	—	—	—	—	—	—	1,380	—	—	—	1,380
Other comprehensive income	17	—	—	—	—	—	—	103	(29)	743	31	—	—	848
Total comprehensive income for the year		—	—	—	—	—	—	103	(29)	2,123	31	—	—	2,228
Transactions with owners, recorded directly in equity														
Contributions by and distributions to owners of AIB														
Capital contributions	43	—	—	—	(398)	—	—	—	—	398	—	—	—	—
Dividend on 2009 Preference Shares		—	—	—	—	—	—	—	—	(280)	—	—	—	(280)
Share-based payments		—	—	—	—	—	—	—	—	5	—	—	(5)	—
Cancellation of treasury shares		—	—	—	—	—	—	—	—	(462)	—	462	—	—
Issue of Additional Tier 1 securities		—	—	494	—	—	—	—	—	—	—	—	—	494
Other movements		—	—	—	—	—	(1)	—	—	1	—	—	—	—
Capital reorganisation	40													
2009 Preference Shares -conversion		(21)	—	—	—	—	—	—	—	—	—	—	—	(21)
2009 Preference Shares -redemption		(14)	—	—	—	14	—	—	—	(1,700)	—	—	—	(1,700)
		(35)	—	—	—	14	—	—	—	(1,700)	—	—	—	(1,721)
Ordinary shares issued on 2009 Preference Shares		21	—	—	—	—	—	—	—	—	—	—	—	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares		366	(366)	—	—	—	—	—	—	—	—	—	—	—
Dividend paid on 2009 Preference Shares to date of conversion/redemption		—	—	—	—	—	—	—	—	(166)	—	—	—	(166)
Total contributions by and distributions to owners of AIB		352	(366)	494	(398)	14	(1)	—	—	(2,204)	—	462	(5)	(1,652)
At 31 December 2015		1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	—	—	12,148

Consolidated statement of changes in equity (Continued)
for the year ended 31 December 2014

		Attributable to equity holders of parent											
	Notes	Share capital	Share premium	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
		(€ millions)											
At 1 January 2014		5,248	2,848	2,597	—	18	641	35	(2)	(442)	(462)	13	10,494
Total comprehensive income for the year													
Profit for the year		—	—	—	—	—	—	—	915	—	—	—	915
Other comprehensive income	17	—	—	—	—	(1)	728	348	(939)	27	—	—	163
Total comprehensive income for the year		—	—	—	—	(1)	728	348	(24)	27	—	—	1,078
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of AIB													
Capital contributions	43	—	—	(564)	—	—	—	—	564	—	—	—	—
Ordinary shares issued in lieu of dividend	40	22	(22)	—	—	—	—	—	—	—	—	—	—
Cancellation of deferred shares	40 & 43	(3,926)	—	—	3,926	—	—	—	—	—	—	—	—
Reduction of capital	40 & 43	—	(1,074)	—	(3,926)	—	—	—	5,000	—	—	—	—
Share-based payments		—	—	—	—	—	—	—	8	—	—	(8)	—
Other movements	43	—	—	(75)	—	—	—	—	75	—	—	—	—
Total contributions by and distributions to owners of AIB		(3,904)	(1,096)	(639)	—	—	—	—	5,647	—	—	(8)	—
At 31 December 2014		1,344	1,752	1,958	—	17	1,369	383	5,621	(415)	(462)	5	11,572

1 Accounting policies

The significant accounting policies that AIB applied in the preparation of the financial information are set out in this section.

1.1 Reporting entity

The Company is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial information includes the financial information of the Company and its subsidiary undertakings, collectively referred to as AIB, where appropriate, including certain special purpose entities and are prepared to the end of the financial period. AIB is and has been primarily involved in retail and corporate banking.

1.2 Statement of compliance

The consolidated financial information has been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards as adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2016. The accounting policies have been consistently applied by AIB entities and are consistent with the previous years, unless otherwise described.

The financial information presented herein does not amount to statutory financial statements.

1.3 Basis of preparation

Functional and presentation currency

The financial information is presented in euro, which is the functional currency of the Company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

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

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

Use of judgements and estimates

The preparation of financial information 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. The estimates that have a significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these judgements and estimates is set out in note 2.

1 Accounting policies (Continued)

Going concern

The financial information has been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting AIB, 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 the Prospectus.

Adoption of new accounting standards

During the financial year to 31 December 2016, AIB adopted amendments to standards and interpretations which had an insignificant impact on the financial information.

1.4 Basis of consolidation

Subsidiary undertakings

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

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

Loss of control

If AIB loses control of a subsidiary, AIB:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;

(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);

(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;

(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

AIB subsequently accounts for any investment retained in the former subsidiary in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures.*

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. AIB assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Business combinations

AIB accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

- the acquisition date fair value of assets transferred by AIB;
- liabilities incurred by AIB to the former owners of the acquiree; and
- the equity interests issued by AIB in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

1 Accounting policies (Continued)

Goodwill is measured as the excess of the sum of:

- the fair value of the consideration transferred;
- the amount of any non-controlling interests in the acquiree; and
- the fair value of the acquirer's previously held equity interest in the acquiree, if any; less
- the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

AIB commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial information, as they are not assets of AIB.

Non-controlling interests

For each business combination, AIB recognises any non-controlling interest in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets.

For changes in AIB's interest in a subsidiary that do not result in a loss of control, AIB adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

AIB accounts for the acquisition of businesses or investments in subsidiary undertakings between members of AIB at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by AIB of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (see accounting policy 1.28 'Equity'—Capital contributions). On impairment of the subsidiary in the Company's separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves. The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at AIB level on this date.

Associated undertakings

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

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

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

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

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

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

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of AIB's interest in the investees.

Consistent accounting policies are applied throughout AIB for the purposes of consolidation.

1.5 Foreign currency translation

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

Transactions and balances

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

Foreign operations

The results and financial position of all AIB entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, AIB's date of transition to IFRS, all such exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest.

1.6 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.

1 Accounting policies (Continued)

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

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

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

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

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

1.7 Dividend income

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

1.8 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided unless they have been included in the effective interest rate calculation. Loan syndication fees are recognised as revenue when the syndication has been completed and AIB has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

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

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

1.9 Net trading income

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

1 Accounting policies (Continued)

1.10 Employee benefits

Retirement benefit obligations

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

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

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

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

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

Remeasurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

In early 2017, the Board reassessed its obligation to fund increases in pensions in payment. The Board confirmed that funding of increases in pensions in payment is a decision to be made by the Board each year where increases are discretionary. This was based on actuarial expert and legal advice obtained. In previous years, the assumption for increases in pension in payment was determined based on the estimated long-term inflation rate when arriving at the present value of the defined benefit obligation.

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

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

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

1 Accounting policies (Continued)

Short-term employee benefits

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

Termination benefits

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

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

1.11 Operating leases

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

1.12 Income tax, including deferred income tax

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

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

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

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

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

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

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

1 Accounting policies (Continued)

1.13 Financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Available for sale

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

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that AIB's management has the intention and ability to hold to maturity. If AIB was to sell other than an insignificant amount of held to maturity assets, the remainder would be required to be reclassified as available for sale. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and are carried on an amortised cost basis using the effective interest method.

Any available for sale financial investments reclassified into the held to maturity category are transferred at fair value and are subsequently carried at amortised cost using the effective interest rate method. Unrealised gains or losses held in equity in respect of such reclassified assets are amortised to the income statement using the effective interest rate method.

1.14 Financial liabilities

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

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

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

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

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

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

1.15 Leases

Lessor

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

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

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

1.16 Determination of fair value of financial instruments

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

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If AIB determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

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

Quoted prices in active markets

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

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

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

Valuation techniques

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

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

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

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

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

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

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

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

Transfers between levels of the fair value hierarchy

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

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

Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with AIB. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell ('reverse repos'), or where AIB borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial information. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

1.18 NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA. In addition, on the acquisition of EBS and on the transfer to AIB of Anglo Irish Bank Corporation business in 2011, NAMA bonds were part of the acquired/transferred assets. These bonds are designated as loans and receivables and are separately disclosed in the statement of financial position as 'NAMA senior bonds'.

The bases for measurement, interest recognition and impairment are the same as those for loans and receivables (see accounting policies 1.6, 1.20 and 1.13).

At initial recognition, the bonds were measured at fair value. The bonds carry a guarantee of the Irish Government, however, they are not marketable instruments. The only secondary market activity in the instruments is their sale and repurchase ('repo') to the ECB within the regular Eurosystem open market operations. The bonds are not traded in the market and there are no comparable bonds trading in the market.

The fair value on initial recognition was determined using a valuation technique. The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the instruments which market participants would factor into an appropriate valuation technique; determining the cash flows generated by the instruments including cash flows from assumed repo transactions; identifying a risk free discount rate; and applying an appropriate credit spread.

On an ongoing basis and in accordance with IAS 39 paragraph AG8, AIB reviews its assumptions as regards the amount and timing of expected cash flows based on experience to date and other relevant information. The revised cash flows are discounted at the bonds' original effective interest rate. Any difference between the revised discounted cash flows and the previous carrying value is recognised as 'other operating income' in the income statement.

1.19 Derivatives and hedge accounting

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

AIB maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of AIB's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

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

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

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

Embedded derivatives

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

1 Accounting policies (Continued)

Hedging

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

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

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

AIB discontinues hedge accounting when:

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

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

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

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

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

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

Fair value hedge accounting

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

Cash flow hedge accounting

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

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

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

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

1.20 Impairment of financial assets

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

Impairment

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

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

(a) significant financial difficulty of the issuer or obligor;

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

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

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

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

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

    (i) adverse changes in the payment status of borrowers in the portfolio; and

    (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

AIB first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If AIB determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics under the collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the

1 Accounting policies (Continued)

identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

Collective evaluation for impairment

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

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

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

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

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

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

Collateralised financial assets—Repossessions

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

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

1 Accounting policies (Continued)

Past due loans

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

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

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

Financial investments available for sale

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

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

Loans renegotiated and forbearance

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

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in note 58 Financial Risk Management.

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

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

1 Accounting policies (Continued)

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

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

Non-forbearance renegotiation

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

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

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

1.21 Collateral and netting

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

Collateral

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

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

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

Netting

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

1.22 Financial guarantees

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

1.23 Property, plant and equipment

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

AIB uses the following useful lives when calculating depreciation:

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

AIB reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that AIB takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, AIB estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is AIB policy not to revalue its property, plant and equipment.

1.24 Intangible assets

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by AIB, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

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

1 Accounting policies (Continued)

Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

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

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

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

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

1.26 Disposal groups and non-current assets held for sale

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

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of IAS 39 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement, to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

1 Accounting policies (Continued)

1.27 Non-credit risk provisions

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

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

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

Restructuring costs

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

Legal claims and other contingencies

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

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

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

1.28 Equity

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

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

Share capital

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

Share premium

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

1 Accounting policies (Continued)

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are charged, net of tax, to the share premium account.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. Dividends declared after the end of the reporting date are disclosed in note 56.

Dividends on preference shares accounted for as equity are recognised in equity when approved for payment by the Board of Directors.

Other equity interests

Other equity interests relate to Additional Tier 1 Perpetual Contingent Temporary Write-down Securities (AT1s) issued on 3 December 2015 which are accounted for as equity instruments in the statement of financial position (note 42). Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

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

Revaluation reserves

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

Capital redemption reserves

In 2015, the capital redemption reserves arose from the redemption of 2,140 million 2009 Preference Shares whereby on redemption, the nominal value of shares redeemed was transferred from the share capital account to the capital redemption reserve account. In addition, the nominal value of treasury shares cancelled was transferred from the share capital to the capital redemption reserve account.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of available for sale financial investments at fair value.

In addition, unrealised gains/losses on financial assets transferred from available for sale to held to maturity are held in this caption. Unrealised gains or losses held in equity in respect of such reclassified assets are amortised to the income statement using the effective interest rate method.

Cash flow hedging reserves

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

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 43). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and

1 Accounting policies (Continued)

(d) non-refundable receipts from the Irish Government and the NPRFC[1].

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely non-cash in nature. In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, this excess was accounted for as a non-distributable capital contribution. However, according as NAMA repays these bonds, the proceeds received will be deemed to be distributable and the relevant amount will be transferred from the capital contribution account to revenue reserves.

AIB issued contingent convertible capital notes to the Irish Government (note 39) where the proceeds of issue amounting to €1.6 billion exceeded the fair value of the instruments issued. This excess was accounted for as a capital contribution and was treated as distributable when the fair value adjustment on the notes amortised to the income statement. These notes were repaid in full on 28 July 2016.

The non-refundable receipts of €6,054 million from the Irish Government and the NPRFC[1] are distributable. These are included in revenue reserves.

Revenue reserves

Revenue reserves represent retained earnings of the Company, subsidiaries and associated undertakings together with amounts transferred from share premium and capital redemption reserves following Irish High Court approval. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

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

Treasury shares

Where the Company or other members of AIB purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Share-based payments reserves

The share-based payment expense charged to the income statement is credited to the share-based payment reserve over the vesting period of the shares and options. Upon grant of shares and exercise and lapsing of options, the amount in respect of the award credited to the share-based payment reserves is transferred to revenue reserves.

1.29 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 and with a maturity of less than three months from the date of acquisition.

1.30 Segment reporting

An operating segment is a component of AIB that engages in business activities from which it earns revenues and incurs expenses. AIB has identified reportable segments on the basis of internal reports about components of AIB that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within AIB, the head of each being a member of the

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1 Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

1 Accounting policies (Continued)

Leadership Team. The Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

1.31 Prospective accounting changes

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

Amendments to IAS 7 *Statement of Cash Flows*

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

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

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

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

The amendments are subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2017.

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

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

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

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

The amendments are subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2017.

1 Accounting policies (Continued)

Annual improvements to IFRSs 2014–2016 Cycle/Other

The 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. Whilst these have not yet been endorsed by the EU, they are expected to be effective from 1 January 2018 apart from the amendment to IFRS 12 *Disclosure of Interests in Other Entities* which is effective from 1 January 2017. These amendments are expected to have an insignificant effect on the financial information.

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 15 *Revenue from Contracts with Customers*

IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31.

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

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

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

Effective date: Annual periods beginning on or after 1 January 2018.

IFRS 9 *Financial Instruments*

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

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");

1 Accounting policies (Continued)

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

Impairment

- Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required;
- The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit loss;
- The assessment of credit risk, and the estimation of expected credit loss, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss should take into account the time value of money. As a result, the recognition and measurement of impairment is more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss and the population of financial assets to which lifetime expected credit loss applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Financial liabilities

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

Hedge accounting

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

Assessment of IFRS 9 impacts

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

1 Accounting policies (Continued)

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

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

Classification and measurement

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

In general:

- loans and receivables to banks and customers that are currently classified as 'loans and receivables' under IAS 39 will be measured at amortised cost under IFRS 9;
- debt securities classified as available for sale under IAS 39 will be measured at FVOCI;
- debt securities classified as held to maturity under IAS 39 will be measured at amortised cost;
- all equity securities will continue to be measured at fair value, however, for individual securities, it has yet to be decided if the fair value movements will be presented in profit or loss or in other comprehensive income.

The business model assessment which has been carried out on the portfolio at 31 December 2015 is not expected to change the current measurement basis at AIB level.

In relation to SPPI testing which is being carried out on the financial instruments portfolio, it is expected that a small number of instruments, mainly loans and receivables to customers, will fail the SPPI test. Accordingly, 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 not expected to be significant.

The classification of financial liabilities is largely unchanged under IFRS 9. Given that AIB does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

Impairment

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

The impairment models will impact on IT, risk management and financial reporting systems. Significant progress has been made in ensuring business readiness for all such systems.

Due to the complexity of decisions required around several aspects of the impairment requirements of IFRS 9, and the interdependencies of variables within the models and the dynamic nature of some of those variables, it is considered premature at this stage to quantify the impacts of impairment under IFRS 9 with any degree of accuracy. However, it is expected that this information will be available in the 2017 Annual Financial Report.

Hedge accounting

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

1 Accounting policies (Continued)

Initial application/disclosures/other

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

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

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

Effective date: Annual periods beginning on or after 1 January 2018.

IFRS 16 *Leases*

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

These amendments will impact AIB as it has leased as lessee a number of properties which are currently classified as operating leases. AIB is currently assessing the impact of IFRS 16, however, it is not yet practicable to quantify its effects.

This standard is subject to EU endorsement.

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

2 Critical accounting judgements and estimates

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

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

Going concern

The financial information has been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting AIB, 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 the Prospectus.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance including the possible fallout from Brexit.

Loan impairment

AIB's accounting policy for impairment of financial assets is set out in accounting policy 1.20 in note 1. The provisions for impairment on loans and receivables represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB 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 when 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 tiers of review. Credit quality and loan loss provisioning are independently monitored by credit and risk management on a regular basis. All AIB segments assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate AIB levels being approved by the Audit Committee and the Board.

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

After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, AIB writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

Specific provisions

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

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment provisions. As this process is model driven, the total amount of AIB's impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. For further details, see "*—Impact of changes to key assumptions and estimates on the impairment provisions*" in note 58 Financial Risk Management.

The property and construction loan portfolio continues to have a high level of provisions following the downturn in both the Irish and UK economies. While collateral values have stabilised and recovered somewhat, market activity remains low relative to normalised levels. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a high degree of uncertainty.

Incurred but not reported provisions

Incurred but not reported ("IBNR") provisions are also maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in

2 Critical accounting judgements and estimates (Continued)

credit management; procedures, processes and policies; levels of credit management skills; local and international economic climates; portfolio sector profiles/industry conditions; and current estimates of loss in the portfolio.

The total amount of impairment loss in AIB's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to a greater element of estimation due to the speed of change in the economies in which AIB operates. For further details of the potential impact of an increase in the emergence period, see "*—Impact of changes to key assumptions and estimates on the impairment provisions*" in note 58 Financial Risk Management.

Forbearance

AIB's accounting policy for forbearance is set out in accounting policy 1.20 in note 1 which incorporates forbearance.

AIB has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions and on the future cash flows arising from restructured loans. Further information on forbearance strategies is set out in note 58 Financial Risk Management.

Deferred taxation

AIB's accounting policy for deferred tax is set out in accounting policy 1.12 in note 1. Details of AIB's deferred tax assets and liabilities are set out in note 32.

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

In assessing the future profitability of AIB, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:

- the financial support provided to the Irish State under the EU/IMF programme and the fact that Ireland successfully exited the three-year bailout programme in December 2013;
- the financial support provided by the Irish Government to AIB as agreed with the EU/IMF from 2009 to 2011;
- the Irish Government's committed support to AIB and its nomination of AIB as one of two pillar banks in the smaller reconstructed Irish banking sector;
- the absence of any expiry dates for Irish and UK tax losses;
- the non-enduring nature of the loan impairments at levels which resulted in losses in prior years; and
- external forecasts for Ireland, and the UK economies which indicate continued economic recovery through the period of the medium-term financial plan. This is evident in a levelling off of bad debts growth, reductions in unemployment and increased spending.

2 Critical accounting judgements and estimates (Continued)

The Board considered negative evidence and the inherent uncertainties in any long-term financial assumptions and projections, including:

- the absolute level of deferred tax assets compared to AIB's equity;
- the reduced size of AIB's operations following re-structuring;
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
- potential instability in the eurozone and global economies over an extended period; and
- recent taxation changes (including bank levy and changes to the UK tax rates and the utilisation of deferred tax assets) and the likelihood of future developments and their impact on profitability and utilisation.

AIB's strategy and its medium term financial plan targeted a return to profitability by 2014 and growth in profitability thereafter. The return to profitability objective was realised in 2014 and has continued to date. Growth thereafter has been reaffirmed in the annual planning exercise covering the period 2017 to 2019 undertaken by AIB in the second half of 2016. Growth assumptions and profitability levels underpinning the plan are within market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, AIB further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish AIB companies against which to use the tax losses. In this regard, AIB has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2017-2019. Assuming a sustainable market return on equity (c.8.5 per cent.) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5 per cent., based on this scenario, it will take in excess of 20 years for the deferred tax asset (€3 billion) to be utilised. Furthermore, under this scenario, it is expected that 52 per cent.(2015: 60 per cent.; 2014: 51 per cent.) of the deferred tax asset will be utilised by 31 December 2030 with 83 per cent. (2015: 92 per cent.; 2014: 84 per cent.) utilised within 20 years.

In a more stressed scenario with a return on equity of 8 per cent. and GDP growth of 1.5%, the utilisation period increases by a further 4 years. AIB's analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

Notwithstanding the absence of any expiry date for tax losses in the UK, AIB has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which AIB believes that it can assess the likelihood of its UK profits arising as being more likely than not.

Furthermore, legislation enacted in the UK in the past two years affected both quantum of carried forward tax losses that could be utilised against future profits and the tax rate at which they will reverse. This legislation has resulted in the deferred tax asset reducing by €92 million.

However, for certain other subsidiaries and branches, AIB has also concluded that it is more likely than not that there will be insufficient profits to support recognition of deferred tax assets. The amount of recognised deferred tax assets arising from unused tax losses amounts to €3,050 million of which €2,928 million relates to Irish tax losses and €122 million relates to UK tax losses. IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. AIB's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Determination of fair value of financial instruments

AIB's accounting policy for the determination of fair value of financial instruments is set out in accounting policy 1.16 in note 1. The best evidence of fair value is quoted prices in an active market. The absence of

2 Critical accounting judgements and estimates (Continued)

quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

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

NAMA senior bonds designation and valuation

AIB's accounting policy for NAMA senior bonds is set out in accounting policy 1.18 in note 1. These bonds are separately disclosed in the statement of financial position.

NAMA senior bonds are designated as loans and receivables as they meet the criteria to be so designated.

The bases for measurement, interest recognition and impairment for NAMA senior bonds are the same as those for loans and receivables (see accounting policies 1.6, 1.20 and 1.13 in note 1). There is no active market for the NAMA senior bonds, accordingly, the fair value at initial recognition was determined using a valuation technique.

The absence of quoted prices in an active market required an increased use of management judgement in the estimation of fair value. This judgement included, but was not limited to: evaluating available market information; determining the cash flows generated by the instruments and their expected timing; identifying a risk free discount rate and applying an appropriate credit spread.

The valuation technique and critical assumptions used were subject to internal review and approval procedures. While AIB believes its estimates of fair value are appropriate, the use of different measurements, valuation techniques or assumptions could have given rise to the NAMA senior bonds being measured at a different valuation at initial recognition, with a consequent impact on the income statement.

AIB continually reviews its assumptions as to the expected timing of future cash flows based on its experience of repayments to date, as required by IAS 39 paragraph AG8. If the revised assumptions when reassessed prove to be different, this will impact the carrying value and income statement in future periods.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables (see accounting policy 1.20 in note 1).

Retirement benefit obligations

AIB's accounting policy for retirement benefit plans is set out in accounting policy 1.10 in note 1.

AIB provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. All defined benefit schemes were closed to future accrual with effect from 31 December 2013.

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

In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from AIB's Actuary which include price inflation, pension in payment increases and the longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used.

2 Critical accounting judgements and estimates (Continued)

In early 2017 AIB, having taken actuarial expert and legal advice, confirmed to the Trustees that there is no obligation to fund discretionary increases in pensions in payment. The Board has determined that the funding of such increases in pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; AIB's financial circumstances and ability to pay; the views of the Trustees; AIB's commercial interests and any competing obligations to the State. In early 2017, the Board implemented this process and made a decision not to provide any funding for any discretionary increases in pensions in payment for the coming year.

The assumptions adopted for AIB's defined benefit schemes are set out in note 12, together with a sensitivity analysis of the schemes' liabilities to changes in those assumptions.

Provisions for liabilities and commitments

AIB's accounting policy for provisions for liabilities and commitments is set out in accounting policy 1.27 in note 1.

AIB recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of AIB's liabilities and commitments are shown in note 38.

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

At 31 December 2015, AIB provisioned €190 million for redress and compensation to customers. This provision related to the expected outflow for redress and compensation (including refunds of interest) to customers arising from the Central Bank's Tracker Mortgage Examination. Various compensations and costs arising from the issues were included in the provision.

Considerable progress was made throughout 2016 in identifying impacted customers and in calculating and making redress and compensation payments. However, this process is ongoing and work is expected to extend into the second six months of 2017. To date €93 million of the provision has been utilised covering redress, compensation and costs leaving a residual provision of €97 million at 31 December 2016.

Validation of the examination process is being undertaken by AIB, however, all aspects of the examination are subject to independent third party assurance and also subject to assessment and challenge by the Central Bank.

Given the uncertainty attaching to certain of the assumptions and judgements underpinning the above provisions, it is possible that the eventual outcome may differ from the current estimates with a resultant charge/credit to the income statement in future periods.

Basis of consolidation

For third party acquisitions, assets acquired and liabilities assumed are measured at their acquisition date fair values. Where these acquisitions relate to the acquisition of a business between entities under the control of the Irish Government, assets acquired and liabilities assumed are measured at their carrying value in the books of the transferor at the date of transfer, adjusted for any differences in accounting policies.

3 Segmental information

AIB is managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group.

Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in the Group segment. Funding and liquidity charges are based on each segment's funding requirements and AIB's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

Retail & Commercial Banking ("RCB")

A leading retail and commercial bank in Ireland with:

- Over 2.3m personal and SME customers
- €42.7bn net loans and €42.9bn customer accounts
- Multi-brand: AIB, EBS, Haven
- Broad Infrastructure: 297 locations, 985 ATMs
- Leading market shares and leading position in digital enablement

Wholesale, Institutional & Corporate Banking ("WIB")

WIB comprises of:

- Corporate Banking—relationship-driven model with sector specialisms: €4.4bn net loans
- Syndicated & International Finance: bank's interface to public loan markets €2.8bn net loans
- Real Estate Finance—centralised origination and management: €1.7bn net loans
- Specialised Finance—structured finance, mezzanine finance, and equity product offering: €0.2bn net loans

AIB UK

- AIB UK—AIB GB and First Trust Bank
- First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers
- £7.5bn net loans, £8.9bn customer accounts
- FTB—focused challenger in Northern Ireland
- AIB GB—is a specialist Business Bank

Group

- Group, Treasury and Support Functions
- Treasury activities
- Central control and support functions

3 Segmental information (Continued)

	Year ended 31 December 2016							
	RCB	WIB	AIB UK	Group	Total (before exceptional items)	Bank levies and regulatory fees[(1)]	Exceptional items[(2)]	Total
					(€ millions)			
Operations by business segment								
Net interest income	1,273	269	224	247	2,013	—	—	2,013
Other income	398	51	65	103	617	—	289[(3)]	906
Total operating income	1,671	320	289	350	2,630	—	289	2,919
Personnel expenses	(404)	(59)	(84)	(170)	(717)	—	(25)[(4)(5)]	(742)
General and administrative expenses	(277)	(37)	(53)	(199)	(566)	(112)	(42)[(5)(6)]	(720)
Depreciation, impairment and amortisation	(64)	—	(2)	(28)	(94)	—	(15)	(109)
Total operating expenses	(745)	(96)	(139)	(397)	(1,377)	(112)	(82)	(1,571)
Operating profit/(loss) before provisions	926	224	150	(47)	1,253	(112)	207	1,348
Bank levies and regulatory fees	—	—	1	(113)	(112)	112	—	—
Writeback/(provisions) for impairment on loans and receivables	286	(21)	37	(8)	294	—	—	294
Writeback/(provisions) for liabilities and commitments	4	(2)	—	—	2	—	—	2
Writeback of provisions for impairment on financial investments available for sale	—	—	—	2	2	—	—	2
Total writeback/(provisions)	290	(23)	37	(6)	298	—	—	298
Operating profit/(loss)	1,216	201	188	(166)	1,439	—	207	1,646
Associated undertakings	31	—	4	—	35	—	—	35
Profit on disposal of property	—	—	1	—	1	—	—	1
Profit/(loss) before taxation from continuing operations	**1,247**	**201**	**193**	**(166)**	**1,475**	**—**	**207**	**1,682**

Notes:

(1) In the financial information, bank levies and regulatory fees are shown as part of general and administrative expenses.

(2) Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

(3) Gain on disposal of financial instruments;

(4) Termination benefits;

(5) Restitution and restructuring expenses; and

(6) Other exceptional items.

3 Segmental information (Continued)

	Year ended 31 December 2015							
	RCB	WIB	AIB UK	Group	Total (before exceptional items)	Bank levies and regulatory fees[(1)]	Exceptional items[(2)]	Total
					(€ millions)			
Operations by business segment								
Net interest income	1,220	226	252	229	1,927	—	—	1,927
Other income	382	43	50	221	696	—	5[(3)]	701
Total operating income	1,602	269	302	450	2,623	—	5	2,628
Personnel expenses	(417)	(52)	(96)	(160)	(725)	—	(38)[(4)(5)]	(763)
General and administrative expenses	(225)	(30)	(59)	(179)	(493)	(71)	(277)[(5)(6)]	(841)
Depreciation, impairment and amortisation	(39)	(3)	(3)	(29)	(74)	—	—	(74)
Total operating expenses	(681)	(85)	(158)	(368)	(1,292)	(71)	(315)	(1,678)
Operating profit/(loss) before provisions	921	184	144	82	1,331	(71)	(310)	950
Bank levies and regulatory fees	—	—	(4)	(67)	(71)	71	—	—
Writeback/(provisions) for impairment on loans and receivables	898	(14)	44	(3)	925	—	—	925
Writeback/(provisions) for liabilities and commitments	9	(11)	—	—	(2)	—	13[(5)]	11
Total writeback/(provisions)	907	(25)	44	(3)	923	—	13	936
Operating profit/(loss)	1,828	159	184	12	2,183	—	(297)	1,886
Associated undertakings	22	—	3	—	25	—	—	25
Profit on disposal of property	3	—	—	—	3	—	—	3
Profit/(loss) before taxation from continuing operations	**1,853**	**159**	**187**	**12**	**2,211**	**—**	**(297)**	**1,914**

Notes:

(1) In the financial information, bank levies and regulatory fees are shown as part of general and administrative expenses. In 2015, a payment of €4 million was made to the FSCS in the UK relating to a Deposit Guarantee Scheme and a refund of €1 million was received from Irish legacy deposit protection fund. These amounts were reclassified from "Other general and administrative expenses" to "Bank levies and regulatory fees".

(2) Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

(3) Gain on disposal of financial instruments;

(4) Termination benefits;

(5) Restitution and restructuring expenses; and

(6) Other exceptional items.

3 Segmental information (Continued)

	Year ended 31 December 2014							
	RCB	WIB	AIB UK	Group	Total (before exceptional items)	Bank levies and regulatory fees[(1)]	Exceptional items[(2)]	Total
					(€ millions)			
Operations by business segment								
Net interest income	1,100	171	201	215	1,687	—	—	1,687
Other income	375	47	68	353	843	—	2[(3)]	845
Total operating income	1,475	218	269	568	2,530	—	2	2,532
Personnel expenses	(448)	(52)	(101)	(166)	(767)	—	(24)[(4)]	(791)
General and administrative expenses	(261)	(28)	(52)	(204)	(545)	(73)	(118)[(5)]	(736)
Depreciation, impairment and amortisation	(48)	(1)	(3)	(33)	(85)	—	(26)	(111)
Total operating expenses	(757)	(81)	(156)	(403)	(1,397)	(73)	(168)	(1,638)
Operating profit/(loss) before provisions	718	137	113	165	1,133	(73)	(166)	894
Bank levies and regulatory fees	—	—	(6)	(67)	(73)	73	—	—
Writeback/(provisions) for impairment on loans and receivables	257	(9)	(70)	7	185	—	—	185
Writeback/(provisions) for liabilities and commitments	2	3	—	(1)	4	—	—	4
Provisions for impairment on financial investments available for sale	—	—	—	(1)	(1)	—	—	(1)
Total writeback/(provisions)	259	(6)	(70)	5	188	—	—	188
Operating profit/(loss)	977	131	37	103	1,248	—	(166)	1,082
Associated undertakings	18	—	5	—	23	—	—	23
Profit on disposal of property	3	—	3	—	6	—	—	6
Profit/(loss) before taxation from continuing operations	998	131	45	103	1,277	—	(166)	1,111

Notes:

(1) In the financial information, bank levies and regulatory fees are shown as part of general and administrative expenses.

(2) Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

(3) Gain on disposal of financial instruments;

(4) Termination benefits;

(5) Restitution and restructuring expenses.

Other amounts—statement of financial position

	31 December 2016				
	RCB	WIB	AIB UK	Group	Total
			(€ millions)		
Loans and receivables to customers	42,689	9,080	8,745	125	60,639
Customer accounts	42,869	6,384	10,350	3,899	63,502

3 Segmental information (Continued)

	31 December 2015				
	RCB	WIB	AIB UK	Group	Total
			(€ millions)		
Loans and receivables to customers	43,691	8,618	10,343	588	63,240
Customer accounts	40,367	5,990	11,665	5,361	63,383

	31 December 2014				
	RCB	WIB	AIB UK	Group	Total
			(€ millions)		
Loans and receivables to customers	45,376	7,276	10,374	336	63,362
Customer accounts	37,785	5,582	11,504	9,147	64,018

	Year ended 31 December 2016			
	Republic of Ireland	United Kingdom	Rest of the World	Total
		(€ millions)		
Geographic information—continuing operations[(1)(2)]				
Gross external revenue	2,399	509	11	2,919
Inter-geographical segment revenue	188	(185)	(3)	—
Total revenue	2,587	324	8	2,919

	Year ended 31 December 2015			
	Republic of Ireland	United Kingdom	Rest of the World	Total
		(€ millions)		
Geographic information—continuing operations[(1)(2)]				
Gross external revenue	2,218	397	13	2,628
Inter-geographical segment revenue	(43)	47	(4)	—
Total revenue	2,175	444	9	2,628

	Year ended 31 December 2014			
	Republic of Ireland	United Kingdom	Rest of the World	Total
		(€ millions)		
Geographic information—continuing operations[(1)(2)]				
Gross external revenue	1,975	547	10	2,532
Inter-geographical segment revenue	314	(308)	(6)	—
Total revenue	2,289	239	4	2,532

Revenue from external customers comprises interest and similar income and interest expense and similar charges (note 4) and all other items of income (notes 5 to 9).

	31 December 2016			
	Republic of Ireland	United Kingdom	Rest of the World	Total
		(€ millions)		
Geographic information				
Non-current assets[(3)]	717	31	1	749

	31 December 2015			
	Republic of Ireland	United Kingdom	Rest of the World	Total
		(€ millions)		
Geographic information				
Non-current assets[(3)]	608	24	1	633

3 Segmental information (Continued)

	31 December 2014			
	Republic of Ireland	United Kingdom	Rest of the World	Total
	(€ millions)			
Geographic information				
Non-current assets(3)	441	19	1	461

Notes:

(1) The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.

(2) For details of significant geographic concentrations, see note 58 Financial Risk Management.

(3) Non-current assets comprise intangible assets, and property, plant and equipment.

4 Net interest income

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Interest on loans and receivables to customers	2,248	2,363	2,375
Interest on loans and receivables to banks	18	24	22
Interest on trading portfolio financial assets	—	1	—
Interest on NAMA senior bonds	11	31	80
Interest on financial investments available for sale	182	398	444
Interest on financial investments held to maturity	131	4	—
	2,590	2,821	2,921
Negative interest on liabilities	21	—	—
Interest and similar income	2,611	2,821	2,921

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Interest on deposits by central banks and banks	8	4	46
Interest on customer accounts	314	520	742
Interest on debt securities in issue	50	92	190
Interest on subordinated liabilities and other capital instruments	199	278	256
	598	894	1,234
Negative interest on assets	—	—	—
Interest expense and similar charges	598	894	1,234
Net Interest Income	2,013	1,927	1,687

AIB presents interest resulting from negative effective interest rates on financial assets as interest expense, rather than as offset against interest income. Likewise, negative interest on financial liabilities has been presented as interest income.

Interest income reported above, calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to €140 million (2015: €244 million; 2014: €329 million).

Included within interest expense is a charge of €17 million (2015: a charge of €30 million; 2014: a charge of €59 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

4 Net interest income (Continued)

Cash flow hedges

Interest income includes a credit of €193 million (2015: a credit of €150 million; 2014: a credit of €138 million) transferred from other comprehensive income in respect of cash flow hedges.

Interest expense includes a charge of €75 million (2015: a charge of €86 million; 2014: a credit of €92 million) transferred from other comprehensive income in respect of cash flow hedges.

5 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to €26 million (2015: €26 million; 2014: €25 million). €25 million of this dividend income was received on NAMA subordinated bonds (2015: €25 million; 2014: €25 million).

6 Net fee and commission income

	Year ended 31 December		
	2016	**2015**	**2014**
	(€ millions)		
Retail banking customer fees	364	381	373
Credit related fees	41	38	30
Insurance commissions	25	30	27
Fee and commission income	430	449	430
Fee and commission expense[1]	(35)	(44)	(40)
	395	405	390

Note:

(1) Fee and commission expense includes ATM expenses of €5 million (2015: €6 million; 2014: €5 million) and credit card commissions of €18 million (2015: €28 million; 2014: €26 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income or interest expense and similar charges (note 4).

7 Net trading income/(Loss)

	Year ended 31 December		
	2016	**2015**	**2014**
	(€ millions)		
Foreign exchange contracts	55	41	45
Interest rate contracts and debt securities[1]	13	52	(68)
Credit derivative contracts	—	(6)	(2)
Equity securities, index contracts and warrants[2]	3	8	24
	71	95	(1)

Notes:

(1) Includes a gain of €1 million (2015: a gain of €17 million; 2014: a loss of €76 million) in relation to XVA adjustments (for a definition of XVA, see note 49).

(2) €3 million (2015: €8 million; 2014: €24 million) mark to market gain on equity warrants.

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2015: Nil; 2014: Nil).

8 Profit/(loss) on disposal/transfer of loans and receivables

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
(Loss)/profit on disposal of loans and receivables to customers	(6)	(27)	50
Gain on transfer of loans and receivables to NAMA	17	5	2
Total	11	(22)	52

NAMA finalised certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in a net release of provisions as set out above.

9 Other operating income

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Profit on disposal of available for sale debt securities	90	158	369
Loss on termination of hedging swaps[(1)]	(59)	(81)	(208)
Profit on disposal of available for sale equity securities	272[(2)]	8	20
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds (note 26)	10	6	132
Net gains/(loss) on buy back of debt securities in issue	1	8	(1)
Realisation/re-estimation of cash flows on restructured loans	85	45	24
Miscellaneous operating income[(3)]	4	53	43
	403	197	379

Notes:

(1) The majority of the loss on termination relates to the disposal of available for sale debt securities. In addition, it includes €2 million transferred from other comprehensive income in respect of cash flow hedges (2015: €5 million; 2014: Nil).

(2) €272 million relates to the disposal of the equity interest in Visa Europe and comprises €207 million for the cash and deferred cash component and €65 million being the fair value of preferred stock acquired in Visa Inc.

(3) Miscellaneous operating income includes:

—Foreign exchange gains of €1 million (2015: gain of €15 million; 2014: gain of €11 million).

—Income on settlement of claims of Nil (2015: €38 million; 2014: €27 million).

10 Administrative expenses

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Personnel expenses:			
Wages and salaries	563	562	599
Termination benefits(1)	24	37	24
Retirement benefits(2) (note 12)	79	106	91
Social security costs	59	58	66
Other personnel expenses(3)	17	—	11
Total personnel expenses	742	763	791
General and administrative expenses:			
Bank levies and regulatory fees	112	71	73
Other general and administrative expenses	608	770	663
Total general and administrative expenses	720	841	736
	1,462	1,604	1,527

Notes:

(1) At 31 December 2016, a charge of €24 million (2015: a charge of €37 million; 2014: a charge of €24 million) was made to the consolidated income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB.

(2) Comprises a charge of €2 million relating to defined benefit expense (2015: charge of €21 million; 2014: credit of €3 million), a defined contribution expense charge of €71 million (2015: €79 million; 2014: €86 million) and a long-term disability payments expense charge of €6 million (2015: €6 million; 2014: €8 million) (note 12).

(3) Other personnel expenses include staff training, recruitment and various other staff costs.

Personnel expenses of €22 million (2015: €34 million; 2014: €10 million) were capitalised as part of the cost of intangible assets.

11 Share-based compensation schemes

AIB previously operated a number of share-based compensation schemes as outlined in this note on terms approved by the shareholders.

The share-based compensation schemes which AIB operated in respect of ordinary shares in the Company, were:

(i) The AIB Group Share Option Scheme;

(ii) Employees' Profit Sharing Schemes; and

(iii) AIB Group Performance Share Plan 2005.

(i) AIB Group Share Option Scheme

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

(ii) Employees' Profit Sharing Schemes

The Company operated the "AIB Approved Employees' Profit Sharing Scheme 1998" (the "Scheme") on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of AIB and certain subsidiaries were eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued. The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5 per cent. of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008 and none are contemplated.

11 Share-based compensation schemes (Continued)

(iii) AIB Group Performance Share Plan 2005

This plan terminated in April 2015 and there were no awards of performance shares in the year to 31 December 2015 (2014: Nil).

Income statement expense

The total expense arising from share-based payment transactions amounted to Nil for the year ended 31 December 2016 (2015: Nil; 2014: Nil).

12 Retirement benefits

AIB operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

Defined contribution schemes have a standard employer contribution of 10 per cent. plus an additional matched employer contribution, subject to limits based on age bands, of 12 per cent., 15 per cent. or 18 per cent. The total cost in respect of defined contribution schemes for 2016 was €71 million (2015: €79 million; 2014: €86 million). The cost in respect of defined contributions is included in administrative expenses (note 10).

Defined benefit schemes

All defined benefit schemes operated by AIB closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit scheme transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by AIB are the AIB Group Irish Pension Scheme and the AIB Group UK Pension Scheme.

Retirement benefits for the defined benefit schemes are calculated by reference to service and final pensionable salary at 31 December 2013. The final pensionable salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Minimum Funding Standard to have a funding plan in place and approved by the Pensions Authority. The objective of an MFS funding plan is to set out the necessary corrective action to restore the funding of the scheme over a reasonable time period and enable the scheme to meet the MFS standard at a future date.

The AIB MFS funding proposal, which was agreed in 2013 under these regulatory requirements with the Pensions Authority and Trustee of the AIB Irish Pension Scheme, has contributions amounting to €80 million remaining at 31 December 2016.

Funding of increases in pensions in payment for the defined benefit scheme

The Board has determined that the funding of discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the actuary; the interests of the members of the scheme; the interests of the employees; AIB's financial circumstances and ability to pay; the views of the Trustees; AIB's commercial interests and any competing obligations to the State. AIB completed this process for 2017 and after carefully considering all the relevant interests and factors decided that funding of discretionary increases to pensions in payment was not appropriate for 2017. In accordance with the process as outlined, the Board will make its next decision on the funding of discretionary increases to pensions in payment for AIB's main Irish schemes for 2018 in early 2018.

12 Retirement benefits (Continued)

The actuarial assumption for discretionary increases in pensions in payment has changed in line with the process outlined above from the long-term inflation rate in 2016. The gain, €1,017 million, is reported as a remeasurement gain as part of changes to financial assumptions and included in 'Other comprehensive income' of €127 million.

A sensitivity analysis demonstrating the impact on the schemes' liabilities of a future discretionary increase to pensions in payment as at 31 December 2016 is as follows:

Percentage Increase for one year %	Impact on schemes' liabilities €m
0.0	—
0.5	12
1.0	23

Responsibilities for governance

The Trustees of each AIB pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the pension risk to which AIB is exposed is set out in note 58 Financial Risk Management.

Valuations

Independent actuarial valuations for the AIB Irish Pension Scheme and the AIB UK Pension Scheme are carried out on a triennial basis by the schemes' actuary, Mercer. The last such valuations of the AIB Irish Pension Scheme and the AIB UK Pension Scheme were carried out as at 30 June 2015 and 31 December 2014 respectively using the projected unit credit method. The next actuarial valuations of the AIB Irish Pension Scheme and the AIB UK Pension Scheme as at 30 June 2018 and 31 December 2017, will be completed by 31 March 2019 and 31 December 2018 respectively. Actuarial valuations are available for inspection by the members of the schemes.

Contributions

The total contributions to all the defined benefit pension schemes operated by AIB in the year ended 31 December 2017 are estimated to be €64 million. Payments in the year to 31 December 2016 amounted to €59 million, of which €40 million related to the AIB Irish Pension Scheme, as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

12 Retirement benefits (Continued)

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of the financial information in respect of the main schemes at 31 December 2016, 2015 and 2014. The assumptions have been set based upon the advice of AIB's actuary.

	31 December		
	2016	2015	2014
		(%)	
Financial assumptions			
AIB Irish Pension Scheme			
Rate of increase of pensions in payment	0.00(1)	1.45(2)	1.40
Discount rate	1.90	2.70	2.20
Inflation assumptions	1.25(3)	1.50	1.75
AIB UK Pension Scheme			
Rate of increase of pensions in payment	3.20	3.00	3.00
Discount rate	2.70	3.90	3.70
Inflation assumptions (RPI)	3.20	3.00	3.00
Other schemes			
Rate of increase of pensions in payment	0.00–3.20	0.00–3.00	0.00–3.00
Discount rate	1.90–4.15	2.70–4.35	2.20–4.00
Inflation assumptions	1.70–3.20	1.50–3.00	1.75–3.00

Notes:

(1) Having taken actuarial and external legal advice, the Board has determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. The assumption in relation to discretionary pension increases has, therefore, been removed in relation to AIB's main Irish schemes. The assumption for 2015 and 2014 was made prior to AIB undertaking this detailed review, including obtaining the actuarial and external legal advice. The Board has decided that there will be nil funding for discretionary increases in pensions in payment in AIB's main Irish pension schemes in the coming year.

(2) Nil for the next 2 years and 1.50% per annum thereafter.

(3) Due to the non-funding of pension increases the inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date only, resulting in a reduction in both the duration to which it applies and the rate.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities as at 31 December 2016, 2015 and 2014 are shown in the following table:

	Life expectancy—years					
	AIB Irish Pension Scheme			AIB UK Pension Scheme		
	31 December			31 December		
	2016	2015	2014	2016	2015	2014
Retiring today age 63						
Males	24.9	24.8	24.8	25.7	25.6	26.3
Females	27.0	26.8	26.2	27.9	27.8	28.6
Retiring in 10 years at age 63						
Males	26.1	26.0	26.1	26.8	26.7	27.5
Females	28.2	28.1	27.3	29.1	29.0	29.8

The mortality assumptions for the schemes were updated in 2015 to reflect emerging market experience. The table shows that a member of the AIB Irish Pension Scheme retiring at age 63 on 31 December 2016 is assumed to live on average for 24.9 years for a male (25.7 years for the AIB UK Pension Scheme) and 27 years for a female (27.9 years for the AIB UK Pension Scheme). There will be variation between members but these assumptions are expected to be appropriate for all members. The table also shows the life expectancy for members aged 53 on 31 December 2016 who will retire in ten years. Younger members

12 Retirement benefits (Continued)

are expected to live longer in retirement than those retiring now, reflecting a decrease in mortality rates in future years due to advances in medical science and improvements in standards of living.

Movement in defined benefit obligation and scheme assets

The following tables set out the movement in the defined benefit obligation and scheme assets during the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December 2016			
	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[(1)]	Net defined benefit (liability) asset
	(€ millions)			
At 1 January	**(6,343)**	**6,197**		**(146)**
Included in profit or loss				
Past service cost	—	—		—
Interest (cost) income	(178)	177		(1)
Administration costs	—	(1)		(1)
	(178)	**176**		**(2)**
Included in other comprehensive income				
Remeasurements (loss) gain:				
—Actuarial (loss) gain arising from:				
—Experience adjustments	79	—		79
—Changes in demographic assumptions	(10)	—		(10)
—Changes in financial assumptions	(160)	—		(160)
—Return on scheme assets excluding interest income	—	470		470
—Asset ceiling/minimum funding adjustments			(252)	(252)
				127[(2)]
Translation adjustments on non-euro schemes	198	(228)		(30)
	107	**242**	**(252)**	**97**
Other				
Contributions by employer	—	59		59
Benefits paid	261	(261)		—
	272	**(202)**		**59**
At 31 December	**(6,153)**	**6,413**	**(252)**	**8**
Recognised on the statement of financial position as:				
Retirement benefit assets				
—AIB UK Pension Scheme				159
—Other schemes				7
Total retirement benefit assets				**166**
Retirement benefit liabilities				
—AIB Irish Pension Scheme				(80)
—EBS scheme				(56)
—Other schemes				(22)
Total retirement benefit liabilities				**(158)**
Net pension surplus				**8**

Notes:

(1) In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflected any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

(2) After tax €103 million.

12 Retirement benefits (Continued)

	Year ended 31 December 2015			Year ended 31 December 2014		
	Defined benefit obligation	Fair value of scheme assets	Net defined benefit (liability) asset	Defined benefit obligation	Fair value of scheme assets	Net defined benefit (liability) asset
			(€ millions)			
At 1 January	(7,071)	6,007	(1,064)	(5,336)	5,242	(94)
Included in profit or loss						
Past service cost:	(1)	—	(1)	4	—	4
Interest (cost) income	(177)	158	(19)	(215)	215	—
Administration costs	—	(1)	(1)	—	(1)	(1)
	(178)	157	(21)	(211)	214	3
Included in other comprehensive income						
Remeasurements (loss) gain:						
Actuarial (loss) gain arising from:						
Experience adjustments	(60)	—	(60)	16	—	16
Changes in demographic assumptions	(10)	—	(10)	—	—	—
Changes in financial assumptions	863	—	863	(1,631)	—	(1,631)
Return on scheme assets excluding interest income[1]	—	53	53	—	548	548
			846[2]			(1,067)
Translation adjustment on non-Euro schemes	(87)	95	8	(87)	94	7
	706	148	854	(1,702)	642	(1,060)
Other						
Contributions by employer	—	84	84	—	87	87
Benefits paid	200	(199)	1	178	(178)	—
	200	(115)	85	178	(91)	87
At 31 December	**(6,343)**	**6,197**	**(146)**	**(7,071)**	**6,007**	**(1,064)**
Recognised on the statement of financial position as:						
Retirement benefit assets						
AIB UK Pension Scheme			203			164
Other schemes			19			11
Total retirement benefit assets			222			175
Retirement benefit liabilities						
AIB Irish Pension Scheme			(293)			(1,125)
EBS scheme			(55)			(97)
Other schemes			(20)			(17)
Total retirement benefit liabilities			(368)			(1,239)
Net pension deficit			(146)			(1,064)

Note:

(1) Includes payment of pension levy.

(2) After tax €743 million.

12 Retirement benefits (Continued)

Scheme assets

The following table sets out an analysis of the scheme assets at 31 December 2016, 2015 and 2014:

	31 December		
	2016	2015	2014
	(€ millions)		
Cash and cash equivalents	344	169	185
Equity instruments			
Quoted equity instruments:			
Basic materials	73	62	70
Consumer goods	198	206	180
Consumer services	160	166	148
Energy	174	91	106
Financials	342	330	312
Healthcare	156	172	147
Industrials	190	178	169
Technology	178	169	150
Telecoms	53	53	49
Utilities	49	47	48
Total quoted equity instruments	1,573	1,474	1,379
Unquoted equity instruments	11	10	10
Total equity instruments	1,584	1,484	1,389
Debt instruments			
Quoted debt instruments			
Corporate bonds	1,055	1,021	823
Government bonds	1,078	1,031	869
Total quoted debt instruments	2,133	2,052	1,692
Unquoted debt instruments			
Corporate bonds	54	53	49
Government bonds	—	—	28
Total unquoted debt instruments	54	53	77
Total debt instruments	2,187	2,105	1,769
Real estate[(1)(2)]	304	255	230
Derivatives[(2)]	(26)	14	5
Investment funds			
Quoted investment funds			
Alternatives	24	14	13
Bonds	333	421	420
Cash	9	23	24
Equity	94	91	133
Fixed interest	95	95	82
Forestry	36	36	35
Liability driven	810	728	801
Multi-asset	222	318	423
Property	1	1	1
Total quoted investment funds	1,624	1,727	1,932
Total investment funds	1,624	1,727	1,932
Mortgage backed securities[(2)]	391	434	486
Structured debt	5	9	11
Fair value of scheme assets	**6,413**	**6,197**	**6,007**

Notes:

(1) Located in Europe.

(2) A quoted market price in an active market is not available.

12 Retirement benefits (Continued)

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the AIB Irish Pension Scheme and the AIB UK Pension Scheme at 31 December 2016.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	AIB Irish Pension Scheme defined benefit obligation		AIB UK Pension Scheme defined benefit obligation	
	Increase	Decrease	Increase	Decrease
	(€ millions)			
Discount rate (0.25% movement)	(198)	212	(66)	71
Inflation (0.25% movement)	57	(54)	66	(62)
Future mortality (1 year movement)	120	(120)	41	(41)

Maturity of the defined benefit obligation

The weighted average duration of the AIB Irish Pension Scheme at 31 December 2016 is 19 years and of the AIB UK Pension Scheme at 31 December 2016 is 20 years.

Asset-liability matching strategies

AIB Irish Pension Scheme continues to review its investment strategies which included a consideration of the nature and duration of its liabilities. The current Minimum Funding Standard regulatory funding plan requires that the scheme's investment strategy takes account of the liabilities by the completion of the plan in 2018. AIB UK Pension Scheme has already implemented a de-risking strategy that has resulted in a significant investment in liability matching assets. This strategy includes the elimination of all equity investments and the investment of all assets in a combination of corporate bonds, sovereign bonds, and liability matching instruments.

Funding arrangements and policy

In addition to the funding arrangement set out previously in note 12, AIB executed a series of agreements on 22 October 2013 to give effect to an asset backed funding plan for the AIB UK Pension Scheme which replaced the previous funding plan. Based on the results of the December 2014 valuation, the asset backed funding plan will pay AIB UK Pension Scheme £19.1 million in 2017 (2016: £14 million). In addition, if the 31 December 2032 actuarial valuation of the scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £60 million (note 47).

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long-term absence from work.

In 2016, AIB contributed €6 million (2015: €6 million; 2014: €8 million) towards insuring this benefit. This amount is included in administrative expenses (note 10).

13 Writeback of provisions/(provisions) for impairment on financial investments available for sale

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Debt securities (note 27)	2	—	(1)
	2	—	(1)

14 Profit on disposal of property

In the year ended 31 December 2016, the sale of properties surplus to requirements gave rise to profit on disposal of Nil (2015: €3 million; 2014: €6 million).

15 Profit on disposal of businesses

In the year ended 31 December 2016, there was €1 million profit on disposal of businesses (2015: Nil; 2014: Nil).

16 Discontinued operations

There were no discontinued operations in 2016 or 2015.

In May 2014, AIB disposed of its investment in Ark Life Assurance Company Limited resulting in a gain on disposal of €34 million (tax nil).

17 Taxation

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
The Company and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the year	(98)	(12)	(1)
Adjustments in respect of prior years	—	1	—
	(98)	(11)	(1)
Foreign tax			
Current tax on income for the year	(32)	(8)	—
Adjustments in respect of prior years	16	2	34
	(16)	(10)	34
	(114)	(21)	33
Deferred taxation			
Origination and reversal of temporary differences	(28)	(26)	(6)
Adjustments in respect of prior years	5	(11)	(21)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(97)	(234)	(248)
Impact of change in tax legislation on deferred tax asset[1]	(92)	(242)	—
	(212)	(513)	(263)
Total tax charge for the year	(326)	(534)	(230)
Effective tax rate	19.4%	27.9%	20.7%

Note:

(1) See note 32.

17 Taxation (Continued)

Factors affecting the effective tax rate

The following table explains the differences between the tax charge that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	Year ended 31 December					
	2016		2015		2014	
	€ millions	%	€ millions	%	€ millions	%
Profit before tax from continuing operations	1,682		1,914		1,111	
Tax charge at standard corporation tax rate in Ireland of 12.5%	(210)	12.5	(239)	12.5	(139)	12.5
Effects of:						
Foreign profits taxed at other rates	(15)	0.9	(21)	1.1	2	(0.2)
Expenses not deductible for tax purposes	(23)	1.4	(20)	1.1	(20)	1.8
Exempted income, income at reduced rates and tax credits	1	(0.1)	1	(0.1)	2	(0.2)
Share of results of associates shown post tax in the income statement	3	(0.2)	4	(0.2)	3	(0.3)
Income taxed at higher rates	(63)	3.7	(25)	1.3	—	—
(Deferred tax assets not recognised) reversal of amounts previously not recognised	60	(3.6)	43	(2.2)	(95)	8.6
Other differences	2	(0.1)	—	—	4	(0.3)
Change in tax rates(1)	(10)	0.6	(23)	1.2	—	—
Adjustments to tax charge in respect of previous years	21	(1.2)	(12)	0.6	13	(1.2)
Impact of change in tax legislation on deferred tax asset(1)	(92)	5.5	(242)	12.6	—	—
Tax charge	**(326)**	**19.4**	**(534)**	**27.9**	**(230)**	**20.7**

Note:

(1) See note 32.

17 Taxation (Continued)

Analysis of selected other comprehensive income

	Year ended 31 December								
	2016			2015			2014		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
	(€ millions)								
Continuing operations									
Property revaluation reserves									
Net change in property revaluation reserves	—	(1)	(1)	—	—	—	—	(1)	(1)
Total	—	(1)	(1)	—	—	—	—	(1)	(1)
Retirement benefit schemes									
Actuarial gains/(losses) in retirement benefit schemes	127	(24)	103	846	(103)	743	(1,067)	128	(939)
Total	127	(24)	103	846	(103)	743	(1,067)	128	(939)
Foreign currency translation reserves									
Change in foreign currency translation reserves	(168)	—	(168)	31	—	31	27	—	27
Total	(168)	—	(168)	31	—	31	27	—	27
Cash flow hedging reserves									
Fair value (gains) transferred to income statement	(116)	15	(101)	(59)	7	(52)	(46)	5	(41)
Fair value gains taken to other comprehensive income	235	(28)	207	30	(7)	23	445	(56)	389
Total	119	(13)	106	(29)	—	(29)	399	(51)	348
Available for sale securities reserves									
Fair value (gains) transferred to income statement	(362)	99	(263)	(166)	17	(149)	(388)	48	(340)
Fair value (losses)/gains taken to other comprehensive income	(116)	20	(96)	352	(100)	252	1,223	(155)	1,068
Total	(478)	119	(359)	186	(83)	103	835	(107)	728

18 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held, as appropriate.

The calculation of the weighted average number of ordinary shares in issue for year ended 31 December 2015 has been adjusted for the share consolidation which occurred on 21 December 2015 with a consequent adjustment to the calculation of diluted earnings per share in respect of the number of ordinary shares that would be issuable on conversion of the CCNs.

On 17 December 2015, AIB issued 155,147 million ordinary shares of €0.0025 each nominal value to the NTMA (for the ISIF) on conversion of 2,140 million 2009 Preference Shares (note 40).

The diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held as appropriate, adjusted for the effect of dilutive potential ordinary shares.

18 Earnings per share (Continued)

	Year ended 31 December 2016	2015	2014
		(€ millions)	
(a) Basic			
Profit attributable to equity holders of the parent from continuing operations	1,356	1,380	881
Distribution on other equity interests	(37)	—	—
Dividend on the 2009 Preference Shares	—	(446)[(1)]	—
Profit attributable to ordinary shareholders of the parent from continuing operations	1,319	934	881
Profit attributable to ordinary shareholders from discontinued operations	—	—	34
Profit attributable to ordinary shareholders	1,319	934	915
		(Number of shares (millions))	
Weighted average number of ordinary shares in issue during the year	2,714.4	2,119.3	2,090.6
Earnings per share from continuing operations—basic	EUR 48.6c	EUR 44.0c	EUR 42.2c
Earnings per share from discontinued operations—basic	—	—	EUR 1.6c

	Year ended 31 December 2016	2015	2014
		(€ millions)	
(b) Diluted—adjusted			
Profit attributable to ordinary shareholders of the parent from continuing operations (note 18(a))	1,319	934	881
Dilutive effect of CCN's interest charge	157	252	234
Adjusted profit attributable to ordinary shareholders from continuing operations	1,476	1,186	1,115
Profit attributable to ordinary shareholders of the parent from discontinued operations	—	—	34
Adjusted profit attributable to ordinary shareholders	1,476	1,186	1,149
		(Number of shares (millions))	
Weighted average number of ordinary shares in issue during the year	2,714.4	2,119.3	2,090.6
Dilutive effect of CCNs	365.5	640.0	640.0
Potential weighted average number of shares	3,079.9	2,759.3	2,730.6
Earnings per share from continuing operations—diluted	EUR 47.9c	EUR 43.0c	EUR 40.9c
Earnings per share from discontinued operations—diluted	—	—	EUR 1.2c

Note:

(1) Includes the annual dividend to 13 May 2015 and a dividend paid for the period from 13 May 2015 to 17 December 2015 i.e. date of conversion/redemption of the 2009 Preference Shares.

In July 2011, AIB issued €1.6 billion in CCNs. These notes were mandatorily redeemable and convertible into 640 million new AIB ordinary shares (note 40), if the Core Tier 1 capital ratio fell below 8.25 per cent. These incremental shares have been included in calculating the diluted per share amounts in 2016, 2015 and 2014 because they were potentially dilutive. On 28 July 2016, AIB redeemed the CCNs at their nominal amount. Accordingly, in computing diluted earnings per share—adjusted for 2016, the amount

18 Earnings per share (Continued)

convertible to AIB ordinary shares has been included on a time apportioned basis up to the date of redemption.

Bonus shares in lieu of the dividend on the 2009 Preference Shares amounting to 2,177,293,934 ordinary shares (note 40) were issued to the NPRFC[(1)] in 2014. These bonus shares were included in the weighted average number of shares in issue prospectively from the date of issue as they represent a dilution of earnings per share from that date.

The incremental shares from assumed conversion of options were not included in calculating the diluted per share amounts because they were anti-dilutive. All outstanding options lapsed or were forfeited during the year to 31 December 2015.

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

(1) Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

19 Distributions on equity shares and other equity interests

	2016	2015	2014
	(€ millions)		
Other equity interests—distribution	37	—	—
2009 Preference Shares—dividends paid	—	446	—
	37	446	—

A distribution amounting to €37 million was paid on the Additional Tier 1 securities during 2016 (note 40).

A dividend amounting to €280 million was paid in May 2015 on the 2009 Preference Shares and a dividend amounting to €166 million was paid in December 2015 on the conversion/redemption of the 2009 Preference Shares. In 2014, bonus ordinary shares were issued in lieu of dividends to the 2009 Preference Shareholders (note 40).

No dividends were paid on the ordinary shares in 2016, 2015 or 2014. Final dividends on ordinary shares are recognised in equity in the period in which they are approved by AIB's shareholders, or in the case of the interim dividend, when it has been declared by the Board of Directors and paid in the period. Dividends declared after the balance sheet date are disclosed in note 56.

20 Disposal groups and non-current assets held for sale

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Total disposal groups and non-current assets held for sale	11	8	14

Disposal groups and non-current assets held for sale comprise property surplus to requirements and repossessed assets.

21 Trading portfolio financial assets

	31 December		
	2016	2015	2014
	(€ millions)		
Equity shares	1	1	1
	1	1	1
Of which unlisted:			
Equity shares	1	1	1
	1	1	1

22 Derivative financial instruments

Derivatives are used to service customer requirements, to manage AIB's interest rate, exchange rate, equity and credit exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that AIB's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). AIB would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where AIB is most exposed to them.

The following table presents the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts for the years ended 31 December 2016, 2015 and 2014:

	31 December		
	2016	**2015**	**2014**
		(€ millions)	
Interest rate contracts[(1)]			
Notional principal amount	64,882	70,300	73,230
Positive fair value	1,692	1,540	1,852
Negative fair value	(1,485)	(1,622)	(2,136)
Exchange rate contracts[(1)]			
Notional principal amount	4,968	6,805	4,816
Positive fair value	73	67	48
Negative fair value	(79)	(64)	(73)
Equity contracts[(1)]			
Notional principal amount	1,036	2,398	3,010
Positive fair value	49	91	138
Negative fair value	(45)	(89)	(117)
Credit derivatives[(1)]			
Notional principal amount	—	340	340
Positive fair value	—	—	—
Negative fair value	—	(6)	(8)
Total notional principal amount	70,886	79,843	81,396
Total positive fair value[(2)]	1,814	1,698	2,038
Total negative fair value	(1,609)	(1,781)	(2,334)

Notes:

(1) Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

(2) At 31 December 2016, 64 per cent. of fair value relates to exposures to banks (2015: 69 per cent.; 2014: 70 per cent.).

AIB uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in note 58 Financial Risk Management.

22 Derivative financial instruments (Continued)

The following tables analyse the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	31 December 2016			
	< 1 year	1 < 5 years	5 years +	Total
	(€ millions)			
Residual maturity				
Notional principal amount	21,833	27,243	21,810	70,886
Positive fair value	350	470	994	1,814

	31 December 2015			
	< 1 year	1 < 5 years	5 years +	Total
	(€ millions)			
Residual maturity				
Notional principal amount	23,196	34,912	21,735	79,843
Positive fair value	158	659	881	1,698

	31 December 2014			
	< 1 year	1 < 5 years	5 years +	Total
	(€ millions)			
Residual maturity				
Notional principal amount	30,037	33,844	17,515	81,396
Positive fair value	98	820	1,120	2,038

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

	Notional principal amount			Positive fair value		
	31 December			31 December		
	2016	2015	2014	2016	2015	2014
	(€ millions)					
Republic of Ireland	68,605	77,071	78,035	1,334	1,273	1,542
United Kingdom	2,007	2,428	2,886	460	402	469
United States of America	274	344	475	20	23	27
	70,886	79,843	81,396	1,814	1,698	2,038

Trading activities

AIB maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of AIB's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing and by the use of Credit Support Annexes and ISDA Master Netting Agreements. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

AIB undertakes trading activities in interest rate contracts with AIB being a party to interest rate swap, forward, future, option, cap and floor contracts. AIB's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount.

22 Derivative financial instruments (Continued)

Risk management activities

In addition to meeting customer needs, AIB's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of AIB as outlined below.

The operations of AIB are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps AIB to achieve liquidity and risk management objectives. Similarly, foreign exchange derivatives can be used to hedge AIB's exposure to foreign exchange risk.

Derivative prices fluctuate in value as the underlying interest rate or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of final position items, the appreciation or depreciation of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items.

To achieve its risk management objectives, AIB uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, forward rate agreements, futures, options and currency swaps, as well as other contracts. The notional principal and fair value amounts for instruments held for risk management purposes entered into by AIB at 31 December 2016, 2015 and 2014, are presented within this note.

22 Derivative financial instruments (Continued)

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2016, 31 December 2015 and 31 December 2014. A description of how the fair values of derivatives are determined is set out in note 49.

	31 December 2016			31 December 2015			31 December 2014		
	Notional principal amount	Fair values		Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
	(€ millions)								
Derivatives held for trading									
Interest rate derivatives—over the counter ("OTC")									
Interest rate swaps	10,387	614	(668)	15,114	661	(716)	17,182	789	(905)
Cross-currency interest rate swaps	455	52	(50)	432	56	(55)	629	46	(42)
Interest rate options bought and sold	613	1	(4)	670	2	(3)	677	3	(5)
Total interest rate derivatives—OTC	11,455	667	(722)	16,216	719	(774)	18,488	838	(952)
Interest rate derivatives—OTC—central clearing									
Interest rate swaps	1,470	10	(15)	100	—	—	—	—	—
Total interest rate derivatives—OTC—central clearing	1,470	10	(15)	100	—	—	—	—	—
Interest rate derivatives—exchange traded									
Interest rate futures bought and sold	2,182	1	—	2,184	—	—	1,706	—	—
Total interest rate derivatives—exchange traded	2,182	1	—	2,184	—	—	1,706	—	—
Total interest rate derivatives	15,107	678	(737)	18,500	719	(774)	20,194	838	(952)
Foreign exchange derivatives—OTC									
Foreign exchange contracts	4,961	73	(79)	6,736	66	(64)	4,650	46	(70)
Currency options bought and sold	7	—	—	69	1	—	166	2	(3)
Total foreign exchange derivatives	4,968	73	(79)	6,805	67	(64)	4,816	48	(73)
Equity derivatives—OTC									
Equity warrants	2	2	—	2	2	—	23	23	—
Equity index options bought and sold	1,034	47	(45)	2,396	89	(89)	2,987	115	(117)
Total equity derivatives	1,036	49	(45)	2,398	91	(89)	3,010	138	(117)
Credit derivatives—OTC									
Credit derivatives	—	—	—	340	—	(6)	340	—	(8)
Total credit derivatives	—	—	—	340	—	(6)	340	—	(8)
Total derivatives held for trading	21,111	800	(861)	28,043	877	(933)	28,360	1,024	(1,150)

22 Derivative financial instruments (Continued)

	31 December 2016			31 December 2015			31 December 2014		
		Fair values			Fair values			Fair values	
	Notional principal amount	Assets	Liabilities	Notional principal amount	Assets	Liabilities	Notional principal amount	Assets	Liabilities
	(€ millions)								
Derivatives held for hedging									
Derivatives designated as fair value hedges—OTC									
Interest rate swaps	14,523	227	(387)	16,503	321	(424)	17,130	500	(587)
Total derivatives designated as fair value hedges—OTC	14,523	227	(387)	16,503	321	(424)	17,130	500	(587)
Derivatives designated as fair value hedges—OTC—central clearing									
Interest rate swaps	1,218	23	(2)	—	—	—	—	—	—
Total interest rate fair value hedges—OTC—central clearing	1,218	23	(2)	—	—	—	—	—	—
Total derivatives designated as fair value hedges—OTC	15,741	250	(389)	16,503	321	(424)	17,130	500	(587)
Derivatives designated as cash flow hedges—OTC									
Interest rate swaps	24,704	619	(254)	32,872	475	(319)	32,792	511	(380)
Cross currency interest rate swaps	2,589	130	(61)	2,371	24	(105)	3,114	3	(217)
Total interest rate cash flow hedges—OTC	27,293	749	(315)	35,243	499	(424)	35.906	514	(597)
Derivatives designated as cash flow hedges—OTC—central clearing									
Interest rate swaps	6,741	15	(44)	54	1	—	—	—	—
Total interest rate cash flow hedges—OTC—central clearing	6,741	15	(44)	54	1	—	—	—	—
Total derivatives designated as cash flow hedges	34,034	764	(359)	35,297	500	(424)	35,906	514	(597)
Total derivatives held for hedging	49,775	1,014	(748)	51,800	821	(848)	53,036	1,014	(1,184)
Total derivative financial instruments	70,886	1,814	(1,609)	79,843	1,698	(1,781)	81,396	2,038	(2,334)

Cash flow hedges

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

	31 December 2016				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	(€ millions)				
Forecast receivable cash flows	35	19	65	169	288
Forecast payable cash flows	66	51	72	52	241

22 Derivative financial instruments (Continued)

	31 December 2015				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
			(€ millions)		
Forecast receivable cash flows	27	26	155	233	441
Forecast payable cash flows	5	12	44	63	124

	31 December 2014				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
			(€ millions)		
Forecast receivable cash flows	27	16	83	114	240
Forecast payable cash flows	8	11	52	80	151

The tables below set out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

	31 December 2016				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
			(€ millions)		
Forecast receivable cash flows	35	19	65	169	288
Forecast payable cash flows	85	68	94	64	311

	31 December 2015				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
			(€ millions)		
Forecast receivable cash flows	27	26	155	233	441
Forecast payable cash flows	29	31	78	84	222

	31 December 2014				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
			(€ millions)		
Forecast receivable cash flows	27	16	83	114	240
Forecast payable cash flows	33	32	97	99	261

For AIB, the ineffectiveness reflected in the income statement that arose from cash flow hedges was Nil for the year ended 31 December 2016 (2015: Nil; 2014: Nil).

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and the receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges at 31 December 2016 was a gain of €106 million (2015: a charge of €29 million; 2014: a gain of €348 million).

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily available for sale securities and fixed rate liabilities. The fair values of financial instruments are set out in note 49. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments is negative €179 million at 31 December 2016 (2015: negative €147 million; 2014: negative €161 million) and the net mark to market on the related hedged items is positive €176 million at 31 December 2016 (2015: positive €146 million; 2014: positive €157 million).

Netting financial assets and financial liabilities

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

Details on offsetting financial assets and financial liabilities are set out in note 44.

23 Loans and receivables to banks

	31 December		
	2016	2015	2014
	(€ millions)		
Funds placed with central banks	587	779	664
Funds placed with other banks	812	1,560	1,201
	1,399	2,339	1,865
Amounts include:			
Reverse repurchase agreements	—	648	—

Loans and receivables to banks by geographical area[1]

	31 December		
	2016	2015	2014
	(€ millions)		
Republic of Ireland	269	1,030	402
United Kingdom	1,127	1,305	1,461
United States of America	3	4	2
	1,399	2,339	1,865

Loans and receivables to banks at 31 December 2016 include cash collateral of €494 million placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties (2015: €475 million; 2014: €773 million) (note 44). There were no reverse repurchase agreements outstanding at 31 December 2016.

Under reverse repurchase agreements, AIB accepted collateral that it was permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted of non-government securities (bank bonds) with a fair value of Nil (2015: €737 million; 2014: Nil). The fair value of collateral sold or repledged amounted to Nil (2015: €43 million; 2014: €16 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

24 Loans and receivables to customers

	31 December		
	2016	2015	2014
	(€ millions)		
Loans and receivables to customers	63,975	68,578	74,651
Reverse repurchase agreements	—	226	110
Amounts receivable under finance leases and hire purchase contracts *(see below)*	1,173	1,049	860
Unquoted debt securities	80	219	147
Provisions for impairment (note 25)	(4,589)	(6,832)	(12,406)
	60,639	63,240	63,362
Of which repayable on demand or at short notice	11,112	15,270	25,078
Amounts include:			
Due from associated undertakings	—	—	—

The unwind of the discount on the carrying amount of impaired loans amounted to €140 million (2015: €244 million; 2014: €329 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Under reverse repurchase agreements, AIB has accepted collateral with a fair value of Nil (2015: €222 million; 2014: €107 million) that it is permitted to sell or repledge in the absence of default by the

[1] The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

24 Loans and receivables to customers (Continued)

owner of the collateral. In addition, loans and receivables to customers includes cash collateral amounting to €11 million (2015: €73 million; 2014: €72 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, refer to note 58 Financial Risk Management.

Amounts receivable under finance leases and hire purchase contracts

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

	31 December		
	2016	2015	2014
	(€ millions)		
Gross receivables			
—Not later than 1 year	472	447	347
—Later than 1 year and not later than 5 years	757	653	578
—Later than 5 years	21	14	29
	1,250	1,114	954
Unearned future finance income	(81)	(69)	(97)
Deferred costs incurred on origination	4	4	3
Total	1,173	1,049	860
Present value of minimum payments analysed by residual maturity			
—Not later than 1 year	457	434	339
—Later than 1 year and not later than 5 years	698	604	499
—Later than 5 years	18	11	22
Present value of minimum payments	1,173	1,049	860
Provision for uncollectible minimum payments receivable[1]	27	58	80
Net investment in new business	668	593	462

Note:

(1) Included in the provisions for impairment on loans and receivables to customers (note 25).

25 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables. Further information on provisions for impairment is set out in note 58 Financial Risk Management.

	2016	2015	2014
		(€ millions)	
At 1 January	6,832	12,406	17,090
Exchange translation adjustments	(130)	131	150
Credit to income statement—customers	(294)	(925)	(178)
Credit to income statement—banks	—	—	(7)
Amounts written off	(1,829)	(4,593)	(4,655)
Disposals	—	(195)	—
Recoveries of amounts written off in previous years	10	8	6
At 31 December	**4,589**	**6,832**	**12,406**
Total provisions are split as follows:			
—Specific	4,047	6,158	11,315
—IBNR	542	674	1,091
	4,589	6,832	12,406
Amounts include:			
Loans and receivables to customers (note 24)	4,589	6,832	12,406
	4,589	6,832	12,406

26 NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The senior bonds carry a guarantee of the Irish Government with interest payable semi-annually each March and September at a rate of six month EURIBOR, subject to a 0% floor. The bonds were issued on 1 March 2010 and all bonds issued on, or after, 1 March in any year will mature on or prior to 1 March in the following year. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

The following table provides a movement analysis of the NAMA senior bonds:

	2016	2015	2014
		(€ millions)	
At 1 January	5,616	9,423	15,598
Amortisation of discount	11	21	36
Repayments	(3,838)	(3,834)	(6,343)
Acceleration/re-estimation of the timing of cash flows	10	6	132
At 31 December	1,799	5,616	9,423

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. The assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in 2016, a gain of €10 million has been recognised following the acceleration of repayments by NAMA (2015: a gain of €6 million has been recognised following the acceleration of repayments by NAMA; 2014: a gain of €132 million was recognised on re-estimation of expected timing of repayments). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'

The estimated fair value of the bonds at 31 December 2016 is €1,807 million (2015: €5,626 million; 2014: €9,479 million). The nominal value of the bonds is €1,805 million (2015: €5,643 million; 2014: €9,477 million). Whilst these bonds do not have an external credit rating, AIB has attributed to them a rating of A (2015: A-; 2014: A-) i.e. the external rating of the Sovereign.

At 31 December 2016, €729 million (2015: €1,257 million; 2014: €1,805 million) of NAMA senior bonds were pledged to central banks and banks (note 33).

27 Financial investments available for sale

The following table sets out at 31 December 2016, 2015, and 2014, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

	31 December 2016					
	Fair value	Unrealised gross gains	Unrealised gross losses	Net Unrealised gains/ (losses)	Tax effect	Net after tax
	(€ millions)					
Debt securities						
Irish Government securities	5,114	458	(13)	445	(55)	390
Euro government securities	2,706	148	(6)	142	(18)	124
Non Euro government securities	230	8	(1)	7	(1)	6
Supranational banks and government agencies	1,719	64	(1)	63	(8)	55
Collateralised mortgage obligations	433	—	(8)	(8)	4	(4)
Other asset backed securities	12	—	—	—	—	—
Euro bank securities	4,551	102	(1)	101	(13)	88
Euro corporate securities	47	—	—	—	—	—
Non Euro corporate securities	20	3	—	3	—	3
Total debt securities	14,832	783	(30)	753	(91)	662
Equity securities						
Equity securities—NAMA subordinated bonds	466	419	—	419	(52)	367
Equity securities—other	139	29	(2)	27	(5)	22
Total equity securities	605	448	(2)	446	(57)	389
Total financial investments available for sale	15,437	1,231	(32)	1,199	(148)	1,051

27 Financial investments available for sale (Continued)

	31 December 2015					
	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/ (losses)	Tax effect	Net after tax
	(€ millions)					
Debt securities						
Irish Government securities	5,406	587	—	587	(73)	514
Euro government securities	3,033	140	(3)	137	(17)	120
Non Euro government securities	245	7	(1)	6	(1)	5
Supranational banks and government agencies	2,008	78	—	78	(10)	68
Collateralised mortgage obligations	328	—	(3)	(3)	1	(2)
Other asset backed securities	1	—	—	—	—	—
Euro bank securities	4,600	81	(8)	73	(9)	64
Euro corporate securities	30	—	—	—	—	—
Non Euro corporate securities	57	3	(2)	1	—	1
Total debt securities	15,708	896	(17)	879	(109)	770
Equity securities						
Equity securities—NAMA subordinated bonds	432	385	—	385	(48)	337
Equity securities—other	349	311	(2)	309	(98)	211
Total equity securities	781	696	(2)	694	(146)	548
Total financial investments available for sale	16,489	1,592	(19)	1,573	(255)	1,318

	31 December 2014					
	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/ (losses)	Tax effect	Net after tax
	(€ millions)					
Debt securities						
Irish Government securities	9,107	1,327	—	1,327	(166)	1,161
Euro government securities	3,631	170	—	170	(21)	149
Non Euro government securities	182	9	—	9	(1)	8
Supranational banks and government agencies	2,852	119	—	119	(15)	104
Collateralised mortgage obligations	99	—	(1)	(1)	—	(1)
Other asset backed securities	1	—	—	—	—	—
Euro bank securities	3,897	105	—	105	(13)	92
Non Euro corporate securities	3	—	(1)	(1)	—	(1)
Total debt securities	19,772	1,730	(2)	1,728	(216)	1,512
Equity securities						
Equity securities—NAMA subordinated bonds	374	327	—	327	(41)	286
Equity securities—other	39	11	(3)	8	(2)	6
Total equity securities	413	338	(3)	335	(43)	292
Total financial investments available for sale	20,185	2,068	(5)	2,063	(259)	1,804

27 Financial investments available for sale (Continued)

Analysis of movements in financial investments available for sale

	31 December 2016			31 December 2015			31 December 2014		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
					(€ millions)				
At 1 January	15,708	781	16,489	19,772	413	20,185	20,251	117	20,368
Exchange translation adjustments	(1)	—	(1)	27	—	27	14	—	14
Purchases/acquisitions	2,463	79	2,542	4,257	13	4,270	7,324	12	7,336
Sales/disposals	(3,100)	(277)	(3,377)	(4,296)	(8)	(4,304)	(8,022)	(24)	(8,046)
Maturities	(93)	—	(93)	(323)	—	(323)	(735)	—	(735)
IAS 39 reclassifications out(1) (note 28)	—	—	—	(3,487)	—	(3,487)	—	—	—
Writeback of provision/(Provision) for impairment	2	—	2	—	—	—	(1)	—	(1)
Amortisation of discounts net of premiums	(110)	—	(110)	(97)	—	(97)	(67)	—	(67)
Movement in unrealised gains/(losses)	(37)	22	(15)	(145)	363	218	1,008	308	1,316
At 31 December	14,832	605	15,437	15,708	781	16,489	19,772	413	20,185
Of which:									
—Listed	14,832	—	14,832	15,708	—	15,708	19,772	—	19,772
—Unlisted	—	605	605	—	781	781	—	413	413
	14,832	605	15,437	15,708	781	16,489	19,772	413	20,185

Note:

(1) Irish Government securities with a carrying value of €3,487 million were reclassified from financial investments available for sale to financial investments held to maturity in 2015 (see note 28).

The following tables set out at 31 December 2016, 31 December 2015 and 31 December 2014, an analysis of the securities portfolio with unrealised losses, distinguishing between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months:

	31 December 2016					
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months	Investments with unrealised losses of more than 12 months	Total	Unrealised losses of less than 12 months	Unrealised losses of more than 12 months	Total
			(€ millions)			
Debt securities						
Irish government securities	286	—	286	(13)	—	(13)
Euro government securities	294	—	294	(6)	—	(6)
Non Euro government securities	30	—	30	(1)	—	(1)
Supranatinal banks and government agencies	75	—	75	(1)	—	(1)
Collateralised mortgage obligations	182	229	411	(5)	(4)	(8)
Euro bank securities	152	—	152	(1)	—	(1)
Total debt securities	1,019	229	1,248	(26)	(4)	(30)
Equity securities						
Equity securities—other	6	16	22	—	(2)	(2)
Total	1,025	245	1,270	(26)	(6)	(32)

27 Financial investments available for sale (Continued)

	31 December 2015					
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months	Investments with unrealised losses of more than 12 months	Total	Unrealised losses of less than 12 months	Unrealised losses of more than 12 months	Total
			(€ millions)			
Debt securities						
Euro government securities	471	—	471	(3)	—	(3)
Non Euro government securities	43	—	43	(1)	—	(1)
Collateralised mortgage obligations	241	65	306	(2)	(1)	(3)
Euro bank securities	1,241	—	1,241	(8)	—	(8)
Non Euro corporate securities	—	1	1	—	(2)	(2)
Total debt securities	1,996	66	2,062	(14)	(3)	(17)
Equity securities						
Equity securities—other	5	18	23	—	(2)	(2)
Total	2,001	84	2,085	(14)	(5)	(19)

	31 December 2014					
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months	Investments with unrealised losses of more than 12 months	Total	Unrealised losses of less than 12 months	Unrealised losses of more than 12 months	Total
			(€ millions)			
Debt securities						
Collateralised mortgage obligations	70	—	70	(1)	—	(1)
Non Euro corporate securities	—	3	3	—	(1)	(1)
Total debt securities	70	3	73	(1)	(1)	(2)
Equity securities						
Equity securities—other	11	5	16	(2)	(1)	(3)
Total	81	8	89	(3)	(2)	(5)

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. A writeback of impairment losses on debt securities of €2 million (2015: Nil; 2014: impairment loss of €1 million) has been recognised as set out in note 13.

28 Financial investments held to maturity

	31 December		
	2016	2015	2014
		(€ millions)	
Government bonds	3,356	3,483	—
Total financial investments held to maturity	3,356	3,483	—
Analysis of movements in financial investments held to maturity			
At 1 January	3,483	—	—
IAS 39 reclassifications in 2015 (note 27)	—	3,487	—
Amortisation of fair value gain	(127)	(4)	—
At 31 December	3,356	3,483	—

Following a review of AIB's investment strategy, a decision was taken to reclassify a portfolio of Irish Government securities to held to maturity from the available for sale asset portfolio. Government bonds with a fair value of €3,487 million were reclassified from available for sale to held to maturity in 2015 (see note 27). The reclassification reflects AIB's positive intention and ability to hold these securities to

28 Financial investments held to maturity (Continued)

maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was €549 million. This unrealised gain is amortised to interest income using the effective income method over the remaining life of the bonds.

Financial investments held to maturity are listed on a recognised stock exchange. Their maturity profile is set out in note 58 Financial Risk Management.

29 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings as follows:

	Year ended 31 December		
	2016	2015	2014
	(€ millions)		
Income statement			
Share of results of associated undertakings[1]	27	25	23
Reversal of impairment/(impairment) of associated undertakings	8[2]	—	(2)
Gain/(loss) on disposal of investment in associated undertakings	—	—	2[3]
	35	25	23

Notes:

(1) Includes profit: AIB Merchant Services €22 million (2015: €21 million profit; 2014: €21 million profit), Aviva Undershaft Five Limited €5 million (2015: €4 million; 2014: €2 million) and other associates of Nil (2015: Nil; 31 December 2014: Nil).

(2) Reversal of impairment of associated company: Aviva Undershaft Five Limited €8 million (2015: Nil; 2014: Nil).

(3) Spire Holdings was disposed of during 2014 with a €2 million gain on disposal.

	31 December		
	2016	2015	2014
	(€ millions)		
Share of net assets including goodwill			
At 1 January	70	69	58
Exchange translation adjustments	—	—	1
Income for the year—Continuing operations	27	25	23
Dividends received from associates[1]	(40)	(24)	(11)
Reversal of impairment/(Impairment) on associated undertakings—Continuing operations	8	—	(2)
At 31 December[2]	**65**	**70**	**69**
Disclosed in the statement of financial position within:			
Interests in associated undertakings	65	70	69
Of which listed on a recognised stock exchange	—	—	—

Note:

(1) Includes dividends received from: AIB Merchant Services €16 million (2015: €19 million; 2014: €11 million) and Aviva Undershaft Five Limited €24 million (2015: €4 million; 2014: Nil).

(2) Includes AIB's investments in AIB Merchant Services and Aviva Undershaft Five Limited. Aviva Undershaft Five Limited previously known as Aviva Health Group Ireland Limited, with a carrying value of €2 million, is in the process of being liquidated at 31 December 2016.

29 Interests in associated undertakings (Continued)

The following are the principal associates of AIB at 31 December 2016, 31 December 2015 and 31 December 2014:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by AIB At 31 December 2016	2015	2014
				(%)	
(A) Aviva Undershaft Five Limited (formerly Aviva Health Group Ireland Limited)	Transaction of health insurance business within the Republic of Ireland	1 Park Place, Hatch Street, Dublin 2, Ireland	30	30	30
(B) Zolter Services d.a.c., the holding company of First Merchant Processing (Ireland) d.a.c., trading as AIB Merchant Services	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park, Clonskeagh, Dublin 4, Ireland	49.9	49.9	49.9

All of the associates are accounted for using the equity method.

There was no unrecognised share of losses of associates in the years ended 31 December 2016, 2015 or 2014.

Change in AIB's ownership interest in associates

There was no change in the ownership interest in associates.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to AIB in the form of cash or dividends, or to repay loans or advances made by AIB.

30 Intangible assets

	31 December 2016 Software externally purchased	Software internally generated	Software under construction	Other	Total
		(€ millions)			
Cost					
At 1 January	293	479	120	3	895
Additions	18	41	114	—	173
Transfers in/(out)	—	61	(61)	—	—
Exchange translation adjustments	—	(1)	—	—	(1)
At 31 December	311	580	173	3	1,067
Amortisation/impairment					
At 1 January	266	337	—	3	606
Amortisation for the year	13	42	—	—	55
Impairment for the year	8	3	4	—	15
Exchange translation adjustments	—	(1)	—	—	(1)
At 31 December	287	381	4	3	675
Carrying value at 31 December	24	199	169	—	392

30 Intangible assets (Continued)

	31 December 2015				
	Software externally purchased	Software internally generated	Software under construction	Other	Total
	(€ millions)				
Cost					
At 1 January	286	442	40	3	771
Additions	15	47	94	—	156
Transfers in/(out)	—	14	(14)	—	—
Amounts written off	(8)	(25)	—	—	(33)
Exchange translation adjustments	—	1	—	—	1
At 31 December	293	479	120	3	895
Amortisation/impairment					
At 1 January	264	333	—	3	600
Amortisation for the year	10	29	—	—	39
Impairment for the period	—	—	—	—	—
Amounts written off[(1)]	(8)	(25)	—	—	(33)
Exchange translation adjustments	—	—	—	—	—
At 31 December	266	337	—	3	606
Carrying value at 31 December	27	142	120	—	289

Note:

(1) Relates to assets which are no longer in use with a Nil carrying value.

	31 December 2014		
	Software	Other	Total
	(€ millions)		
Cost			
At 1 January	708	3	711
Additions	60	—	60
At 31 December	768	3	771
Amortisation/impairment			
At 1 January	532	3	535
Amortisation for the year	48	—	48
Impairment for the year	17	—	17
At 31 December	597	3	600
Carrying value at 31 December	171	—	171

Additions for 2014 comprised software externally purchased (€12 million) and software internally generated (€48 million).

Internally generated assets under construction amounted to €40 million as at 31 December 2014.

The cost of internally generated software amounted to €442 million.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 52.

31 Property, plant and equipment

	2016					
	Property					
	Freehold	Long leasehold	Leasehold under 50 years	Equipment	Assets under construction	Total
	(€ millions)					
Cost						
At 1 January	217	91	121	491	25	945
Transfers in/(out)	3	2	7	4	(16)	—
Additions	1	—	6	35	13	55
Disposals	—	—	—	(1)	—	(1)
Exchange translation adjustments	(4)	(1)	(2)	(5)	(1)	(13)
At 31 December	217	92	132	524	21	986
Depreciation/impairment						
At 1 January	73	34	82	412	—	601
Transfers in/(out)	(4)	2	—	2	—	—
Depreciation charge for the year	6	2	7	24	—	39
Disposals	—	—	—	(1)	—	(1)
Exchange translation adjustments	(3)	(1)	(2)	(4)	—	(10)
At 31 December	72	37	87	433	—	629
Carrying value at 31 December	145	55	45	91	21	357

	2015					
	Property					
	Freehold	Long leasehold	Leasehold under 50 years	Equipment	Assets under construction	Total
	(€ millions)					
Cost						
At 1 January	174	88	119	473	8	862
Additions	41	2	5	19	22	89
Transfers in/(out)	1	1	2	1	(5)	—
Disposals	—	—	—	(2)	—	(2)
Amounts written off[(1)]	—	—	(6)	(2)	—	(8)
Exchange translation adjustments	1	—	1	2	—	4
At 31 December	217	91	121	491	25	945
Depreciation/impairment						
At 1 January	68	32	80	392	—	572
Depreciation charge for the year	4	2	7	22	—	35
Disposals	—	—	—	(2)	—	(2)
Amounts written off[(1)]	—	—	(6)	(2)	—	(8)
Exchange translation adjustments	1	—	1	2	—	4
At 31 December	73	34	82	412	25	601
Carrying value at 31 December	144	57	39	79	25	344

31 Property, plant and equipment (Continued)

	2014				
	Property				
	Freehold	Long leasehold	Leasehold under 50 years	Equipment	Total
			(€ millions)		
Cost					
At 1 January	173	99	142	469	883
Reclassification to disposal groups and non-current assets held for sale	(4)	(10)	—	—	(14)
Additions	9	1	10	27	47
Disposals	(1)	—	—	(4)	(5)
Amounts written off[(1)]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	2	—	2	3	7
At 31 December	175	88	126	473	862
Depreciation/impairment					
At 1 January	68	32	93	389	582
Reclassification to disposal groups and non-current assets held for sale	(2)	(2)	—	—	(4)
Depreciation charge for the year	4	4	8	20	36
Impairment charge for the year	1	2	5	4	12
Reversal of impairment charge for the year	—	(2)	—	—	(2)
Disposals	—	—	—	(2)	(2)
Amounts written off[(1)]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	1	—	2	3	6
At 31 December	68	32	80	392	572
Carrying value at 31 December	107	56	46	81	290

Note:

(1) Relates to assets which are no longer in use with a Nil carrying value.

The carrying value of property occupied by AIB for its own activities was €242 million at 31 December 2016 (2015: €237 million; 2014: €199 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by AIB had a carrying value of €3 million at 31 December 2016 (2015: €3 million; 2014: €2 million).

Future capital expenditure in relation to both property plant and equipment and intangible assets is set out in note 52.

32 Deferred taxation

	31 December		
	2016	2015	2014
	(€ millions)		
Deferred tax assets:			
Provision for impairment on loans and receivables	—	1	4
Retirement benefits	27	15	128
Assets leased to customers	6	9	12
Unutilised tax losses	3,050	3,201	3,670
Amortised income	—	—	1
Other	22	50	46
Total gross deferred tax assets	3,105	3,276	3,861
Deferred tax liabilities:			
Cash flow hedges	(67)	(54)	(54)
Retirement benefits	(40)	—	—
Amortised income on loans	(12)	(18)	(22)
Assets used in business	(12)	(14)	(12)
Available for sale securities	(161)	(280)	(197)
Other	(66)	(13)	—
Total gross deferred tax liabilities	(358)	(379)	(285)
Net deferred tax assets	2,747	2,897	3,576
Represented on the statement of financial position as follows:			
Deferred tax assets	2,828	2,897	3,576
Deferred tax liabilities	(81)	—	—
	2,747	2,897	3,576

For the years ended 31 December 2016, 2015 and 2014, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation

	31 December		
	2016	2015	2014
	(€ millions)		
At 1 January	2,897	3,576	3,828
Exchange translation and other adjustments	(19)	20	41
Deferred tax through other comprehensive income	81	(186)	(30)
Income statement—Continuing operations (note 17)	(212)	(513)	(263)
At 31 December	2,747	2,897	3,576

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in "Critical accounting judgements and estimates" in note 2.

At 31 December 2016 recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €2,747 million (2015: €2,897million; 2014: €3,576 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

Net deferred tax assets of €2,651 million at December 2016 (2015: €2,722 million; 2014: €3,463 million) are expected to be recovered after more than 12 months.

32 Deferred taxation (Continued)

For AIB's principal UK subsidiary, AIB has concluded that the recognition of deferred tax assets be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which AIB believes that it can assess the likelihood of its profits arising as being more likely than not.

With effect from 1 April 2015, legislation was introduced in the UK whereby only fifty per cent. of a bank's annual trading profits can be sheltered by unused tax losses arising before that date, accordingly, AIB's UK deferred tax asset was reduced by €242 million in 2015.

Furthermore, in November 2015, UK legislation was enacted to reduce the UK corporation tax rate to 19% from April 2017 with a further reduction to 18% from April 2020.

In addition, an 8% corporation tax surcharge was introduced which applies to banking profits from January 2016, subject to an annual exemption for the first £25 million of profits. Taxable profits for the purpose of the surcharge cannot be reduced by pre-2016 tax losses.

Effective from 1 April 2016, UK legislation further reduced the amount of annual taxable profits a bank can shelter with unused tax losses arising before 1 April 2015 from 50% to 25% and resulted in a reduction of € 92 million in the UK deferred tax asset. In addition, the legislation provided that the UK corporation tax rate will reduce to 17% from 1 April 2020.

These changes have been reflected in the carrying value of deferred tax assets and liabilities at 31 December 2016 and 2015.

For certain other subsidiaries and branches, AIB has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets

AIB has not recognised deferred tax assets in respect of: Irish tax on unused tax losses of €122 million (2015: €305 million, 2014: €226 million); overseas tax (UK and USA) on unused tax losses of €3,315 million at 31 December 2016 (2015: €3,475 million; 2014: €2,439 million); and foreign tax credits, for Irish tax purposes, of €3 million at 31 December 2016 (2015: €3 million; 2014: €5 million). Of these tax losses totalling €3,437 million for which no deferred tax is recognised at 31 December 2016: €33 million expires in 2032, €42 million in 2033, €27 million in 2034 and €5 million in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil at 31 December 2016 (2015: Nil; 2014: Nil).

Deferred tax recognised directly in equity amounted to Nil at 31 December 2016 (2015: Nil; 2014: Nil).

Analysis of income tax relating to other comprehensive income

	31 December 2016			
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
			(€ millions)	
Profit for the year	1,682	(326)	1,356	1,356
Exchange translation adjustments	(168)	—	(168)	(168)
Net change in cash flow hedge reserves	119	(13)	106	106
Net change in fair value of available for sale securities	(478)	119	(359)	(359)
Net actuarial gains in retirement benefit schemes	127	(24)	103	103
Net change in property revaluation reserves	—	(1)	(1)	(1)
Total comprehensive income for the year	1,282	(245)	1,037	1,037
Attributable to:				
Owners of the parent	1,282	(245)	1,037	1,037

32 Deferred taxation (Continued)

	31 December 2015			
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
			(€ millions)	
Profit for the year	1,914	(534)	1,380	1,380
Exchange translation adjustments	31	—	31	31
Net change in cash flow hedge reserves	(29)	—	(29)	(29)
Net change in fair value of available for sale securities	186	(83)	103	103
Net actuarial losses in retirement benefit schemes	846	(103)	743	743
Total comprehensive income for the year	2,948	(720)	2,228	2,228
Attributable to:				
Owners of the parent	2,948	(720)	2,228	2,228

	31 December 2014			
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
			(€ millions)	
Profit for the year—continuing obligations	1,111	(230)	881	881
Profit for the year—discontinued operations	34	—	34	34
Exchange translation adjustments	27	—	27	27
Net change in cash flow hedge reserves	399	(51)	348	348
Net change in fair value of available for sale securities	835	(107)	728	728
Net actuarial losses in retirement benefit schemes	(1,067)	128	(939)	(939)
Net change in property revaluation reserves	(1)	—	(1)	(1)
Total comprehensive income for the year	1,338	(260)	1,078	1,078
Attributable to:				
Owners of the parent	1,338	(260)	1,078	1,078

33 Deposits by central banks and banks

	31 December		
	2016	2015	2014
		(€ millions)	
Central banks			
Eurosystem refinancing operations[1]	1,900	2,900	3,400
Other borrowings	12	50	—
	1,912	2,950	3,400
Banks			
Securities sold under agreements to repurchase	4,973	10,153	12,653
Other borrowings—secured	150	350	350
—unsecured	697	410	365
	5,820	10,913	13,368
	7,732	13,863	16,768
Amounts include:			
Due to associated undertakings	—	—	—

Note:

(1) Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

33 Deposits by central banks and banks (Continued)

Securities sold under agreements to repurchase (note 47) and Eurosystem refinancing operations, with the exception of €1.9 million funded through the ECB two year Targeted Long Term Refinancing Operation II (“TLTRO II”), mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. Repurchase agreements with the ECB are completed under a Master Repurchase Agreement.

In addition, AIB has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2016 (2015: Nil; 2014: Nil).

Deposits by central banks and banks include cash collateral of €268 million at 31 December 2016 (2015: €182 million; 2014: €318 million) received from derivative counterparties in relation to net derivative positions (note 44) and also from repurchase agreement counterparties.

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	31 December 2016		
	Central banks	Banks	Total
	(€ million)		
Total carrying value of financial assets pledged	3,293	5,239	8,532
Of which:			
Government securities(1)	498	3,891	4,389
Other securities	2,795(2)	1,348	4,143

	31 December 2015			31 December 2014		
	Central banks	Banks	Total	Central banks	Banks	Total
	(€ million)					
Total carrying value of financial assets pledged	5,357	10,829	16,186	5,337	13,857	19,194
Of which:						
Government securities(1)	20	8,364	8,384	1,084	9,479	10,563
Other securities	5,337(2)	2,465	7,802	4,253(2)	4,378	8,631

Notes:

(1) Includes NAMA senior bonds.

(2) AIB has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by AIB.

(b) At 31 December 2015, AIB had securitised credit card receivables with a carrying value of €292 million (2014: €297 million) as described in note 47. Funding received from external investors was included above as “other borrowings—secured” and was secured on both existing and future credit card receivables. This securitisation structure was terminated in November 2016.

34 Customer accounts

	31 December		
	2016	2015	2014
		(€ million)	
Current accounts	29,721	25,995	21,665
Demand deposits	12,663	11,698	10,004
Time deposits	20,496	24,825	30,196
Securities sold under agreements to repurchase(1)	622	905	2,153
	63,502	63,383	64,018
Of which:			
Non-interest bearing current accounts	25,748	21,907	18,260
Interest bearing deposits, current accounts and short-term borrowings	37,754	41,476	45,758
	63,502	63,383	64,018
Amounts include:			
Due to associated undertakings	271	201	75

Notes:

(1) AIB pledged government available for sale securities with a fair value of €220 million at 31 December (2015: €627 million; 2014: €2,941 million) and non-government available for sale securities with a fair value of €420 million at 31 December 2016 (2015: €302 million; 2014: Nil) as collateral for these facilities and providing access to future funding facilities (see note 44 for further information).

Customer accounts include cash collateral of €60 million received from derivative counterparties in relation to net derivative positions (note 44).

At 31 December 2016, AIB's five largest customer deposits amounted to 3 per cent. (2015: 5 per cent.; 2014: 9 per cent.) of total customer accounts.

35 Trading portfolio financial liabilities

	31 December		
	2016	2015	2014
		(€ million)	
Debt securities:			
Government securities	—	86	—
Total	—	86	—

For contractual residual maturity, see note 58 Financial Risk Management.

36 Debt securities in issue

	31 December		
	2016	2015	2014
		(€ million)	
Bonds and medium term notes:			
European medium term note programmes	1,000	1,555	3,293
Bonds and other medium term notes	5,733	5,346	4,518
	6,733	6,901	7,811
Other debt securities in issue:			
Commercial paper	147	100	50
	6,880	7,001	7,861

36 Debt securities in issue (Continued)

Debt securities issued during the year ended 31 December 2016 amounted to €1,389 million (2015: €3,522 million; 2014: €3,198 million) of which €1,000 million relates to a covered bond issuance (2015: €1,500 million; 2014: €500 million), Nil relates to an EMTN bond issuance (2015: €500 million; 2014: €500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased during the year ended 31 December 2016 amounted to €1,509 million (2015: €4,397 million; 2014: €4,091 million) of which €9 million (2015: €129 million; 2014: €937 million) related to securities repurchased as part of a debt buyback programme.

37 Other liabilities

	31 December 2016	2015	2014
	(€ millions)		
Notes in circulation	366	425	422
Items in transit	122	163	126
Creditors	10	10	12
Fair value of hedged liability positions	146	203	325
Other	329	307	340
	973	1,108	1,225

38 Provisions for liabilities and commitments

31 December 2016	Liabilities and charges	NAMA provisions[1]	Onerous contracts[2]	Legal claims	Other provisions[3]	Voluntary severance scheme	Total
	(€ millions)						
At 1 January	49	39	13	32	249	—	382
Transfers in	—	(12)	—	—	—	—	(12)
Exchange translation adjustments	—	—	(1)	(1)	(6)	—	(8)
Charged to income statement	2[4]	14[1]	4	6	56	—	82
Released to income statement	(4)[4]	(31)[1]	(2)	(4)	(15)	—	(56)
Provisions utilised	—	(8)	(2)	(1)	(131)	—	(142)
At 31 December	47	2	12	32	153	—	246[5]

31 December 2015	Liabilities and charges	NAMA provisions[1]	Onerous contracts[2]	Legal claims	Other provisions[3]	Voluntary severance scheme	Total
	(€ millions)						
At 1 January	60	33	51	32	81	1	258
Transfers in	—	14	—	—	—	—	14
Exchange translation adjustments	—	—	3	—	4	—	7
Charged to income statement	11[4]	7[1]	—	4	201	4	227
Released to income statement	(22)[4]	(12)[1]	(11)	(3)	(9)	—	(57)
Provisions utilised	—	(3)	(30)	(1)	(28)	(5)	(67)
At 31 December	49	39	13	32	249	—	382[5]

38 Provisions for liabilities and commitments (Continued)

	31 December 2014						
	Liabilities and charges	NAMA provisions[(1)]	Onerous contracts[(2)]	Legal claims	Other provisions[(3)]	Voluntary severance scheme	Total
	(€ millions)						
At 1 January	72	35	36	14	139	3	299
Transfers out	—	—	—	—	(5)	—	(5)
Exchange translation adjustments	(1)	—	1	—	5	—	5
Charged to income statement	1[(4)]	6[(1)]	29	21	34	1	92
Released to income statement	(5)[(4)]	(8)[(1)]	(9)	(2)	(3)	—	(27)
Provisions utilised	(7)	—	(6)	(1)	(89)	(3)	(106)
At 31 December	60	33	51	32	81	1	258[(5)]

Notes:

(1) NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA.

(2) Provisions for the unavoidable costs expected to arise from the closure of properties which are surplus to requirements.

(3) Includes €139 million provisions at 31 December 2016 (2015: €232 million; 2014: €58 million) provisions for customer restitution. These relate to redress and compensation provisions under the Central Bank's "Principles for Redress", payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance and other miscellaneous provisions.

(4) Included in writeback of provisions for liabilities and commitments in income statement.

(5) The total provisions for liabilities and commitments expected to be settled within one year amount to €141 million at 31 December 2016 (2015: €290 million; 2014: €147 million).

Provisions for customer redress and related matters (included in "Other Provisions")

In September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on an industry-wide examination of tracker mortgage-related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including AIB and certain of its subsidiaries located in Ireland) (the "Tracker Mortgage Examination"). In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank's 'Principles for Redress'.

At 31 December 2015, AIB provisioned €190 million for customer redress and compensation. This provision related to the expected outflow for redress and compensation (including refunds of interest) to customers arising from the examination. Various compensations and costs arising from the issues were included in the provision.

Considerable progress was made throughout 2016 in identifying impacted customers and in calculating and making redress and compensation. To date €93 million of the provision has been utilised covering both redress, compensation and related costs leaving a residual provision of €97 million at 31 December 2016 (€40 million for customer redress and compensation and €57 million for various ancillary external costs and other matters).

Given that the grounds on which the provisions have been estimated could prejudice the position of AIB, further information as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed.

39 Subordinated liabilities and other capital instruments

	31 December 2016	2015	2014
	(€ millions)		
The Company			
€1.6 billion Contingent Capital Tier 2 Notes due 2016			
Proceeds of issue	1,600	1,600	1,600
Fair value adjustment on initial recognition	(447)	(447)	(447)
Amortisation to date	447	371	258
	1,600	1,524	1,411
Redemption	(1,600)	—	—
	—	1,524	1,411
Dated loan capital—European Medium Term Note Programme:			
€750 million Subordinated Tier 2 Notes due 2025, Callable 2020	750	750	—
€500 million Callable Step-up Floating Rate Notes due October 2017 —nominal value €25.5 million (maturity extended to 2035 as a result of the SLO)	8	8	8
£368 million 12.5 per cent. Subordinated Notes due June 2019 —nominal value £79 million (maturity extended to 2035 as a result of the SLO)	32	35	32
£500 million Callable Fixed/Floating Rate Notes due March 2025 —nominal value £1 million (maturity extended to 2035 as a result of the SLO)	1	1	—
	791	794	40
	791	2,318	1,451

Maturity of dated loan capital

	31 December 2016	2015	2014
	(€ millions)		
Dated loan capital outstanding is repayable as follows:			
5 years or more	791	794	40

€1.6 billion Contingent Capital Tier 2 Notes due 2016

On 26 July 2011, AIB issued €1.6 billion in nominal value of CCNs to the Minister for Finance for cash consideration of €1.6 billion. The fair value of these notes at initial recognition was €1,153 million with €447 million being accounted for as a capital contribution from the Minister (note 51(f)). Interest was payable annually in arrears on the nominal value of the notes at a fixed rate of 10 per cent. per annum. The CCNs were unsecured and subordinated obligations of AIB. The notes matured on 28 July 2016 and were redeemed at their nominal value of €1.6 billion.

Dated loan capital

The dated loan capital in this section, issued under the European Medium Term Note Programme, is subordinated in right of payment to the ordinary creditors, including depositors, of AIB.

(a) €750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, AIB issued €750 million Subordinated Tier 2 Notes due 2025, Callable 2020.

These notes mature on 26 November 2025 but can be redeemed in whole, but not in part, at the option of AIB on the optional redemption date on 26 November 2020, subject to the approval of the Financial Regulator, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

39 Subordinated liabilities and other capital instruments (Continued)

The notes bear interest on the outstanding nominal amount at a fixed rate of 4.125 per cent., payable annually in arrears on 26 November each year. The interest rate will be reset on 26 November 2020 to Eur 5 year Mid Swap rate plus the initial margin of 395 basis points.

(b) Other dated subordinated loan capital

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained outstanding on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan agreements. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of AIB. These instruments will amortise to their nominal value in the period to their maturity in 2035.

40 Share capital

	Authorised			Issued		
	31 December			31 December		
	2016	2015	2014	2016	2015	2014
	(millions)					
Ordinary share capital						
Ordinary shares of €0.625 each (2014: €0.0025)	4,000.0	4,000.0	702,000.0	2,714.4	2,714.4	523,474.1
Preference share capital						
2009 Non cumulative preference shares of €0.01 each	—	—	3,500.0	—	—	3,500.0

	Authorised			Issued		
	31 December			31 December		
	2016	2015	2014	2016	2015	2014
	(€ millions)					
Ordinary share capital						
Ordinary shares of €0.625 each (2014: €0.0025)	2,500	2,500	1,755	1,696	1,696	1,309
Preference share capital						
2009 Non cumulative preference shares of €0.01 each	—	—	35	—	—	35

Year ended 31 December 2016

There were no movements in the ordinary share capital in the financial year to 31 December 2016.

Year ended 31 December 2015

Capital reorganisation

Ordinary shares and 2009 Preference Shares

Arising from, *inter alia*, a requirement to return state aid to the Irish Government in line with AIB's obligations under the EU Restructuring Plan, to create a sound and sustainable capital base on which to grow its business and to meet regulatory requirements under CRD IV and the BRRD, AIB implemented a number of measures in order to reorganise its capital following resolutions passed at the EGM of shareholders held on 16 December 2015 (the "EGM"). These measures impacted ordinary share capital, 2009 Preference Share capital, share premium and revenue reserves and are outlined below under the following key steps:

- 2009 Preference Share conversion;
- 2009 Preference Share redemption;

40 Share capital (Continued)

- Ordinary share consolidation; and
- Changes to authorised share capital.

2009 Preference Shares

On 13 May 2009, AIB issued 3,500 million non-cumulative redeemable preference shares to the Minister for Finance for a subscription price of €3.5 billion (nominal price of €0.01 per share). The shares carried a fixed non-cumulative dividend at a rate of 8 per cent. per annum, payable annually in arrears at the discretion of the Company. On 13 May 2015, this dividend, amounting to €280 million was paid in cash.

Under the terms of the agreement with the Minister for Finance, these 2009 Preference Shares were redeemable at the option of AIB from distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital (now CET 1) which if redeemed more than five years after issue, at a price of €1.25 per share i.e. a 25 per cent. step up on the subscription price.

On 20 November 2015, in connection with the Capital Reorganisation, the 2009 Preference Share Conversion and Redemption Agreement was made between AIB, the Minister for Finance and the NTMA and was approved at the EGM held on 16 December 2015. Under this agreement, AIB agreed to convert 2,140 million of the 2009 Preference Shares into ordinary shares at their subscription price of €2,140 million plus a 25 per cent. step-up (€2,675 million in total).

On 17 December 2015, in accordance with the terms of the 2009 Preference Shares in the Constitution of the Company, AIB redeemed the remaining 2009 Preference Shares (1,360 million shares) for cash at their subscription price of €1,360 million plus the 25 per cent. step-up (total €1,700 million).

2009 Preference Share conversion

For the purpose of converting €2,675 million into ordinary shares, AIB and the Minister for Finance agreed a fair value of €0.01724176 per €0.0025 ordinary share. This required 155,146,574,363 ordinary shares to satisfy the conversion.

In order to convert the 2009 Preference Shares of €0.01 per share (paid up to €1.00, inclusive of premium paid upon issue) into ordinary shares of €0.0025 each, each converting preference share was sub-divided into four 2009 Preference Shares of €0.0025 each which resulted in 8,560 million new 'sub-divided Preference shares' in issue.

Each sub-divided Preference Share was re-designated as one ordinary share of €0.0025 in part satisfaction for the conversion. This re-designation of the 2009 Preference Shares to ordinary shares amounted to €21.4 million.

In addition, bonus ordinary shares with a nominal value €0.0025 were issued to the NTMA for the residual number of shares due on conversion. The number of bonus shares was calculated as the total entitlement in respect of converting shares i.e. 155,146,574,363 less the number of shares re-designated from 2009 Preference Shares to ordinary shares i.e. 146,586,574,363 shares.

The bonus shares issue resulted in a transfer of the nominal value of each ordinary share issued from share premium to ordinary share capital which totalled €366 million.

The effective date for the 2009 Preference Share conversion was 17 December 2015.

2009 Preference Share redemption

Immediately following the conversion on 17 December 2015 of 2,140 million of the 2009 Preference Shares into ordinary shares, AIB redeemed the remaining 1,360 million of the 2009 Preference Shares (nominal value of €13.6 million) at a price equal to 125 per cent. of the subscription price per share on issue. Total cost of redemption was €1,700 million. This transaction was reflected as a reduction in revenue reserves and, in accordance with the Companies Act, the nominal value of the shares redeemed was transferred from the share capital account to capital redemption reserves.

40 Share capital (Continued)

Dividend paid on conversion/redemption

A dividend for the period from the last dividend payment date of 13 May 2015 up to the date of conversion/redemption of the 2009 Preference Shares, amounting to €166 million, was paid in cash to the NTMA (for the ISIF) on 17 December 2015.

Ordinary share consolidation

At 17 December 2015, following the issue of ordinary shares to the NTMA (for the ISIF) on conversion of the 2009 Preference Shares as outlined above, the total number of ordinary shares with a nominal value of €0.0025 per share in issue amounted to 678,585,019,800 (after deduction of 35,680,114 treasury shares which were cancelled on 17 December 2015 (note 41)).

A Consolidation Resolution, passed at the EGM, resolved that all ordinary shares with a nominal value of €0.0025 ("existing ordinary shares") be consolidated so that for every 250 shares held by a shareholder, that shareholder will hold one 'new' ordinary share with a nominal value of €0.625 after the consolidation. In addition, where residual fractions remained following the division of a shareholder's holding into 'new ordinary shares', the shareholding was rounded up by the allotment of new shares to shareholders by way of bonus issue to ensure that no fractions remained following consolidation.

On 21 December 2015, AIB allotted 10,289,700 ordinary shares with a nominal value of €0.0025 per share (total €25,724) as bonus shares on the rounding up of shareholdings resulting in a transfer from share premium account to ordinary share capital. The total number of new shares of nominal value €0.625 each arising from consolidation amounted to 2,714,381,238 (€1,696 million) which was effective on 21 December 2015.

The rights attaching to the 'new ordinary shares' are identical in all respects to the 'existing ordinary shareholders' including voting and dividend rights and rights on a return of capital.

Changes to authorised share capital

All authorised but unissued 2009 Preference Shares and authorised but unissued sub-divided 2009 Preference Shares were cancelled following the conversion/redemption of the 2009 Preference Shares and the completion of the ordinary share consolidation.

In addition, the authorised share capital of the Company was increased by the creation of such new ordinary shares of €0.625 each as was necessary to result in the authorised share capital being 4,000 million shares (€2,500 million).

Year ended 31 December 2014

Ordinary Shares

On 13 May 2014, arising from AIB's decision not to pay the discretionary dividend on the 2009 Preference Shares amounting to €280 million, the NPRFC[1] became entitled to bonus shares in lieu and the Company issued 2,177,293,934 ordinary shares of €0.01 each by way of a bonus issue to the NPRFC[1]. This number of shares is equal to the aggregate cash amount of the annual dividend of €280 million on the NPRFC's[1] holding of 3.5 billion 2009 Preference Shares, divided by the average ordinary share price per share in the 30 trading days prior to 13 May 2014. In accordance with the Company's Articles of Association, an amount of €22 million, equal to the nominal value of the shares issued, was transferred from share premium account to ordinary share capital. Following this transaction, the NPRFC4 held 522,558,712,910 ordinary shares in AIB (99.8 per cent. of the issued ordinary share capital).

Following shareholder resolutions passed at the EGM held on 19 June 2014:

- the authorised share capital of the Company was reduced from €11,092,752,297 to €1,790,000,000;
- the ordinary shares of the Company were renominalised, each ordinary share of €0.01 was subdivided into one ordinary share of €0.0025 each (carrying the same rights and obligations as an existing

(1) Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

40 Share capital (Continued)

ordinary share) and one deferred share of €0.0075 each. The deferred shares created on the renominalisation had no voting or dividend rights and had no economic value; and

- the Company acquired all of the deferred shares for nil consideration and immediately cancelled them in accordance with its Articles of Association adopted at the EGM, which resulted in €3,926 million transferring from share capital to a capital redemption reserve fund.

  On 15 October 2014, the Irish High Court confirmed an application by AIB for a reduction of the share premium account by €1,074 million, in addition to a reduction of €3,926 million of its capital redemption reserves (note 43). This resulted in a transfer from these reserve accounts (€5 billion) to revenue reserves.

Movements in Share Capital

The following tables show the movements in share capital in the statement of financial position during each year:

Issued share capital

	31 December		
	2016	2015	2014
		(€ millions)	
At 1 January:			
Ordinary shares	1,696	1,309	5,213
Preference shares	—	35	35
	—	1,344	5,248
Ordinary shares in lieu of dividend	—	—	22
	1,696	1,344	5,270
2009 Preference Shares subdivision into €0.0025 each nominal for conversion to ordinary shares	—	(21)	—
2009 Preference Shares redemption for cash	—	(14)	—
		(35)	—
Ordinary shares issued on conversion of 2009 Preference Shares	—	21	—
Bonus ordinary shares issued on conversion of 2009 Preference Shares	—	366	—
Consolidation of ordinary shares of nominal value €0.0025 each into ordinary shares of nominal value €0.625 each	—	1,696	—
Cancellation of ordinary shares of nominal value €0.0025 each	—	(1,696)	—
Ordinary shares of €0.01 each renominalised	—	—	(5,235)
Ordinary shares of €0.0025 each arising on renominalisation	—	—	1,309
Deferred shares of €0.0075 each arising on renominalisation	—	—	3,926
Cancellation of deferred shares	—	—	(3,926)
At 31 December	1,696	1,696	1,344
Of which:			
—Ordinary shares	1,696	1,696	1,309
—2009 Preference Shares	—	—	35
	1,696	1,696	1,344

40 Share capital (Continued)

Share premium

	31 December		
	2016	2015	2014
	(€ millions)		
At 1 January	1,386	1,752	2,848
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	—	—	(22)
Reduction and transfer to revenue reserves	—	—	(1,074)
Bonus ordinary shares issued on conversion of 2009 Preference Shares	—	(366)	—
At 31 December	1,386	1,386	1,752

Structure of AIB's share capital as at 31 December 2016

	Authorised share capital	Issued share capital
	(%)	
Class of share		
Ordinary share capital	100	100

The following table shows AIB's capital resources at 31 December 2016, 31 December 2015 and 31 December 2014:

Capital resources

	31 December		
	2016	2015	2014
	(€ millions)		
Equity	13,148	12,148	11,572
Contingent capital notes (note 39)	—	1,524	1,411
Dated capital notes (note 39)	791	794	40
Total capital resources	13,939	14,466	13,023

41 Own shares

Following approval by the Board on 17 December 2015, AIB cancelled all its outstanding treasury shares and in accordance with Section 106 of the Companies Act 2014, the nominal value of the shares cancelled, amounting to €89,200, was transferred from the ordinary share capital account to the capital redemption reserve account. The balance on the treasury shares account was transferred to revenue reserves account.

The company did not reissue any ordinary shares from its pool of treasury shares since 2008.

Employee share schemes and trusts

In the past, AIB sponsored a number of employee share schemes whereby purchases of shares were made in the open market to satisfy commitments under the various schemes.

At 31 December 2016, 5,820 shares, (2015: 5,820 shares; 2014: 5,820 shares) were held by trustees with a carrying value of €23 million (2015: €23 million; 2014: €23 million), and a market value of €0.029 million (2015: €0.039 million; 2014: €0.1 million). The carrying value is deducted from revenue reserves while the shares continue to be held by AIB.

42 Other equity interests

	2016	2015	2014
	(€ millions)		
At 1 January	494	—	—
Additional Tier 1 securities issued	—	500	—
Transaction costs[(1)]	—	(6)	—
At 31 December	494	494	—

Note:

(1) Taxation Nil.

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

On 3 December 2015, as part of its capital reorganisation, AIB issued €500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ("AT1s"). The securities, which are accounted for as equity in the statement of financial position, are included in AIB's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Interest on the securities, at a fixed rate of 7.375 per cent. per annum, is payable semi-annually in arrears on 3 June and 3 December, commencing on 3 June 2016. On the first reset date on 3 December 2020, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year rate plus a margin of 7.339 per cent. AIB has sole and absolute discretion at all times to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. In addition, there are certain limitations on the payment of interest if such payments are prohibited under Irish banking regulations or regulatory capital requirements, if AIB has insufficient reserves available for distribution or if AIB fails to satisfy the solvency condition as defined in the securities' terms. Any interest not paid on an interest payment date by reason of the provisions as to cancellation of interest or by reason of the solvency condition set out in the terms and conditions, will not accumulate or be payable thereafter.

The securities are perpetual securities with no fixed redemption date. AIB may, in its sole and full discretion, redeem all (but not some only) of the securities on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the SSM/Central Bank who has set out certain conditions in relation to redemption, purchase, cancellation and modification of these securities. In addition, the securities are redeemable at the option of AIB for certain regulatory or tax reasons.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding AIB's ordinary shares) and with the holders of preference shares, if any, which have a preferential right to a return of assets in a winding-up of AIB. They rank ahead of the holders of ordinary share capital of AIB but junior to the claims of senior creditors.

If the CET1 ratio of the Company or AIB at any time falls below 7 per cent. (a Trigger Event) and is not in winding-up, subject to certain conditions AIB may write down the AT1s by the lower of the amount necessary to generate sufficient common equity tier 1 capital to restore the CET1 ratio to 7 per cent. or the amount that would reduce the prevailing principal amount to zero. To the extent permitted in order to comply with regulatory capital and other requirements, AIB may at its sole and full discretion reinstate any previously written down amount.

43 Capital reserves and capital redemption reserves

Capital reserves

	31 December 2016			31 December 2015			31 December 2014		
	Capital contribution reserves	Other capital reserves	Total	Capital contribution reserves	Other capital reserves	Total	Capital contribution reserves	Other capital reserves	Total
	(€ millions)								
At 1 January	1,382	178	1,560	1,780	178	1,958	2,344	253	2,597
Transfer to revenue reserves:									
Anglo business transfer	(285)	—	(285)	(285)	—	(285)	(470)	—	(470)
CCNs issuance (note 39)	(76)	—	(76)	(113)	—	(113)	(94)	—	(94)
Disposal of Ark Life(1)	—	—	—	—	—	—	—	(75)	(75)
	(361)	—	(361)	(398)	—	(398)	(564)	(75)	(639)
At 31 December	1,021	178	1,199	1,382	178	1,560	1,780	178	1,958

Note:

(1) Arising from the disposal of Ark Life in May 2014, an amount of €75 million, previously accounted for as capital reserves, was transferred to revenue reserves.

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy 1.28 in note 1. The transfers to revenue reserves relate to the capital contributions being deemed distributable. The capital contribution reserves which arose on the issue of the CCNs are now deemed to be fully distributable as the CCNs have been repaid in full.

On 28 July 2011, the Minister for Finance ('the Minister') and the NPRFC[1] agreed to contribute €2,283 million and €3,771 million respectively (total €6,054 million) as capital contributions to AIB for Nil consideration. These capital contributions constitute CET 1 for regulatory purposes and are included within "Revenue reserves". Neither the Minister nor the NPRFC[1] has an entitlement to seek repayment of these capital contributions.

Capital redemption reserves

	31 December		
	2016	2015	2014
	(€ millions)		
At 1 January	14	—	—
Transfer from share capital (note 42)	—	—	3,926
Reduction and transfer to revenue reserves	—	—	(3,926)
Transfer from 2009 Preference Share capital (note 40)	—	14	—
Treasury shares cancellation	—	—	—
At 31 December	14	14	—

2015

On 17 December 2015, AIB redeemed 1,360 million of the 2009 Preference Shares (nominal value €13.6 million) which was reflected as a transfer to the capital redemption reserve account from the 2009 Preference Share capital account in accordance with the Companies Act 2014 (note 40).

On 17 December 2015, AIB cancelled its holding of treasury shares (note 41). This resulted in the transfer of the nominal value of shares cancelled (€89,200) from the ordinary share capital account to capital redemption reserves.

1 Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

43 Capital reserves and capital redemption reserves (Continued)

2014

On 20 June 2014, the ordinary shares of the Comapny were renominalised which resulted in the creation of ordinary shares of €0.0025 each, totalling €1,309 million and deferred shares of €0.0075 each, totalling €3,926 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in €3,926 million transferring from share capital to capital redemption reserves (note 43).

Following the Irish High Court confirmation on 15 October 2014 of an application by AIB for a reduction of its capital redemption reserve fund, €3,926 million was transferred to revenue reserves from this account.

44 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in AIB's statement of financial position; or
- are subject to enforceable master netting arrangements or similar agreements that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and receivables and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

AIB has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by €971 million at 31 December 2016 (2015: €1,052 million; 2014: €1,221 million).

AIB's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, AIB has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of AIB or the counterparties. In addition, AIB and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

AIB provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase agreements
- reverse sale and repurchase agreements
- securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ("CSAs"), which enable AIB to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The CSAs in place provide collateral for derivative contracts. At 31 December 2016, €487 million (2015: €514 million; 2014: €843 million) of CSAs are included within financial assets and €322 million (2015: €201 million; 2014: €279 million) of CSAs are included within financial liabilities.

44 Offsetting financial assets and financial liabilities (Continued)

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2016, 2015 and 2014:

	Note	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) received	Net amount
		31 December 2016 (€ millions)					
Financial assets							
Derivative financial instruments	22	1,316	—	1,316	(971)	(322)	23
Loans and receivables to banks—							
Reverse repurchase agreements	23	350	(350)	—	—	—	—
Total		1,666	(350)	1,316	(971)	(322)	23

	Note	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) received	Net amount
		31 December 2016 (€ millions)					
Financial liabilities							
Deposits by central banks and banks—Securities sold under agreements to repurchase	33	5,323	(350)	4,973	(4,999)	(12)	(38)
Customer accounts—Securities sold under agreements to repurchase	34	622	—	622	(641)	—	(19)
Derivative financial instruments	22	1,468	—	1,468	(971)	(487)	10
Total		7,413	(350)	7,063	(6,611)	(499)	(47)

	Note	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) received	Net amount
		31 December 2015 (€ millions)					
Financial assets							
Derivative financial instruments	22	1,245	—	1,245	(1,052)	(201)	(8)
Loans and receivables to banks—							
Reverse repurchase agreements	23	648	—	648	(737)	—	(89)
Loans and receivables to customers—							
Reverse repurchase agreements	24	226	—	226	(222)	—	4
Total		2,119	—	2,119	(2,011)	(201)	(93)

44 Offsetting financial assets and financial liabilities (Continued)

	Note	31 December 2015 Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Financial collateral (including cash collateral) received	Net amount
		(€ millions)					
Financial liabilities							
Deposits by central banks and banks—Securities sold under agreements to repurchase	33	10,153	—	10,153	(10,571)	(20)	(438)
Customer accounts—Securities sold under agreements to repurchase	34	905	—	905	(928)	(1)	(24)
Derivative financial instruments	22	1,605	—	1,605	(1,052)	(514)	39
Total		12,663	—	12,663	(12,551)	(535)	(423)

	Note	31 December 2014 Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Financial collateral (including cash collateral) received	Net amount
		(€ millions)					
Financial assets							
Derivative financial instruments	22	1,490	—	1,490	(1,221)	(279)	(10)
Loans and receivables to customers—Reverse repurchase agreements	24	110	—	110	(107)	—	3
Total		1,600	—	1,600	(1,328)	(279)	(7)

	Note	31 December 2014 Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Financial collateral (including cash collateral) received	Net amount
		(€ millions)					
Financial liabilities							
Deposits by central banks and banks—Securities sold under agreements to repurchase	33	12,653	—	12,653	(13,164)	51	(460)
Customer accounts—Securities sold under agreements to repurchase	34	2,153	—	2,153	(2,206)	2	(51)
Derivative financial instruments	22	2,140	—	2,140	(1,221)	(843)	76
Total		16,946	—	16,946	(16,591)	(790)	(435)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities—fair value;
- loans and receivables to banks—amortised cost;
- loans and receivables to customers—amortised cost;
- deposits by central banks and banks—amortised cost; and
- customer accounts—amortised cost.

44 Offsetting financial assets and financial liabilities (Continued)

The following tables reconcile the "Net amounts of financial assets and financial liabilities presented in the statement of financial position", as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2016, 2015 and 2014:

	31 December 2016			
	Net amounts of financial assets presented in the statement of financial position	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures
	(€ millions)		(€ millions)	(€ millions)
Financial assets				
Derivative financial instruments	1,316	Derivative financial instruments	1,814	498
Loans and receivables to banks—Reverse repurchase agreements	—	Loans and receivables to banks	1,399	1,399
Loans and receivables to customers—Reverse repurchase agreements	—	Loans and receivables to customers	60,639	60,639

	31 December 2016			
	Net amounts of financial liabilities presented in the statement of financial position	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures
	(€ millions)		(€ millions)	(€ millions)
Financial liabilities				
Deposits by central banks and banks—Securities sold under agreements to repurchase	4,973	Deposits by central banks and banks	7,732	2,759
Customer accounts—Securities sold under agreements to repurchase	622	Customer accounts	63,502	62,880
Derivative financial instruments	1,468	Derivative financial instruments	1,609	141

44 Offsetting financial assets and financial liabilities (Continued)

	31 December 2015			
	Net amounts of financial assets presented in the statement of financial position	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures
	(€ millions)		(€ millions)	(€ millions)
Financial assets				
Derivative financial instruments	1,245	Derivative financial instruments	1,698	453
Loans and receivables to banks—Reverse repurchase agreements	648	Loans and receivables to banks	2,339	1,691
Loans and receivables to customers—Reverse repurchase agreements	226	Loans and receivables to customers	63,240	63,014

	31 December 2015			
	Net amounts of financial liabilities presented in the statement of financial position	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures
	(€ millions)		(€ millions)	(€ millions)
Financial liabilities				
Deposits by central banks and banks—Securities sold under agreements to repurchase	10,153	Deposits by central banks and banks	13,863	3,710
Customer accounts—Securities sold under agreements to repurchase	905	Customer accounts	63,383	62,478
Derivative financial instruments	1,605	Derivative financial instruments	1,781	176

44 Offsetting financial assets and financial liabilities (Continued)

	31 December 2014			
	Net amounts of financial assets presented in the statement of financial position	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures
	(€ millions)		(€ millions)	(€ millions)
Financial assets				
Derivative financial instruments	1,490	Derivative financial instruments	2,038	548
Loans and receivables to customers—Reverse repurchase agreements	110	Loans and receivables to customers	63,362	63,252

	31 December 2014			
	Net amounts of financial liabilities presented in the statement of financial position	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures
	(€ millions)		(€ millions)	(€ millions)
Financial liabilities				
Deposits by central banks and banks—Securities sold under agreements to repurchase	12,653	Deposits by central banks and banks	16,768	4,115
Customer accounts—Securities sold under agreements to repurchase	2,153	Customer accounts	64,018	61,865
Derivative financial instruments	2,140	Derivative financial instruments	2,334	194

45 Memorandum items: contingent liabilities and commitments, and contingent assets

In the normal course of business, AIB is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated statement of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

AIB's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

AIB uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for "on balance sheet lending".

45 Memorandum items: contingent liabilities and commitments, and contingent assets (Continued)

The following tables give the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount		
	31 December		
	2016	2015	2014
	(€ million)		
Contingent liabilities[1]—credit related			
Guarantees and assets pledged as collateral security:			
Guarantees and irrevocable letters of credit	527	735	739
Other contingent liabilities	383	640	507
	910	1,375	1,246
Commitments[2]			
Documentary credits and short-term trade-related transactions	62	39	14
Undrawn formal standby facilities, credit lines and other commitments to lend:			
Less than 1 year[3]	7,760	7,206	6,837
1 year and over[4]	2,467	2,502	2,231
	10,289	9,747	9,082
	11,199	11,122	10,328

Notes:

(1) Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

(2) A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

(3) An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

(4) With an original maturity of more than 1 year.

	Contingent liabilities			Commitments		
	31 December			31 December		
	2016	2015	2014	2016	2015	2014
	(€ millions)					
Concentration of exposure						
Republic of Ireland	661	673	629	8,540	8,030	7,580
United Kingdom	145	544	480	1,744	1,710	1,480
United States of America	104	158	137	5	7	22
Total	910	1,375	1,246	10,289	9,747	9,082

The credit ratings of contingent liabilities and commitments as at 31 December 2016, 2015 and 2014 are set out in the following table. Details of AIB's rating profiles are set out in note 58 Financial Risk Management.

	31 December		
	2016	2015	2014
	(€ millions)		
Good upper	3,231	3,166	3,544
Good lower	7,145	5,425	3,527
Watch	383	258	730
Vulnerable	268	164	196
Impaired	172	366	488
Unrated	—	1,743	1,843
Total	11,199	11,122	10,328

45 Memorandum items: contingent liabilities and commitments, and contingent assets (Continued)

Legal proceedings

AIB in the course of its business is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as AIB is aware, pending or threatened by or against AIB any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous 12 months, a material effect on the financial position, profitability or cashflows of AIB.

Contingent liability/contingent asset—NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, AIB has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefits may result to AIB (notes 38 and 47).

(b) AIB has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for AIB.

(c) On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

Participation in TARGET 2—Ireland

AIB migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2:

By Deeds of Charge made on 15 February 2008, AIB created first floating charges in favour of the Central Bank over all of AIB's right, title, interest and benefit, present and future, in and to:

(i) the balances then or at any time standing to the credit of Payment Module accounts held by AIB with a Eurosystem central bank ("Charge over Payment Module Accounts"); and

(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by AIB to the Central Bank ("Charge over Eligible Securities").

In each case, a "Charged Property", for the purpose of securing all present and future liabilities of AIB in respect of AIB's participation in TARGET 2, arising from the Deeds of Charge and the Terms and Conditions for participation in TARGET 2—Ireland (specified from time to time by the Central Bank), including, without limitation, liabilities to the Central Bank, the ECB, or any national central bank of a Member State that has adopted the euro.

The Deeds of Charge contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

The Central Bank amended its collateral management system in May 2014, moving from an earmarking system to a pooling one for certain collateral accepted for Eurosystem credit operations. As part of this transition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets dated 7 April 2014 ("Framework Agreement"). The Framework Agreement provided for the release of the Charge over Eligible Securities with effect from 26 May 2014.

45 Memorandum items: contingent liabilities and commitments, and contingent assets (Continued)

A deed of charge was made on 7 April 2014 between AIB and the Central Bank in connection with the Framework Agreement ("Framework Agreement Deed of Charge"). The Framework Agreement Deed of Charge created a first fixed charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of AIB at that time in and to, or in connection with, a collateral account (the "Collateral Account") and eligible assets which stand to the credit of the Collateral Account and a first floating charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to other eligible assets of AIB.

The Charge over Payment Module Accounts remains in place. It has been extended to also provide for a first floating charge in favour of the Central Bank over a participant's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of a dedicated cash account (as defined in the Terms and Conditions for Participating in TARGET 2—Ireland). AIB does not currently hold a dedicated cash account in relation to its participation in TARGET 2—Ireland.

46 Subsidiaries and consolidated structured entities

The following are the material companies of AIB at 31 December 2016, 2015 and 2014:

Name of Company	Principal activity	Place of incorporation
Allied Irish Banks, p.l.c.	The parent company of the majority of the subsidiaries within AIB. Its activities include banking and financial services—a licensed bank.	Republic of Ireland
AIB Mortgage Bank	Issue of mortgage covered securities—a licensed bank	Republic of Ireland
EBS d.a.c.	Mortgages and savings—a licensed bank	Republic of Ireland
AIB Group (UK) p.l.c. trading as AIB (GB) in Great Britain and First Trust Bank in Northern Ireland	Banking and financial services—a licensed bank	Northern Ireland

The proportion of ownership interest and voting power held by AIB in the above subsidiaries is 100 per cent.

All subsidiaries of AIB are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries of AIB are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary where this would breach such ratios and, where the ratios fall below the minimum requirement, will require the Company to inject capital to make up the shortfall.

Principal subsidiary undertakings incorporated in the Republic of Ireland

	Nature of business
AIB Mortgage Bank[1]	Issue of Mortgage Covered Securities
EBS d.a.c.[1]	Mortgages and savings

Note:

(1) AIB interest is held directly by the Company.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

46 Subsidiaries and consolidated structured entities (Continued)

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank

AIB Mortgage Bank is a wholly owned subsidiary of the Company regulated by the Central Bank/SSM. AIB Mortgage Bank is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and holds a banking authorisation. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts 2001 and 2007.

On 13 February 2006, the Company transferred to AIB Mortgage Bank its Irish branch originated residential mortgage business, amounting to €13.6 billion in mortgage loans. In March 2006, AIB Mortgage Bank launched a €15 billion Mortgage Covered Securities Programme. The Programme was subsequently increased to €20 billion in 2009.

On 25 February 2011, the Company transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately €4.2 billion to AIB Mortgage Bank. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts.

Under an Outsourcing and Agency Agreement dated 8 February 2006, the Company as Service Agent for AIB Mortgage Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services.

As at 31 December 2016, the total amount of principal outstanding in respect of mortgage covered securities issued by AIB Mortgage Bank was €7.7 billion (2015: €7.2 billion; 2014: €7.7 billion) of which €5.3 billion was held by external debt investors (2015: €4.8 billion; 2014: €3.8 billion), €2.4 billion by the Company (2015: €1.1 billion; 2014: €1.1 billion) and Nil was self-issued to AIB Mortgage Bank (2015: €1.3 billion; 2014: €2.8 billion). The mortgage covered securities issued to the Company and to AIB Mortgage Bank were held in an the Company account subject to a fixed charge in favour of the Central Bank in support of Eurosystem refinancing operations. As at 31 December 2016, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in AIB Mortgage Bank's cover assets pool was €13.9 billion (2015: €13.9 billion; 2014: €15.1 billion).

EBS d.a.c. ("EBS")

EBS, which is regulated by the Central Bank/SSM, became a wholly owned subsidiary of the Company on 1 July 2011. AIB operates EBS as a standalone, separately branded subsidiary with its own branch network which continues to offer mortgage and savings products.

EBS Group had consolidated total assets of €12.9 billion as at 31 December 2016 (2015: €13.1 billion; 2014: €14 billion). EBS operates in the Republic of Ireland and has a countrywide network of 71 offices and a direct telephone based distribution division, EBS Direct. EBS offers residential mortgages and savings products, together with life and property insurance on an agency basis. EBS also distributes mortgages through Haven, a wholly owned subsidiary, to independent mortgage intermediaries.

In December 2007, EBS established Haven, a wholly owned subsidiary focused on mortgage distribution through the intermediary market which, prior to 2005, had not been part of its target market. Haven is authorised by the Central Bank as a retail credit firm under Part V of the Central Bank Act 1997 (as amended). Haven has its own board of directors and the autonomy to grow and establish its business around the needs of its customer (the intermediary). Haven offers a full range of prime mortgages.

In December 2008, EBS established EBS Mortgage Finance, a wholly owned subsidiary which is regulated by the Central Bank/SSM. EBS Mortgage Finance is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and also holds a banking authorisation. Its purpose is to issue mortgage covered securities for the financing of loans secured on residential property in accordance with the Asset Covered Securities legislation. Such loans may be made directly by EBS Mortgage Finance or may be purchased from EBS and other members of the EBS Group or third parties. On 1 December 2008 and 1 November 2011, EBS transferred to EBS Mortgage Finance

46 Subsidiaries and consolidated structured entities (Continued)

certain Irish residential loans and related security held by it and certain of its Irish residential loan business related to such loans and security. The aggregate book value of the Irish residential loans transferred was approximately €8.44 billion. As at 31 December 2016, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in EBS Mortgage Finance's cover assets pool was €3.8 billion (2015: €4.2 billion; 2014: €4.7 billion).

In December 2008, EBS Mortgage Finance launched a €6 billion Mortgage Covered Securities Programme. As at 31 December 2016, the total amount of principal outstanding in respect of mortgage covered securities issued by EBS Mortgage Finance was €1.5 billion (2015: €2.4 billion; 2014: €1.85 billion) of which €Nil (2015: Nil; 2014: Nil) was held by external debt investors. EBS held €1.5 billion (2015: €2.4 billion; 2014: €1.85 billion).

Prior to its acquisition by AIB, EBS had set up a number of special purpose entities ("SPEs"), namely, Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 d.a.c.; and Mespil 1 RMBS Limited. Loans and receivables which were transferred to these securitisation entities are included in AIB's consolidated loans and receivables and amount to €2,733 million as at 31 December 2016 (2015: €2,961 million; 2014: €3,120 million). For further details on these SPEs, see note 47.

Principal subsidiary undertaking incorporated outside the Republic of Ireland

	Nature of Business
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and trading as First Trust Bank in Northern Ireland *Registered office*: 92 Ann Street, Belfast BT1 3AY	Banking and financial services

The above subsidiary undertaking is a wholly-owned subsidiary of the Company The registered office is located in the principal country of operation. The issued share capital is denominated in ordinary shares.

AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the FCA and the PRA had consolidated total assets of £13.4 billion at 31 December 2016. It operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI), each with different economies and operating environments. It is the primary legal entity within the segment AIB UK.

Great Britain (GB)

In this market, the segment operates under the trading name Allied Irish Bank (GB) from 16 locations in key cities across GB. AIB GB's strategy is to be a leading provider of full banking services to owner-managed businesses and small corporates who value a high-service relationship in local geographies and in selected sectors. In addition, AIB GB has a committed and unique focus on British Irish trade.

Northern Ireland (NI)

In this market, the segment operates as First Trust Bank from 30 branches and outlets throughout NI. The First Trust Bank offers a full banking service, including online, mobile and telephone banking to business and personal customers across the range of customer segments, including professionals, high net worth individuals, SMEs, as well as the public and corporate sectors.

Guarantees

The Company has guaranteed a number of its subsidiary companies.

46 Subsidiaries and consolidated structured entities (Continued)

Each of the companies listed below, and consolidated into AIB's financial information, had availed of the exemption from filing its individual accounts as set out in Section 357 of the Companies Act, 2014. In accordance with the Act, the Company has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Capital Exchange Offering 2009 Limited
AIB Capital Markets plc
AIB Combined Leasing Limited
AIB Commercial Finance Limited
AIB Corporate Banking Limited
AIB Corporate Finance Limited
AIB Debt Management Limited
AIB European Investments Limited
AIB Finance Limited
AIB Financial Services Limited
AIB (Holdings & Investments) Limited
AIB Holdings (Ireland) Limited
AIB Insurance Services Limited
AIB International Finance Unlimited Company
AIB International Leasing Limited
AIB Investment Services Limited
AIB Leasing Limited
AIB Limited
AIB Services Limited
AIB 24 Hour Services Limited
Alibank Nominees Limited
Allied Irish Finance Limited
Allied Irish Nominees Limited
Ammonite Limited
Blogram Limited
Commdec Limited
Dohcar Limited
Dohhen Limited
Eyke Limited
General Estates and Trust Company Limited
Hengram Limited
Jonent Downs Limited
Kavwall Limited
Marro Properties Limited
Mezzanine Management Limited
P B Nominees Limited
Radstock Limited
Rushwood Holdings Limited
Sanditon Limited
S. & M. (Limerick) Limited
Skobar Unlimited Company
Skonac Unlimited Company
Skopek Unlimited Company
Skovale Unlimited Company
The Hire Purchase Company of Ireland Limited
The Munster and Leinster Bank Limited
The Royal Bank of Ireland Limited
Walkav Limited

Consolidated structured entities

AIB has acted as sponsor and invested in a number of special purpose entities ("SPEs") in order to generate funding for AIB's lending activities (with the exception of AIB PFP Scottish Limited Partnership). AIB considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by AIB:

- Emerald Mortgages No. 4 Public Limited Company;
- Emerald Mortgages No. 5 d.a.c.;
- Mespil 1 RMBS d.a.c.;
- Tenterden Funding p.l.c.;
- Goldcrest Funding No. 1 d.a.c.; and
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 47.

There are no contractual arrangements that could require the Company or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the financial year, neither the Company nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

AIB has no interest in unconsolidated structured entities.

46 Subsidiaries and consolidated structured entities (Continued)

Ark Life Assurance Company Limited

Ark Life Assurance Company Limited was acquired in 2013, as a wholly owned subsidiary, with a view to its subsequent disposal. It was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This sale was completed in May 2014 (note 16).

Further details on AIB's principal subsidiaries are set out below.

47 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a SPE forms the basis for their treatment in AIB's financial information. An SPE is consolidated in the financial information when the substance of the relationship between AIB and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements*. The primary form of SPE utilised by AIB are securitisations and employee compensation trusts.

Securitisations

AIB utilises securitisations primarily to support the following business objectives:

- as an investor, AIB has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through Treasury;
- as an investor, securitisations have been utilised by AIB to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
- as an originator of securitisations to support the funding activities of AIB.

AIB controls certain SPEs which were set-up to support the funding activities of AIB. Details of these SPEs are set out below under the heading "Special purpose entities". AIB controls two SPEs set up in relation to the funding of the pension schemes of AIB which are also detailed below.

Stock borrowing and lending

Securities borrowed are not recognised in the financial information, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

Employee compensation trusts

AIB and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of AIB's equity by employees. AIB consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of these schemes are summarised in note 11, however, activity has been minimal for the past number of years.

Transfer of financial assets

AIB enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

(i) continue to be recognised in their entirety; or

(ii) be derecognised in their entirety but AIB retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

47 Off-balance sheet arrangements and transferred financial assets (Continued)

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements

Sale and repurchase agreements are transactions in which AIB sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. AIB continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. AIB's sale and repurchase agreements are both with central banks, banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 33) and 'Customer accounts' (note 34). As AIB sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. AIB remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 33 and 34. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

AIB enters into securities lending in the form of collateral swap agreements with other parties. AIB continues to recognise the financial assets (Government bonds) in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of these transactions, AIB is unable to use, sell or pledge the transferred assets for the duration of the transactions. A fee is generated for AIB under these transactions.

Issuance of covered bonds

Covered bonds, which AIB issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. AIB retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to be recognised on AIB's statement of financial position with the related covered bonds included within "Debt securities in issue" (note 36). As AIB segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to €9 billion, internal AIB companies hold €4 billion which are eliminated on consolidation. These internally issued bonds are used by AIB as part of sale and repurchase agreements with the Central Bank as outlined above.

Special purpose entities

Securitisations are transactions in which AIB sells loans and receivables to customers (mainly mortgages and credit card receivables) to SPEs, which, in turn, issue notes or deposits to external investors. The notes or deposits issued by the SPEs are on terms which result in AIB retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised on AIB's statement of financial position. AIB remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within "Debt securities in issue" (note 36). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to AIB. AIB does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

In 2012, AIB securitised €533 million of its residential mortgage portfolio held in the AIB UK segment. These mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ("Tenterden"). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to an AIB subsidiary. The transferred mortgages have not been derecognised as AIB retains substantially all the risks and rewards of ownership and continue to be reported in AIB's statement of financial position. Tenterden is consolidated into AIB's financial information with the class B notes being eliminated on consolidation. The liability in respect of cash received by Tenterden from the external investors is included within "Debt securities in issue" (note 36) in the statement of financial position. At 31 December 2016, the carrying amount of the assets which AIB continues to recognise is €207 million (2015: €294 million; 2014: €332 million) and the carrying amount of the associated liabilities is €69 million (2015: €135 million; 2014: €178 million).

47 Off-balance sheet arrangements and transferred financial assets (Continued)

In 2013, AIB securitised part of its credit card receivables portfolio. These credit card receivables were transferred to a securitisation vehicle, Goldcrest Funding No.1 d.a.c. ("Goldcrest"). In order to fund the acquired receivables, Goldcrest received senior loan facility proceeds from external investors secured on these and future credit card receivables and junior loan facility proceeds from AIB. The transferred receivables were not derecognised as AIB retained substantially all the risks and rewards of ownership and the credit card receivables continued to be reported in AIB's statement of financial position. Goldcrest was consolidated into AIB's financial information with the junior loan facility being eliminated on consolidation. In November 2016, the securitisation transaction was terminated and Goldcrest is being liquidated.

Arising from the acquisition of EBS on 1 July 2011, AIB controls three SPEs which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 d.a.c.; and Mespil 1 RMBS d.a.c..

Emerald Mortgages No. 4 Public Limited Company

The total carrying value of the original residential mortgages transferred by EBS to Emerald Mortgages No. 4 Public Limited Company ("Emerald 4") as part of the securitisation amounted to €1,500 million. The carrying amount of transferred secured loans that AIB has recognised at 31 December 2016 is €615 million (2015: €677 million; 2014: €735 million). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to €399 million (2015: €446 million; 2014: €575 million) and is included within "Debt securities in issue" (note 36). On 15 December 2016, Emerald 4 announced to the Irish Stock Exchange that it had received notice from its parent (EBS) of its intention to refinance loan notes on 15 March 2017 which Emerald 4 held. Consequent upon this, Emerald 4 stated that it will either exercise its option to redeem the bonds or repay outstanding bond holders.

Emerald Mortgages No. 5 d.a.c.

The total carrying amount of original residential mortgages transferred by EBS to Emerald Mortgages No. 5 d.a.c. ("Emerald 5") as part of the securitisation amounted to €2,500 million. The carrying amount of transferred secured loans that AIB has recognised at 31 December 2016 is €1,189 million (2015: €1,304 million; 2014: €1,420 million). Bonds were issued by Emerald 5 to EBS d.a.c. but these are not shown in AIB's financial information, as these bonds are eliminated on consolidation.

Mespil 1 RMBS Limited

The total carrying amount of secured loans that AIB has recognised as at 31 December 2016 is €734 million (2015: €780 million; 2014: €814 million) in relation to the transfers from EBS and Haven to Mespil 1 RMBS d.a.c. The bonds issued by Mespil 1 RMBS d.a.c. to EBS are not shown in AIB's financial information, as these bonds are eliminated on consolidation.

The following tables summarise as at 31 December 2016, 2015 and 2014, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities.

	31 December 2016						
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by AIB companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by AIB companies	Net fair value position
				(€ millions)			
Sale and repurchase agreements/similar products	6,224[(1)(2)]	5,745[(1)]	—	6,229	5,745	—	484
Covered bond programmes:							
—Residential mortgage backed	9,521[(3)]	5,265	—	8,682	5,459	—	3,223
Securitisations	822	468	420	800	449	398	(47)

47 Off-balance sheet arrangements and transferred financial assets (Continued)

	31 December 2015						
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by AIB companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by AIB companies	Net fair value position
				(€ millions)			
Sale and repurchase agreements/similar products	12,398[1][2]	11,208[1]	—	12,398	11,208	—	1,190
Covered bond programmes:							
—Residential mortgage backed	9,219[3]	4.765	—	8,169	4,990	—	3,179
Securitisations	1,263	781	558	1,210	752	533	(75)

	31 December 2014						
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by AIB companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by AIB companies	Net fair value position
				(€ millions)			
Sale and repurchase agreements	16,798[1]	14,806[1]	—	16,798	14,086	—	1,992
Covered bond programmes:							
—Residential mortgage backed	7,379[3]	3,765	—	6,387	4,103	—	2,284
Securitisations	1,365	953	498	1,286	902	478	(94)

Notes:

(1) See notes 33 and 34.

(2) Includes €345 million of assets pledged in relation to securities lending arrangements at 31 December 2016 (2015: €640 million; 2014: Nil).

(3) The asset pools €19 billion (2015: €18 billion; 2014: €20 billion), in the covered bond programme have been apportioned on a *pro rata* basis in relation to the value of bonds held by external investors and those held by AIB companies. The €9,521 million at 31 December 2016 (2015: €9,219 million; 2014: €7,379 million) above refers to those assets apportioned to external investors.

AIB Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, AIB agreed with the Trustee of the AIB UK Pension Scheme a restructure of the funding of the deficit in the scheme. The future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

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

Assets ring fenced for this purpose entitle the scheme to expected annual payments in the range of £15 million to £35 million per annum from 2016 until 2032, with a potential termination payment in 2032 of up to £60 million. Following the approval of the triennial valuation in December 2014, the annual payments were set at £19.1 million per annum, commencing 1 April 2016, but are subject to review following each future triennial valuation.

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

47 Off-balance sheet arrangements and transferred financial assets (Continued)

(ii) Transferred financial assets derecognised in their entirety but AIB retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Irish Pension Scheme, whereby it agreed to make contributions to the scheme to enable the Trustee to ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to €594 million were settled through the transfer to the scheme of interests in an SPE owning loans and receivables previously transferred at fair value from AIB. The loans and receivables were derecognised in AIB's financial information as all of the risks and rewards of ownership had transferred.

A subsidiary company of AIB was appointed as a service provider for the loans and receivables transferred. Under the servicing agreement, the AIB subsidiary company collects the cash flows on the transferred loans and receivables on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125 per cent. of the principal balance outstanding of all transferred loans and receivables on the last day of each calendar month. AIB has not recognised a servicing asset/liability in relation to this servicing arrangement, as the fee is considered to be a market rate. Under the servicing agreement, the scheme has the right to replace the AIB subsidiary company as the service provider with an external third party. In the year ended 31 December 2016, AIB recognised €1 million (cumulative €5.3 million) (2015: €1.1 million (cumulative €4.3 million); 2014: €1.2 million (cumulative €3.2 million)) in the income statement for the servicing of the loans and receivables transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of €15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, AIB has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance (the "Minister") may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the maximum exposure to loss which may arise on the dissolution or restructuring of NAMA.

In addition, AIB has been appointed by NAMA as a service provider for the loans and receivables transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1 per cent. of the value of the financial assets transferred. AIB has not recognised a servicing asset/liability in relation to this servicing arrangement. In the year ended 31 December 2016, AIB recognised €4 million (cumulative: €86 million) (2015: €13 million (cumulative €82 million); 2014: €16 million (cumulative: €69 million)) in the income statement for the servicing of financial assets transferred to NAMA.

48 Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy 1.13 "Financial assets" and 1.14 "Financial liabilities" in note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following tables analyse the carrying amounts of the

48 Classification and measurement of financial assets and financial liabilities (Continued)

financial assets and financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading at 31 December 2016, 2015 and 2014:

	31 December 2016							
	At fair value through profit and loss		At fair value through equity		At amortised cost			
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Held to maturity	Other	Total
	(€ millions)							
Financial assets								
Cash and balances at central banks	—	—	—	—	5,921	—	598[1]	6,519
Items in the course of collection	—	—	—	—	134	—	—	134
Trading portfolio financial assets	1	—	—	—	—	—	—	1
Derivative financial instruments	800	250	764	—	—	—	—	1,814
Loans and receivables to banks	—	—	—	—	1,399	—	—	1,399
Loans and receivables to customers	—	—	—	—	60,639	—	—	60,639
NAMA senior bonds	—	—	—	—	1,799	—	—	1,799
Financial investments available for sale	—	—	—	15,437	—	—	—	15,437
Financial investments held to maturity	—	—	—	—	—	3,356	—	3,356
Other financial assets	—	—	—	—	—	—	430	430
	801	250	764	15,437	69,892	3,356	1,028	91,528
Financial liabilities								
Deposits by central banks and banks	—	—	—	—	—	—	7,732	7,732
Customer accounts	—	—	—	—	—	—	63,502	63,502
Trading portfolio financial liabilities	—	—	—	—	—	—	—	—
Derivative financial instruments	861	389	359	—	—	—	—	1,609
Debt securities in issue	—	—	—	—	—	—	6,880	6,880
Subordinated liabilities and other capital instruments	—	—	—	—	—	—	791	791
Other financial liabilities	—	—	—	—	—	—	442	442
	861	389	359	—	—	—	79,347	80,956

Note:

(1) Comprises cash on hand.

48 Classification and measurement of financial assets and financial liabilities (Continued)

	31 December 2015							
	At fair value through profit and loss		At fair value through equity		At amortised cost			
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Held to maturity	Other	Total
	(€ millions)							
Financial assets								
Cash and balances at central banks	—	—	—	—	4,415	—	535(1)	4,950
Items in the course of collection	—	—	—	—	153	—	—	153
Trading portfolio financial assets	1	—	—	—	—	—	—	1
Derivative financial instruments	877	321	500	—	—	—	—	1,698
Loans and receivables to banks	—	—	—	—	2,339	—	—	2,339
Loans and receivables to customers	—	—	—	—	63,240	—	—	63,240
NAMA senior bonds	—	—	—	—	5,616	—	—	5,616
Financial investments available for sale	—	—	—	16,489	—	—	—	16,489
Financial investments held to maturity	—	—	—	—	—	3,483	—	3,483
Other financial assets	—	—	—	—	—	—	938	938
	878	321	500	16,489	75,763	3,483	1,473	98,907
Financial liabilities								
Deposits by central banks and banks	—	—	—	—	—	—	13,863	13,863
Customer accounts	—	—	—	—	—	—	63,383	63,383
Trading portfolio financial liabilities	86	—	—	—	—	—	—	86
Derivative financial instruments	933	424	424	—	—	—	—	1,781
Debt securities in issue	—	—	—	—	—	—	7,001	7,001
Subordinated liabilities and other capital instruments	—	—	—	—	—	—	2,318	2,318
Other financial liabilities	—	—	—	—	—	—	456	456
	1,019	424	424	—	—	—	87,021	88,888

Note:

(1) Comprises cash on hand.

48 Classification and measurement of financial assets and financial liabilities (Continued)

	31 December 2014						
	At fair value through profit and loss		At fair value through equity		At amortised cost		
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other	Total
				(€ millions)			
Financial assets							
Cash and balances at central banks	—	—	—	—	4,879	514[1]	5,393
Items in the course of collection	—	—	—	—	146	—	146
Trading portfolio financial assets	1	—	—	—	—	—	1
Derivative financial instruments	1,024	500	514	—	—	—	2,038
Loans and receivables to banks	—	—	—	—	1,865	—	1,865
Loans and receivables to customers	—	—	—	—	63,362	—	63,362
NAMA senior bonds	—	—	—	—	9,423	—	9,423
Financial investments available for sale	—	—	—	20,185	—	—	20,185
Other financial assets	—	—	—	—	—	499	499
	1,025	500	514	20,185	79,675	1,013	102,912
Financial liabilities							
Deposits by central banks and banks	—	—	—	—	—	16,768	16,768
Customer accounts	—	—	—	—	—	64,018	64,018
Derivative financial instruments	1,150	587	597	—	—	—	2,334
Debt securities in issue	—	—	—	—	—	7,861	7,861
Subordinated liabilities and other capital instruments	—	—	—	—	—	1,451	1,451
Other financial liabilities	—	—	—	—	—	446	446
	1,150	587	597	—	—	90,544	92,878

Note:

(1) Comprises cash on hand.

49 Fair value of financial instruments

The term "financial instruments" includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which AIB has access at that date. AIB's accounting policy for the determination of fair value of financial instruments is set out in accounting policy 1.16.

Readers of the financial information are advised to use caution when using the data in the following tables to evaluate AIB's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of AIB as a going concern at 31 December 2016.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

49 Fair value of financial instruments (Continued)

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1—financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2—financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3—financial assets and liabilities measured using valuation techniques which use unobservable market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

All valuations are carried out within the Finance function of AIB and valuation methodologies are validated by the independent Risk function within AIB.

The methods used for calculation of fair value in the years ended 31 December 2016, 2015 and 2014, are as follows:

Financial instruments measured at fair value in the financial information

Trading portfolio financial instruments

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

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide AIB's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") are applied to all uncollateralised over-the-counter derivatives. CVA is calculated as: (Option replacement cost × probability of default ("PD") × loss given default ("LGD")). PDs are derived from market based Credit Default Swap ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60 per cent. is applied.

Funding valuation adjustment

In line with market practice which continues to evolve, AIB applies a FVA for calculating the fair value of uncollateralised derivative contracts. The application of the FVA in the valuation of uncollateralised derivative contracts, introduces the use of a funding curve for discounting of cash flows where market participants consider that this cost is included in market pricing. The funding curve used is the average funding curve implied by the Credit Default Swaps ("CDS") of AIB's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would

49 Fair value of financial instruments (Continued)

apply in a transaction to close out AIB's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations later in this note 49. For FVA, a favourable scenario is the use of the bond yields of AIB's most active derivative counterparties while an adverse scenario is the use of AIB's own estimated senior unsecured bond yields.

The combination of CVA and FVA is referred to as XVA.

Financial investments available for sale

The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

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

Loans and receivables to banks

The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and receivables to customers

AIB provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. An adjustment is made for credit risk which at 31 December 2016 took account of AIB's expectations on credit losses over the life of the loans.

The fair value of mortgage products including tracker mortgage, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

NAMA senior bonds

AIB's holding of NAMA senior bonds is classified as loans and receivables measured at amortised cost. For disclosure purposes, the fair value of the NAMA senior bonds has been calculated using a market price sourced from a pricing provider.

Financial investments held to maturity

AIB's holding of financial investments held to maturity consists of Irish Government Securities. These have been fair valued based on quoted market prices.

49 Fair value of financial instruments (Continued)

Deposits by central banks and banks and customer accounts

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

Debt securities in issue

The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and other receivables and payables. The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by AIB are included in note 45. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

49 Fair value of financial instruments (Continued)

The tables on the following pages set out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2016, 2015 and 2014:

	31 December 2016				
		Fair value			
		Fair value hierarchy			
	Carrying amount	Level 1	Level 2	Level 3	Total
	(€ millions)				
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	—	1	—	1
Derivative financial instruments					
Interest rate derivatives	1,692	—	1,189	503	1,692
Exchange rate derivatives	73	—	73	—	73
Equity derivatives	49	—	43	6	49
Financial investments available for sale					
Government securities	8,050	8,050	—	—	8,050
Supranational banks and government agencies	1,719	1,719	—	—	1,719
Asset backed securities	445	432	13	—	445
Bank securities	4,551	4,551	—	—	4,551
Corporate securities	67	67	—	—	67
Equity securities	605	—	1	604	605
	17,252	14,819	1,320	1,113	17,252
Financial assets not measured at fair value					
Cash and balances at central banks	6,519	598[1]	5,921	—	6,519
Items in the course of collection	134	—	—	134	134
Loans and receivables to banks	1,399	—	587	812	1,399
Loans and receivables to customers					
Mortgages[2]	33,375	—	—	31,296	31,296
Non-mortgages	27,264	—	—	26,790	26,790
Total loans and receivables to customers	60,639	—	—	58,086	58,086
NAMA senior bonds	1,799	—	—	1,807	1,807
Financial investments held to maturity	3,356	3,439	—	—	3,439
Other financial assets	430	—	—	430	430
	74,276	4,037	6,508	61,269	71,814
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	1,485	—	1,328	157	1,485
Exchange rate derivatives	79	—	79	—	79
Equity derivatives	45	—	41	4	45
	1,609	—	1,448	161	1,609
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	709	—	—	709	709
Secured borrowings	7,023	—	1,901	5,123	7,024
Customer accounts					
Current accounts	29,721	—	—	29,721	29,721
Demand deposits	12,663	—	—	12,663	12,663
Time deposits	20,496	—	—	20,625	20,625
Securities sold under agreements to repurchase	622	—	—	622	622
Debt securities in issue					
Bonds and medium term notes	6,733	6,391	559	—	6,950
Other debt securities in issue	147	—	147	—	147
Subordinated liabilities and other capital instruments	791	766	79	—	845
Other financial liabilities	442	—	—	442	442
	79,347	7,157	2,686	69,905	79,748

Notes:

(1) Comprises cash on hand.

(2) Includes residential and commercial mortgages.

49 Fair value of financial instruments (Continued)

	31 December 2015				
		Fair value			
		Fair value hierarchy			
	Carrying amount	Level 1	Level 2	Level 3	Total
	(€ millions)				
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	—	1	—	1
Derivative financial instruments					
Interest rate derivatives	1,540	—	1,069	471	1,540
Exchange rate derivatives	67	—	67	—	67
Equity derivatives	91	—	50	41	91
Financial investments available for sale					
Government securities	8,684	8,533	151	—	8,684
Supranational banks and government agencies	2,008	2,008	—	—	2,008
Asset backed securities	329	328	1	—	329
Bank securities	4,600	4,600	—	—	4,600
Corporate securities	87	76	—	11	87
Equity securities	781	—	1	780	781
	18,188	15,545	1,340	1,303	18,188
Financial assets not measured at fair value					
Cash and balances at central banks	4,950	535[(1)]	4,415	—	4,950
Items in the course of collection	153	—	—	153	153
Loans and receivables to banks	2,339	—	779	1,560	2,339
Loans and receivables to customers					
Mortgages[(2)]	34,667	—	—	32,181	32,181
Non-mortgages	28,573	—	—	28,192	28,192
Total loans and receivables to customers	63,240	—	—	60,373	60,373
NAMA senior bonds	5,616	—	—	5,626	5,626
Financial investments held to maturity	3,483	3,479	—	—	3,479
Other financial assets	938	—	—	938	938
	80,719	4,014	5,194	68,650	77,858
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	86	86	—	—	86
Derivative financial instruments					
Interest rate derivatives	1,622	—	1,369	253	1,622
Exchange rate derivatives	64	—	64	—	64
Equity derivatives	89	—	51	38	89
Credit derivatives	6	—	6	—	6
	1,867	86	1,490	291	1,867
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	460	—	—	460	460
Secured borrowings	13,403	—	2,903	10,503	13,406
Customer accounts					
Current accounts	25,955	—	—	25,955	25,955
Demand deposits	11,698	—	—	11,698	11,698
Time deposits	24,825	—	—	25,067	25,067
Securities sold under agreements to repurchase	905	—	—	905	905
Debt securities in issue					
Bonds and medium term notes	6,901	6,479	670	—	7,149
Other debt securities in issue	100	—	100	—	100
Subordinated liabilities and other capital instruments	2,318	758	1,778	—	2,536
Other financial liabilities	456	—	—	456	456
	87,021	7,237	5,451	75,044	87,732

49 Fair value of financial instruments (Continued)

	31 December 2014				
		Fair value			
		Fair value hierarchy			
	Carrying amount	Level 1	Level 2	Level 3	Total
	(€ millions)				
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	—	1	—	1
Derivative financial instruments					
Interest rate derivatives	1,852	—	1,295	557	1,852
Exchange rate derivatives	48	—	48	—	48
Equity derivatives	138	—	53	85	138
Financial investments available for sale					
Government securities	12,920	12,538	382	—	12,920
Supranational banks and government agencies	2,852	2,852	—	—	2,852
Asset backed securities	100	99	1	—	100
Bank securities	3,897	3,897	—	—	3,897
Corporate securities	3	—	—	3	3
Equity securities	413	—	2	411	413
	22,224	19,386	1,782	1,056	22,224
Financial assets not measured at fair value					
Cash and balances at central banks	5,393	514[1]	4,879	—	5,393
Items in the course of collection	146	—	—	146	146
Loans and receivables to banks	1,865	—	664	1,201	1,865
Loans and receivables to customers					
Mortgages[2]	35,973	—	—	31,845	31,845
Non-mortgages	27,389	—	—	27,319	27,319
Total loans and receivables to customers	63,362	—	—	59,164	59,164
NAMA senior bonds	9,423	—	—	9,479	9,479
Other financial assets	499	—	—	499	499
	80,688	514	5,543	70,489	76,546
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	2,136	—	1,897	239	2,136
Exchange rate derivatives	73	—	73	—	73
Equity derivatives	117	—	56	61	117
Credit derivatives	8	—	8	—	8
	2,334	—	2,034	300	2,334
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	715	—	—	715	715
Secured borrowings	16,053	—	3,400	12,653	16,053
Customer accounts					
Current accounts	21,665	—	—	21,665	21,665
Demand deposits	10,004	—	—	10,004	10,004
Time deposits	30,196	—	—	30,613	30,613
Securities sold under agreements to repurchase	2,153	—	—	2,153	2,153
Debt securities in issue					
Bonds and medium term notes	7,811	7,214	965	—	8,179
Other debt securities in issue	50	—	50	—	50
Subordinated liabilities and other capital instruments	1,451	—	1,831	—	1,831
Other financial liabilities	446	—	—	446	446
	90,544	7,214	6,246	78,249	91,709

Notes:

(1) Comprises cash on hand.

(2) Includes residential and commercial mortgages.

49 Fair value of financial instruments (Continued)

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December 2016		
	Financial assets		
	Trading portfolio	Debt securities	Total
	(€ millions)		
Transfer into Level 2 from Level 1	—	—	—

	Year ended 31 December 2015			Year ended 31 December 2014		
	Financial assets			Financial assets		
	Trading portfolio	Debt securities	Total	Trading portfolio	Debt securities	Total
	(€ millions)					
Transfer into Level 2 from Level 1	—	—	—	—	1	1[(1)]

Note:

(1) Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December 2016					
	Financial assets				Financial liabilities	
		Available for sale				
	Derivatives	Debt securities	Equity securities	Total	Derivatives	Total
	(€ millions)					
At 1 January 2016	512	11	780	1,303	291	291
Transfers into Level 3[(1)]	38	—	—	38	—	—
Total gains or (losses) in:						
Profit or loss						
—Net trading income	(41)	—	—	(41)	(70)	(70)
—Other operating income	—	—	272	272	—	—
	(41)	—	272	231	(70)	(70)
Other comprehensive income						
—Net change in fair value of financial investments available for sale	—	—	(250)	(250)	—	—
—Net change in fair value of cash flow hedges	—	—	—	—	(2)	(2)
	—	—	(250)	(250)	(2)	(2)
Purchases/additions	—	—	79	79	—	—
Sales/disposals	—	(9)	(277)	(286)	—	—
Settlements	—	(2)	—	(2)	(58)	(58)
At 31 December 2016	509	—	604	1,113	161	161

Note:

(1) Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers into Level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobservable data.

49 Fair value of financial instruments (Continued)

	Year ended 31 December 2015					
	Financial assets				Financial liabilities	
		Available for sale				
	Derivatives	Debt securities	Equity securities	Total	Derivatives	Total
			(€ millions)			
At 1 January 2015	642	3	411	1,056	300	300
Transfers out of Level 3[1]	(8)	—	—	(8)	—	—
Total gains or (losses) in:						
Other comprehensive income						
Net change in fair value of financial investments available for sale	—	(2)	363	361	—	—
Net change in fair value of cash flow hedges	—	—	—	—	20	20
	—	(2)	363	361	20	20
Purchases		10	13	23	—	—
Sales		—	(7)	(7)	—	—
Settlements[2]	(122)	—	—	(122)	(29)	(29)
At 31 December 2015	512	11	780	1,303	291	291

Notes:

(1) Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

(2) Includes gains and losses recognised in 'Net trading income/(loss)' (note 7).

Transfers out of Level 3 arose as a result of the ability to measure financial instruments using observable data for their fair value measurement either directly or indirectly.

	Year ended 31 December 2014					
	Financial assets				Financial liabilities	
		Available for sale				
	Derivatives	Debt securities	Equity securities	Total	Derivatives	Total
			(€ millions)			
At 1 January 2014	419	12	104	535	125	125
Transfers into Level 3[1]	114	3	—	117	119	119
Total gains or (losses) in:						
Other comprehensive income						
Net change in fair value of financial investments available for sale	—	—	307	307	—	—
Net change in fair value of cash flow hedges	2	—	—	2	30	30
	2	0	307	309	30	30
Purchases	—	—	12	12	—	—
Sales	—	(12)	(12)	(24)	—	—
Settlements[2]	107	—	—	107	26	26
At 31 December 2014	642	3	411	1,056	300	300

Notes:

(1) Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

(2) Includes gains and losses recognised in 'Net trading income/(loss)' (note 7).

Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments.

49 Fair value of financial instruments (Continued)

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2016, 31 December 2015 and 31 December 2014:

	31 December		
	2016	2015	2014
	(€ millions)		
Net trading income—gains	136	61	193
Total	136	61	193

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2016, 2015 and 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Financial instrument		Fair Value 2016 € millions	2015 € millions	2014 € millions	Valuation technique	Significant unobservable inputs	Range of estimates 2016	2015	2014
Uncollateralised customer derivatives	Asset	509	512	642	CVA	LGD	47%–67% (Base 54%)	47%–79% (Base 55%)	46%–82% (Base 55%)
	Liability	161	291	300					
						PD	0.8%–1.6% (Base 1.2% 1 year PD)	0.9%–1.5% (Base 1.2% 1 year PD)	0.9%–1.4% (Base 1.1% 1 year PD)
						Combination LGD and PD(1)	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
					FVA	Funding spreads	(0.6%)–0.5%	(0.4%)–0.5%	(0.3%)–0.8%

Note:

(1) The fair value measurement sensitivity to unobservable inputs ranges at 31 December 2016, 2015 and 2014 from negative €37 million to positive €23 million (31 December 2015: negative €57 million to positive €26 million; 31 December 2014: negative €53 million to positive €25 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than €1 million in any individual case or collectively, the detail is not disclosed here.

49 Fair value of financial instruments (Continued)

Financial instrument		Fair Value 2016 € millions	2015 € millions	2014 € millions	Valuation technique	Significant unobservable inputs	Range of estimates 2016	2015	2014
NAMA subordinated bonds	Asset	466	432	374	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 7.21% applicable to base asset price. The estimates range from (a) discount rate of 9%; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 9% applicable to base asset price. The estimates range from (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 12% applicable to base asset price. The estimates range from (a) NAMA making full 50% of full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2018) at a reduced discount rate

In June 2016, AIB received Series B Preferred Stock in Visa Inc. as part consideration for its holding of shares in Visa Europe. This preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in U.S. dollars, is subject to foreign exchange risk.

Financial Instrument		2016 € millions	2015 € millions	2014 € millions	Valuation technique	Significant unobservable inputs	Range of estimates at 31 December 2016
Visa Inc. Series B Preferred Stock	Asset	70	n/a	—	Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. (50%). This was converted to euro at the year end rate.	Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.

49 Fair value of financial instruments (Continued)

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While AIB believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following tables set out the impact of using reasonably possible alternative assumptions in the valuation methodology for 31 December 2016, 2015 and 2014:

	31 December 2016			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	(€ millions)			
Classes of financial assets				
Derivative financial instruments	38	(47)	—	—
Financial investments available for sale—equity securities	—	(65)	81	(12)
Total	38	(112)	81	(12)
Classes of financial liabilities				
Derivative financial instruments	—	(3)	—	—
Total	—	(3)	—	—

	31 December 2015			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	(€ millions)			
Classes of financial assets				
Derivative financial instruments	87	(71)	—	—
Financial investments available for sale—equity securities	—	—	26	(105)
Total	87	(71)	26	(105)
Classes of financial liabilities				
Derivative financial instruments	14	(63)	—	—
Total	14	(63)	—	—

	31 December 2014			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	(€ millions)			
Classes of financial assets				
Derivative financial instruments	61	(77)	—	—
Financial investments available for sale—equity securities	—	—	59	(56)
Total	61	(77)	59	(56)
Classes of financial liabilities				
Derivative financial instruments	10	(37)	—	—
Total	10	(37)	—	—

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

50 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2016	2015	2014
	(€ millions)		
Profit on disposal of businesses	(1)	—	—
Profit on disposal of property, plant and equipment	—	(3)	(6)
Profit/(loss) on disposal/transfer of loans and receivables	(11)	22	(52)
Dividends received from equity securities	(26)	(26)	(25)
Dividends received from associated undertakings	(40)	(24)	(11)
Associated undertakings net income	(35)	(25)	(23)
Writeback of provisions for impairment on loans and receivables	(294)	(925)	(185)
(Writeback of provision)/provision for impairment on financial investments available for sale	(2)	—	1
Writeback of provisions for liabilities and commitments	(2)	(11)	(5)
Change in other provisions	28	177	70
Retirement benefits—defined benefit expense	2	21	(3)
Termination benefits	—	4	(2)
Depreciation, amortisation and impairment	109	74	111
Interest on subordinated liabilities and other capital instruments	199	278	256
Net losses/(gains) on buy back of debt securities in issue	(1)	(8)	1
Profit on disposal of financial investments available for sale	(362)	(166)	(389)
Loss on termination of hedging swaps	59	81	208
Remeasurement of NAMA senior bonds	(10)	(6)	(132)
Amortisation of premiums and discounts	227	79	31
Fair value gain on realisation/re-estimation of cash flows on loans and receivables previously restructured	(15)	(3)	—
Income from settlement of claim	—	(38)	—
Change in prepayments and accrued income	54	25	87
Change in accruals and deferred income	(94)	(84)	(220)
Effect of exchange translation and other adjustments(1)	(18)	(259)	(223)
Total non-cash items	(233)	(817)	(511)
Contributions to defined benefit pension schemes	(59)	(84)	(87)
Dividends received from equity securities	26	26	25
Total other items	(33)	(58)	(62)
Non-cash and other items for the year ended 31 December	(266)	(875)	(573)

Change in operating assets(1)	Year ended 31 December 2016	2015	2014
	(€ millions)		
Change in loans and receivables to customers	1,286	1,546	3,736
Change in NAMA senior bonds	3,838	3,834	6,343
Change in loans and receivables to banks	769	(709)	(420)
Change in trading portfolio financial assets	—	—	1
Change in derivative financial instruments	125	(328)	(271)
Change in items in course of collection	7	(2)	24
Change in other assets	482	(111)	36
	6,507	4,230	9,449

Note:

(1) The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

50 Statement of cash flows (Continued)

Change in operating liabilities(1)	Year ended 31 December		
	2016	2015	2014
		(€ millions)	
Change in deposits by central banks and banks	(6,115)	(2,927)	(6,395)
Change in customer accounts	1,884	(1,539)	(3,586)
Change in trading portfolio financial liabilities	(86)	86	—
Change in debt securities in issue	(118)	(867)	(886)
Change in notes in circulation	(59)	3	5
Change in other liabilities	(94)	(109)	(299)
	(4,588)	(5,353)	(11,161)

Note:

(1) The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	Year ended 31 December		
	2016	2015	2014
		(€ millions)	
Cash and balances at central banks	6,519	4,950	5,393
Loans and receivables to banks	645	722	991
	7,164	5,672	6,384

AIB is required to maintain balances with the Central Bank which at 31 December 2016 amounted to €21 million (31 December 2015: €121 million; 31 December 2014: €120 million).

AIB is required by law to maintain reserve balances with the Bank of England. At 31 December 2016, these amounted to €566 million (31 December 2015: €658 million; 31 December 2014: €544 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on AIB's ability to meet its cash obligations.

51 Related party transactions

Related parties of the Company include associated undertakings and joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB.

(a) Transactions with subsidiary undertakings

The Company is the ultimate parent company of AIB. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency transactions and the provision of guarantees on an "arm's length" basis. In accordance with IFRS 10 *Consolidated Financial Statements*, transactions with subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, AIB provides certain banking and financial services for associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features.

51 Related party transactions (Continued)

(c) Provision of banking and related services and funding to AIB pension schemes

AIB provides certain banking and financial services including money transmission services for the AIB pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, AIB established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of AIB transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 47).

During 2012, AIB agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a Special Purpose Vehicle ("SPV") owning loans and receivables previously transferred at fair value from AIB. A subsidiary of AIB was appointed as a service provider for the loans and receivables transferred in return for a servicing fee at a market rate (note 47).

(d) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*, in respect of the compensation of Key Management Personnel. Under IAS 24, Key Management Personnel are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Leadership Team.

	2016	2015	2014
	(€ millions)		
Short-term compensation[(1)]	6.7	6.7	6.6
Post-employment benefits[(2)]	0.8	0.8	0.7
Termination benefits[(3)]	0.3	0.2	—
Total	7.8	7.7	7.3

Note:

(1) Comprises (a) in the case of Executive Directors and Senior Executive Officer: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits, including, where relevant, payment in lieu of notice and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Company.

(2) Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The company's defined benefit pension schemes closed to future accrual with effect from 31 December 2013 and all employee pension benefits have accrued on the basis of defined contributions since that date.

(3) Comprises severance payments made to Senior Executives who left during 2016 and 2015.

(e) Transactions with key management personnel

At 31 December 2016, deposit and other credit balances held by key management personnel, namely Executive and Non-Executive Directors and Senior Executives in office during the period amounted to €6.39 million (31 December 2015: €5.77 million; 31 December 2014: €4.56 million).

Loans to key management personnel are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with AIB, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executives are also made in the ordinary course of business, on terms available to other employees in AIB generally, in accordance with established policy, within limits set on a case by case basis. The aggregate balance of loans and guarantees held by key management personnel, at the beginning and end of each financial year, represented less than 0.03 per cent. of the net assets of AIB.

51 Related party transactions (Continued)

Aggregate details of transactions with key management personnel, and connected parties where indicated, for the years ended 31 December 2016, 2015 and 2014 are as follows:

Aggregate amounts outstanding at period end

	Loans, overdrafts/credit cards		
	31 December		
	2016	2015	2014
		(€'000)	
Directors (2016: 6 persons; 2015: 6 persons; 2014: 7 persons)	580	1,723	1,868
Senior Executive Officers (2016: 8 persons; 2015: 9 persons; 2014: 7 persons)	3,885	2,228	1,657
	4,465	3,951	3,525

As at 31 December 2016, guarantees entered into by 1 Director in favour of AIB amounted to €0.032 million in aggregate (2015: €0.05 million by 1 Director; 2014: €0.1 million by 1 Director). No amounts were paid or liabilities incurred in fulfilling the guarantee. As at 31 December 2016, 2015 and 2014, no Senior Executive held guarantees in favour of AIB.

No impairment charges or provisions have been recognised in respect of any of the above loans or facilities and all interest that has fallen due on all of these loans or facilities has been paid.

(f) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investment in AIB's 2009 Preference Shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the share issues to NPRFC[1] during 2010 and 2011, AIB is under the control of the Irish Government.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

Rights and powers of the Irish Government and the Central Bank of Ireland

The Minister for Finance and the Central Bank have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, *inter alia*:

- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by AIB of its shares;
- The manner in which AIB extends credit to certain customer groups; and

[1] Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

51 Related party transactions (Continued)

- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and AIB's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in note 58 Financial Risk Management.

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Capital reorganisation;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
  - (i) Direction Order;
  - (ii) Transfer Order;
  - (iii) Subordinated Liabilities Order;
  - (iv) Acquisition of EBS;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

In addition, the European Commission, in approving AIB's restructuring plan on 7 May 2014, found that restructuring aid granted by Ireland to AIB is in line with EU state aid rules.

Capital investments

National Treasury Management Agency ("NTMA")

The Ireland Strategic Investment Fund (the "ISIF") was established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. The ISIF is controlled and managed by the NTMA. Pursuant to this Act, all property held by the National Pensions Reserve Fund Commission (the "NPRFC"), including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the NTMA on 22 December 2014. All the 2009 Preference Shares were either converted to ordinary shares or redeemed on 17 December 2015 following a capital reorganisation implemented in December 2015 (see below).

Ordinary shares

At 31 December 2016, the Irish Government, through the NTMA, held ordinary shares in AIB representing 99.9 per cent. of the issued ordinary share capital (2015: 99.9 per cent.; 2014: 99.8 per cent.). See note 40 for details of the Government's investment in the ordinary shares of AIB.

Contingent capital notes

On 27 July 2011, AIB issued €1.6 billion of contingent capital notes at par to the Minister with interest payable annually in arrears at a rate of 10 per cent. on the nominal value of the notes. Details of this transaction are set out in note 39. On 28 July 2016, AIB redeemed in full all outstanding contingent capital notes (€1.6 billion) together with accrued interest thereon amounting to €160 million.

Capital contributions

On 28 July 2011, capital contributions totalling €6.1 billion were made by the Irish State to AIB for nil consideration. For further details, see note 43.

51 Related party transactions (Continued)

Capital Reorganisation

AIB implemented a number of measures in order to reorganise its capital following resolutions passed at an EGM of shareholders held on 16 December 2015. These measures were designed to enable AIB: return State aid to the Irish Government in line with its obligations under its EU restructuring plan; create a sound and sustainable capital base on which to grow its business; meet regulatory capital requirements under CRD IV; allow the future payment of dividends on ordinary shares; and position itself for a return to private ownership over time.

The measures outlined below impacted on the Irish Government as a related party to AIB:

(a) 2009 Preference Shares (aggregate subscription price of €3.5 billion):

(i) Conversion of €2,140 million 2009 Preference Shares into ordinary shares (note 40);

(ii) Redemption of €1,360 million of the 2009 Preference Shares (note 40); and

(iii) Payment of dividend on the 2009 Preference Shares.

A dividend amounting to €166 million was paid in cash for the period from the last dividend payment date of 13 May 2015 up to the date of conversion/redemption of the 2009 Preference Shares on 17 December 2015.

(b) Consolidation of ordinary shares

The Irish Government, through the ISIF, held a total of 677,705,287,273 ordinary shares in AIB with a nominal value of €0.0025 per shares as a result of the conversion of €2,140 million of the 2009 Preference Shares into ordinary shares noted above.

On 21 December 2015, all ordinary shares with a nominal value of €0.0025 were consolidated into one ordinary share with a nominal value of €0.625 for every 250 shares held following a Consolidation Resolution passed at the EGM on 16 December 2015. For details of this consolidation, see note 40.

The Irish Government, through the ISIF, held 2,710,821,149 ordinary shares with a nominal value of €0.625 per share at 31 December 2015 (99.9 per cent. of total issued ordinary share capital).

(c) Issue of warrants to the Minister for Finance (or another State Entity nominated by the Minister for Finance)

In recognition of the significant financial support provided to AIB by the Irish Government since 2008 and as consideration for its supporting and participating in the Capital Reorganisation, AIB received shareholder approval, at the EGM held on 16 December 2015, to enter into a Warrant Agreement with the Minister for Finance (or another State Entity nominated by the Minster for Finance). Under the terms of this Warrant Agreement, as part of a Regulated Market Event, the Minister for Finance will be entitled to issue a Warrant Notice to AIB, subject to certain conditions, requiring AIB to issue warrants for nil consideration to the Minister for Finance (or another State Entity nominated by the Minister for Finance). On the occurrence of a Regulated Market Event, the warrants would entitle the Minister for Finance (or another State Entity nominated by the Minister for Finance) to subscribe for AIB ordinary shares with a nominal value of €0.625 per share, subject to a maximum of 9.99 per cent. of the issued ordinary share capital. The warrant exercise price will be no less than 200 per cent. of the Initial Regulated Market price and the warrants will be exercisable for a period of ten years after the date of the Regulated Market Event.

Since the Regulated Market Event had not occurred at 31 December 2016, no notice has issued to AIB for the issue of warrants, accordingly, these warrants have not been accounted for in the financial information.

(d) Redemption of Promissory Note

On 17 December 2015, the EBS Promissory Note which was held as an available for sale security was redeemed at its carrying value following the EBS Promissory Note Termination Agreement entered into on 20 November 2015 between the Minister for Finance, the NTMA, EBS and AIB.

51 Related party transactions (Continued)

Guarantee schemes

The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of €100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB.

In January 2010, the Company, and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. This scheme expired on 28 March 2013 for all new liabilities. The total liabilities guaranteed under the ELG Scheme at 31 December 2016 amounted to €1.1 billion (31 December 2015: €1.8 billion; 31 December 2014: €4.6 billion). Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Details of the total charge for years ended 31 December 2016, 2015 and 2014 are set out in note 3. Participating institutions are also required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution's guarantee under the ELG Scheme.

NAMA

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds and NAMA subordinated bonds which are detailed in notes 8, 26 and 27. In addition, AIB acquired NAMA senior bonds in 2011 as part of the Anglo transaction (€11,854 million fair value at acquisition date) and the EBS transaction (€301 million carrying value at acquisition date). AIB also acquired €6 million in subordinated NAMA bonds, as part of the EBS transaction. The NAMA senior bonds are guaranteed by the Irish Government.

Following on the transfer of financial assets to NAMA, a contingent liability/contingent asset arises in relation to:

- final settlement amounts with NAMA on assets transferred;
- a series of indemnities which AIB has provided to NAMA on transferred assets;
- a possible requirement for AIB to share NAMA losses on dissolution of NAMA.

Details of the contingent liability/asset are set out in note 45.

Investment in National Asset Management Agency Investment Ltd ("NAMAIL")

In March 2010, a then subsidiary of the Company made an equity investment in 17 million "B" shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to €17 million, of which €12 million was invested on behalf of the AIB Group Irish Pension Scheme (fair value at 31 December 2016 of €11 million; 31 December 2015 of €10 million; 31 December 2014 of €10 million), with the remainder invested on behalf of clients.

Funding support

Throughout the global financial crisis, the Irish Government provided guarantees to AIB and, in this regard, the ELG scheme is outlined above. In addition, AIB has availed of borrowings from the Central Bank as part of Eurosystem. These borrowings are under ECB Monetary Policy Operations and at 31 December 2016 amount to €1.9 billion (2015 €2.9 billion; 2014: €3.4 billion). Targeted Long Term Refinancing Operation II ("TLTRO II") funding from the ECB, through the Central Bank amounted to €1.9 billion at 31 December 2016. At 31 December 2015 and 31 December 2014, €1.9 billion was in the Targeted Long Term Refinancing Operation ("TLTRO"). The amounts outstanding are included within "Deposits by central banks and banks" in the table below. See note 33 for details of collateral.

The interest rate on the TLTRO II is the main ECB rate which is currently 0 per cent. The term of the TLTRO II is four years with AIB having the option to repay after two years.

These facilities, together with other assets and liabilities with Irish Government entity counterparties are set out below.

51 Related party transactions (Continued)

PCAR/PLAR

On 31 March 2011, the Central Bank published the "Financial Measures Programme Report" which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of €85 billion in financial support for the sovereign was agreed in principle. Up to €35 billion of this support was earmarked for the banking system, €10 billion of which was for immediate recapitalisation of the banks with the remaining €25 billion to be provided on a contingency basis. Arising from the 2011 PCAR and PLAR assessments, AIB, including EBS, was required to raise €14.8 billion in total capital (including €1.6 billion in contingent capital), all of which was subsequently raised.

Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010, which was enacted in December 2010, ceased to have effect on 31 December 2014. During the period when the Act was effective, the Minister invoked certain of his powers under the Act in relation to AIB as follows:

- a Direction Order in December 2010;
- a Transfer Order in February 2011;
- a Subordinated Liabilities Order in April 2011; and
- Acquisition of EBS.

On 31 March 2011, the Minister proposed the combination of AIB and EBS to form one of the two Pillar banks. On 26 May 2011, AIB entered into an agreement with EBS, the Minister and the NTMA to acquire EBS for a consideration of €1 (one Euro). The acquisition was effective from 1 July 2011.

Central Bank and Credit Institutions (Resolution) Act 2011

The Central Bank and Credit Institutions (Resolutions) Act 2011 provided the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that were failing or likely to fail and that would be effective in protecting the Exchequer and the stability of the financial system and the economy. However, in early 2016, the Single Resolution Mechanism ("SRM") became principally involved in determining AIB's resolution strategy.

Relationship Framework

In order to comply with contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a relationship framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. Under the 2012 Relationship Framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board of AIB and its management team. However, the Board is required to obtain the prior written consent of the Minister, or to consult with the Minister, in respect of certain material matters, such as material disposals.

Approval of AIB Restructuring Plan

On 7 May 2014, the European Commission approved under state aid rules AIB's Restructuring Plan. In arriving at its final decision, the European Commission acknowledged the significant number of restructuring measures previously implemented by AIB, comprising business divestments, asset deleveraging, Liability Management exercises and significant cost reduction actions. The Commission concluded that the Restructuring Plan sets out the path to restoring long-term viability. The plan covers the period from 2014 to 2017.

51 Related party transactions (Continued)

Restructuring Plan commitments

AIB has committed to a range of measures relating to customers in difficulty: cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. All of the commitments are aligned to AIB's operational plans and are supportive of AIB's return to viability.

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities(1) at 31 December 2016, 31 December 2015 and 31 December 2014, together with the highest balances held at any point during the year.

		31 December 2016		31 December 2015		31 December 2014	
	Note	Balance	Highest balance held(2)	Balance	Highest balance held(2)	Balance	Highest balance held(2)
				(€ millions)			
Assets							
Cash and balances at central banks	(a)	1,529	3,618	41	2,830	560	2,496
Trading portfolio financial assets		—	—	—	391	—	—
Derivative financial instruments		—	7	3	4	3	10
Loans and receivables to banks	(b)	21	965	121	121	120	122
Loans and receivables to customers		19	82	81	168	73	86
NAMA senior bonds	(c)	1,799	5,619	5,616	9,427	9,423	15,605
Financial investments available for sale	(d)	5,580	5,854	5,839	10,019	9,481	10,715
Financial investments held to maturity	(e)	3,356	3,483	3,483	3,487	—	—
Total assets		12,304		15,184		19,660	

		31 December 2016		31 December 2015		31 December 2014	
	Note	Balance	Highest balance held(2)	Balance	Highest balance held(2)	Balance	Highest balance held(2)
				(€ millions)			
Liabilities							
Deposits by central banks and banks	(f)	1,912	2,950	2,950	5,300	3,400	13,480
Customer accounts	(g)	806	1,020	688	3,856	3,349	8,993
Trading portfolio financial liabilities		—	86	86	551	—	—
Derivative financial instruments		18	55	69	142	93	93
Subordinated liabilities and other capital instruments	(h)	—	1,600	1,523	1,523	1,411	1,411
Total liabilities		2,736		5,316		8,253	

Notes:

(1) Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

(2) The highest balance during the year, together with the outstanding balance at the year end, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

Substantially all of the above balances relate to the Company.

(a) Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. AIB is required to maintain a monthly average Primary Liquidity balance which at 31 December 2016 was €529 million (31 December 2015: €513 million; 31 December 2014: €511 million).

51 Related party transactions (Continued)

(b) The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.

(c) NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.

(d) Financial investments available for sale comprise €5,114 million (31 December 2015: €5,406 million; 31 December 2014: €9,107 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 December 2016 of €466 million (31 December 2015: €432 million; 31 December 2014: €374 million) detailed above under "NAMA".

(e) These comprise Irish Government securities (note 28).

(f) This relates to funding received from the ECB through the Central Bank which is detailed under "Funding Support" above.

(g) Includes €325 million (2015: €160 million; 2014: Nil) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance.

(h) Redeemed on 28 July 2016 (note 39).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

Local government[(1)]

During 2016, 2015 and 2014, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

Commercial semi-state bodies[(2)]

During 2016, 2015 and 2014, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

- Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment in available for sale debt securities and repurchase agreements.

Notes:

(1) This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

(2) Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

51 Related party transactions (Continued)

At 31 December 2016, 31 December 2015 and 31 December 2014, the following balances were outstanding in total to these financial institutions:

	31 December		
	2016	**2015**	**2014**
	(€ millions)		
Assets			
Derivative financial instruments	1	10	20
Loans and receivables to banks[(1)]	3	494	4
Financial investments available for sale	471	483	267
Liabilities			
Deposits by central banks and banks[(2)]	89	29	9
Derivative financial instruments	4	7	17
Customer deposits[(3)]	—	17	19

Notes:

(1) The highest balance in loans and receivables to banks amounted to €501 million in respect of funds placed during the period (2015: €616 million, 2014: €108 million).

(2) The highest balance in deposits by central banks and banks amounted to €369 million in respect of funds received during the period (2015: €395 million, 2014: €509 million).

(3) The highest balance in customer deposits amounted to €17 million in respect of funds received during the period (2015: €22 million, 2014: €48 million).

In connection with the acquisition by AIB of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) "IBRC", IBRC had indemnified AIB for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. €81.3 million in aggregate). AIB is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

Irish bank levy

In 2014, a bank levy was introduced on certain financial institutions, including AIB. This levy is recognised in the income statement on the date on which all the criteria set out in the legislation are met. The levy equals 35 per cent. of each financial institution's Deposit Interest Retention Tax payment for 2011 and was chargeable on this basis for each of the years 2014-2016 inclusive. The annual levy paid by AIB for 2016 and reflected in the income statement amounted to €60 million (2015: €60 million; 2014: €60 million).

Legislation enacted in December 2016 extended this levy to 2021, with the total amount to be collected from all financial institutions remaining at its current level of €150 million per annum. However, the basis for calculating an individual financial institution's share of the levy was revised as set down in the Finance Act 2016.

(g) Indemnities

AIB has indemnified the directors of AIB Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the AIB Irish Pension Scheme and the main Irish contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as directors of the trustee companies, other than by reason of wilful default.

52 Commitments

Capital expenditure

	31 December 2016	2015	2014
	(€ millions)		
Estimated outstanding commitments for capital expenditure not provided for in the financial information	9	7	17
Capital expenditure authorised but not yet contracted for	38	38	35

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table:

	31 December 2016	2015	2014
	(€ millions)		
1 year	62	59	57
1 to 2 years	58	54	61
2 to 3 years	55	51	58
3 to 4 years	53	49	56
4 to 5 years	51	48	55
Over 5 years	268	342	394
	547	603	681

AIB holds a number of significant operating lease arrangements in respect of branches and the headquarter locations. AIB leases the Bankcentre campus in Ballsbridge, Dublin 4 under two separate lease arrangements.

The minimum lease terms remaining on the most significant leases vary from 1 year to 14 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 5 years with the final contractual remaining terms ranging from 1 to 22 years.

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

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2016 were €2 million (31 December 2015: €3 million; 31 December 2014: €2 million).

Operating lease payments recognised as an expense for the three months ended 31 December 2016 were €65 million (2015: €58 million; 2014: €67 million). Sublease income amounted to Nil (2015: Nil; 2014: €4 million).

53 Regulatory compliance

During the years ended 31 December 2016, 2015 and 2014, AIB, the Company and its regulated subsidiaries complied with their externally imposed capital ratios.

54 Financial and other information

	Year ended 31 December		
	2016	2015	2014
		%	
Operating ratios			
Other income/operating income	31.0	26.7	33.4
Operating expenses/operating income	53.8	63.9	64.7
Net interest margin[(1)]	2.23	1.94	1.63
Performance measures			
Return on average total assets	1.4	1.3	0.8
Return on average ordinary shareholders' equity	11.1[(2)]	12.4[(3)]	8.0

Notes:

(1) Represents net interest income as a percentage of average interest earning assets.

(2) Profit attributable to ordinary shareholders after deduction of the distribution on other equity interests as a percentage of average ordinary shareholders' equity which excludes other equity interests of €494 million.

(3) Profit attributable to ordinary shareholders after deduction of the annual dividend on the 2009 Preference Shares as a percentage of average ordinary shareholders' equity (i.e. which excludes the €3.5 billion in 2009 Preference Shares which were redeemed/converted in December 2015).

	2016	2015	2014
Rates of exchange			
€ /$*			
Closing	1.0541	1.0887	1.2141
Average	1.1069	1.1097	1.3286
€ /£*			
Closing	0.8562	0.7340	0.7789
Average	0.8196	0.7260	0.8062

Currency information

	Assets			Liabilities and equity		
	31 December			31 December		
	2016	2015	2014	2016	2015	2014
	(€ millions)					
Euro	76,885	82,053	86,771	77,392	85,268	88,395
Other	18,737	21,069	20,684	18,230	17,854	19,060
	95,622	103,122	107,455	95,622	103,122	107,455

55 Average balance sheets and interest rates[1]

The following table shows interest rates prevailing at 31 December 2016, 31 December 2015 and 31 December 2014 together with average prevailing interest rates, gross yields, spreads and margins for the years ended 31 December 2016, 2015 and 2014:

	As at 31 December			Average interest rates for Year ended 31 December		
	2016	2015	2014	2016	2015	2014
			%			
Interest rates						
Ireland						
AIB's prime lending rate	0.13	0.25	0.5	0.16	0.43	0.64
European inter-bank offered rate						
One month euro	(0.37)	(0.20)	0.02	(0.34)	(0.07)	0.13
Three month euro	(0.32)	(0.13)	0.08	(0.26)	(0.02)	0.21
United Kingdom						
AIB's base lending rate	0.25	0.50	0.50	0.40	0.50	0.50
London inter-bank offered rate						
One month sterling	0.26	0.50	0.50	0.41	0.51	0.49
Three month sterling	0.37	0.59	0.56	0.50	0.57	0.54
ECB refinancing rates	0.00	0.05	0.05	0.01	0.05	0.16
Gross yields, spreads and margins[2]						
Gross yields[3]				2.87	2.84	2.81
Interest rate spread[4]				1.87	1.54	1.13
Net interest margin[5]				2.23	1.94	1.63

Notes:

(1) The average balance sheet and gross yields, spreads and margins are presented on a continuing operations basis.

(2) The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates on the following page.

(3) Gross yield represents the average interest rate earned on interest earning assets.

(4) Interest rate spread represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

(5) Net interest margin represents net interest income as a percentage of average interest earning assets.

55 Average balance sheets and interest rates[1] (Continued)

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2016, 2015 and 2014. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of AIB.

	Year ended 31 December 2016			Year ended 31 December 2015			Year ended 31 December 2014		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(€ millions)	(€ millions)	%	(€ millions)	(€ millions)	%	(€ millions)	(€ millions)	%
Assets									
Trading portfolio financial assets less liabilities	—	—	—	38	1	2.6	—	—	1.4
Loans and receivables to banks	6,077	18	0.3	7,143	24	0.3	5,966	22	0.4
Loans and receivables to customers	62,116	2,248	3.6	64,868	2,363	3.6	65,391	2,375	3.6
NAMA senior bonds	3,644	11	0.3	7,614	31	0.4	12,569	80	0.6
Financial investments available for sale	14,925	182	1.2	19,503	398	2.0	19,444	444	2.3
Financial investments held to maturity	3,419	131	3.8	106	4	3.8	—	—	—
Total average interest earning assets	90,181	2,590	2.9	99,272	2,821	2.8	103,370	2,921	2.8
Non-interest earning assets	8,005			7,557			8,237		
Total average assets	98,186	2,590	2.6	106,829	2,821	2.6	111,607	2,921	2.6
Liabilities and equity									
Due to central banks and banks	9,728	(13)	(0.1)	15,734	4	—	18,515	46	0.3
Due to customers	38,894	341	0.9	43,777	520	1.2	48,944	742	1.5
Other debt issued	7,474	50	0.7	7,475	92	1.2	8,921	190	2.1
Subordinated liabilities	1,629	199	12.2	1,625	278	17.1	1,401	256	18.3
Average interest earning liabilities	57,725	577	1.0	68,611	894	1.3	77,781	1,234	1.6
Non-interest earning liabilities	28,056			25,985			22,426		
Total average liabilities	85,781	577	0.7	94,596	894	0.9	100,207	1,234	1.2
Equity	12,405			12,233			11,400		
Total average liabilities and equity	98,186	577	0.6	106,829	894	0.8	111,607	1,234	1.1

Note:

(1) The average balance sheet and gross yields, spreads and margins are presented on a continuing operations basis.

In the above table, negative interest expense amounting to €21 million is offset against interest expense (2015: Nil; 2014: Nil). In the income statement, AIB presents interest resulting from a negative effective interest rate on financial assets as interest expense. Similarly, interest resulting from a negative effective interest rate on financial liabilities is presented as interest income.

56 Non-adjusting events after the reporting period

On 3 February 2017, AIB announced that it had been informed by the Single Resolution Board ("SRB") that the preferred strategy for AIB is a single point of entry bail-in strategy through a holding company. This holding company would become the new parent company of AIB. AIB is engaging with the SRB in relation to the establishment of such a holding company which would require shareholder approval.

Final dividends are not accounted for until they have been approved at the Annual General Meeting of Shareholders. On 27 April 2017 a final dividend of €0.0921 per ordinary share amounting in total to €250 million was approved at the Annual General Meeting and subsequently paid on 9 May 2017. The financial information for the financial year ended 31 December 2016 does not reflect this which will be accounted for in shareholders' equity as an appropriation in 2017 of distributable reserves.

On 26 April 2017, the Minister for Finance issued a Warrant Notice to the Company exercising his rights under the Warrant Agreement requiring the Company to issue Warrants to the Minister to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised).

On 30 May 2017, the Minister for Finance and AIB announced an intention to seek admission of the Ordinary Shares to the Official Lists of each of the Irish Stock Exchange and the Financial Conduct Authority and to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange.

In addition, it was announced that the Offer would proceed in the coming weeks. The Minister intends to sell approximately 25 per cent. of the Ordinary Shares.

57 Dividends

No dividends on ordinary shares were paid during the financial years ended 31 December 2016, 2015 and 2014.

58 Financial Risk Management

58.1 Credit risk

(a) Measurement of credit risk

Credit risk principles and policy

AIB implements and operates policies covering the identification, assessment, approval, monitoring, control and reporting of credit risk. The Credit Risk Framework sets out, at a high level, how AIB identifies, assesses, approves, monitors, reports and controls credit risk. It contains minimum standards that are applied across AIB to provide a common and consistent approach to the management of credit risk.

More detailed policies, standards and guidelines provide more explicit instructions for applying these minimum standards to specific products, business lines, market segments, processes and roles. These are reviewed at least annually. Policy exceptions must be approved and reported. In circumstances where a breach occurs, it must be reported to senior management and the credit risk function to assess any required remedial action. The credit risk function monitors credit performance trends, reviews and challenges exceptions to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows AIB to take early and proactive mitigating actions for any potential areas of concern. The more significant credit policies are approved by the Board.

Credit concentration risk

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to AIB's capital, total assets, earnings or overall risk level to threaten its ability to deliver its core objectives. Credit policy is aligned to AIB's risk appetite and restricts exposure to certain high risk countries and more vulnerable sectors. Exposures are monitored to prevent excess concentration of risk. The Board-approved Large Exposures and Approval Authorities Policy sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking into account features such as security, default risk and term. Concentration risk to sectors and movements in such concentrations are monitored regularly to prevent excessive concentration of risk, guide risk appetite and limit setting, identify unwanted concentrations and provide an early warning indicator for potential excesses. Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within AIB and, in turn, facilitate appropriate management action and decision making.

Country risk

Credit risk is also influenced by country risk, which is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable or unwilling to fulfil or are precluded from fulfilling their obligations to AIB due to economic or political circumstances. These are managed in line with the Country Policy limits which define maximum credit risk appetite for those countries through direct sovereign bond exposure and interbank exposure, as well as corporate and equity exposures. Exposures against limits are monitored on an ongoing basis and reported in line with processes detailed in the Country Exposure Policy.

Credit risk on derivatives

The credit risk on derivative contracts is the risk that AIB's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB: to meet customer needs; to reduce interest rate risk, currency risk and, in some cases, credit risk; and also for proprietary trading purposes. Risks associated with derivatives are managed from a credit, market and operational perspective. The total credit exposure consists partly of the current replacement cost and partly of the potential future exposure. The potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract. AIB uses a simulation tool to estimate possible changes in future market values and computes the credit exposure to a high level of statistical significance. Exposures against limits are monitored on an ongoing basis.

Credit risk assurance and review

The credit management process is underpinned by an independent system of review. Assessment of the effectiveness of risk management practices and adherence to risk controls is carried out by credit risk and credit review teams who facilitate a wide range of assurance and review work. These include cyclical credit reviews, non-standard reviews and bespoke assignments, including impairment adequacy reviews, as required. This provides executive and senior management with assurance and guidance on credit quality and effectiveness of credit risk controls, as well as the robustness of impairment provisions.

Stress testing and scenario analysis

The credit portfolio is subjected to stress testing and scenario analysis. Events are modelled at an AIB level, at a segment and business unit level and by rating model and portfolio.

(b) Credit exposure

Maximum exposure to credit risk from on balance sheet and off balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount and, for financial guarantees and similar contracts granted, it is the maximum amount AIB would have to pay if the guarantees were called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

58 Financial Risk Management (Continued)

The following table sets out the maximum exposure to credit risk that arises within AIB and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value as at 31 December 2016, 2015 and 2014:

	As at 31 December								
	2016			2015			2014		
	Amortised cost(1)	Fair value(2)	Total	Amortised cost(1)	Fair value(2)	Total	Amortised cost(1)	Fair value(2)	Total
	(€ millions)								
Maximum exposure to credit risk									
Balances at central banks(3)	5,921	—	5,921	4,415	—	4,415	4,879	—	4,879
Items in course of collection	134	—	134	153	—	153	146	—	146
Derivative financial instruments	—	1,814	1,814	—	1,698	1,698	—	2,038	2,038
Loans and receivables to banks	1,399	—	1,399	2,339	—	2,339	1,865	—	1,865
Loans and receivables to customers	60,639	—	60,639	63,240	—	63,240	63,362	—	63,362
NAMA senior bonds	1,799	—	1,799	5,616	—	5,616	9,423	—	9,423
Financial investments available for sale(4)	—	14,832	14,832	—	15,708	15,708	—	19,772	19,772
Financial investments held to maturity	3,356	—	3,356	3,483	—	3,483	—	—	—
Included elsewhere:									
Trade receivables	90	—	90	539	—	539	73	—	73
Accrued interest	340	—	340	399	—	399	426	—	426
	73,678	16,646	90,324	80,184	17,406	97,590	80,174	21,810	101,984
Financial guarantees	910	—	910	1,375	—	1,375	1,246	—	1,246
Loan commitments and other credit related commitments	10,289	—	10,289	9,747	—	9,747	9,082	—	9,082
	11,199	—	11,199	11,122	—	11,122	10,328	—	10,328
Total	84,877	16,646	101,523	91,306	17,406	108,712	90,502	21,810	112,312

Notes:

(1) All amortised cost items are "loans and receivables" or "financial investments held to maturity" per IAS 39 definitions.

(2) All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as "fair value through profit or loss".

(3) Included within cash and balances at central banks of €6,519 million at 31 December 2016 (31 December 2015: €4,950 million; 31 December 2014: €5,393 million).

(4) Excluding equity shares of €605 million at 31 December 2016 (31 December 2015: €781 million; 31 December 2014: €413 million).

Credit risk mitigants

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

58 Financial Risk Management (Continued)

Occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

AIB enters into netting agreements for derivatives with certain counterparties to ensure that, in the event of default, all amounts outstanding with those counterparties will be settled on a net basis. Derivative transactions with wholesale counterparties are typically collateralised under a Credit Support Annex in conjunction with an ISDA Master Agreement.

AIB also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit rating. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units in each segment are required to have an approved bank or country limit prior to granting any credit facility or approving any obligation or commitment which has the potential to create interbank or country exposure.

Collateral

Credit risk mitigation may include the requirement to obtain collateral as set out in AIB's lending policies. Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. AIB maintains policies that detail the acceptability of specific classes of collateral.

The principal collateral types for loans and receivables are:

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

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

Collateral is not usually held against loans and receivables to financial institutions, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement.

Methodologies for valuing collateral

As property loans represent a significant concentration within AIB's loans and receivables portfolio, some key principles have been applied in respect of property collateral held by AIB.

In accordance with AIB's policy and guidelines on property collateral valuation, AIB uses a number of methods to assist in reaching appropriate valuations for property collateral held. These include:

- use of independent professional valuations;
- use of internally developed residual value methodologies; and
- the application of local knowledge in respect of the property and its location.

Use of independent professional valuations represent circumstances where external firms are requested to provide formal written valuations in respect of the property. Up-to-date external independent professional valuations are sought, in accordance with AIB's property valuation policy. Historical valuations are also used as benchmarks to compare against current market conditions and assess house price reductions from peak. Available market indices for relevant assets (e.g. residential and investment property) are also used in valuation assessments.

The residual value methodology assesses the value of the land or property asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for AIB, including covering the costs to complete and additional funding costs. The key factors considered include: (i) the development potential given the location of the asset;

(ii) its current or likely near term planning status; (iii) levels of current and likely future demand; (iv) the relevant costs associated with the completion of the project; and (v) expected market prices of completed units. If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for AIB will be obtained through the development/completion of the project, a residual value methodology is used. When, in the opinion of AIB, the land is not likely to be developed or it is non-commercial to do so, agricultural/green field values may be applied. Alternative use value (subject to planning permission) would also be considered.

Application of local market knowledge represents circumstances where the local bank staff, familiar with the property concerned and with local market conditions, and with knowledge of recent completed transactions, would provide indications of the likely realisable value and a potential timeline for realisation. Current yields and estimated likely yields are applied to current rentals in valuing investment property.

When assessing properties that are used for operational business or trading purposes, these are generally valued by applying a multiple to stabilised EBITDA (e.g. hotels and nursing homes). For licensed premises, these are valued by applying a multiple to stabilised net turnover (average over three years).

When assessing the value of residential properties, recent transactional analysis of comparable sales in the area combined with the CSO Residential Property Price index in the Republic of Ireland are used.

For non-mortgage lending, where collateral is taken, it will typically include a charge over the business assets such as stock and debtors. In some case, a charge over the property collateral or a personal guarantee supported by a lien over personal assets may also be taken. Where cash flows arising from the realisation of collateral are included in impaired assessments, management typically rely on valuations or business appraisals from independent external professionals.

Collateral is reviewed on a regular basis in accordance with the Property Valuation policy.

Applying one or a combination of the above methodologies, in line with AIB's valuation policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency, and availability, of such up-to-date valuations remain a key factor within impairment provisions determination. Additionally, all relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral (e.g. land, developed land or investment property) and also its location. The valuation arrived at is, therefore, a function of the nature of the asset; for example unserviced land in a rural area will most likely suffer a greater reduction in value if purchased at the height of a property boom than a fully let investment property with strong lessees.

When assessing the level of impairment provision required for property loans, apart from the value to be realised from the collateral, other cash flows, such as recourse to other assets or sponsor support, are also considered, where available. The other key driver is the time it takes to receive the funds from the realisation of collateral. While this depends on the type of collateral and the stage of its development, the period of time to realisation is typically one to five years but sometimes this time period is exceeded. These estimates are periodically reassessed on a case-by-case basis.

The value of collateral is assessed at origination of the loan or in the case of criticised loans, when testing for impairment. However, as AIB does not capture collateral values on its loan systems, it is not possible to quantify the fair value of collateral for non-impaired loans on an ongoing basis at a portfolio level. It should be noted that when testing a loan for impairment, the present value of future cash flows, including the value of collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Therefore, for non-mortgage impaired loans, the net exposure after provision would be indicative of the fair value.

In assessing the value of collateral for collectively provided impaired mortgage loans in the Republic of Ireland, AIB has used a house price fall from peak of 40 per cent. Dublin and 44 per cent. non-Dublin as a base (2015: 41 per cent. and 42 per cent. respectively; 2014: 49 per cent. and 51 per cent. respectively). This reflects a collateral value buffer against the latest available CSO residential property price index which at 31 December 2016 showed a 33 per cent. and a 37 per cent. fall from peak for Dublin and non-Dublin respectively (2015: 35 per cent. Dublin and 36 per cent. non-Dublin; 2014: 38 per cent. Dublin and 41 non-Dublin).

58 Financial Risk Management (Continued)

In 2016, the CSO moved to an enhanced estimation methodology for compiling movements in property prices. AIB's buffer to the latest available CSO index remained unchanged at 10 per cent. throughout 2016.

Collateral for the residential mortgage portfolio

For residential mortgages, AIB takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. AIB adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value as at 31 December 2016, 2015 and 2014 is based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (UK) to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out on the next page are details of risk mitigants used by AIB in relation to financial assets detailed in the maximum exposure to credit risk table under (b) Credit exposure above.

58 Financial Risk Management (Continued)

Loans and receivables to customers—residential mortgages

The following table shows the fair value of collateral held for AIB's residential mortgage portfolio as at 31 December 2016, 2015 and 2014:

	As at 31 December											
	2016				2015				2014			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	(€ millions)											
Fully collateralised(1)												
Loan-to-value ratio:												
Less than 50%	7,797	234	430	8,461	7,116	237	525	7,878	5,972	254	542	6,768
50%–70%	7,804	225	553	8,582	6,858	235	709	7,802	5,837	236	824	6,897
71%–80%	4,077	110	356	4,543	4,109	114	466	4,689	3,347	132	577	4,056
81%–90%	3,364	83	374	3,821	3,616	114	533	4,263	3,381	129	690	4,200
91%–100%	2,308	99	423	2,830	2,634	101	619	3,354	2,742	126	769	3,637
	25,350	751	2,136	28,237	24,333	801	2,852	27,986	21,279	877	3,402	25,558
Partially collateralised												
Collateral value relating to loans over 100% loan-to-value	3,760	144	1,786	5,690	4,631	206	2,356	7,193	6,380	355	3,634	10,369
Total collateral value	29,110	895	3,922	33,927	28,964	1,007	5,208	35,179	27,659	1,232	7,036	35,927
Gross residential mortgages	29,730	933	4,576	35,239	29,796	1,056	5,966	36,818	29,014	1,323	8,509	38,846
Statement of financial position specific provisions			(1,728)	(1,728)			(2,045)	(2,045)			(2,877)	(2,877)
Statement of financial position IBNR provisions				(274)				(277)				(550)
Net residential mortgages			2,848	33,237			3,921	34,496			5,632	35,419

Note:

(1) The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at each year end.

58 Financial Risk Management (Continued)

Loans and receivables to customers—other

In addition to the credit risk mitigants outlined on the previous pages, AIB holds reverse repurchase agreements amounting to Nil at 31 December 2016 (31 December 2015: €226 million; 31 December 2014: €110 million) in its loans and receivables portfolio for which it had accepted collateral with a fair value of Nil (31 December 2015: €222 million; 31 December 2014: €107 million).

Derivatives

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2016 amounted to €1,814 million (31 December 2015: €1,698 million; 31 December 2014: €2,038 million) and those with negative fair value are reported as liabilities which at 31 December 2016 amounted to €1,609 million (31 December 2015: €1,781 million; 31 December 2014: €2,334 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by €971 million at 31 December 2016 (31 December 2015: €1,052 million; 31 December 2014: €1,221 million). AIB also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2016, €487 million (31 December 2015: €514 million; 31 December 2014: €843 million) of CSAs are included within financial assets as collateral for derivative liabilities and €322 million (31 December 2015: €201 million; 31 December 2014: €279 million) of CSAs are included within financial liabilities as collateral for derivative assets (see note 44). Additionally, AIB has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and receivables to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 31 December 2016, repurchase agreements amounted to Nil (31 December 2015: €648 million; 31 December 2014: Nil) for which AIB had accepted collateral with a fair value of Nil (31 December 2015: €737 million; 31 December 2014: Nil).

NAMA senior bonds

NAMA senior bonds, which at 31 December 2016 had a carrying value of €1,799 million (31 December 2015: €5,616 million; 31 December 2014: €9,423 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale

At 31 December 2016, government guaranteed senior bank debt which amounted to €190 million (31 December 2015: €174 million; 31 December 2014: €120 million) was held within the available for sale portfolio.

(c) Credit risk management

Credit risk monitoring

To manage credit risk effectively, AIB has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios. It is AIB's practice to ensure that adequate up-to-date credit management is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk, at a portfolio level, is monitored and reported regularly to senior management and the Board Risk Committee. Credit managers pro-actively manage AIB's credit risk exposures at a transaction and relationship level. Monitoring is done through credit exposure and excess management, regular review of accounts, being up-to-date with any developments in customer business, obtaining updated financial information and monitoring of covenant compliance. This is reported on a quarterly basis to senior management and includes information and detailed commentary on loan book growth, quality of the loan book and loan impairment provisions, including individual large impaired exposures.

58 Financial Risk Management (Continued)

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in AIB's loan book. A report on any exceptions to credit policy is presented and reviewed on a monthly basis. AIB allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly.

As a matter of policy, all facilities granted to corporate and wholesale customers are subject to a review on at least an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes. Once an account has been placed on a watch list, or early warning list, the exposure is carefully monitored and, where appropriate, exposure reductions are effected.

Criticised borrowers are tested for impairment at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile. In addition, assessment for impairment is required for all cases where borrowers are 90 days past due as a result of payment arrears or on receipt of a forbearance request.

AIB operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which AIB has granted a concession, whether temporarily or permanently, are set out below. AIB employs a dedicated approach to loan workout and to monitoring and proactively managing impaired loans. Specialised teams focus on managing the majority of criticised loans. Specialist recovery functions deal with customers in default, collection or insolvency. Their mandate is to maximise return on impaired debt and to support customers in difficulty. Whilst the basic principles for managing weaknesses in corporate, commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

Forbearance

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

AIB uses a range of initiatives to support customers. AIB considers requests from customers who are experiencing cash flow difficulties on a case-by-case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principles include supporting viable SMEs and providing support to enable customers to remain in the family home, whenever possible. AIB has implemented the standards for the Code of Conduct in relation to customers in difficulty as set out by the Central Bank, ensuring these customers are dealt with in a professional and timely manner.

Mortgage portfolio

AIB has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty. This builds on and formalises AIB's Mortgage Arrears Resolution Process ("MARP").

The strategy is built on three key factors:

(i) segmentation—identifying customers in difficulty;

(ii) sustainability—customer assessment; and

(iii) suitable treatment—identifying solutions.

The core objectives are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes the following longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

Low fixed interest rate sustainable solution

This solution aims to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest repayments on their mortgage based on the current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to the prevailing market rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay full capital and agreed interest throughout.

Split mortgages

A split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest; and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date. This solution may also include an element of debt write-off.

Negative equity trade down

This solution allows a customer to sell his or her house and subsequently purchase a new property and transfer the negative equity portion of the original property to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his or her current financial and other circumstances.

Voluntary sale for loss

A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt write-off.

Positive equity sustainable solution

This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as split loans due to positive equity.

Credit policies are in place which outline the principles and processes underpinning AIB's approach to mortgage forbearance.

Non-mortgage portfolio

AIB has also developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach has been to develop strategies on an asset class basis and to then apply those strategies at the customer level to deliver a holistic debt management solution. This approach is based on customer affordability and applying the following core principles:

- customers must be treated objectively and consistently;
- customer circumstances and debt obligations must be viewed holistically; and
- solutions will be provided where customers are cooperative and are willing but unable to pay.

The restructuring process is one of structured engagement to assess the long-term levels of sustainable and unsustainable debt. The process broadly moves from an initial customer disclosure stage through to engagement and analysis, through to an initial proposal from AIB, followed by credit approval, documentation and drawdown. The commercial aspects of this process require that customer affordability is viewed holistically to include all available sources of finance for debt repayment, including unencumbered assets.

The debt solutions provided allow the customer to enter into a performance-based arrangement, typically over a five-year period, which will be characterised by the disposal of non-core assets, contribution of unencumbered assets and contribution toward residual debt from available cash flow. This process may result in debt write-off, where applicable.

A request for forbearance will always be a trigger event for AIB to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. This may result in the downgrading of the credit grade assigned and, if a loss is deemed to be incurred, this will result in a specific impairment provision. Loans to which forbearance measures have been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

Types of forbearance include temporary arrangements, such as placing the facility on interest only; and permanent sustainable solutions, including fundamental restructures (which may include an element of potential debt write down); part capital/interest basis for a period of time; extension of the facility term; split loans; and, in some cases, a debt-for-equity swap or similar structure.

The effectiveness of the forbearance measures over the lifetime of the arrangements are subject to ongoing management and review. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for AIB and the borrower.

Loan loss provisioning

AIB's provisioning policy requires that impairment be recognised promptly and consistently across the different loan portfolios. A financial asset is considered to be impaired, and, therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows that can be reliably estimated.

Impairment provisions are calculated on individual loans and receivables and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

The identification of loans for assessment as impaired is facilitated by AIB's credit rating systems. As described previously, changes in the variables which drive the borrower's credit rating may result in the borrower being downgraded. This, in turn, influences the management of individual loans with special attention being paid to lower quality or criticised loans (i.e. in the Watch, Vulnerable or Impaired categories). The credit rating of an exposure is one of the key factors used to determine if a case should be assessed for impairment.

It is AIB's policy to provide for impairment promptly and consistently across the loan book. All business areas formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a quarterly basis. Loans are tested for impairment on receipt of a forbearance request and/or when accounts reach 90 days past due.

The following are triggers to prompt/guide case managers regarding the requirement to assess for impairment:

Mortgage portfolio triggers

- Deterioration in the debt service capacity.
- A material decrease in rents received on a buy-to-let property.

Commercial property triggers

- A material decrease in the property value.

- A material decrease in estimated future cash flows.
- The lack of an active market for the assets concerned.
- The absence of a market for refinancing options.

SME portfolio triggers

- Trading losses or a material weakening in trade which leads to concerns over the ability of the business to meet scheduled debt service.
- Diversion of cash flows from earning assets to support non-earning assets.
- A material decrease in turnover or the loss of a major customer.
- A default or breach of contract.

In addition, the following factors are taken into consideration when assessing whether a loss event has occurred:

- Loss of a significant tenant/material reduction in rental income.
- Significant financial difficulty.
- Decrease in cash flow.
- Lack of objective evidence to prove the viability of the business.
- Material damage and loss to a firm's assets and/or production capacity.
- Loss of critical staff.
- Material increase in costs.
- Market/customer forced reduction in prices with no commensurate increase in volumes.
- Planned sale of property asset did not take place.
- Loss of employment.
- Disappearance of an active market for refinancing or sale of assets.
- Net worth.
- Country risk.

Specific provisions

Specific impairment provisions arise when the recovery of a loan or group of loans is in doubt based on impairment triggers as outlined above and an assessment that all the expected future cash flows either from the loan itself or from the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s).

When raising specific impairment provisions, AIB divides its impaired portfolio into two categories, namely "individually significant" and "individually insignificant".

The individually significant threshold for 2016 and 2015 is €1,000,000 for RCB by customer connection (2014: €500,000), €1,000,000 for EBS for 2016 (2015 and 2014: €750,000) and £500,000 for AIB UK for 2016, 2015 and 2014. The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.

Individually significant loans and receivables

All loans that are considered individually significant are assessed on a case-by-case basis throughout the year for any objective evidence that a loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Property Valuation Guidelines.

58 Financial Risk Management (Continued)

Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of the borrower, including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

Within EBS, PDH loans greater than €1,000,000 (2015 and 2014: €750,000) are assessed and provided for through an automated process as opposed to individual assessments. The process takes into consideration collateral values and any costs in obtaining and selling associated collateral.

Individually insignificant loans and receivables

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant. This applies for customer connections less than €1,000,000 for RCB for 2016 and 2015 (2014: €500,000) and €1,000,000 for EBS for 2016 (2015 and 2014: €750,000) and £500,000 for AIB UK for 2016, 2015 and 2014.

Individually insignificant—Mortgage portfolio (Republic of Ireland)

The individually insignificant mortgage provisioning methodology applies to both owner occupier and buy-to-let exposures.

For individually insignificant mortgages, specific impairment provisions are calculated using an individually insignificant and IBNR mortgage provisioning model. The methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. The methodology is regularly reviewed and updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

Model parameters have been refined over the periods based on additional data sets.

Key model parameters as at 31 December 2016 for owner-occupier mortgages are as follows: cure (14 per cent.); and disposal/forbearance (86 per cent.) (31 December 2015: 6 per cent. and 94 per cent., respectively; 31 December 2014: 4 per cent. and 96 per cent., respectively).

The corresponding buy-to-let model parameters as at 31 December 2016 are as follows: cure (7 per cent.) and disposal/forbearance (93 per cent.) (31 December 2015: 3.5 per cent. and 96.5 per cent., respectively; 31 December 2014: 0.5 per cent. and 99.5 per cent., respectively).

The cure rate parameter in the individually insignificant model reflects the percentage of loans which were defaulted but have exited default after a 12-month satisfactory performance and no loss to AIB.

The modelled loss is calculated on a case-by-case basis, by subtracting the net present value of the modelled recovery amount from the current loan balance. The model parameters are determined from observed data where possible. Where not directly observable, related measures are used to infer the parameter where possible; otherwise, it is based on expert judgement. The relevant model parameters include: percentage of forced disposals; costs and time to dispose (voluntary and forced); house price fall from peak; loss rate on advanced forbearance; and haircut on sale (voluntary and forced).

The model parameters are reviewed at a Group Credit Committee ("GCC") on a quarterly basis. The main parameter changes for the year ended 31 December 2016 were increases in the probabilities of disposal and cure, changes in the CSO index and in the property market fall from peak, increases in disposal haircuts and recovery periods.

Individually insignificant—Non-mortgage portfolio (Republic of Ireland)

The non-mortgage individually insignificant and IBNR model takes into consideration underlying security in determining the appropriate provision cover rate for impaired exposures. The specific provision for impaired cases is calculated using a LGD model, which differentiates loss based on loan size, product type and sector.

58 Financial Risk Management (Continued)

Individually insignificant—Mortgage and non-mortgage portfolio (United Kingdom)

For individually insignificant mortgages specific impairment provisions are calculated based on a model which assumes that the outcome for all impaired loans is repossession. The individually insignificant non-mortgage-specific provisions are calculated based on recovery rates observed over the past four years.

Incurred but not reported ("IBNR") provisions

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that AIB has incurred as a result of events occurring before the balance sheet date, which AIB is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within AIB, those loans are removed from AIB and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses (i.e. losses that are present in the portfolio at the reporting date) and are not permitted for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date. The estimation of IBNR also takes into consideration re-default and execution risk for restructured loans.

Provisioning statistical models are used to determine the appropriate level of IBNR provisions for a portfolio/group of exposures with similar risk characteristics. A non-mortgage model, as described above, estimates IBNR losses taking into consideration the following:

- historical loss experience (loss emergence rates based on historical grade migration experience or probability of default) in portfolios of similar credit risk characteristics (e.g. by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (emergence period);
- loss given default rates based on historical loan loss experience, adjusted for current observable data;
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios (e.g. non-impaired forborne mortgages and restructured loans).

Emergence period

The emergence period is key to determining the level of IBNR provisions. Emergence periods are determined by:

- assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan and requiring a provision; and
- taking into account current credit management practices, historical evidence of assets moving from "good" to "bad" and actual case studies.

Emergence periods are reflective of the characteristics of the particular portfolio and are estimated based on historical loan loss experience supported by back testing and, as appropriate, individual case sampling.

Emergence periods are reviewed on at least an annual basis. As at 31 December 2016, there was no change made to the Republic of Ireland emergence period for the mortgage (12 months) and non-mortgage (8 months) portfolios compared to 31 December 2015 (at 31 December 2014 emergence periods for mortgage and non-mortgage portfolios had increased from nine to 12 months and six to eight months respectively). The emergence period for credit cards and corporate portfolios, remained at three and six months, respectively over the three years ended 31 December 2016.

58 Financial Risk Management (Continued)

The average emergence period for UK mortgages at 31 December 2016 and 2015 is 12 months (increase from 8 months at 31 December 2014) with the non-mortgage emergence period ranging from between three and eight months at 31 December 2016 and 2015 (an increase from between three and seven months at 31 December 2014).

Approval process

AIB operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities and referred to the area credit committee level, as required. These committees are chaired by a designated Credit Risk representative as outlined in the terms of reference for credit committees (approved by ERC), where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of the segment authorities are approved by Group Credit Committee and the Board of Directors (where applicable). Segment impairments and provisions are ultimately reviewed by Group Credit Committee as part of the quarterly process.

The valuation assumptions and approaches used in determining the impairment provisions required are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by segment and AIB senior management.

Write-offs

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take into account receipt of the net realisable value of the security held. Partial write-offs, including non-contracted write-offs, may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as impaired. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the agreement and satisfactory performance.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision amount. The writeback is recognised in the income statement.

Impact of changes to key assumptions and estimates on impairment provisions

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables. A significant area of judgement is the calculation of individually insignificant and IBNR impairment provisions which are subject to estimation uncertainty.

The methods involve the use of historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors not being fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in light of differences between loss estimates and actual loss experience. For example, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are subjective and sensitive to the risk factors, in particular, to changes in economic and credit conditions across a large number of geographical areas.

Given the relative size of the Republic of Ireland mortgage portfolio, the key variables include house price fall from peak of 40 per cent. Dublin and 44 per cent. non-Dublin (2015: 41 per cent. and 42 per cent. respectively; 2014: 49 per cent. and 51 per cent. respectively) which determines the collateral value supporting loans in the mortgage portfolio and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status).

A 1 per cent. favourable change in the cure rate used for the Republic of Ireland collective mortgage provision model would result in a reduction in impairment provisions of 0.5 per cent. (blended rate of owner-occupier/buy-to-let) or approximately €7 million as at 31 December 2016 (2015: 1 per cent. and €14 million respectively; 2014: 1.5 per cent. and €22 million respectively).

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1 per cent. change in the house price fall from peak assumption used for the Republic of Ireland collective mortgage provision model for 31 December 2016 is estimated to result in movements in provisions of approximately €19 million (€16 million of specific provision and €3 million of IBNR) (2015: €20 million (€16 million specific and €4 million IBNR) (2014: €34 million (€26 million specific and €8 million IBNR)).

A 1 per cent. change in the haircut on disposal for Dublin properties would result in a movement in provisions of approximately €5 million (€4 million specific provisions and €1 million IBNR), unchanged from 2015. A similar 1 per cent. change in the haircut on disposal for properties outside of Dublin would result in a movement in provisions of approximately €12 million (€10 million specific provisions and €2 million IBNR), unchanged from 2015.

An increase in the assumed repossession rate of 1 per cent. for the Republic of Ireland collective mortgage provisions would result in an increase in provisions of 0.7 per cent. (blended rate of owner-occupier/buy-to-let) or approximately €10 million (2015: 0.6 per cent. and €9 million; 2014: 0.2 per cent. and €3 million).

For €4.4 billion of the total impaired loans (€1.1 billion mortgages and €3.3 billion non-mortgages) (2015: €5.7 billion (€1.5 billion mortgages and €4.2 billion non-mortgages) (2014: €11.3 billion) for which systemised cash flows are available, changes in interest rates and cash flow timing would have the following impact:

- If interest rates increased by 1 per cent., this would have an impact on the discounting effect, resulting in an increase in impairment provisions of €40 million (€16 million mortgages and €24 million non-mortgages) (2015: €49 million (€18 million mortgages and €31 million non-mortgages) (2014: €98 million).
- If anticipated cash receipt timelines moved out by one year, the impact on impairment provisioning would be an increase of €56 million (€18 million mortgages and €38 million non-mortgages) (2015: €77 million (€24 million mortgages and €53 million non-mortgages) (2014: €130 million).

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Republic of Ireland mortgage portfolio, the emergence period remains at 12 months; a decrease of one month in the loss emergence period would result in a decrease of approximately €14 million in IBNR provisions (2015: €19 million; 2014: €30 million).

In the Republic of Ireland non-mortgage portfolio, an increase of one month in the loss emergence period for IBNR provisions would result in an increase of approximately €22 million (2015: €27 million; 2014: €35 million).

58 Financial Risk Management (Continued)

For the Republic of Ireland non-mortgage portfolio, the impact to impairment provisions of a one per cent. favourable change in the average PD would be a decrease in impairment provisions of approximately €26 million (2015: €18 million).

For the Republic of Ireland collective mortgage provision model, the impact to impairment provisions of a one per cent. favourable change in the average PD would be a decrease in impairment provisions of approximately €57 million (2015: €41 million).

(d) Credit profile of the loan portfolio

AIB's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The following tables show as at 31 December 2016, 2015 and 2014 loans and receivables to customers by industry sector and geography:

(i) total loans and receivables to customers;

(ii) impaired loans and receivables to customers; and

(iii) provisions for impairment on loans and receivables to customers.

The credit portfolio is diversified within each of its geographic markets by spread of locations, industry classification and individual customer.

Other than residential mortgages (51 per cent.) and property and construction (11 per cent.) in the Republic of Ireland, no one industry or loan category, in any geographic market accounts for more than 10 per cent. of AIB's total loan portfolio as at 31 December 2016 (31 December 2015: 49 per cent. and 12 per cent., respectively; 31 December 2014: 48 per cent. and 15 per cent., respectively).

Loans booked in the Republic of Ireland as at 31 December 2016 include approximately €2.1 billion US syndicated and international debt and €0.6 billion European syndicated and international debt (31 December 2015: €1.8 billion and €0.3 billion respectively; 31 December 2014: €1.5 billion and Nil respectively).

58 Financial Risk Management (Continued)

	Year ended 31 December 2016				
			Analysed geographically[1]		
	Total		Republic of Ireland	United Kingdom	Rest of the World
	(€ millions)	(%)		(€ millions)	
Loans and receivables to customers					
Agriculture	1,773	2.7	1,680	93	—
Energy	459	0.7	276	182	1
Manufacturing	2,029	3.1	1,508	464	57
Property and construction	9,394	14.4	6,894	2,500	—
Distribution	5,439	8.3	4,279	1,160	—
Transport	1,405	2.2	1,062	343	—
Financial	684	1.1	484	200	—
Other services	5,706	8.8	3,269	2,375	62
Personal:					
Residential mortgages	35,239	54.0	33,444	1,795	—
Other	3,100	4.7	2,870	230	—
Gross loans and receivables	65,228	100.0	55,766	9,342	120
Analysed as to:					
Neither past due nor impaired	54,265				
Past due but not impaired	1,827				
Impaired—provisions held	9,136				
	65,228				
Provisions for impairment	(4,589)				
Total statement of financial position	60,639				

Note:

(1) Based on booking office.

	Year ended 31 December 2016			
		Analysed geographically[1]		
	Total	Republic of Ireland	United Kingdom	Rest of the World
			(€ millions)	
Impaired loans and receivables to customers				
Agriculture	121	117	4	—
Energy	32	31	1	—
Manufacturing	76	60	16	—
Property and construction	2,724	2,174	550	—
Distribution	681	606	75	—
Transport	38	14	24	—
Financial	144	135	9	—
Other services	312	246	66	—
Personal:				
Residential mortgages	4,576	4,382	194	—
Other	432	386	46	—
Total	9,136	8,151	985	—

Note:

(1) Based on booking office.

	Year ended 31 December 2016			
		Analysed geographically[1]		
	Total	Republic of Ireland	United Kingdom	Rest of the World
		(€ millions)		
Provisions for impairment on loans and receivables to customers				
Agriculture	40	37	3	—
Energy	11	10	1	—
Manufacturing	53	44	9	—
Property and construction	1,350	1,020	330	—
Distribution	305	276	29	—
Transport	34	11	23	—
Financial	94	91	3	—
Other services	180	154	26	—
Personal:				
Residential mortgages	1,728	1,647	81	—
Other	252	218	34	—
Specific	4,047	3,508	539	—
IBNR	542			
Total	4,589			

Note:

(1) Based on booking office.

	Year ended 31 December 2015				
			Analysed geographically[1]		
	Total		Republic of Ireland	United Kingdom	Rest of the World
	(€ millions)	(%)		(€ millions)	
Loans and receivables to customers					
Agriculture	1,795	2.6	1,691	104	—
Energy	339	0.5	237	101	1
Manufacturing	2,107	3.0	1,511	521	75
Property and construction	11,532	16.4	8,089	3,443	—
Distribution	5,831	8.3	4,430	1,401	—
Transport	1,239	1.8	910	329	—
Financial	1,102	1.6	796	302	4
Other services	5,888	8.4	3,283	2,563	42
Personal:					
Residential mortgages	36,818	52.5	34,456	2,362	—
Other	3,512	4.9	3,156	356	—
Gross loans and receivables	70,163	100.0	58,559	11,482	122
Analysed as to:					
Neither past due nor impaired	55,060				
Past due but not impaired	2,018				
Impaired—provisions held	13,085				
	70,163				
Unearned income	(139)[2]				
Deferred costs	48[2]				
Provisions for impairment	(6,832)				
Total statement of financial position	63,240				

Note:

(1) Based on booking office.

(2) In 2016, unearned income and deferred costs have been allocated to the relevant sectors.

58 Financial Risk Management (Continued)

	Year ended 31 December 2015			
		Analysed geographically[1]		
	Total	Republic of Ireland	United Kingdom	Rest of the World
		(€ millions)		
Impaired loans and receivables to customers				
Agriculture	171	166	5	—
Energy	38	37	1	—
Manufacturing	162	122	40	—
Property and construction	4,308	3,295	1,013	—
Distribution	1,071	875	196	—
Transport	60	36	24	—
Financial	147	135	12	—
Other services	464	393	71	—
Personal:				
Residential mortgages	5,966	5,711	255	—
Other	698	631	67	—
Total	13,085	11,401	1,684	—

Note:

(1) Based on booking office.

	Year ended 31 December 2015			
		Analysed geographically[1]		
	Total	Republic of Ireland	United Kingdom	Rest of the World
		(€ millions)		
Provisions for impairment on loans and receivables to customers				
Agriculture	76	73	3	—
Energy	15	15	—	—
Manufacturing	102	78	24	—
Property and construction	2,475	1,790	685	—
Distribution	551	458	93	—
Transport	57	33	24	—
Financial	60	56	4	—
Other services	291	252	39	—
Personal:				
Residential mortgages	2,045	1,930	115	—
Other	486	436	50	—
Specific	6,158	5,121	1,037	—
IBNR	674			
Total	6,832			

Note:

(1) Based on booking office.

58 Financial Risk Management (Continued)

	Year ended 31 December 2014				
			Analysed geographically[1]		
	Total		Republic of Ireland	United Kingdom	Rest of the World
	(€ millions)	(%)		(€ millions)	
Loans and receivables to customers					
Agriculture	1,818	2.4	1,747	71	—
Energy	265	0.3	239	25	1
Manufacturing	1,733	2.3	1,271	462	—
Property and construction	15,537	20.5	11,220	4,317	—
Distribution	6,253	8.2	5,055	1,198	—
Transport	1,010	1.3	819	191	—
Financial	887	1.2	589	295	3
Other services	5,646	7.5	2,969	2,634	43
Personal:					
Residential mortgages	38,846	51.2	36,324	2,522	—
Other	3,837	5.1	3,429	408	—
Gross loans and receivables	75,832	100.0	63,662	12,123	47
Analysed as to:					
Neither past due nor impaired	51,146				
Past due but not impaired	2,524				
Impaired—provisions held	22,162				
	75,832				
Unearned income	(123)[2]				
Deferred costs	59[2]				
Provisions for impairment	(12,406)				
Total statement of financial position	63,362				

Notes:

(1) Based on booking office.

(2) In 2016, unearned income and deferred costs have been allocated to the relevant sectors.

58 Financial Risk Management (Continued)

	Year ended 31 December 2014			
		Analysed geographically[1]		
	Total	Republic of Ireland	United Kingdom	Rest of the World
		(€ millions)		
Impaired loans and receivables to customers				
Agriculture	302	293	9	—
Energy	83	83	—	—
Manufacturing	233	179	54	—
Property and construction	8,836	6,951	1,885	—
Distribution	2,109	1,831	278	—
Transport	100	73	27	—
Financial	183	168	15	—
Other services	763	572	191	—
Personal:				
Residential mortgages	8,509	8,217	292	—
Other	1,044	974	70	—
Total	22,162	19,341	2,821	—

Note:

(1) Based on booking office.

	Year ended 31 December 2014			
		Analysed geographically[1]		
	Total	Republic of Ireland	United Kingdom	Rest of the World
		(€ millions)		
Provisions for impairment on loans and receivables to customers				
Agriculture	185	178	7	—
Energy	40	40	—	—
Manufacturing	144	115	29	—
Property and construction	5,478	4,326	1,152	—
Distribution	1,217	1,072	145	—
Transport	69	44	25	—
Financial	96	90	6	—
Other services	493	391	102	—
Personal:				
Residential mortgages	2,877	2,724	153	—
Other	716	663	53	—
Specific	11,315	9,643	1,672	—
IBNR	1,091			
Total	12,406			

Note:

(1) Based on booking office.

58 Financial Risk Management (Continued)

The following table analyses loans and receivables to customers by segment showing asset quality and impairment provisions for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December														
	2016					2015					2014				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
	(€ millions)														
Gross loans and receivables to customers															
Residential mortgages:															
Owner-occupier	28,624	7	1,564	—	30,195	28,834	10	2,048	36	30,928	29,618	13	2,177	—	31,808
Buy-to-let	4,784	29	231	—	5,044	5,538	38	314	—	5,890	6,651	42	345	—	7,038
	33,408	36	1,795	—	35,239	34,372	48	2,362	36	36,818	36,269	55	2,522	—	38,846
Other personal	2,768	102	230	—	3,100	2,935	221	356	—	3,512	3,154	276	407	—	3,837
Property and construction	4,403	2,499	2,492	—	9,394	5,641	2,448	3,443	—	11,532	8,981	2,161	4,395	—	15,537
Non-property business	6,025	6,520	4,800	150	17,495	6,267	6,173	5,292	569	18,301	7,382	4,976	4,884	370	17,612
Total	46,604	9,157	9,317	150	65,228	49,215	8,890	11,453	605	70,163	55,786	7,468	12,208	370	75,832
Analysed as to asset quality[(1)]															
Satisfactory	30,397	8,588	7,363	114	46,462	28,898	7,747	8,132	573	45,350	28,191	6,297	7,051	312	41,851
Watch	2,441	28	532	—	3,001	3,030	264	986	—	4,280	3,601	349	1,222	—	5,172
Vulnerable	5,858	310	461	—	6,629	6,502	279	667	—	7,448	5,271	327	1,049	—	6,647
Impaired	7,908	231	961	36	9,136	10,785	600	1,668	32	13,085	18,723	495	2,886	58	22,162
Total criticised loans	16,207	569	1,954	36	18,766	20,317	1,143	3,321	32	24,813	27,595	1,171	5,157	58	33,981
Impairment provisions—statement of financial position															
Specific	3,462	44	516	25	4,047	4,896	218	1,027	17	6,158	9,410	153	1,718	34	11,315
IBNR	453	33	56	—	542	556	47	71	—	674	929	77	85	—	1,091
Total impairment provisions	3,915	77	572	25	4,589	5,452	265	1,098	17	6,832	10,339	230	1,803	34	12,406
Income statement—impairment (credit)/charge															
Specific	(183)	35	(31)	8	(171)	(524)	43	(30)	3	(508)	(234)	30	129	—	(75)
IBNR	(103)	(14)	(6)	—	(123)	(374)	(29)	(14)	—	(417)	(23)	(21)	(59)	—	(103)
Total impairment (credit) / charge	(286)	21	(37)	8	(294)	(898)	14	(44)	3	(925)	(257)	9	70	—	(178)

Note:

(1) Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. Watch: the credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows. Vulnerable: credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources. Impaired: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

58 Financial Risk Management (Continued)

Restructuring

Restructuring the loans of customers in difficulty continues to be a key focus for AIB. Customer treatment strategies are in place for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long-term levels of sustainable debt.

A non-retail customer in difficulty typically has exposures across a number of assets classes, including owner-occupier and buy-to-let mortgages, SME debt and associated property exposures. The aim is to apply the treatment strategies at a customer level to deliver a holistic solution which prioritises owner-occupier and viable SME debt. Each case requires an in-depth review of cash flows and security, updated for current valuations and business performance. This process may result in writebacks or top-ups of provisions across asset classes or for the customer as a whole. Write-offs may also be a feature of this process.

This restructuring engagement with customers results in approximately €1.5 billion of loans restructured out of impairment during 2016 with a further €1.8 billion of impaired loans written off (including non-contracted write-offs) (2015: €3.4 billion and €3.4 billion respectively).

Provision writebacks

There was a total provision net writeback of €294 million in 2016 compared to a provision net writeback of €925 million in 2015 (2014: €178 million). Specific provision writebacks (net of top-ups) during the year were €452 million (equivalent to approximately 3.5 per cent. of opening impaired loans) (2015: €789 million and 3.6 per cent.) These writebacks were split into mortgages €205 million (2015: €294 million); other personal €53 million (2015: €47 million); property and construction €143 million (2015: €270 million); and non-property business lending €51 million (2015: €178 million). These writebacks were partially offset by specific provisions amounting to €281 million on newly impaired loans (2015: €281 million).

They key drivers of these writebacks include:

- Increased security values and improved business cash flows due to the stronger economic environment;
- Cases cured from impairment without loss; and
- Additional security from the customer as part of the restructuring process.

The repayment of impaired loans remains dependent on significant levels of future collateral realisations in the near to medium term.

The IBNR provisions released during 2016 amounted to €123 million (2015: €417 million; 2014: €103 million). The release was mainly driven by a reduction in the probability of default as a result of recent observed default data.

58 Financial Risk Management (Continued)

The following tables profile the asset quality of AIB's loans and receivables as at 31 December 2016, 2015 and 2014.

	As at 31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Asset quality					
Neither past due nor impaired	29,730	2,498	6,308	15,729	54,265
Past due but not impaired	933	170	362	362	1,827
Impaired—provisions held	4,576	432	2,724	1,404	9,136
Gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Specific provisions	(1,728)	(252)	(1,350)	(717)	(4,047)
IBNR provisions	(274)	(38)	(99)	(131)	(542)
Total provisions for impairment	(2,002)	(290)	(1,449)	(848)	(4,589)
Gross loans and receivables less provisions	33,237	2,810	7,945	16,647	60,639

Gross loans and receivables reduced by 7 per cent. to €65.2 billion in the year ended 31 December 2016. The reduction was due to restructuring provision write-offs of €1.8 billion and customer repayments including asset sales. The satisfactory portfolio grew by 2.5 per cent. in the year ended 31 December 2016 (including currency movements).

	As at 31 December 2015				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Asset quality					
Neither past due nor impaired	29,796	2,665	6,819	15,780	55,060
Past due but not impaired	1,056	149	405	408	2,018
Impaired—provisions held	5,966	698	4,308	2,113	13,085
Gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Specific provisions	(2,045)	(486)	(2,475)	(1,152)	(6,158)
IBNR provisions	(277)	(49)	(174)	(174)	(674)
Total provisions for impairment	(2,322)	(535)	(2,649)	(1,326)	(6,832)
Gross loans and receivables less provisions	34,496	2,977	8,883	16,975	63,331
Unearned income					(139)(1)
Deferred costs					48(1)
Net loans and receivables					63,240

Note:

(1) In 2016, unearned income and deferred costs have been allocated to the relevant sectors.

Gross loans and receivables reduced by 7.5 per cent. or €5.7 billion in 2015. The reduction was due to restructuring activity of €5.4 billion (including the disposal of a portfolio of loans in AIB UK of €0.7 billion), loan redemptions of €10.1 billion offset by new lending of €8.7 billion and a weaker euro impact of €1.1 billion.

58 Financial Risk Management (Continued)

	As at 31 December 2014				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Asset quality					
Neither past due nor impaired	29,014	2,590	6,226	13,316	51,146
Past due but not impaired	1,323	203	475	523	2,524
Impaired—provisions held	8,509	1,044	8,836	3,773	22,162
Gross loans and receivables	38,846	3,837	15,537	17,612	75,832
Specific provisions	(2,877)	(716)	(5,478)	(2,244)	(11,315)
IBNR provisions	(550)	(52)	(174)	(315)	(1,091)
Total provisions for impairment	(3,427)	(768)	(5,652)	(2,559)	(12,406)
Gross loans and receivables less provisions	35,419	3,069	9,885	15,053	63,426
Unearned income					(123)[(1)]
Deferred costs					59[(1)]
Net loans and receivables					63,362

Note:

(1) In 2016, unearned income and deferred costs have been allocated to the relevant sectors.

Aged analysis of contractually past due but not impaired gross loans and receivables to customers

	As at 31 December 2016						
	1–30 days	31–60 days	61–90 days	91–180 days	181–365 days	>365 days	Total
				(€ millions)			
Industry sector							
Agriculture	40	7	2	7	8	31	95
Energy	6	—	1	—	—	—	7
Manufacturing	8	1	—	2	—	2	13
Property and construction	144	28	25	28	38	99	362
Distribution	72	12	3	7	8	26	128
Transport	4	1	1	—	—	3	9
Financial	1	1	—	—	—	—	2
Other services	40	20	2	15	8	23	108
Personal:							
Residential mortgages	469	131	72	62	63	136	933
Credit cards	27	5	3	—	—	—	35
Other	55	15	11	12	15	27	135
	866	221	120	133	140	347	1,827
Segment							
RCB	781	185	103	121	126	330	1,646
WIB	11	3	—	3	8	9	34
AIB UK	74	33	17	9	6	8	147
Group	—	—	—	—	—	—	—
	866	221	120	133	140	347	1,827
As a percentage of total gross loans	1.33%	0.34%	0.18%	0.20%	0.21%	0.53%	2.80%

	As at 31 December 2015						
	1–30 days	31–60 days	61–90 days	91–180 days	181–365 days	>365 days	Total
	(€ millions)						
Industry sector							
Agriculture	55	21	2	8	5	39	130
Energy	1	—	—	—	—	2	3
Manufacturing	29	2	—	1	1	2	35
Property and construction	127	54	15	54	45	110	405
Distribution	63	14	10	13	6	31	137
Transport	4	—	—	—	—	2	6
Financial	3	1	1	1	1	1	8
Other services	30	20	7	11	8	13	89
Personal:							
Residential mortgages	536	151	86	73	65	145	1,056
Credit cards	30	5	3	2	1	—	41
Other	40	19	6	12	7	24	108
	918	287	130	175	139	369	2,018
Segment							
RCB	797	229	106	124	121	348	1,725
WIB	11	20	6	18	9	10	74
AIB UK	110	38	18	33	9	11	219
Group	—	—	—	—	—	—	—
	918	287	130	175	139	369	2,018
As a percentage of total gross loans	1.31%	0.41%	0.18%	0.25%	0.20%	0.53%	2.88%

	As at 31 December 2014						
	1–30 days	31–60 days	61–90 days	91–180 days	181–365 days	>365 days	Total
	(€ millions)						
Industry sector							
Agriculture	50	10	3	9	15	40	127
Energy	—	—	—	—	—	3	3
Manufacturing	21	4	1	1	2	8	37
Property and construction	140	37	28	58	58	154	475
Distribution	69	18	7	28	35	31	188
Transport	6	1	—	—	—	3	10
Financial	12	1	—	2	—	—	15
Other services	69	26	3	10	11	24	143
Personal:							
Residential mortgages	552	259	151	116	127	118	1,323
Credit cards	30	7	4	3	1	—	45
Other	50	14	13	18	15	48	158
	999	377	210	245	264	429	2,524
Segment							
RCB	817	293	181	209	189	375	2,064
WIB	64	48	1	9	55	40	217
AIB UK	118	36	28	27	20	14	243
Group	—	—	—	—	—	—	—
	999	377	210	245	264	429	2,524
As a percentage of total gross loans	1.32%	0.50%	0.28%	0.32%	0.35%	0.57%	3.33%

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

58 Financial Risk Management (Continued)

Loans past due but not impaired reduced by €0.2 billion to €1.8 billion, or 2.8 per cent. of total loans and receivables to customers as at 31 December 2016 (reduced to €2.0 billion, or 2.9 per cent., as at 31 December 2015 and reduced to €2.5 billion, or 3.3 per cent., as at 31 December 2014).

Residential mortgage loans which were past due but not impaired as at 31 December 2016 amounted to €0.9 billion. This represents 51 per cent. of total loans which were past due but not impaired (€1.1 billion, or 52 per cent., as at 31 December 2015 and €1.3 billion, or 52 per cent., as at 31 December 2014). The level of residential mortgage loans in early arrears (less than 30 days) continued to decrease over the periods due to active management of early arrears cases and the improving economic environment.

As at 31 December 2016, property and construction loans which were past due but not impaired represented a further 20 per cent., or €0.4 billion, of total loans which were past due but not impaired (20 per cent., or €0.4 billion, as at 31 December 2015 and 19 per cent., or €0.5 billion, as at 31 December 2014), with other personal at 9 per cent., or €0.2 billion as at 31 December 2016 (7 per cent., or €0.1 billion, as at 31 December 2015 and 8 per cent., or €0.2 billion, as at 31 December 2014).

All loans are tested for impairment when they reach 90 days past due to determine if a loss event has occurred and if an impairment provision is required.

Impaired loans for which provisions are held

The following table shows impaired loans which are assessed for impairment either individually or collectively with the relevant specific impairment provisions:

	As at 31 December 2016						
	Impaired loans					Specific impairment provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loans
	(€ millions)				%	(€ millions)	%
Retail							
Residential mortgages	35,239	1,298	3,278	4,576	13	1,728	38
Other personal lending	3,100	258	174	432	14	252	58
Total retail	38,339	1,556	3,452	5,008	13	1,980	40
Commercial							
Property and construction	9,394	2,570	154	2,724	29	1,350	50
Non-property business	17,495	1,176	228	1,404	8	717	51
Total commercial	26,889	3,746	382	4,128	15	2,067	50
Total	65,228	5,302	3,834	9,136	14	4,047	44
Specific impairment provisions as at 31 December 2016		2,470	1,577	4,047			
Specific provision cover percentage		47%	41%	44%			

As at 31 December 2015

	Impaired loans					Specific impairment provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loans
		(€ millions)			%	(€ millions)	%
Retail							
Residential mortgages	36,818	1,914	4,052	5,966	16	2,045	34
Other personal lending	3,512	358	340	698	20	486	70
Total retail	40,330	2,272	4,392	6,664	17	2,531	38
Commercial							
Property and construction	11,532	3,950	358	4,308	37	2,475	57
Non-property business	18,301	1,632	481	2,113	12	1,152	55
Total commercial	29,833	5,582	839	6,421	22	3,627	56
Total	70,163	7,854	5,231	13,085	19	6,158	47
Specific impairment provisions as at 31 December 2015		3,975	2,183	6,158			
Specific provision cover percentage		51%	42%	47%			

As at 31 December 2014

	Impaired loans					Specific impairment provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loans
		(€ millions)			%	(€ millions)	%
Retail							
Residential mortgages	38,846	3,453	5,056	8,509	22	2,877	34
Other personal lending	3,837	691	353	1,044	27	716	69
Total retail	42,683	4,144	5,409	9,553	22	3,593	38
Commercial							
Property and construction	15,537	8,543	293	8,836	57	5,478	62
Non-property business	17,612	3,359	414	3,773	21	2,244	59
Total commercial	33,149	11,902	707	12,609	38	7,722	61
Total	75,832	16,046	6,116	22,162	29	11,315	51
Specific impairment provisions as at 31 December 2014		9,185	2,130	11,315			
Specific provision cover percentage		57%	35%	51%			

Specific impairment provisions as a percentage of impaired loans decreased from 47 per cent. as at 31 December 2015 to 44 per cent. as at 31 December 2016 (decreased from 51 per cent. as 31 December 2014, to 47 per cent. as at 31 December 2015). The reduction principally occurred in individually assessed loans, with cover reduced from 51 per cent. at 31 December 2015 to 47 per cent. at 31 December 2016 driven by restructures, writebacks, and write-offs of loans (partially or fully) (cover reduced from 57 per cent. at 31 December 2014). The higher provision cover on these restructured and written off loans had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through restructuring agreements with customers and also where further recovery is considered unlikely.

For residential mortgages, specific provisions as a percentage of impaired loans increased from 34 per cent. as at 31 December 2014 and 2015 to 38 per cent. as at 31 December 2016. The increase in cover reflects a higher concentration of loans in the legal process, which take longer to resolve and typically require higher provision cover.

58 Financial Risk Management (Continued)

Movements on impairment provisions

The following table sets out the movements on AIB impairment provisions for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
As at 1 January	2,322	535	2,649	1,326	6,832
Exchange translation adjustments	(28)	(10)	(73)	(19)	(130)
Credit to income statement—customers[(1)]	(111)	(22)	(145)	(16)	(294)
Amounts written off	(181)	(213)	(985)	(450)	(1,829)
Recoveries of amounts written off in previous years	—	—	3	7	10
At 31 December 2016	2,002	290	1,449	848	4,589
Total provisions are split as follows:					
Specific	1,728	252	1,350	717	4,047
IBNR	274	38	99	131	542
	2,002	290	1,449	848	4,589
Amounts include:					
Loans and receivables to customers (note 24)					4,589
					4,589

	Year ended 31 December 2015				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
As at 1 January	3,427	768	5,652	2,559	12,406
Exchange translation adjustments	16	2	102	11	131
Credit to income statement—customers[(1)]	(478)	(8)	(214)	(225)	(925)
Amounts written off	(643)	(226)	(2,738)	(986)	(4,593)
Disposals	—	(1)	(159)	(35)	(195)
Recoveries of amounts written off in previous years	—	—	6	2	8
As at 31 December 2015	2,322	535	2,649	1,326	6,832
Total provisions are split as follows:					
Specific	2,045	486	2,475	1,152	6,158
IBNR	277	49	174	174	674
	2,322	535	2,649	1,326	6,832
Amounts include:					
Loans and receivables to customers (note 24)					6,832
					6,832

58 Financial Risk Management (Continued)

	Year ended 31 December 2014				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
As at 1 January	3,952	1,147	8,460	3,531	17,090
Exchange translation adjustments	12	9	97	32	150
(Credit to)/charge against income statement—customers(1)	(76)	15	(244)	127	(178)
Credit to income statement—banks(2)	—	—	—	(7)	(7)
Amounts written off	(461)	(403)	(2,664)	(1,127)	(4,655)
Recoveries of amounts written off in previous years	—	—	3	3	6
As at 31 December 2014	3,427	768	5,652	2,559	12,406
Total provisions are split as follows:					
Specific	2,877	716	5,478	2,244	11,315
IBNR	550	52	174	315	1,091
	3,427	768	5,652	2,559	12,406
Amounts include:					
Loans and receivables to customers (note 24)					12,406
					12,406

Notes:

(1) Geographic split: Republic of Ireland a credit of €262 million for the year ended 31 December 2016 (credit of €885 million for the year ended 31 December 2015; credit of €205 million for the year ended 31 December 2014) United Kingdom a credit of €32 million for the year ended 31 December 2016 (credit of €40 million for the year ended 31 December 2015; a charge of €27 million for the year ended 31 December 2014).

(2) Geographic split: Republic of Ireland a credit of €7 million; United Kingdom Nil; Rest of the World Nil.

Provisions—Income statement

The following tables analyse the income statement provisions/writeback of provisions split between individually significant, individually insignificant and IBNR for loans and receivables for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December 2016				
	RCB	WIB	AIB UK	Group	Total
			(€ millions)		
Specific provisions					
Individually significant	(163)	27	(26)	8	(154)
Individually insignificant	(20)	8	(5)	—	(17)
IBNR	(103)	(14)	(6)	—	(123)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(286)	21	(37)	8	(294)
Writeback of provisions for impairment on financial investments available for sale					(2)
Writeback of provisions for liabilities and commitments					(2)
Total					(298)

58 Financial Risk Management (Continued)

	Year ended 31 December 2015				
	RCB	WIB	AIB UK	Group	Total
	(€ millions)				
Specific provisions					
Individually significant	(657)	43	(22)	3	(633)
Individually insignificant	133	—	(8)	—	125
IBNR	(374)	(29)	(14)	—	(417)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(898)	14	(44)	3	(925)
Writeback of provisions for liabilities and commitments					(11)
Total					(936)

	Year ended 31 December 2014				
	RCB	WIB	AIB UK	Group	Total
	(€ millions)				
Specific provisions					
Individually significant	(177)	30	97	—	(50)
Individually insignificant	(57)	—	32	—	(25)
IBNR	(23)	(21)	(59)	—	(103)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(257)	9	70	—	(178)
Writeback of provisions for loans to banks					(7)
Provisions for impairment on financial investments available for sale					1
Writeback of provisions for liabilities and commitments					(4)
Total					(188)

Credit profile of the loan portfolio Provisions—income statement

The following table analyses by segment the income statement impairment provisions/writeback of provisions for the years ended 31 December 2016, 2015 and 2014:

	2016			2015			2014		
	Residential mortgages	Other	Total	Residential mortgages	Other	Total	Residential mortgages	Other	Total
	(€ millions)								
RCB	(110)	(176)	(286)	(485)	(433)	(898)	(92)	(165)	(257)
WIB	—	21	21	2	12	14	—	9	9
AIB UK	(1)	(36)	(37)	(15)	(29)	(44)	17	53	70
Group	—	8	8	—	3	3	—	—	—
Total	(111)	(183)	(294)	(478)	(447)	(925)	(75)	(103)	(178)

The following table analyses by segment the income statement impairment provisions/writeback of provisions as a percentage of average loans and receivables to customers expressed as basis points ("bps") for the years ended 31 December 2016, 2015 and 2014.

	2016			2015			2014		
	Residential mortgages	Other	Total	Residential mortgages	Other	Total	Residential mortgages	Other	Total
	(bps)								
RCB	(32)	(126)	(60)	(131)	(254)	(171)	(25)	(80)	(45)
WIB	—	23	23	388	15	17	(239)	10	9
AIB UK	(10)	(44)	(37)	(59)	(29)	(35)	68	51	54
Group	—	212	212	—	64	62	—	—	—
Total	(31)	(59)	(44)	(126)	(125)	(126)	(19)	(26)	(22)

Writebacks decreased from a net writeback of €925 million in 2015, to a net writeback of €294 million in 2016 (2014: net writeback of €178 million). The writeback comprised of €171 million in specific provision writebacks and a release of IBNR provisions of €123 million (31 December 2015: €508 million net writeback in specific provisions and release of IBNR provisions of €417 millions; 31 December 2014: €75 million net writeback in specific provisions and release of IBNR provisions of €103 million).

The 2016 specific provision writeback of €171 million can be split into €281 million new impairment provisions and a €452 million writeback (net of top-ups). The 2015 specific provision writeback of €508 million can be split into €281 million new impairment provisions and a €789 million writeback (net of top-ups). The 2014 specific provision writeback of €75 million can be split into €541 million new impairment provisions and a €616 million writeback (net of top-ups). New impairment provisions in 2016 remained consistent with 2015 (€281 million) reflecting the improved economic conditions. 2015 reflected an improvement on 2014 levels (€541 million). The key drivers of the total writebacks were the writeback of provisions due to restructuring activity offset by provisions on newly impaired loans.

The IBNR released in 2016 was €123 million (2015: €417 million, 2014: €103 million). The release was mainly driven by a reduction in the probability of default in the portfolio reflecting the improved economic environment.

Loans and receivables to customers—Residential mortgages

Residential mortgages amounted to €35.2 billion at 31 December 2016, with the majority (95 per cent.) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to €36.8 billion at 31 December 2015, of which 94 per cent. related to residential mortgages in the Republic of Ireland and compares to €38.8 billion at 31 December 2014, of which 94 per cent. related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio at 31 December 2016 was owner-occupier €30.2 billion and buy-to-let €5 billion (2015: owner-occupier €30.9 billion and buy-to-let €5.9 billion; 2014: owner-occupier €31.8 billion and buy-to-let €7.0 billion).

Statement of financial position provisions of €2.0 billion were held at 31 December 2016, split €1.7 billion specific and €0.3 billion IBNR (2015: €2.3 billion, split €2.0 billion specific and €0.3 billion IBNR; 2014: €3.4 billion, split €2.9 billion specific and €0.5 billion IBNR).

There was an impairment provision credit of €111 million to the income statement in 2016 comprising a €110 million specific writeback and a €1 million IBNR release (2015: €478 million provision credit comprising €204 million specific writeback and a €274 million IBNR release; 2014: €76 million provision credit comprising €4 million specific charge and a €72 million IBNR release).

58 Financial Risk Management (Continued)

Loans and receivables to customers—Republic of Ireland residential mortgages

The following table analyses Ireland residential mortgage portfolio by segment showing impairment provisions for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December								
	2016			2015			2014		
Statement of financial position	**Owner-occupier**	**Buy-to-let**	**Total**	**Owner-occupier**	**Buy-to-let**	**Total**	**Owner-occupier**	**Buy-to-let**	**Total**
	(€ millions, unless otherwise stated)								
Total gross residential mortgages	28,631	4,813	33,444	28,880	5,576	34,456	29,631	6,693	36,324
In arrears (>30 days past due)(1)	3,176	1,649	4,825	4,032	2,154	6,186	5,519	3,408	8,927
In arrears (>90 days past due)(1)	3,042	1,593	4,635	3,876	2,098	5,974	5,215	3,337	8,552
Of which impaired	2,898	1,484	4,382	3,713	1,998	5,711	5,004	3,213	8,217
Statement of financial position specific provisions	1,042	605	1,647	1,159	771	1,930	1,394	1,330	2,724
Statement of financial position IBNR provisions	160	106	266	188	76	264	420	112	532
Provision cover percentage									
Specific provisions/impaired loans %	35.9%	40.8%	37.6%	31.2%	38.6%	33.8%	27.9%	41.4%	33.2%
Income statement (credit)/charge									
Income statement specific provisions	(50)	(61)	(111)	(89)	(106)	(195)	17	(49)	(32)
Income statement IBNR provisions	(27)	29	2	(232)	(36)	(268)	(23)	(38)	(61)
Total impairment (credit)	(77)	(32)	(109)	(321)	(142)	(463)	(6)	(87)	(93)

Note:

(1) Includes all impaired loans whether past due or not.

Residential mortgages in the Republic of Ireland amounted to €33.4 billion at 31 December 2016 compared to €34.5 billion at 31 December 2015. The decrease in the portfolio was observed mainly in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in 2016 were €2.0 billion, of which 97 per cent. related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 68.4 per cent.

At 31 December 2016, the split of the residential mortgage portfolio is 86 per cent. owner-occupier and 14 per cent. buy-to-let and comprised 35 per cent. tracker rate, 55 per cent. variable rate and 10 per cent. fixed rate mortgages (2015: 84 per cent., 16 per cent., 37 per cent., 52 per cent., and 11 per cent., respectively). The proportion of the total residential mortgage portfolio in negative equity decreased from 24 per cent. at 31 December 2015 to 20 per cent. at 31 December 2016 reflecting the increase in residential property prices in Ireland during 2016 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from €1.5 billion to €1.0 billion.

Residential mortgages in the Republic of Ireland amounted to €34.5 billion at 31 December 2015 compared to €36.3 billion at 31 December 2014. The decrease in the portfolio was driven by a reduction in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in 2015 were €1.7 billion, of which 97 per cent. related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 71 per cent. (2014: €1.3 billion, 97 per cent. and 70 per cent., respectively).

The split of the residential mortgage portfolio at 31 December 2015 was 84 per cent. owner-occupier and 16 per cent. buy-to-let and comprised 37 per cent. tracker rate, 52 per cent. variable rate and 11 per cent. fixed rate mortgages (2014: 82 per cent., 18 per cent., 40 per cent., 52 per cent., and 8 per cent., respectively). The proportion of the total residential mortgage portfolio in negative equity decreased from 34 per cent. at 31 December 2014 to 24 per cent. at 31 December 2015 reflecting the increase in residential property prices in Ireland during 2015 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from €2.7 billion to €1.5 billion.

Residential mortgage arrears

Total loans in arrears by value decreased by 18 per cent. during 2016, a decrease of 17 per cent. in the owner-occupier portfolio and a decrease of 21 per cent. in the buy-to-let portfolio in the year. By number of customers, these decreases were 15 per cent., 16 per cent. and 13 per cent. respectively. These decreases in arrears can be mainly attributed to restructuring activity and improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due). The amount of loans which were new into arrears for the first time in 2016 fell by 38 per cent. compared to 2015.

Total loans in arrears greater than 90 days at 7.2 per cent. as at 31 December 2016 decreased from 8.2 per cent. at 31 December 2015 and remain below the industry average of 8.9 per cent.[1] For the owner-occupier portfolio, loans in arrears greater than 90 days at 5.4 per cent. were below the industry average of 7.6 per cent. For the buy-to-let portfolio, loans in arrears greater than 90 days at 18.8 per cent. exceeded the industry average of 16.2 per cent.

Total loans in arrears by value decreased by 29 per cent. during 2015 compared to 2014, a decrease of 25 per cent. in the owner-occupier portfolio and a decrease of 36 per cent. in the buy-to-let portfolio in the year. By number of customers, these decreases were 24 per cent., 24 per cent. and 25 per cent. respectively. These decreases in arrears were mainly attributed to restructuring activity and improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due). The amount of loans which were new into arrears for the first time in 2015 fell by 51 per cent. compared to 2014.

Total loans in arrears greater than 90 days at 8.2 per cent. as at 31 December 2015 decreased from 11.3 per cent. at 31 December 2014 and remain below the then industry average of 10.2 per cent.[2] For the owner-occupier portfolio, loans in arrears greater than 90 days at 31 December 2015, at 6.4 per cent., were below the then industry average of 8.7 per cent. (2014: 9.0 per cent. and 11.2 per cent., respectively) For the buy-to-let portfolio, loans in arrears greater than 90 days at 31 December 2015, at 19.8 per cent., exceeded the then industry average of 18.1 per cent. (2014: 24.7 per cent. and 22.1 per cent., respectively).

Forbearance

Residential mortgages subject to forbearance measures increased by €0.5 billion from 31 December 2015 to €5.9 billion at 31 December 2016, compared to a decrease of €0.1 billion from 2014 to 2015, and is significantly impacted by a change in the definition of forbearance (see note 58.1(g)). A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by AIB's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Residential mortgages subject to forbearance measures decreased by €0.1 billion from 31 December 2014 to €5.5 billion at 31 December 2015, compared to an increase of €0.6 billion in 2014 under the previous definition of forbearance. A key feature of the forbearance portfolio was the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by AIB's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Impairment provisions

Impaired loans decreased from €5.7 billion at 31 December 2015 to €4.4 billion at 31 December 2016, mainly due to restructuring, write-offs and repayments through customer asset sales. The level of newly impaired loans declined by 23 per cent. in 2016 compared to 2015.

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1 Source: Central Bank Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2016, based on numbers of accounts.

2 Source: Central Bank Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2015, based on numbers of accounts.

58 Financial Risk Management (Continued)

There was a specific provision writeback of €111 million in 2016 compared to a €195 million writeback in 2015. This can be split into a charge for new impairments of €88 million and a writeback of provisions (net of top-ups) of €199 million. The writeback was mainly due to the impact of restructuring, loans curing from impairment, and changes in a number of assumptions in the mortgage model (possession and cure rates). The specific provision cover level increased from 34 per cent. at 31 December 2015 to 38 per cent. at 31 December 2016. The increase was mainly driven by individually assessed buy-to-let loans, updated for higher property valuations and the impact of restructuring.

An IBNR charge in 2016 of €2 million compares to a release of €268 million in 2015 mainly due to changes in the mortgage model parameters and a reduction in probability of default for the portfolio.

At 31 December 2016, specific provisions of €0.8 billion were held against the forborne impaired portfolio of €2.3 billion providing cover of 35 per cent. In relation to the non-impaired forborne portfolio of €3.5 billion, of which €0.4 billion is on an interest only arrangement, IBNR impairment provisions of €0.1 billion were held.

Impaired loans decreased from €8.2 billion at 31 December 2014 to €5.7 billion at 31 December 2015, mainly due to restructuring, write-offs and repayments through customer asset sales. The level of newly impaired loans declined by 70 per cent. in 2015 compared to 2014.

There was a specific provision writeback of €195 million in 2015 compared to a €32 million writeback in 2014. This can be split into a charge for new impairments of €78 million (2014: €186 million) and a writeback of provisions (net of top-ups) of €273 million (2014: €218 million). The writeback was mainly due to the impact of restructuring, loans curing from impairment, and changes in a number of assumptions in the mortgage model (possession and cure rates). The specific provision cover level increased from 33 per cent. at 31 December 2014 to 34 per cent. at 31 December 2015. The increase was mainly driven by individually assessed buy-to-let loans, updated for improved property valuations and the impact of restructuring.

An IBNR release in 2015 of €268 million compares to a release of €61 million in 2014 mainly due to changes in the mortgage model parameters and a reduction in probability of default for the portfolio.

At 31 December 2015, specific provisions of €0.6 billion were held against the forborne impaired portfolio of €2.2 billion providing cover of 28.4 per cent. In relation to the non-impaired forborne portfolio of €3.3 billion, of which €0.5 billion is on an interest only arrangement, IBNR impairment provisions of €0.1 billion were held.

At 31 December 2014, specific provisions of €0.9 billion were held against the forborne impaired portfolio of €3.3 billion, providing cover of 26.9 per cent.

In relation to the non-impaired portfolio of €2.3 billion, of which €0.7 billion is on an interest only arrangement or an arrangement to repay amounts greater than interest only. IBNR impairment provisions of €0.1 billion were held.

58 Financial Risk Management (Continued)

Republic of Ireland residential mortgages by year of origination

The following table profiles the Republic of Ireland total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2016, 2015 and 2014:

	2016				2015				2014			
	Total		Impaired		Total		Impaired		Total		Impaired	
	Number	Balance (€m)	Number	Balance (€m)	Number	Balance (€m)	Number	Balance (€m)	Number	Balance (€m)	Number	Balance (€m)
Republic of Ireland												
1996 and before	2,948	95	436	14	4,502	118	642	22	6,136	149	954	34
1997	2,267	40	171	6	2,561	54	244	10	2,826	70	350	14
1998	2,834	73	258	12	3,127	91	343	16	3,442	114	503	24
1999	3,785	135	339	25	4,171	164	474	33	4,597	198	658	46
2000	4,816	223	474	35	5,196	261	615	46	6,084	308	855	66
2001	5,424	316	494	41	6,218	364	664	55	6,713	423	919	80
2002	9,052	629	863	83	9,738	724	1,090	113	10,512	835	1,549	170
2003	12,809	1,076	1,370	156	13,728	1,225	1,792	212	14,784	1,402	2,469	315
2004	17,612	1,836	2,164	307	18,768	2,065	2,657	384	19,953	2,339	3,633	567
2005	24,780	2,972	3,446	550	26,086	3,310	4,250	707	28,121	3,725	5,739	1,035
2006	32,290	4,736	5,307	988	34,317	5,214	6,593	1,296	35,914	5,807	8,672	1,841
2007	32,049	4,861	5,300	993	33,353	5,294	6,586	1,281	34,734	5,871	8,701	1,852
2008	30,557	4,684	4,124	774	31,756	5,102	5,217	1,025	33,009	5,607	6,917	1,465
2009	19,973	2,823	1,657	278	20,962	3,068	2,145	366	21,940	3,335	2,835	519
2010	13,916	1,955	584	97	14,598	2,111	753	124	15,374	2,282	947	162
2011	4,218	578	87	14	4,443	626	98	15	4,652	682	109	20
2012	6,196	889	17	4	6,465	961	23	5	6,752	1,049	28	6
2013	5,338	779	6	1	5,560	845	6	1	5,742	906	7	1
2014	7,409	1,138	14	2	7,642	1,207	5	—	7,773	1,222	2	—
2015	10,178	1,636	7	2	10,343	1,652	1	—	—	—	—	—
2016	11,669	1,970	—	—	—	—	—	—	—	—	—	—
Total	260,120	33,444	27,118	4,382	263,534	34,456	34,198	5,711	269,058	36,324	45,847	8,217

The majority (€17.3 billion or 52 per cent.) of the €33.4 billion residential mortgage portfolio originated between 2005 and 2008, of which 19 per cent. (€3.3 billion) was impaired at 31 December 2016. This cohort was impacted by reduced household income and increased unemployment rates in those years, and where property prices had decreased from a peak in 2007. 13 per cent. of the residential mortgage portfolio was originated before 2005 of which 15 per cent. was impaired at 31 December 2016, while the remaining 35 per cent. of the portfolio was originated since 2009 or after, of which 3 per cent. was impaired at 31 December 2016.

The majority (€18.9 billion or 55 per cent.) of the €34.5 billion residential mortgage portfolio was originated between 2005 and 2008, of which 23 per cent. (€4.3 billion) was impaired at 31 December 2015. This was primarily driven by reduced household income and increased unemployment for customers and mortgage business acquired during that period, coupled with the decrease in property prices since their peak in 2007. 15 per cent. of the residential mortgage portfolio was originated before 2005 of which 18 per cent. was impaired at 31 December 2015, while the remaining 30 per cent. of the portfolio was originated since 2009 or after, of which 5 per cent. was impaired at 31 December 2015.

The majority (€21.0 billion or 58 per cent.) of the €36.3 billion residential mortgage book originated between 2005 and 2008, of which 29 per cent. (€6.2 billion) was impaired at 31 December 2014. This was driven by reduced household income and increased unemployment in the last number of years, and reflects the decrease in property prices since their peak in 2007. 16 per cent. of the residential mortgage portfolio was originated before 2005 of which 23 per cent. was impaired at 31 December 2014, while the remaining 26 per cent. of the portfolio was originated since 2009 of which 7 per cent. was impaired at 31 December 2014.

The property values used in the completion of the 2016 loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index in the Republic of Ireland for October 2016. The CSO Residential Property Price Index for October 2016 reported that national residential property prices were 31.5 per cent. lower than their highest level in early 2007 and reported an increase in residential property prices of 8.6 per cent. for the twelve months to October 2016.

The property values used in the completion of the 2015 loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the CSO Residential Property Price Index in the Republic of Ireland for November 2015. The CSO Residential Property Price Index for November 2015 reported that national residential property prices were 34 per cent. lower than their highest level in early 2007 and reported an increase in residential property prices of 6.5 per cent. for the twelve months to 30 November 2015.

The property values used in the completion of the 2014 loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the CSO Residential Property Price Index in the Republic of Ireland for November 2014. The CSO Residential Property Price Index for November 2014 reported that national residential property prices were 38 per cent. lower than their highest level in early 2007 and reported an annual increase in residential property prices of 16 per cent. in the year to 30 November 2014.

Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages

The following tables profile the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2016, 2015 and 2014:

	2016					
	Owner-occupier		Buy-to-let		Total	
	€m	%	€m	%	€m	%
Republic of Ireland						
Less than 50%	6,806	23.8	1,036	21.5	7,842	23.5
50% to 70%	7,189	25.1	996	20.7	8,185	24.5
71% to 80%	3,862	13.5	489	10.2	4,351	13.0
81% to 90%	3,217	11.2	461	9.6	3,678	11.0
91% to 100%	2,236	7.8	484	10.0	2,720	8.1
101% to 120%	3,147	11.0	618	12.8	3,765	11.3
121% to 150%	1,642	5.7	377	7.8	2,019	6.0
Greater than 150%	387	1.4	258	5.4	645	1.9
Unsecured	145	0.5	94	2.0	239	0.7
Total	28,631	100.0	4,813	100.0	33,444	100.0
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at financial year end		72.4		81.9		73.8
New residential mortgages issued during year		68.8		56.4		68.4
Impaired residential mortgages		103.4		101.2		102.7

	2015					
	Owner-occupier		Buy-to-let		Total	
	€m	%	€m	%	€m	%
Republic of Ireland						
Less than 50%	6,171	21.4	991	17.8	7,162	20.8
50% to 70%	6,284	21.8	1,047	18.8	7,331	21.3
71% to 80%	3,896	13.5	540	9.7	4,436	12.9
81% to 90%	3,520	12.2	543	9.7	4,063	11.8
91% to 100%	2,588	8.9	622	11.2	3,210	9.3
101% to 120%	3,548	12.3	841	15.1	4,389	12.7
121% to 150%	2,327	8.0	553	9.9	2,880	8.3
Greater than 150%	436	1.5	359	6.4	795	2.3
Unsecured	110	0.4	80	1.4	190	0.6
Total	28,880	100.0	5,576	100.0	34,456	100.0
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at financial year end		76.1		87.4		77.9
New residential mortgages issued during year		71.1		59.1		70.7
Impaired residential mortgages		101.4		104.8		102.6

	2014					
	Owner-occupier		Buy-to-let		Total	
	€m	%	€m	%	€m	%
Republic of Ireland						
Less than 50%	5,307	17.9	802	12.0	6,109	16.8
50% to 70%	5,542	18.7	893	13.4	6,435	17.7
71% to 80%	3,256	11.0	545	8.1	3,801	10.5
81% to 90%	3,386	11.4	590	8.8	3,976	11.0
91% to 100%	2,794	9.4	683	10.2	3,477	9.6
101% to 120%	4,328	14.6	1,147	17.1	5,475	15.0
121% to 150%	3,998	13.5	1,164	17.4	5,162	14.2
Greater than 150%	947	3.2	780	11.7	1,727	4.8
Unsecured	73	0.3	89	1.3	162	0.4
Total	29,631	100.0	6,693	100.0	36,324	100.0
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at financial year end		83.6		101.4		87.1
New residential mortgages issued during year		70.5		55.2		70.0
Impaired residential mortgages		107.0		119.8		112.4

Note:

(1) Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

18 per cent. of the total owner-occupier and 26 per cent. of the total buy-to-let mortgages were in negative equity at 31 December 2016 (excluding unsecured) compared to 22 per cent. and 31 per cent. respectively at 31 December 2015 (31 per cent. and 46 per cent. respectively at 31 December 2014). The weighted average indexed loan-to-value for the total residential mortgage portfolio was 74 per cent. at 31 December 2016 compared to 78 per cent. at 31 December 2015 (87.1 per cent. at 31 December 2014), with the reduction driven primarily by the amortisation of the portfolio and the increase in property prices up to 31 December 2016.

Loan-to-value ratios of Republic of Ireland residential mortgages (index linked) that were neither past due nor impaired

The following tables profile the Republic of Ireland residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2016, 2015 and 2014:

	2016					
	Owner-Occupier		Buy-to-let		Total	
	€m	%	€m	%	€m	%
Republic of Ireland						
Less than 50%	6,395	25.5	819	26.5	7,214	25.6
50% to 70%	6,697	26.7	741	24.0	7,438	26.4
71% to 80%	3,553	14.2	352	11.4	3,905	13.9
81% to 90%	2,919	11.6	315	10.2	3,234	11.5
91% to 100%	1,917	7.7	298	9.6	2,215	7.8
101% to 120%	2,527	10.1	332	10.7	2,859	10.2
121% to 150%	989	4.0	143	4.6	1,132	4.0
Greater than 150%	61	0.2	83	2.7	144	0.5
Unsecured	11	—	10	0.3	21	0.1
Total	25,069	100.0	3,093	100.0	28,162	100.0

58 Financial Risk Management (Continued)

	2015					
	Owner-Occupier		Buy-to-let		Total	
	€m	%	€m	%	€m	%
Republic of Ireland						
Less than 50%	5,678	23.3	766	23.0	6,444	23.2
50% to 70%	5,672	23.2	757	22.7	6,429	23.2
71% to 80%	3,513	14.4	373	11.2	3,886	14.0
81% to 90%	3,101	12.7	336	10.1	3,437	12.4
91% to 100%	2,147	8.8	365	10.9	2,512	9.0
101% to 120%	2,768	11.3	416	12.5	3,184	11.5
121% to 150%	1,444	5.9	198	5.9	1,642	5.9
Greater than 150%	89	0.4	114	3.4	203	0.7
Unsecured	11	—	11	0.3	22	0.1
Total	24,423	100.0	3,336	100.0	27,759	100.0

	2014					
	Owner-Occupier		Buy-to-let		Total	
	€m	%	€m	%	€m	%
Republic of Ireland						
Less than 50%	4,739	20.0	613	19.1	5,352	19.9
50% to 70%	4,799	20.3	615	19.2	5,414	20.2
71% to 80%	2,785	11.8	330	10.3	3,115	11.6
81% to 90%	2,851	12.0	333	10.4	3,184	11.8
91% to 100%	2,244	9.5	360	11.2	2,604	9.7
101% to 120%	3,290	13.9	490	15.3	3,780	14.1
121% to 150%	2,706	11.5	331	10.3	3,037	11.3
Greater than 150%	235	1.0	133	4.1	368	1.4
Unsecured	7	—	4	0.1	11	—
Total	23,656	100.0	3,209	100.0	26,865	100.0

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2016 (excluding unsecured) decreased to 15 per cent. compared to 18 per cent. at 31 December 2015 (compared to 27 per cent. at 31 December 2014), reflecting residential property price increases during the year, coupled with amortisation of the loan portfolio.

58 Financial Risk Management (Continued)

Loan-to-value ratios of Republic of Ireland residential mortgages (index linked) that were greater than 90 days past due and/or impaired

The following tables profile the Republic of Ireland residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2016, 2015 and 2014:

2016	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
	€m	%	€m	%	€m	%	€m	%
Republic of Ireland								
Less than 50%	308	10.1	188	11.8	496	10.7	7,842	23.5
50% to 70%	366	12.0	231	14.5	597	12.9	8,185	24.5
71% to 80%	240	7.9	125	7.8	365	7.9	4,351	13.0
81% to 90%	247	8.1	134	8.4	381	8.2	3,678	11.0
91% to 100%	268	8.8	159	10.0	427	9.2	2,720	8.1
101% to 120%	550	18.1	274	17.2	824	17.8	3,765	11.3
121% to 150%	610	20.1	226	14.2	836	18.0	2,019	6.0
Greater than 150%	323	10.6	173	10.9	496	10.7	645	1.9
Unsecured	130	4.3	83	5.2	213	4.6	239	0.7
Total	3,042	100.0	1,593	100.0	4,635	100.0	33,444	100.0

2015	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
	€m	%	€m	%	€m	%	€m	%
Republic of Ireland								
Less than 50%	385	9.9	198	9.4	583	9.7	7,162	20.8
50% to 70%	493	12.7	260	12.4	753	12.6	7,331	21.3
71% to 80%	314	8.1	153	7.3	467	7.8	4,436	12.9
81% to 90%	351	9.1	190	9.1	541	9.1	4,063	11.8
91% to 100%	380	9.8	241	11.5	621	10.4	3,210	9.3
101% to 120%	690	17.8	403	19.2	1,093	18.3	4,389	12.7
121% to 150%	822	21.2	348	16.6	1,170	19.6	2,880	8.3
Greater than 150%	343	8.9	236	11.2	579	9.7	795	2.3
Unsecured	98	2.5	69	3.3	167	2.8	190	0.6
Total	3,876	100.0	2,098	100.0	5,974	100.0	34,456	100.0

2014	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
	€m	%	€m	%	€m	%	€m	%
Republic of Ireland								
Less than 50%	451	8.6	169	5.1	620	7.2	6,109	16.8
50% to 70%	620	11.9	253	7.6	873	10.2	6,435	17.7
71% to 80%	396	7.6	201	6.0	597	7.0	3,801	10.5
81% to 90%	456	8.7	242	7.2	698	8.2	3,976	11.0
91% to 100%	467	9.0	304	9.1	771	9.0	3,477	9.6
101% to 120%	900	17.2	630	18.9	1,530	17.9	5,475	15.0
121% to 150%	1,161	22.3	815	24.5	1,976	23.1	5,162	14.2
Greater than 150%	699	13.4	638	19.1	1,337	15.6	1,727	4.8
Unsecured	65	1.3	85	2.5	150	1.8	162	0.4
Total	5,215	100.0	3,337	100.0	8,552	100.0	36,324	100.0

58 Financial Risk Management (Continued)

The proportion of residential mortgages (excluding unsecured) that was greater than 90 days past due and/or impaired and in negative equity at 31 December 2016 (47 per cent.) decreased compared to 31 December 2015 and 2014 (48 per cent. and 57 per cent. respectively). This reflects the increase in residential property prices.

Credit quality of Republic of Ireland residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
	Owner-Occupier	Buy-to-let	Total	Owner-Occupier	Buy-to-let	Total	Owner-Occupier	Buy-to-let	Total
					(€ millions)				
Republic of Ireland									
Neither past due nor impaired	25,069	3,093	28,162	24,423	3,336	27,759	23,656	3,209	26,865
Past due but not impaired	664	236	900	744	242	986	971	271	1,242
Impaired—provisions held	2,898	1,484	4,382	3,713	1,998	5,711	5,004	3,213	8,217
Gross residential mortgages	28,631	4,813	33,444	28,880	5,576	34,456	29,631	6,693	36,324
Provisions for impairment	(1,202)	(711)	(1,913)	(1,347)	(847)	(2,194)	(1,814)	(1,442)	(3,256)
	27,429	4,102	31,531	27,533	4,729	32,262	27,817	5,251	33,068

The percentage of the portfolio which is neither past due nor impaired increased at 31 December 2016 to 84 per cent. from 81 per cent. at 31 December 2015 (from 74 per cent. at 31 December 2014).

Republic of Ireland residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet their obligations to AIB based on objective evidence of loss events ('impairment triggers') such as a request for a forbearance measure. Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
	Owner-Occupier	Buy-to-let	Total	Owner-Occupier	Buy-to-let	Total	Owner-Occupier	Buy-to-let	Total
					(€ millions)				
Republic of Ireland									
1–30 days	386	71	457	425	86	511	456	76	532
31–60 days	96	26	122	103	35	138	195	48	243
61–90 days	38	30	68	53	21	74	109	23	132
91–180 days	34	25	59	42	22	64	73	34	107
181–365 days	35	26	61	37	24	61	79	40	119
Over 365 days	75	58	133	84	54	138	59	50	109
Total past due but not impaired	664	236	900	744	242	986	971	271	1,242
Total gross residential mortgages	28,631	4,813	33,444	28,880	5,576	34,456	29,631	6,693	36,324

Loans past due but not impaired at 31 December 2016 decreased by 9 per cent. when compared to 31 December 2015, driven by the improved economic environment and continued increased focus on the management of early arrears.

58 Financial Risk Management (Continued)

The amount of loans past due but not impaired at 31 December 2015 decreased by 21 per cent. when compared to 31 December 2014, also driven by the improved economic environment and a continued increased focus on the management of early arrears.

Collateral value of Republic of Ireland residential mortgages that were past due but not impaired

The following table profiles the collateral value of Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
					(€ millions)				
Republic of Ireland									
1–30 days	372	68	440	409	82	491	428	71	499
31–60 days	91	25	116	99	29	128	181	44	225
61–90 days	37	29	66	50	19	69	101	21	122
91–180 days	33	24	57	40	21	61	71	30	101
181–365 days	34	25	59	37	22	59	76	37	113
Over 365 days	73	53	126	83	49	132	57	43	100
Total	640	224	864	718	222	940	914	246	1,160

The collateral value for the past due but not impaired portfolio was 96 per cent. of the outstanding loan balances at 31 December 2016, an increase from 95 per cent. at 31 December 2015, and an increase from 93 per cent. at 31 December 2014.

Republic of Ireland residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
					(€ millions)				
Republic of Ireland									
Not past due	584	263	847	966	453	1,419	1,174	706	1,880
1 - 30 days	133	46	179	189	50	239	267	98	365
31 - 60 days	63	26	89	87	37	124	125	67	192
61 - 90 days	53	19	72	65	28	93	101	60	161
91 - 180 days	138	44	182	163	80	243	306	180	486
181 - 365 days	173	83	256	234	137	371	536	352	888
Over 365 days	1,754	1,003	2,757	2,009	1,213	3,222	2,495	1,750	4,245
Total impaired	2,898	1,484	4,382	3,713	1,998	5,711	5,004	3,213	8,217
Total gross residential mortgages	28,631	4,813	33,444	28,880	5,576	34,456	29,631	6,693	36,324

Impaired loans decreased by €1.3 billion during 2016 due to restructuring, cures and write-offs. In addition, the rate of new impairment continued to slow significantly compared to 2015 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2016, €0.8 billion or 19 per cent. was not past due (2015: €1.4 billion or 25 per cent.), of which €0.7 billion was subject to forbearance measures at 31 December 2016 (2015: €1.0 billion).

Impaired loans decreased by €2.5 billion during 2015 due to restructuring, cures and write-offs of provisions. In addition, the rate of new impairment continues to slow significantly compared to 2014 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2015, €1.4 billion or 25 per cent. was not past due (31 December 2014: €1.9 billion or 23 per cent.), of which €1.0 billion (31 December 2014: €1.2 billion) was subject to forbearance measures at 31 December 2015.

58 Financial Risk Management (Continued)

Republic of Ireland residential mortgages—properties in possession[1]

AIB seeks to avoid repossession through working with customers, but, where agreement cannot be reached, AIB proceeds to repossession of the property or the appointment of a receiver, using external agents to realise the maximum value as soon as is practicable. Where AIB believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

The number (stock) of properties in possession as at 31 December 2016, 2015 and 2014 is set out below:

	As at 31 December					
	2016		2015		2014	
	Stock	Balance outstanding	Stock	Balance outstanding	Stock	Balance outstanding
		(€m)		(€m)		(€m)
Owner-occupier	691	172	623	156	548	145
Buy-to-let	104	24	91	21	82	19
Total	795	196	714	177	630	164

Note:

(1) The number of residential properties in possession relates to those held as security for residential mortgages only.

The increase in the stock of residential properties in possession in 2016 relates to the addition of 273 properties (523 properties in 2015 and 352 properties in 2014), partly offset by the disposal of 187 properties (439 properties in 2015 and 100 properties in 2014). In addition, a further 5 properties that were classified as voluntary surrenders at 31 December 2015 have been removed from the reported stock as the customers have re-engaged with AIB or repaid the outstanding balances during the year. The increase in stock from 2015 and 2014 is due to the continued focus on engagement with customers and arrears management.

Republic of Ireland residential mortgages—repossessions disposed of

The following table analyses the disposals of repossessed properties for the financial years ended 31 December 2016, 2015 and 2014:

	2016				
	Number of disposals	Outstanding balance at repossession date	Gross sales proceeds on disposal	Costs to sell	Loss on sale[1]
		(€m)	(€m)	(€m)	(€m)
Owner-occupier	170	42	20	2	24
Buy-to-let	17	4	2	—	2
Total	187	46	22	2	26

Note:

(1) Before specific impairment provisions

	2015				
	Number of disposals	Outstanding balance at repossession date	Gross sales proceeds on disposal	Costs to sell	Loss on sale[1]
		(€m)	(€m)	(€m)	(€m)
Owner-occupier	390	108	46	4	66
Buy-to-let	49	12	5	—	7
Total	439	120	51	4	73

Note:

(1) Before specific impairment provisions

58 Financial Risk Management (Continued)

	2014				
	Number of disposals	Outstanding balance at repossession date	Gross sales proceeds on disposal	Costs to sell	Loss on sale[1]
		(€m)	(€m)	(€m)	(€m)
Owner-occupier	60	17	7	—	10
Buy-to-let	40	12	5	—	7
Total	100	29	12	—	17

Note:

(1) Before specific impairment provisions

The disposal of 187 residential properties in the Republic of Ireland resulted in a total loss on disposal of €26 million at 31 December 2016 (before specific impairment provisions) and compares to 2015 when 439 residential properties were disposed of resulting in a total loss of €73 million, and compared to 2014 when 100 residential properties were disposed of resulting in a loss of €17 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

United Kingdom ("UK") residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions for the financial years ended 31 December 2016, 2015 and 2014:

	2016			2015			2014		
Statement of financial position	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	(€ millions, unless otherwise stated)								
Total gross residential mortgages	1,564	231	1,795	2,048	314	2,362	2,177	345	2,522
In arrears (>30 days past due)[1]	181	34	215	253	47	300	293	60	353
In arrears (>90 days past due)[1]	169	33	202	230	45	275	262	56	318
Of which impaired	161	33	194	212	43	255	239	53	292
Statement of financial position specific provisions	62	19	81	90	25	115	119	34	153
Statement of financial position IBNR provisions	7	1	8	12	1	13	16	2	18
Provision cover percentage									
Specific provisions/impaired loans	38.6%	56.1%	41.5%	42.4%	57.8%	45.0%	49.7%	64.2%	52.4%
Income statement charge/(credit)									
Income statement specific provisions	(1)	2	1	(7)	(2)	(9)	24	4	28
Income statement IBNR provisions	(3)	—	(3)	(5)	(1)	(6)	(10)	(1)	(11)
Total impairment charge/(credit)	(4)	2	(2)	(12)	(3)	(15)	14	3	17

Note:

(1) Includes all impaired loans whether past due or not.

The UK mortgage portfolio is predominantly based in Northern Ireland (2016 and 2015: 73 per cent. of total; 2014: 74 per cent. of total) with the remainder located in Great Britain. As at 31 December 2016, the UK mortgage portfolio has decreased in sterling terms by approximately 11 per cent. on the financial year end December 2015. However, due to the impact of currency movements, the portfolio has decreased by approximately 24 per cent. in euro terms. In 2015, the UK mortgage portfolio decreased in sterling terms by approximately 12 per cent. on the financial year end December 2014. However, due to an approximately 6 per cent. change in the euro/sterling exchange rate, the portfolio has decreased by approximately 6 per cent. in euro terms.

UK economic growth for 2016 is estimated at 2 per cent. with consumer spending and business investment holding up despite the sharp fall in sterling. Household finances have continued to benefit from low interest rates, low unemployment rates, modest earnings growth and low inflation. The housing and mortgage market has been impacted by tax and regulatory change, despite which a modest increase in demand has been evidenced nationally.

58 Financial Risk Management (Continued)

The domestic economic factors have had a positive impact on mortgage arrears in general. Total loans in arrears in AIB UK of greater than 90 days have improved to 11.2 per cent. (2015: 11.6 per cent.).

Statement of financial position specific provisions of €81 million were held at 31 December 2016 and provided cover of 42 per cent. for impaired loans (2015: €115 million, providing cover of 45 per cent.).

Statement of financial position IBNR provisions of €8 million were held at 31 December 2016, down from €13 million at 31 December 2015, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

In 2015, UK economic growth (estimated at 2.2%) was slower than expected, although the labour market remained strong and households continued to experience real growth in income as a result of a low inflation environment. The positive domestic economic factors had a positive impact on mortgage arrears in general in 2015. Total loans in arrears of greater than 90 days improved to 11.6 per cent. (31 December 2014: 12.6%).

Statement of financial position specific provisions of €115 million were held at 31 December 2015 and provided cover of 45.0 per cent. for impaired loans (31 December 2014: €153 million providing cover of 52.4%).

Statement of financial position IBNR provisions of €13 million were held at 31 December 2015, down from €18 million at 31 December 2014, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

Loans and receivables to customers—Other personal

The following table analyses other personal lending by segment showing asset quality and impairment provisions for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December											
	2016				2015				2014			
	RCB	WIB	AIB UK	Total	RCB	WIB	AIB UK	Total	RCB	WIB	AIB UK	Total
	(€ millions)											
Analysed as to asset quality												
Satisfactory	1,995	96	161	2,252	1,875	176	247	2,298	1,726	246	253	2,225
Watch	110	—	10	120	134	3	23	160	163	13	46	222
Vulnerable	279	4	13	296	307	29	20	356	298	10	38	346
Impaired	384	2	46	432	619	13	66	698	967	7	70	1,044
Total criticised loans	773	6	69	848	1,060	45	109	1,214	1,428	30	154	1,612
Total gross loans and receivables	2,768	102	230	3,100	2,935	221	356	3,512	3,154	276	407	3,837
Impairment provisions—statement of financial position												
Specific	218	—	34	252	435	2	49	486	656	7	53	716
IBNR	34	—	4	38	42	2	5	49	48	2	2	52
Total impairment provisions	252	—	38	290	477	4	54	535	704	9	55	768
Income statement (credit)/charge/												
Specific	(21)	12	(2)	(11)	(7)	—	2	(5)	15	—	3	18
IBNR	(7)	(2)	(2)	(11)	(7)	—	4	(3)	—	(1)	(2)	(3)
Total impairment (credit)/charge	(28)	10	(4)	(22)	(14)	—	6	(8)	15	(1)	1	15

The other personal lending portfolio at €3.1 billion reduced by €0.4 billion during 2016 and comprises €2.2 billion in loans and overdrafts and €0.9 billion in credit card facilities.

An increase in demand for personal loans was observed during 2016 and was due to both the improved economic environment and an expanded service offering, including on-line approval through internet, mobile and telephone banking applications. The strong level of new lending is offset by redemptions and repayments.

58 Financial Risk Management (Continued)

The portfolio experienced a €0.4 billion reduction in criticised loans in 2016, of which €0.2 billion was written off. At 31 December 2016, €0.8 billion or 27 per cent. of the portfolio was criticised of which impaired loans amounted to €0.4 billion (2015: €1.2 billion or 35 per cent. and €0.7 billion).

At 31 December 2016, the specific provision cover decreased from 70 per cent. to 58 per cent., driven by the write-off of impaired balances with a high provision cover and which were predominately low value retail loans on which recovery options had been exhausted. The income statement provision writeback of €22 million compares to an €8 million writeback in 2015.

The other personal lending portfolio at €3.5 billion at 31 December 2015 reduced by €0.3 billion during the year and comprised €2.6 billion in loans and overdrafts and €0.9 billion in credit card facilities (2014: €2.9 billion and €0.4 billion).

During 2015, the level of loans and receivables with satisfactory credit quality increased by 3 per cent., primarily driven by increased customer demand for credit.

The portfolio experienced a €0.4 billion reduction in criticised loans in 2015, of which €0.2 billion was written off (2014: €0.5 billion reduction and €0.4 billion written off). At 31 December 2015, €1.2 billion or 35 per cent. of the portfolio was criticised of which impaired loans amounted to €0.7 billion (2014: €1.6 billion or 42 per cent. and € 1.0 billion).

The specific provision cover increased slightly in 2015, from 69 per cent. to 70 per cent. The income statement provision writeback of €8 million in 2015 compares to a €15 million charge in 2014.

Loans and receivables to customers—Property and construction

The following table analyses property and construction lending by segment, showing asset quality and impairment provisions for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December											
	2016				2015				2014			
	RCB	WIB	AIB UK	Total	RCB	WIB	AIB UK	Total	RCB	WIB	AIB UK	Total
	(€ millions)											
Investment												
Commercial investment	2,612	2,053	1,533	6,198	3,115	2,039	1,453	6,607	4,950	1,461	2,012	8,423
Residential investment	716	102	233	1,051	905	97	456	1,458	1,333	102	798	2,233
	3,328	2,155	1,766	7,249	4,020	2,136	1,909	8,065	6,283	1,563	2,810	10,656
Land and development												
Commercial development	324	100	20	444	454	129	69	652	382	529	84	995
Residential development	638	162	277	1,077	1,043	99	758	1,900	2,145	40	902	3,087
	962	262	297	1,521	1,497	228	827	2,552	2,527	569	986	4,082
Contractors	113	82	170	365	124	84	227	435	171	29	154	354
Housing Associations	—	—	259	259	—	—	480	480	—	—	445	445
Total gross loans and receivables	4,403	2,499	2,492	9,394	5,641	2,448	3,443	11,532	8,981	2,161	4,395	15,537
Analysed as to asset quality												
Satisfactory	661	2,133	1,643	4,437	615	1,854	1,683	4,152	685	1,553	1,357	3,595
Watch	246	3	129	378	325	161	487	973	357	131	681	1,169
Vulnerable	1,421	264	170	1,855	1,649	190	260	2,099	1,218	269	450	1,937
Impaired	2,075	99	550	2,724	3,052	243	1,013	4,308	6,721	208	1,907	8,836
Total criticised loans	3,742	366	849	4,957	5,026	594	1,760	7,380	8,296	608	3,038	11,942
Impairment provisions—statement of financial position												
Specific	1,011	9	330	1,350	1,711	79	685	2,475	4,256	56	1,166	5,478
IBNR	77	7	15	99	133	18	23	174	104	25	45	174
Total impairment provisions	1,088	16	345	1,449	1,844	97	708	2,649	4,360	81	1,211	5,652
Income statement (credit)/charge												
Specific	(76)	12	(10)	(74)	(215)	28	(29)	(216)	(124)	2	32	(90)
IBNR	(56)	(11)	(4)	(71)	29	(7)	(20)	2	(116)	1	(39)	(154)
Total impairment (credit)/charge	(132)	1	(14)	(145)	(186)	21	(49)	(214)	(240)	3	(7)	(244)

58 Financial Risk Management (Continued)

The property and construction sector amounted to 14 per cent. of total loans and receivables compared to 16 per cent. as at 31 December 2015. The portfolio is comprised of 77 per cent. investment loans (€7.2 billion), 16 per cent. land and development loans (€1.5 billion) and 7 per cent. other property and construction loans (€0.6 billion). AIB UK accounts for 27 per cent. of the total property and construction portfolio.

Overall, the portfolio reduced by €2.1 billion or 19 per cent. during 2016. This reduction was due principally to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers. Impaired loans in this portfolio have reduced by €1.6 billion in 2016, with specific provisions reducing by €1.1 billion.

There was a writeback of specific provisions net of top-ups of €143 million in 2016 (approximately 3 per cent. of opening impaired loans) mainly due to the improved economic environment and the restructuring process. This was partially off-set by provisions for new impairments which amounted to €69 million.

The property and construction sector amounted to 16 per cent. of total loans and receivables at 31 December 2015. The portfolio was comprised of 70 per cent. investment loans (€ 8.1 billion), 22 per cent. land and development loans (€ 2.6 billion) and 8 per cent. other property and construction loans (€0.9 billion). AIB UK accounted for 30 per cent. of the total property and construction portfolio.

The property and construction sector amounted to 20 per cent. of total loans and receivables at 31 December 2014. The portfolio was comprised of 69 per cent. investment loans (€10.7 billion), 26 per cent. land and development loans (€4.1 billion) and 5 per cent. other property and construction loans (€800 million). AIB UK accounted for 28 per cent. of the portfolio.

Overall, the portfolio reduced by €4 billion or 26 per cent. during 2015, with all of the reduction coming from the criticised grades. This reduction was due primarily to the continuing impact of restructuring activity and to write-offs, amortisations and repayments, resulting from asset disposals by customers within the criticised grades. Specific provisions attached to this sector reduced by €3 billion in 2015. The restructuring of impaired loans during 2015 resulted in an increase in vulnerable loans in the sector as most individually assessed restructured loans are initially graded as vulnerable. This, in turn, resulted in impaired loans reducing by €4.5 billion which were partially offset by a €0.6 billion growth in satisfactory loans. Accordingly, the rate of downward grade migration and new impairments continued to decrease in 2015.

There was a writeback of specific provisions net of top-ups of €270 million in 2015 (approximately 4.3 per cent. of opening impaired loans) (2014: €166 million and approximately 1 per cent. of opening impaired loans) mainly due to the improved economic environment and the restructuring process. This was partially off-set by provisions for new impairments which amounted to €54 million (2014: €76 million).

Investment

Investment property loans amounted to €7.2 billion at 31 December 2016 (2015: €8.1 billion) of which €6.2 billion related to commercial investment. The reduction was largely as a result of loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs. €5.5 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland and €1.8 billion in the United Kingdom.

€3.8 billion or 52 per cent. of the investment property portfolio was criticised at 31 December 2016 compared with €4.9 billion or 61 per cent. at 31 December 2015. Included in criticised loans was €1.8 billion loans which were impaired (31 December 2015: €2.4 billion) and on which the Group had €0.8 billion in statement of financial position specific provisions, providing cover of 44 per cent. (2015: €1.2 billion and 49 per cent.) Total impairment provisions as a percentage of total loans is 12 per cent., down from 16 per cent. at 31 December 2015. The impairment writeback to the income statement was €67 million on the investment property element of the property and construction portfolio compared to a writeback of €140 million in 2015.

Investment property loans amounted to €8.1 billion at 31 December 2015 (31 December 2014: €10.7 billion) of which €6.6 billion (2014: €8.4 billion) related to commercial investment. The reduction was largely as a result of loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs of provisions. €5.6 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, €2.4 billion in the United Kingdom and €0.1 billion in other geographical locations (2014: €7.1 billion, €3.3 billion and €192 million, respectively).

€4.9 billion or 61 per cent. of the investment property portfolio was criticised at 31 December 2015 compared with €7.8 billion or 73 per cent. at 31 December 2014. Included in criticised loans was €2.4 billion loans which were impaired (31 December 2014: €5.2 billion) and on which AIB had €1.2 billion in statement of financial position specific provisions, providing cover of 49 per cent. (31 December 2014: €2.7 billion and 53 per cent.). Total impairment provisions as a percentage of total loans was 16 per cent., down from 27 per cent. at 31 December 2014. The impairment writeback to the income statement was €140 million on the investment property element of the property and construction portfolio compared to a writeback of €193 million in 2014.

Land and development

At 31 December 2016, land and development loans amounted to €1.5 billion (2015: €2.6 billion). €1.0 billion of this portfolio related to loans in RCB, €0.3 billion in WIB and €0.3 billion in AIB UK. €1.1 billion of the land and development portfolio was criticised at 31 December 2016 (2015: €2.2 billion), including €0.8 billion of loans which were impaired (2015: €1.8 billion) and on which AIB had €0.5 billion in statement of financial position specific provisions, providing cover of 61 per cent. (2015: €1.2 billion and 68 per cent.). The impairment writeback of €79 million to the income statement compares to a writeback of €74 million in 2015.

At 31 December 2015, land and development loans amounted to €2.6 billion (31 December 2014: €4.1 billion). €1.5 billion of this portfolio related to loans in RCB, €0.2 billion in WIB and €0.8 billion in AIB UK (2014: €2.5 billion, €0.6 billion and €1 billion). €2.2 billion of the land and development portfolio was criticised at 31 December 2015 (31 December 2014: €3.8 billion), including €1.8 billion of loans which were impaired (31 December 2014: €3.5 billion) and on which AIB had €1.2 billion in statement of financial position specific provisions, providing cover of 68 per cent. (31 December 2014: €2.6 billion and 75 per cent.). The impairment writeback of €74 million to the income statement compared to a writeback of €40 million in 2014.

58 Financial Risk Management (Continued)

Loans and receivables to customers—non-property business

The following table analyses non-property lending by segment, showing asset quality and impairment provisions for the years ended 31 December 2016, 2015 and 2014:

	Year ended 31 December														
	2016					2015					2014				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
	(€ millions)														
Agriculture	1,531	148	94	—	1,773	1,533	158	104	—	1,795	1,620	127	71	—	1,818
Distribution															
Hotels	508	1,012	791	—	2,311	549	952	855	—	2,356	796	839	720	—	2,355
Licensed premises	386	155	—	—	541	513	144	101	—	758	680	137	146	—	963
Retail/wholesale	1,090	885	364	—	2,339	1,047	912	436	—	2,395	1,586	764	309	—	2,659
Other distribution	127	121	—	—	248	234	79	9	—	322	155	102	20	—	277
	2,111	2,173	1,155	—	5,439	2,343	2,087	1,401	—	5,831	3,217	1,842	1,195	—	6,254
Other services	1,435	1,897	2,368	6	5,706	1,523	1,726	2,569	70	5,888	1,613	1,425	2,608	—	5,646
Other	948	2,302	1,183	144	4,577	868	2,202	1,218	499	4,787	932	1,582	1,010	370	3,894
Total gross loans and receivables	6,025	6,520	4,800	150	17,495	6,267	6,173	5,292	569	18,301	7,382	4,976	4,884	370	17,612
Analysed as to asset quality															
Satisfactory	3,333	6,339	4,184	114	13,970	3,070	5,692	4,510	537	13,809	2,866	4,469‘	3,637	312	11,284
Watch	327	24	296	—	647	495	89	299	—	883	629	198	399	—	1,226
Vulnerable‘	1,296	29	149	—	1,474	1,297	50	149	—	1,496	1,069	29	231	—	1,329
Impaired	1,069	128	171	36	1,404	1,405	342	334	32	2,113	2,818	280	617	58	3,773
Total criticised loans	2,692	181	616	36	3,525	3,197	481	782	32	4,492	4,516	507	1,247	58	6,328
Impairment provisions—statement of financial position															
Specific	587	34	71	25	717	821	136	178	17	1,152	1,775	89	346	34	2,244
IBNR	77	25	29	—	131	117	27	30	—	174	245	50	20	—	315
Total impairment provisions	664	59	100	25	848	938	163	208	17	1,326	2,020	139	366	34	2,559
Income statement (credit)/charge															
Specific	24	12	(20)	8	24	(106)	14	6	3	(83)	(93)	28	66	—	1
IBNR	(41)	(2)	3	—	(40)	(127)	(23)	8	—	(142)	154	(21)	(7)	—	126
Total impairment (credit)/charge	(17)	10	(17)	8	(16)	(233)	(9)	14	3	(225)	61	7	59	—	127

The non-property business portfolio comprises of Small Medium Enterprises ("SME") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers who are impacted by global economies. There was increased activity across most sub-sectors in the portfolio due to increased credit demand across all segments resulting in new lending of approximately €4.4 billion in 2016. However, this was more than offset by amortisation, restructuring activity and sterling depreciation, resulting in a reduction of €0.8 billion in the portfolio (4 per cent. reduction). The portfolio amounted to 27 per cent. of total loans and receivables as at 31 December 2016. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations.

Satisfactory loans and receivables increased in 2016, continuing the positive trend experienced in 2015, with new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The level of criticised loans reduced from €4.5 billion at 31 December 2015 to €3.5 billion at 31 December 2016, mainly due to a reduction of €0.7 billion in impaired loans as a result of significant restructuring.

The category of "Other" totalling €4.6 billion (26 per cent. of the portfolio) includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

At 31 December 2016, the WIB business segment includes €2.8 billion (2015: €2.2 billion; 2014: €1.5 billion) in syndicated and international lending exposures. AIB has specialised lending teams which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. Loans originated by these teams, reported on the basis of the booking office are Ireland €2.7 billion and Rest of the World €0.1 billion (2015: €2 billion and €0.1 billion).

At 31 December 2016, 99.8 per cent. of the syndicated and international lending portfolio is in a satisfactory grade, with €6 million or 0.2 per cent. classified as impaired. 76 per cent. of the customers in this portfolio are domiciled in the USA, 5 per cent. in the UK, and 19 per cent. in the Rest of the World (2015: 85 per cent. in the USA, 4 per cent. in the UK and 11 per cent. in the Rest of the World respectively). The largest sub-sectors within the portfolio include business services, telecoms, manufacturing, healthcare, pharmaceuticals and media.

The income statement provision writeback in 2016 was €16 million compared to a writeback of €225 million in 2015 (2014: a charge of €127 million).

IBNR provisions reduced from €174 million to €131 million in 2016, or from 1.1 per cent. to 0.8 per cent. of non-impaired loans and receivables, in line with improved impairment trends (2015: reduced from €315 million to €174 million, or from 2.3 per cent. to 1.1 per cent.).

The specific provision cover decreased from 55 per cent. at 31 December 2015 to 51 per cent. at 31 December 2016 impacted by writebacks and write-offs of provisions for loans with higher provision cover.

Specific provisions on new impairments amounted to €75 million (2015: €95 million; 2014: €132 million) and were off-set by a writeback (net of top-ups) of €51 million (2015: €178 million; 2014: €195 million). The writeback amounted to approximately 2 per cent. of opening impaired loans (2015: 4.7 per cent.) and was driven by the improved economic environment and the restructuring assessment process.

In 2015, there was increased activity across most sub-sectors in the portfolio due to increased credit demand resulting in new lending of approximately €4.8 billion. The portfolio amounted to 26 per cent. of total loans and receivables as at 31 December 2015 (2014: 23 per cent.).

Satisfactory loans and receivables increased in 2015, continuing the positive trend experienced in 2014. The level of criticised loans reduced from €6.3 billion at 31 December 2014 to €4.5 billion at 31 December 2015, mainly due to a reduction of €1.7 billion in impaired loans.

Credit ratings

Internal credit ratings

AIB uses various rating tools in managing its credit risk. Lower credit quality loans are referred to as "Criticised loans" and include Watch, Vulnerable and Impaired.

For reporting purposes, loans and receivables to customers are categorised into:

- neither past due nor impaired;
- past due but not impaired; and
- impaired.

Neither past due nor impaired are those loans that are neither contractually past due and/or have not been categorised as impaired by AIB.

Past due but not impaired are those loans where a contractually due payment has not been made. "Past due days" is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded. This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

Impaired loans are defined as follows: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event") and that loss event (or events) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

58 Financial Risk Management (Continued)

Loans that are neither past due nor impaired are further classified into “good upper”, “good lower”, “watch” and “vulnerable”, which are defined as follows:

Good upper . Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.

Good lower . . Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.

Watch . . . . . . The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.

Vulnerable . . Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class as at 31 December 2016, 2015 and 2014 was as follows:

	As at 31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Neither past due nor impaired					
Good upper	15,937	229	199	1,545	17,910
Good lower	9,811	1,970	4,190	12,347	28,318
Watch	1,575	96	357	612	2,640
Vulnerable	2,407	203	1,562	1,225	5,397
Total	29,730	2,498	6,308	15,729	54,265
Past due but not impaired					
Good upper	5	3	1	1	10
Good lower	50	50	47	77	224
Watch	281	24	21	35	361
Vulnerable	597	93	293	249	1,232
Total	933	170	362	362	1,827
Total impaired	4,576	432	2,724	1,404	9,136
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Impairment provisions					(4,589)
Total					60,639

58 Financial Risk Management (Continued)

	As at 31 December 2015				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Neither past due nor impaired					
Good upper	14,894	203	122	1,167	16,386
Good lower	10,106	2,048	3,980	12,507	28,641
Watch	1,972	131	912	836	3,851
Vulnerable	2,824	282	1,806	1,270	6,182
Total	29,796	2,664	6,820	15,780	55,060
Past due but not impaired					
Good upper	5	2	—	2	9
Good lower	86	45	50	133	314
Watch	292	29	61	47	429
Vulnerable	673	74	293	226	1,266
Total	1,056	150	404	408	2,018
Total impaired	5,966	698	4,308	2,113	13,085
Total gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Unearned income					(139)(1)
Deferred costs					48(1)
Impairment provisions					(6,832)
Total					63,240

	As at 31 December 2014				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Neither past due nor impaired					
Good upper	13,711	181	96	812	14,800
Good lower	10,956	1,989	3,433	10,332	26,710
Watch	2,207	192	1,115	1,146	4,660
Vulnerable	2,140	228	1,582	1,026	4,976
Total	29,014	2,590	6,226	13,316	51,146
Past due but not impaired					
Good upper	4	1	—	10	15
Good lower	76	54	66	130	326
Watch	348	30	54	80	512
Vulnerable	895	118	355	303	1,671
Total	1,323	203	475	523	2,524
Total impaired	8,509	1,044	8,836	3,773	22,162
Total gross loans and receivables	38,846	3,837	15,537	17,612	75,832
Unearned income					(123)(1)
Deferred costs					59(1)
Impairment provisions					(12,406)
Total					63,362

Notes:

(1) In 2016, unearned income and deferred costs have been allocated to the relevant asset classes.

58 Financial Risk Management (Continued)

The above table shows reductions in "criticised" grade categories across all asset classes compared to December 2015. The increase in "good" grade categories was driven by new lending partially offset by pay-downs. Loans reduced in total by €4.9 billion (a decrease of 7 per cent.) representing a net increase in "good" loans of €1.1 billion and a decrease in "criticised" (watch, vulnerable and impaired) of €6.0 billion.

In turn, 2015 represented an increase in "Good" grades in the year, primarily in non-property business, which is offset by a reduction in criticised grades (watch, vulnerable and impaired) as a result of ongoing restructuring activities and pay-downs. The total reduction in loans in 2015 was €5.7 billion representing an increase in "Good" loans of €3.5 billion and a reduction in criticised of €9.2 billion compared to 2014.

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities) and financial investments available for sale (excluding equity shares) and financial investments held to maturity as at 31 December 2016, 2015 and 2014 was as follows:

	As at 31 December 2016				
	Bank	**Corporate**	**Sovereign**	**Other**	**Total**
			(€ millions)		
AAA/AA	4,901	—	2,440	446	7,787
A+/A/A−	847	27	10,456(1)	—	11,330
BBB+/BBB/BBB−	186	19	2,028	—	2,233
Sub-investment	11	21	—	—	32
Unrated	5	—	—	—	5
Total	5,950	67	14,924(2)	446	21,387

	As at 31 December 2015				
	Bank	**Corporate**	**Sovereign**	**Other**	**Total**
			(€ millions)		
AAA/AA	4,963	—	2,758	328	8,049
A/A−	1,258	—	14,716(1)	—	15,974
BBB+/BBB/BBB−	166	—	2,317	1	2,484
Sub-investment	549	86	—	—	635
Unrated	3	1	—	—	4
Total	6,939	87	19,791(2)	329	27,146

	As at 31 December 2014				
	Bank	**Corporate**	**Sovereign**	**Other**	**Total**
			(€ millions)		
AAA/AA	3,991	—	4,114	99	8,204
A/A−	1,615	—	18,619(1)	—	20,234
BBB+/BBB/BBB−	7	—	2,462	—	2,469
Sub-investment	149	—	—	1	150
Unrated	—	3	—	—	3
Total	5,762	3	25,195(2)	100	31,060

Notes:

(1) Includes NAMA senior bonds which do not have an external credit rating and to which AIB has attributed a rating of A at 31 December 2016 (31 December 2015 and 2014: A−), i.e.; the external rating of the Sovereign.

(2) Includes supranational banks and government agencies.

58 Financial Risk Management (Continued)

(e) Financial investments available for sale

The following table analyses the carrying value (fair value) of financial investments available for sale by major classifications, together with the unrealised gains and losses as at 31 December 2016, 2015 and 2014:

	As at 31 December								
	2016			2015			2014		
	Fair value	Unrealised gross gains	Unrealised gross losses	Fair value	Unrealised gross gains	Unrealised gross losses	Fair value	Unrealised gross gains	Unrealised gross losses
	(€ millions)								
Debt securities									
Irish Government securities	5,114	458	(13)	5,406	587	—	9,107	1,327	—
Euro government securities	2,706	148	(6)	3,033	140	(3)	3,631	170	—
Non-Euro government securities	230	8	(1)	245	7	(1)	182	9	—
Supranational banks and government agencies	1,719	64	(1)	2,008	78	—	2,852	119	—
Collateralised mortgage obligations	433	—	(8)	328	—	(3)	99	—	(1)
Other asset backed securities	12	—	—	1	—	—	1	—	—
Euro bank securities	4,551	102	(1)	4,600	81	(8)	3,897	105	—
Euro corporate securities	47	—	—	30	—	—	—	—	—
Non-Euro corporate securities	20	3	—	57	3	(2)	3	—	(1)
Total debt securities	14,832	783	(30)	15,708	896	(17)	19,772	1,730	(2)
Equity securities[(1)]	605	448	(2)	781	696	(2)	413	338	(3)
Total financial investments available for sale	15,437	1,231	(32)	16,489	1,592	(19)	20,185	2,068	(5)

Note:

(1) Includes NAMA subordinated bonds with a fair value of €466 million at 31 December 2016 (€432 million as at 31 December 2015; €374 million as at 31 December 2014) of which unrealised gains amount to €419 million at 31 December 2016 (€385 million as at 31 December 2015; €327 million as at 31 December 2014).

The following tables analyse the available for sale portfolio by geography as at 31 December 2016, 2015 and 2014:

	As at 31 December								
	2016			2015			2014		
	Irish Government	Euro Government	Non-Euro Government	Irish Government	Euro Government	Non-Euro Government	Irish Government	Euro Government	Non-Euro Government
	(€ millions)								
Debt securities									
Republic of Ireland	5,114	—	—	5,406	—	—	9,107	—	—
Italy	—	928	—	—	1,164	—	—	1,253	—
France	—	269	—	—	275	—	—	468	—
Spain	—	1,100	—	—	1,153	—	—	1,209	—
Netherlands	—	254	—	—	260	—	—	294	—
Germany	—	93	—	—	96	—	—	225	—
Austria	—	30	—	—	30	—	—	102	—
United Kingdom	—	—	76	—	—	89	—	—	146
Finland	—	—	—	—	—	—	—	26	—
Slovakia	—	32	—	—	55	—	—	54	—
Czech Republic	—	—	36	—	—	36	—	—	12
Poland	—	—	89	—	—	120	—	—	24
Saudi Arabia	—	—	29	—	—	—	—	—	—
	5,114	2,706	230	5,406	3,033	245	9,107	3,631	182

58 Financial Risk Management (Continued)

	As at 31 December		
	2016	2015	2014
	(€ millions)		
Asset backed securities			
United States of America	433	328	99
Spain	—	1	1
Ireland	12	—	—
	445	329	100

	As at 31 December					
	2016		2015		2014	
	Euro	Non-Euro	Euro	Non-Euro	Euro	Non-Euro
	(€ millions)					
Bank securities						
Republic of Ireland	471	—	483	—	266	—
France	569	—	777	—	818	—
Netherlands	712	—	496	—	561	—
United Kingdom	443	—	446	—	439	—
Australia	315	—	347	—	380	—
Sweden	394	—	376	—	263	—
Canada	661	—	667	—	378	—
Finland	234	—	244	—	234	—
Norway	300	—	318	—	253	—
Belgium	297	—	282	—	183	—
Germany	31	—	49	—	50	—
Denmark	57	—	76	—	72	—
New Zealand	24	—	16	—	—	—
Switzerland	18	—	23	—	—	—
Luxembourg	25	—	—	—	—	—
	4,551	—	4,600	—	3,897	—

Debt securities

Debt securities available for sale ("AFS") decreased from a fair value of €15.7 billion at 31 December 2015 to €14.8 billion at 31 December 2016. Sales, maturities and redemptions of €3.1 billion (nominal €3.5 billion) were offset by purchases of €2.5 billion (nominal €2.4 billion).

Within the AFS portfolio, Irish Government securities reduced by €0.3 billion, and euro government securities reduced by €0.3 billion, at 31 December 2016, as these holdings had moved to record low yields against a backdrop of ECB quantitative easing.

The decrease in fair value of the overall portfolio at 31 December 2016 was due to net sales of €0.6 billion.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 31 per cent. (2015: 29 per cent.); AA: 18 per cent. (2015: 17 per cent.); A: 37 per cent. (2015: 38 per cent.); BBB: 13 per cent. (2015: 15 per cent.); and sub investment grade 1 per cent. (2015: 1 per cent.).

Debt securities available for sale ("AFS") decreased from a fair value of €19.8 billion at 31 December 2014 to €15.7 billion at 31 December 2015. Sales, maturities and redemptions of €4.6 billion (nominal €4.2 billion) were offset by purchases of €4.3 billion (nominal €4 billion). Net unrealised gains in the portfolio decreased by €0.8 billion which was made up of a reduction in fair value of €0.3 billion and gains amounting to €0.5 billion on Irish sovereign debt securities of €3.5 billion fair value (€2.9 billion nominal) transferred from the available for sale portfolio to the held to maturity ("HTM") portfolio in December 2015.

58 Financial Risk Management (Continued)

Within the AFS portfolio, supranational banks and government agencies reduced by €0.8 billion and euro government securities reduced by €0.6 billion at 31 December 2015 as these holdings had moved to record low yields against a backdrop of ECB quantitative easing.

The decrease in fair value of the overall portfolio at 31 December 2015 was due to a widening of Irish, Spanish and Italian sovereign spreads and the impact of higher interest rates on fixed rate security holdings.

The external ratings profile remained relatively static at 31 December 2015 with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 29 per cent. (2014: 25 per cent.), AA: 17 per cent. (2014: 16 per cent.), A: 38 per cent. (2014: 46 per cent.), BBB: 15 per cent. (2014: 12 per cent.) and sub investment grade 1 per cent. (2014: 1 per cent.).

Republic of Ireland securities

The fair value of Irish debt securities amounted to €5.6 billion at 31 December 2016 (2015: €5.9 billion) and consisted of sovereign debt €5.1 billion (2015: €5.4 billion), senior unsecured bonds of €0.2 billion (2015: €0.2 billion) and covered bonds of €0.3 billion (2015: €0.3 billion).

The fair value of Irish debt securities in the AFS category amounted to €5.9 billion at 31 December 2015 (2014: €9.4 billion) and consisted of sovereign debt €5.4 billion (31 December 2014: €9.1 billion), senior unsecured bonds of €0.2 billion (2014: €0.14 billion) and covered bonds of €0.3 billion (2014: €0.13 billion). €2.9 billion nominal (€3.5 billion fair value) of Irish Sovereign debt securities were transferred from the AFS portfolio to the HTM portfolio in December 2015. The EBS Promissory Note which had been held in the AFS portfolio was redeemed in December 2015 at its carrying value of €0.2 billion as part of the Capital Reorganisation exercise.

Euro government securities

The fair value of government securities denominated in euros (excluding those issued by the Irish Government) decreased by €0.3 billion to €2.7 billion in 2016 (2015: €3.0 billion). This decrease was largely due to net sales and maturities and included reductions in Italian government securities of €0.2 billion.

The fair value of government securities denominated in euro at 31 December 2015 (excluding those issued by the Irish Government) decreased by €0.6 billion to €3.0 billion (2014: €3.6 billion). This decrease was largely due to net sales/maturities and included reductions in French Government securities—€0.2 billion, German—€0.1 billion, Italian—€0.1 billion and Austrian—€0.1 billion.

Bank securities

At 30 December 2016, the fair value of bank securities of €4.5 billion (2015: €4.6 billion) included €3 billion in covered bonds (2015: €3.2 billion), €1.3 billion in senior unsecured bank debt (2015: €1.2 billion) and €0.2 billion in government guaranteed senior bank debt (2015: €0.2 billion).

At 31 December 2015, the fair value of bank securities of €4.6 billion (2014: €3.9 billion) included €3.2 billion in covered bonds (2014: €2.9 billion), €1.2 billion in senior unsecured bank debt (2014: €0.9 billion) and €0.2 billion in government guaranteed senior bank debt (2014: €0.1 billion).

Asset backed securities

Asset backed securities increased to €0.4 billion at 31 December 2016 (2015: €0.3 billion). This was due to purchases of AAA rated US collateralised mortgage obligations.

Asset backed securities increased to €0.3 billion at 31 December 2015 (2014: €0.1 billion). This was due to new purchases of AAA rated US collateralised mortgage obligations.

Equity securities

Equity securities held as AFS decreased by €176 million at 31 December 2016 with the decrease being primarily attributable to the disposal of AIB's holding in Visa Europe which was held at a fair value of €294 million at 31 December 2015. Consideration for the disposal comprised cash of €207 million and preferred stock in Visa Inc. with a fair value of €65 million. This holding in Visa Inc. preferred stock had a fair value of €70 million at 31 December 2016.

The fair value of the NAMA subordinated bonds increased to €466 million at 31 December 2016 (2015: €432 million) i.e. from 91.81% to 99.02% of nominal. A dividend amounting to €25 million was received on these bonds in 2016.

Equity securities held as AFS increased by €368 million at 31 December 2015 with the increase being primarily attributable to an increase of €294 million in fair value of AIB's holding in VISA Europe.

The fair value of the NAMA subordinated bonds which were also included within AFS increased to €432 million at 31 December 2015 (2014: €374 million). The estimated fair value was increased from 79.4% to 91.81% of nominal value due to continued improvements in NAMA's financial position and forecasts.

Other

In addition to Irish Government securities outlined above, AIB holds NAMA senior debt amounting to €1.8 billion at 31 December 2016 (2015: €5.6 billion), which is guaranteed by the Irish Government. However, this is classified as loans and receivables to customers and accounted for at amortised cost.

In addition to Irish Government securities outlined above, AIB held NAMA senior debt amounting to €5.6 billion at 31 December 2015 (2014: €9.4 billion), which is guaranteed by the Irish Government. However, this is classified as loans and receivables to customers and accounted for at amortised cost.

(f) Financial investments held to maturity

In December 2015, following a Board decision to reduce the AFS portfolio, €3.5 billion (€2.9 billion nominal) in Irish Government securities were transferred to a new held to maturity ("HTM") portfolio. The transfer covered a range of issues with maturities ranging from 2018 to 2030. The reclassification reflects AIB's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was c. €0.5 billion. This unrealised gain will be amortised to interest income using the effective income method over the remaining life of the bonds. There are no immediate plans to increase this portfolio.

	2016	2015	2014
	(€ millions)		
As at 1 January	3,483	—	—
Transfers from available for sale securities (note 27)	—	3,487	—
Amortisation of fair value gain	(127)	(4)	—
As at 31 December	3,356	3,483	—

58 Financial Risk Management (Continued)

(g) Additional credit risk information

Forbearance

The following tables set out the risk profile of loans and receivables to customers analysed as to non-forborne and forborne at 31 December 2016, 2015 and 2014:

	As at 31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	15,364	228	199	1,544	17,335
Good lower	9,099	1,695	4,150	12,195	27,139
Watch	1,236	74	293	529	2.132
Vulnerable	903	77	479	459	1,918
Total	26,602	2,074	5,121	14,727	48,524
Past due but not impaired	414	109	203	231	957
Impaired	2,236	302	2,124	954	5,616
Total	2,650	411	2,327	1,185	6,573
Total non-forborne loans and receivables to customers	29,252	2.485	7,448	15,912	55,097
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	573	1	—	1	575
Good lower	712	275	40	152	1,179
Watch	339	22	64	83	508
Vulnerable	1,504	126	1,083	766	3,479
Total	3,128	424	1,187	1,002	5,741
Past due but not impaired	519	61	159	131	870
Impaired	2,340	130	600	450	3,520
Total	2,859	191	759	581	4,390
Total forborne loans and receivables to customers	5,987[(1)]	615	1,946	1,583	10,131
Total gross loans and receivables to customers	35,239	3,100	9,394	17,495	65,228
Weighted average interest rate of forborne loans and receivables to customers	2.4%	6.5%	3.0%	3.5%	2.9%

Note:

(1) Republic of Ireland: €5,931 million and United Kingdom: €56 million.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with accounting policy '*Interest income and expense recognition*' and is included in '*Interest and similar income*' in the income statement. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas the net carrying amount after specific provisions is used for impaired forborne loans.

Interest income on overall impaired loans amounted to €140 million in 2016 (2015: €244 million; 2014: €329 million). At 31 December 2016, the net carrying value of impaired loans was €5,089 million (2015: €6,927 million; 2014: €10,847 million) which included forborne impaired mortgages of €1,535 million

(2015: €1,600 million; 2014: €2,421 million) and forborne impaired non-mortgages of €680 million (2015: €623 million; 2014: €854 million).

	As at 31 December 2015				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	14,326	203	122	1,166	15,817
Good lower	9,483	1,849	3,892	12,334	27,558
Watch	1,571	105	813	733	3,222
Vulnerable	1,588	134	482	501	2,705
Total	26,968	2,291	5,309	14,734	49,302
Past due but not impaired	581	95	245	300	1,221
Impaired	3,737	476	3,668	1,500	9,381
Total	4,318	571	3,913	1,800	10,602
Total non-forborne loans and receivables to customers	31,286	2,862	9,222	16,534	59,904
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	568	—	—	1	569
Good lower	623	199	88	173	1,083
Watch	401	26	99	103	629
Vulnerable	1,236	148	1,324	769	3,477
Total	2,828	373	1,511	1,046	5,758
Past due but not impaired	475	55	159	108	797
Impaired	2,229	222	640	613	3,704
Total	2,704	277	799	721	4,501
Total forborne loans and receivables to customers	5,532(1)	650	2,310	1,767	10,259
Total gross loans and receivables to customers	36,818	3,512	11,532	18,301	70,163
Weighted average interest rate of forborne loans and receivables to customers	2.5%	6.4%	3.1%	3.7%	3.1%

Note:

(1) Republic of Ireland: €5,481 million and United Kingdom: €51 million.

	As at 31 December 2014				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
			(€ millions)		
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	13,285	180	96	811	14,372
Good lower	10,485	1,750	3,362	10,076	25,673
Watch	1,856	153	1,041	1,000	4,050
Vulnerable	1,520	117	446	585	2,668
Total	27,146	2,200	4,945	12,472	46,763
Past due but not impaired	867	141	354	391	1,753
Impaired	5,188	788	7,888	3,073	16,937
Total	6,055	929	8,242	3,464	18,690
Total non-forborne loans and receivables to customers	33,201	3,129	13,187	15,936	65,453
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	426	1	—	1	428
Good lower	471	239	71	256	1,037
Watch	351	39	74	146	610
Vulnerable	620	111	1,136	441	2,308
Total	1,868	390	1,281	844	4,383
Past due but not impaired	456	62	121	132	771
Impaired	3,321	256	948	700	5,225
Total	3,777	318	1,069	832	5,996
Total forborne loans and receivables to customers	5,645(1)	708	2,350	1,676	10,379
Total gross loans and receivables to customers	38,846	3,837	15,537	17,612	75,832
Weighted average interest rate of forborne loans and receivables to customers	2.8%	6.5%	3.1%	3.9%	3.3%

Notes:

(1) Republic of Ireland: €5,570 million and United Kingdom: €75 million.

Republic of Ireland residential mortgages

AIB has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises AIB's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

In the following forbearance tables, temporary forbearance solutions (e.g. interest only, reduced payment) are included in the forbearance stock for as long as they are active, but are removed from the forbearance stock when the temporary agreement with the customer expires.

Further details on MARS together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out in note 58.1(c) above.

58 Financial Risk Management (Continued)

Republic of Ireland residential mortgages

The following table analyses the movements in the stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages at 31 December 2016, 2015 and 2014:

Republic of Ireland owner-occupier	2016 Number	2016 Balance (€m)	2015 Number	2015 Balance (€m)	2014 Number	2014 Balance (€m)
At 1 January	29,514	3,995	27,714	3,830	19,848	2,952
Additions	3,805	537	6,778	952	12,561	1,693
Expired arrangements	(3,217)	(450)	(4,095)	(578)	(4,156)	(639)
Payments	—	(216)	—	(199)	—	(219)
Interest	—	101	—	102	—	77
Closed accounts[1]	(869)	(67)	(824)	(58)	(507)	(30)
Advanced forbearance arrangements—valuation adjustments	—	(6)	—	(17)	—	—
Write-offs[2]	(15)	(6)	(34)	(37)	—	(2)
Transfer between owner-occupier and buy-to-let	(6)	1	(25)	—	(32)	(2)
Adoption of EBA forbearance definition	653	385	—	—	—	—
At 31 December	29,865	4,274	29,514	3,995	27,714	3,830

Republic of Ireland buy-to-let	2016 Number	2016 Balance (€m)	2015 Number	2015 Balance (€m)	2014 Number	2014 Balance (€m)
At 1 January	7,826	1,486	7,936	1,740	8,309	1,998
Additions	659	104	1,868	289	1,893	355
Expired arrangements	(1,359)	(250)	(1,198)	(240)	(2,155)	(480)
Payments	—	(113)	—	(123)	—	(125)
Interest	—	29	—	43	—	26
Closed accounts[1]	(692)	(86)	(640)	(82)	(143)	(26)
Advanced forbearance arrangements—valuation adjustments	—	(1)	—	(2)	—	—
Write-offs[2]	(26)	(16)	(165)	(139)	—	(10)
Transfer between owner-occupier and buy-to-let	6	(1)	25	—	32	2
Adoption of EBA forbearance definition	3,095	505	—	—	—	—
At 31 December	9,509	1,657	7,826	1,486	7,936	1,740

Republic of Ireland—Total	2016 Number	2016 Balance (€m)	2015 Number	2015 Balance (€m)	2014 Number	2014 Balance (€m)
At 1 January	37,340	5,481	35,650	5,570	28,157	4,950
Additions	4,464	641	8,646	1,241	14,454	2,048
Expired arrangements	(4,576)	(700)	(5,293)	(818)	(6,311)	(1,119)
Payments	—	(329)	—	(322)	—	(344)
Interest	—	130	—	145	—	103
Closed accounts[1]	(1,561)	(153)	(1,464)	(140)	(650)	(56)
Advanced forbearance arrangements—valuation adjustments	—	(7)	—	(19)	—	—
Write-offs[2]	(41)	(22)	(199)	(176)	—	(12)
Adoption of EBA forbearance definition	3,748	890	—	—	—	—
At 31 December	39,374	5,931	37,340	5,481	35,650	5,570

Notes:

(1) Accounts closed during year due primarily to customer repayments and redemptions.

(2) Includes contracted and non-contracted write-offs in 2016 and 2015. For 2014, contracted write-offs are included across other categories.

58 Financial Risk Management (Continued)

The stock of loans subject to forbearance measures increased by €0.5 billion from 31 December 2015 to €5.9 billion at 31 December 2016 driven by a €0.9 billion adjustment due to the adoption of a definition of forbearance as prescribed by the EBA which is mainly a reflection of the requirement to apply a probation period to loans subject to forbearance, which was not applied under the previous definition used.

Under the previous definition used, and which was prescribed by the Central Bank, loans subject to temporary forbearance measures (e.g. interest only, payment moratoriums) remained in the forbearance stock only for the period of their temporary arrangement, whilst loans subject to permanent forbearance measures (e.g. term extension, arrears capitalisations) remained in the forbearance stock for a period of five years.

Under the EBA definition, loans subject to forbearance measures remain in the forbearance stock for a period of 2 years from the date the forborne loan was considered "performing".

Prior to the application of the EBA definition, there was a €0.4 billion reduction in forborne loans driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions) and reflecting improving customer ability to meet their mortgage terms. Due to the significant levels of restructuring activity completed in 2014 and 2015, the pace of growth in advanced forbearance solutions slowed in 2016.

The stock of loans subject to forbearance measures decreased by €0.1 billion from 31 December 2014 to €5.5 billion at 31 December 2015 driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions) and is reflective of improving customer ability to meet their mortgage terms. A key feature of the forbearance portfolio is the continued growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by AIB's strategy to deliver sustainable long-term solutions to customers and to support customers in remaining in their family home—the number of customers (6,085) on advanced forbearance solutions increased by 71% in the year to 31 December 2015 with 'Interest Only' customers (3,338) reducing by c.41% in the same period.

Residential mortgages subject to forbearance measures by type of forbearance

The following tables further analyse by type of forbearance (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures in the Republic of Ireland at 31 December 2016, 2015 and 2014:

	2016					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	**Number**	**Balance**	**Number**	**Balance**	**Number**	**Balance**
		(€m)		(€m)		(€m)
Interest only	5,214	796	2,587	417	2,627	379
Reduced payment (greater than interest only)	1,030	213	629	139	401	74
Payment moratorium	1,526	241	247	33	1,279	208
Fundamental restructure	2	—	—	—	2	—
Restructure	303	38	200	25	103	13
Arrears capitalisation	13,494	1,888	5,093	766	8,401	1,122
Term extension	1,857	212	336	36	1,521	176
Split mortgages	3,066	474	646	97	2,420	377
Voluntary sale for loss	510	28	241	21	269	7
Low fixed interest rate	1,163	182	170	29	993	153
Positive equity solutions	1,453	157	61	6	1,392	151
Other	247	45	35	9	212	36
Total forbearance	29,865	4,274	10,245	1,578	19,620	2,696

58 Financial Risk Management (Continued)

Republic of Ireland buy-to-let	2016 Total Number	Total Balance (€m)	Loans > 90 days in arrears and/or impaired Number	Loans > 90 days in arrears and/or impaired Balance (€m)	Loans neither > 90 days in arrears nor impaired Number	Loans neither > 90 days in arrears nor impaired Balance (€m)
Interest only	1,990	412	1,034	223	956	189
Reduced payment (greater than interest only)	770	175	414	92	356	83
Payment moratorium	307	40	191	25	116	15
Fundamental restructure	1,195	169	378	53	817	116
Restructure	804	72	703	59	101	13
Arrears capitalisation	3,015	564	1,736	321	1,279	243
Term extension	619	110	137	38	482	72
Split mortgages	138	37	85	28	53	9
Voluntary sale for loss	303	25	110	20	193	5
Low fixed interest rate	8	1	—	—	8	1
Positive equity solutions	27	3	1	—	26	3
Other	333	49	257	42	76	7
Total forbearance	9,509	1,657	5,046	901	4,463	756

Republic of Ireland—Total	2016 Total Number	Total Balance (€m)	Loans > 90 days in arrears and/or impaired Number	Loans > 90 days in arrears and/or impaired Balance (€m)	Loans neither > 90 days in arrears nor impaired Number	Loans neither > 90 days in arrears nor impaired Balance (€m)
Interest only	7,204	1,208	3,621	640	3,583	568
Reduced payment (greater than interest only)	1,800	388	1,043	231	757	157
Payment moratorium	1,833	281	438	58	1,395	223
Fundamental restructure	1,197	169	378	53	819	116
Restructure	1,107	110	903	84	204	26
Arrears capitalisation	16,509	2,452	6,829	1,087	9,680	1,365
Term extension	2,476	322	473	74	2,003	248
Split mortgages	3,204	511	731	125	2,473	386
Voluntary sale for loss	813	53	351	41	462	12
Low fixed interest rate	1,171	183	170	29	1,001	154
Positive equity solutions	1,480	160	62	6	1,418	154
Other(1)	580	94	292	51	288	43
Total forbearance	39,374	5,931	15,291	2,479	24,083	3,452

Note:

(1) Included in other at 31 December 2016 are €54 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed, €25 million relating to negative equity trade downs, and €6 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

58 Financial Risk Management (Continued)

Republic of Ireland owner-occupier	2015 Total Number	Balance	Loans > 90 days in arrears and/or impaired Number	Balance	Loans neither > 90 days in arrears nor impaired Number	Balance
		(€m)		(€m)		(€m)
Interest only	2,017	338	909	165	1,108	173
Reduced payment (greater than interest only)	754	157	454	107	300	50
Payment moratorium	426	61	133	18	293	43
Arrears capitalisation	15,664	2,122	7,184	1,032	8,480	1,090
Term extension	4,850	510	444	49	4,406	461
Split mortgages	2,872	450	1,169	177	1,703	273
Voluntary sale for loss	453	24	244	17	209	7
Low fixed interest rate	1,241	195	108	20	1,133	175
Positive equity solutions	1,221	134	96	11	1,125	123
Other[(1)]	16	4	—	—	16	4
Total forbearance	29,514	3,995	10,741	1,596	18,773	2,399

Republic of Ireland buy-to-let	2015 Total Number	Balance	Loans > 90 days in arrears and/or impaired Number	Balance	Loans neither > 90 days in arrears nor impaired Number	Balance
		(€m)		(€m)		(€m)
Interest only	1,321	291	539	127	782	164
Reduced payment (greater than interest only)	646	158	327	74	319	84
Payment moratorium	256	34	181	26	75	8
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	3,190	657	2,095	443	1,095	214
Term extension	931	128	138	24	793	104
Split mortgages	30	5	14	2	16	3
Voluntary sale for loss	240	24	104	20	136	4
Low fixed interest rate	9	2	1	—	8	2
Positive equity solutions	19	2	3	—	16	2
Total forbearance	7,826	1,486	3,501	732	4,325	754

58 Financial Risk Management (Continued)

Republic of Ireland—Total	2015 Total Number	Balance	Loans > 90 days in arrears and/or impaired Number	Balance	Loans neither > 90 days in arrears nor impaired Number	Balance
		(€m)		(€m)		(€m)
Interest only	3,338	629	1,448	292	1,890	337
Reduced payment (greater than interest only)	1,400	315	781	181	619	134
Payment moratorium	682	95	314	44	368	51
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	18,854	2,779	9,279	1,475	9,575	1,304
Term extension	5,781	638	582	73	5,199	565
Split mortgages	2,902	455	1,183	179	1,719	276
Voluntary sale for loss	693	48	348	37	345	11
Low fixed interest rate	1,250	197	109	20	1,141	177
Positive equity solutions	1,240	136	99	11	1,141	125
Other[1]	16	4	—	—	16	4
Total forbearance	37,340	5,481	14,242	2,328	23,098	3,153

Note:

(1) Includes 15 negative equity trade downs (€4 million) at 31 December 2015.

Republic of Ireland owner-occupier	2014 Total Number	Balance	Loans > 90 days in arrears and/or impaired Number	Balance	Loans neither > 90 days in arrears nor impaired Number	Balance
		(€m)		(€m)		(€m)
Interest only	3,609	566	1,804	294	1,805	272
Reduced payment (greater than interest only)	1,326	251	854	183	472	68
Payment moratorium	510	79	152	23	358	56
Arrears capitalisation	13,409	1,860	8,030	1,187	5,379	673
Term extension	5,518	592	624	75	4,894	517
Split mortgages	2,384	370	2,305	349	79	21
Voluntary sale for loss	342	26	220	20	122	6
Low fixed interest rate	375	59	260	40	115	19
Positive equity solutions	223	22	112	11	111	11
Other[1]	18	5	4	1	14	4
Total forbearance	27,714	3,830	14,365	2,183	13,349	1,647

Republic of Ireland buy-to-let	2014 Total Number	Total Balance (€m)	Loans > 90 days in arrears and/or impaired Number	Loans > 90 days in arrears and/or impaired Balance (€m)	Loans neither > 90 days in arrears nor impaired Number	Loans neither > 90 days in arrears nor impaired Balance (€m)
Interest only	2,017	468	1,119	289	898	179
Reduced payment (greater than interest only)	836	195	466	115	370	80
Payment moratorium	352	48	183	26	169	22
Arrears capitalisation	3,641	881	3,058	775	583	106
Term extension	860	118	190	32	670	86
Split mortgages	15	2	14	2	1	—
Voluntary sale for loss	208	27	162	25	46	2
Low fixed interest rate	2	—	1	—	1	—
Positive equity solutions	5	1	3	—	2	1
Total forbearance	7,936	1,740	5,196	1,264	2,740	476

Republic of Ireland—Total	2014 Total Number	Total Balance (€m)	Loans > 90 days in arrears and/or impaired Number	Loans > 90 days in arrears and/or impaired Balance (€m)	Loans neither > 90 days in arrears nor impaired Number	Loans neither > 90 days in arrears nor impaired Balance (€m)
Interest only	5,626	1,034	2,923	583	2,703	451
Reduced payment (greater than interest only)	2,162	446	1,320	298	842	148
Payment moratorium	862	127	335	49	527	78
Arrears capitalisation	17,050	2,741	11,088	1,962	5,962	779
Term extension	6,378	710	814	107	5,564	603
Split mortgages	2,399	372	2,319	351	80	21
Voluntary sale for loss	550	53	382	45	168	8
Low fixed interest rate	377	59	261	40	116	19
Positive equity solutions	228	23	115	11	113	12
Other[(1)]	18	5	4	1	14	4
Total forbearance	35,650	5,570	19,561	3,447	16,089	2,123

Note:

(1) Includes 11 negative equity trade downs (€3 million) at 31 December 2014.

A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by AIB's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at €1 billion accounted for 17% of the total forbearance portfolio as at 31 December 2016, compared to 15 per cent. (€840 million) as at 31 December 2015 and 9 per cent. (€510 million) as at 31 December 2014. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often includes a term extension). Permanent forbearance solutions are reported within the stock of forbearance for 5 years, and therefore, represent in some cases forbearance solutions which were agreed up to 5 years ago. They also include loans where a subsequent interest only or other temporary arrangement had expired, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solutions at 31 December 2016, accounting for 41 per cent. by value of the total forbearance portfolio (31 December 2015: 51 per cent.; 31 December 2014: 49 per cent.). While actually decreasing, a high proportion of the arrears capitalisation portfolio (44 per cent. by value) is impaired or 90 days in arrears at 31 December 2016, reduced from

53 per cent. at 31 December 2015 and 72 per cent. at 31 December 2014. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from impairment, as described above.

AIB's processes for assessing customers and agreeing sustainable forbearance solutions have significantly improved over the last 3 years with the development of a suite of advanced forbearance products. This is reflected in the performance of the forbearance portfolio where the proportion of the portfolio being 90 days in arrears and/or impaired remained at 42 per cent. at 31 December 2016, in line with 2015, despite the inclusion of a €0.4 billion net increase in forborne stock due to the adoption of a forbearance definition prescribed by the EBA, and down from 62 per cent. at 31 December 2014.

Residential mortgages subject to forbearance measures—past due but not impaired

All loans that are assessed for a forbearance solution are tested for impairment either individually or collectively, irrespective of whether such loans are past due or not. Where the loans are deemed not to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
Republic of Ireland	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
				(€ millions)					
1–30 days	194	46	240	199	49	248	138	31	169
31–60 days	60	18	78	52	22	74	63	14	77
61–90 days	24	10	34	25	11	36	42	8	50
91–180 days	20	19	39	17	10	27	33	15	48
181–365 days	24	20	44	19	9	28	41	16	57
Over 365 days	50	29	79	40	18	58	33	18	51
Total past due but not impaired	372	142	514	352	119	471	350	102	452

Loans subject to forbearance and past due but not impaired increased by €43 million in 2016 with later arrears (greater than 90 days in arrears) increasing by €49 million. The proportion of the portfolio past due but not impaired increased slightly to 8.7 per cent. at 31 December 2016 (2015: 8.6 per cent.).

Loans subject to forbearance and past due but not impaired increased by €19 million in 2015 with later arrears (greater than 90 days in arrears) decreasing by €43 million. The proportion of the portfolio past due but not impaired increased slightly to 8.6 per cent. at 31 December 2015 compared with 8.1 per cent. at 31 December 2014.

Residential mortgages subject to forbearance measures—impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
Republic of Ireland	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
				(€ millions)					
Not past due	491	179	670	736	229	965	874	363	1,237
1–30 days	116	36	152	146	29	175	221	52	273
31–60 days	51	20	71	62	17	79	87	29	116
61–90 days	43	14	57	41	14	55	62	28	90
91–180 days	102	31	133	96	31	127	143	75	218
181–365 days	127	60	187	97	57	154	191	159	350
Over 365 days	554	493	1,047	342	318	660	498	509	1,007
Total impaired	1,484	833	2,317	1,520	695	2,215	2,076	1,215	3,291

58 Financial Risk Management (Continued)

Impaired loans subject to forbearance increased by €0.1 billion in 2016. Statement of financial position specific provisions of €0.8 billion were held against the forborne impaired portfolio at 31 December 2016 (2015: €0.6 billion), providing cover of 35 per cent. (2015: 28 per cent.), while the income statement specific provision writeback was €101 million for the year (2015: €120 million).

Within the impaired portfolio of €2.3 billion at 31 December 2016, €0.7 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over a period of 12 months will result in an upgrade out of impairment. The remaining €1.6 billion includes loans that have been the subject of a temporary or short-term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain a satisfactory performance for at least 12 months before being considered for upgrade out of impairment.

Impaired loans subject to forbearance reduced by €1.1 billion in 2015. Statement of financial position specific provisions of €0.6 billion were held against the forborne impaired book at 31 December 2015 (2014: €0.9 billion), providing cover of 28 per cent. (2014: 27 per cent.), while the income statement specific provision writeback was €120 million for the year (2014: €124 million).

Within the impaired portfolio of €2.2 billion at 31 December 2015, approximately €1 billion was performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over a period of 12 months will result in an upgrade out of impairment. The remaining €1.2 billion above includes loans that have been the subject of a temporary or short-term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain at least 12 months of satisfactory performance before being considered for upgrade out of impairment.

Residential mortgages subject to forbearance measures by indexed loan-to-value ratios

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to-value ratios at 31 December 2016, 2015 and 2014:

	2016			2015			2014		
Republic of Ireland	**Owner-occupier**	**Buy-to-let**	**Total**	**Owner-occupier**	**Buy-to-let**	**Total**	**Owner-occupier**	**Buy-to-let**	**Total**
					(€ millions)				
Less than 50%	728	235	963	703	195	898	557	126	683
50%–70%	875	266	1,141	805	242	1,047	648	164	812
71%–80%	505	143	648	449	128	577	391	128	519
81%–90%	470	159	629	454	135	589	397	151	548
91%–100%	398	162	560	398	156	554	387	165	552
101%–120%	693	287	980	627	272	899	632	330	962
121%–150%	483	191	674	481	201	682	640	383	1,023
Greater than 150%	73	137	210	54	133	187	151	266	417
Unsecured	49	77	126	24	24	48	27	27	54
Total forbearance	4,274	1,657	5,931	3,995	1,486	5,481	3,830	1,740	5,570

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2016 was 29 per cent. of the owner-occupier portfolio (2015: 29 per cent.) and 37 per cent. of the buy-to-let portfolio (2015: 41 per cent.), due primarily to the continued increase in property prices in 2016 and loan repayments.

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2015 reduced to 29 per cent. of the owner-occupier and 41 per cent. of the buy-to-let mortgages compared to 37 per cent. and 56 per cent. respectively at 31 December 2014, due primarily to the continued increase in property prices in 2015 and loan repayments.

58 Financial Risk Management (Continued)

Non-mortgage

The following tables analyse, at 31 December 2016 and 2015, the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding residential mortgages:

Republic of Ireland	2016 Other personal	Property and construction	Non-property business	Total
	(€ millions)			
At 1 January	646	2,182	1,679	4,507
Additions	169	337	276	782
Fundamental restructures—valuation adjustments	(10)	(53)	(23)	(86)
Write-offs	(82)	(130)	(105)	(317)
Expired arrangements	(53)	(83)	(129)	(265)
Closed accounts	(15)	(43)	(35)	(93)
Other movements	(47)	(348)	(136)	(531)
At 31 December	608	1,862	1,527	3,997

United Kingdom	2016 Other personal	Property and construction	Non-property business	Total
	(€ millions)			
At 1 January	4	128	88	220
Additions	5	20	11	36
Expired arrangements	(1)	(39)	(29)	(69)
Exchange translation adjustments	(1)	(17)	(12)	(30)
Other movements	—	(8)	(2)	(10)
At 31 December	7	84	56	147

Total	2016 Other personal	Property and construction	Non-property business	Total
	(€ millions)			
At 1 January	650	2,310	1,767	4,727
Additions	174	357	287	818
Fundamental restructures—valuation adjustments	(10)	(53)	(23)	(86)
Write-offs	(82)	(130)	(105)	(317)
Expired arrangements	(54)	(122)	(158)	(334)
Closed accounts	(15)	(43)	(35)	(93)
Exchange translation adjustments	(1)	(17)	(12)	(30)
Other movements	(47)	(356)	(138)	(541)
At 31 December	615	1,946	1,583	4,144

58 Financial Risk Management (Continued)

Republic of Ireland	2015 Other personal	Property and construction	Non-property business	Total
	(€ millions)			
At 1 January	693	1,976	1,514	4,183
Additions	230	1,026	757	2,013
Fundamental restructures—valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(167)	(29)	(216)
Expired arrangements	(151)	(129)	(270)	(550)
Closed accounts	(72)	(430)	(226)	(728)
Other movements	(24)	(56)	(49)	(129)
At 31 December	646	2,182	1,679	4,507

United Kingdom	2015 Other personal	Property and construction	Non-property business	Total
	(€ millions)			
At 1 January	15	374	162	551
Additions	1	31	25	57
Write-offs	—	(10)	(8)	(18)
Expired arrangements	(1)	(161)	(83)	(245)
Closed accounts	—	(11)	—	(11)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(1)	(14)	(3)	(18)
At 31 December	4	128	88	220

Total	2015 Other personal	Property and construction	Non-property business	Total
	(€ millions)			
At 1 January	708	2,350	1,676	4,734
Additions	231	1,057	782	2,070
Fundamental restructures—valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(177)	(37)	(234)
Expired arrangements	(152)	(290)	(353)	(795)
Closed accounts	(72)	(441)	(226)	(739)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(25)	(70)	(52)	(147)
At 31 December	650	2,310	1,767	4,727

58 Financial Risk Management (Continued)

The following tables set out an analysis of non-mortgage forbearance solutions at 31 December 2016, 2015 and 2014:

	2016					
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	€m	€m	€m	€m	€m	%
Other personal						
Interest only	58	29	6	23	15	65
Reduced payment (greater than interest only)	25	16	—	9	6	63
Payment moratorium	109	107	—	2	1	59
Arrears capitalisation	17	4	1	12	5	41
Term extension	141	130	1	10	6	56
Fundamental restructure	48	36	3	9	4	46
Restructure	187	123	8	56	25	45
Asset disposals	25	11	6	8	4	55
Other	5	4	—	1	1	78
Total	615	460	25	130	67	51
Property and construction						
Interest only	235	57	9	169	54	32
Reduced payment (greater than interest only)	90	62	3	25	11	43
Payment moratorium	8	4	2	2	1	73
Arrears capitalisation	44	18	1	25	12	46
Term extension	193	97	—	96	39	41
Fundamental restructure	829	702	34	93	29	31
Restructure	355	201	9	145	63	43
Asset disposals	141	110	4	27	11	41
Other	51	26	7	18	13	69
Total	1,946	1,277	69	600	233	39
Non-property business lending						
Interest only	191	107	7	77	37	48
Reduced payment (greater than interest only)	64	37	2	25	14	57
Payment moratorium	17	14	1	2	1	50
Arrears capitalisation	42	18	1	23	11	47
Term extension	202	118	2	82	23	28
Fundamental restructure	448	416	7	25	12	49
Restructure	530	304	36	190	86	45
Asset disposals	33	21	1	11	8	75
Other	56	36	5	15	8	54
Total	1,583	1,071	62	450	200	45
Total non-mortgage forbearance	4,144	2,808	156	1,180	500	42

58 Financial Risk Management (Continued)

	2015					
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	€m	€m	€m	€m	€m	%
Other personal						
Interest only	71	36	3	32	20	63
Reduced payment (greater than interest only)	14	10	1	3	2	62
Payment moratorium	51	49	—	2	2	74
Arrears capitalisation	23	3	1	19	8	42
Term extension	123	114	1	8	6	69
Fundamental restructure	49	47	1	1	1	59
Restructure	304	146	7	151	113	75
Other	15	8	1	6	4	71
Total	650	413	15	222	156	70
Property and construction						
Interest only	203	88	6	109	59	54
Reduced payment (greater than interest only)	38	20	4	14	5	39
Payment moratorium	5	2	—	3	2	74
Arrears capitalisation	43	13	1	29	15	53
Term extension	207	160	1	46	14	30
Fundamental restructure	1,089	1,032	28	29	17	58
Restructure	556	250	17	289	176	61
Other	169	34	14	121	85	70
Total	2,310	1,599	71	640	373	58
Non-property business lending						
Interest only	188	73	8	107	58	54
Reduced payment (greater than interest only)	37	22	2	13	8	59
Payment moratorium	14	12	—	2	1	33
Arrears capitalisation	64	10	1	53	37	70
Term extension	154	104	1	49	17	34
Fundamental restructure	498	490	4	4	1	27
Restructure	617	314	28	275	166	60
Other	195	84	1	110	35	32
Total	1,767	1,109	45	613	323	52
Total non-mortgage forbearance	4,727	3,121	131	1,475	852	58

	2014					
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	€m	€m	€m	€m	€m	%
Other personal						
Interest only	67	29	9	29	19	66
Reduced payment (greater than interest only)	7	5	—	2	2	100
Payment moratorium	4	3	—	1	1	100
Arrears capitalisation	36	2	3	31	17	55
Term extension	105	98	2	5	2	40
Fundamental restructure	17	16	—	1	—	—
Restructure	462	262	16	184	129	70
Other	10	5	2	3	2	67
Total	708	420	32	256	172	67
Property and construction						
Interest only	455	119	11	325	166	51
Reduced payment (greater than interest only)	29	10	1	18	8	44
Payment moratorium	18	18	—	—	—	—
Arrears capitalisation	60	6	8	46	26	57
Term extension	294	240	7	47	16	34
Fundamental restructure	722	710	3	9	—	—
Restructure	663	202	16	445	279	63
Other	109	50	1	58	31	53
Total	2,350	1,355	47	948	526	55
Non-property business lending						
Interest only	198	87	8	103	50	49
Reduced payment (greater than interest only)	39	9	4	26	13	50
Payment moratorium	22	7	—	15	9	60
Arrears capitalisation	54	10	2	42	23	55
Term extension	172	120	7	45	12	27
Fundamental restructure	197	186	4	7	3	43
Restructure	874	457	34	383	232	61
Other	120	38	3	79	10	13
Total	1,676	914	62	700	352	50
Total non-mortgage forbearance	4,734	2,689	141	1,904	1,050	55

AIB has treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long-term levels of sustainable and unsustainable debt.

Non-retail customers in difficulty typically have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages.

58 Financial Risk Management (Continued)

At 31 December 2016, non-mortgage loans reported as being subject to forbearance amounted to €4.1 billion (2015 and 2014: €4.7 billion), of which €1.2 billion (2015: € 1.5 billion; 2014: €1.9 billion) is impaired with specific provision cover of 42 per cent. (2015: 58 per cent.; 2014: 55 per cent.). The majority of these forborne loans are in property and construction (2016: €1.9 billion; 2015: €2.3 billion; 2014: €2.4 billion in total) and non-property business (2016: €1.6 billion; 2015: €1.8 billion; 2014: €1.5 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (2016: €1.3 billion in total; 2015: €1.6 billion in total; 2014: €0.9 billion in total) includes long-term solutions where customers have been through a full review, have proven sustainable cash flows/repayment capacity (through business cash flow and/or asset sales) and their debt has been restructured. Loans to borrowers that are fundamentally restructured typically result in the original loans together with any related impairment provision being derecognised and new facilities being classified as loans and receivables and recognised on day 1 at fair value ("main" and "secondary") and being graded as "vulnerable".

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial. During 2016, approximately €0.2 billion of main facilities were recognised (2015: €1.1 billion; 2014: €1.1 billion) following the derecognition of approximately €0.6 billion of impaired loans (2015: €2.5 billion; 2014: €2.3 billion) with related impairment provisions of approximately €0.4 billion (2015: €1.4 billion; 2014: €1.2 billion).

While the new facilities are subject to legal agreements, the repayment conditions attaching to each facility are different and usually customer specific. Depending on the co-operation of the customer and the repayment of the main facilities, additional cash flows over the initial cash flow estimation may subsequently arise. This could occur where the disposal of collateral is at higher values than originally expected, stronger trading performance or new sources of income. There are incentives from a customer perspective to meet the repayment terms of the main facility as doing so would result in some cases where the secondary facilities would be contractually written off.

As part of its ongoing monitoring of fundamental restructure loans, AIB keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainties involved in the crystallisation of future additional cash flows (in excess of the initial estimation) through asset sales over an extended period against a backdrop of a changing property market (in the case of property-related lending) that would be applied to secondary facilities. In the case of other lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain. In this regard, income of €82 million was received and recognised in 2016 (2015: €43 million; 2014: €24 million) on these facilities.

At 31 December 2016, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to €1.5 billion (2015: €1.8 billion).

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:

- Buy-to-let of €169 million which have associated contractual secondary facilities of €204 million (2015: €185 million and €215 million, respectively).
- Property and construction of €809 million which have associated contractual secondary facilities of €2,129 million (2015: €1,089 million and €2,013 million, respectively).

These are further analysed as:

- Commercial real estate primary facilities of €703 million which have associated contractual secondary facilities of €1,237 million (2015: €927 million and €1,224 million, respectively).
- Land and development primary facilities of €162 million which have associated contractual secondary facilities of €892 million (2015: €162 million and €789 million, respectively).

Non-property business lending and other personal lending where fundamental restructures have been granted amount to €496 million which have associated secondary facilities of €778 million (2015: €547 million and €753 million respectively).

58 Financial Risk Management (Continued)

The ‘Restructure’ category (2016: €1.1 billion; 2015: €1.5 billion) includes some longer term/permanent solutions where the existing customer debt was deemed to be sustainable post restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a ‘Fundamental restructure’ following a full review of sustainable repayment capacity.

The remaining forbearance categories include borrowers who have received a term extension and borrowers that have been afforded temporary forbearance measures which, depending on performance may in time move out of forbearance or qualify for a more permanent forbearance solution.

During 2016 the stock of non-mortgage forbearance loans reduced by €583 million with new forborne borrowers (€818 million) being offset by reductions due to expired and closed forbearance arrangements and repayments. There was no material change in the stock of non-mortgage forbearance loans in 2015 compared to 2014, with new forborne borrowers (€2.1 billion) being offset by reductions due to expired and closed forbearance arrangements and repayments.

58.2 Funding and liquidity risk

Liquidity risk is the risk that AIB will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

The objective of liquidity management is to ensure that, at all times, AIB holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk monitoring and reporting

The AIB funding and liquidity position is reported regularly to Treasury, Finance and Risk, ALCo, the Executive Risk Committee (“ERC”) and Board Risk Committee (“BRC”). In addition, the Leadership Team and the Board are briefed on funding and liquidity on an ongoing basis.

At 31 December 2016, AIB held €30 billion (31 December 2015: €34 billion; 31 December 2014: €40 billion) in qualifying liquid assets/contingent funding of which approximately €12 billion (31 December 2015: €18 billion; 31 December 2014: €23 billion) was not available due to repurchase, secured loan and other restrictions. The available AIB liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2016, the AIB liquidity pool was €18 billion (31 December 2015: €16 billion; 31 December 2014: €17 billion). During 2016, the month-end liquidity pool ranged from €16 billion to €20 billion and the average balance was €18 billion (2015: €15 billion, €19 billion and €17 billion respectively; 2014: €14 billion, €19 billion and €16 billion respectively).

Composition of AIB’s liquidity pool

The following table shows the composition of AIB’s liquidity pool at 31 December 2016, 2015 and 2014:

	2016			
			High Quality Liquid Assets (HQLA)	
	Liquidity pool	Liquidity pool available (ECB eligible)	Level 1	Level 2
		(€ billions)		
Cash and deposits with central banks	1.9	—	3.9[1]	—
Total government bonds	9.0	8.9	8.9	—
Other:				
Covered bonds	1.8	1.7	1.4	0.4
Other including NAMA senior bonds	5.0	4.9	1.4	0.1
Total other	6.8	6.6	2.8	0.5
Total	17.7	15.5	15.6	0.5

	2015			
	Liquidity pool	Liquidity pool available (ECB eligible)	High Quality Liquid Assets (HQLA) Level 1	Level 2
		(€ billions)		
Cash and deposits with central banks	0.6	—	3.2[1]	—
Total government bonds	6.2	6.1	6.2	—
Other:				
Covered bonds	1.2	1.1	1.2	—
Other including NAMA senior bonds	8.0	7.7	4.3	—
Total other	9.2	8.8	5.5	—
Total	16.0	14.9	14.9	—

	2014			
	Liquidity pool	Liquidity pool available (ECB eligible)	High Quality Liquid Assets (HQLA) Level 1	Level 2
		(€ billions)		
Cash and deposits with central banks	0.9	—	2.9	—
Total government bonds	4.5	4.5	4.5	—
Other:				
Other including NAMA senior bonds	11.4	11.3	7.5	—
Total	16.8	15.8	14.9	—

Note:

(1) For LCR purposes, assets outside the Liquidity function's control can qualify as High Quality Liquid Assets ("HQLA") in so far as they match outflows in the same jurisdiction. For AIB, this means that UK HQLA can qualify up to the amount of the 30 day UK outflows under LCR but are not included in AIB's calculation of available QLA stocks.

Level 1 High Quality Liquid Assets ("HQLA") include amongst others domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated sovereign bonds and unencumbered cash at central banks.

Level 2 HQLA include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

Management of AIB liquidity pool

The Company manages its liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board of Directors and the independent risk functions. These pool assets primarily comprise government guaranteed bonds. AIB's liquidity buffer increased in 2016 by €2 billion (31 December 2015: decreased by €0.8 billion), which was predominantly due to a decrease in the funding requirement following a reduction in customer loans. The 2015 decrease was predominantly due to a decrease in customer accounts which were replaced by interbank repos. AIB improved its liquidity buffer in the course of 2014 from €14 billion to €17 billion, predominantly due to a combination of profits for the year, and positive movement in the liquid asset portfolio due to yield compression.

Other contingent liquidity

AIB has access to other unencumbered assets providing a source of contingent liquidity which are not in AIB's liquidity pool. However, these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or outright sale.

Funding structure

AIB's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to continue rebuilding a strong wholesale funding franchise with appropriate access to term markets in order to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress i.e. an inability to meet funding obligations as they fall due.

	31 December 2016		31 December 2015		31 December 2014	
	(€ billions)	(%)	(€ billions)	(%)	(€ billions)	(%)
Sources of funds						
Customer accounts	63.5	69	63.4	64	64.0	63
Deposits by central banks and banks:						
secured	7.0	8	13.4	14	16.4	16
unsecured	0.7	1	0.5	—	0.4	—
Certificates of deposit and commercial paper	0.2	—	0.1	—	—	—
Asset covered securities ("ACS")	5.2	5	4.7	5	3.8	4
Assed Backed securities ("ABS")	0.5	1	0.6	—	0.8	1
Senior debt	1.0	1	1.6	2	3.3	3
Capital	13.9	15	14.4	15	13.0	13
Total source of funds	92.0	100	98.7	100	101.7	100
Other	3.6		4.4		5.8	
	95.6		103.1		107.5	

Customer accounts

The following table analyses average deposits by customers for the years ended 31 December 2016, 2015 and 2014:

	Year to 31 December		
	2016	2015	2014
		(€ millions)	
Current accounts	27,003	23,753	19,710
Deposits			
Demand	12,076	11,165	9,504
Time	22,294	27,711	31,032
Repurchase agreements	525	1,219	4,890
Total	61,898	63,848	65,136

Current accounts are both interest-bearing and non-interest bearing cheque accounts raised through AIB's branch network in the Republic of Ireland, Northern Ireland and Great Britain.

Demand deposits attract interest rates which vary from time to time in line with movements in market rates and according to size criteria. Such accounts are not subject to withdrawal by cheque or similar instrument and have no fixed maturity dates.

Time deposits are generally larger, attract higher rates of interest than demand deposits and have predetermined maturity dates.

Customer deposits by currency

The following table analyses customer deposits by currency as at 31 December 2016, 2015 and 2014:

	31 December		
	2016	2015	2014
		(€ millions)	
Euro	50,220	49,190	50,245
US dollar	1,887	1,223	1,212
Sterling	11,294	12,717	12,458
Other currencies	101	253	103
Total	63,502	63,383	64,018

58 Financial Risk Management (Continued)

Customer deposits represent the largest source of funding for AIB, and the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK provide a stable and reasonably predictable source of funds. Customer accounts have broadly remained flat in 2016 with a slight increase of €0.1 billion compared to 2015 (compared to a decrease of €0.6 billion in 2015 versus 2014). This was mainly due to an increase in Euro and USD deposits with underlying growth in GBP deposits of €0.5 billion offset by a fall in the value of GBP of €1.9 billion over the course of the year. AIB's loan to deposit ratio at 31 December 2016 was 95 per cent. (2015: 100 per cent. 2014: 99 per cent.).

AIB maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

AIB participates in Central Bank/ECB operations, the funding from which amounted to €1.9 billion at 31 December 2016 (2015: €2.9 billion; 2014: €3.4 billion). AIB early matured the legacy €1.9 billion in the Targeted Longer-Term Refinancing Operations I ("TLTRO I") facility and re-invested in the TLTRO II facility to lock in low cost term funding for the extended period during 2016.

In the 12 months to 31 December 2016, AIB raised secured funding through a €1 billion covered bond issuance with a 7 year tenor which was issued at a spread over mid-swaps of 54 bps. AIB did not issue senior debt in 2016 and outstanding senior debt decreased from €1.6 billion at 31 December 2015 to €1.0 billion at 31 December 2016 due to contractual maturities (2015 outstanding senior debt had decreased by €1.7 billion, from €3.3 billion at 31 December 2014).

In advance of the €1.36 billion partial redemption (repayment amount €1.7 billion) of its 2009 Preference Shares, approved at the Extraordinary General Meeting on 16 December 2015, AIB issued €750 million of Subordinated Tier 2 notes and €500 million of fixed rate reset Additional Tier 1 Perpetual Contingent Temporary Write-down Securities.

The management of stable retail funds is paramount to AIB's overall funding and liquidity strategy and will be a key factor in AIB's capacity for future asset growth.

Composition of wholesale funding

At 31 December 2016, total wholesale funding outstanding was €15 billion (€23 billion as at 31 December 2015; €26 billion as at 31 December 2014). €8 billion of wholesale funding matures in less than one year (compared to €16 billion as at 31 December 2015; €17 billion as at 31 December 2014). €7 billion of wholesale funding had a residual maturity of over one year (€7 billion as at 31 December 2015; €9 billion as at 31 December 2014), including €1.9 billion of TLTRO II drawings.

58 Financial Risk Management (Continued)

As at 31 December 2016, outstanding wholesale funding comprised €13 billion of secured funding (€19 billion as at 31 December 2015; €21 billion as at 31 December 2014) and €2 billion of unsecured funding (€4 billion as at 31 December 2015; €5 billion as at 31 December 2014).

2016	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total less than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years	Total
	(€ billions)								
Deposits by central banks and banks	3.1	2.5	0.2	—	5.8	—	1.9	—	7.7
Certificate of deposits and commercial paper	—	0.2	—	—	0.2	—	—	—	0.2
Senior debt	—	—	—	—	—	0.5	0.5	—	1.0
ACS/ABS	—	0.4	1.7	—	2.1	0.6	1.2	1.8	5.7
Subordinated liabilities and other capital instruments	—	—	—	—	—	—	—	0.8	0.8
Total 31 December 2016	3.1	3.1	1.9	—	8.1	1.1	3.6	2.6	15.4
Of which:									
Secured	2.4	2.9	1.9	—	7.2	0.6	3.1	1.8	12.7
Unsecured	0.7	0.2	—	—	0.9	0.5	0.5	0.8	2.7
	3.1	3.1	1.9	—	8.1	1.1	3.6	2.6	15.4

2015	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total less than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years	Total
	(€ billions)								
Deposits by central banks and banks	5.9	5.7	0.2	1.9	13.7	0.2	—	—	13.9
Certificate of deposits and commercial paper	—	0.1	—	—	0.1	—	—	—	0.1
Senior debt	—	—	—	0.6	0.6	—	1.0	—	1.6
ACS/ABS	—	—	—	0.5	0.5	2.3	0.8	1.7	5.3
Subordinated liabilities and other capital instruments	—	—	—	1.5	1.5	—	—	0.8	2.3
Total 31 December 2015	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2
Of which:									
Secured	5.4	5.7	0.2	2.4	13.7	2.5	0.8	1.7	18.7
Unsecured	0.5	0.1	—	2.1	2.7	—	1.0	0.8	4.5
	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2

	2014								
	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total less than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years	Total
	(€ billions)								
Deposits by central banks and banks	9.9	4.6	—	—	14.5	2.3	—	—	16.8
Senior debt	—	2.2	—	—	2.2	0.6	0.5	—	3.3
ACS/ABS	—	—	—	0.6	0.6	2.4	1.1	0.5	4.6
Subordinated liabilities and other capital instruments	—	—	—	—	—	1.4	—	—	1.4
Total 31 December 2014	9.9	6.8	—	0.6	17.3	6.7	1.6	0.5	26.1
Of which:									
Secured	9.5	4.6	—	0.6	14.7	4.8	1.1	0.5	21.1
Unsecured	0.4	2.2	—	—	2.6	1.9	0.5	—	5.0
	9.9	6.8	—	0.6	17.3	6.7	1.6	0.5	26.1

Currency composition of wholesale debt

At 31 December 2016, 93 per cent. of wholesale funding was in euro (97 per cent. as at 31 December 2015; 99 per cent. as at 31 December 2014) with the remainder held mainly in GBP and USD. AIB manages cross-currency refinancing risk to foreign exchange cash flow limits.

	2016				
	EUR	GBP	USD	Other	Total
	(€ billions)				
Deposits by central banks and banks	7.0	0.3	0.4	—	7.7
Certificate of deposits and commercial paper	—	—	0.2	—	0.2
Senior debt	1.0	—	—	—	1.0
ACS/ABS	5.6	0.1	—	—	5.7
Subordinated liabilities and other capital instruments	0.8	—	—	—	0.8
Total	14.4	0.4	0.6	—	15.4
% of total	93.5%	2.6%	3.9%	—	100%

	2015				
	EUR	GBP	USD	Other	Total
	(€ billions)				
Deposits by central banks and banks	13.3	0.2	0.4	—	13.9
Certificate of deposits and commercial paper	0.1	—	—	—	0.1
Senior debt	1.6	—	—	—	1.6
ACS/ABS	5.2	0.1	—	—	5.3
Subordinated liabilities and other capital instruments	2.3	—	—	—	2.3
Total	22.5	0.3	0.4	—	23.2
% of total	97%	1%	2%	—	100%

58 Financial Risk Management (Continued)

	2014				
	EUR	GBP	USD	Other	Total
	(€ billions)				
Deposits by central banks and banks	16.6	0.1	0.1	—	16.8
Senior debt	3.3	—	—	—	3.3
ACS/ABS	4.4	0.2	—	—	4.6
Subordinated liabilities and other capital instruments	1.4	—	—	—	1.4
Total	25.7	0.3	0.1	—	26.1
% of total	99%	1%	—	—	100%

Financial assets and financial liabilities by contractual residual maturity

The following table sets out financial assets and financial liabilities by contractual residual maturity at 31 December 2016, 2015 and 2014:

	31 December 2016					
	Repayable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
	(€ millions)					
Financial assets						
Derivative financial instruments[1]	—	124	226	470	994	1,814
Loans and receivables to banks[2]	1,387	11	1	—	—	1,399
Loans and receivables to customers[2]	11,112	899	2,696	12,972	37,549	65,228
NAMA senior bonds[3]	—	1,799	—	—	—	1,799
Financial investments available for sale[4]	—	53	1,761	8,221	4,797	14,832
Financial investments held to maturity	—	—	—	2,113	1,243	3,356
Other financial assets	—	430	—	—	—	430
	12,499	3,316	4,684	23,776	44,583	88,858
Financial liabilities						
Deposits by central banks and banks	333	5,349	150	1,900	—	7,732
Customer accounts	42,437	12,133	5,959	2,870	103	63,502
Trading portfolio financial liabilities[5]	—	—	—	—	—	—
Derivative financial instruments[1]	—	74	112	589	834	1,609
Debt securities in issue	—	546	1,744	2,815	1,775	6,880
Subordinated liabilities and other capital instruments	—	—	—	—	791	791
Other financial liabilities	442	—	—	—	—	442
	43,212	18,102	7,965	8,174	3,503	80,956

58 Financial Risk Management (Continued)

	31 December 2015					
	Repayable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
	(€ millions)					
Financial assets						
Derivative financial instruments[1]	—	62	96	659	881	1,698
Loans and receivables to banks[2]	1,654	685	—	—	—	2,339
Loans and receivables to customers[2]	15,270	1,086	2,760	12,913	38,134	70,163
NAMA senior bonds[3]	—	5,616	—	—	—	5,616
Financial investments available for sale[4]	1	—	816	9,914	4,977	15,708
Financial investments held to maturity	—	—	—	2,204	1,279	3,483
Other financial assets	—	938	—	—	—	938
	16,925	8,387	3,672	25,690	45,271	99,945
Financial liabilities						
Deposits by central banks and banks	290	11,471	1,902	200	—	13,863
Customer accounts	37,632	14,666	7,436	3,596	53	63,383
Trading portfolio financial liabilities[5]	—	86	—	—	—	86
Derivative financial instruments[1]	—	85	74	737	885	1,781
Debt securities in issue	—	100	1,055	4,125	1,721	7,001
Subordinated liabilities and other capital instruments	—	—	1,524	—	794	2,318
Other financial liabilities	456	—	—	—	—	456
	38,378	26,408	11,991	8,658	3,453	88,888

58 Financial Risk Management (Continued)

	31 December 2014					
	Repayable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
			(€ millions)			
Financial assets						
Derivative financial instruments(1)	—	23	75	820	1,120	2,038
Loans and receivables to banks(2)	1,828	37	—	—	—	1,865
Loans and receivables to customers(2)	25,078	873	3,212	9,624	37,045	75,832
NAMA senior bonds(3)	—	9,423	—	—	—	9,423
Financial investments available for sale(4)	3	226	278	11,678	7,587	19,772
Other financial assets	—	499	—	—	—	499
	26,909	11,081	3,565	22,122	45,752	109,429
Financial liabilities						
Deposits by central banks and banks	366	14,151	—	2,251	—	16,768
Customer accounts	31,678	16,779	10,895	4,665	1	64,018
Derivative financial instruments(1)	—	131	156	806	1,241	2,334
Debt securities in issue	—	2,241	548	3,972	1,100	7,861
Subordinated liabilities and other capital instruments	—	—	—	1,411	40	1,451
Other financial liabilities	443	3	—	—	—	446
	32,487	33,305	11,599	13,105	2,382	92,878

Notes:

(1) Shown by maturity date of contract.

(2) Shown gross of provisions for impairment, unearned income and deferred costs.

(3) New notes will be issued at each maturity date, with the next maturity date being 1 March 2017. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

(4) Excluding equity shares.

(5) Trading portfolio financial liabilities are shown in the above table based on their contractual maturity. However, in the 'undiscounted contractual maturity' table trading portfolio liabilities are shown in the 'on demand' bracket reflecting their nature.

Financial liabilities by undiscounted contractual maturity

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments have been analysed based on their contractual maturity undiscovered cash flows.

In the daily management of liquidity risk, AIB adjusts the contractual outflows on customer deposits to reflect the inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, AIB holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

58 Financial Risk Management (Continued)

The following tables analyse, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2016, 2015 and 2014:

	2016					
	Repayable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
			(€ millions)			
Financial liabilities						
Deposits by central banks and banks	333	5,345	150	1,900	—	7,728
Customer accounts	42,453	12,217	6,065	2,921	106	63,762
Derivative financial instruments	—	76	334	809	486	1,705
Debt securities in issue	—	579	1,864	3,004	1,808	7,255
Subordinated liabilities and other capital instruments	—	—	31	130	1,019	1,180
Other financial liabilities	442	—	—	—	—	442
	43,228	18,217	8,444	8,764	3,419	82,072

	2015					
	Repayable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
			(€ millions)			
Financial liabilities						
Deposits by central banks and banks	290	11,470	1,909	201	—	13,870
Customer accounts	37,660	14,752	7,564	3,784	55	63,815
Trading portfolio financial liabilities(1)	86	—	—	—	—	86
Derivative financial instruments	—	107	309	912	543	1,871
Debt securities in issue	—	125	1,205	4,414	1,766	7,510
Subordinated liabilities and other capital instruments	—	—	1,791	124	963	2,878
Other financial liabilities	456	—	—	—	—	456
	38,492	26,454	12,778	9,435	3,327	90,486

	2014					
	Repayable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
			(€ millions)			
Financial liabilities						
Deposits by central banks and banks	366	14,156	7	2,260	—	16,789
Customer accounts	31,678	16,961	11,070	4,931	1	64,641
Derivative financial instruments	—	139	415	1,161	721	2,436
Debt securities in issue	—	2,342	726	4,328	1,136	8,532
Subordinated liabilities and other capital instruments	—	—	160	1,761	128	2,049
Other financial liabilities	443	3	—	—	—	446
	32,487	33,601	12,378	14,441	1,986	94,893

Note:

(1) Shown as 'on demand' reflects their nature but by contractual maturity in the 'Financial assets and financial liabilities by contractual residual maturity' table.

58 Financial Risk Management (Continued)

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. AIB is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. AIB expects that most guarantees it provides will expire unused.

AIB has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. AIB does not expect all facilities to be drawn, and some may lapse before drawdown.

	2016					
	Payable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
	(€ millions)					
Contingent liabilities	910	—	—	—	—	910
Commitments	10,289	—	—	—	—	10,289
	11,199	—	—	—	—	11,199

	2015					
	Payable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
	(€ millions)					
Contingent liabilities	1,375	—	—	—	—	1,375
Commitments	9,747	—	—	—	—	9,747
	11,122	—	—	—	—	11,122

	2014					
	Payable on demand	Three months or less but not repayable on demand	One year or less but over three months	Five years or less but over one year	Over five years	Total
	(€ millions)					
Contingent liabilities	1,246	—	—	—	—	1,246
Commitments	9,082	—	—	—	—	9,082
	10,328	—	—	—	—	10,328

58.3 Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of AIB. AIB is primarily exposed to market risk through the interest rate and credit spread factors and to a lesser extent through foreign exchange equity and inflation rate risk factors.

AIB assumes market risk as a result of its banking book and trading book activities.

Credit spread risk is the exposure of AIB's financial position to adverse movements in the credit spreads of bonds held in the trading or AFS securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The AFS bond portfolio is the principal source of credit spread risk.

Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of AIB as a result of adverse movements in interest rates being applied to positions held in the banking book. Changes in interest rates impact the underlying value of AIB's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact AIB's net interest income through interest-sensitive income and expense effects.

58 Financial Risk Management (Continued)

AIB also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in AIB's treasury function.

AIB's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and AIB's Asset and Liability Management ("ALM") function which operates within the Capital and Liquidity unit in Finance.

Treasury also has a mandate to trade on its own account in selected wholesale markets. The trading strategies employed by Treasury are desk and market specific with risk tolerances approved on an annual basis through AIB's Risk Appetite process.

Risk identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the VaR metric, AIB calculates a daily historical simulation VaR to a 95 per cent. confidence level, using a one day holding period and based on one year of historical data. AIB's VaR models are regularly back-tested to ensure robustness. In addition to VaR, Capital at Risk ("CaR") is also measured to a one[1] year time horizon, a 99 per cent. confidence level and a longer set of data.

Risk management and mitigation

AIB's ALCo is a sub-committee of the Leadership Team and advises the Chief Financial Officer ("CFO") on the management of AIB's assets and liabilities (including the management of capital, funding and liquidity, and net interest margin) and on the management of market risks (including structural foreign exchange hedging). ALCo monitors AIB's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement.

AIB operates a three lines of defence model for risk management. In terms of Market risk, the first line comprises the Capital and Liquidity and Treasury functions.

AIB's Capital and Liquidity unit, reporting to the CFO, is responsible for the identification and the transfer of market risk to Treasury, and making structural market risk management recommendations to ALCo. This function is also responsible for reporting AIB's aggregate market risk profile and managing AIB's financial instruments valuation processes.

The Financial Risk function, reporting to the Chief Risk Officer ("CRO") provides second line assurance. Financial Risk is responsible for exercising independent risk oversight and control over AIB's market risk. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment. It proposes and maintains the Market Risk Management Framework and Policies as the basis of AIB's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the market risk measurement methodologies.

AIB Internal Audit provides third line assurance on market risk.

Market risk in AIB is transferred to and managed by Treasury, subject to Capital and Liquidity review and oversight by AIB ALCo. Treasury proactively manages the market risk on AIB's balance sheet, as well as providing risk management solutions to the core retail and corporate customers. Within Treasury, credit spread risk on the available for sale ("AFS") portfolio, IRRBB and trading risk are managed by distinct front office teams.

Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk in the banking book and credit spread risk in the banking book. The Board approved limits are supplemented by a range of ALCo approved limits which include VaR limits, nominal and sensitivity limits and stop loss limits. Treasury documents an annual Market Risk Strategy and

1 The Capital at Risk on core trading book positions is assessed using a ten day horizon.

58 Financial Risk Management (Continued)

Appetite statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with AIB's strategic business plan.

Market risk is managed subject to the Market Risk Management Framework and its associated policies. Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

Risk monitoring and reporting

On a daily basis, front office and risk functions receive a range of valuation, sensitivity and market risk risk measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile. Market risk exposures are reported to the ERC and BRC on a monthly basis through the CRO Report.

The following tables set out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed as at 31 December 2016, 2015 and 2014:

	2016			
		Market risk measures		
	Carrying amount	Trading portfolios	Non-trading portfolios	Risk factors
	(€ millions)			
Assets subject to market risk				
Cash and balances at central banks	6,519	—	6,519	Interest rate, foreign exchange
Trading portfolio financial assets	1	1	—	Equity
Derivative financial instruments	1,814	800	1,014	Interest rate, foreign exchange, credit spreads, equity
Loans and receivables to banks	1,399	—	1,399	Interest rate, foreign exchange
Loans and receivables to customers	60,639	—	60,639	Interest rate, foreign exchange
NAMA senior bonds	1,799	—	1,799	Interest rate
Financial investments available for sale	15,437	—	15,437	Interest rate, credit spreads, equity
Financial investments held to maturity	3,356	—	3,356	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	7,732	—	7,732	Interest rate, foreign exchange
Customer accounts	63,502	—	63,502	Interest rate, foreign exchange
Derivative financial instruments	1,609	861	748	Interest rate, foreign exchange, credit spreads, equity
Debt securities in issue	6,880	—	6,880	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	791	—	791	Interest rate, credit spreads

	2015			
		Market risk measures		
	Carrying amount	Trading portfolios	Non-trading portfolios	Risk factors
	(€ millions)			
Assets subject to market risk				
Cash and balances at central banks	4,950	—	4,950	Interest rate, foreign exchange
Trading portfolio financial assets	1	1	—	Equity
Derivative financial instruments	1,698	877	821	Interest rate, foreign exchange, credit spreads, equity
Loans and receivables to banks	2,339	—	2,339	Interest rate, foreign exchange
Loans and receivables to customers	63,240	—	63,240	Interest rate, foreign exchange
NAMA senior bonds	5,616	—	5,616	Interest rate
Financial investments available for sale	16,489	—	16,489	Interest rate, credit spreads, equity
Financial investments held to maturity	3,483	—	3,483	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	13,863	—	13,863	Interest rate, foreign exchange
Customer accounts	63,383	—	63,383	Interest rate, foreign exchange
Trading portfolio financial liabilities	86	86	—	Interest rate, credit spreads
Derivative financial instruments	1,781	933	848	Interest rate, foreign exchange, credit spreads, equity
Debt securities in issue	7,001	—	7,001	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	2,318	—	2,318	Interest rate, credit spreads

58 Financial Risk Management (Continued)

	2014			
		Market risk measures		
	Carrying amount	Trading portfolios	Non-trading portfolios	Risk factors
	(€ millions)			
Assets subject to market risk				
Cash and balances at central banks	5,393	—	5,393	Interest rate, foreign exchange
Trading portfolio financial assets	1	1	—	Interest rate, foreign exchange, credit spreads
Derivative financial instruments	2,038	1,024	1,014	Interest rate, foreign exchange, credit spreads
Loans and receivables to banks	1,865	—	1,865	Interest rate, foreign exchange
Loans and receivables to customers	63,362	—	63,362	Interest rate, foreign exchange
NAMA senior bonds	9,423	—	9,423	Interest rate
Financial investments available for sale	20,185	—	20,185	Interest rate, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	16,768	—	16,768	Interest rate
Customer accounts	64,018	—	64,018	Interest rate
Derivative financial instruments	2,334	1,150	1,184	Interest rate, foreign exchange, credit spreads, equity
Debt securities in issue	7,861	—	7,861	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	1,451	—	1,451	Interest rate, credit spreads

Interest Rate Sensitivity

The net interest rate sensitivity of AIB at 31 December 2016, 2015 and 2014 is illustrated in the following tables which set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The table shows the sensitivity of the statement of financial position at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below in the table.

58 Financial Risk Management (Continued)

	2016										
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	Total
						(€ millions)					
Assets											
Disposal groups and non-current assets held for sale	—	—	—	—	—	—	—	—	11	—	11
Trading portfolio financial assets	—	—	—	—	—	—	—	—	—	1	1
Loans and receivables to banks	1,008	2	—	—	—	—	—	—	389	—	1,399
Loans and receivables to customers	53,209	6,094	1,623	904	854	872	737	1,008	(4,662)	—	60,639
NAMA senior bonds	—	1,799	—	—	—	—	—	—	—	—	1,799
Financial investments available for sale	367	540	1,743	1,175	2,935	2,053	1,602	4,417	605	—	15,437
Financial investments held to maturity	—	—	—	788	533	791	—	1,244	—	—	3,356
Other assets	5,921	—	—	—	—	—	—	—	6,259	800	12,980
Total assets	60,505	8,435	3,366	2,867	4,322	3,716	2,339	6,669	2,602	801	95,622
Liabilities											
Deposits by central banks and banks	5,990	1,742	—	—	—	—	—	—	—	—	7,732
Customer accounts	26,085	3,034	5,995	1,776	340	445	66	13	25,748	—	63,502
Debt securities in issue	399	216	1,675	500	565	1,250	500	1,775	—	—	6,880
Subordinated liabilities and other capital instruments	—	—	—	—	—	750	—	41	—	—	791
Other liabilities	—	—	—	—	—	—	—	—	2,708	861	3,569
Equity	—	—	—	—	—	—	—	—	13,148	—	13,148
Total liability and equity	32,474	4,992	7,670	2,276	905	2,445	566	1,829	41,604	861	95,622
Derivatives affecting interest rate sensitivity	14,316	1,876	(3,594)	(2,559)	1,803	(3,348)	(3,505)	(4,989)	—	—	
Interest sensitivity gap	13,715	1,567	(710)	3,150	1,614	4,619	5,278	9,829	(39,002)	(60)	
Cumulative interest sensitivity gap	13,715	15,282	14,572	17,722	19,336	23,955	29,233	39,062	60	—	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	11,963	(30)	(683)	2,097	1,373	4,304	4,971	9,007	(30,970)	(25)	
Cumulative interest sensitivity gap	11,963	11,933	11,250	13,347	14,720	19,024	23,995	33,002	2,032	2,007	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	(474)	962	(29)	201	(84)	75	71	57	(2,149)	(11)	
Cumulative interest sensitivity gap	(474)	488	459	660	576	651	722	779	(1,370)	(1,381)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	2,272	607	1	852	325	240	236	765	(6,426)	(30)	
Cumulative interest sensitivity gap	2,272	2,879	2,880	3,732	4,057	4,297	4,533	5,298	(1,128)	(1,158)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(46)	28	1	—	—	—	—	—	543	6	
Cumulative interest sensitivity gap	(46)	(18)	(17)	(17)	(17)	(17)	(17)	(17)	526	532	

58 Financial Risk Management (Continued)

	2015										
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	Total
						(€ millions)					
Assets											
Disposal groups and non-current assets held for sale	—	—	—	—	—	—	—	—	8	—	8
Trading portfolio financial assets	—	—	—	—	—	—	—	—	—	1	1
Loans and receivables to banks	1,344	497	—	—	—	—	—	—	498	—	2,339
Loans and receivables to customers	56,381	7,047	2,077	940	1,006	554	843	1,303	(6,911)	—	63,240
NAMA senior bonds	—	5,616	—	—	—	—	—	—	—	—	5,616
Financial investments available for sale	388	588	816	2,410	1,531	3,172	1,902	4,901	781	—	16,489
Financial investments held to maturity	—	—	—	—	823	557	824	1,279	—	—	3,483
Other assets	4,415	—	—	—	—	—	—	—	6,654	877	11,946
Total assets	62,528	13,748	2,893	3,350	3,360	4,283	3,569	7,483	1,030	878	103,122
Liabilities											
Deposits by central banks and banks	5,980	5,872	1,902	—	—	—	—	—	109	—	13,863
Customer accounts	26,289	4,213	7,486	2,393	663	303	126	3	21,907	—	63,383
Trading portfolio financial liabilities	—	—	—	—	—	—	—	—	—	86	86
Debt securities in issue	446	290	1,000	1,675	500	565	1,250	1,275	—	—	7,001
Subordinated liabilities and other capital instruments	—	—	1,524	—	—	—	750	44	—	—	2,318
Other liabilities	—	—	—	—	—	—	—	—	3,390	933	4,323
Shareholders' equity	—	—	—	—	—	—	—	—	12,148	—	12,148
Total liability and shareholders' equity	32,715	10,375	11,912	4,068	1,163	868	2,126	1,322	37,554	1,019	103,122
Derivatives affecting interest rate sensitivity	11,997	591	(2,092)	(2,554)	(1,062)	398	(1,649)	(5,629)	—	—	
Interest sensitivity gap	17,816	2,782	(6,927)	1,836	3,259	3,017	3,092	11,790	(36,524)	(141)	
Cumulative interest sensitivity gap	17,816	20,598	13,671	15,507	18,766	21,783	24,875	36,665	141	—	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	13,549	494	(6,176)	1,732	3,342	2,514	2,864	11,055	(30,110)	(108)	
Cumulative interest sensitivity gap	13,549	14,043	7,867	9,599	12,941	15,455	18,319	29,374	(736)	(844)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	137	1,074	(188)	—	(1)	174	—	72	(969)	(11)	
Cumulative interest sensitivity gap	137	1,211	1,023	1,023	1,022	1,196	1,196	1,268	299	288	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,326	1,205	(578)	104	(82)	329	228	663	(5,951)	(27)	
Cumulative interest sensitivity gap	4,326	5,531	4,953	5,057	4,975	5,304	5,532	6,195	244	217	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(196)	9	15	—	—	—	—	—	506	5	
Cumulative interest sensitivity gap	(196)	(187)	(172)	(172)	(172)	(172)	(172)	(172)	334	339	

58 Financial Risk Management (Continued)

	2014										
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	Total
						(€ millions)					
Assets											
Disposal groups and non-current assets held for sale	—	—	—	—	—	—	—	—	14	—	14
Trading portfolio financial assets	—	—	—	—	—	—	—	—	—	1	1
Loans and receivables to banks	1,400	8	—	3	—	—	—	—	454	—	1,865
Loans and receivables to customers	63,398	6,806	1,898	947	691	214	434	1,380	(12,406)	—	63,362
NAMA senior bonds	—	9,423	—	—	—	—	—	—	—	—	9,423
Financial investments available for sale	538	625	296	1,350	2,747	2,693	4,192	7,329	415	—	20,185
Other assets	4,879	—	—	—	—	—	—	—	6,702	1,024	12,605
Total assets	70,215	16,862	2,194	2,300	3,438	2,907	4,626	8,709	(4,821)	1,025	107,455
Liabilities											
Deposits by central banks and banks	10,109	4,714	—	1,900	1	—	—	—	44	—	16,768
Customer accounts	25,612	4,585	10,900	2,387	1,559	601	113	1	18,260	—	64,018
Debt securities in issue	605	2,470	521	1,000	1,675	500	565	525	—	—	7,861
Subordinated liabilities and other capital instruments	—	—	—	1,411	—	—	—	40	—	—	1,451
Other liabilities	—	—	—	—	—	—	—	—	4,635	1,150	5,785
Shareholders' equity	—	—	—	—	—	—	—	—	11,572	—	11,572
Total liability and shareholders' equity	36,326	11,769	11,421	6,698	3,235	1,101	678	566	34,511	1,150	107,455
Derivatives affecting interest rate sensitivity	10,260	(4,659)	(2,126)	649	(2,601)	(800)	1,179	(1,902)	—	—	
Interest sensitivity gap	23,629	9,752	(7,101)	(5,047)	2,804	2,606	2,769	10,045	(39,332)	(125)	
Cumulative interest sensitivity gap	23,629	33,381	26,280	21,233	24,037	26,643	29,412	39,457	125	—	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	19,087	7,383	(6,495)	(4,949)	2,767	2,553	2,709	10,116	(31,474)	(114)	
Cumulative interest sensitivity gap	19,087	26,470	19,975	15,026	17,793	20,346	23,055	33,171	1,697	1,583	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	447	762	21	2	4	—	(6)	(41)	(554)	(11)	
Cumulative interest sensitivity gap	447	1,209	1,230	1,232	1,236	1,236	1,230	1,189	635	624	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,115	1,608	(641)	(100)	33	53	66	(30)	(7,803)	(7)	
Cumulative interest sensitivity gap	4,115	5,723	5,082	4,982	5,015	5,068	5,134	5,104	(2,699)	(2,706)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(20)	(1)	14	—	—	—	—	—	499	7	
Cumulative interest sensitivity gap	(20)	(21)	(7)	(7)	(7)	(7)	(7)	(7)	492	499	

58 Financial Risk Management (Continued)

Market risk profile

The table below shows the sensitivity of AIB's banking book to an immediate and sustained 100 basis point ("bp") movement in interest rates in terms of the impact on net interest income over a 12-month period:

Sensitivity of projected net interest income to interest rate movements	31 December 2016	2015	2014
	(€ millions)		
+100 basis point parallel move in all interest rates	110	99	21
−100 basis point parallel move in all interest rates(1)	(110)	(99)	(35)

Note:

(1) For 2014, an assumption was made that market interest rates would not fall below 0.50%. For 2016 and 2015 this assumption was removed and the results in the table above for 2016 and 2015 reflect the impact of the full 100 bps move.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously and in a parallel manner. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following tables summarise Treasury's VaR profile for the years ended 31 December 2016, 2015 and 2014. to a 95% confidence level with a one day holding period. AIB recognises the limitations of this VaR models and AIB supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

	VaR (trading book)			VaR (banking book)			Total VaR		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	(€ millions)								
Interest rate risk									
1 day holding period:									
Average	0.1	0.3	0.1	3.2	2.7	3.5	3.2	2.7	3.5
High	1.1	1.1	0.5	4.3	3.6	5.6	5.2	5.2	5.6
Low	—	—	—	2.5	1.3	1.2	2.5	1.3	1.2
At 31 December	0.1	1.1	0.1	4.1	3.0	1.5	5.2	2.9	1.5

The following tables set out the VAR for foreign exchange rate and equity risk for the years ended 31 December 2016, 2015 and 2014:

	Foreign exchange rate risk			Equity risk		
	VaR (trading book)			VaR (trading book)		
	2016	2015	2014	2016	2015	2014
	(€ millions)					
1 day holding period:						
Average	0.04	0.07	0.04	0.05	0.04	0.05
High	0.13	0.16	0.10	0.35	0.10	0.11
Low	0.01	0.02	0.02	0.01	0.01	0.02
31 December	0.03	0.05	0.03	0.04	0.02	0.02

The low level of VaR in the trading book is as a result of very small discretionary positions managed by Treasury. The higher banking book interest rate VaR is as a result of a more substantial level of interest rate existing in AIB's banking book.

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of AIB's consolidated capital ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than euro. AIB is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of AIB's capital may not necessarily match that of its assets and risk-weighted assets.

58 Financial Risk Management (Continued)

Exchange differences on structural exposures are recognised in 'other comprehensive income' in the financial information. The ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis points sensitivities using scenario analysis. The amount of structural foreign exchange risk is not material to AIB.

In 2016, AIB reduced its capital ratio sensitivity to the euro sterling exchange rate by converting a portion of its euro capital to sterling. The sensitivity of AIB's CET1 ratio to a 10% devaluation of the euro against the US dollar and pound sterling is illustrated in the table below.

The table below shows the sensitivity of AIB's fully loaded CET1 ratio to a hypothetical and sustained movement in GBP/EUR and USD/EUR foreign exchange rates as at 31 December 2016 and 2015.

	31 December	
Sensitivity of CET 1 fully loaded capital to foreign exchange movements	**2016**	**2015**
+10% move in GBP and USD FX rates	(0.17)%	(0.34)%
−10% move in GBP and USD FX rates	0.16%	0.33%

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange movements moving in the same direction and at the same time.

58.4 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk—the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which include product, project, people and property, continuity and resilience, information and security and outsourcing.

Operational risk operating model

AIB's operating model for operational risk is designed to ensure the framework outlined below is embedded and executed robustly across AIB. The key principles of the framework are:

- a strong operational risk function, appropriately staffed and clearly independent of the first line of defence; and
- technology policies and procedures in place to support effective assessment and mitigation of operational risks.

Risk identification and assessment

Risk and Control Self-Assessment ("RCA") is a core process in the identification and assessment of operational risk across AIB. The process serves to ensure that key operational risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and is recorded on Shield (the risk management system). RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks and action plans must be developed to introduce mitigants for the more significant risks. Monitoring processes are in place at business and support level. The central Operational Risk Team sets and maintains policies and procedures for self-assessment and undertakes risk based reviews and testing to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to the more significant risks.

Risk management and mitigation

Each business area is primarily responsible for managing its own risks. The Operational Risk Framework includes policies specific to key operational risks (such as information security and continuity and resilience) and key operational risk management processes (such as incident reporting and management) to ensure an effective and consistent approach to operational risk management across AIB.

An important element of AIB's operational risk framework is the ongoing monitoring of risks, control deficiencies and weaknesses, including the tracking of incidents and loss events. AIB also requires all

58 Financial Risk Management (Continued)

business areas to undertake risk assessments and establish appropriate internal controls in order to ensure that all components, taken together, deliver the control objectives of key risk management processes. The role of operational risk is to review operational risk management activities across AIB including setting policy and promoting best practice disciplines, augmented by an independent assurance process. The operational risk function is accountable to the Chief Risk Officer and to the Board through the Board Risk Committee, Executive Risk Committee and the Operational Risk Committee.

In addition, an insurance programme is in place, including a self insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; directors and officers liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

Risk monitoring and reporting

The primary objective of the operational risk management reporting and control process within AIB is to provide timely, pertinent operational risk information to the appropriate management level so as to enable appropriate corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and incident data for AIB. The reporting of operational incidents and trend data, as required, at the ERC and Board Risk Committees supports these two objectives. In addition, the Board, the Audit Committee and the ERC receive summary information on significant operational incidents on a regular basis.

Business units are required to review and update their assessment of their operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, quality assurance teams, which are independent of the business, undertake reviews of the operational controls in the retail branch networks as part of a combined regulatory/compliance/operational risk programme.

58.5 Regulatory compliance risk and conduct risk

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which AIB may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

Regulatory compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of AIB's operating markets. Regulatory compliance works closely with management in assessing compliance risks and provides advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Conduct risk is defined as the risk that inappropriate actions, or inaction, by AIB cause poor and unfair outcomes for its customers or market instability. A mature Conduct Risk Framework, aligned with AIB Strategy, is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level. This includes the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

AIB's regulators have defined consumer protection principles in conduct of business regulations. These principles are embedded in AIB's Conduct risk management and policies and procedures.

Conduct risk is managed in line with the processes, procedures and organisational structures for the management of Regulatory compliance risk.

Risk identification and assessment

The regulatory compliance function is specifically responsible for independently identifying and assessing current and forward-looking "conduct of business" compliance obligations, as well as financial crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions, with emerging prudential regulations being monitored by the Compliance Upstream unit. Regulatory compliance undertakes a periodic detailed assessment of the key conduct of business compliance risks and associated mitigants. The regulatory compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the SARTs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Board Audit Committee, approves AIB's compliance policy and its mandate for the regulatory compliance function.

The Board is responsible for ensuring that AIB complies with its regulatory responsibilities. The Board's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates. The Board ensures that regulatory compliance is suitably independent from business activities and that it is adequately resourced. The primary role of the regulatory compliance function is to provide direction and advice to enable management to discharge its responsibility for managing AIB's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, AIB has insurance policies that cover number of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

Risk monitoring and reporting

Regulatory compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams, or in collaboration with other control functions such as Group Internal Audit and/or operational risk.

Risk prioritised annual compliance monitoring plans are prepared with monitoring undertaken on both a business unit and a process basis. The annual monitoring plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory "hotspots". Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation timelines are agreed. The implementation of these action plans is monitored by regulatory compliance.

Regulatory compliance reports to AIB's General Counsel and independently to the Board, through the Board Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

58.6 Pension risk

Pension risk is the risk that:

- The funding position of AIB's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its funding obligations to the pension;
- The capital position of AIB is negatively affected. Deficits recorded under IFRS measurement impact regulatory capital on a phased basis and any funding deficits will be fully deductible from regulatory capital beginning in 2018; and
- There could be a negative impact on industrial relations if the funding level of the schemes were to deteriorate significantly.

AIB maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 12. These defined benefit schemes were closed to future accrual from 31 December 2013. Approval was received from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Irish Pension Scheme. In the United Kingdom, AIB has established an asset backed funding vehicle to meet its statutory funding objective as per the UK Pensions Act 2004.

58 Financial Risk Management (Continued)

While AIB has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk.

Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements.

Actuarial risk arises due to the risk that the estimated value of the defined benefit scheme liabilities may increase due to changes in actuarial assumptions. There has been a change to the actuarial assumption of the nature and extent of any obligation to fund discretionary increases in pensions in payment in AIB's main Irish schemes in 2016. This has been reassessed following a review by the Board, having considered actuarial and external legal advice. Although AIB is confident of its assessment, it may be subject to risk of challenge, however, AIB will robustly defend any such challenge, legal or otherwise.

The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the active management of the investment portfolios across geographies and asset classes and as the schemes are closed to future accrual a process of de-risking the investment strategy to reduce market risk.

SECTION C: ACCOUNTANT'S REPORT ON THE CONSOLIDATED HISTORICAL FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2017

Deloitte.

INDEPENDENT REVIEW REPORT TO ALLIED IRISH BANKS, P.L.C.

We have been engaged by Allied Irish Banks, p.l.c. (the "company") to review the condensed consolidated interim financial statements for the three months ended 31 March 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 45.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board ("ISRE 2410"). Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The condensed consolidated interim financial statements are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union ("financial reporting framework").

As disclosed in note 1.6 Statement of compliance, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial statements have been prepared in accordance with the financial reporting framework.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements for the three months ended 31 March 2017 is not prepared, in all material respects, in accordance with the financial reporting framework.

Deloitte
Chartered Accountants and Statutory Audit Firm

Date: 12 June 2017

SECTION D: CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

Condensed consolidated income statement (unaudited)

for the three months ended 31 March 2017

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016*
		€m	€m
Continuing operations			
Interest and similar income	3	620	677
Interest expense and similar charges	3	(84)	(193)
Net interest income	3	536	484
Dividend income	4	25	25
Fee and commission income	5	112	103
Fee and commission expense	5	(12)	(6)
Net trading income/(loss)	6	29	(16)
Loss on disposal/transfer of loans and receivables	7	—	(3)
Other operating income	8	71	58
Other income		225	161
Total operating income		761	645
Administrative expenses	9	(379)	(324)
Impairment and amortisation of intangible assets		(16)	(13)
Impairment and depreciation of property, plant and equipment		(11)	(10)
Total operating expenses		(406)	(347)
Operating profit before provisions		355	298
Writeback of provisions for impairment on loans and receivables	20	4	109
Writeback of provisions for impairment on financial investments available for sale	11	—	2
Writeback of provisions for liabilities and commitments	31	3	1
Operating profit		362	410
Associated undertakings	24	4	18
Loss on disposal of property		(1)	—
Profit on disposal of business		—	—
Profit before taxation from continuing operations		365	428
Income tax charge from continuing operations	12	(52)	(56)
Profit for the period after taxation from continuing operations attributable to owners of the parent		313	372
Basic earnings per share			
Continuing operations	13(a)	11.5c	13.7c
Diluted earnings per share—adjusted			
Continuing operations	13(b)	11.5c	13.0c

* Unreviewed management information.

Condensed consolidated statement of comprehensive income (unaudited)

for the three months ended 31 March 2017

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016*
		€m	€m
Profit for the period		313	372
Other comprehensive income—continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial losses in retirement benefit schemes, net of tax	12	(9)	(302)
Total items that will not be reclassified subsequently to profit or loss		(9)	(302)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	12	1	(29)
Net change in cash flow hedges, net of tax	12	(88)	220
Net change in fair value of available for sale securities, net of tax	12	(85)	(67)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		(172)	124
Other comprehensive income for the period, net of tax from continuing operations		(181)	(178)
Total comprehensive income for the period from continuing operations attributable to owners of the parent		132	194

* Unreviewed management information.

Condensed consolidated statement of financial position (unaudited)

as at 31 March 2017

	Notes	31 March 2017 €m	31 December 2016 €m
Assets			
Cash and balances at central banks	39	5,091	6,519
Items in course of collection		224	134
Disposal groups and non-current assets held for sale	15	179	11
Trading portfolio financial assets	16	33	1
Derivative financial instruments	17	1,553	1,814
Loans and receivables to banks	18	1,539	1,399
Loans and receivables to customers	19	60,273	60,639
NAMA senior bonds	21	1,041	1,799
Financial investments available for sale	22	14,875	15,437
Financial investments held to maturity	23	3,326	3,356
Interests in associated undertakings and joint ventures	24	150	65
Intangible assets		418	392
Property, plant and equipment		349	357
Other assets		250	248
Current taxation		8	13
Deferred tax assets	25	2,832	2,828
Prepayments and accrued income		449	444
Retirement benefit assets	10	145	166
Total assets		92,735	95,622
Liabilities			
Deposits by central banks and banks	26	6,102	7,732
Customer accounts	27	62,640	63,502
Trading portfolio financial liabilities	28	34	—
Derivative financial instruments	17	1,476	1,609
Debt securities in issue	29	6,470	6,880
Current taxation		18	18
Deferred tax liabilities	25	92	81
Other liabilities	30	976	973
Accruals and deferred income		539	484
Retirement benefit liabilities	10	104	158
Provisions for liabilities and commitments	31	212	246
Subordinated liabilities and other capital instruments	32	792	791
Total liabilities		79,455	82,474
Equity			
Share capital	33	1,696	1,696
Share premium	33	1,386	1,386
Reserves		9,704	9,572
Total shareholders' equity		12,786	12,654
Other equity interests	34	494	494
Total equity		13,280	13,148
Total liabilities and equity		92,735	95,622

Condensed consolidated statement of cash flows (unaudited)

for the three months ended 31 March 2017

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016*
		€m	€m
Cash flows from operating activities			
Profit before taxation for the period from continuing operations		365	428
Adjustments for:			
—Non-cash and other items	39	10	(8)
—Change in operating assets	39	752	2,841
—Change in operating liabilities	39	(2,825)	(3,806)
—Taxation (paid)/refund		(8)	24
Net cash outflow from operating activities		(1,706)	(521)
Cash flows from investing activities			
Purchase of financial investments available for sale		(498)	(782)
Proceeds from sales and maturity of financial investments available for sale		908	1,400
Additions to property, plant and equipment		(3)	(1)
Disposal of property, plant and equipment		2	—
Additions to intangible assets		(42)	(10)
Investments in associated undertakings and joint ventures		(81)	—
Dividends received from associated undertakings	24	—	2
Net cash inflow from investing activities		286	609
Cash flows from financing activities			
Interest paid on subordinated liabilities and other capital instruments		—	—
Distribution paid on other equity interests	14	—	—
Net cash outflow from financing activities		—	—
Change in cash and cash equivalents		(1,420)	88
Opening cash and cash equivalents		7,164	5,672
Effect of exchange translation adjustments		(1)	(330)
Closing cash and cash equivalents	39	5,743	5,430

* Unreviewed management information.

Condensed consolidated statement of changes in equity (unaudited)
for the three months ended 31 March 2017

	Attributable to equity holders of parent										
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2017	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148
Total comprehensive income for the period											
Profit for the period	—	—	—	—	—	—	—	—	313	—	313
Other comprehensive income (note 12)	—	—	—	—	—	—	(85)	(88)	(9)	1	(181)
Total comprehensive income for the period	—	—	—	—	—	—	(85)	(88)	304	1	132
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of AIB											
Capital contributions (note 35)	—	—	—	(56)	—	—	—	—	56	—	—
Distribution on other equity interests (note 14)	—	—	—	—	—	—	—	—	—	—	—
Total contributions by and distributions to owners of AIB	—	—	—	(56)	—	—	—	—	56	—	—
At 31 March 2017	1,696	1,386	494	1,143	14	15	1,028	372	7,683	(551)	13,280

Condensed consolidated statement of changes in equity* (Continued)

for the three months ended 31 March 2016

	Attributable to equity holders of parent										
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the period											
Profit for the period	—	—	—	—	—	—	—	—	372	—	372
Other comprehensive income (note 12)	—	—	—	—	—	—	(67)	220	(302)	(29)	(178)
Total comprehensive income for the period	—	—	—	—	—	—	(67)	220	70	(29)	194
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of AIB											
Capital contributions	—	—	—	(161)	—	—	—	—	161	—	—
Distribution on other equity interests (note 14)	—	—	—	—	—	—	—	—	—	—	—
Total contributions by and distributions to owners of AIB	—	—	—	(161)	—	—	—	—	161	—	—
At 31 March 2016	1,696	1,386	494	1,399	14	16	1,405	574	5,771	(413)	12,342

* Unreviewed management information.

Condensed consolidated statement of changes in equity (unaudited) (Continued)

for the financial year ended 31 December 2016

	Attributable to equity holders of parent										
	Share capital	**Share premium**	**Other equity interests**	**Capital reserves**	**Capital redemption reserves**	**Revaluation reserves**	**Available for sale securities reserves**	**Cash flow hedging reserves**	**Revenue reserves**	**Foreign currency translation reserves**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the year											
Profit for the year	—	—	—	—	—	—	—	—	1,356	—	1,356
Other comprehensive income	—	—	—	—	—	(1)	(359)	106	103	(168)	(319)
Total comprehensive income for the year	—	—	—	—	—	(1)	(359)	106	1,459	(168)	1,037
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of AIB											
Capital contributions (note 35)	—	—	—	(361)	—	—	—	—	361	—	—
Distribution on other equity interests (note 14)	—	—	—	—	—	—	—	—	(37)	—	(37)
Total contributions by and distributions to owners of AIB	—	—	—	(361)	—	—	—	—	324	—	(37)
At 31 December 2016	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148

1 Basis of preparation, accounting policies and estimates

1.1 Reporting entity

The Company is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The condensed consolidated interim financial statements for the three months ended 31 March 2017 comprise the Company and its subsidiary undertakings, collectively referred to as 'AIB', and AIB's interests in associated undertakings and joint venture.

1.2 Going concern

The condensed consolidated interim financial statements for the three months ended 31 March 2017 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting AIB, 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.

1.3 Accounting policies

The condensed consolidated interim financial statements for the three months ended 31 March 2017 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These statements should be read in conjunction with Section B of this "*Part XVI: Consolidated Historical Financial Information*", which was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU"). The condensed consolidated financial statements comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity together with the related notes in this Section D of "*Part XVI: Consolidated Historical Financial Information*".

There have been no significant changes to the accounting policies described in note 1 of Section B of this "*Part XVI: Consolidated Historical Financial Information*". However, AIB entered a joint arrangement during the period and as a result has applied IFRS 11 '*Joint Arrangements*'. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. AIB has assessed the nature of its joint arrangement and determined it to be a joint venture. Similar to investments in associated undertakings, investments in joint ventures are accounted for using the equity method of accounting from the date joint control is deemed to arise until the date on which joint control ceases to exist or when the interest becomes classified as an asset held for sale. Investments in joint ventures are carried in the consolidated statement of financial position at cost and increased (or decreased) each year by changes in AIB's share of the post-acquisition net income (or loss) less any impairment in value. Loans advanced to equity accounted investments that have the characteristics of equity financing are also included in the investment held on the consolidated statement of financial position. Impairment losses on the carrying amount of an investment are reported within AIB's share of equity accounted investments' results in the consolidated income statement.

1.4 Critical accounting judgments and estimates

The preparation of the interim 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. In addition, the

1 Basis of preparation, accounting policies and estimates (Continued)

designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

Critical accounting judgements and estimates adopted by AIB are set out in note 2 of Section B of this "*Part XVI: Consolidated Historical Financial Information*". In addition, in note 58.1(c) of Section B of this "*Part XVI: Consolidated Historical Financial Information*", the emergence period for the Non mortgage portfolio in Ireland at 31 December 2016 is reported as 8 months. Following a review in the period, in response to prevailing economic conditions, the emergence period for a number of sub-portfolios has been lengthened. The range of emergence periods for non-mortgage portfolios is now 8-12 months. As a result the overall IBNR increased by €44 million at the end of March 2017.

1.5 Adoption of new accounting standards

During the three months to 31 March 2017, AIB adopted amendments to standards and interpretations which had an insignificant impact on these financial statements.

1.6 Statement of compliance

The condensed consolidated interim financial statements comply with International Accounting Standard 34 *Interim Financial Reporting*, as issued by the IASB and as adopted by the EU.

The interim figures for the three months ended 31 March 2017 are unaudited but have been reviewed by the independent auditor, whose report is set out in Section C of this "*Part XVI: Consolidated Historical Financial Information*". The interim figures for the three months ended 31 March 2016 are unaudited and unreviewed by the independent auditor. The financial information presented herein does not amount to statutory financial statements. This non-statutory financial information has been prepared for inclusion in this Prospectus.

2 Segmental information

Segment overview

With effect from 1 January 2017 following realignment of Leadership Team responsibilities, AIB is now managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. Comparative data and performance is presented under the new structure.

Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally with the costs being included in the Group segment. Funding and liquidity charges are based on each segment's funding requirements and AIB's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

AIB segments at a glance:

Retail & Commercial Banking ("RCB")

A leading retail and commercial bank in Ireland with;

- Over 2.3m personal and SME customers
- €42.4bn net loans and €43.5bn customer accounts
- Multi-brand: AIB, EBS, Haven
- Broad Infrastructure: 297 locations, 985 ATMs
- Leading market shares and leading position in digital enablement

2 Segmental information (Continued)

Wholesale, Institutional & Corporate Banking ("WIB")

WIB comprises of;

- Corporate Banking—relationship-driven model with sector specialisms: €4.3bn net loans
- Syndicated & International Finance—bank's interface to public loan markets: €2.8bn net loans
- Real Estate Finance—centralised origination and management: €1.8bn net loans
- Specialised Finance—structured finance, mezzanine finance, and equity product offering: €0.1bn net loans

AIB UK

AIB UK—AIB GB and First Trust Bank

- First Trust Bank has approximately 253,000 active personal customers and approximately 22,000 active business customers
- £7.6bn net loans, £9.1bn customer accounts
- FTB—focused challenger in Northern Ireland
- AIB GB—is a specialist Business Bank

Group

Group, Treasury and Support Functions

- Treasury activities
- Central control and support functions

	Three months ended 31 March 2017							
	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[(1)]	Exceptional items[(2)]	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Operations by business segment								
Net interest income	351	65	59	61	536	—	—	536
Other income	146	9	14	56	225	—	—	225
Total operating income	497	74	73	117	761	—	—	761
Personnel expenses	(105)	(14)	(20)	(43)	(182)	—	(3)[(3)(4)]	(185)
General and administrative expenses	(65)	(9)	(12)	(54)	(140)	(43)	(11)[(4)(5)(6)]	(194)
Depreciation, impairment and amortisation	(18)	—	(1)	(8)	(27)	—	—	(27)
Total operating expenses	(188)	(23)	(33)	(105)	(349)	(43)	(14)	(406)
Operating profit/(loss) before provisions	309	51	40	12	412	(43)	(14)	355
Bank levies and regulatory fees	—	—	—	(43)	(43)	43	—	—
Writeback/(provisions) for impairment on loans and receivables	(14)	11	8	(1)	4	—	—	4
Writeback of provisions for liabilities and Commitments	3	—	—	—	3	—	—	3
Writeback of provisions for impairment on financial investments available for sale	—	—	—	—	—	—	—	—
Total writeback/(provisions)	(11)	11	8	(1)	7	—	—	7
Operating profit/(loss)	298	62	48	(32)	376	—	(14)	362
Associated undertakings	3	—	1	—	4	—	—	4
Loss on disposal of property	(1)	—	—	—	(1)	—	—	(1)
Profit/(loss) before taxation from continuing operations	300	62	49	(32)	379	—	(14)	365

(1) In the condensed consolidated interim financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses.

2 Segmental information (Continued)

(2) Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

(3) Termination benefits;

(4) Restitution and restructuring expenses;

(5) Capital reorganisation;

(6) Other exceptional items.

	Three months ended 31 March 2016							
	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[(1)]	Exceptional items[(2)]	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Operations by business segment								
Net interest income	318	60	55	51	484	—	—	484
Other income	104	10	9	38	161	—	—	161
Total operating income	422	70	64	89	645	—	—	645
Personnel expenses	(101)	(14)	(23)	(42)	(180)	—	(1)[(3)]	(181)
General and administrative expenses	(59)	(9)	(17)	(57)	(142)	(1)	—[(4)(5)]	(143)
Depreciation, impairment and amortisation	(15)	—	(1)	(7)	(23)	—	—	(23)
Total operating expenses	(175)	(23)	(41)	(106)	(345)	(1)	(1)	(347)
Operating profit/(loss) before provisions	247	47	23	(17)	300	(1)	(1)	298
Bank levies and regulatory fees	—	—	(1)	—	(1)	1	—	—
Writeback/(provisions) for impairment on loans and receivables	99	(6)	16	—	109	—	—	109
Writeback of provisions for liabilities and Commitments	1	—	—	—	1	—	—	1
Writeback of provisions for impairment on financial investments available for sale	—	—	—	2	2	—	—	2
Total writeback/(provisions)	100	(6)	16	2	112	—	—	112
Operating profit	347	41	38	(15)	411	—	(1)	410
Associated undertakings	16		2	—	18	—	—	18
Profit on disposal of property	—	—	—	—	—	—	—	—
Profit/(loss) before taxation from continuing operations	363	41	40	(15)	429	—	(1)	428

(1) In the condensed consolidated interim financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses.

(2) Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

(3) Termination benefits;

(4) Restitution and restructuring expenses; and

(5) Other exceptional items.

2 Segmental information (Continued)

Other amounts—statement of financial position

	31 March 2017				
	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m
Loans and receivables to customers	42,376	8,978	8,924	167	60,445(1)
Customer accounts	43,455	5,489	10,646	3,050	62,640

	31 December 2016				
	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m
Loans and receivables to customers	42,689	9,080	8,745	125	60,639
Customer accounts	42,869	6,384	10,350	3,899	63,502

	Three months ended 31 March 2017			
Geographic information—continuing operations(2)	Republic of Ireland	United Kingdom	Rest of the World	Total
	€m	€m	€m	€m
Gross external revenue	665	94	2	761
Inter-geographical segment revenue	13	(12)	(1)	—
Total revenue	678	82	1	761

	Three months ended 31 March 2016			
Geographic information—continuing operations(2)	Republic of Ireland	United Kingdom	Rest of the World	Total
	€m	€m	€m	€m
Gross external revenue	473	168	4	645
Inter-geographical segment revenue	108	(104)	(4)	—
Total revenue	581	64	—	645

Revenue from external customers comprises interest and similar income and interest expense and similar charges (note 3), and all other items of income (notes 4 to 8).

	31 March 2017			
Geographic information	Republic of Ireland	United Kingdom	Rest of the World	Total
	€m	€m	€m	€m
Non-current assets(3)	733	33	1	767

	31 December 2016			
Geographic information	Republic of Ireland	United Kingdom	Rest of the World	Total
	€m	€m	€m	€m
Non-current assets(3)	717	31	1	749

Notes:

(1) See note 43.2(a) for analysis.

(2) The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.

(3) Non-current assets comprise intangible assets, and property, plant and equipment.

3 Net interest income

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Interest on loans and receivables to customers	540	577
Interest on loans and receivables to banks	3	6
Interest on NAMA senior bonds	2	5
Interest on financial investments available for sale	39	52
Interest on financial investments held to maturity	32	33
	616	673
Negative interest on liabilities	4	4
Interest and similar income	620	677
Interest on deposits by central banks and banks	2	2
Interest on customer accounts	67	96
Interest on debt securities in issue	7	16
Interest on subordinated liabilities and other capital instruments	8	79
	84	193
Negative interest on assets	—	—
Interest expense and similar charges	84	193
Net interest income	536	484

AIB presents interest resulting from negative effective interest rates on financial assets as an interest expense, rather than as offset against interest income. Likewise, negative interest on financial liabilities has been presented as interest income.

Interest income reported above, calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to €28 million (31 March 2016: €41 million).

Included within interest expense is a charge of €3 million (31 March 2016: a charge of €5 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Cash flow hedges

Interest income includes a credit of €49 million (31 March 2016: a credit of €45 million) transferred from other comprehensive income in respect of cash flow hedges.

Interest expense includes a charge of €20 million (31 March 2016: a charge of €19 million) removed from other comprehensive income in respect of cash flow hedges.

Fair value hedges

Interest received/paid on fair value hedges is included within interest income/expense on the underlying hedged items.

4 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale (principally NAMA subordinated bonds) and amounts to €25 million (31 March 2016: € 25 million).

5 Net fee and commission income

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Retail banking customer fees	93	88
Credit related fees	11	9
Insurance commissions	8	6
Fee and commission income	112	103
Fee and commission expense[(1)]	(12)	(6)
	100	97

Note:

(1) Fee and commission expense includes ATM expenses of €1 million (31 March 2016: € 1 million) and credit card commissions of €8 million (31 March 2016: €2 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income or interest expense and similar charges (note 3).

6 Net trading income

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Foreign exchange contracts	14	7
Interest rate contracts and debt securities[(1)]	15	(26)
Credit derivative contracts	—	2
Equity securities, index contracts and warrants	—	1
	29	(16)

Note:

(1) Includes a gain of €7 million (31 March 2016: loss of €18 million) in relation to XVA adjustments (for a definition of XVA, see note 49 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to Nil (31 March 2016: Nil).

7 Loss on disposal/transfer of loans and receivables

The following table sets out details of the loss on disposal/transfer of loans and receivables:

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Loss on disposal of loans and receivables to customers	—	(3)

8 Other operating income

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Profit on disposal of available for sale debt securities	11	17
Loss on termination of hedging swaps(1)	(3)	—
Profit on disposal of available for sale equity securities	—	1
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds (note 21)	—	10
Net gains on buy back of debt securities in issue	—	1
Realisation/re-estimation of cash flows on restructured loans	61(2)	24
Miscellaneous operating income(3)	2	5
	71	58

Notes:

(1) The majority of the loss on termination relates to the disposal of available for sale debt securities. In addition, it includes a €1 million gain transferred from other comprehensive income in respect of cash flow hedges (31 March 2016: Nil).

(2) Includes €46 million recognised in the period from a single customer connection, which related to a legacy UK property case.

(3) Miscellaneous operating income includes:

- Foreign exchange gains of Nil (31 March 2016: gain of € 4 million).

9 Administrative expenses

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Personnel expenses:		
Wages and salaries	143	141
Termination benefits(1)	2	1
Retirement benefits(2)	19	20
Social security costs	17	15
Other personnel expenses	4	4
Total personnel expenses	185	181
General and administrative expenses:		
Bank levies and regulatory fees	43	1
Other general and administrative expenses	151	142
Total general and administrative expenses	194	143
	379	324

Notes:

(1) At 31 March 2017, a charge of €2 million (31 March 2016: a charge of €1 million) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB.

(2) Comprises a defined contribution expense charge of €18 million (31 March 2016: €18 million), a long-term disability payments expense charge of €2 million (31 March 2016: €2 million) and a credit of €1 million relating to defined benefit expense (31 March 2016: Nil). For details of retirement benefits (note 10).

Personnel expenses of €4 million (31 March 2016: €4 million) were capitalised as part of the cost of intangible assets.

10 Retirement benefits

AIB's accounting policy for retirement benefit obligations is set out in accounting policy 1.10 in note 1 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

All defined benefit schemes operated by AIB closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit scheme (including hybrid arrangements) transferred to a defined contribution scheme. The total cost in respect of defined contribution schemes for the three months ended 31 March 2017 is €18 million (31 March 2016: €18 million).

AIB's net pension surplus as at 31 March 2017 was €41 million (31 December 2016: €8 million), comprising retirement benefit liabilities of €104 million (31 December 2016: €158 million) and retirement benefit assets of €145 million (31 December 2016: €166 million).

Valuations

Independent actuarial valuations for the AIB Irish Pension Scheme and AIB UK Pension Scheme are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the AIB Irish Pension Scheme and AIB UK Pension Scheme were carried out as at 30 June 2015 and 31 December 2014 respectively using the projected unit credit method. The next actuarial valuations of the AIB Irish Pension Scheme and AIB UK Pension Scheme as at 30 June 2018 and 31 December 2017, will be completed by 31 March 2019 and 31 December 2018 respectively.

Contributions

Payments in the three months ended 31 March 2017 amounted to €46 million (31 March 2016: €40 million), of which €40 million related to the AIB Irish Pension Scheme (31 March 2016: €40 million) as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes. The assumptions have been set based upon the advice of AIB's actuary.

Financial assumptions	31 March 2017 %	31 December 2016 %
AIB Irish Pension Scheme		
Rate of increase of pensions in payment[(1)]	0.00	0.00
Discount rate	2.00	1.90
Inflation assumptions[(2)]	1.25	1.25
AIB UK Pension Scheme		
Rate of increase of pensions in payment	3.10	3.20
Discount rate	2.50	2.70
Inflation assumptions (RPI)	3.10	3.20

Notes:

(1) Having taken actuarial and external legal advice, the Board has determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. The Board has decided that there will be nil funding for discretionary increases in pensions in payment in AIB's main Irish pension schemes in 2017.

(2) The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date only.

The demographic assumptions for retirement benefit obligations are set out in note 12 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

10 Retirement benefits (Continued)

Movement in defined benefit obligation and scheme assets

The following tables set out the movement in the defined benefit obligation and scheme assets:

	31 March 2017				31 December 2016			
	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding(1)	Net defined benefit (liability)/ asset	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding(1)	Net defined benefit (liability)/ asset
	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January	(6,153)	6,413	(252)	8	(6,343)	6,197		(146)
Included in profit or loss								
Past service cost:	—	—	—	—	—	—		—
Interest (cost)/income	(31)	33	(1)	1	(178)	177		(1)
Administration costs	—	—	—	—	—	(1)		(1)
	(31)	33	(1)	1	(178)	176		(2)
Included in other comprehensive income								
Remeasurements (loss)/gain								
Actuarial (loss)/gain arising from:								
Experience adjustments	(3)	—	—	(3)	79	—		79
Changes in demographic assumptions	—	—	—	—	(10)	—		(10)
Changes in financial assumptions	75	—	—	75	(160)	—		(160)
Return on scheme assets excluding interest income	—	13	—	13	—	470		470
Asset ceiling/minimum funding adjustment			(99)	(99)			(252)	(252)
				(14)(2)				127(2)
Translation adjustment on non-euro schemes	—	—	—	—	198	(228)		(30)
	72	13	(99)	(14)	107	242	(252)	97
Other								
Contributions by employer	—	46	—	46	—	59		59
Benefits paid	139	(139)	—	—	261	(261)		—
	139	(93)	—	46	261	(202)		59
At end of period	(5,973)	6,366	(352)	41	(6,153)	6,413	(252)	8
Recognised on the statement of financial position as:								
Retirement benefit assets								
AIB UK Pension Scheme				138				159
Other schemes				7				7
Total retirement benefit assets				145				166
Retirement benefit liabilities								
AIB Irish Pension Scheme				(40)				(80)
EBS schemes				(42)				(56)
Other schemes				(22)				(22)
Total retirement benefit liabilities				(104)				(158)
Net pension surplus				41				8

(1) In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

(2) After tax €9 million actuarial loss see note 12 (2016: €103 million actuarial gain).

11 Writeback of provisions for impairment on financial investments available for sale

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Debt securities	—	2
	—	2

12 Taxation

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
AIB and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	(6)	(5)
Adjustments in respect of prior periods	—	—
	(6)	(5)
Foreign tax		
Current tax on income for the period	(9)	(5)
Adjustments in respect of prior periods	—	—
	(9)	(5)
	(15)	(10)
Deferred taxation		
Origination and reversal of temporary differences	3	(5)
Adjustments in respect of prior periods	(7)	—
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(33)	(41)
	(37)	(46)
Total tax charge for the period	(52)	(56)
Effective tax rate	14.2%	13.1%

12 Taxation (Continued)

Analysis of selected other comprehensive income

	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Gross	Tax	Net	Gross	Tax	Net
	€m	€m	€m	€m	€m	€m
Property revaluation reserves						
Net change in property revaluation reserves	—	—	—	—	—	—
Total	—	—	—	—	—	—
Retirement benefit schemes						
Actuarial (losses) in retirement benefit schemes	(14)	5	(9)	(328)	26	(302)
Total	(14)	5	(9)	(328)	26	(302)
Foreign currency translation reserves						
Change in foreign currency translation reserves	1	—	1	(29)	—	(29)
Total	1	—	1	(29)	—	(29)
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	(30)	4	(26)	(26)	3	(23)
Fair value (losses)/ gains taken to other comprehensive income	(69)	7	(62)	269	(26)	243
Total	(99)	11	(88)	243	(23)	220
Available for sale securities reserves						
Fair value (gains) transferred to income statement	(11)	1	(10)	(18)	3	(15)
Fair value (losses) taken to other comprehensive income	(86)	11	(75)	(58)	6	(52)
Total	(97)	12	(85)	(76)	9	(67)

13 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held.

The diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held, adjusted for the effect of dilutive potential ordinary shares.

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
(a) Basic		
Profit attributable to equity holders of the parent from continuing operations	313	372
Distribution on other equity interests	—	—
Profit attributable to ordinary shareholders of the parent from continuing operations	313	372
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Earnings per share from continuing operations—basic	EUR 11.5c	EUR 13.7c

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
(b) Diluted—adjusted		
Profit attributable to ordinary shareholders of the parent from continuing operations (note 13)	313	372
Dilutive effect of CCN's interest charge	—	66
Adjusted profit attributable to ordinary shareholders of the parent from continuing continuing operations	313	438

	Number of shares millions	Number of shares millions
Weighted average number of ordinary shares in issue during the period	2,714.4	2,714.4
Dilutive effect of CCNs	—	640.0
Potential weighted average number of shares	2,714.4	3,354.4
Earnings per share from continuing operations—diluted	EUR 11.5c	EUR 13.0c

In July 2011, AIB issued €1.6 billion in CCNs. These notes were mandatorily redeemable and convertible into 640 million new AIB ordinary shares if the Core Tier 1 capital ratio fell below 8.25%. These incremental shares were included in calculating the diluted per share amounts in the three months to 31 March 2016. On 28 July 2016, AIB redeemed the CCNs at their nominal amount.

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

14 Distribution on equity shares and other equity interests

During 2016, €37 million in total was paid as a distribution on other equity interests (note 34). No distribution was paid in the three months to 31 March 2017.

No dividends were paid on the ordinary shares in the three months to 31 March 2017 or in 2016.

15 Disposal groups and non-current assets held for sale

	31 March 2017	31 December 2016
	€m	€m
Loans and receivables to customers[1]	169	—
Property[2]	10	11
	179	11

Notes:

(1) Loans and receivables held for sale are net of provisions amounting to €210 million (note 20) and includes associated costs of €2 million.

(2) Includes property surplus to requirements and repossessed assets.

16 Trading portfolio financial assets

	31 March 2017	31 December 2016
	€m	€m
Debt securities	32	—
Equity shares	1	1
	33	1

17 Derivative financial instruments

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

	31 March 2017	31 December 2016
	€m	€m
Interest rate contracts[1]		
Notional principal amount	62,382	64,882
Positive fair value	1,459	1,692
Negative fair value	(1,385)	(1,485)
Exchange rate contracts[1]		
Notional principal amount	5,943	4,968
Positive fair value	44	73
Negative fair value	(43)	(79)
Equity contracts[1]		
Notional principal amount	885	1,036
Positive fair value	50	49
Negative fair value	(47)	(45)
Credit derivatives[1]		
Notional principal amount	80	—
Positive fair value	—	—
Negative fair value	(1)	—
Total notional principal amount	69,290	70,886
Total positive fair value[2]	1,553	1,814
Total negative fair value	(1,476)	(1,609)

(1) Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

(2) At 31 March 2017, 61 per cent. of fair value relates to exposures to banks (31 December 2016: 64 per cent.).

AIB uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in of note 58 Financial Risk Management of Section B of this "*Part XVI: Consolidated Historical Financial Information*". There have been no significant changes to the Group's derivative activity as set out in note 22 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

18 Loans and receivables to banks

	31 March 2017	31 December 2016
	€m	€m
Funds placed with central banks	550	587
Funds placed with other banks	989	812
	1,539	1,399
Amounts include:		
Reverse repurchase agreements	240	—

Loans and receivables to banks at 31 March 2017 include cash collateral of €533 million (31 December 2016: €494 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Under reverse repurchase agreements, AIB accepted collateral that it was permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted of non-government securities (bank bonds) with a fair value of €234 million (31 December 2016: Nil). The fair value of collateral sold or repledged amounted to Nil (31 December 2016: Nil). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

19 Loans and receivables to customers

	31 March 2017	31 December 2016
	€m	€m
Loans and receivables to customers	63,151	63,975
Reverse repurchase agreements	90	—
Amounts receivable under finance leases and hire purchase contracts	1,269	1,173
Unquoted debt securities	37	80
Provisions for impairment (note 20)	(4,274)	(4,589)
	60,273	60,639
Of which repayable on demand or at short notice	10,472	11,112
Amounts include:		
Due from associated undertakings	7	—

The unwind of the discount on the carrying amount of impaired loans amounted to €28 million (31 December 2016: €140 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Under reverse repurchase agreements, AIB has accepted collateral with a fair value of €87 million (31 December 2016: Nil) that it is permitted to sell or repledge in the absence of default by the owner of the collateral. In addition, loans and receivables to customers includes cash collateral amounting to €11 million (31 December 2016: €11 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, see note 43.

20 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables (both to banks and customers). Further information on provisions for impairment is disclosed in note 43.

	31 March 2017	31 December 2016
	€m	€m
At 1 January	4,589	6,832
Exchange translation adjustments	(1)	(130)
Credit to income statement—customers	(4)	(294)
Amounts written off	(102)	(1,829)
Transfers relating to disposal groups (note 15)	(210)	—
Recoveries of amounts written off in previous years	2	10
At end of period	4,274	4,589
Total provisions are split as follows:		
—Specific	3,712	4,047
—IBNR	562	542
	4,274	4,589
Amounts include:		
Loans and receivables to customers (note 19)	4,274	4,589

21 NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The senior bonds carry a guarantee of the Irish Government with interest payable semi-annually each March and September at a rate of six month Euribor, subject to a 0% floor. The bonds were issued on 1 March 2010 and all bonds issued on, or after, 1 March in any year will mature on or prior to 1 March in the following year. NAMA may, with the consent of AIB, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

The following table provides a movement analysis of the NAMA senior bonds:

	31 March 2017	31 December 2016
	€m	€m
At 1 January	1,799	5,616
Amortisation of discount	2	11
Repayments	(760)	(3,838)
Acceleration/re-estimation of the timing of cash flows	—	10
At end of period	1,041	1,799

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. The assumptions underpinning the repayments and their timing are subject to continuing review. For the year ended 31 December 2016, a gain of €10 million was recognised following acceleration of repayments by NAMA. These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'. No gains were recognised in the three months to 31 March 2017.

The estimated fair value of the bonds at 31 March 2017 is €1,047 million (31 December 2016: €1,807 million). The nominal value of the bonds is €1,045 million (31 December 2016: €1,805 million). Whilst these bonds do not have an external credit rating, AIB has attributed to them a rating of A (31 December 2016: A) i.e. the external rating of the Sovereign.

At 31 March 2017, €20 million (31 December 2016: €729 million) of NAMA senior bonds have been pledged to central banks and banks (note 26).

22 Financial investments available for sale

The following tables set out the carrying value (fair value) of financial investments available for sale.

	31 March 2017	31 December 2016
	€m	€m
Debt securities		
Irish Government securities	5,161	5,114
Euro government securities	2,533	2,706
Non Euro government securities	198	230
Supranational banks and government agencies	1,548	1,719
Collateralised mortgage obligations	422	433
Other asset backed securities	12	12
Euro bank securities	4,350	4,551
Euro corporate securities	27	47
Non Euro corporate securities	13	20
Total debt securities	14,264	14,832
Equity securities		
Equity securities—NAMA subordinated bonds	459	466
Equity securities—other	152	139
Total equity securities	611	605
Total financial investments available for sale	14,875	15,437

Net unrealised gains on debt securities amounted to €619 million (31 December 2016: €753 million) and net unrealised gains on equity securities amounted to €451 million (31 December 2016: €446 million).

23 Financial investments held to maturity

	31 March 2017	31 December 2016
	€m	€m
Government bonds	3,326	3,356
Total financial investments held to maturity	3,326	3,356
Analysis of movements in financial investments held to maturity		
At 1 January	3,356	3,483
Amortisation of fair value gain	(30)	(127)
At end of period	3,326	3,356

24 Interests in associated undertakings and joint ventures

Included in the income statement is the contribution net of tax from investments in associated undertakings and joint ventures as follows:

Income statement	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Share of results of associated undertakings(1)	4	10
Reversal of impairment of associated undertakings(2)	—	8
	4	18

Share of net assets including goodwill	31 March 2017	31 December 2016
	€m	€m
At 1 January	65	70
Income for the period	4	27
Dividends received from associates(3)	—	(40)
Investments in associated undertakings/joint ventures(4)	81	—
Reversal of impairment of associated undertakings	—	8
At end of period(5)	150	65
Disclosed in the statement of financial position within:		
Interests in associated undertakings and joint ventures	150	65
Of which listed on a recognised stock exchange	—	—

(1) Includes profit: AIB Merchant Services €4 million (31 March 2016: €7 million); Aviva Undershaft Five Limited Nil (31 March 2016: €3 million); and other associates Nil (31 March 2016: Nil).

(2) Reversal of impairment of associated company: Aviva Undershaft Five Limited Nil (31 March 2016: €8 million).

(3) Includes dividends received from: AIB Merchant Services Nil (31 December 2016: €16 million); Aviva Undershaft Five Limited Nil (31 December 2016: €24 million).

(4) Includes investment amounting to €76 million in Greencoat Renewables DAC and a capital contribution amounting to €5 million to Zolter Services d.a.c., the holding company of First Merchant Processing (Ireland) d.a.c., trading as AIB Merchant Services.

(5) Includes AIB's investments in AIB Merchant Services, Aviva Undershaft Five Limited and Greencoat Renewables DAC. Aviva Undershaft Five Limited with a carrying value of €2 million, is in the process of being liquidated.

25 Deferred taxation

Analysis of movements in deferred taxation	31 March 2017	31 December 2016
	€m	€m
At 1 January	2,747	2,897
Exchange translation and other adjustments	2	(19)
Deferred tax through other comprehensive income	28	81
Income statement—continuing operations (note 12)	(37)	(212)
At end of period	2,740	2,747
Analysed as to:		
Deferred tax assets	3,062	3,105
Deferred tax liabilities	(322)	(358)
	2,740	2,747
Represented on the statement of financial position as follows:		
Deferred tax assets	2,832	2,828
Deferred tax liabilities	(92)	(81)
	2,740	2,747

25 Deferred taxation (Continued)

At 31 March 2017, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €2,740 million (31 December 2016: €2,747 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

Net deferred tax assets of €2,639 million at 31 March 2017 (31 December 2016: €2,651 million) are expected to be recovered after more than 12 months.

For AIB's principal UK subsidiary, AIB has concluded that the recognition of deferred tax assets be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which AIB believes that it can assess the likelihood of its profits arising as being more likely than not.

For certain other subsidiaries and branches, AIB has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

AIB has not recognised deferred tax assets in respect of Irish tax on unused tax losses of €121 million (31 December 2016: €122 million) and overseas tax (UK and USA) on unused tax losses of €3,345 million at 31 March 2017 (31 December 2016: €3,315 million), and foreign tax credits, for Irish tax purposes, of €3 million at 31 March 2017 (31 December 2016: €3 million). Of these tax losses totalling €3,466 million for which no deferred tax is recognised at 31 March 2017, €33 million expires in 2032, €41 million in 2033, €27 million in 2034 and €5 million in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and joint ventures for which deferred tax liabilities have not been recognised amounted to Nil at 31 March 2017 (31 December 2016: Nil).

Deferred tax recognised directly in equity amounted to Nil at 31 March 2017 (31 December 2016: Nil).

Additional information in the basis of recognition of deferred tax assets on unused tax losses is included in "*—Critical accounting judgements and estimates*" in note 2 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

26 Deposits by central banks and banks

	31 March 2017	31 December 2016
	€m	€m
Central banks		
Eurosystem refinancing operations[1]	1,900	1,900
Other borrowings	10	12
	1,910	1,912
Banks		
Securities sold under agreements to repurchase	3,389	4,973
Other borrowings—secured	150	150
—unsecured	653	697
	4,192	5,820
	6,102	7,732
Amounts include:		
Due to associated undertakings and joint venture	—	—

(1) Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

Securities sold under agreements to repurchase and Eurosystem refinancing operations, with the exception of €1.9 billion funded through the ECB two year Targeted Long Term Refinancing Operation II ("TLTRO II") mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. These agreements are completed under market

26 Deposits by central banks and banks (Continued)

standard Global Master Repurchase Agreements. Repurchase agreements with the ECB are completed under a Master Repurchase Agreement.

In addition, AIB has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil (31 December 2016: Nil).

Deposits by central banks and banks include cash collateral of €238 million (31 December 2016: €268 million) received from derivative counterparties in relation to net derivative positions and also from repurchase agreement counterparties.

Financial assets pledged

Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	31 March 2017			31 December 2016		
	Central banks	Banks	Total	Central banks	Banks	Total
	€m	€m	€m	€m	€m	€m
Total carrying value of financial assets						
Pledged	3,929	3,612	7,541	3,293	5,239	8,532
Of which:						
Government securities(1)	20	3,069	3,089	498	3,891	4,389
Other securities(2)	3,909	543	4,452	2,795	1,348	4,143

(1) Includes NAMA senior bonds.

(2) AIB has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by AIB.

27 Customer accounts

	31 March 2017	31 December 2016
	€m	€m
Current accounts	29,733	29,721
Demand deposits	13,095	12,663
Time deposits	19,641	20,496
Securities sold under agreements to repurchase(1)	171	622
	62,640	63,502
Of which:		
Non-interest bearing current accounts	25,449	25,748
Interest bearing deposits, current accounts and short-term borrowings	37,191	37,754
	62,640	63,502
Amounts include:		
Due to associated undertakings	147	271

(1) At 31 March 2017, AIB had pledged government available for sale securities with a fair value of €100 million (31 December 2016: €220 million), and non-government available for sale securities with a fair value of €84 million (31 December 2016: €420 million), as collateral for these facilities and providing access to future funding facilities (see note 44 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

Customer accounts include cash collateral of €43 million (31 December 2016: €60 million) received from derivative counterparties in relation to net derivative and repurchase agreement positions.

At 31 March 2017, AIB's five largest customer deposits amounted to 2% (31 December 2016: 3%) of total customer accounts.

28 Trading portfolio financial liabilities

	31 March 2017	31 December 2016
	€m	€m
Debt securities:		
Government securities	34	—

29 Debt securities in issue

	31 March 2017	31 December 2016
	€m	€m
Bonds and medium term notes:		
European medium term note programmes	1,000	1,000
Bonds and other medium term notes	5,325	5,733
	6,325	6,733
Other debt securities in issue:		
Commercial paper	145	147
	6,470	6,880

Debt securities issued during the three months ended 31 March 2017 amounted to €143 million (for the year to 31 December 2016: €1,389 million) of which Nil relates to a covered bond issuance (31 December 2016: €1,000 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased during the three months ended 31 March 2017 amounted to €554 million (31 December 2016: €1,509 million) of which Nil (31 December 2016: €9 million) relates to securities repurchased as part of a debt buyback programme.

30 Other liabilities

	31 March 2017	31 December 2016
	€m	€m
Notes in circulation	349	366
Items in transit	149	122
Creditors	51	10
Fair value of hedged liability positions	95	146
Other	332	329
	976	973

31 Provisions for liabilities and commitments

	31 March 2017						
	Liabilities and charges	NAMA provisions[1]	Onerous contracts[2]	Legal claims	Other provisions[3]	Voluntary severance scheme	Total
	€m	€m	€m	€m	€m	€m	€m
At 1 January	47	2	12	32	153	—	246
Transfers in	—	—	—	—	—	—	—
Exchange translation adjustments	—	—	—	—	—	—	—
Charged to income statement	—	—	—	2	—	—	2
Released to income statement	(3)[4]	—	(1)	(1)	(1)	—	(6)
Provisions utilised	—	—	—	—	(30)	—	(30)
At 31 March 2017	44	2	11	33	122	—	212[5]

31 Provisions for liabilities and commitments (Continued)

	31 December 2016						
	Liabilities and charges	NAMA provisions[(1)]	Onerous contracts[(2)]	Legal claims	Other provisions[(3)]	Voluntary severance scheme	Total
	€m	€m	€m	€m	€m	€m	€m
At 1 January	49	39	13	32	249	—	382
Transfers in	—	(12)	—	—	—	—	(12)
Exchange translation adjustments	—	—	(1)	(1)	(6)	—	(8)
Charged to income statement	2	14[(1)]	4	6	56	—	82
Released to income statement	(4)	(31)[(1)]	(2)	(4)	(15)	—	(56)
Provisions utilised	—	(8)	(2)	(1)	(131)	—	(142)
At 31 December 2016	47	2	12	32	153	—	246[(5)]

(1) NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA.

(2) Provisions for the unavoidable costs expected to arise from the closure of properties which are surplus to requirements.

(3) Includes €109 million provisions at 31 March 2017 for customer restitution (31 December 2016: €139 million). These relate to redress provisions under the Central Bank of Ireland (the "Central Bank") "Principles for Redress" (see below), payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance, and other miscellaneous provisions.

(4) Included in writeback of provisions for liabilities and commitments in income statement.

(5) The total provisions for liabilities and commitments expected to be settled within one year amount to €128 million at 31 March 2017 (31 December 2016: €141 million).

Provisions for customer redress and related matters (included in 'Other provisions')

In September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on an industry-wide examination of tracker mortgage-related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including AIB and certain of its subsidiaries located in Ireland) (the "Tracker Mortgage Examination"). In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank's 'Principles for Redress'.

At 31 December 2015, AIB provisioned €190 million for customer redress. This provision related to the expected outflow for compensation/refunds of interest to customers in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect. The provision covered various compensations and costs arising from this issue.

Considerable progress was made throughout 2016 and in the three months ended 31 March 2017 in identifying impacted customers and in calculating and making redress. To date €116 million of the provision has been utilised covering both redress and related costs leaving a residual provision of €74 million at 31 March 2017 (€26 million for customer redress and €48 million for various ancillary external costs and other matters) (31 December 2016: residual provision of €97 million - €40 million for customer redress and €57 million for various ancillary external costs and other matters).

Given that the grounds on which the provisions have been estimated could prejudice the position of AIB, further information as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed.

32 Subordinated liabilities and other capital instruments

	31 March 2017	31 December 2016
	€m	€m
AIB		
Dated loan capital—European Medium Term Note Programme:		
€750 million Subordinated Tier 2 Notes due 2025, Callable 2020	750	750
€500m Callable Step-up Floating Rate Notes due October 2017 —nominal value €25.5 million (maturity extended to 2035 as a result of the SLO)	8	8
£368m 12.5% Subordinated Notes due June 2019 —nominal value £79 million (maturity extended to 2035 as a result of the SLO)	33	32
£500m Callable Fixed/Floating Rate Notes due March 2025 —nominal value £1 million (maturity extended to 2035 as a result of the SLO)	1	1
	792	791

Maturity of dated loan capital	31 March 2017	31 December 2016
	€m	€m
Dated loan capital outstanding is repayable as follows:		
5 years or more	792	791

For details of subordinated liabilities and other capital instruments, see note 39 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

33 Share capital

There were no movements in share capital in the statement of financial position during the three months to 31 March 2017 and for the year to 31 December 2016.

Issued ordinary share capital	31 March 2017	31 December 2016
	€m	€m
At beginning and end of period	1,696	1,696

Share premium	31 March 2017	31 December 2016
	€m	€m
At beginning and end of period	1,386	1,386

34 Other equity interests

	31 March 2017	31 December 2016
	€m	€m
At beginning and end of period	494	494

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

In December 2015, AIB issued €500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ("AT1s"). The securities, which are accounted for as equity in the statement of financial position, are included in AIB's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

For details of these securities, see note 42 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

35 Capital reserves and capital redemption reserves

Capital reserves	31 March 2017 Capital Contribution reserves	31 March 2017 Other capital reserves	31 March 2017 Total	31 December 2016 Capital Contribution reserves	31 December 2016 Other capital reserves	31 December 2016 Total
	€m	€m	€m	€m	€m	€m
At 1 January	1,021	178	1,199	1,382	178	1,560
Transfer to revenue reserves:						
Anglo business transfer	(56)	—	(56)	(285)	—	(285)
CCNs issuance	—	—	—	(76)	—	(76)
	(56)	—	(56)	(361)	—	(361)
At end of period	965	178	1,143	1,021	178	1,199

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy 1.28 in note 1 of Section B of this "*Part XVI: Consolidated Historical Financial Information*". The transfers to revenue reserves relate to the capital contributions being deemed distributable. The capital contribution reserves which arose on the issue of the CCNs are now deemed to be fully distributable as the CCNs have been repaid in full.

Capital redemption reserves	31 March 2017	31 December 2016
	€m	€m
At beginning and end of period	14	14

36 Memorandum items: contingent liabilities and commitments, and contingent assets

The following tables give the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount 31 March 2017	Contract amount 31 December 2016
	€m	€m
Contingent liabilities(1)—credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	541	527
Other contingent liabilities	375	383
	916	910
Commitments(2)		
Documentary credits and short-term trade-related transactions	54	62
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year(3)	7,226	7,760
1 year and over(4)	2,542	2,467
	9,822	10,289
	10,738	11,199

Notes:

(1) Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

(2) A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

(3) An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

(4) With an original maturity of more than 1 year.

36 Memorandum items: contingent liabilities and commitments, and contingent assets (Continued)

The credit ratings of contingent liabilities and commitments as at 31 March 2017 and 31 December 2016 are set out in the following table. Details of AIB's rating profiles are set out in note 43.

	31 March 2017	31 December 2016
	€m	€m
Good upper	4,555	3,231
Good lower	5,397	7,145
Watch	383	383
Vulnerable	226	268
Impaired	177	172
Unrated	—	—
Total	10,738	11,199

Legal proceedings

AIB in the course of its business is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Company is aware pending or threatened by or against AIB any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cashflows of AIB.

Contingent liability/contingent asset—NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, AIB has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefits may result to AIB (note 31).

(b) AIB has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for AIB.

(c) On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

37 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in AIB's financial statements. An SPE is consolidated in the financial information when the substance of the relationship between AIB and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements*. The primary form of SPE utilised by AIB are securitisations and employee compensation trusts. Further details of SPEs are set out in note 47 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

In addition, AIB enters into repurchase agreements and securities lending transactions in the normal course of business that do not result in the derecognition of the financial assets concerned. Details of these transactions are set out in note 47 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

38 Fair value of financial instruments

	31 March 2017				
		Fair value			
		Fair value hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Trading portfolio financial assets					
Debt securities	32	32	—	—	32
Equity securities	1	—	1	—	1
Derivative financial instruments					
Interest rate derivatives	1,459	—	966	493	1,459
Exchange rate derivatives	44	—	44	—	44
Equity derivatives	50	—	45	5	50
Credit derivatives	—	—	—	—	—
Financial investments available for sale					
Government securities	7,892	7,892	—	—	7,892
Supranational banks and government agencies	1,548	1,548	—	—	1,548
Asset backed securities	434	422	12	—	434
Bank securities	4,350	4,350	—	—	4,350
Corporate securities	40	40	—	—	40
Equity securities	611	—	1	610	611
	16,461	14,284	1,069	1,108	16,461
Financial assets not measured at fair value					
Cash and balances at central banks	5,091	453[1]	4,638	—	5,091
Items in the course of collection	224	—	—	224	224
Loans and receivables to banks	1,539	—	550	989	1,539
Loans and receivables to customers					
Mortgages[2]	32,970	—	—	31,123	31,123
Non-mortgages	27,303	—	—	26,871	26,871
Total loans and receivables to customers	60,273	—	—	57,994	57,994
NAMA senior bonds	1,041	—	—	1,047	1,047
Financial investments held to maturity	3,326	3,379	—	—	3,379
Other financial assets	418	—	—	418	418
	71,912	3,832	5,188	60,672	69,692
Financial liabilities measured at fair value					
Trading portfolio financial liabilities: Debt securities	34	34	—	—	34
Derivative financial instruments					
Interest rate derivatives	1,385	—	1,238	147	1,385
Exchange rate derivatives	43	—	43	—	43
Equity derivatives	47	—	44	3	47
Credit derivatives	1	—	1	—	1
	1,510	34	1,326	150	1,510
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	657	—	—	657	657
Secured borrowings	5,445	—	1,900	3,539	5,439
Customer accounts					
Current accounts	29,733	—	—	29,733	29,733
Demand deposits	13,095	—	—	13,095	13,095
Time deposits	19,641	—	—	19,733	19,733
Securities sold under agreements to repurchase	171	—	—	171	171
Debt securities in issue					
Bonds and medium term notes	6,325	6,379	226	—	6,605
Other debt securities in issue	145	—	145	—	145
Subordinated liabilities and other capital instruments	792	790	78	—	868
Other financial liabilities	521	—	—	521	521
	76,525	7,169	2,349	67,449	76,967

(1) Comprises cash on hand.

(2) Includes residential and commercial mortgages.

38 Fair value of financial instruments (Continued)

	31 December 2016				
		Fair value			
		Fair value hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	—	1	—	1
Derivative financial instruments					
Interest rate derivatives	1,692	—	1,189	503	1,692
Exchange rate derivatives	73	—	73	—	73
Equity derivatives	49	—	43	6	49
Financial investments available for sale					
Government securities	8,050	8,050	—	—	8,050
Supranational banks and government agencies	1,719	1,719	—	—	1,719
Asset backed securities	445	432	13	—	445
Bank securities	4,551	4,551	—	—	4,551
Corporate securities	67	67	—	—	67
Equity securities	605	—	1	604	605
	17,252	14,819	1,320	1,113	17,252
Financial assets not measured at fair value					
Cash and balances at central banks	6,519	598[1]	5,921	—	6,519
Items in the course of collection	134	—	—	134	134
Loans and receivables to banks	1,399	—	587	812	1,399
Loans and receivables to customers					
Mortgages[2]	33,375	—	—	31,296	31,296
Non-mortgages	27,264	—	—	26,790	26,790
Total loans and receivables to customers	60,639	—	—	58,086	58,086
NAMA senior bonds	1,799	—	—	1,807	1,807
Financial investments held to maturity	3,356	3,439	—	—	3,439
Other financial assets	430	—	—	430	430
	74,276	4,037	6,508	61,269	71,814
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	1,485	—	1,328	157	1,485
Exchange rate derivatives	79	—	79	—	79
Equity derivatives	45	—	41	4	45
	1,609	—	1,448	161	1,609
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	709	—	—	709	709
Secured borrowings	7,023	—	1,901	5,123	7,024
Customer accounts					
Current accounts	29,721	—	—	29,721	29,721
Demand deposits	12,663	—	—	12,663	12,663
Time deposits	20,496	—	—	20,625	20,625
Securities sold under agreements to repurchase	622	—	—	622	622
Debt securities in issue					
Bonds and medium term notes	6,733	6,391	559	—	6,950
Other debt securities in issue	147	—	147	—	147
Subordinated liabilities and other capital instruments	791	766	79	—	845
Other financial liabilities	442	—	—	442	442
	79,347	7,157	2,686	69,905	79,748

(1) Comprises cash on hand.

(2) Includes residential and commercial mortgages.

38 Fair value of financial instruments (Continued)

Details of the methodologies used for calculating fair value and definition of terms are set out in note 49 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for the three months ended 31 March 2017 and the year ended 31 December 2016:

	Three months ended 31 March 2017 Financial assets			Year ended 31 December 2016 Financial assets		
	Trading portfolio	Debt Securities	Total	Trading portfolio	Debt Securities	Total
	€m	€m	€m	€m	€m	€m
Transfer into Level 1 from Level 2	—	—	—	—	—	—
Transfer into Level 2 from Level 1[(1)]	—	—	—	—	—	—

(1) Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy for the three months ended 31 March 2017 and the year ended 31 December 2016:

	31 March 2017					
	Financial assets				Financial liabilities	
		Available for sale				
	Derivatives	Debt securities	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m	€m
At 1 January 2017	509	—	604	1,113	161	161
Transfers into Level 3[(1)]	2	—	—	2	2	2
Total gains or (losses) in:						
Profit or loss						
—Net trading income	(13)	—	—	(13)	(13)	(13)
—Other operating income	—	—	—	—	—	—
	(13)	—	—	(13)	(13)	(13)
Other comprehensive income						
—Net change in fair value of financial investments available for sale	—	—	6	6	—	—
—Net change in fair value of cash flow hedges	—	—	—	—	—	—
	—	—	6	6	—	—
Purchases	—	—	3	3	—	—
Sales/disposals	—	—	(3)	(3)	—	—
Settlements	—	—	—	—	—	—
At 31 March 2017	498	—	610	1,108	150	150

(1) Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

38 Fair value of financial instruments (Continued)

Transfers from Level 2 to Level 3 arose due to the unavailability of significant observable input for equity option contracts.

	31 December 2016					
	Financial assets				Financial liabilities	
		Available for sale				
	Derivatives	Debt securities	Equity securities	Total	Derivatives	Total
	€m	€m	€m	€m	€m	€m
At 1 January 2016	512	11	780	1,303	291	291
Transfers into Level 3[(1)]	38	—	—	38	—	—
Total gains or (losses) in:						
Profit or loss						
—Net trading income	(41)	—	—	(41)	(70)	(70)
—Other operating income	—	—	272	272	—	—
	(41)	—	272	231	(70)	(70)
Other comprehensive income						
—Net change in fair value of financial investments available for sale	—	—	(250)	(250)	—	—
—Net change in fair value of cash flow hedges	—	—	—	—	(2)	(2)
	—	—	(250)	(250)	(2)	(2)
Purchases/additions	—	—	79	79	—	—
Sales/disposals	—	(9)	(277)	(286)	—	—
Settlements	—	(2)	—	(2)	(58)	(58)
At 31 December 2016	509	—	604	1,113	161	161

(1) Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers into Level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobserved data.

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 March 2017 and 31 December 2016:

	31 March 2017	31 December 2016
	€m	€m
Net trading income—gains	16	136

38 Fair value of financial instruments (Continued)

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the three months ended 31 March 2017 and the year ended 31 December 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair value				Range of estimates	
		31 March 2017	31 December 2016	Valuation technique	Significant unobservable inputs	31 March 2017	31 December 2016
		€m	€m				
Uncollateralised customer derivatives	Asset	498	509	CVA	LGD	46%–66% (Base 54%)	47%–67% (Base 54%)
	Liability	150	161				
					PD	0.7%–1.4% (Base 1.0% 1 year PD)	0.8%–1.6% (Base 1.2% 1 year PD)
					Combination LGD and PD(1)	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	(0.6%)–0.4%	(0.6%)–0.5%

(1) The fair value measurement sensitivity to unobservable inputs at 31 March 2017 ranges from negative €38 million to positive €21 million (31 December 2016: negative €37 million to positive €23 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than €1 million in any individual case or collectively, the detail is not disclosed here.

		Fair value				Range of estimates	
		31 March 2017	31 December 2016	Valuation technique	Significant unobservable inputs	31 March 2017	31 December 2016
		€m	€m				
NAMA subordinated bonds	Asset	459	466	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 6.39% applicable to base asset price. The estimates range from (a) discount rate of 9% to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 7.21% applicable to base asset price. The estimates range from (a) discount rate of 9% to (b) an early full repayment of coupons plus capital (March 2019).

In June 2016, AIB received Series B Preferred Stock in Visa Inc. as part consideration for its holding of shares in Visa Europe. This preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

		Fair value				Range of estimates	
		31 March 2017	31 December 2016	Valuation technique	Significant unobservable inputs	31 March 2017	31 December 2016
		€m	€m				
Visa Inc. Series B Preferred Stock	Asset	82	70	Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. (46%). This was converted to euro at the period end rate.	Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only to (b) 100% discount for conversion rate variability.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only to (b) 100% discount for conversion rate variability.

38 Fair value of financial instruments (Continued)

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While AIB believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following tables set out the impact of using reasonably possible alternative assumptions in the valuation methodology:

	31 March 2017 Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	€m	€m	€m	€m
Classes of financial assets				
Derivative financial instruments	36	(45)	—	—
Financial investments available for sale—equity securities	—	(65)	74	(47)
Total	36	(110)	74	(47)
Classes of financial liabilities				
Derivative financial instruments	—	(2)	—	—
Total	—	(2)	—	—

	31 December 2016 Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	€m	€m	€m	€m
Classes of financial assets				
Derivative financial instruments	38	(47)	—	—
Financial investments available for sale—equity securities	—	(65)	81	(12)
Total	38	(112)	81	(12)
Classes of financial liabilities				
Derivative financial instruments	—	(3)	—	—
Total	—	(3)	—	—

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

39 Statement of cash flows

Non-cash items and other items included in profit before taxation

Non-cash items	**Three months ended 31 March 2017**	**Three months ended 31 March 2016**
	€m	**€m**
Loss on disposal of property, plant and equipment	1	—
Profit on disposal/transfer of loans and receivables	—	3
Dividends received from equity securities	(25)	(25)
Dividends received from associated undertakings	—	(2)
Associated undertakings net income	(4)	(18)
Writeback of provisions for impairment on loans and receivables	(4)	(109)
Writeback of provisions for impairment on financial investments available for sale	—	(2)
Writeback of provisions for liabilities and commitments	(3)	(1)
Change in other provisions	(1)	(6)
Depreciation, amortisation and impairment	27	23
Interest on subordinated liabilities and other capital instruments	8	79
Net gain on buy back of debt securities in issue	—	(1)
Profit on disposal of financial investments available for sale	(11)	(18)
Loss on termination of hedging swaps	3	—
Remeasurement of NAMA senior bonds	—	(10)
Amortisation of premiums and discounts	56	52
Fair value gain on realisation/re-estimation of cash flows on loans and receivables previously restructured	(1)	(3)
Change in prepayments and accrued income	(5)	30
Changes in accruals and deferred income	47	(76)
Effect of exchange translation and other adjustments[1]	(57)	91
Total non-cash items	31	7
Contributions to defined benefit pension schemes	(46)	(40)
Dividends received from equity securities	25	25
Total other items	(21)	(15)
Non-cash and other items for the period	10	(8)

(1) The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

39 Statement of cash flows (Continued)

Change in operating assets[(1)]	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Change in loans and receivables to customers	174	135
Change in NAMA senior bonds	760	1,744
Change in loans and receivables to banks	(133)	522
Change in trading portfolio financial assets	(32)	—
Change in derivative financial instruments	74	19
Change in items in the course of collection	(90)	(53)
Change in other assets	(1)	474
	752	2,841

Change in operating liabilities[(1)]	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Change in deposits by central banks and banks	(1,624)	(3,568)
Change in customer accounts[(2)]	(845)	(1,190)
Change in trading portfolio financial liabilities	34	(86)
Change in debt securities in issue	(414)	990
Change in notes in circulation	(17)	(43)
Change in other liabilities	41	91
	(2,825)	(3,806)

(1) The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

(2) Includes deposits placed by NTMA of €60 million (31 March 2016: €239 million).

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	Three months ended 31 March 2017	Three months ended 31 March 2016
	€m	€m
Cash and balances at central banks	5,091	4,842
Loans and receivables to banks	652	588
	5,743	5,430

AIB is required to maintain balances with the Central Bank which at 31 March 2017 amounted to €20 million (31 March 2016: €55 million).

AIB is required by law to maintain reserve balances with the Bank of England. At 31 March 2017, these amounted to €529 million (31 March 2016: €566 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on AIB's ability to meet its cash obligations.

40 Related party transactions

Other than as mentioned below, there have been no related party transactions or changes therein since 31 December 2016 that have materially affected AIB's financial position or performance in the three months ended 31 March 2017.

Transactions with Key Management Personnel

As at 31 March 2017, the aggregate of loans, overdrafts/credit cards outstanding to key management personnel (Executive and Non-Executive Directors and Senior Executives who were in office during the three months ended 31 March 2017) amounted to €3.8 million; 12 persons (31 December 2016: €4.5 million; 16 persons).

The aggregate of loans, overdrafts/credit cards outstanding to connected persons of Directors in office as at 31 March 2017, as defined in Section 220 of the Companies Act 2014, amounted to €1.6 million; 22 persons (31 December 2016: €1.8 million; 26 persons).

Loans to key management personnel and connected persons of Directors, are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with AIB, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executives are also made in the ordinary course of business, on terms available to other employees in AIB generally, in accordance with established policy, within limits set on a case by case basis.

During the period, no impairment charges or provisions have been recognised in respect of any loans or facilities and all interest that has fallen due has been paid.

Relationship with the Irish Government

AIB's relationship with the Irish Government is set out in note 51(f) of Section B of this "*Part XVI: Consolidated Historical Financial Information*". As detailed, this relationship encompasses a number of dimensions, namely:

- Capital investments;
- Capital reorganisation;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
  - (i) Direction Order;
  - (ii) Transfer Order;
  - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

Since 31 December 2016, there have been no significant changes to the various aspects of this relationship. The Irish Government, through the ISIF, holds 2,710,821,149 ordinary shares with a nominal value of €0.625 per share. This comprises 99.9% of the total issued ordinary share capital of AIB.

40 Related party transactions (Continued)

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[1] together with the highest balances held at any point during the period/year.

	Note	31 March 2017 Balance	31 March 2017 Highest balance held[2]	31 December 2016 Balance	31 December 2016 Highest balance held[2]
		€m	€m	€m	€m
Assets					
Cash and balances at central banks	(a)	389	2,339	1,529	3,618
Trading portfolio financial assets		—	50	—	—
Derivative financial instruments		1	1	—	7
Loans and receivables to banks	(b)	20	65	21	965
Loans and receivables to customers		25	30	19	82
NAMA senior bonds	(c)	1,041	1,800	1,799	5,619
Financial investments available for sale	(d)	5,620	6,730	5,580	5,854
Financial investments held to maturity	(e)	3,326	3,356	3,356	3,483
Total assets		10,422		12,304	

	Note	31 March 2017 Balance	31 March 2017 Highest balance held[2]	31 December 2016 Balance	31 December 2016 Highest balance held[2]
		€m	€m	€m	€m
Liabilities					
Deposits by central banks and banks	(f)	1,904	1,912	1,912	2,950
Customer accounts	(g)	667	1,070	806	1,020
Trading portfolio financial liabilities		34	34	—	86
Derivative financial instruments		10	18	18	55
Subordinated liabilities and other capital instruments	(h)	—	—	—	1,600
Total liabilities		2,615		2,736	

Notes:

(1) Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the NTMA are included.

(2) The highest balance during the period/year, together with the outstanding balance at the end of each period/year, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

(a) Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. AIB is required to maintain a monthly average Primary Liquidity balance which at 31 March 2017 was €511 million (31 December 2016: €529 million).

(b) The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.

(c) NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.

(d) Financial investments available for sale at 31 March 2017 comprise €5,161 million (31 December 2016: €5,114 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 March 2017 of €459 million (31 December 2016: €466 million) detailed above under NAMA.

(e) These comprise Irish Government securities.

(f) This relates to funding received from the ECB through the Central Bank (note 26).

40 Related party transactions (Continued)

(g) Includes €325 million at 31 March 2017 (31 December 2016: €325 million) borrowed from the Strategic Banking Corporation of Ireland, the ordinary share capital of which is owned by the Minister for Finance.

(h) Redeemed on 28 July 2016.

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

Local government[(1)]

During 2017 and 2016, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

Commercial semi-state bodies[(2)]

During 2017 and 2016, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

Notes:

(1) This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

(2) Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

- Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment in available for sale debt securities and repurchase agreements.

At 31 March 2017 and 31 December 2016, the following balances were outstanding in total to these financial institutions:

	31 March 2017	31 December 2016
	€m	€m
Assets		
Derivative financial instruments	1	1
Loans and receivables to banks[(1)]	1	3
Financial investments available for sale	427	471
Liabilities		
Deposits by central banks and banks[(2)]	87	89
Derivative financial instruments	1	4
Customer deposits[(3)]	—	—

Notes:

(1) The highest balance in loans and receivables to banks amounted to €5 million in respect of funds placed during the period (31 December 2016: €501 million).

40 Related party transactions (Continued)

(2) The highest balance in deposits by central banks and banks amounted to €260 million in respect of funds received during the period (31 December 2016: €369 million).

(3) The highest balance in customer deposits amounted to Nil in respect of funds received during the period (31 December 2016: €17 million).

In connection with the acquisition by AIB of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) "IBRC", IBRC had indemnified AIB for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. €81.3 million in aggregate). AIB is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

Investment in Greencoat Renewables DAC

AIB and the Ireland Strategic Investment Fund (ISIF) have jointly invested in Greencoat Renewables DAC to fund the purchase of windfarms in Ireland. AIB and ISIF have each invested €76 million.

41 Financial and other information

	Three months ended 31 March 2017	Three months ended 31 March 2016
	%	%
Operating ratios		
Other income/operating income	29.6	25.0
Operating expenses/operating income	53.4	53.8
Net interest margin(1)	2.53	2.08
Performance measures		
Return on average total assets	1.4	1.5
Return on average ordinary shareholders' equity(2)	10.0	13.1

Notes:

(1) Represents net interest income as a percentage of average interest earning assets.

(2) Profit attributable to ordinary shareholders after deduction of the distribution on other equity interests as a percentage of average ordinary shareholders' equity which excludes other equity interests of €494 million.

	Three months ended 31 March		Year ended 31 December
Rates of exchange	**2017**	**2016**	**2016**
€ /$(1)			
Closing	1.0691	1.1385	1.0541
Average	1.0655	1.1026	1.1069
€ /£(1)			
Closing	0.8555	0.7916	0.8562
Average	0.8600	0.7707	0.8196

Note:

(1) Throughout these condensed consolidated interim financial statements, pound sterling is denoted by £ and U.S. dollar by $.

42 Average balance sheets and interest rates

The following table shows the average balances and interest rates of interest bearing assets and interest bearing liabilities. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of AIB.

	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	€m	€m	%	€m	€m	%
Assets						
Trading portfolio financial assets less liabilities	2	—	—	—	—	—
Loans and receivables to banks	6,070	3	0.2	6,249	6	0.4
Loans and receivables to customers	60,686	540	3.6	62,920	577	3.7
NAMA senior bonds	1,321	2	0.6	5,185	5	0.4
Financial investments available for sale	14,517	39	1.1	15,444	52	1.4
Financial investments held to maturity	3,341	32	3.9	3,466	33	3.8
Total average interest earning assets	85,937	616	2.9	93,264	673	2.9
Non-interest earning assets	7,456	—	—	8,188	—	—
Total average assets	93,393	616	2.7	101,452	673	2.7
Liabilities and equity						
Due to central banks and banks	6,744	(2)	(0.1)	12,567	(2)	(0.1)
Due to customers	37,216	67	0.7	40,321	96	1.0
Other debt issued	6,804	7	0.4	7,484	16	0.9
Subordinated liabilities	792	8	4.1	2,332	79	13.6
Average interest earning liabilities	51,556	80	0.6	62,704	189	1.2
Non-interest earning liabilities	28,643	—	—	26,830	—	—
Total average liabilities	80,199	80	0.4	89,534	189	0.8
Equity	13,194	—	—	11,918	—	—
Total average liabilities and equity	93,393	80	0.3	101,452	189	0.7

In the above table, negative interest expense amounting to €4 million (31 March 2016: €4 million) is offset against interest expense. In the income statement, AIB presents interest resulting from a negative effective interest rate on financial assets as interest expense. Similarly, interest resulting from a negative effective interest rate on financial liabilities is presented as interest income.

43 Financial Risk Management

43.1 Update on risk management and governance

Risk is defined as any event that could damage the core earnings capacity of AIB, increase cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations.

AIB is exposed to a number of material risks and in order to minimise these risks it has implemented comprehensive risk management strategies. Although AIB invests substantial time and effort in its risk management strategies and techniques, there is a risk that these may fail to adequately mitigate the risks in some circumstances, particularly if confronted with risks that were not identified or anticipated.

The principal risks and uncertainties to AIB that are set out in "*Part II: Risk Factors*" for the remaining nine months of the year are unchanged.

AIB's risk governance and organisation framework is set out in "*Part II: Risk Factors*". There have been no material changes to AIB's risk governance framework.

43 Financial Risk Management (Continued)

AIB has adopted an Enterprise Risk Management approach to (a) the identification and assessment; (b) the management and mitigation; and (c) the monitoring and reporting of its risks. Processes and controls supporting this approach are set out in "*Part XVII Risk Management*".

Details of AIB's exposures to specific risks are outlined in note 58 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

Updates have been provided in this Section D of this "*Part XVI: Consolidated Historical Financial Information*" on the current status of the following specific risks:

- Credit risks including asset quality and impairment; and
- Liquidity and funding.

43.2 Credit risk

(a) Credit profile of the loan portfolio

AIB's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The following table shows loans and receivables to customers by industry sector, including loans and receivables to customers within Disposal groups and non-current assets held for sale (see note 43.3) and within other assets:

	31 March 2017			
	Total loans and receivables to customers		Of which impaired	Specific provisions for impairment
	€m	%	€m	€m
Agriculture	1,824	2.8	122	42
Energy	583	0.9	30	10
Manufacturing	2,024	3.1	76	55
Property and construction	9,006	13.9	2,562	1,301
Distribution	5,542	8.5	593	278
Transport	1,406	2.2	22	18
Financial	724	1.1	135	92
Other services	5,757	8.9	282	175
Personal:				
Residential mortgages	34,982	53.9	4,368	1,697
Other	3,081	4.7	426	254
Total	64,929	100.0	8,616	3,922
Analysed as to:				
Neither past due nor impaired	54,499			
Past due but not impaired	1,814			
Impaired—provisions held	8,616			
	64,929			
Provisions for impairment				
Specific	(3,922)			
IBNR	(562)			
	(4,484)			
Total statement of financial position	60,445			

Reported on the statement of financial position as follows:

	31 March 2017		
	Gross	Impairment provisions	Net
	€m	€m	€m
Loans and receivables to customer (note 19)	64,547	(4,274)	60,273
Disposal groups and non-current assets held for sale (note 15 and note 43.3)	377	(210)	167
Other assets	5	—	5
	64,929	(4,484)	60,445

43 Financial Risk Management (Continued)

	31 December 2016			
	Total loans and receivables to customers		Of which impaired	Specific provisions for impairment
	€m	%	€m	€m
Agriculture	1,773	2.7	121	40
Energy	459	0.7	32	11
Manufacturing	2,029	3.1	76	53
Property and construction	9,394	14.4	2,724	1,350
Distribution	5,439	8.3	681	305
Transport	1,405	2.2	38	34
Financial	684	1.1	144	94
Other services	5,706	8.8	312	180
Personal:				
Residential mortgages	35,239	54.0	4,576	1,728
Other	3,100	4.7	432	252
Total	65,228	100.0	9,136	4,047
Analysed as to:				
Neither past due nor impaired	54,265			
Past due but not impaired	1,827			
Impaired—provisions held	9,136			
	65,228			
Provisions for impairment				
Specific	(4,047)			
IBNR	(542)			
Provisions for impairment	(4,589)			
Total statement of financial position	60,639			

The following table analyses loans and receivables to customers by segment showing asset quality and impairment provisions:

Gross loans and receivables to customers	31 March 2017					31 December 2016				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Residential mortgages										
Owner-occupier	28,563	6	1,522	—	30,091	28,624	7	1,564	—	30,195
Buy-to-let	4,639	26	226	—	4,891	4,784	29	231	—	5,044
	33,202	32	1,748	—	34,982	33,408	36	1,795	—	35,239
Other personal	2,763	62	246	10	3,081	2,768	102	230	—	3,100
Property and construction	4,053	2,499	2,454	—	9,006	4,403	2,499	2,492	—	9,394
Non-property business	6,254	6,421	5,028	157	17,860	6,025	6,520	4,800	150	17,495
Total	46,272	9,014	9,476	167	64,929	46,604	9,157	9,317	150	65,228
Analysed as to asset quality(1)										
Satisfactory	30,720	8,633	7,642	167	47,162	30,397	8,588	7,363	114	46,462
Watch	2,310	28	478	—	2,816	2,441	28	532	—	3,001
Vulnerable	5,510	347	478	—	6,335	5,858	310	461	—	6,629
Impaired	7,732	6	878	—	8,616	7,908	231	961	36	9,136
Total criticised loans	15,552	381	1,834	—	17,767	16,207	569	1,954	36	18,766
Impairment provisions—statement of financial position										
Specific	3,424	2	496	—	3,922	3,462	44	516	25	4,047
IBNR	471	34	56	1	562	453	33	56	—	542
Total impairment provisions	3,895	36	552	1	4,484	3,915	77	572	25	4,589

43 Financial Risk Management (Continued)

	Three months ended 31 March 2017					Three months ended 31 March 2016				
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Income statement—impairment (credit)/charge										
Specific provisions	(4)	(12)	(8)	—	(24)	(80)	5	(16)	—	(91)
IBNR provisions	18	1	—	1	20	(19)	1	—	—	(18)
Total impairment (credit)/charge	14	(11)	(8)	1	(4)	(99)	6	(16)	—	(109)

Note:

(1) Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see note 43.2(a).

The following tables profile the asset quality of AIB's loans and receivables:

	31 March 2017				
Asset quality	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired	29,700	2,501	6,098	16,200	54,499
Past due but not impaired	914	154	346	400	1,814
Impaired—provisions held	4,368	426	2,562	1,260	8,616
Gross loans and receivables	34,982	3,081	9,006	17,860	64,929
Specific provisions	(1,697)	(254)	(1,301)	(670)	(3,922)
IBNR provisions	(252)	(40)	(116)	(154)	(562)
Total provisions for impairment	(1,949)	(294)	(1,417)	(824)	(4,484)
Gross loans and receivables less provisions	33,033	2,787	7,589	17,036	60,445

	31 December 2016				
Asset quality	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired	29,730	2,498	6,308	15,729	54,265
Past due but not impaired	933	170	362	362	1,827
Impaired—provisions held	4,576	432	2,724	1,404	9,136
Gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Specific provisions	(1,728)	(252)	(1,350)	(717)	(4,047)
IBNR provisions	(274)	(38)	(99)	(131)	(542)
Total provisions for impairment	(2,002)	(290)	(1,449)	(848)	(4,589)
Gross loans and receivables less provisions	33,237	2,810	7,945	16,647	60,639

43 Financial Risk Management (Continued)

Aged analysis of contractually past due but not impaired gross loans and receivables to customers

	31 March 2017						
Industry sector	**1–30 days**	**31–60 days**	**61–90 days**	**91–180 days**	**181–365 days**	**>365 days**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Agriculture	36	8	10	13	7	24	98
Energy	13	—	—	—	—	2	15
Manufacturing	6	3	1	3	—	1	14
Property and construction	110	26	36	40	27	107	346
Distribution	57	16	5	18	8	19	123
Transport	16	—	—	1	—	—	17
Financial	1	1	—	—	—	1	3
Other services	30	18	16	10	12	44	130
Personal:							
Residential mortgages	465	119	68	63	58	141	914
Credit cards	25	5	2	—	—	—	32
Other	51	13	12	8	11	27	122
	810	209	150	156	123	366	1,814
Segment							
RCB	735	175	119	142	116	344	1,631
WIB	19	11	16	1	4	12	63
AIB UK	56	23	15	13	3	10	120
Group	—	—	—	—	—	—	—
	810	209	150	156	123	366	1,814
As a percentage of total gross loans	1.25%	0.32%	0.23%	0.24%	0.19%	0.56%	2.79%

	31 December 2016						
Industry sector	**1–30 days**	**31–60 days**	**61–90 days**	**91–180 days**	**181–365 days**	**>365 days**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Agriculture	40	7	2	7	8	31	95
Energy	6	—	1	—	—	—	7
Manufacturing	8	1	—	2	—	2	13
Property and construction	144	28	25	28	38	99	362
Distribution	72	12	3	7	8	26	128
Transport	4	1	1	—	—	3	9
Financial	1	1	—	—	—	—	2
Other services	40	20	2	15	8	23	108
Personal:							
Residential mortgages	469	131	72	62	63	136	933
Credit cards	27	5	3	—	—	—	35
Other	55	15	11	12	15	27	135
	866	221	120	133	140	347	1,827
Segment							
RCB	781	185	103	121	126	330	1,646
WIB	11	3	—	3	8	9	34
AIB UK	74	33	17	9	6	8	147
Group	—	—	—	—	—	—	—
	866	221	120	133	140	347	1,827
As a percentage of total gross loans	1.33%	0.34%	0.18%	0.20%	0.21%	0.53%	2.80%

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

43 Financial Risk Management (Continued)

Impaired loans for which provisions are held

The following table shows impaired loans which are assessed for impairment either individually or collectively with the relevant specific impairment provisions:

	31 March 2017						
	Impaired loans					Specific impairment Provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loan
	€m	€m	€m	€m	€m	€m	€m
Retail							
Residential mortgages	34,982	1,238	3,130	4,368	12	1,697	39
Other personal	3,081	276	150	426	14	254	60
Total retail	38,063	1,514	3,280	4,794	13	1,951	41
Commercial							
Property and construction	9,006	2,413	149	2,562	28	1,301	51
Non-property business	17,860	1,034	226	1,260	7	670	53
Total commercial	26,866	3,447	375	3,822	14	1,971	52
Total	64,929	4,961	3,655	8,616	13	3,922	46
Specific impairment provisions as at 31 March 2017		2,344	1,578	3,922			
Specific provision cover percentage		47%	43%	46%			

	31 December 2016						
	Impaired loans					Specific impairment Provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loan
	€m	€m	€m	€m	€m	€m	€m
Retail							
Residential mortgages	35,239	1,298	3,278	4,576	13	1,728	38
Other personal	3,100	258	174	432	14	252	58
Total retail	38,339	1,556	3,452	5,008	13	1,980	40
Commercial							
Property and construction	9,394	2,570	154	2,724	29	1,350	50
Non-property business	17,495	1,176	228	1,404	8	717	51
Total commercial	26,889	3,746	382	4,128	15	2,067	50
Total	65,228	5,302	3,834	9,136	14	4,047	44
Specific impairment provisions as at 31 December 2016		2,470	1,577	4,047			
Specific provision cover percentage		47%	41%	44%			

43 Financial Risk Management (Continued)

Movements on impairment provisions

The following table sets out the movements on AIB impairment provisions by asset class:

	31 March 2017				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
At 1 January	2,002	290	1,449	848	4,589
Exchange translation adjustments	—	—	(1)	—	(1)
(Credit)/charge to income statement—customers	(35)	4	10	17	(4)
Amounts written off	(18)	—	(42)	(42)	(102)
Recoveries of amounts written off in previous years	—	—	1	1	2
At 31 March 2017	1,949	294	1,417	824	4,484
Total provisions are split as follows:					
Specific	1,697	254	1,301	670	3,922
IBNR	252	40	116	154	562
	1,949	294	1,417	824	4,484
Amounts include:					
Loans and receivables to customers classified to Disposal groups and non-currents held for sale (*note 15*)					210
Loans and receivables to customers *(note 19)*					4,274
					4,484

	31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
At 1 January	2,322	535	2,649	1,326	6,832
Exchange translation adjustments	(28)	(10)	(73)	(19)	(130)
(Credit) to income statement—customers	(111)	(22)	(145)	(16)	(294)
Amounts written off	(181)	(213)	(985)	(450)	(1,829)
Recoveries of amounts written off in previous years	—	—	3	7	10
At 31 December 2016	2,002	290	1,449	848	4,589
Total provisions are split as follows:					
Specific	1,728	252	1,350	717	4,047
IBNR	274	38	99	131	542
	2,002	290	1,449	848	4,589
Amounts include:					
Loans and receivables to customers *(note 19)*					4,589
					4,589

43 Financial Risk Management (Continued)

Provisions—Income statement

The following table analyses the income statement provision (credit)/charge split between individually significant, individually insignificant and IBNR for loans and receivables:

	Three months ended 31 March 2017				
	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m
Specific provisions					
—individually significant loans and receivables	(19)	(12)	(7)	—	(38)
—individually insignificant loans and receivables	15	—	(1)	—	14
IBNR	18	1	—	1	20
Total provisions for impairment (credit)/charge on loans and receivables to customers	14	(11)	(8)	1	(4)
Writeback of provisions for impairment on financial investments available for sale					—
Writeback of provisions for liabilities and commitments					(3)
Total					(7)

	Three months ended 31 March 2016				
	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m
Specific provisions					
—individually significant loans and receivables	(123)	5	(19)	—	(137)
—individually insignificant loans and receivables	43	—	3	—	46
IBNR	(19)	1	—	—	(18)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(99)	6	(16)	—	(109)
Writeback of provisions for impairment on financial investments available for sale					(2)
Writeback of provisions for liabilities and commitments					(1)
Total					(112)

The following table analyses by segment the income statement impairment provision (credit)/charge:

	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Residential mortgages	Other	Total	Residential mortgages	Other	Total
	€m	€m	€m	€m	€m	€m
RCB	(35)	49	14	(36)	(63)	(99)
WIB	—	(11)	(11)	—	6	6
AIB UK	—	(8)	(8)	1	(17)	(16)
Group	—	1	1	—	—	—
Total	(35)	31	(4)	(35)	(74)	(109)

43 Financial Risk Management (Continued)

The following table analyses by segment the income statement impairment provision (credit)/charge as a percentage of average loans and receivables to customers expressed as basis points ("bps").

	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Residential mortgages	Other	Total	Residential mortgages	Other	Total
	bps	bps	bps	bps	bps	bps
RCB	(42)	150	12	(43)	(171)	(81)
WIB	—	(48)	(49)	—	27	28
AIB UK	—	(43)	(36)	21	(80)	(59)
Group	—	151	151	—	—	—
Total	(40)	41	(3)	(38)	(90)	(63)

Loans and receivables to customers—Residential mortgages

Residential mortgages amounted to €35.0 billion at 31 March 2017, with the majority (95%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to €35.2 billion at 31 December 2016, of which 95% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier €30.1 billion and buy-to-let €4.9 billion (31 December 2016: owner-occupier €30.2 billion and buy-to-let €5.0 billion).

Statement of financial position provisions of €2.0 billion were held at 31 March 2017, split €1.7 billion specific and €0.3 billion IBNR (31 December 2016: €2.0 billion split, €1.7 billion specific and €0.3 billion IBNR).

There was an impairment provision credit of €35 million to the income statement for the three months to 31 March 2017 comprising a €13 million specific writeback and a €22 million IBNR release (31 March 2016: €35 million provision credit comprising €26 million of a specific charge offset by a € 61 million IBNR release).

Residual debt, which is now unsecured following the disposal of property on which the residential mortgage was secured, is included in the residential mortgage portfolio and as such, is included in the tables within this section.

Loans and receivables to customers—Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio by segment showing impairment provisions:

	31 March 2017			31 December 2016		
Statement of financial position	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
Total gross residential mortgages	28,569	4,665	33,234	28,631	4,813	33,444
In arrears (>30 days past due)(1)	3,041	1,569	4,610	3,176	1,649	4,825
In arrears (>90 days past due)(1)	2,920	1,518	4,438	3,042	1,593	4,635
Of which impaired	2,775	1,406	4,181	2,898	1,484	4,382
Statement of financial position specific Provisions	1,047	571	1,618	1,042	605	1,647
Statement of financial position IBNR Provisions	119	125	244	160	106	266
Provision cover percentage						
Specific provisions/impaired loans	37.7%	40.7%	38.7%	35.9%	40.8%	37.6%

Note:

(1) Includes all impaired loans whether past due or not.

43 Financial Risk Management (Continued)

Income statement—impairment (credit)/charge	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
Specific provisions	16	(29)	(13)	25	—	25
IBNR provisions	(40)	18	(22)	(49)	(12)	(61)
Total impairment (credit)	(24)	(11)	(35)	(24)	(12)	(36)

Credit quality profile of Republic of Ireland residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio:

Republic of Ireland	31 March 2017			31 December 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
Neither past due nor impaired	25,134	3,031	28,165	25,069	3,093	28,162
Past due but not impaired	660	228	888	664	236	900
Impaired—provisions held	2,775	1,406	4,181	2,898	1,484	4,382
Gross residential mortgages	28,569	4,665	33,234	28,631	4,813	33,444
Provisions for impairment	(1,166)	(696)	(1,862)	(1,202)	(711)	(1,913)
	27,403	3,969	31,372	27,429	4,102	31,531

Republic of Ireland residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet their obligations to AIB based on objective evidence of loss events ('impairment triggers')(1) such as a request for a forbearance measure. Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgages that were past due but not impaired:

Republic of Ireland	31 March 2017			31 December 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
1–30 days	394	65	459	386	71	457
31–60 days	84	25	109	96	26	122
61–90 days	37	26	63	38	30	68
91–180 days	32	29	61	34	25	59
181–365 days	35	23	58	35	26	61
Over 365 days	78	60	138	75	58	133
Total past due but not impaired	660	228	888	664	236	900
Total gross residential mortgages	28,569	4,665	33,234	28,631	4,813	33,444

Note:

(1) Examples of impairment triggers are set out in note 58.1(c) of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

43 Financial Risk Management (Continued)

Collateral value of Republic of Ireland residential mortgages that were past due but not impaired

The following table profiles the collateral value of Republic of Ireland residential mortgages that were past due but not impaired:

Republic of Ireland	31 March 2017 Owner-occupier €m	31 March 2017 Buy-to-let €m	31 March 2017 Total €m	31 December 2016 Owner-occupier €m	31 December 2016 Buy-to-let €m	31 December 2016 Total €m
1–30 days	382	61	443	372	68	440
31–60 days	82	24	106	91	25	116
61–90 days	35	25	60	37	29	66
91–180 days	31	28	59	33	24	57
181–365 days	35	21	56	34	25	59
Over 365 days	76	56	132	73	53	126
Total	641	215	856	640	224	864

Republic of Ireland residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired:

Republic of Ireland	31 March 2017 Owner-occupier €m	31 March 2017 Buy-to-let €m	31 March 2017 Total €m	31 December 2016 Owner-occupier €m	31 December 2016 Buy-to-let €m	31 December 2016 Total €m
Not past due	533	231	764	584	263	847
1–30 days	124	43	167	133	46	179
31–60 days	59	23	82	63	26	89
61–90 days	46	25	71	53	19	72
91–180 days	133	50	183	138	44	182
181–365 days	174	64	238	173	83	256
Over 365 days	1,706	970	2,676	1,754	1,003	2,757
Total impaired	2,775	1,406	4,181	2,898	1,484	4,382
Total gross residential mortgages	28,569	4,665	33,234	28,631	4,813	33,444

Republic of Ireland residential mortgages—properties in possession[(1)]

AIB seeks to avoid repossession through working with customers, but where agreement cannot be reached, it proceeds to repossession of the property or the appointment of a receiver, using external agents to realise the maximum value as soon as is practicable. Where AIB believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

The number (stock) of properties in possession is set out below:

	31 March 2017 Stock	31 March 2017 Balance outstanding €m	31 December 2016 Stock	31 December 2016 Balance outstanding €m
Owner occupier	706	175	691	172
Buy-to-let	106	24	104	24
Total	812	199	795	196

Note:

(1) The number of residential properties in possession relates to those held as security for residential mortgages only.

43 Financial Risk Management (Continued)

United Kingdom ("UK") residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions:

Statement of financial position	31 March 2017			31 December 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
Total gross residential mortgages	1,522	226	1,748	1,564	231	1,795
In arrears (>30 days past due)[1]	174	34	208	181	34	215
In arrears (>90 days past due)[1]	159	33	192	169	33	202
Of which impaired	154	33	187	161	33	194
Statement of financial position specific provisions	61	18	79	62	19	81
Statement of financial position IBNR provisions	7	1	8	7	1	8
Provision cover percentage						
Specific provisions/impaired loans	39.6%	54.2%	42.2%	38.6%	56.1%	41.5%

Income statement—impairment charge	Three months ended 31 March 2017			Three months ended 31 March 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
Specific provisions	—	—	—	—	1	1
IBNR provisions	—	—	—	—	—	—
Total impairment charge	—	—	—	—	1	1

Note:

(1) Includes all impaired loans whether past due or not.

Loans and receivables to customers—Other personal

The following table analyses other personal lending by segment showing asset quality and impairment provisions:

Analysed as to asset quality	31 March 2017					31 December 2016				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Satisfactory	2,003	61	180	10	2,254	1,995	96	161	—	2,252
Watch	107	—	9	—	116	110	—	10	—	120
Vulnerable	272	1	12	—	285	279	4	13	—	296
Impaired	381	—	45	—	426	384	2	46	—	432
Total criticised loans	760	1	66	—	827	773	6	69	—	848
Total gross loans and receivables	2,763	62	246	10	3,081	2,768	102	230	—	3,100
Impairment provisions—statement of financial position										
Specific	217	—	37	—	254	218	—	34	—	252
IBNR	36	—	4	—	40	34	—	4	—	38
Total impairment provisions	253	—	41	—	294	252	—	38	—	290

Income statement—impairment charge/(credit)	Three months ended 31 March 2017					Three months ended 31 March 2016				
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Specific provisions	3	—	(1)	—	2	(23)	—	(1)	—	(24)
IBNR provisions	3	(1)	—	—	2	(2)	—	—	—	(2)
Total impairment charge/(credit)	6	(1)	(1)	—	4	(25)	—	(1)	—	(26)

43 Financial Risk Management (Continued)

Loans and receivables to customers—Property and construction

The following table analyses property and construction lending by segment showing asset quality and impairment provisions:

	31 March 2017					31 December 2016				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Investment										
Commercial investment	2,321	2,037	1,534	—	5,892	2,612	2,053	1,533	—	6,198
Residential investment	681	82	218	—	981	716	102	233	—	1,051
	3,002	2,119	1,752	—	6,873	3,328	2,155	1,766	—	7,249
Land and development										
Commercial development	328	107	21	—	456	324	100	20	—	444
Residential development	606	197	281	—	1,084	638	162	277	—	1,077
	934	304	302	—	1,540	962	262	297	—	1,521
Contractors	117	76	155	—	348	113	82	170	—	365
Housing associations	—	—	245	—	245	—	—	259	—	259
Total gross loans and receivables	4,053	2,499	2,454	—	9,006	4,403	2,499	2,492	—	9,394
Analysed as to asset quality										
Satisfactory	669	2,203	1,673	—	4,545	661	2,133	1,643	—	4,437
Watch	204	—	107	—	311	246	3	129	—	378
Vulnerable	1,125	296	167	—	1,588	1,421	264	170	—	1,855
Impaired	2,055	—	507	—	2,562	2,075	99	550	—	2,724
Total criticised loans	3,384	296	781	—	4,461	3,742	366	849	—	4,957
Impairment provisions—Statement of financial position										
Specific	989	—	312	—	1,301	1,011	9	330	—	1,350
IBNR	93	9	14	—	116	77	7	15	—	99
Total impairment provisions	1,082	9	326	—	1,417	1,088	16	345	—	1,449

Income statement—impairment charge/(credit)	Three months ended 31 March 2017					Three months ended 31 March 2016				
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Specific provisions	—	(2)	(6)	—	(8)	(65)	—	(3)	—	(68)
IBNR provisions	15	3	—	—	18	3	4	—	—	7
Total impairment charge/(credit)	15	1	(6)	—	10	(62)	4	(3)	—	(61)

43 Financial Risk Management (Continued)

Loans and receivables to customers—Non-property business

The following table analyses non-property business by segment showing asset quality and impairment provisions:

	31 March 2017					31 December 2016				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Agriculture	1,591	140	93	—	1,824	1,531	148	94	—	1,773
Distribution:										
Hotels	496	948	929	—	2,373	508	1,012	791	—	2,311
Licensed premises	437	117	—	—	554	386	155	—	—	541
Retail/wholesale	1,143	820	395	—	2,358	1,090	885	364	—	2,339
Other distribution	129	128	—	—	257	127	121	—	—	248
	2,205	2,013	1,324	—	5,542	2,111	2,173	1,155	—	5,439
Other services	1,443	1,945	2,361	8	5,757	1,435	1,897	2,368	6	5,706
Other	1,015	2,323	1,250	149	4,737	948	2,302	1,183	144	4,577
Total gross loans and receivables	6,254	6,421	5,028	157	17,860	6,025	6,520	4,800	150	17,495
Analysed as to asset quality										
Satisfactory	3,532	6,347	4,452	157	14,488	3,333	6,339	4,184	114	13,970
Watch	331	27	267	—	625	327	24	296	—	647
Vulnerable	1,276	41	170	—	1,487	1,296	29	149	—	1,474
Impaired	1,115	6	139		1,260	1,069	128	171	36	1,404
Total criticised loans	2,722	74	576	—	3,372	2,692	181	616	36	3,525
Impairment provisions— Statement of financial position										
Specific	600	2	68	—	670	587	34	71	25	717
IBNR	99	24	30	1	154	77	25	29	—	131
Total impairment provisions	699	26	98	1	824	664	59	100	25	848

	Three months ended 31 March 2017					Three months ended 31 March 2016				
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Income statement—impairment charge/(credit)										
Specific provisions	6	(10)	(1)	—	(5)	(17)	5	(13)	—	(25)
IBNR provisions	22	(1)	—	1	22	41	(3)	—	—	38
Total impairment charge/(credit)	28	(11)	(1)	1	17	24	2	(13)	—	13

43 Financial Risk Management (Continued)

Credit ratings

Internal credit ratings

AIB uses various rating tools in managing its credit risk. The role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail in PART II: Risk Factors. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired.

For reporting purposes loans and receivables to customers are categorised into:

- Neither past due nor impaired;
- Past due but not impaired; and
- Impaired.

Neither past due nor impaired are those loans that are neither contractually past due and/or have not been categorised as impaired by AIB.

Past due but not impaired are those loans where a contractually due payment has not been made. 'Past due days' is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded. This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

Impaired loans are defined as follows: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

The credit rating of an exposure is one of the key factors to determine if a case should be assessed for impairment. As part of this assessment the present value of future cash-flows, including the value of the collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Specific provisions therefore arise when the recovery of a loan or group of loans is in doubt on an assessment that all the estimated future cash flows either from the loan itself or from the associated collateral, will not be sufficient to repay the loan.

When a shortfall arises, the case is classified as impaired and a provision is recognised in the income statement. If no shortfall is evident, then the case remains as either 'Watch' or 'Vulnerable' or 'Past due but not impaired'.

Loans that are neither past due nor impaired are further classified into 'Good upper, Good lower, Watch and Vulnerable', which are defined as follows:

Good upper: Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.

Good lower: Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.

Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.

Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.

43 Financial Risk Management (Continued)

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class is set out below:

	31 March 2017				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired					
Good upper	16,522	187	188	1,580	18,477
Good lower	9,287	2,023	4,303	12,778	28,391
Watch	1,512	93	284	578	2,467
Vulnerable	2,379	198	1,323	1,264	5,164
Total	29,700	2,501	6,098	16,200	54,499
Past due but not impaired					
Good upper	7	2	1	2	12
Good lower	59	42	53	128	282
Watch	252	23	27	47	349
Vulnerable	596	87	265	223	1,171
Total	914	154	346	400	1,814
Total impaired	4,368	426	2,562	1,260	8,616
Total gross loans and receivables	34,982	3,081	9,006	17,860	64,929
Impairment provisions					(4,484)
Total					60,445

	31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired					
Good upper	15,937	229	199	1,545	17,910
Good lower	9,811	1,970	4,190	12,347	28,318
Watch	1,575	96	357	612	2,640
Vulnerable	2,407	203	1,562	1,225	5,397
Total	29,730	2,498	6,308	15,729	54,265
Past due but not impaired					
Good upper	5	3	1	1	10
Good lower	50	50	47	77	224
Watch	281	24	21	35	361
Vulnerable	597	93	293	249	1,232
Total	933	170	362	362	1,827
Total impaired	4,576	432	2,724	1,404	9,136
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Impairment provisions					(4,589)
Total					60,639

43 Financial Risk Management (Continued)

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities), financial investments available for sale (excluding equity shares) and financial investments held to maturity is set out below:

	31 March 2017				
	Bank	Corporate	Sovereign	Other	Total
	€m	€m	€m	€m	€m
AAA/AA	4,614	—	2,183	434	7,231
A/A−	1,096	12	9,659(1)	—	10,767
BBB+/BBB/BBB−	172	15	1,997	—	2,184
Sub-investment	—	13	—	—	13
Unrated	7	—	—	—	7
Total	5,889	40	13,839(2)	434	20,202

	31 December 2016				
	Bank	Corporate	Sovereign	Other	Total
	€m	€m	€m	€m	€m
AAA/AA	4,901	—	2,440	446	7,787
A+/A/A−	847	27	10,456(1)	—	11,330
BBB+/BBB/BBB−	186	19	2,028	—	2,233
Sub-investment	11	21	—	—	32
Unrated	5	—	—	—	5
Total	5,950	67	14,924(2)	446	21,387

Notes:

(1) Includes NAMA senior bonds which do not have an external credit rating and to which AIB has attributed a rating of A (31 December 2016. A), i.e.; the external rating of the Sovereign.

(2) Includes supranational banks and government agencies.

43 Financial Risk Management (Continued)

(b) Financial investments available for sale

The following table analyses the carrying value (fair value) of financial investments available for sale by major classifications:

	31 March 2017 Fair value €m	31 December 2016 Fair value €m
Debt securities		
Irish Government securities	5,161	5,114
Euro government securities	2,533	2,706
Non-Euro government securities	198	230
Supranational banks and government agencies	1,548	1,719
Collateralised mortgage obligation	422	433
Other asset backed securities	12	12
Euro bank securities	4,350	4,551
Euro corporate securities	27	47
Non-Euro corporate securities	13	20
Total debt securities	14,264	14,832
Equity securities[1]	611	605
Total financial investments available for sale	14,875	15,437

Note:

(1) Includes NAMA subordinated bonds with a fair value of €459 million (€466 million as at 31 December 2016) of which unrealised gains amount to €412 million (€419 million as at 31 December 2016).

The following tables analyse the available-for-sale portfolio by geography:

	31 March 2017			31 December 2016		
	Irish Government €m	Euro government €m	Non-Euro government €m	Irish Government €m	Euro government €m	Non-Euro government €m
Government securities						
Republic of Ireland	5,161	—	—	5,114	—	—
Italy	—	908	—	—	928	—
France	—	175	—	—	269	—
Spain	—	1,089	—	—	1,100	—
Netherlands	—	251	—	—	254	—
Germany	—	58	—	—	93	—
Austria	—	29	—	—	30	—
Belgium	—	23	—	—	—	—
United Kingdom	—	—	66	—	—	76
Slovakia	—	—	—	—	32	—
Czech Republic	—	—	30	—	—	36
Poland	—	—	73	—	—	89
Saudi Arabia	—	—	29	—	—	29
	5,161	2,533	198	5,114	2,706	230

	31 March 2017 €m	31 December 2016 €m
Asset backed securities		
United States of America	422	433
Ireland	12	12
	434	445

	31 March 2017		31 December 2016	
	Euro	Non-Euro	Euro	Non-Euro
	€m	€m	€m	€m
Bank securities				
Republic of Ireland	427	—	471	—
France	531	—	569	—
Netherlands	601	—	712	—
United Kingdom	465	—	443	—
Australia	326	—	315	—
Sweden	394	—	394	—
Canada	662	—	661	—
Finland	213	—	234	—
Norway	289	—	300	—
Belgium	306	—	297	—
Germany	30	—	31	—
Denmark	57	—	57	—
New Zealand	24	—	24	—
Switzerland	—	—	18	—
Luxembourg	25	—	25	—
	4,350	—	4,551	—

(c) Financial investments held to maturity

In December 2015, following a Board decision to reduce the AFS portfolio, €3.5 billion (€2.9 billion nominal) in Irish Government securities were transferred to a new held to maturity ("HTM") portfolio. The transfer covered a range of issues with maturities ranging from 2018 to 2030. The reclassification reflects AIB's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was c. €0.5 billion. This unrealised gain is being amortised to interest income using the effective income method over the remaining life of the bonds. There are no immediate plans to increase this portfolio.

	31 March 2017	31 December 2016
	€m	€m
At 1 January	3,356	3,483
Amortisation of fair value gain	(30)	(127)
At end of period	3,326	3,356

43 Financial Risk Management (Continued)

43.3 Disposal groups and non-current assets held for sale

The following table shows loans and receivables to customers by segment classified within disposal groups and non-current assets held for sale:

Gross loans and receivables to customers	31 March 2017			31 December 2016		
	RCB	AIB UK	Total	RCB	AIB UK	Total
	€m	€m	€m	€m	€m	€m
Residential mortgages						
Owner-occupier	1	25	26	—	—	—
Buy-to-let	328	11	339	—	—	—
	329	36	365	—	—	—
Other personal	—	9	9	—	—	—
Property and construction	—	1	1	—	—	—
Non-property business	—	2	2	—	—	—
Total	329	48	377	—	—	—
Analysed as to:						
Neither past due nor impaired	—	—	—	—	—	—
Past due but not impaired	3	—	3	—	—	—
Impaired—provisions held	326	48	374	—	—	—
	329	48	377	—	—	—
Impairment provisions—statement of financial position						
Specific	163	47	210	—	—	—
IBNR	—	—	—	—	—	—
	163	47	210	—	—	—
Net loans and receivables	166	1	167	—	—	—

43 Financial Risk Management (Continued)

43.4 Additional credit risk information—Forbearance

(a) Risk profile of loans and receivables to customers—non-forborne and forborne

AIB's forbearance initiatives are detailed in note 58.1(c) of Section B of this "*Part XVI: Consolidated Historical Financial Information*". The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne:

	31 March 2017				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	15,933	186	187	1,579	17,885
Good lower	8,580	1,730	4,242	12,630	27,182
Watch	1,171	72	231	497	1,971
Vulnerable	886	78	465	498	1,927
Total	26,570	2,066	5,125	15,204	48,965
Past due but not impaired	410	95	198	270	973
Impaired	2,148	293	2,005	885	5,331
Total	2,558	388	2,203	1,155	6,304
Total non-forborne loans and receivables to customers	29,128	2,454	7,328	16,359	55,269
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	589	1	1	1	592
Good lower	707	293	61	148	1,209
Watch	341	21	53	81	496
Vulnerable	1,493	120	858	766	3,237
Total	3,130	435	973	996	5,534
Past due but not impaired	504	59	148	130	841
Impaired	2,220	133	557	375	3,285
Total	2,724	192	705	505	4,126
Total forborne loans and receivables to customers	5,854[1]	627	1,678	1,501	9,660
Total gross loans and receivables to customers	34,982	3,081	9,006	17,860	64,929
Weighted average interest rate of forborne loans and receivables to customers	2.4%	6.6%	3.1%	3.6%	3.0%

Note:

(1) Ireland: €5,810 million and United Kingdom: €44 million.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with accounting policy 1.6 in note 1 of Section B of this "*Part XVI: Consolidated Historical Financial Information*" and is included in 'Interest and similar income' in the income statement of this report. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas the net carrying amount after specific provisions is used for impaired forborne loans.

43 Financial Risk Management (Continued)

The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne:

	31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€m	€m	€m	€m	€m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	15,364	228	199	1,544	17,335
Good lower	9,099	1,695	4,150	12,195	27,139
Watch	1,236	74	293	529	2,132
Vulnerable	903	77	479	459	1,918
Total	26,602	2,074	5,121	14,727	48,524
Past due but not impaired	414	109	203	231	957
Impaired	2,236	302	2,124	954	5,616
Total	2,650	411	2,327	1,185	6,573
Total non-forborne loans and receivables to customers	29,252	2,485	7,448	15,912	55,097
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	573	1	—	1	575
Good lower	712	275	40	152	1,179
Watch	339	22	64	83	508
Vulnerable	1,504	126	1,083	766	3,479
Total	3,128	424	1,187	1,002	5,741
Past due but not impaired	519	61	159	131	870
Impaired	2,340	130	600	450	3,520
Total	2,859	191	759	581	4,390
Total forborne loans and receivables to customers	5,987[(1)]	615	1,946	1,583	10,131
Total gross loans and receivables to customers	35,239	3,100	9,394	17,495	65,228
Weighted average interest rate of forborne loans and receivables to customers	2.4%	6.5%	3.0%	3.5%	2.9%

Note:

(1) Republic of Ireland: €5,931 million and United Kingdom: €56 million.

43 Financial Risk Management (Continued)

(b) Republic of Ireland residential mortgages

AIB has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises AIB's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Further details on MARS together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out in note 58.1(c) of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

In the following forbearance tables, temporary forbearance solutions (e.g. interest only, reduced payment) are included in the forbearance stock for as long as they are active, but are removed from the forbearance stock when the temporary agreement with the customer expires.

Residential mortgages subject to forbearance measures by type of forbearance

The following table further analyses by type of forbearance, (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures in the Republic of Ireland:

	31 March 2017					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance €m	Number	Balance €m	Number	Balance €m
Interest only	5,262	812	2,626	436	2,636	376
Reduced payment	1,141	231	662	144	479	87
Payment moratorium	1,659	264	294	42	1,365	222
Fundamental restructure	2	—	—	—	2	—
Restructure	296	37	205	26	91	11
Arrears capitalisation	13,166	1,814	4,566	666	8,600	1,148
Term extension	1,778	197	313	32	1,465	165
Split mortgages	3,081	473	598	90	2,483	383
Voluntary sale for loss	510	30	244	23	266	7
Low fixed interest rate	1,161	180	200	33	961	147
Positive equity solutions	1,332	145	73	7	1,259	138
Other	246	44	37	9	209	35
Total forbearance	29,634	4,227	9,818	1,508	19,816	2,719

43 Financial Risk Management (Continued)

Republic of Ireland buy-to-let	31 March 2017					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m
Interest only	2,146	423	1,216	245	930	178
Reduced payment	751	168	401	86	350	82
Payment moratorium	328	47	205	27	123	20
Fundamental restructure	1,127	156	418	57	709	99
Restructure	824	77	747	67	77	10
Arrears capitalisation	2,684	505	1,423	263	1,261	242
Term extension	621	109	126	36	495	73
Split mortgages	141	25	85	17	56	8
Voluntary sale for loss	299	24	114	20	185	4
Low fixed interest rate	9	2	—	—	9	2
Positive equity solutions	20	2	1	—	19	2
Other	297	45	227	39	70	6
Total forbearance	9,247	1,583	4,963	857	4,284	726

Republic of Ireland—Total	31 March 2017					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m
Interest only	7,408	1,235	3,842	681	3,566	554
Reduced payment	1,892	399	1,063	230	829	169
Payment moratorium	1,987	311	499	69	1,488	242
Fundamental restructure	1,129	156	418	57	711	99
Restructure	1,120	114	952	93	168	21
Arrears capitalisation	15,850	2,319	5,989	929	9,861	1,390
Term extension	2,399	306	439	68	1,960	238
Split mortgages	3,222	498	683	107	2,539	391
Voluntary sale for loss	809	54	358	43	451	11
Low fixed interest rate	1,170	182	200	33	970	149
Positive equity solutions	1,352	147	74	7	1,278	140
Other(1)	543	89	264	48	279	41
Total forbearance(2)	38,881	5,810	14,781	2,365	24,100	3,445

Notes:

(1) Included in Other are: €50 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed; €27 million relating to negative equity trade downs; and €6 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

(2) Includes €106 million relating to loans and receivables to customers classified within Disposal groups and non-current assets held for sale.

43 Financial Risk Management (Continued)

Republic of Ireland owner-occupier	31 December 2016					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m
Interest only	5,214	796	2,587	417	2,627	379
Reduced payment	1,030	213	629	139	401	74
Payment moratorium	1,526	241	247	33	1,279	208
Fundamental Restructure	2	—	—	—	2	—
Restructure	303	38	200	25	103	13
Arrears capitalisation	13,494	1,888	5,093	766	8,401	1,122
Term extension	1,857	212	336	36	1,521	176
Split mortgages	3,066	474	646	97	2,420	377
Voluntary sale for loss	510	28	241	21	269	7
Low fixed interest rate	1,163	182	170	29	993	153
Positive equity solutions	1,453	157	61	6	1,392	151
Other	247	45	35	9	212	36
Total forbearance	29,865	4,274	10,245	1,578	19,620	2,696

Republic of Ireland buy-to-let	31 December 2016					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m
Interest only	1,990	412	1,034	223	956	189
Reduced payment	770	175	414	92	356	83
Payment moratorium	307	40	191	25	116	15
Fundamental restructure	1,195	169	378	53	817	116
Restructure	804	72	703	59	101	13
Arrears capitalisation	3,015	564	1,736	321	1,279	243
Term extension	619	110	137	38	482	72
Split mortgages	138	37	85	28	53	9
Voluntary sale for loss	303	25	110	20	193	5
Low fixed interest rate	8	1	—	—	8	1
Positive equity solutions	27	3	1	—	26	3
Other	333	49	257	42	76	7
Total forbearance	9,509	1,657	5,046	901	4,463	756

43 Financial Risk Management (Continued)

Republic of Ireland—Total	31 December 2016					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m
Interest only	7,204	1,208	3,621	640	3,583	568
Reduced payment	1,800	388	1,043	231	757	157
Payment moratorium	1,833	281	438	58	1,395	223
Fundamental restructure	1,197	169	378	53	819	116
Restructure	1,107	110	903	84	204	26
Arrears capitalisation	16,509	2,452	6,829	1,087	9,680	1,365
Term extension	2,476	322	473	74	2,003	248
Split mortgages	3,204	511	731	125	2,473	386
Voluntary sale for loss	813	53	351	41	462	12
Low fixed interest rate	1,171	183	170	29	1,001	154
Positive equity solutions	1,480	160	62	6	1,418	154
Other(1)	580	94	292	51	288	43
Total forbearance	39,374	5,931	15,291	2,479	24,083	3,452

Note:

(1) Included in Other are: €54 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed; €25 million relating to negative equity trade downs; and €6 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

Residential mortgages subject to forbearance measures—past due but not impaired

All loans that are assessed for a forbearance solution are tested for impairment either individually or collectively, irrespective of whether such loans are past due or not. Where the loans are deemed not to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired:

Republic of Ireland	31 March 2017			31 December 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
1–30 days	191	39	230	194	46	240
31–60 days	54	15	69	60	18	78
61–90 days	24	8	32	24	10	34
91–180 days	22	23	45	20	19	39
181–365 days	23	18	41	24	20	44
Over 365 days	53	32	85	50	29	79
Total past due but not impaired	367	135	502	372	142	514

43 Financial Risk Management (Continued)

Residential mortgages subject to forbearance measures—impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was impaired:

Republic of Ireland	31 March 2017			31 December 2016		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
Not past due	446	159	605	491	179	670
1–30 days	106	36	142	116	36	152
31–60 days	52	16	68	51	20	71
61–90 days	39	16	55	43	14	57
91–180 days	105	37	142	102	31	133
181–365 days	119	45	164	127	60	187
Over 365 days	543	475	1,018	554	493	1,047
Total impaired	1,410	784	2,194	1,484	833	2,317

43 Financial Risk Management (Continued)

(c) Non-mortgage loans and receivables to customers

The following tables set out an analysis of non-mortgage forbearance solutions:

	31 March 2017					
	Total	Loans Neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover
	€m	€m	€m	€m	€m	%
Other personal						
Interest only	51	29	5	17	12	70
Reduced payment	24	14	1	9	5	63
Payment moratorium	123	121	—	2	2	65
Arrears capitalisation	17	5	1	11	5	41
Term extension	149	137	1	11	6	59
Fundamental restructure	50	34	3	13	4	31
Restructure	182	116	7	59	27	47
Asset disposals	25	10	6	9	6	65
Other	6	3	1	2	1	73
Total	627	469	25	133	68	52
Property and construction						
Interest only	218	121	9	88	47	53
Reduced payment	95	61	4	30	13	43
Payment moratorium	8	4	2	2	1	44
Arrears capitalisation	40	16	1	23	11	46
Term extension	187	94	2	91	39	42
Fundamental restructure	626	473	37	116	35	30
Restructure	366	202	12	152	66	44
Asset disposals	84	51	4	29	14	47
Other	54	23	5	26	14	56
Total	1,678	1,045	76	557	240	43
Non-property business						
Interest only	183	118	9	56	27	49
Reduced payment	61	31	2	28	16	57
Payment moratorium	17	14	1	2	1	47
Arrears capitalisation	34	12	1	21	10	47
Term extension	141	116	2	23	11	48
Fundamental restructure	462	411	9	42	16	37
Restructure	506	290	39	177	85	48
Asset disposals	39	23	3	13	8	58
Other	58	40	5	13	7	54
Total	1,501	1,055	71	375	181	48
Total non-mortgage forbearance	3,806	2,569	172	1,065	489	46

	31 December 2016					
	Total	Loans Neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover
	€m	€m	€m	€m	€m	%
Other personal						
Interest only	58	29	6	23	15	65
Reduced payment	25	16	—	9	6	63
Payment moratorium	109	107	—	2	1	59
Arrears capitalisation	17	4	1	12	5	41
Term extension	141	130	1	10	6	56
Fundamental restructure	48	36	3	9	4	46
Restructure	187	123	8	56	25	45
Asset disposals	25	11	6	8	4	55
Other	5	4	—	1	1	78
Total	615	460	25	130	67	51
Property and construction						
Interest only	235	57	9	169	54	32
Reduced payment	90	62	3	25	11	43
Payment moratorium	8	4	2	2	1	73
Arrears capitalisation	44	18	1	25	12	46
Term extension	193	97	—	96	39	41
Fundamental restructure	829	702	34	93	29	31
Restructure	355	201	9	145	63	43
Asset disposals	141	110	4	27	11	41
Other	51	26	7	18	13	69
Total	1,946	1,277	69	600	233	39
Non-property business						
Interest only	191	107	7	77	37	48
Reduced payment	64	37	2	25	14	57
Payment moratorium	17	14	1	2	1	50
Arrears capitalisation	42	18	1	23	11	47
Term extension	202	118	2	82	23	28
Fundamental restructure	448	416	7	25	12	49
Restructure	530	304	36	190	86	45
Asset disposals	33	21	1	11	8	75
Other	56	36	5	15	8	54
Total	1,583	1,071	62	450	200	45
Total non-mortgage forbearance	4,144	2,808	156	1,180	500	42

43.5 Liquidity risk

At 31 March 2017, AIB held €28 billion (2016: €30 billion) in qualifying liquid assets/contingent funding of which €10 billion (2016: €12 billion) was not available due to repurchase, secured loans and other restrictions. The available AIB liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 March 2017, the AIB liquidity pool was €18 billion (2016: €18 billion). During 2017, the liquidity pool ranged from €16 billion to €19 billion and the average balance was €18 billion.

43 Financial Risk Management (Continued)

Composition of AIB liquidity pool

The following tables show the composition of AIB's liquidity pool at 31 March 2017 and 31 December 2016:

	31 March 2017			
			High Quality Liquid Assets (HQLA)	
	Liquidity pool	Liquidity pool available (ECB eligible)	Level 1	Level 2
	€bn	€bn	€bn	€bn
Cash and deposits with central banks	0.1	—	2.7[1]	—
Total government bonds	9.5	9.5	9.5	—
Other:				
Covered bonds	2.6	2.4	1.8	0.7
Other including NAMA senior bonds	5.9	5.8	1.3	—
Total other	8.5	8.2	3.1	0.7
Total	18.1	17.7	15.3	0.7

	31 December 2016			
			High Quality Liquid Assets (HQLA)	
	Liquidity pool	Liquidity pool available (ECB eligible)	Level 1	Level 2
	€bn	€bn	€bn	€bn
Cash and deposits with central banks	1.9	—	3.9[1]	—
Total government bonds	9.0	8.9	8.9	—
Other:				
Covered bonds	1.8	1.7	1.4	0.4
Other including NAMA senior bonds	5.0	4.9	1.4	0.1
Total other	6.8	6.6	2.8	0.5
Total	17.7	15.5	15.6	0.5

(1) For Liquidity Coverage Ratio ("LCR") purposes, assets outside the Liquidity function's control can qualify as High Quality Liquid Assets ("HQLA") in so far as they match outflows in the same jurisdiction. For AIB, this means that UK HQLA can qualify up to the amount of the 30 day UK outflows under LCR but are not included in AIB's calculation of available QLA stocks.

Liquidity pool by currency	EUR	GBP	USD	Other	Total
	€bn	€bn	€bn	€bn	€bn
Liquidity pool at 31 March 2017	17.9	0.1	0.1	—	18.1
Liquidity pool at 31 December 2016	17.3	0.1	0.3	—	17.7

Level 1—High Quality Liquid Assets include amongst others, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated covered bonds. Other very highly rated sovereign bonds and unencumbered cash at central banks.

Level 2—HQLA include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

Management of AIB liquidity pool

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk function. These pool assets primarily comprise government guaranteed bonds. AIB's liquidity buffer increased in the first three months of 2017 by €0.4 billion which was predominantly due to a decrease in the funding requirement following a reduction in customer loans and financial investments available for sale.

43 Financial Risk Management (Continued)

Other contingent liquidity

AIB has access to other unencumbered assets which provide a source of contingent liquidity, which are not in AIB's liquidity pool. However, as a contingency, these assets may be monetised in a stress scenario to generate liquidity through their use as collateral for secured funding or outright sale.

For further details of liquidity risk, see note 43 of Section D and note 58 of Section B of this "*Part XVI: Consolidated Historical Financial Information*".

Liquidity regulation

AIB is required to comply with the liquidity requirements of the SSM/Central Bank and also with the requirements of local regulators in jurisdictions in which it operates. AIB monitors and reports its current and forecast position against CRD IV related liquidity metrics—the LCR and the Net Stable Funding Ratio ("NSFR").

AIB had a LCR of 126% as at 31 March 2017 (31 December 2016: 128%). The minimum LCR requirement in 2017 is 80%, rising to 100% by 1 January 2018. AIB has fully complied with the requirement.

The minimum NSFR requirement is scheduled to be introduced by 1 January 2018 at 100%. At 31 March 2017, AIB had an estimated NSFR of 118% (31 December 2016: 119%). In addition, AIB is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. AIB adheres to this requirement.

Funding structure

AIB's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to further enhance and strengthen the wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress i.e. an inability to meet funding obligations as they fall due.

Sources of funds	31 March 2017		31 December 2016	
	€bn	%	€bn	%
Customer accounts	62.6	70	63.5	69
Deposits by central banks and banks:				
Secured	5.4	6	7.0	8
Unsecured	0.7	1	0.7	1
Certificates of deposit and commercial paper	0.2	—	0.2	—
Asset covered securities ("ACS")	5.2	6	5.2	5
Assed backed securities ("ABS")	0.1	—	0.5	1
Senior debt	1.0	1	1.0	1
Capital	14.1	16	13.9	15
Total source of funds	89.3	100	92.0	100
Other	3.4		3.6	
	92.7		95.6	

Composition of wholesale funding

At 31 March 2017, total wholesale funding outstanding was €13 billion (2016: €15 billion). €6 billion of wholesale funding matures in less than one year (2016: €8 billion). €7 billion of wholesale funding had a residual maturity of over one year (2016: €7 billion) including €1.9 billion of TLTRO II drawings.

43 Financial Risk Management (Continued)

Outstanding wholesale funding comprised €11 billion of secured funding (2016: €13 billion) and €2 billion of unsecured funding (2016: €2 billion).

	31 March 2017								
	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total less than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years	Total
	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Deposits by central banks and banks	3.4	0.7	0.1	—	4.2	—	1.9	—	6.1
Certificate of deposits and commercial paper	—	0.2	—	—	0.2	—	—	—	0.2
Senior debt	—	—	—	—	—	1.0	—	—	1.0
ACS/ABS	—	1.7	—	—	1.7	0.6	2.0	1.0	5.3
Subordinated liabilities and other capital instruments	—	—	—	—	—	—	—	0.8	0.8
Total 31 March 2017	3.4	2.6	0.1	—	6.1	1.6	3.9	1.8	13.4
Of which:									
Secured	2.7	2.5	0.1	—	5.3	0.6	3.9	1.0	10.8
Unsecured	0.7	0.1	—	—	0.8	1.0	—	0.8	2.6
	3.4	2.6	0.1	—	6.1	1.6	3.9	1.8	13.4

	31 December 2016								
	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total less than 1 year	Over 1 year but not more than 3 years	Over 3 years but not more than 5 years	Over 5 years	Total
	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Deposits by central banks and banks	3.1	2.5	0.2	—	5.8	—	1.9	—	7.7
Certificate of deposits and commercial paper	—	0.2	—	—	0.2	—	—	—	0.2
Senior debt	—	—	—	—	—	0.5	0.5	—	1.0
ACS/ABS	—	0.4	1.7	—	2.1	0.6	1.2	1.8	5.7
Subordinated liabilities and other capital instruments	—	—	—	—	—	—	—	0.8	0.8
Total 31 December 2016	3.1	3.1	1.9	—	8.1	1.1	3.6	2.6	15.4
Of which:									
Secured	2.4	2.9	1.9	—	7.2	0.6	3.1	1.8	12.7
Unsecured	0.7	0.2	—	—	0.9	0.5	0.5	0.8	2.7
	3.1	3.1	1.9	—	8.1	1.1	3.6	2.6	15.4

43 Financial Risk Management (Continued)

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to AIB to secure funding, satisfy collateral needs or to be sold. The asset encumbrance disclosure has been produced in line with AIB's interpretation of the 2014 EBA Guidelines complemented by EBA clarifications on the disclosure of encumbered and unencumbered assets.

AIB has seen a downward trend in asset encumbrance in recent years which is expected to continue over the coming years. AIB includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage backed covered securities ("ACS"). In addition, AIB uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, the mortgage banks and the securitisation vehicles repo bonds centrally for liquidity management purposes. Bonds held centrally contribute to AIB's liquidity buffer and do not add to its encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between the Company and other AIB entities (e.g. EBS DAC and AIB (UK) p.l.c.) is an element of AIB's liquidity management processes.

AIB had an encumbrance ratio of 18.7% at 31 March 2017 (31 December 2016: 21%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility.

44 Non-adjusting events after the reporting period

Final dividends are not accounted for until they have been approved at the Annual General Meeting of Shareholders. On 27 April 2017, a final dividend of €0.0921 per ordinary share amounting in total to €250 million was approved at the Annual General Meeting and subsequently paid on 9 May 2017. The condensed consolidated interim financial statements for the three months ended 31 March 2017 do not reflect this, which will be accounted for in shareholders' equity as an appropriation in 2017 of distributable reserves.

On 26 April 2017, the Minister for Finance issued a Warrant Notice to the Company exercising his rights under the Warrant Agreement requiring the Company to issue Warrants to the Minister to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised).

On 30 May 2017, the Minister for Finance and AIB announced an intention to seek admission of the Ordinary Shares to the Official Lists of each of the Irish Stock Exchange and the Financial Conduct Authority and to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange.

In addition, it was announced that the Offer would proceed in the coming weeks. The Minister intends to sell approximately 25 per cent. of the Ordinary Shares.

45 Dividends

No dividends on ordinary shares were paid during the financial year ended 31 December 2016 or for the three month period ended 31 March 2017.

PART XVII
RISK MANAGEMENT

1 Overview of AIB's risk management

The principal risks and uncertainties to which AIB is exposed are set out in "*Part II: Risk Factors*". The governance and organisation framework through which AIB manages and seeks to mitigate these risks is set out in this "*Part XVII: Risk Management*".

1.1 Risk management framework

AIB assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of AIB, increase earnings or cash flow volatility, reduce capital, threaten business reputation or viability and/or breach regulatory or legal obligations. The Company has adopted an enterprise risk management approach to identifying, assessing and managing risks. To support this approach, a number of frameworks and policies approved by the Board (or appropriate Board delegation) are in place which set out the key principles, roles and responsibilities and governance arrangements through which AIB's material risks are managed. The core aspects of AIB's risk management approach are described below.

1.2 Risk identification and assessment process

AIB uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment ("MRA") is undertaken on at least an annual basis. The MRA identifies and assesses the most material risks faced by AIB in terms of their likelihood and impact. Other assessments of risk are undertaken, as required, by business areas, focussing on the nature of the risk, the adequacy of the internal control environment and whether additional management action is required. Periodic risk assessments are also undertaken in response to specific internal or external events. Reporting on AIB's risk profile and emerging risks is presented to each Executive Risk Committee ("ERC") and Risk Committee meeting. The ERC meets on a monthly basis.

1.3 Risk appetite

AIB's risk appetite is defined as the amount and type of risk that AIB is willing to accept or tolerate in order to deliver on its strategic and business objectives. AIB's RAS is a blend of qualitative statements and quantitative limits and triggers linked to AIB's strategic objectives.

AIB's RAS is reviewed and approved by the Board of Directors at least annually, or more often if required, in alignment with the business and financial planning process. AIB's RAS is cascaded down to AIB authorised bank subsidiaries and significant business areas to ensure it is embedded throughout AIB.

While the Board of Directors approves AIB's RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. AIB's risk profile is measured against its risk appetite and adherence to AIB's RAS is reported on a monthly basis to the ERC and the Risk Committee. Should any breaches of AIB's RAS limits arise, these, together with associated management action plans, are escalated to the Board of Directors for review, and also reported to the JST, in line with the provisions of the CBI Requirements.

Risk appetite is embedded within AIB in a number of ways, including alignment with risk frameworks and policies, segment and subsidiary RAS, delegated authorities and limits and new product approval processes. Extensive communication and cascade of key aspects of AIB's risk appetite framework, as relevant, serve to ensure that risk appetite drives strategy and informs day to day decision making.

1.4 Risk governance

1.4.1 Risk management organisation

The Board of Directors has ultimate responsibility for the governance of all risk taking activity in AIB. AIB has adopted a "three lines of defence" framework in the delineation of accountabilities for risk governance. Under the three lines of defence model, primary responsibility for risk management lies with business line management. The Risk Management function, headed by AIB's CRO, together with the Compliance Function provide the second line of defence, providing independent risk oversight and challenge to business line managers. The third line of defence is AIB's Internal Audit function, under the

Head of Group Internal Audit, which provides independent assurance to the Audit Committee on the effectiveness of the system of internal control.

1.4.2 Committees with risk management responsibilities

The Board of Directors has delegated a number of risk governance responsibilities to various committees and key officers. The diagram on the following page summarises the current risk committee structure of AIB.

The role of the Board of Directors, the Audit Committee and the Risk Committee is set out in "*Part XI: Directors, Senior Executives and Corporate Governance".* AIB's Leadership Team comprises the senior executives of AIB who manage the strategic business risks of AIB. It establishes the business strategy and risk appetite within which AIB operates.

The role of the ERC is to foster risk governance within AIB, to ensure that risks within AIB are appropriately managed and controlled, and to evaluate AIB's risk appetite against AIB's strategy. It is a sub-committee of the Leadership Team chaired by the CFO and its membership includes the CRO and Chief Operating Officer and the heads of significant business areas.

The ERC's principal duties and responsibilities include reviewing the effectiveness of AIB's risk frameworks and policies, monitoring and reviewing AIB's risk profile, risk trends, risk concentrations and policy exceptions, and monitoring adherence to approved risk appetite and other limits. The ERC acts as a parent body to both the Group Credit Committee ("GCC") and the Operational Risk Committee ("ORC").

Principal responsibilities of the GCC include: the exercising of approval authority for exposure limits to customers of AIB; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; and the approval of credit inputs to credit decisioning models, as well as the review and approval of other credit related matters as they occur. The principal responsibility of the ORC is to provide oversight to the ERC in relation to the current and potential future operational risks/ profile facing AIB and operational risk strategy in that regard. The ORC reviews, approves and recommends as appropriate to ERC, the Risk Committee and the Board of Directors, the Operational Risk Framework and all other operational policies and standards. The ORC is also responsible for reviewing key operational risk assessments and mandating related action plans, where required.

The role of the Group Conduct Committee ("CC") is to promote a sustainable customer centric culture through the oversight of conduct across AIB's operations including in Ireland, the United Kingdom and the United States and monitor compliance with the Board approved Conduct Risk Appetite and policy. It is a sub-committee of the Leadership Team chaired by the Chief Marketing Officer who is responsible for ensuring a consistent approach to conduct risk management across AIB.

The CC's principal duties include monitoring of AIB's conduct profile to ensure it remains within risk appetite, approving and monitoring of the effectiveness of the Group's Conduct Risk Framework as well as review and approval of other conduct related matters, which include reviewing the processes by which AIB and its subsidiaries identify and manage conduct risk, the review of AIB's strategy to ensure customer outcomes and risks to customers are fully articulated and the development of conduct training programmes. The CC acts as a parent to the Group Product and Proposition Committee, which has delegated authority for the approval of the launch of products, propositions and oversight of AIB's overall product portfolio.

The role of the Asset and Liability Committee ("ALCo") is to act as AIB's strategic balance sheet management forum that combines a business-decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the Director of Finance (who reports directly to the CFO) and its membership includes the CFO, the CRO and the heads of significant business areas. The ALCo is tasked with decision-making in respect of AIB's balance sheet structure, including capital, liquidity, funding, interest rate risk in the banking book from an economic value and net interest margin perspective, foreign exchange hedging risks and other market risks.

In ensuring sound capital and liquidity management and planning, the ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital and for the calculation of expected and unexpected credit losses and stress testing. In addition, the ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing and review and analysis of RAROC.

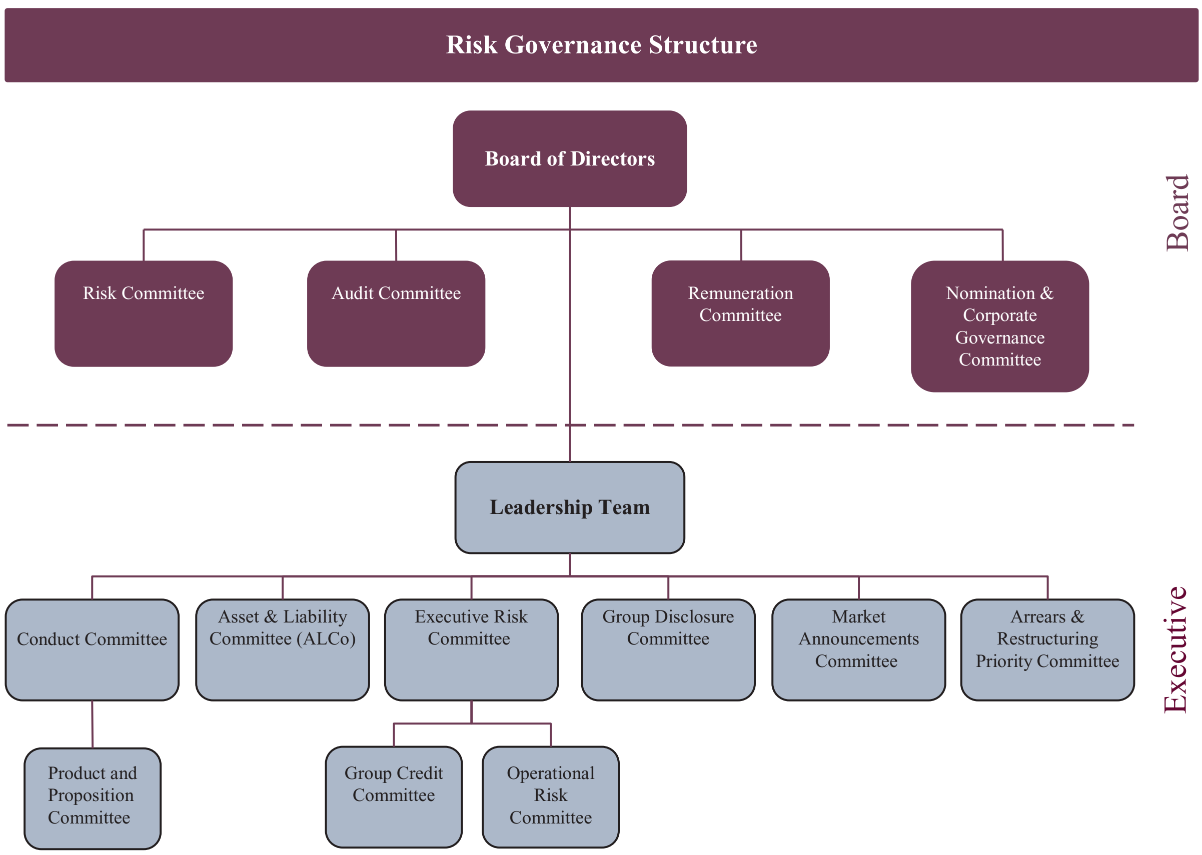
The role of the Market Announcements Committee ("MAC") is to act as an advisory committee to the CEO and CFO in determining on a timely basis the treatment of material information relating to AIB and its impacted subsidiary entities in order to comply with insider information disclosure obligations under the Market Abuse Regulation ("MAR"), the Central Bank's Market Abuse Rules and the Irish Stock Exchange Listing Rules.

The MAC's principal duties include determination as to whether information raised is deemed to be inside information and, if so, to implement and monitor the appropriate procedure to be followed together with assigning a business owner for each inside information event. The MAC also ensures that AIB issues an interim announcement in circumstances where an obligation to disclose insider information has arisen under MAR but where AIB is not yet in a position to provide full details of the underlying facts. The MAC is chaired by the CFO and its membership includes the CEO, the CRO, the Group General Counsel, Director of Corporate Affairs and the Group Treasurer.

AIB's Group Disclosure Committee is responsible for reviewing AIB's financial information for compliance with legal and regulatory requirements prior to external publication, and for exercising oversight of the Accounting Policies Forum, which ensures that the accounting policies adopted by AIB conform to the highest standards in financial reporting.

The Arrears & Restructuring Priority Committee ("ARPC") is a sub-committee of the Leadership Team and was established in 2016 to take all decisions and actions required or deemed necessary in relation to AIB's non-perfoming loan portfolios.

The following chart sets out AIB's risk management structure:



2 Credit risk

Credit risk is the risk that AIB will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that they had entered into. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, the trading portfolio, financial investments available for sale, financial investments held to maturity and derivatives.

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

Credit risk management objectives are to:

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

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

For more detail on credit risk, see "—*Credit risk*" in note 43 of Section D and note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

2.1 Credit risk organisation and structure

AIB's credit risk management systems operate through a hierarchy of lending authorities. All customer loan requests are subject to a credit assessment process.

The role of the credit risk function is to provide direction, oversight and challenge of credit risk-taking. AIB's RAS sets out the credit risk appetite and framework. Credit risk appetite is set at Board level and is described, reported and monitored through a suite of metrics. These metrics are supported by more detailed appetite metrics at a business segment level. These are also supported by a comprehensive suite of credit risk policies, concentration limits and product and country limits to manage concentration risk and exposures within AIB's approved risk appetite. AIB's risk appetite for credit risk is reviewed and approved annually.

AIB operates credit approval criteria which:

- include a clear indication of AIB's target market(s), in line with AIB and segment RASs;
- require a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
- enforce compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken, in the most part, by experienced credit risk professionals operating within a defined delegated authority framework. However, for certain selected retail portfolios (including personal (up to €30,000) and micro-SME (up to €60,000)), scorecards and automated strategies (together referred to as 'score enabled decisions') are deployed to automate and to support credit decisions and credit management (e.g. score enabled auto-renewal of overdrafts).

The Board is the ultimate credit approval authority and grants authority to various credit committees and individuals to approve limits. Credit limits are approved in accordance with AIB's written policies and guidelines. All exposures above certain levels require approval by the GCC and/or the Board. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the relevant credit authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

2.2 Measurement of credit risk

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

The primary model measures used are:

- probability of default ("PD")—the likelihood that a borrower is unable to repay his or her obligations;

- exposure at default ("EAD")—the exposure to a borrower who is unable to repay his or her obligations at the point of default;
- loss given default ("LGD")—the loss associated with a defaulted loan or borrower; and
- expected loss ("EL")—the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

To calculate PD, AIB assesses the credit quality of borrowers and other counterparties and assigns a credit grade or score to these. This grading is fundamental to credit sanctioning and approval, and to the ongoing credit risk management of loan portfolios. It is a key factor in determining whether credit exposure limits are sanctioned for new borrowers, at which authority level they can be approved and how any existing limits are managed for current borrowers.

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

For the purposes of calculating credit risk, each "probability of default model" segments counterparties into a number of rating grades, each representing a defined range of default probabilities. Exposures migrate between rating grades if the assessment of the counterparty PD changes. These individual rating models continue to be refined and recalibrated based on experience. The calculation of internal ratings differs between portfolios. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment and decision making is largely automated through the use of statistically-based scoring models. All counterparties are assessed using the appropriate model or scorecard prior to credit approval.

Mortgage applications are generally assessed centrally with particular reference to affordability, assisted by scoring models. However, for larger cases with connected exposures, some mortgage applications are assessed by the relevant credit authority. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk, as well as to facilitate the management of these portfolios.

In the non-retail portfolio, the grading systems utilise a combination of objective information, essentially financial data (e.g., borrowers' EBITDA, interest cover and balance sheet gearing) and qualitative assessments of non-financial risk factors such as management quality and competitive position within the sector/industry. The combination of expert lender judgement and statistical methodologies varies according to the size and nature of the portfolio, together with the availability of relevant default experience applicable to the portfolio.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or "criticised" loans. Criticised loans include "watch", "vulnerable" and "impaired" loans which are defined as follows:

Watch:	The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
Vulnerable:	Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.
Impaired:	A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

AIB's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to ongoing review in order to ensure that AIB is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

2.2.1 Use of PD, LGD and EAD

As at 31 December 2016, AIB used a combination of standardised and IRB approaches for the calculation of regulatory capital. Under the standardised approach, regulatory risk weightings are determined on a fixed percentage basis, depending on the portfolios, as specified in the relevant regulations. AIB has regulatory approval to use certain of its internal credit models in the calculation of its capital requirements. This approval covers the adoption of the foundation IRB approach for non-retail exposures and advanced IRB for retail exposures. As at 31 December 2016, 43 per cent. of credit risk-weighted assets were calculated using internal credit models (43 per cent. as at 31 December 2015 and 42 per cent. as at 31 December 2014). AIB is seeking further regulatory approval of its internal models with the aim of increasing the percentage of risk-weighted assets being calculated using internal models. For more information on the risks associated with the use of internal models see "*Part II: Risk Factors—AIB's credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of IRB for standardised approach or reputational risk for AIB*".

AIB divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate PD estimates into between nine and 16 grades in addition to the category of default. In all cases, impaired exposures and exposures 90 days or more past due are considered to be in default.

Non-retail

For non-retail exposures, the foundation IRB approach is used for sovereign, bank, corporate, commercial, 'not for profit' and project finance portfolios. The foundation IRB approach is used where banks use their own estimate of PD and regulatory estimates of LGD and EAD. To calculate PD, AIB assesses the quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration.

Retail

For retail exposures, the advanced IRB approach is adopted for Ireland residential mortgages (excluding EBS mortgages) where AIB uses its own estimates of PD, LGD and EAD. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources.

AIB has a formalised governance framework around the internal ratings process. Each rating model is subject to an annual validation process, undertaken by an independent validation team.

The table below shows the distribution of outstanding non-defaulted credit exposures to customers in terms of EAD, PD, LGD and EL by IRB portfolios as at 31 December 2016, 2015 and 2014:

	As at 31 December 2016			
	EAD	**Average PD**	**Average LGD**	**EL**
	(€ millions, unless otherwise indicated)			
Residential mortgages	17,981	0.84%	27.43%	64
Owner-occupier	15,455	0.80%	27.10%	47
Buy-to-let	2,526	1.08%	29.44%	17
Corporate	6,987	0.73%	45.26%	27
SME	3,127	4.81%	45.00%	69
Total	28,095	1.26%	33.82%	160

	As at 31 December 2015			
	EAD	Average PD	Average LGD	EL
	(€ millions, unless otherwise indicated)			
Residential mortgages	18,438	1.26%	27.74%	105
Buy-to-let	2,999	2.21%	29.97%	42
Owner-occupier	15,439	1.08%	27.30%	63
Corporate	6,422	1.04%	45.26%	34
SME	3,017	5.61%	45.00%	76
Total	27,877	1.68%	33.64%	215

	As at 31 December 2014			
	EAD	Average PD	Average LGD	EL
	(€ millions, unless otherwise indicated)			
Residential mortgages	18,243	1.37%	27.96%	112
Buy-to-let	2,961	2.12%	30.45%	41
Owner-occupier	15,282	1.23%	27.48%	71
Corporate	5,330	1.82%	45.22%	50
SME	2,503	5.26%	45.00%	59
Total	26,076	1.84%	33.13%	221

The reduction in the average PD for the owner-occupier and the buy-to-let portfolios is due to the non-default population having a lower recent history of poor account behaviour performance than was previously observed. This has resulted in positive grade migration on this portion of the portfolio in the 12 months to 31 December 2016. The reduction in PD for the corporate portfolio primarily reflects growth in the international lending portfolio and growth in the AIB Ireland corporate portfolio and the reduction in the number of cases in the watch list grades.

For financial reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the reporting date based on objective evidence of impairment. Accordingly, these will differ from amounts calculated from expected loss models.

2.2.2 Control mechanisms for rating systems

AIB's ALCo approves all material risk rating models, model development, model implementation and all associated policies. AIB mitigates model risk for IRB portfolios as follows:

- AIB has specific policies on model governance, development and calibration, validation and deployment; and
- all models are subject to in-depth analysis and review, at least annually, supplemented by model tracking on a quarterly basis. This is carried out by a dedicated unit and is independent of credit origination and management functions.

2.3 Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following tables analyse gross loans and receivables to customers by contractual residual maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 2 per cent. of the portfolio as at 31 December 2016, are classified as repayable within one year. Approximately 8 per cent. of AIB's loan portfolio was provided on a fixed rate basis as at 31 December 2016. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters.

	As at 31 December 2016						
	Fixed rate	Variable rate	Total	Within one year	After one year but within five years	After five years	Total
				(€ millions)			
Republic of Ireland	4,734	51,032	55,766	12,838	9,260	33,668	55,766
United Kingdom	793	8,549	9,342	1,858	3,603	3,881	9,342
Rest of the World	—	120	120	11	109	—	120
Total loans by maturity	5,527	59,701	65,228	14,707	12,972	37,549	65,228

	As at 31 December 2015						
	Fixed rate	Variable rate	Total	Within one year	After one year but within five years	After five years	Total
				(€ millions)			
Republic of Ireland	5,047	53,512	58,559	16,380	8,977	33,202	58,559
United Kingdom	949	10,533	11,482	2,721	3,829	4,932	11,482
Rest of the World	—	122	122	15	107	—	122
Total loans by maturity	5,996	64,167	70,163	19,116	12,913	38,134	70,163

	As at 31 December 2014						
	Fixed rate	Variable rate	Total	Within one year	After one year but within five years	After five years	Total
				(€ millions)			
Republic of Ireland	4,038	59,624	63,662	24,612	6,773	32,277	63,662
United Kingdom	898	11,225	12,123	4,529	2,826	4,768	12,123
Rest of the World	—	47	47	22	25	—	47
Total loans by maturity	4,936	70,896	75,832	29,163	9,624	37,045	75,832

2.4 Analysis of available-for-sale debt securities by contractual residual maturity and weighted average yield

The following tables categorise AIB's available-for-sale debt securities by contractual residual maturity and weighted average yield as at 31 December 2016, 2015 and 2014:

As at 31 December 2016

	Within one year		After one but within five years		After five but within 10 years		After 10 years	
	(€ millions)	(Yield %)	(€ millions)	(Yield %)	(€ millions)	(Yield %)	(€ millions)	(Yield %)
Irish Government securities	1,209	3.9	2,548	4.4	1,029	1.2	328	1.3
Euro government securities	174	1.5	837	1.8	1,695	1.5	—	—
Non-Euro government securities	9	2.6	137	2.5	84	0.8	—	—
Supranational banks and government agencies	265	1.5	1,247	1.0	127	1.7	80	2.2
Collateralised mortgage obligations	—	—	—	—	—	—	433	1.9
Other asset backed securities	—	—	—	—	—	—	12	0.2
Euro bank securities	155	0.8	3,431	0.8	965	0.5	—	—
Euro corporate securities	3	—	20	0.3	24	1.2	—	—
Non-Euro corporate securities	—	—	—	—	20	5.4	—	—
Total	1,815	3.1	8,220	2.1	3,944	1.2	853	1.7

As at 31 December 2015

	Within one year		After one but within five years		After five but within 10 years		After 10 years	
	(€ millions)	(Yield %)	(€ millions)	(Yield %)	(€ millions)	(Yield %)	(€ millions)	(Yield %)
Irish Government securities	816	8.1	3,889	4.1	414	1.8	287	2.1
Euro government securities	—	—	687	1.6	2,346	1.5	—	—
Non-Euro government securities	—	—	136	2.0	109	0.8	—	—
Supranational banks and government agencies	—	—	1,545	1.1	437	1.3	26	2.0
Collateralised mortgage obligations	—	—	—	—	—	—	328	1.6
Other asset backed securities	—	—	—	—	—	—	1	0.1
Euro bank securities	—	—	3,602	0.9	998	0.8	—	—
Euro corporate securities	—	—	20	4.1	10	2.8	—	—
Non-Euro corporate securities	1	—	35	5.2	21	5.9	—	—
Total	817	8.1	9,914	2.3	4,335	1.3	642	1.8

As at 31 December 2014

	Within one year		After one but within five years		After five but within 10 years		After 10 years	
	(€ millions)	(Yield %)	(€ millions)	(Yield %)	(€ millions)	(Yield %)	(€ millions)	(Yield %)
Irish Government securities	—	—	5,632	4.7	2,933	3.3	542	3.3
Euro government securities	230	2.0	1,167	1.5	2,234	1.7	—	—
Non-Euro government securities	29	2.2	90	2.7	63	1.8	—	—
Supranational banks and government agencies	150	2.0	1,775	1.1	900	1.3	27	2.0
Collateralised mortgage obligations	—	—	—	—	—	—	99	1.5
Other asset backed securities	—	—	—	—	—	—	1	0.3
Euro bank securities	95	1.0	3,014	1.0	788	1.3	—	—
Non-Euro corporate securities	3	—	—	—	—	—	—	—
Total	507	1.8	11,678	2.9	6,918	2.3	669	3.0

3 Restructure execution risk

There is a risk that AIB's restructuring activity programme for customers in difficulty will not be executed in line with management's expectation.

AIB continues to have a relatively high level of problem or criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. As at 31 March 2017, AIB had €17.8 billion of criticised loans on its balance sheet. AIB has been proactive in managing its criticised loans through a restructuring process. The objective of this process is to assist customers that find themselves in financial difficulties, to deal with them sympathetically and to work with them constructively and to explore appropriate solutions. By continuing to work together in this process, AIB and the customer can find a mutually acceptable and alternative way forward. These plans, if successfully completed, will materially change the make-up of AIB's operations. They will remove non-performing assets from AIB's balance sheet, improve its asset quality, lower its overall risk profile, and strengthen its solvency.

However, as AIB moves forward into the post-restructure phase, the realisation of collateral and the receipt of expected cashflows within the timeframes estimated, presents a level of execution risk. In addition, there is the risk of a customer re-defaulting, post restructure.

AIB has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage and to assist with the restructuring of problem loans. AIB regularly reviews the performance of these restructured loans and have a dedicated team to focus on asset sales within the restructured portfolio.

4 Funding and Liquidity Risk

Liquidity risk is the risk that AIB will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. The objective of liquidity management is to ensure that, at all times, AIB holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

For more detail on liquidity risk, see "*—Liquidity risk*" in note 43 of Section D and "*—Funding and liquidity risk*" in note 58 of Section B to "*Part XVI: Consolidated Historical Financial Information*".

4.1 Risk identification and assessment

Liquidity risk is assessed by modelling cash flows of AIB over a series of maturity bands. Behavioural assumptions are applied to those assets and liabilities whose contractual repayment dates are not reflective of their inherent stability. Both contractual and behaviourally adjusted cash flows are compared against AIB's stock of unencumbered liquid assets to determine, by maturity bands, the adequacy of AIB's liquidity position. In addition, AIB monitors and manages the funding support provided by its deposit base to its loan portfolio through a series of measures including the CRD IV related liquidity ratios, i.e. the LCR and NSFR as required by the CRR and the CRD and ultimately the LCR as required by the published European Commission Delegated Regulation (the "Delegated Act") to supplement the CRR and which came into force on 1 October 2015.

4.2 Risk management and mitigation

AIB manages liquidity and funding risks through its Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. The ILAAP considers evolving regulatory standards and aims to ensure that AIB maintains sufficient financial resources of appropriate quality for its funding profile. AIB has a comprehensive Funding and Liquidity Framework for managing its Group's liquidity risk. The Funding and Liquidity Framework is designed to comply with evolving regulatory standards and ensure that AIB maintains sufficient financial resources of appropriate quality for its funding profile. The Funding and Liquidity Framework is delivered through a combination of policy formation, review and governance, analysis, stress testing and limit setting and monitoring.

In addition to the CRR liquidity requirements, AIB's liquidity management policy seeks to ensure compliance with the "Principles for the Sound Liquidity Risk Management and Supervision" as set out by the Basel Committee on Banking Supervision (September 2008) and the Central Bank's "Requirements for the Management of Liquidity Risk" (June 2009) and in doing so ensures that it has sufficient liquidity to meet its current and forecasted requirements. AIB is required to comply with the liquidity requirements of the SSM/Central Bank and also with the requirements of local overseas regulators which include regulatory restrictions on the transfer of liquidity within AIB. In addition, it operates a funding strategy designed to anticipate additional funding requirements based on projected balance sheet movements and to maintain a diversified funding base with an emphasis on high quality, stable customer deposit funding whilst maintaining an appropriate balance between short term and long-term funding sources at an appropriate cost.

The liquidity and funding requirements of AIB are managed and controlled by the treasury function. Euro and sterling are the most important currencies to AIB from a liquidity and funding perspective. AIB manages its liquidity in a number of ways:

- firstly, through the active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on periods up to one month. Monitoring ratios also apply to longer periods for long-term funding stability;
- secondly, AIB aims to maintain a stock of HQLA to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity; and
- finally, net inflows and outflows are monitored on a daily basis.

4.3 Risk monitoring and reporting

In common with other areas of risk management, AIB operates a "three lines of defence" model. Liquidity risk management is undertaken in the treasury function. Reporting and monitoring is carried out by the Capital and Liquidity unit which reports to the CFO. Management in these areas comprises the first line of defence. Control and assurance is provided by Financial Risk reporting to the CRO. This area comprises the second line. Group Internal Audit comprises the third line. AIB's liquidity and funding position is reported regularly to the ALCo, the ERC and Risk Committee. In addition, the Leadership Team and the Board are briefed on liquidity and funding on an ongoing basis.

4.4 Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework and ILAAP. AIB undertakes liquidity stress testing as a key liquidity control. These stress tests include both firm-specific and systemic risk events and a combination of both. Stressed assumptions are applied to AIB's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of AIB's liquidity position, within AIB's pre-defined liquidity risk tolerance levels.

AIB has established the Contingency Funding Plan ("CFP") which is designed to ensure that AIB can manage its business in stressed liquidity conditions and restore its liquidity position should there be a major stress event.

Liquidity stress test results are reported to the ALCo, Leadership Team and Board, and to other committees. If Board approved survival limits are breached, the CFP will be activated. The CFP can also be activated by management decision independently of the stress tests. The CFP is a key element in AIB's Recovery Plan in relation to funding and liquidity.

4.5 Liquidity regulation

AIB is required to comply with the liquidity requirements of the Central Bank/SSM and also with the requirements of local regulators in jurisdictions in which it operates.

AIB monitors and reports its current and forecast position against CRD IV related liquidity metrics—the LCR and the NSFR.

AIB had an LCR of 128 per cent. as at 31 December 2016 (31 December 2015: 116 per cent.) The minimum LCR requirement in 2016 was 70 per cent., rising to 100 per cent. by 1 January 2018. AIB has fully complied with the requirement.

The minimum NSFR requirement is scheduled to be introduced on 1 January 2018 at 100 per cent. As at 31 December 2016, AIB had an estimated NSFR of 119 per cent. (31 December 2015: 111 per cent.).

In addition, AIB is required to carry out liquidity stress testing capturing firm-specific, systemic risk events and a combination of both. AIB adheres to this requirement.

4.6 Funding structure

AIB maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

Customer deposits represent the largest source of funding for AIB. The core retail franchises and accompanying deposit base in both Ireland and the United Kingdom provide a stable and reasonably predictable source of funds. Customer accounts have broadly remained flat with a slight increase of

€0.1 billion in the year ended 31 December 2016, due to an increase in current accounts offset by institutional deposits. AIB's loan to deposit ratio as at 31 December 2016 was 95 per cent. (having been 100 per cent. as at 31 December 2015).

While AIB continued to participate in Central Bank/ECB operations, 2016 saw a reduction of €1.0 billion in ECB funding. Central Bank/ECB funding amounted to €1.9 billion as at 31 December 2016, down from €2.9 billion as at 31 December 2015 and €3.4 billion as at 31 December 2014. AIB decided to early mature the legacy €1.9 billion in the TLTRO I facility and re-invest it into the TLTRO II facility to lock in low cost term funding for the extended period.

Wholesale funding markets saw continued improvement in sentiment towards Ireland and towards AIB in 2015 and 2016. In the 12 months to December 2016, AIB raised secured funding through a €1 billion covered bond issuance with a 7-year tenor which was issued at a spread over mid-swaps of 54 basis points. This represented a spread increase of approximately 27 basis points compared to the historic low levels experienced in 2015 with a similar tenor.

Senior debt funding of €1.0 billion at 31 December 2016 decreased from €1.6 billion at 31 December 2015 and €3.3 billion as at 31 December 2014 due to contractual maturities in the first half of 2016. See note 36 of Section B of "*Part XVI: Consolidated Historical Financial Information*" for details of senior debt funding.

A final regulatory decision on future MREL specific to AIB is expected in 2017. In advance of this, AIB has considered a pathway to MREL compliance in its funding and liquidity strategy.

The performance of the economy driving credit demand and the retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment will be the key factors influencing AIB's capacity for asset growth and the future shape of AIB. Coupled with actions to restructure stressed assets, this is paramount to increasing AIB's pool of available liquid assets and to AIB's overall funding and liquidity strategy.

4.7 Encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to AIB to secure debt funding, satisfy collateral needs or to be sold. The asset encumbrance disclosure has been produced in line with 2014 EBA Guidelines on disclosure of encumbered and unencumbered assets.

The ability to encumber certain pools of assets is a key element of AIB's debt funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding AIB's NAMA senior bonds and financial investments AFS portfolios. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c. AIB has seen a downward trend in asset encumbrance in recent years, this trend is expected to continue over the coming years.

AIB has seen, and would expect to continue to see a downward trend in encumbrance as AIB's debt funding requirement is reduced through NAMA senior bond redemptions. AIB includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue asset covered securities which are backed by residential mortgages. In addition, AIB uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, AIB retains some of the bonds issued by the mortgage banks and the securitisation vehicles for liquidity management purposes (e.g. such bonds can be used as collateral to obtain funding from the ECB). Bonds retained by AIB contribute to AIB's liquidity buffer and do not add to AIB's encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between the Company and other AIB entities (e.g. EBS and AIB Group (UK) p.l.c.) is an element of AIB's liquidity management processes.

The following table analyses total assets by (i) encumbered assets and (ii) unencumbered assets at 31 December 2016, 2015 and 2014:

	As at 31 December 2016				As at 31 December 2015				As at 31 December 2014			
			Unencumbered assets				Unencumbered assets				Unencumbered assets	
	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral
	(€ millions)											
Loans and receivables to banks	1,399	1,287	101	11	2,339	1,518	173	648	1,865	1,727	138	—
Loans and receivables to customers	60,639	11,848	9,632	39,159	63,240	13,487	9,217	40,536	63,362	11,102	13,523	38,737
NAMA senior bonds	1,799	542	1,257	—	5,616	1,240	4,376	—	9,423	1,405	8,018	—
Financial investments available for sale:												
Debt securities	14,832	5,762	9,070	—	15,708	9,227	6,481	—	19,772	14,893	4,879	—
Equity securities	605	—	—	605	781	—	—	781	413	—	—	413
Financial investments held to maturity	3,356	238	3,118	—	3,483	1,570	1,913	—	—	—	—	—
Other	12,992	457	—	12,535	11,955	222	2,953	8,780	12,620	175	2,650	9,795
Total	95,622	20,134	23,178	52,310	103,122	27,264	25,113	50,745	107,455	29,302	29,208	48,945

AIB had an encumbrance ratio of 21 per cent. as at 31 December 2016 (2015: 26 per cent.; 2014: 27 per cent.) The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility. At 31 December 2016, €9,632 million (2015: €9,217 million; 2014: €13,523 million) of residential loan mortgages are unencumbered but are regarded by AIB as readily available as they are held in covered bond and securitisation structures. The remaining loan assets in this category amount to €39,159 million (2015: €40,536 million; 2014: €38,737 million) and, whilst unencumbered, are not regarded as being available in support of liquidity management at present. Other assets, such as deferred tax assets, derivative assets and property, plant and equipment, are not regarded as encumberable.

Asset encumbrance of loans and receivables to customers

Loans and receivables to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions. All other loans and receivables are conservatively classified as not readily available; however, a proportion would be suitable for use in secured funding structures. The potential for the creation of such funding structures is continually under review.

The following table analyses the asset encumbrance of loans and receivables to customers as at 31 December 2016, 2015 and 2014:

	2016				2015				2014			
	Assets(1)	Externally issued notes	Other secured funding	Retained notes(5)	Assets(1)	Externally issued notes	Other secured funding	Retained notes(5)	Assets(1)	Externally issued notes	Other secured funding	Retained notes(5)
	(€ billions)											
Mortgages (ABS/ACS)	20.7	5.7(2)	1.8(3)	3.3	21.4	5.4(2)	3.2(3)	3.1	23.3	4.5(2)	3.1(3)	4.3
Retail and SME (credit card issuance)	—	—	—	—	0.3	—	0.2(4)	—	0.3	—	0.2(4)	—
Other	0.8	—	—	—	1.0	—	—	—	1.0	—	—	—
Total	21.5	5.7	1.8	3.3	22.7	5.4	3.4	3.1	24.6	4.5	3.3	4.3

Notes:

(1) Loans and receivables which are both encumbered and readily available for encumbrance.

(2) ABS/ACS issued by AIB and held by third parties.

(3) ABS/ACS issued and retained by AIB which were used in secured transactions at the reporting date.

(4) Funding arising from securitisation of credit card receivables.

(5) ABS/ACS retained by AIB and not used in secured transactions at the reporting date, were available as collateral.

AIB issues asset backed securities ("ABS"), ACS and other similar secured instruments that are secured primarily over customer loans and receivables. Notes issued under these programmes are also used in repurchase agreements with market counterparties and in central bank facilities.

In addition to securities already in issue, as at 31 December 2016, AIB had excess collateral within its asset backed funding programmes that could readily be used to issue additional bonds of €3.2 billion (2015: €2.9 billion; 2014: €3.8 billion).

Interbank repurchase agreements and ECB refinancing operations

The following table analyses the repurchase agreements and ECB refinancing operations as at 31 December 2016, 2015 and 2014:

	2016				2015				2014			
	Less than 1 month	1 month to 3 months	Over 3 months	Total	Less than 1 month	1 month to 3 months	Over 3 months	Total	Less than 1 month	1 month to 3 months	Over 3 months	Total
	(€ billions)											
Highly liquid	3	2	—	5	5	6	—	11	9	5	—	14
Less liquid	—	—	2	2	1	—	2	3	2	—	2	4
Maturity profile	3	2	2	7	6	6	2	14	11	5	2	18

4.8 Large exposures

AIB's Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

As at 31 December 2016, AIB's top 50 exposures amounted to €4.5 billion, and accounted for 6.9 per cent. (€4.8 billion and 6.9 per cent. as at 31 December 2015; €5.1 billion and 6.8 per cent. as at 31 December 2014) of AIB's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to approximately €83 million (31 December 2015: €266 million; 31 December 2014: €200 million). No single customer exposure exceeded regulatory requirements. In addition, AIB holds NAMA senior bonds amounting to €1.8 billion as at 31 December 2016 (€5.6 billion as at 31 December 2015; €9.4 billion as at 31 December 2014).

4.9 Credit ratings

AIB's long-term debt (which is not covered by the ELG Scheme) is rated BBB− (with a stable outlook) by S&P (from January 2017), Baa2 (with a stable outlook) by Moody's (from June 2017) and BB+ (with a positive outlook) by Fitch (from December 2015).

Bank and sovereign rating downgrades have the potential to adversely affect AIB's liquidity position and this has been factored into AIB's stress tests.

5 Capital adequacy risk

Capital adequacy risk is defined as the risk that AIB breaches or may breach regulatory capital ratios and internal targets. The key material risk impacting on the capital adequacy position of AIB is credit risk, although it should be noted that all material risks can to some degree impact capital ratios.

Capital adequacy risk is mitigated at AIB level by an evaluation of the adequacy of AIB's capital under both forecast and stress conditions as part of the ICAAP. The ICAAP process includes the identification and evaluation of potential capital mitigants.

6 Market risk

For details of market risk, see *"—Market risk"* in note 58 of Section B of *"Part XVI: Consolidated Historical Financial Information"*.

7 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk—the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which include Product, Project, People & Property, Continuity & Resilience, Information & Security and Outsourcing.

7.1 Operational risk operating model

AIB's operating model for operational risk is designed to ensure the framework described below is embedded and executed robustly across AIB. The key principles of the framework are:

- a strong operational risk function, appropriately staffed and clearly independent of the first line of defence; and
- technology, policies and procedures in place to support effective assessment and mitigation of operational risks.

7.2 Risk identification and assessment

Risk and Control Self-Assessment ("RCA") is a core process in the identification and assessment of operational risk across the enterprise. The process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken to mitigate them. Self-assessment of risks is completed at business unit level and are recorded on Shield (AIB's risk management system). RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks and action plans must be developed to introduce mitigants for the more significant risks. Monitoring processes are in place at business and support level. The central operational risk team sets and maintains policies and procedures for self-assessment and undertakes risk-based reviews to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to the more significant risks.

7.3 Risk management and mitigation

Each business area is responsible for managing its own risks. The Operational Risk ("OR") framework includes policies specific to key operational risks (such as information security and continuity and resilience) and key operational risk management processes (such as incident reporting and management) to ensure an effective and consistent approach to operational risk management across AIB.

An important element of AIB's OR framework is the ongoing monitoring of risks, control deficiencies and weaknesses, including the tracking of operational risk events. The role of Operational Risk is to review operational risk management activities across AIB including setting policy and promoting best practice disciplines, augmented by an independent assurance process. The operational risk function is accountable to the CRO and to the Board through the Risk Committee, ERC and the ORC.

In addition, an insurance programme is in place, including a self-insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; and directors' and officers' liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

7.4 Risk monitoring and reporting

The primary objective of the OR management reporting and control process within AIB is to provide timely, pertinent operational risk information to the appropriate management level so as to enable appropriate corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and incident data for AIB. The reporting of operational incidents and trend data, as required, at the ERC and Risk Committee supports these two objectives. In addition, the Board, Audit Committee and the ERC receive summary information on significant operational incidents on a regular basis.

Business units are required to review and update their assessment of their operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, quality assurance teams, which are independent of the business, undertake reviews of the operational controls in the retail branch networks as part of a combined regulatory/compliance/operational risk programme.

8 Regulatory compliance risk and conduct risk

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which AIB may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

The regulatory compliance function is an enterprise-wide function which operates independently of the business. The function is responsible for identifying relevant compliance obligations arising in each of AIB's operating markets. The regulatory compliance function works closely with management in assessing compliance risks and provides advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Conduct risk is defined as the risk that inappropriate actions, or inaction, by AIB could cause poor and unfair outcomes for its customers or market instability. A mature Conduct Risk Framework, aligned with AIB's strategy, is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level. This includes the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

The Central Bank, CCPC and FCA have defined consumer protection principles in conduct of business requirements. These principles are embedded in AIB's conduct risk management and policies and procedures.

Conduct risk is managed in line with the processes, procedures and organisational structures for the management of regulatory compliance risk.

8.1 Risk identification and assessment

The regulatory compliance function is specifically responsible for independently identifying and assessing current and forward-looking "conduct of business" compliance obligations, as well as financial crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, prudential regulation is assigned to the Finance and Risk functions, with emerging prudential regulations being monitored by the Compliance Upstream unit. The regulatory compliance function undertakes a periodic detailed assessment of the key conduct of business compliance risks and associated mitigants. The regulatory compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the RCAs for the relevant business unit.

8.2 Risk management and mitigation

The Board, operating through the Risk Committee, approves AIB's compliance policy and its mandate for the regulatory compliance function.

The Board is responsible for ensuring that AIB complies with its regulatory responsibilities. The Board's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates. The Board ensures that regulatory compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the regulatory compliance function is to provide direction and advice to enable management to discharge its responsibility for managing AIB's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, AIB has insurance policies that cover certain consequences of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

8.3 Risk monitoring and reporting

Regulatory compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams, or in collaboration with other control functions such as Group Internal Audit and/or operational risk.

Risk prioritised annual compliance monitoring plans are prepared with monitoring undertaken both on a business unit and a process basis. The annual monitoring plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation timelines are agreed. The implementation of these action plans is monitored by the regulatory compliance function.

The regulatory compliance function reports to AIB's General Counsel and independently to the Board, through the Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

9 Culture Risk

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

9.1 Mitigating actions

Culture is an essential component in realising an organisation's strategic ambitions. An effective culture is built around a general principle of "doing the right thing" for all stakeholders, including customers, staff and regulators.

AIB seeks to foster a consistent culture, in the way decision making occurs and how it communicates this from the top and throughout AIB. In this way AIB has embedded a set of customer centric Brand Values. These values drive and influence activities of all staff, guiding dealings with customers, other employees and all stakeholders. The Brand Values are embedded within AIB's framework, from the way it recruits, promotes, rewards and manages its employees.

A strong culture demonstrates a consistent approach to compliance in both the letter and spirit of the law. AIB's Risk Culture Principles and Code of Conduct places great emphasis on the integrity of staff and accountability for both inaction and actions taken.

How the staff live up to AIB's values determines what behaviours are acceptable in AIB and this means aligning remunerations and reward models around these values. In 2016, AIB launched the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions that contribute to delivering AIB's strategic ambitions. Aspire allows all staff to create goals that are clear on "what" they will achieve and "how" they will achieve them. This means that AIB stands out from its peers in embracing the right behaviours and outcomes with equal weighting, in achieving its strategic ambition.

AIB has made significant steps in increasing engagement and awareness of its risk management activities throughout AIB by embedding the RAS in policies and frameworks of AIB. The RAS contains clear statements of intent as to AIB's attitude to taking and managing risk, including culture risk. It ensures AIB monitors and reports against certain culture metrics in measuring culture risk and tracking cultural change.

AIB closely monitors its evolving culture at the Group level through its staff engagement programme, iConnect. Engagement scores have consistently increased since its inception in 2013. As a result, initiatives continue to be undertaken at team level to improve the way things are done and from which AIB continuously identifies opportunities to evolve its culture at the Group level as a competitive advantage.

AIB's iLearn training portal, provides all staff with a dedicated and bespoke curriculum that allow teams and individuals to invest in themselves and therefore the organisation. AIB's Speak Up Policy and process also provides staff with a protected channel for raising concerns which is at the heart of fostering an open and receptive cultural environment.

10 Business risk and competition risk

Business risk is the risk that external and internal factors impact on AIB's performance and the achievement of its strategic objectives. External factors include the macro-economic, geo-political and competitive environment. Internal factors include plan delivery, cost management and execution/change management.

Competition risk, which is a component of business risk, is the risk that the actions of competitors or new entrants to the market impair AIB's competitive advantage, threaten the viability of its business model or even its ability to survive.

These risks are mitigated at the Group level through AIB's financial planning process which evaluates the impact of economic and market conditions on AIB's financial performance and results of operation. The operations are included within the financial planning process. Performance against the Group's financial plan is monitored by management and the Board on a monthly basis.

10.1 Risk identification and assessment

AIB identifies and assesses business risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of AIB's strategic objectives aligned to AIB's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long-term strategy of AIB.

AIB reviews its assumptions on its external operating environment and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets. In normal circumstances, this is undertaken annually.

AIB's business and financial planning process supports AIB's strategy. Every year, AIB prepares three-year business plans at a Group level based on macro-economic and market forecasts across a range of scenarios. The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across profit and loss, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposit volumes and pricing, other income, cost management initiatives and credit performance. AIB's plan is supported by detailed business unit plans. Each business unit plan is aligned to AIB's strategy and risk appetite. The business plan typically describes the market in which the segment operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

10.2 Risk management and mitigation

At a strategic level, AIB manages business risk within its risk appetite framework, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through periodic monitoring of variances to plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter. During the year, periodic forecast updates for the full year financial outcome may also be produced. The frequency of forecast updates during each year will be determined based on prevailing business conditions.

At an individual level, planning targets translate into accountable objectives to enable performance tracking across the bank and to facilitate formulation and review of Leadership Team performance scorecards.

10.3 Risk monitoring and reporting

Performance against business and financial plans is monitored at segment level on a monthly basis and reported to senior management teams within the business. At an overall Group level, performance against business and financial plans is monitored as part of the CFO Report which is discussed at Leadership Team and Board on a monthly basis. Risk profile against risk appetite measures, some of which would reference performance against Plan, is monitored by the CRO and reported on a monthly basis to the ERC, Leadership Team and Board.

11 Pension risk

Pension risk is the risk that:

- the funding position of AIB's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its pension obligations;
- the capital position of AIB is negatively affected. Deficits recorded under IFRS measurement impact regulatory capital on a phased basis and any funding deficits will be fully deductible from regulatory capital beginning in 2018; and
- there could be a negative impact on industrial relations if the funding level of the schemes were to deteriorate significantly.

AIB maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in "*—Retirement benefit obligations*" in note 2 of Section B, note 10 of Section D and note 12 of Section B of "*Part XVI: Consolidated Historical Financial Information*". These defined benefit schemes were closed to future accrual from 31 December 2013. Approval was received from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Irish Pension Scheme. In the United Kingdom, AIB has established the AIB UK Pension Scheme, an asset backed funding vehicle to meet its statutory funding objective as per the UK Pensions Act 2004.

While AIB has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk.

Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements.

Actuarial risk arises due to the risk that the estimated value of the defined benefit scheme liabilities may increase due to changes in actuarial assumptions. There has been a change to the actuarial assumption of the nature and extent of any obligation to fund discretionary increases in pensions in payment in the AIB Irish Pension Scheme in 2016. This has been reassessed following a review by the Board, having considered actuarial and external legal advice. Although AIB is confident of its assessment, it may be subject to the risk of challenge, however, AIB will robustly defend any such challenge, legal, regulatory or otherwise.

The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the active management of the investment portfolios across geographies and asset classes and as the schemes are closed to future accrual a process of de-risking the investment strategy to reduce market risk.

12 Model risk

Model risk is the risk of potential adverse consequences from decisions based on incorrect or misused model outputs and reports. The responsibilities and accountabilities in relation to the governance of model risk are outlined in AIB's Model Risk Framework

AIB mitigates this risk by having policies and standards in place in relation to model development, operation and validation. In addition, Group Internal Audit provide independent assurance on the adequacy, effectiveness and sustainability of the governance, risk management and control framework supporting model risk through their periodic review of the Model Risk Management processes.

PART XVIII
SUPERVISION AND REGULATION

1 Regulation of Banks in Ireland

1.1 General Supervision and Regulation of Banks in Ireland

As a credit institution that is incorporated in Ireland, each of the Company, AIB Mortgage Bank, EBS and EBS Mortgage Finance is (i) authorised by and subject to the regulatory oversight of the Relevant Banking Regulator (as described below under "*—Role of the Relevant Banking Regulator*"); and (ii) subject to regulation under general banking legislation in Ireland (the "Irish Banking Code"). AIB Mortgage Bank and EBS Mortgage Finance are subject to regulation under the Asset Covered Securities Acts 2001 and 2007, as amended (the "ACS Act") in respect of the activities regulated thereby.

The Irish Banking Code consists primarily of the Central Bank Acts 1942 to 2015 (the "Central Bank Acts"), including the Central Bank and Financial Services Authority of Ireland Act 2003, the Central Bank and Financial Services Authority of Ireland Act 2004 (the "2004 CBI Act"), the Central Bank Reform Act 2010, the Central Bank and Credit Institutions (Resolution) Act 2011 (the "Bank Resolution Act"), the Central Bank (Supervision and Enforcement) Act 2013 (the "2013 CBI Act"), regulations made by the Minister for Finance under the European Communities Act 1972, regulatory notices, regulations and codes of conduct issued by the Central Bank and EU regulations relating to banking regulation. These ministerial regulations implement EU directives relating to banking regulation, including the CRD and give further effect to such EU regulations, including the SSM Regulation and the CRR.

The Central Bank Acts provide that banking business may only be carried on in Ireland by the holder of a local banking authorisation or a passported EEA banking authorisation on an EEA branch or cross border basis (as described below). The Relevant Banking Regulator may, in its discretion, grant or refuse a local banking authorisation under the Central Bank Acts or, as applicable, SSM Regulation and may attach conditions to any local banking authorisation on its issuance or subsequently. The Relevant Banking Regulator is empowered in specified circumstances, to revoke a local banking authorisation. Under the Central Bank Acts, holders of a local banking authorisation must maintain a minimum deposit with the Central Bank.

The CRD was implemented in Ireland by the European Union (Capital Requirements) Regulations 2014. The European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. CRD IV permits a credit institution authorised for the purposes of CRD IV in an EEA Member State (its "Home State") to do banking business in any other EEA Member State (the "Host State") without having to obtain an official authorisation from the relevant regulator in the Host State. The authorisation from the competent authority of the Home State operates effectively as a "passport" to do banking business throughout the EEA. Other EU directives which have been implemented in Ireland provide similar "passporting" mechanisms for authorised investment firms and authorised life and non-life insurance undertakings.

1.2 SSM and SRM

Under the SSM, the ECB is the central prudential supervisor of certain financial institutions in the Eurozone, including AIB, and in those non-Eurozone but EU Member States that have chosen to join the SSM. The aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. The EU legislative measures which provide for the SSM are the SSM Regulation and the SSM Framework Regulation, which are given full effect in Irish law under the European Union (SSM) Regulations 2014.

The European institutions have also established the SRM under the SRM Regulation. The SRM applies to credit institutions covered by the SSM. In cases of the failure of a credit institution, the SRM will allow its resolution to be managed effectively through a single resolution board and a single resolution fund, financed by levies raised at national level. See "*—The Bank Resolution and Recovery Directive/Single Resolution Mechanism Regulation*" below for details of the single resolution board and the single resolution fund.

1.3 Capital and Liquidity Requirements

In Ireland, the Relevant Banking Regulator requires credit institutions to manage their liquidity, on a consolidated group-wide basis, by applying a cash-flow maturity mismatch approach. This requires a credit institution to analyse its cash flows on a group-wide basis under various headings and to place them in pre-determined time bands depending on when the cash is received or paid out. Limits are imposed on AIB on the first (0-8 days) and second (8-31 days) time bands and monitoring ratios are calculated for subsequent time bands. These liquidity requirements apply to AIB on a consolidated basis rather than to the Company on a standalone basis and the Company complies with such requirements as part of AIB's consolidated reporting, as permitted by the Relevant Banking Regulator.

A set of reform measures, known as Basel III, have been developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector. In December 2010, the Basel Committee published "Basel III: A global regulatory framework for more resilient banks and banking systems" (as revised in June 2011) and "Basel III: International framework for liquidity risk measurement, standards and monitoring", which together present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The Basel III reforms were implemented in the EU under CRD IV.

The CRD governs, amongst other things, the access by credit institutions to deposit-taking activities, while the CRR establishes the prudential requirements credit institutions need to respect.

The CRR contains detailed prudential requirements for credit institutions and certain investment firms and includes the following measures:

- capital: the CRR sets out the amount of own funds credit institutions need to hold as well as the quality of those funds. It also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is recognised for regulatory purposes.
- liquidity: the LCR requires credit institutions to have sufficient HQLAs to withstand a 30-day stressed funding scenario that is specified by the supervisors. The LCR came into effect in January 2015 with a phased implementation up until January 2018 (within the EU). The second liquidity measure is the NSFR, which is a longer-term structural ratio designed to address liquidity mismatches. It requires credit institutions to maintain a stable funding profile in relation to their on and off balance sheet activities. An NSFR of 100 per cent. is scheduled to come into effect from January 2018.
- leverage ratio: the leverage ratio will be subject to supervisory review by competent authorities of Member States. The implications of a leverage ratio will be closely monitored prior to its possible move to a binding requirement on 1 January 2018. The proposals (see below) for amendments to the CRR, the CRD and the BRRD and SRM published by the EC on 23 November 2016 include a proposal that a binding 3 per cent. CET1 leverage ratio requirement is added to the CRR basic regulatory capital (own funds) requirements which would be applicable to all institutions subject to CRD IV.
- single rule book: the CRR includes a single set of harmonised prudential rules which credit institutions throughout the EU must follow. These rules removed a large number of national options and discretions that were previously available.

CRD IV includes the following measures with respect to credit institutions such as AIB:

- enhanced governance: CRD IV contains a number of requirements with regard to corporate governance arrangements and processes which include requirements aimed at increasing the effectiveness of risk oversight by boards, improving the status of the risk management function and ensuring effective monitoring by supervisors of risk governance;
- sanctions: CRD IV sets out certain minimum requirements regarding administrative sanctions and contains measures to ensure that supervisors can apply sanctions that are dissuasive, but also effective and proportionate. For example, it provides for administrative fines of up to 10 per cent. of an institution's annual turnover, and/or temporary bans on members of the institution's management body;
- capital buffers: CRD IV specifies a number of capital buffers on top of the minimum capital requirements—a capital conservation buffer (identical for all credit institutions in the EU, subject to transitional arrangements), a buffer in respect of global systemically important institutions, a buffer in respect of O-SII, a systemic risk buffer (not yet transposed into Irish law) and a countercyclical capital buffer (determined at national level);
- remuneration: CRD IV contains requirements regarding the relationship between the variable component of remuneration and the fixed component. It requires credit institutions to disclose the

number of individuals who have been remunerated over €1 million and provides for a bonus cap which sets the maximum amount of variable remuneration to 100% of fixed remuneration, or 200% subject to shareholder approval;

- enhanced transparency: CRD IV makes provision for transparency and disclosure regarding the activities of credit institutions, as regards profits, taxes and subsidies in different jurisdictions in respect of which annual disclosure is required; and
- maximum distributable amount restrictions which limit a credit institution's ability to make distributions on CET1 and additional tier 1 ("AT1") capital instruments or certain payments in respect of pensions and remuneration where a combined requirement as to the level of capital buffers referred to above is not met.

On 23 November 2016, the EC published proposals to amend the CRD and the CRR. These proposals cover multiple areas, including capital add-ons, the introduction of a minimum leverage ratio, the MREL framework and the integration of the FSB's standard on TLAC into EU legislation (in particular, the proposal to incorporate TLAC into the capital requirements framework, as an extension to the own funds requirement). These proposals are being considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final new package of legislation may not include all elements of the proposals and new or amended elements may be introduced throughout the course of the legislative process.

1.4 Role of the ECB under the SSM

1.4.1 Framework of Supervision

Under the SSM Framework Regulation, the ECB is the single supervisory authority for all credit institutions, financial holding companies and mixed financial holding companies in the Eurozone and in those other Member States that participate in the EU banking union (the "Banking Union").

In Ireland, the SSM Regulation and the SSM Framework Regulation were given full effect under the European Union (SSM) Regulations 2014, which amended the Central Bank Acts and certain other legislation relating to credit institutions so as to give that effect. The ECB is the direct supervisor of the Company and the Company is deemed to be authorised by the ECB under the SSM Regulation.

Although the ECB has been charged with the critical task of ensuring financial stability, certain functions remain at national level, as described in further detail below.

In performing its supervisory functions, the ECB is accountable to the Council of the EU and (to a lesser extent) to the European Parliament and to national parliaments.

Under the SSM Framework Regulation, the ECB has established a framework for co-operation within the SSM between the ECB and national competent authorities (which includes the Central Bank) and with national designated authorities (together with national competent authorities, "national supervisory authorities").

1.4.2 Direct and Indirect Supervision

Under the SSM, the ECB supervises any credit institution that satisfies any of the following conditions (each a "Significant Credit Institution"):

- the total value of its assets exceeds €30 billion;
- the ratio of the total assets of the credit institution to the gross domestic product of the relevant Member State in which the credit institution is established exceeds 20 per cent., unless the total value of its assets is less than €5 billion;
- the ECB (either on its own initiative or on the recommendation of the relevant national authorities) decides that the credit institution is significant;
- the credit institution is one of the three most significant credit institutions operating in the relevant Member State; or
- the credit institution has received financial support from the European Stability Mechanism or the European Financial Stability Facility.

In Ireland, the Company, EBS, AIB Mortgage Bank and EBS Mortgage Finance are Significant Credit Institutions for the purposes of the SSM and are subject to supervision and regulation by the ECB under the SSM.

A credit institution that is not a Significant Credit Institution is referred to as an "Other Credit Institution".

1.4.3 Powers of the ECB

In performing its prudential supervisory role in respect of every credit institution in the Eurozone and in any other Member State that participates in the Banking Union, the ECB has two principal functions:

- to authorise, and withdraw the authorisation of, credit institutions; and
- to assess applications for the approval of the acquisition and disposal of qualifying holdings in credit institutions, subject to limited exceptions.

In respect of Significant Credit Institutions, the ECB is also empowered to (among other functions):

- impose prudential requirements on the Significant Credit Institution, including in respect of own funds, large exposures, liquidity requirements and other prudential regulatory matters;
- assess "passport" applications by the Significant Credit Institution (i.e., to provide services on a cross-border basis or to establish a branch) in a Member State that is outside the Banking Union;
- carry out supervisory reviews, including stress tests; and
- impose and assess compliance with governance and probity requirements, including "fit and proper" tests.

The ECB is vested under the SSM Regulation and the SSM Framework Regulation with a range of supervisory and investigatory powers for these purposes, including on-site inspections. The ECB is also empowered under those regulations to impose administrative penalties on credit institutions.

1.4.4 The Role of National Supervisory Authorities

Although every credit institution in the Eurozone is subject to the SSM, national supervisory authorities (which include the Central Bank) are responsible for the day-to-day supervision of Other Credit Institutions; the ECB in turn monitors the supervision of Other Credit Institutions by those national supervisory authorities. The ECB may issue general and specific instructions to national supervisory authorities and a national supervisory authority must notify the ECB of any supervisory decision at national level that has material consequences.

Furthermore, national supervisory authorities retain responsibility for every supervisory function that is not transferred specifically to the ECB. Therefore the national supervisory authorities retain certain functions, including those relating to:

- consumer protection;
- the imposition of a sanction for a breach of EU law (other than in respect of an ECB act);
- the supervision of payment services;
- combating money laundering and terrorist financing; and
- the supervision of non-EEA credit institutions that establish a branch in the EEA or provide services into the EEA on a cross-border basis.

In addition, national supervisory authorities have a role in relation to certain macro-prudential tasks and tools, including setting requirements in respect of capital buffers such as the O-SII buffer and countercyclical buffer, subject to the power of the ECB under the SSM Regulation to apply higher requirements if the ECB deems it necessary.

1.4.5 Cross-Border Credit Institutions

The ECB acts as the host state supervisor for any credit institution that is established in a Member State that is not participating in the Banking Union and which (through a branch or on a cross-border basis) provides banking services in a Member State that is participating in the Banking Union.

1.4.6 Functional Separation within the ECB

To address the same tension that could emerge in many national authorities with responsibility for both monetary policy and prudential supervision, the ECB in accordance with the SSM Regulation and the SSM Framework Regulation operates according to a number of organisational principles to ensure that there is a clear separation between its supervisory functions and its monetary policy functions. The internal separation aims to be both organisational (in terms of governance) and practical.

1.4.7 Role of the EBA within the SSM

The EBA has a role in developing proposals for binding technical standards to build the single rulebook that applies in all Member States participating in the SSM with respect to the CRD IV, the BRRD and the Directive 2014/49/EU on deposit guarantee schemes (the "DGSD") in order to enhance convergence in supervisory practices in the EU/EEA. The EBA has also been tasked with developing a single supervisory handbook to complement the single rulebook, in the expectation that this will ensure greater consistency in regulatory practices at a national level.

1.5 Role of the Relevant Banking Regulator

The role of the Central Bank with respect to the regulation of banking in Ireland is subject to the role of the ECB under the SSM.

The Relevant Banking Regulator is responsible for regulating and supervising a range of banking and financial services entities in Ireland, including credit institutions, and operates on the basis of consolidated regulation. The Relevant Banking Regulator can grant banking licences (ECB authorisations for the purposes of the SSM Regulations) in the case of Irish incorporated credit institutions or local authorisations in the case of Irish branches of credit institutions incorporated outside the EEA. The Relevant Banking Regulator carries out regular review meetings and periodically inspects holders of local banking authorisations. The Relevant Banking Regulator is also empowered by law to carry out inspections of the books and records of local banking authorisation holders and to obtain information from such holders about their banking and bank-related business. The Relevant Banking Regulator has a wide range of statutory powers to enable it to effectively regulate and supervise the activities of credit institutions in Ireland. These include prudential regulation, codes of conduct and restrictions on acquiring transactions, each of which is addressed in more detail below. See paragraph 5.4 in the case of acquiring transactions, "European Union (Capital Requirements) Regulations 2014—Notification Requirements" under "*Part XXI: Additional Information—Mandatory takeover bids, squeeze-out and sell-out rules, Irish merger control legislation and the European Union (Capital Requirements) Regulation 2014—European Union (Capital Requirements) Regulations 2014—Notification Requirements*".

The Relevant Banking Regulator also has wide ranging powers of inspection. Inspectors appointed by the Relevant Banking Regulator can enter the relevant premises, take documents or copies thereof, and require persons employed in the business to provide information and produce documents. In cases of extreme concern, the Relevant Banking Regulator may direct a holder of a local banking authorisation to suspend its business activity for a specified period and may also intervene in the management or operation of an entity. The Relevant Banking Regulator must also approve appointments to senior and influential positions in the holder of a local banking authorisation and has the power under the Central Bank Acts to impose administrative sanctions directly on credit institutions for failure to comply with regulatory requirements, subject, in the case of acts by the Central Bank, to a credit institution having a right of appeal to the Irish Financial Services Appeals Tribunal (and from there to the High Court) and, in the case of acts by the ECB, to a right of appeal to the Administrative Board of Review. The procedure adopted by the Relevant Banking Regulator may be by public hearings or a settlement agreement which is binding on the Relevant Banking Regulator and the credit institution concerned (and sanctions agreed, which are publicised by the Relevant Banking Regulator). Administrative sanctions, which may be imposed by the Relevant Banking Regulator, include without limitation, a reprimand or a caution, financial penalties up to €1 million for an individual or the greater of €10 million or 10 per cent. of annual turnover for regulated financial service providers such as credit institutions or a direction disqualifying a person from being concerned in the management of the regulated financial service provider. The ECB also has broad investigatory powers, rights to information, rights to carry out on-site inspections and the power to impose sanctions on supervised entities in the form of heavy financial penalties under the SSM. The SSM Framework Regulation sets out the procedural rules to be applied by the ECB when imposing sanctions.

The ECB and the Central Bank also have the power to suspend or revoke a credit institution's authorisation following an inquiry.

The Relevant Banking Regulator may prescribe ratios to be maintained between, and requirements as to the composition of, the assets and liabilities of holders of local banking authorisations and make a range of regulations for the prudent and orderly conduct of banking business of such holders. CRD IV imposes minimum start-up and ongoing capital requirements for holders of an ECB banking authorisation and requires applicants for such an authorisation to notify the Relevant Banking Regulator of the identity of certain shareholders and the size of their holdings in the applicant.

The Relevant Banking Regulator also sets requirements and standards from time to time for the assessment of applications for local banking authorisations.

The Financial Conglomerate Regulations implemented in Ireland the Financial Conglomerates Directive. The Financial Conglomerate Regulations include rules regarding the supplemental supervision of regulated entities in a financial conglomerate (i.e., a financial group that provides products and services in the banking, investment and insurance sectors). The Financial Conglomerate Regulations impose requirements in respect of own funds, notification obligations in relation to risk concentrations and intra-group transactions and obligations in relation to the maintenance of adequate risk management processes and internal control mechanisms.

AIB's operations in overseas locations are subject to the regulations and reporting requirements of the regulatory and supervisory authorities in the overseas locations, with the Relevant Banking Regulator having overall responsibility for their regulation and supervision. The Relevant Banking Regulator is required to supervise AIB on a consolidated basis (i.e., taking account of the activities and relationships of the entire group).

Under the Consumer Credit Act 1995, the holder of a local banking authorisation (including the Company) or a passported EEA authorisation, must notify certain of its existing fees and charges and related terms and conditions, and any changes therein from time to time to the Central Bank who can direct that no fees, charges or increases or changes therein be made without the Central Bank's approval.

The 2004 CBI Act gives the Relevant Banking Regulator the power to request a holder of a local banking authorisation to provide it with a statement confirming that the entity has complied with its relevant obligations, thus going further than the general company law obligation to ensure that appropriate policies and procedures are in place and reviewed.

The 2013 CBI Act strengthened the regulatory framework for Irish regulated financial services providers (financial service providers authorised or licenced under Irish law by the Central Bank or ECB) by clarifying and enhancing the powers of the Relevant Banking Regulator to allow it to monitor, supervise, query and investigate the conduct and activities of regulated financial services providers and to impose sanctions as appropriate. The 2013 CBI Act applies to all regulated financial services providers and in many cases extends to any related undertakings including group companies and partnerships of which a regulated financial services provider is a member and which themselves may not have previously been subject to financial services legislation.

The main provisions of the 2013 CBI Act include:

- Independent expert report: the Relevant Banking Regulator may require a regulated financial services provider to engage an appropriately skilled person, to be approved or in the absence of agreement nominated by the Relevant Banking Regulator but at the cost of the regulated financial services provider, to prepare a report for the Relevant Banking Regulator on any matter that the Relevant Banking Regulator could require provision of information under any financial services legislation;
- Information gathering powers: the Relevant Banking Regulator has a general power to require information from persons in such manner and form, and from such time to time, as the Relevant Banking Regulator may require for the performance of its functions under financial services legislation;
- Authorised officer regime: the Relevant Banking Regulator's previous authorised officer regime has been re-enacted with certain additional powers. In particular, authorised officers have the power to summon persons to provide such information as the authorised officer may require and to explain decisions, a course of action or the content of records;

- Assurances from auditors: the Relevant Banking Regulator can request that the auditor of a regulated financial services provider conducts an examination and prepares a report to the Relevant Banking Regulator outlining the extent to which the regulated financial services provider has complied with its obligations;
- Protection for persons reporting breaches: protection is provided for persons who, in good faith, make a disclosure regarding an actual or possible contravention of financial services legislation. A mandatory disclosure regime for those performing pre-approval controlled functions is also provided for;
- Power to give directions: the Relevant Banking Regulator in specified circumstances may give directions to a regulated financial services provider or a related undertaking, including directions to refrain for up to 12 months from certain activities such as providing a financial service, making payments of a specified kind, or acquiring or disposing of assets. The Relevant Banking Regulator may also give directions to a regulated financial services provider or related undertaking to dispose of assets or liabilities or a part of its business, to raise and maintain such capital or other financial resources as may be specified in the direction and to make such modifications to its business practices and dealings with third parties as may be specified in the direction;
- Customer protection: the Relevant Banking Regulator may issue a direction requiring a regulated financial services provider to make appropriate redress to customers in certain circumstances. In addition, a failure by a regulated financial services provider to comply with any obligation under financial services legislation is actionable by any customer of the regulated financial services provider who suffers loss or damage as a result of such failure;
- Power to make regulations: the Relevant Banking Regulator may issue new regulations for the proper and effective control of regulated financial services providers; and
- Penalties: the 2013 CBI Act provides for increased monetary penalties.

The powers of the Relevant Banking Regulator under the 2013 CBI Act apply to regulated financial services providers, including members of AIB.

1.6 Competition

Credit institutions in Ireland are subject to supervision and oversight by the CCPC under the Competition Acts 2002 to 2014 and the European Commission under the TFEU and EU competition laws. These regulators have broad powers to launch market studies or conduct investigations. On 20 February 2017, the CCPC published a public consultation in relation to the future of the Irish mortgage market, see See "*Part II: Risk Factors—AIB's loan book (in particular, its residential mortgage book) may become subject to further supervision and scrutiny by the Irish Government, the Central Bank and the CCPC, which could result in regulation and control of AIB's loan book and therefore result in a reduction in AIB's level of lending, interest income and net interest margin and/or increased operational costs*".

1.7 Financial Statements

Every holder of an ECB banking authorisation (including the Company) is obliged to draw up and publish its annual accounts in accordance with the European Union (Credit Institutions: Financial Statements) Regulations 2015. AIB has procedures in place which are designed to ensure that the Company's annual accounts are so prepared and published. The Disclosure Committee is responsible for reviewing AIB's financial information for compliance with legal and regulatory requirements prior to external publication and for exercising oversight of the accounting policy forum, which ensures that the accounting policies adopted by AIB conform to the highest standard in financial reporting. In addition, the Audit Committee considers in depth AIB's financial statements. In this regard, the Audit Committee will engage with management in respect of accounting matters and consider matters where management judgement is important to the results and financial position of AIB and will consider the appropriateness of these. Where appropriate the views of the external auditor would also be sought. Having satisfied itself of the appropriateness of management's estimates, judgements and disclosures, the Audit Committee will recommend approval by the Board prior to publication.

1.8 Anti-Money Laundering, Counter Terrorist-Financing and Financial Sanctions

Every credit institution in Ireland (including the Company) is obliged to take the necessary measures to effectively detect and counteract money laundering and terrorist financing. The third anti-money laundering directive, MLD3, repealed and replaced the previous anti-money laundering directives and introduced additional requirements and safeguards in line with the Forty Recommendations of the OECD-based Financial Action Task Force. The Criminal Justice (Money Laundering and Terrorist Financing) Acts of 2010 and 2013 (the "AML Acts") transpose MLD3 and the associated implementing Directive 2006/70/EC into Irish law. The AML Acts contain requirements on the part of designated bodies covered by the AML Acts (including credit institutions such as the Company) to identify and verify the identity of customers, to report suspicious transactions to An Garda Síochána and the Revenue Commissioners and to have specific procedures in place to provide for the prevention of money laundering and terrorist financing. AIB has AML/CTF policies and procedures in place which are designed to identify money laundering and terrorist financing risks to which it is exposed as a result of its business model. The fourth anti-money laundering directive, MLD4, was published on 5 June 2015 and is required to be transposed into national law by 26 June 2017. Two significant changes introduced by MLD4 are first, the increased emphasis it places on the "risk-based approach" to AML and CTF and, second, the approach taken to the issue of beneficial ownership, including the requirement to set up a central register of beneficial owners. MLD4 also abolishes the automatic exemptions from customer due diligence ("CDD"), including for credit or financial institutions and for listed companies. While simplified CDD may still be carried out on the basis of a risk assessment, credit institutions (including the Company) will be required to carry on "sufficient monitoring" to enable the detection of unusual or suspicious transaction. MLD4 also affects the scope of AML requirements, CDD requirements; the approach taken to electronic money; the treatment of politically exposed persons; third-party equivalents; and record keeping, as well as a variety of other matters. The Company (and wider Group) will need to reflect the changes under MLD4 in its own policies, procedure and practices, as well as updating its framework to take account of the increased emphasis on the risk-based approach. MLD4 was transposed in part into Irish law by the European Union (Anti-Money Laundering: Beneficial Ownership of Corporate Entities) Regulations 2016 which impose obligations on Irish incorporated bodies (such as the Company) to take measures to compile a beneficial ownership register and on individuals who are beneficial owners in certain circumstances. The fifth anti-money laundering directive is currently being considered by the European Parliament and the Council of the European Union and, if passed, could introduce changes to MLD4.

The Wire Transfer Regulation sets out the existing regime under which payment service providers are required to send information on the payer throughout the payment chain for the purposes of preventing, investigating and detecting money laundering and terrorist financing. Regulation (EC) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006 (the "Revised Wire Transfer Regulation") will amend and replace the Wire Transfer Regulation. It applies directly from 26 June 2017 and together with MLD4 will represent the revised EU framework on anti-money laundering and CTF. AIB is putting in place procedures designed to comply with the Revised Wire Transfer Regulation on AML/CTF. AIB has engaged with industry fora on this matter, including the BPFI's AML & CTF Committee, and the Association of Compliance Officers in Ireland's Private Sector Group. Internally AIB has mobilised a project for the implementation of MLD4, which is sponsored at a senior level within the organisation and includes system enhancements to assist with identification of (i) politically exposed persons, (ii) high risk customers and (iii) customers who may be on EU sanctions lists. It also includes a full review of existing procedures to ensure they are in line with the obligations under MLD4. There is a separate project for the Revised Wire Transfer Regulation, again sponsored at a senior level within AIB. This builds on existing procedures in place to meet Regulation 1781/2006. An objective of the Revised Wire Transfer Regulation is to increase transparency of payment information, and in so much as it makes it mandatory to verify certain information either upon remitting or receiving the monies it may help to identify sanctions related payment traffic or fraud which would be an enhancement to AIB's existing real time payment sanction screening and its fraud monitoring capabilities.

Sanctions are legally binding measures that are used as a tool by the United Nations, the European Union, the United States and others to bring about a change in the policy or behaviour of a country, entity or individual. For example, sanctions may be applied to deter the development of weapons of mass destruction, political or military aggression and/or human rights violations. They can also be used to sanction unfair trade, target terrorism and/or drug trafficking and to prevent or penalise a country interfering in another country's affairs. Under certain sanctions regulations, financial institutions are prohibited from making available any funds, other financial assets or economic resources to sanctioned persons or entities. Credit institutions must ensure that they have the policies and procedures in place necessary to comply with any applicable sanctions. In Ireland, sanctions can be imposed under EU regulations having direct effect in Ireland, orders made by the Minister under the Financial Transfers Act 1992, the Criminal Justice (Terrorist Offences) Acts 2005 and 2015 or the European Communities Act 1972 to 2012, or directions or orders made under the AML Acts.

See *"Part II: Risk Factors—Risks Relating to Supervision and Regulation—AIB is subject to anti-money laundering, anti-corruption and sanctions regulations and if it fails to comply with these regulations, it may face administrative sanctions, criminal penalties and/or reputational damage"* for details of the investigation by the Central Bank as part of an administrative sanctions procedure for breaches of AML laws and regulations, which commenced in April 2015 and concluded in April 2017, and the monetary penalty of €2,275,000 imposed in connection with the investigation.

1.9 Data Protection

The DPA, which give effect to the Data Protection Directive, regulate the retention and use of data relating to individual customers. The DPA also require certain "data controllers" (including financial institutions which control personal data) to register with the Irish Data Protection Commissioner. The Company and other members of AIB have registered under the DPA. The GDPR, adopted on 27 April 2016, will come into force across the European Union on 25 May 2018 and will replace the existing Data Protection Directive. The GDPR introduces substantial changes to European data protection law, including significantly increasing the scope of financial penalties for non-compliance. The Company and other members of AIB are taking steps designed to ensure that they are in compliance with the GDPR when it comes into force in May 2018.

1.10 Credit Reporting Act 2013

The Credit Reporting Act 2013 provides for the establishment of a mandatory credit reporting and credit checking system to be regulated and operated by the Central Bank, namely the Central Credit Register ("CCR"). On 22 September 2016, the Central Bank published a number of regulations governing the operation of the CCR ("CRA Regulations").

The purpose of the CCR is to provide for a national register for the collection and centralisation of financial information on borrowers, to ensure that a credit provider has access to the most accurate and up-to-date information regarding a borrower's total exposure. The Central Bank will also use the information for prudential/statistical purposes.

Key elements of the Credit Reporting Act 2013 are as follows:

- Available Information: the Credit Reporting Act 2013 prescribes the categories of information that the Central Bank may maintain on the CCR and the period for which such information may be held;
- Mandatory Reporting: the Credit Reporting Act 2013 requires a credit provider (which includes the Company) to report a comprehensive range of credit information. In doing so, a credit provider must meet specified reporting standards. Under the CRA Regulations, the collection of credit and personal data from lenders will be implemented on a phased basis, with phase 1 focusing on data collection for consumer lending and phase 2 focusing on lending to businesses;
- Credit Checks: a credit provider must undertake mandatory credit checks with the CCR for every credit application above a threshold of €2,000. Information accessed as a result of such a check may be used by the credit provider for certain specified purposes only, as set out in more detail in the Credit Reporting Act 2013. Such a permitted use includes verification of information provided by the borrowing customer in connection with a credit application;
- Access to Information: the Credit Reporting Act 2013 provides for security controls in connection with access to information on the CCR;
- Data Protection: the Credit Reporting Act 2013 extends the role of the Data Protection Commissioner to deal with complaints from any individual or company with an annual turnover of less than €3 million in respect of the person's personal data that is held on the CCR; and
- Fees: although fees may be charged for access to information held on the CCR, consumers are entitled to one free copy of their own record, once every 12 months. The Central Bank may, with the

consent of the Minister for Finance, make regulations prescribing a levy to be paid by credit providers for the purposes of meeting expenses properly incurred by the Central Bank in maintaining the CCR.

Data submissions by lenders for phase 1 will commence from 30 June 2017 with all lenders to consumers required to submit data by 31 December 2017. The Central Bank has notified some in-scope lenders of their obligations under the regulations and has provided technical and guidance manuals to support implementation. The Central Bank has indicated the CCR will produce credit reports for individual lenders after 31 December 2017, subject to quality data assurance. The credit reporting obligations and other requirements provided under the Credit Reporting Act 2013 will apply to AIB. AIB is putting in place policies and procedures to take steps designed to comply with its CCR reporting obligations and other requirements under the Credit Reporting Act 2013.

1.11 Central Bank Regulatory Codes and Requirements

1.11.1 Consumer Protection Code 2012

The CPC, which replaced the Consumer Protection Code 2006, is designed to protect the interests of customers of regulated entities (as defined in the CPC) and is applicable (in part) to the activities of the Company (and other members of AIB which are regulated entities) with its customers generally and (in its entirety) to its dealings with those of its customers who are consumers within the meaning of the CPC. See "*—Consumer-related Regulation—Consumer Protection Code*" below for further details of the CPC. The Company and other regulated members of AIB have adopted policies and procedures aimed at ensuring their compliance with the requirements of the CPC.

1.11.2 Minimum Competency Requirements

The Central Bank applies minimum competency requirements (the "Minimum Competency Requirements") to individuals who, in their own right or on behalf of a regulated firm, arrange or offer to arrange retail financial products for consumers (as defined in the CPC) and/or advise on same. The Company and other members of AIB which are regulated firms are obliged to comply with these requirements to the extent that they apply to their business.

The Central Bank is proposing a number of changes to the Minimum Competency Code 2011 (the "MCC"), which it has set out in a Consultation Paper (CP106) on the review of the MCC published in November 2016. It proposes that the existing MCC be replaced in part by a revised MCC and in part by Minimum Competency Regulations made pursuant to the Central Bank's powers under section 48 of the 2013 CBI Act. The Central Bank is proposing changes to minimum competency standards where it believes increased standards are in the best interests of consumers.

The Company and other regulated members of AIB have policies and procedures in place aimed at ensuring compliance with the Minimum Competency Requirements to the extent that these requirements apply to their business.

1.11.3 Fitness and Probity

The directors and other senior personnel of a regulated firm (including the Company) are required to be approved by the Relevant Banking Regulator, which exercises its oversight by requiring the completion of a detailed individual questionnaire by each proposed appointee. The Relevant Banking Regulator's fitness and probity assessment seeks to ensure that directors and other senior personnel have the necessary skills to run the entity and also have the necessary personal qualities such as honesty, integrity, diligence, independent-mindedness and fairness to ensure that the entity is run ethically, in compliance with relevant legislation and in a manner that treats its customers fairly.

The Central Bank Reform Act 2010 gives the Relevant Banking Regulator wide-ranging powers across the financial services industry to, amongst other things: (i) approve or veto the appointment of people to certain positions; (ii) investigate and, where appropriate remove or prohibit, certain position holders; and (iii) set statutory standards of fitness and probity across the financial services industry.

The Central Bank published regulations and standards of fitness and probity under Part 3 of the Central Bank Reform Act 2010, the Central Bank Reform Act 2010 (Sections 20 and 22) Regulations 2011 (the "CBRA Regulations 2011"). The CBRA Regulations 2011 were amended by the Central Bank Reform Act 2010 (Sections 20 and 22) (Amendment) Regulations 2015 (collectively the "CBRA Regulations").

Under the CBRA Regulations the fitness and probity regime applies to the following functions: "controlled functions" and "pre-approval controlled functions". The CBRA Regulations identify 46 senior positions as prescribed "pre-approval controlled functions" which require the Relevant Banking Regulator's approval before individuals can take up those positions. They also prescribe specific categories of staff as "controlled functions", which are positions from which individuals can be temporarily or permanently removed or prohibited from taking up in the future.

The Fitness and Probity Standards Code 2011 (the "Fitness and Probity Standards Code") was issued by the Central Bank under section 50 of the Central Bank Reform Act 2010 and last updated in 2014. It applies to persons performing "controlled functions" within regulated financial service providers (the latter are also obliged to ensure that their in-scope personnel meet the regime set out. These include the obligation to be competent and capable to carry out the controlled function, to act honestly, ethically and with integrity and to be financially sound.

A regulated financial services provider may not permit a person to perform a controlled function unless satisfied that the person complies with the Fitness and Probity Standards Code and the person has agreed to comply with that Code. Failure to do so may expose that regulated financial services provider and/or a person concerned in its management to financial penalties and other sanctions by the Relevant Banking Regulator.

The Central Bank also published guidance for industry which, among other things, indicates the type of due diligence that regulated financial services providers should carry out in relation to persons proposed for or holding pre-approval controlled functions or controlled functions.

AIB has policies and procedures in place designed to ensure compliance with the above fitness and probity requirements.

In addition to Central Bank requirements set out above, the ECB published its 'Guide to fit and proper assessments' in May 2017. The guide has been introduced to ensure a higher level of harmonisation in the application of fit and proper requirements across the Eurozone. The guide includes six high-level principles and guidance on five specific areas; assessment criteria, interviews, assessment process, decisions and removal of members of a credit institution's management body.

1.11.4 Corporate Governance Code for Credit Institutions and Insurance Undertakings

The Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings (2010) applied to directors and boards of credit and insurance institutions (including the Company). That Code included provisions on the membership of the board of directors, the role and responsibilities of the chairman and other directors and the operation of various board committees.

The Central Bank issued in 2013 a revised Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013. The Code is now split into the Corporate Governance Requirements for Insurance Undertakings 2015 and the Corporate Governance Requirements for Credit Institutions 2015 which have applied since 1 January and 11 January 2016, respectively.

The Corporate Governance Requirements for Credit Institutions 2015 (the "Revised CGC Code") sets out minimum statutory requirements on how credit institutions (such as the Company) should organise the governance of their institutions. The key objective of the Revised CGC Code is to facilitate good corporate governance in institutions which fall within its remit.

The main changes in the Revised CGC Code are as follows:

- credit institutions are required to appoint a CRO and the Revised CGC Code outlines the role and responsibilities of the CRO;
- a credit institution's risk committee must be made up of a majority of non-executive or independent non-executive directors, one of whom must be the chairman of the committee;
- the risk and audit committees of credit institutions are required to have a minimum of three members;
- credit institutions are required to ensure that there is at least one shared member between the risk and audit committees. In addition, high impact credit institutions (for the purposes of the Revised CGC Code) will be required to have at least one shared member between the risk and remuneration committees;
- credit institutions are required to introduce a diversity policy for board membership;

- the minimum number of board meetings required for high impact credit institutions was reduced from 11 to six per year;
- the chairman can hold the role of chairman in other financial institutions within the credit institution's group, subject to prior approval by the Relevant Banking Regulator; and
- the CEO of a medium-low or low impact credit institution (in each case, for the purposes of the Revised CGC Code) can hold up to two additional CEO positions, provided they are in such medium-low or low impact financial institution, subject to prior approval by the Relevant Banking Regulator.

Derogations to certain provisions of the Revised CGC Code are available on application to the Relevant Banking Regulator. AIB has procedures and policies in place which are designed to ensure compliance with the Revised CGC Code where it applies.

1.11.5 Code of Practice on Lending to Related Parties

The Code of Practice on Lending to Related Parties (2013) (the "CPLRP") revised the Code of Practice on Lending to Related Parties (2010). It prescribes requirements in respect of lending by a credit institution to a related party (a director, senior manager or significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding, as well as a connected person of any of these). Such lending is required to be on an arm's length basis and must be subject to appropriate management oversight and limits. The CPLRP applies to every loan to related parties whether granted in Ireland or outside Ireland. Where a loan that is outstanding or a lending commitment entered into prior to 1 January 2011 is not consistent with the CPLRP, a credit institution is required to take all steps possible to modify the loan or lending commitment so that it is consistent with the CPLRP. The Relevant Banking Regulator requires related party exposures to be disclosed to it on a quarterly basis. In addition, where there is an error of conduct in respect of the CPLRP, the Relevant Banking Regulator must be informed of proposals to correct such errors within five Business Days. The CPLRP applies to credit institutions in AIB which are authorised under Irish law and AIB has adopted policies and procedures with the aim of their complying with the CPLRP.

1.11.6 CCMA

For details of the CCMA, see "*—Consumer-related Regulation—CCMA*" below.

1.12 Financial Services Ombudsman

The 2004 CBI Act provides for the establishment of the FSO and the Financial Services Ombudsman Council. The FSO has, in respect of complaints regarding financial services provided to consumers and SMEs, a range of powers to investigate complaints and to impose financial or other sanctions on a regulated financial services provider.

Under section 72 of the 2013 CBI Act, the FSO has "name and shame" powers. Pursuant to these powers, the FSO may publish the name of regulated financial services providers, or the group of which the regulated financial services provider is a member, where three complaints have been substantiated against the regulated financial services provider in the preceding financial year.

1.13 Deposit Guarantee Scheme and Investor Compensation Scheme

The European Union (Deposit Guarantee Schemes) Regulations 2015 (the "DGS Regulations"), give full effect to the DGSD in Irish law. Under the DGS Regulations, the Relevant Banking Regulator operates a statutory deposit protection scheme under which credit institutions authorised by the Central Bank are required to contribute to a deposit guarantee scheme fund annually based on their covered deposits and degree of risk. The Central Bank, in its 'Risk-Based Contributions to the Irish Deposit Guarantee Scheme' document, has developed a risk based methodology for the calculation of contributions in accordance with the EBA's "Guidelines on methods for calculating contributions to deposit guarantee schemes". The deposit guarantee scheme must reach an available financial means of 0.8 per cent. of covered deposits by July 2024.

The DGS Regulations aim to ensure that depositors are protected up to an amount of €100,000 generally in the event of a credit institution (including the Company) being unable to repay deposits. The €100,000 per person per institution cover level is increased to €1,000,000 in the case of deposits held for up to six months and which meet restrictive criteria. The DGS Regulations protect all 'covered deposits' to the applicable aggregate amount.

The Investor Compensation Act 1998 established an independent body called the Investor Compensation Company Limited, now the ("ICCL") to administer and supervise investor compensation schemes. The Investor Compensation Act 1998 requires authorised investment firms (including the Company) to pay the ICCL such contribution to the fund maintained by the ICCL, as the ICCL may from time to time specify. The ICCL is given discretion to specify different rates or amounts of contributions or different bases for the calculation of contributions of different classes or categories of investment firms. The maximum level of compensation payable to any one eligible investor is 90 per cent. of net loss or €20,000, whichever is the lower.

AIB has in place policies and procedures designed to comply with the DGS Regulations and its obligations to the ICCL.

1.14 Companies Act 2014

The Companies Act 2014 represented the most significant consolidation and modification of Irish companies legislation in over 50 years. As a company incorporated in Ireland and registered under the Companies Act 2014, the Company and other Irish incorporated members of AIB must comply with the provisions of such legislation. The Director of Corporate Enforcement, an Irish independent statutory officer, is responsible for encouraging compliance with, and for the enforcement of, the Companies Act 2014. AIB has in place policies and procedures designed to comply with requirements under the Companies Act 2014.

1.15 Financial Support Act/NAMA Act

The Financial Support Act permitted, amongst other matters, the Minister for Finance to provide financial support in respect of the borrowings, liabilities and obligations of any credit institution or subsidiary which the Minister for Finance may specify by order. The AIB CIFS Covered Institutions are Covered Institutions for the purposes of the Minister for Finance's guarantee under the CIFS Scheme and the AIB ELG Participating Institutions are participating institutions under the ELG Scheme. In accordance with the Financial Support Act and the terms of the CIFS Scheme and the ELG Scheme (which continue to apply to the Company and other relevant members of AIB), the Minister for Finance has powers to give directions to those members of AIB to regulate their conduct in certain aspects. The Company and certain other members of AIB as participants of the NAMA Programme are also subject to the provisions of the NAMA Act. See "*Part X: Relationship with Government and State Aid—Governance Restrictions—Statutory*".

1.16 The Bank Resolution Act, BRRD and SRM Regulation

The Bank Resolution Act sets out a special resolution regime for a certain category of credit institution which, since the introduction of the European Union (Bank Recovery and Resolution) Regulations 2015 (the "BRRD Regulations"), does not encompass AIB. However, the provisions contained in Part 7 of the Bank Resolution Act in respect of the winding up of certain credit institutions, and related BRRD powers of the Central Bank, continue to apply to AIB.

The BRRD establishes a European framework dealing with pre-resolution and resolution mechanisms, loss absorbency and bail-in rules. The BRRD is designed to provide relevant authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. The overarching goal of the bank recovery and resolution framework is to break the linkages between national banking systems and sovereigns. The BRRD framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. Among other provisions, the BRRD requires credit institutions to produce a full recovery plan that sets out detailed measures to be taken in different scenarios when the viability of the institution is at risk.

The BRRD introduces the Write-Down Tool. The Write-Down Tool would be applicable in particular if the resolution authority determines that unless the Write-Down Tool is applied, the credit institution will no longer be viable or if a decision has been made to provide the credit institution with extraordinary public financial support without which the credit institution or its group will no longer be viable.

The BRRD also equips the resolution authority with the following Resolution Tools in circumstances where the credit institution meets the conditions for resolution under BRRD:

- the sale of business tool; and/or
- the bridge institution tool; and/or
- the asset separation tool; and/or
- the General Bail-In Tool.

BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; when its assets are, or are likely in the near future to be, less than its liabilities; when it is, or is likely in the near future to be, unable to pay its debts as they fall due; or when it requires extraordinary public financial support (except in limited circumstances).

In respect of the Write-Down Tool, and the General Bail-In Tool, the resolution authority has the power, upon certain trigger events, to cancel existing shares, to write down eligible liabilities (i.e. own funds instruments and, in the case of the General Bail-In Tool, other subordinated debt and even senior debt, subject to exceptions in respect of certain liabilities) of a failing credit institution or to convert such eligible liabilities of a failing credit institution into equity at certain rates of conversion representing appropriate compensation to the affected holder for the loss incurred as a result of the write-down and conversion.

The BRRD also makes provision for the meeting by a credit institution of its MREL as set by its resolution authority based on Regulatory Technical Standards ("RTS") developed by the EBA and set out in a Commission Delegated Regulation. On the basis of the RTS, it is possible that AIB may have to issue a significant amount of additional MREL eligible liabilities in order to meet the requirements within the required timeframes. If AIB were to experience difficulties in raising MREL eligible liabilities, then it may have to reduce its lending or investments in other operations, which could have a material adverse effect on the business.

Where a credit institution meets the conditions for resolution, the resolution regulator and/or authority will be required to apply the Write-Down Tool before applying the Resolution Tools. The write-down or conversion will follow the ordinary allocation of losses and ranking in insolvency. Equity holders will be required to absorb losses in full before any eligible debt claim is subject to write-down or conversion. After shares and other similar instruments, the write-down or conversion will, if necessary, impose losses evenly on holders of other subordinated debt which rank *pari passu* according to their terms.

Pursuant to the BRRD, resolution authorities must ensure when applying the Resolution Tools, that creditors do not incur greater losses than they would have incurred if the credit institution had been wound down in normal insolvency proceedings. Furthermore, the Relevant Banking Regulator may require AIB to make changes to the legal structures and/or business model of the Group pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation. See "*Part II: Risk Factors*" for further information.

The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. A SRM has been introduced, including a SRB and a single fund for the resolution of credit institutions, which will be funded by levies on credit institutions raised at the national level. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for Member States that share the supervision of credit institutions within the SSM. The requirements of the SRM are set out in the SRM Regulation and the BRRD. The SRM became fully operational on 1 January 2016.

Pursuant to the SRM Regulation, the SRB is responsible for drawing up AIB's resolution plan providing for resolution actions that may be taken if AIB would fail or would be likely to fail. In drawing up AIB's resolution plan, the SRB identifies any material impediments to AIB's resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments.

These actions may include (but are not limited to):

- legal restructuring of AIB, which could lead to high transaction costs, or could make AIB's business operations or its funding mix become less optimally composed or more expensive;
- issuing additional liabilities at various levels within AIB. This may result in higher capital and funding costs for AIB, and as a result adversely affect AIB's profits and its possible ability to pay dividends; and
- reviewing and amending AIB's contracts for the purposes of ensuring (i) continuity of business operations and (ii) that such contracts do not cause any impediments to resolvability of AIB. This may result in additional costs and operational complexity for AIB.

If the SRB is of the view that the measures proposed by AIB would not effectively address the impediments to resolvability, the SRB may direct AIB to take alternative measures as outlined in the SRM Regulation.

On 23 November 2016, the EC published proposals to amend the BRRD and the SRM Regulation. These are currently being considered by the European Parliament and the Council of the European Union.

AIB has adopted policies and procedures designed to comply with its obligations under BRRD and the SRM Regulation.

1.17 Consumer-related Regulation

1.17.1 Overview

It is not necessary to hold a local banking authorisation in order to provide credit to natural persons in Ireland. However, the provision of credit to such natural persons requires the lender to be authorised and regulated by the Central Bank as a retail credit firm, unless exempted as in the case of the holder of a local banking authorisation or a passported EEA authorisation. Under the Central Bank Acts, retail credit firms are subject to the CPC and the CCMA in respect of lending activities. See "*—Authorisation as a "Retail Credit Firm" under the Central Bank Act 1997*" below. The provision of home reversion loans is also regulated in Ireland.

The primary regulatory requirements in Ireland applicable to the extension of credit to and hire purchase arrangements with, consumers are contained in the CCA. Any entity regulated by the Central Bank (including the Company and other regulated members of AIB) is also obliged to comply with the CPC. In addition, the Company and those regulated members of AIB are obliged to comply with certain consumer legislation which transposes EU directives, including the UTCCR and the European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004.

1.17.2 Consumer Credit Act 1995

The extension of credit (including, the making of cash loans, housing loans, and other financial accommodation) as well as hire purchase arrangements to or with, consumers (individuals who act outside their trade, business or profession) in Ireland is principally regulated by the CCA. The CCA imposes a range of obligations and restrictions on lenders and intermediaries.

The relevant part of the CCA applicable to housing loans (Part IX) applies to loans made by mortgage lenders only. For the purposes of the CCA, a mortgage lender is an entity that carries on a business that consists of or includes making housing loans. A housing loan is an agreement for the provision of credit to a person on the security of a mortgage of a freehold or leasehold estate or interest in land for any of a number of purposes, including the purchase or construction of a house to be used as the PDH or that of the person's dependents, or refinancing a loan that was made for any of those purposes, and any loan to a consumer where that loan is secured by a mortgage and on which a house is or is to be constructed.

Relevant obligations imposed by the CCA in respect of the making of housing loans include rules regulating advertising for housing loans; a requirement to furnish the borrower with a valuation report concerning the property; criteria for calculation of APR on housing loans; a requirement that specified warnings regarding the potential loss of the person's home be included in all key documentation relating to a housing loan and that key, prescribed information be displayed on the front page of a housing loan; obligations to provide prescribed documents and information to a borrower; disclosure of certain fees and charges; and requirements to ensure that the borrower obtains mortgage protection insurance (life cover). Restrictions include prohibitions on the imposition of a redemption fee in the case of a variable rate housing loan; compelling a borrower to pay the lender's legal costs of investigating title and the linking of certain services.

A breach of obligations or restrictions imposed by the CCA may constitute a criminal offence. In respect of a regulated financial services provider (but not an entity that is a mortgage lender only), the Central Bank may, instead of a criminal prosecution, impose under its administrative sanctions regime a monetary penalty for breach of any of these obligations and restrictions.

Under section 149 of the CCA, credit institutions must apply to the Central Bank in order to either increase existing fees or introduce any new fee or charge on customers (whether or not consumers) in the case of certain services, including the provision of credit and foreign currency facilities. The Central Bank has the right to decline any such application. Section 149(12) entitles the Central Bank to require a credit institution to refrain from using any terms and conditions that the Central Bank considers to be unfair or likely to be regarded as unfair.

Consumer credit agreements and related guarantees (other than those relating to housing loans, overdrafts and credit cards) are unenforceable unless the creditor has complied with the CCA's requirements as to their form and content, unless the court exercises a discretion to render them enforceable. Such discretion does not apply in respect of a breach of section 30 of the CCA.

Certain members of AIB engage in consumer lending and financing which is subject to the requirements of the CCA. Those Group companies have established internal frameworks, including providing information on products and applicable charges, and drafted customer documentation, which are intended to ensure that they comply with relevant obligations under the CCA.

1.17.3 Unfair Terms in Consumer Contracts Regulations

The UTCCR apply in relation to consumer contracts entered into by consumers (natural persons acting for purposes outside their business) and their related security. A consumer may challenge a term in an agreement on the basis that it is "unfair" within the meaning of the UTCCR and therefore not enforceable against the borrower. If the court finds a term of a contract to be unfair and therefore, not binding on the consumer, the rest of the contract will continue to bind the consumer if the contract is capable of continuing in existence without the unfair term. In addition, the CCPC or an authorised body (as defined in the UTCCR) may seek an injunction preventing the use of specific terms that are unfair.

The UTCCR will not generally affect "core terms" which set out the main subject of the contract, such as, in the context of a loan, a borrower's obligation to repay principal, but may affect terms deemed to be ancillary which may include terms the application of which are in the lender's discretion (such as a term permitting the lender to vary the interest rate or waiver by a borrower of set off rights).

Certain members of AIB provide financial products to consumers and so are subject to the UTCCR.

1.17.4 Authorisation as a "Retail Credit Firm" under the Central Bank Act 1997

Under the Central Bank Act 1997, a person who wishes to carry on a regulated business can apply to the Central Bank for an authorisation to carry on such a business. "Regulated business" is defined to include, *inter alia*, a retail credit firm. A "retail credit firm" is, in turn, defined as, *inter alia*, any person who holds itself out as carrying on a business of, and whose business consists wholly or partly of, providing credit directly to certain natural persons, but does not include, *inter alia*, (i) a person who is a regulated financial services provider (which is defined to include entities (such as the Company) which carry on a business of providing one or more financial services and which are subject to regulation by the Relevant Banking Regulator) and which is authorised to provide credit in the State and (ii) in relation to credit that was originally provided by another person, a person to whom all or any part of that person's interest in the credit is directly or indirectly assigned or otherwise disposed of.

Two companies in AIB, AIB Leasing Limited and Haven, are authorised by the Central Bank as retail credit firms.

1.17.5 Consumer Protection Code

The CPC, issued by the Central Bank under its statutory powers, applies to the Company and contains provisions that cover all aspects of a regulated entity's (meaning firms subject to regulation by the Relevant Banking Regulator when providing financial services, with certain exceptions such as services for the purposes of the MiFID Directive) relationship with a consumer and certain aspects of a regulated entity's relationship with all of its customers. These range from advertising and marketing, to knowing the consumer and offering suitable products, to ensuring that consumers are treated fairly. The general principles of the CPC apply to all customers of the Company.

Relevant obligations of the CPC include: a requirement to supply a written suitability statement before providing certain services or products; a strict time period for complaint handling; for consolidation mortgages, an obligation to supply a written comparison detailing the total cost of the consolidated facility on offer versus the cost of maintaining existing loans; for setting variable mortgage interest rates, an obligation to produce a summary statement of its policy for setting each variable mortgage interest rate that it makes available to personal consumers and publishes on its website; and a requirement to advise personal consumers how to mitigate/avoid fees and penalties in respect of the chosen product.

In the case of all mortgage products provided to personal consumers (other than those where the interest rate is fixed for a period of five years or more), the CPC requires that a lender test the consumer's ability to repay the instalments on the basis of a two per cent. interest rate increase above the interest rate offered. Other relevant provisions include suitability requirements, disclosure and notice requirements, requirements in connection with complaints resolution and a restriction of the circumstances in which unsolicited contact can be made with consumers.

The CPC also sets out how regulated entities must deal with and treat personal consumers who are in arrears on a range of loans, including buy-to-let mortgages. Amongst other things, under the CPC, the regulated entity is required to (i) make certain information available to the personal consumer within certain time periods and (ii) seek to agree an approach which would assist the personal consumer in resolving the arrears, and explain any revised payment arrangement agreed with the personal consumer. In particular, the regulated entity is required to notify the personal consumer of the potential for legal proceedings and proceedings for repossession of the property, and is not permitted to initiate more than three unsolicited communications per calendar month to a personal consumer in respect of the arrears. However, the provisions of the CPC in relation to arrears do not apply to the extent that the loan is a mortgage loan to which the CCMA applies.

In July 2016, the Central Bank published an Addendum to the CPC which amended the CPC as a consequence of the introduction of the Mortgage Credit Regulations and the SME Regulations. The Addendum also introduced a number of increased protections for variable rate mortgage holders. The enhanced measures require lenders to take certain measures, for example to produce a policy statement for setting variable interest rates and to notify variable rate borrowers of alternative mortgage options that could provide savings for the borrower, both on an annual basis and also when notifying borrowers of an increase in the variable interest rate. Where there is an increase in a variable interest rate, lenders are required to include the reason for the rate increase in the notification provided to variable rate borrowers.

Companies within AIB that are regulated financial service providers are, depending on the services they provide, subject to some or all of the CPC. Those Group companies have in place policies and procedures designed to ensure that those companies comply with their obligations under the CPC when providing financial products and services to consumers (as defined in the CPC) and other customers.

1.17.6 CCMA

The CCMA was issued under the statutory powers of the Central Bank and is to be read together with the CPC. The CCMA sets out the procedures that must be adopted by every regulated entity operating in Ireland as regards mortgage lending and mortgage servicing to a borrower in respect of the borrower's primary residence in Ireland. As such, the CCMA applies to the Company.

The CCMA applies to the mortgage loan of a borrower which is secured on the borrower's "primary residence", which the CCMA defines as:

- the residential property which the borrower occupies as his or her primary residence in Ireland; or
- a residential property which is the only residential property owned by the borrower in Ireland.

In addition to applying to borrowers in arrears, the CCMA also applies to borrowers who notify their lender that they are facing financial difficulties and may be at risk of mortgage arrears (known as "pre-arrears" cases).

The CCMA requires a lender to wait at least eight months from the date the arrears arose before commencing legal proceedings against a co-operating borrower. Separately, a lender is required to give three months' notice to the borrower before a lender may commence legal proceedings where the lender does not offer the borrower an alternative repayment arrangement or the borrower is unwilling to accept an alternative repayment arrangement offered by the lender.

The CCMA imposes the following requirements:

- A provision requiring lenders to provide a warning letter giving at least 20 Business Days' notice to the borrower, outlining the implications of being classified as not cooperating and providing specific information on how to avoid this classification.
- Lenders must have a board-approved communications policy that will protect borrowers against unnecessarily frequent contacts and harassment, while ensuring that lenders can make the necessary contact to progress resolution of arrears cases. This replaces the limit of three successful, unsolicited communications per month and allows for an approach to lender and borrower communication that is suited to individual needs and circumstances.
- Lenders must provide the Standard Financial Statement ("SFS") (a document which a lender uses to obtain information from a borrower in order to complete an assessment of that borrower's case) at the earliest opportunity, and to offer assistance to borrowers with completing it. In addition, lenders can agree with the borrower to put a temporary arrangement in place to prevent the arrears from worsening while the full SFS is being completed and assessed.
- Where there is no other sustainable option available, lenders can offer an arrangement to distressed mortgage holders which provides for the removal of the tracker rate, but only as a last resort, where the only alternative option is repossession of the home. Lenders must be able to demonstrate that there is no other sustainable option that would allow the borrower to keep the tracker rate, and the arrangement offered must be a long-term, sustainable solution that is affordable for the borrower.
- Cooperating borrowers must be given at least eight months from the date arrears first arise before legal action can commence and, at the end of the MARP process, lenders must provide a three-month notice period to allow co-operating borrowers time to consider their options, such as voluntary surrender or an arrangement under the Personal Insolvency Act, before legal action can commence.
- Transparency for borrowers has been improved through increased information requirements for lenders, including more detail in the MARP booklet on:
    - how the alternative repayment arrangements offered by the lender work and their key features;
    - explanations of other options such as voluntary surrender or trading down;
    - explanations of the meaning and implications of not co-operating;
    - summary information on a lender's potential use of confidentiality agreements;
    - information on the borrower's right of appeal;
    - a link to keepingyourhome.ie (i.e. where borrowers can get further information and assistance); and
    - a summary of the lender's communications policy.
- Lenders are required to establish a MARP framework for handling arrears and pre-arrears cases and where alternative repayment arrangements expire or where the alternative repayment arrangement put in place breaks down. The MARP must incorporate the requirements of the CCMA regarding:
    - communication with, and provision of information to, a borrower;
    - the collection and assessment of financial information from a borrower; and
    - resolution of cases by exploring alternative repayment arrangements.
- Lenders also have to establish a centralised and dedicated arrears support unit ("ASU"), which must be adequately staffed, to manage cases under the MARP. Each branch office must have at least one person with specific responsibility for dealing with arrears and pre-arrears cases and for liaising with the ASU in respect of these cases.

- Where a borrower is in mortgage arrears, a lender is permitted to commence legal action for repossession of the property within the relevant moratorium period in the following circumstances:
  - where the borrower does not co-operate with the lender and the lender has made every reasonable effort under the CCMA to agree an alternative repayment arrangement with the borrower or his or her nominated representative;
  - in the case of a fraud perpetrated on the lender by the borrower; or
  - in the case of a breach of contract by the borrower other than the existence of arrears.
- Lenders are restricted from imposing charges and/or surcharge interest on arrears arising on a mortgage account in arrears to which the CCMA applies and in respect of which a borrower is cooperating reasonably and honestly with the lender under the MARP.

The Company and other relevant members of AIB (AIB Mortgage Bank, EBS and EBS Mortgage Finance) are subject to the requirements of the CCMA. Those companies have in place policies and procedures which seek to ensure that appropriate resolution strategies are applied and the CCMA is adhered to when dealing with customers who are in arrears or pre-arrears on a mortgage in respect of their primary residence.

1.17.7 Sustainable Mortgage Resolution Template returns

A requirement applicable to the main Irish residential mortgage credit institutions (including AIB and other Irish residential mortgage lenders in AIB) to make Sustainable Mortgage Resolution Template ("SMRT") returns to the Relevant Banking Regulator in respect of mortgages secured on properties located within Ireland commenced in 2016, replacing the Central Bank Mortgage Arrears Resolution Targets which previously set performance targets for those institutions.

The SMRT return is completed in respect of all mortgages secured on properties located within Ireland. Details of proposed and concluded sustainable PDH and buy-to-let mortgage arrears solutions are provided in the SMRT return which is submitted as part of the overall 'Finrep' regulatory reports required to be made by AIB each quarter. This information is used to monitor performance of sustainable solutions for Irish residential mortgage arrears cases in line with supervisory expectations to assess where any mitigation may be required.

1.17.8 Consumer Protection Act 2007

The Consumer Protection Act 2007 and the Competition and Consumer Protection Act 2014 (together, the "Consumer Protection Acts") apply the Directive on Unfair Commercial Practices in Ireland and prohibit business-to-consumer commercial practices that are unfair, misleading, aggressive or which otherwise are prohibited by the Consumer Protection Acts. Principally, the Consumer Protection Acts (i) empower a consumer who is aggrieved by any of those proscribed varieties of commercial practice, and the CCPC, to apply to court for an order prohibiting the continued use of the prescribed practice and (ii) confer on every consumer who is aggrieved by a proscribed commercial practice a right of action to claim damages (including exemplary damages) against the person who has committed or engaged in the prohibited act or practice. For this purpose, a consumer would include certain borrowers of residential loans and a relevant service would include residential lending.

1.17.9 Mortgage Credit Directive

The Mortgage Credit Directive was transposed into Irish law by the European Union (Consumer Mortgage Credit Agreements) Regulations 2016 (the "Mortgage Credit Regulations").

The Mortgage Credit Directive aims to improve consumer protection measures by introducing revised rules for residential mortgage lending which apply across the EU. The Mortgage Credit Directive is designed to create an efficient and competitive single market for consumers, creditors and credit intermediaries with a high level of consumer protection and to promote financial stability by ensuring that mortgage credit markets operate in a responsible manner.

The Mortgage Credit Regulations apply to credit agreements with consumers which are secured by a mortgage or other comparable security on residential immovable property and to credit agreements the purpose of which is to acquire or retain property rights in land or projected building. Member States are permitted to exclude certain credit agreements (such as bridging loans and credit agreements in respect of buy-to-let properties) from the scope of the Mortgage Credit Directive where an appropriate national framework is in place to deal with such agreements. However, the Mortgage Credit Regulations have included these loans as being in scope.

The Mortgage Credit Regulations apply to consumer mortgage lending by credit institutions and non-credit institutions and affects the activities of creditors (such as the Company and certain of its subsidiaries), credit intermediaries and their appointed representatives. A "consumer" for the purposes of the Mortgage Credit Regulations is a natural person acting for purposes which are outside his or her trade, business or profession.

The key elements of the Mortgage Credit Regulations are:

- Transparency requirements: the Mortgage Credit Regulations require information to be provided to a consumer at a pre-contractual stage to enable a consumer to choose the mortgage product which best meets his or her needs. A creditor is required to provide a consumer with a European Standardised Information Sheet which will allow the consumer to compare terms and conditions of loans being offered by different lenders in the market and so identify the product that is most appropriate for him or her. A consumer must be given a minimum thirty-day reflection period before the conclusion of the credit agreement or, alternatively, a minimum seven-day right of withdrawal after the conclusion of the credit agreement;
- Consumer safeguards: the Mortgage Credit Regulations oblige a creditor to conduct a thorough creditworthiness assessment before granting credit to a consumer;
- Business conduct rules: the Mortgage Credit Regulations require a creditor and a credit intermediary to act in the consumer's interests and imposes high-level standards regarding their remuneration structure. Member States are also required to establish minimum knowledge and competence requirements for lenders and credit intermediaries in accordance with the principles set out in the Mortgage Credit Directive. The Central Bank as the national competent authority for Ireland has published a consultation paper to revise the MCC to prescribe new competency requirements as required by the Mortgage Credit Directive and the Mortgage Credit Regulations;
- Early repayment: the Mortgage Credit Regulations grant a consumer a general right to repay a relevant mortgage loan early. The Mortgage Credit Regulations provide that a creditor is entitled to fair and objective compensation for potential costs directly linked to the early repayment, where justified. Where it is a fixed-rate loan, early repayment can be subject to the existence of a legitimate interest on the part of the consumer, for example, in the event of divorce or unemployment;
- Arrears and foreclosures: the Mortgage Credit Regulations require creditors to exercise reasonable forbearance before foreclosure proceedings are initiated, who must at a minimum comply with any code or similar measure put in place by the Central Bank on the handling of arrears. The Mortgage Credit Regulations require that any charge that a creditor may impose on a consumer arising from the consumer's default, subject to the provisions of section 149 of the CCA and any requirements that may be imposed by the Central Bank from time to time, shall be no greater than is necessary to compensate the creditor for the costs it has incurred as a result of the default. Where, after foreclosure proceedings, outstanding debt remains, in order to protect the consumer, the creditor is required to put in place measures to facilitate repayment of the outstanding debt by the consumer;
- Passport regime for credit intermediaries: the Mortgage Credit Regulations include principles for the authorisation and registration of credit intermediaries and the Mortgage Credit Directive establishes a passport regime for those intermediaries;
- Non-credit institutions: the Mortgage Credit Regulations require the Central Bank to ensure that non-credit institutions engaged in mortgage lending pursuant to the Mortgage Credit Directive are subject to an adequate admission process and to supervision arrangements, including entering the non-credit institution in a register; and
- Amendment to European Communities (Consumer Credit Agreements) Regulations 2010 (the "Consumer Credit Regulations"): the Mortgage Credit Regulations amend the Consumer Credit Regulations by extending their application to an unsecured credit agreement which is provided for the purpose of renovating a residential immovable property involving a total amount of credit in excess of €75,000.

Certain members of AIB (the Company, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven) engage in lending to consumers which is subject to the Mortgage Credit Regulations. AIB has in place policies and procedures which seek to ensure that they comply with the information provision, transparency, arrears handling and other requirements and obligations imposed on them, under the Mortgage Credit Regulations.

1.17.10 Consumer Credit Directive

The Consumer Credit Regulations transpose the Consumer Credit Directive into Irish law and broadly apply to agreements for credit in the form of a deferred payment, loan or other similar financial accommodation but do not apply to credit agreements secured by a mortgage on immovable property. The Consumer Credit Regulations impose requirements in relation to relevant consumer credit including with respect to:

- advertising of credit to consumers;
- consumers' rights of withdrawal from credit agreements within 14 calendar days after the relevant day, without providing a reason;
- information to borrowers including borrowing rates and charges;
- pre-financing credit checks; and
- consumers' rights to prepay loans and restrictions on the compensation to be paid to a creditor in the case of prepayment.

Certain members of AIB (including the Company) provide credit to consumers, which is subject to the Consumer Credit Regulations. AIB has in place policies and procedures which are intended to ensure that they comply with their obligations under the Consumer Credit Regulations. However, as part of an industry-wide exercise, in 2015 the Central Bank requested that AIB undertake a review exercise with respect to its compliance with the requirements of the Consumer Credit Regulations regarding the disclosure of APR across marketing and advertising materials for credit products. The requirement is to state the representative annual percentage rate of interest in advertising materials and credit agreements for applicable credit products. The results of the review determined that there had been no financial detriment to customers and no systemic issues were identified, however minor compliance issues were identified with respect to advertising materials for certain personal loans and credit cards. AIB is engaging with the Central Bank to resolve the issues.

1.18 LTV/LTI related Regulatory Restrictions on Residential Mortgage Lending

The Central Bank has, under the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015, as amended by the Central Bank (Supervision and Enforcement) Act of 2013 (section 48) (Housing Loan Requirements) Regulations 2016, imposed restrictions on Irish residential mortgage lending by lenders which are regulated by the Central Bank (such as the Company, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven in the case of AIB). The restrictions impose limits on residential mortgage lending by reference to LTV and LTI ceilings, subject to limited exceptions.

The regulations impose different LTV limits for different categories of buyers. A limit of 80 per cent. LTV applies to new mortgage lending for non-first-time buyers of a PDH. For first-time buyers of PDH's, a limit of 90 per cent. LTV applies. For non-PDH purchases (e.g., buy-to-let properties), a limit of 70 per cent. LTV applies.

In relation to these LTV restrictions, AIB is required:

- in the case of a loan to a first time buyer for the purpose of purchasing a PDH, to restrict lending beyond the prescribed LTV limits to no more than 5 per cent. of the aggregate value of all such loans;
- in the case of a loan to a non-first time buyer for the purpose of purchasing a PDH, to restrict lending beyond the prescribed LTV limits to no more than 20 per cent. of the aggregate value of all such loans in the relevant period (except in the case of the first relevant period, this is the calendar year); and
- in the case of loans other than PDH loans, to restrict lending beyond the prescribed LTV limits to 10 per cent. of the aggregate value of all such loans entered into in that relevant period.

The relevant members of AIB (the Company, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven) are required to restrict lending above 3.5 times LTI to no more than 20 per cent. of the aggregate value of the PDH loans AIB makes in the relevant period. Mortgages for non-PDH loans are exempt from the LTI limit. AIB has in place policies and procedures aimed at ensuring that they do not exceed the prescribed limits and comply with their obligations under the regulations.

1.19 Personal Insolvency Act

1.19.1 General

The Personal Insolvency Act transformed the personal insolvency regimes including through the introduction of three new debt resolution processes, namely:

- a debt relief notice ("DRA") to allow for the write-off of qualifying debts up to €35,000, subject to a three-year supervision period;
- debt settlement arrangement ("DSA") for the settlement of qualifying unsecured debts over a period of up to five years (extendable to six years in certain circumstances) and subject to majority creditor approval; and
- a PIA, which is a personal insolvency arrangement for the agreed settlement or restructuring of qualifying secured debts of up to €3 million (although this cap can be increased with the consent of all secured creditors) and the agreed settlement of qualifying unsecured debt, over a period of up to six years (extendable to seven years in certain circumstances).

These processes are administered by approved intermediaries (in the case of the DRN) and registered personal insolvency practitioners (in the case of a DSA and PIA). The DSA and PIA processes involve the issuance of a protective certificate which precludes enforcement and related actions by creditors. Detailed eligibility criteria and other requirements relating to the processes are set out in the Personal Insolvency Act. The Insolvency Service of Ireland ("Insolvency Service"), amongst other things, processes DRN, DSA and PIA applications in the first instance. The application for a DRN, DSA or PIA and protective certificates ultimately needs to be approved by a court (the Circuit Court for debts below €2.5 million, the High Court for debts above €2.5 million) before it can come into effect.

The PIA is capable of settling and/or restructuring secured debt, including residential mortgage debt. Subject to certain mandatory requirements and minimum protections for a debtor and his or her secured creditors, the Personal Insolvency Act provides flexibility as to how a PIA treats a secured debt. For example, a PIA may provide for an adjustment of the interest rate, interest basis or maturity of the debt, a capitalisation of arrears, a debt-for-equity swap, or a principal write-down to a specified amount equal to or greater than the value of the security.

The Insolvency Service of Ireland was established to oversee and operate the measures under the Personal Insolvency Act.

AIB has in place policies and procedures, and have engaged with impacted customers, in a manner which seeks to ensure compliance with the Personal Insolvency Act.

1.19.2 DRN and DSA

The DRN process facilitates the release of a debtor meeting certain eligibility criteria from qualifying debts totalling not more than €35,000 after a three-year supervision period. The Personal Insolvency Act provides that, for the purposes of that eligibility criterion, the value of an asset of a debtor shall be taken to be its market value, irrespective of any mortgage, charge or other security to which it is subject.

The DSA process facilitates the settlement of qualifying unsecured debts owed by a debtor meeting certain eligibility criteria over a period of up to five years (subject to a possible extension to six years). A personal insolvency practitioner formulates a proposal for an arrangement during a protective period of up to 110 days extendable to 150 days in exceptional circumstances during which unsecured creditors cannot take enforcement action against the debtor. The proposal must be approved by the debtor and a qualified 65 per cent. majority of the creditors representing the value of debts. Upon successful completion of the DSA, the debtor is released from all of his or her qualifying unsecured debts.

Secured debts cannot be settled pursuant to a DSA and a secured creditor may not participate in a DSA with respect to a secured debt. In addition, the Personal Insolvency Act provides that nothing in the chapter of the Personal Insolvency Act relating to the DSA process including a protective certificate affects the right of a secured creditor of the debtor to enforce or otherwise deal with his or her security.

AIB has in place policies and procedures in relation to the DRN and DSA processes, aimed at ensuring compliance with the Personal Insolvency Act.

1.19.3 PIA

The PIA process facilitates the settlement of unsecured debts of any amount and the settlement and/or restructuring of secured debts of up to €3 million (which limit can be waived where all the secured creditors so consent) owed by a debtor meeting certain eligibility criteria over a period of up to six years (subject to a possible extension to seven years). A personal insolvency practitioner formulates a proposal for an arrangement during a protective period of up to 110 days extendable to 150 days in exceptional circumstances during which creditors cannot take enforcement action against the debtor. The proposal must be approved by the debtor and a qualified 65 per cent. majority of the creditors, with separate class approvals being required by secured and unsecured creditors representing over 50 per cent., in each case, of numbers of creditors voting and of the value of the relevant debts. Upon successful completion of the PIA, the debtor is released from all of his or her qualifying unsecured debts but is not released from his or her secured debts except to the extent provided for under the terms of the PIA.

The Personal Insolvency (Amendment) Act 2015 introduced a mechanism whereby a court review of a creditor's rejection of a proposal for a PIA is possible in certain qualifying circumstances. A PIA can affect the right of a secured creditor of the debtor to enforce or otherwise deal with his or her security. The Personal Insolvency Act provides that, subject to certain mandatory requirements set out in the Act, the terms of a PIA may provide for the manner in which the security is to be treated, which may include the sale or any other disposition of the property or asset the subject of the security, the surrender of the security to the debtor or the retention by the secured creditor of the security. In addition, the Personal Insolvency Act provides that the PIA may vary the terms of the secured debt, including variations with respect to interest payments, the term to maturity, capitalisation of arrears or reduction of the principal sum to a specified amount.

The Personal Insolvency Act provides that where a PIA provides for the sale or other disposal of the property which is the subject of the security for a secured debt, and the realised value of that property is less than the amount due in respect of the secured debt, the balance due to the secured creditor will abate in equal proportion to the unsecured debts covered by the PIA and will be discharged with them on completion of the obligations specified in the PIA.

The Personal Insolvency Act provides for certain specific protections for secured creditors, including: (i) where there is a sale or other disposal of the property the subject of the security, the secured creditor is entitled to the sale/disposal proceeds to discharge the debt up to the value of the security and (ii) where the security is retained by the secured creditor and the principal sum of the secured debt is reduced pursuant to the terms of the PIA, the principal sum cannot be reduced below the value of the security without the consent of the secured creditor and any such reduction of principal can be "clawed back" in favour of the secured creditor where the debtor sells or otherwise disposes of the property the subject of the security within 20 years of the PIA coming into effect.

The Personal Insolvency Act also provides for certain specific protections for a debtor, including protection for the debtor's ownership and occupation of his or her PDH subject to certain limits such as where the personal insolvency practitioner forms the opinion that the costs of the debtor continuing to reside in that PDH are disproportionately large.

AIB has in place policies and procedures relating to PIAs, which seek to ensure compliance with the Personal Insolvency Act.

1.19.4 Bankruptcy

Bankruptcy law in Ireland is set out in the Bankruptcy Act 1988 (the "Bankruptcy Act"). The Personal Insolvency Act (in Part 4) provides for a number of amendments to the Bankruptcy Act. The bankruptcy regime has been further amended by the Bankruptcy (Amendment) Act 2015. Amongst other things, the Bankruptcy (Amendment) Act 2015 provides for a reduction of the bankruptcy period from three years to one year so that every bankruptcy will be automatically discharged on the first anniversary of the date of the making of the adjudication order in respect of that bankruptcy (unless the court extends the period of bankruptcy, typically when there has been non-cooperation by the bankrupt or other irregular actions).

The Bankruptcy (Amendment) Act 2015 also reduces the normal maximum duration of a bankruptcy payment order (a court order requiring a bankrupt individual to make payments for the benefit of his or her creditors from any surplus income or assets after the deduction of reasonable living expenses for him or her and any dependents) from five to three years, although it retains the maximum five-year duration in cases of non-cooperation or asset concealment. The Bankruptcy (Amendment) Act 2015 also provides that a bankrupt person's legal interest in his or her home will revest in him or her after three years (subject to any outstanding mortgage), if the official assignee has neither sold it, nor applied to the High Court for an order permitting the sale of the house, before that date.

AIB has in place policies and procedures which are intended to ensure compliance with the Bankruptcy Act.

1.20 Asset Covered Securities Legislation

The ACS Act provides for a statutory framework for the issuance of Irish covered bonds known as ACS. ACS can only be issued by Irish credit institutions that are registered under the ACS Act and restrict their principal activities to public sector or property financing. Those credit institutions that are registered under the ACS Act and restrict their principal activities for the main part to residential property sector financing, are called "designated mortgage credit institutions" and issue ACS known as mortgage covered securities.

The ACS Act provides, among other things, for the registration of eligible credit institutions, the maintenance by such credit institutions of a defined pool, known as a cover assets pool, of prescribed mortgage credit assets (including mortgage credit assets in securitised form) and limited classes of other assets (known as cover assets), and the issuance by such credit institutions of mortgage covered securities which are secured by a statutory preference under the ACS Act on those cover assets.

The ACS Act also makes provision for the inclusion in the cover assets pool as cover assets of certain hedging contracts which are called cover assets hedge contracts. The ACS Act also varies the general provisions of Irish insolvency law which would otherwise apply with respect to an eligible credit institution, cover assets, cover assets hedge contracts and mortgage covered securities on the insolvency of the eligible credit institution and replaces them with a special insolvency regime applicable to such institutions.

The ACS Act further provides for the supervision and regulation of eligible credit institutions by the Central Bank, for the role of a monitor in respect of each eligible credit institution and the cover assets pool maintained by it, for restrictions on the types and status of cover assets which may be included in the cover assets pool (including LTV restrictions and duration restrictions), for asset/liability management between the cover assets pool and mortgage covered securities, for overcollateralisation of the cover assets pool with respect to mortgage covered securities, for transfers between an eligible credit institution and other credit institutions (including another eligible credit institution) of assets and/or business, and, in certain circumstances, for the role with respect to an institution, and its cover assets pool and mortgage covered securities of the NTMA or a manager appointed by the Central Bank.

AIB Mortgage Bank and EBS Mortgage Finance which are subsidiaries of AIB are registered as designated mortgage credit institutions under the ACS Act. AIB has in place policies and procedures aimed at ensuring that they comply with the registration, monitoring, reporting and other obligations imposed on them under the ACS Act.

1.21 SME lending regulation

The SME Regulations apply to a regulated financial service provider (such as AIB and certain of its subsidiaries which are regulated by the Central Bank) when providing certain credit products to an SME operating within Ireland. The protections set out in the SME Regulations differ depending on whether the credit is provided to micro and small enterprises or to medium-sized enterprises.

The SME Regulations set out detailed requirements on lending to micro and small enterprises, which is an enterprise which employs fewer than 50 persons; and which has either or both of the following: an annual turnover which does not exceed €10 million or an annual balance sheet total which does not exceed €10 million. Among other things, those requirements deal with advertising, pre-contract and post-sale information, applications for credit, refusing or withdrawing credit, annual meetings and credit reviews, arrears and appeals.

The SME Regulations are generally less prescriptive regarding lending to a medium-sized enterprise, namely an enterprise that is not a micro and small enterprise and which has: fewer than 250 employees; an annual turnover not exceeding €50 million; or an annual balance sheet not exceeding €43 million.

When providing in-scope financing to SMEs, certain Group companies which are regulated financial service providers (as defined in the SME Regulations) are subject to the requirements of the SME Regulations. AIB has in place policies and procedures which are aimed at ensuring that those Group companies comply with their obligations under the SME Regulations.

1.22 Dormant accounts

The Dormant Accounts Act 2001 sets out certain rules in respect of balances of dormant accounts with credit institutions in Ireland (such as AIB and EBS). A dormant account is an account where, during a 15 year period, no transaction has been effected by the account holder. Unclaimed money is transferred to a fund known as the Dormant Accounts Fund managed by the NTMA. The rights of original account holders (or their heirs) are not affected by the transfer to the Dormant Accounts Fund and they can reclaim the funds. Credit institutions are obliged to submit annual certificates of compliance with the Dormant Accounts Act 2001 and the Central Bank may authorise inspections of a credit institution's records.

Members of AIB which are credit institutions authorised under Irish law, are subject to the Dormant Accounts Act 2001. AIB has policies and procedures which are intended to ensure that they comply with the requirements of the Dormant Accounts Act 2001 when dealing with any dormant accounts held with them.

1.23 Other EU Legislation

1.23.1 Benchmark Regulation

The Benchmark Regulation regulates the production and use of benchmarks and will apply from 1 January 2018. Among other things, it imposes requirements on a supervised entity, (including a credit institution), that uses a benchmark. Specifically, a supervised entity is restricted as to the types of benchmarks it may use. In addition, a supervised entity that uses a benchmark must produce and maintain robust written plans setting out the actions it would take in the event that a benchmark materially changes or ceases to be provided. It must also provide its relevant competent authority with those plans on request and reflect them in the contractual relationship with clients. Standard variable rates offered by credit institutions will not be considered benchmarks when used in mortgage or consumer credit contracts.

1.23.2 EMIR Regulations

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, Central Counterparts and Trade Repositories (the "EMIR Regulations") imposes obligations on derivatives market participants operating within the EEA in three principal areas; the clearing of certain standardised OTC derivative contracts, reporting, and the employment of certain risk mitigation techniques in respect of, certain derivative contracts, with its provisions taking effect on a phased basis. The EMIR Regulations impose certain obligations on, and leaves certain discretions to, Member States of the EEA. The European Union (European Markets Infrastructure) Regulations 2014 were made by the Minister for Finance to discharge those obligations and exercise those discretions with respect to Ireland. Those regulations designate the Central Bank as Ireland's national competent authority for EMIR Regulations purposes, confer on the Central Bank functions (including supervisory and investigatory powers) and establish Ireland's sanctions regime for infringements of obligations imposed by the EMIR Regulations and those Irish transposed regulations.

Certain members of AIB (such as the Company) are in-scope Financial Counterparties and so subject to the EMIR Regulations. AIB has policies and procedures that are designed to ensure compliance with the reporting and other obligations imposed on them under the EMIR Regulations.

1.23.3 Distance Marketing Regulations

The Distance Marketing of Financial Services Directive was implemented in Ireland by way of the DM Regulations. The DM Regulations apply to, *inter alia*, credit agreements entered into on or after 31 October 2014 by means of distance communication (i.e., without any substantive simultaneous physical presence of the originator and the borrower).

The DM Regulations require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally must be provided within a reasonable time before the consumer is bound by a distance contract for the supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service, contractual terms and conditions (including the price to be paid by consumers to the supplier of financial services) and whether or not there is a right of cancellation.

Unlike certain other distance contracts for the supply of financial services, a consumer does not have the right under the DM Regulations to cancel a housing loan (within the meaning of the CCA) within the 14-day cooling-off period introduced by the DM Regulations, if originated by an Irish lender from an establishment in Ireland. However, failure by the supplier to comply with certain obligations under the DM Regulations may result in the distance contract being unenforceable against the consumer. The relevant obligations include (i) the provision of the prescribed pre-contractual information to the consumer; (ii) keeping a copy of all information provided to a consumer in relation to a distance contract in durable and tamper-proof form; (iii) upon a request from the consumer, providing a hard paper copy of the distance contract; or (iv) changing the means of distance communication pursuant to a consumer request (unless to do so would be inconsistent with the contract or nature of the service). The discretion as to enforceability, lies with the courts, who if satisfied that the supplier's non-compliance was not deliberate, the consumer has not been prejudiced by such non-compliance, and it is just and equitable to dispense with the relevant obligation, may decide that the contract is enforceable, subject to any conditions that the court sees fit to impose.

The DM Regulations apply to certain members of AIB when entering into distance contracts for the supply of financial services to consumers (as defined in the DM Regulations, and subject to certain exceptions). AIB has in place policies and procedures, and drafted customer documentation, in a manner which is intended to ensure that they comply with the information provision, cooling-off period, customer communication and other obligations imposed on them under the DM Regulations.

1.23.4 Markets in Financial Instruments Directive

The MiFID I Directive governs the provision of investment services in financial instruments by credit institutions and investment firms and the operation of traditional stock exchanges and alternative trading venues.

MiFID I Directive was implemented in Ireland by the IR MiFID Regulations. The Central Bank is the competent authority in Ireland for the purposes of the MiFID I Directive and the IR MiFID Regulations. The Company, as the holder of an Irish banking authorisation for the purposes of CRD IV, is subject to certain of the provisions of the IR MiFID Regulations in accordance with the terms of the IR MiFID Regulations and the MiFID I Directive.

The MiFID I Directive and the IR MiFID Regulations establish a regulatory framework for the provision of investment services in Ireland in relevant financial instruments (such as brokerage, advice, dealing, portfolio management, underwriting of relevant financial instruments by credit institutions and investment firms), for the operation of regulated markets by market operators and establishes the powers and duties of the Irish competent authority, the Central Bank, in relation to these activities. Requirements in relation to relevant financial instruments apply under the MiFID I Directive and the IR MiFID Regulations with respect to a range of matters including transparency of price formation, best execution, transparency of costs, client data, client advice, information to be provided to clients, management of conflict of interests and regulatory compliance frameworks.

The MiFID II Directive, will repeal the MiFID I Directive. Member States must transpose the MiFID II Directive into national law by 3 July 2017, which, together with the EU MiFID Regulation will apply within Member States from 3 January 2018. The revised framework under the MiFID II Directive and EU MiFID Regulation will encompass a broader range of financial instruments than that to which the MiFID I Directive framework applied, require more trading to take place on regulated platforms and provide for more types of such platforms. It will introduce rules on algorithmic and high frequency trading. It will impose additional requirements in respect of transparency in trades and establish a harmonised EU regime for non-discriminatory access to trading venues, clearing counterparties and benchmarks for trading and clearing purposes. Building on the rules in place under the MiFID I Directive, the new framework is intended to strengthen the protection of clients by introducing additional organisational and conduct requirements and increasing the responsibilities of management bodies of the entities subject to regulation thereunder. The revised framework will also increase the role and supervisory powers of regulators and establishes powers to prohibit or restrict the marketing and distribution of certain financial products. It will also establish a harmonised regime for firms established in non-EEA countries to access EU "professional" markets, based on an equivalence assessment of the relevant country's jurisdiction by the EC.

Certain members of AIB (such as the Company) provide MiFID services to professional clients only. When providing MiFID services, those companies are required to comply with the IR MiFID Regulations. AIB has in place policies and procedures which are intended to ensure that they comply with their disclosure, reporting, suitability, investor protection and other obligations under the IR MiFID Regulations when providing these services.

1.23.5 Payment services and related matters regulation

The Payment Services Regulations transpose the PSD into Irish law. PSD is the main EU legislative measure governing payment services in the EU. It covers all electronic and non-cash payments in the EU and provides common rules, obligations and rights for payment service providers and users. Among other things, the Payment Services Regulations set out certain prudential and conduct of business requirements for payment services providers as well as requirements on items such as the time-frames for payments, the provision of information to consumers and refunds on unauthorised transactions. PSD also provides the legal framework for the operation of the SEPA, which is a European-wide framework to standardise the way retail electronic payments are made and processed in Europe, thus eliminating the difference between domestic and cross-border payments. PSD will be replaced in Ireland by a new regulatory regime, once the revised PSD2 is transposed into Irish law. This is due to occur by 13 January 2018. PSD2 introduces a number of key changes to the existing regulatory framework for payment services. Among other things, it brings into scope payment service providers that were previously unregulated and raises conduct of business standards in a number of important areas.

The Interchange Fee Regulation provides for uniform technical and business requirements for card-based payment transactions carried on within the European Union, where both the payer's payment service provider and the payee's payment service provider are located within the European Union. The Interchange Fee Regulation prescribes interchange fees limits for consumer debit cards and consumer credit cards. It also increases the transparency of fees charged as well as addressing licensing issues and other restrictive business rules for card-based payment schemes. The European Union (Interchange Fees for Card-based Payment Transactions) Regulations 2015 supplement the Interchange Fee Regulation in Ireland.

The European Communities (Electronic Money) Regulations 2011 (the "E-money Regulations") transposed into Irish law the E-money Directive, which regulates electronic payment systems in the EU. The E-money Regulations set out the institutions that may issue electronic money and the requirements for the authorisation or registration of electronic money institutions. The E-money Regulations also set out the requirements to be met by all electronic money issuers when issuing and redeeming electronic money.

The Payment Accounts Regulations transposed into Irish law the Payment Accounts Directive. The Payment Accounts Regulations promote the transparency and comparability of payment account fees and facilitate account switching. They also set out certain requirements to ensure that consumers have access to payment accounts with basic features. Some of the elements of the Payment Accounts Regulations are not yet in force at the date of this Prospectus.

The Code of Conduct on the Switching of Payment Accounts with Payment Service Providers 2016 sets out certain rules in relation to the switching of payment accounts. It applies where a payment account is held with a payment service provider located in Ireland by a consumer or an incorporated body having an annual turnover of €3 million or less in the previous financial year.

Certain members of AIB are authorised or permitted to provide payment services and must comply with the above requirements (as applicable) when providing such services. AIB has in place policies and procedures which aim to ensure that they comply with their obligations under the Payment Services Regulation, SEPA, the Interchange Fee Regulation, the Payment Accounts Regulations and the Code of Conduct on the Switching of Payment Accounts. AIB does not currently provide e-money products or services.

Relevant Group companies will also be required to update the relevant frameworks and processes, to align them with the revised requirements in PSD2 (when implemented in Ireland), which will replace the Payment Services Regulations with effect from 3 January 2018.

1.23.6 Packaged Retail Investment and Insurance Products Regulation

The PRIIPs Regulation seeks to promote investor protection by enhancing transparency over the key features and risks of packaged retail investment and insurance products (PRIIPs) sold to retail investors. It will apply from 1 January 2018.

The term "PRIIPs" covers two types of products, namely packaged retail investment products and insurance-based investment products. In both cases, the key feature of the product is that the amount repayable to the investor is subject to fluctuation because of exposure to reference values, or subject to the performance of one or more assets that are not directly purchased by the retail investor.

Among other things, the PRIIPs Regulation requires a "PRIIP manufacturer" (any person that manufacturers a PRIIP), including credit institutions, to prepare and produce a standardised fact sheet, known as a Key Information Document, or KID, in accordance with a prescribed format and content. The person advising on or selling the PRIIP must then provide the KID to retail investors.

In addition, the PRIIP manufacturer and a person advising on, or selling, the PRIIP must establish appropriate procedures and arrangements for ensuring that retail investors can submit a complaint against a PRIIP manufacturer and that complaints regarding the KID receive a substantive reply in a timely and proper manner.

Certain AIB companies will be subject to the PRIIPs Regulation when it takes effect and AIB will have to implement systems and put in place procedures and processes which are intended to ensure compliance with their disclosure, investor protection and other obligations under the PRIIPs Regulation, from 1 January 2018.

2 Current Regulation of Credit Institutions in the United Kingdom

AIB Group (UK) p.l.c.

AIB Group (UK) p.l.c. is a company incorporated in Northern Ireland and is authorised by the PRA and regulated by the FCA and the PRA under the FSMA to carry on a wide range of regulated activities (including accepting deposits and entering into regulated mortgage contracts).

The Company

The Company is incorporated and has its head office in Ireland, and is authorised as a credit institution in Ireland by the ECB. Pursuant to the Banking Consolidation Directive (Directive 2006/48/EC), the Company has exercised its EU "passport" rights to provide banking, treasury and corporate treasury services in the UK through its London branch.

Whilst in Ireland the Central Bank continues to regulate the Company in certain areas, including consumer protection, the ECB (together with support from the Central Bank) has primary responsibility for the prudential supervision of AIB. However, AIB must comply with the FCA's and PRA's rules in so far as they apply to its activities carried out in the UK. In addition, the PRA has a responsibility to co-operate with the ECB and the Central Bank in ensuring that branches of Irish credit institutions in the United Kingdom (such as the Company's London branch) maintain adequate liquidity and take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom. See "*—Regulation of Banks in Ireland—General Supervision and Regulation of Banks in Ireland*" above for details of passporting.

2.1 Regulatory Oversight by the PRA and the FCA

The FSMA is the principal piece of legislation governing the establishment, supervision and regulation of financial services and markets in the UK. The PRA and the FCA are the regulators in the UK responsible for the authorisation and supervision of regulated activities as defined in the FSMA including as to restricted and prohibited conduct.

The FCA is responsible, in respect of banks, building societies, credit unions, insurers and designated investment firms, for conduct of business regulation, market conduct (including market abuse), financial crime and enhancing competition.

2.1.1 The Financial Conduct Authority

The FCA has a single strategic objective to ensure that the markets for financial services function well. Three operational objectives support this: (i) securing an appropriate degree of protection for consumers; (ii) protecting and enhancing the integrity of the UK financial system; and (iii) promoting effective competition in the interests of consumers in the markets for financial services.

2.1.2 The Prudential Regulation Authority

The PRA is responsible under FSMA for the authorisation and prudential supervision of banks, building societies, credit unions, insurers and certain major investment firms. One of its three statutory objectives is to promote the safety and soundness of PRA-regulated firms, and it is required to advance this objective primarily by seeking to minimise any adverse effects of firm failure on the UK financial system and to ensure that firms carry on their business in a way that avoids adverse effects on the system.

Both regulators employ methods of supervising banks and other authorised firms in a manner consistent with the perceived threat that the institution poses to the regulatory bodies' statutory objectives. This supervisory approach will include the regular reporting of statistical information and a regular set of returns giving levels of capital and liquidity, balance sheet and consolidated statement of income data, material on the maturity structure of assets and liabilities, sector-analysis of business and details of concentration of risk in assets and deposits.

Review meetings are held by both the PRA and the FCA with the management of regulated firms. The PRA also publishes requirements it expects PRA-authorised firms to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities and liquidity.

2.1.3 Threshold conditions

Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA. Dual-regulated firms, such as AIB Group (UK) plc, must meet both the PRA and FCA threshold conditions.

At a high level, the threshold conditions for dual-regulated firms require that (amongst other things) (i) the firm is capable of being effectively supervised by the FCA and the PRA; (ii) the firm has appropriate financial and non-financial resources; (iii) the firm itself is fit and proper, having regard to the FCA's and the PRA's objectives; (iv) the firm's business model is suitable for the regulated activities it carries on or seeks to carry on; and (v) the firm's business is conducted in a prudent manner.

2.1.4 PRA and FCA rules and guidance

The detailed rules and guidance made by the PRA and the FCA under the powers given to them by the FSMA are contained in various parts of their respective handbooks (the "PRA Handbook" and the "FCA Rulebook" respectively).

2.1.5 Senior managers and certification regime

Persons who hold PRA- or FCA-designated senior management functions such as certain specified key roles or having overall responsibility for whole areas of banks, building societies, credit unions, large PRA-regulated investment banks and branches of foreign banks operating in the UK must be approved by the PRA or the FCA under the "senior managers regime". Those persons must meet ongoing standards of conduct and fitness and propriety. The "certification regime" for deposit banking firms, such as AIB, separately applies to "material risk-takers" and other staff who pose a risk of significant harm to the firm or any of its customers (for example, staff who could give mortgage advice), referred to as performing a "significant harm function". Individuals performing significant harm functions are not subject to regulatory approval. However, a firm must take reasonable care to ensure that no employee performs any of these functions without having been certified by the firm as fit and proper to do so, both at the point of recruitment and on an annual basis. All staff employed by AIB UK are subject to specified rules of conduct with the exception of domestic staff, switch-board operators, etc.

2.1.6 Enforcement

The PRA and the FCA each have the power to take a wide range of disciplinary actions against regulated firms and any approved persons, including private warnings, public censure, the imposition of fines, the variation, suspension or termination of the firm's authorisation or the removal of approved status from individuals. The PRA and the FCA can, at their discretion, utilise their powers under section 166 of the FSMA to require a regulated firm to commission "skilled persons" to undertake focused reviews of its business. The PRA and the FCA use these powers to obtain an independent view of aspects of a firm's activities that for example cause concern or where further analysis is required. As part of this process, the skilled person is required to report his or her findings and recommendations directly to the regulator.

2.1.7 Mortgages

The regulation of entering into administering and advising on mortgages under the FSMA is in relation to regulated mortgage contracts, which are, broadly, owner occupier credit agreements with individuals or trustees (whether consumer or business customers) and secured by a mortgage over land in the EEA.

2.2 UK Banking Act 2009

Under the Banking Act, substantial powers have been granted to the HM Treasury, the Bank of England and the PRA (the "UK Authorities") as part of a special resolution regime ("SRR"). These powers enable the UK Authorities to deal with a UK bank (such as AIB Group (UK) p.l.c.), building society or other UK institution with permission to accept deposits pursuant to the FSMA (each, a "relevant entity") in circumstances in which the Authorities consider it is failing or is likely to fail and a threat is posed to the public interest or stability of the UK financial systems. The SRR consists of five stabilisation options, an insolvency procedure and an administration procedure applicable to relevant entities which may be commenced by the UK Authorities. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a bridge bank established by the Bank of England; (iii) transfer of all of part of the business to an asset management vehicle; (iv) bail-in and recapitalisation (for example, by cancelling, reducing or deferring the equity liabilities of a relevant entity); and (v) temporary public ownership (nationalisation) of the relevant entity. In each case, the UK Authorities have been granted wide powers under the Banking Act, including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if (i) the PRA is satisfied that a relevant entity (such as AIB Group (UK) p.l.c.) is failing, or is likely to fail; (ii) it is not reasonably likely that (other than potentially through the stabilising options) action will be taken that will result in the relevant entity no longer failing or likely to fail; and (iii) the UK Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial systems, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities subject to certain protections made under the Banking Act 2009 (Restrictions of Partial Property Transfers) Order 2009) in respect of AIB Group (UK) p.l.c. Exercise of these powers could involve taking various actions in relation to any securities issued by AIB Group (UK) p.l.c. (including Ordinary Shares) without the consent of the Company (as its sole shareholder), including (among other things): (i) transferring the shares notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance; (ii) converting the shares into another form or class; (iii) modifying or disapplying certain terms of the shares; and/or (iv) where property is held on trust, removing or altering the terms of such trust.

2.3 The Financial Services Compensation Scheme

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms that are unable, or likely to be unable, to pay claims against them. The jurisdiction of the

FSCS includes eligible customers of AIB Group (UK) p.l.c. but does not include customers of the Company's London branch (which is covered by the Irish compensation scheme arrangements summarised above under *"—Deposit Guarantee Scheme and Investor Compensation Scheme"*). The maximum levels of compensation below are, for example, for claims against firms declared in default on or after 1 January 2010 (except for deposits), per eligible customer, per firm and per type of claim:

(a) for deposits, 100 per cent. of the first £85,000 for firms declared in default from 30 January 2017;

(b) for mortgage advice and arranging, 100 per cent. of the first £50,000; and

(c) for insurance, 90 per cent. of the claim with no upper limit (except compulsory insurance is protected in full).

Claims on the FSCS are funded by loans from the Bank of England and by levies on PRA/FCA-authorised firms.

2.4 Financial Ombudsman Service

The FSMA established the UK Financial Ombudsman Service (the "FOS"), which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions within its jurisdiction. The jurisdiction of the FOS includes eligible complainants of AIB Group (UK) p.l.c. and the Company's London branch.

The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of financial award by the FOS is £150,000 plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

3 United States

AIB is subject to federal and state banking and securities law supervision and regulation in the United States as a result of the banking activities conducted by its branch in New York.

Under the US International Banking Act of 1978, as amended (the "IBA"), AIB is a foreign banking organisation and is treated as a bank holding company, as such terms are defined in the statute, and, as such, is subject to regulation by the Federal Reserve Board (the "FRB"). The Bank Holding Company Act of 1956, as amended (the "BHCA"), imposes significant restrictions on AIB's US non-banking operations and on its holdings of equity in companies which directly or indirectly operate in the United States. As a bank holding company that has not elected to be a "financial holding company", AIB is generally required to limit its direct and indirect activities in the United States to banking activities and activities that the FRB has determined to be "so closely related to banking as to be a proper incident thereto". Under the BHCA, AIB is required to obtain the approval of the FRB before acquiring, directly or indirectly, the ownership or control of 5 per cent. or more of any class of voting securities of, among other things, any US bank or bank holding company.

AIB continues to conduct limited corporate lending, treasury and other operations through its New York branch. AIB's New York branch is supervised by the FRB and the New York State Department of Financial Services (the "NYDFS"). Under the IBA, AIB's New York branch is subject to reporting and examination requirements of the FRB similar to those imposed on domestic banks, and most US branches and agencies of foreign banks, including AIB's New York branch, are subject to reserve requirements on deposits. Further, under the IBA, the FRB may terminate the activities of any US branch or agency if it finds that:

- The foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country and the home country supervisor is not making demonstrable progress in establishing arrangements for the consolidated supervision of the foreign bank;
- There is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in an unsafe or unsound banking practice in the United States and, as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the federal banking laws; or
- For a foreign bank that presents a risk to the stability of the US financial system, the home country of the foreign bank has not adopted, or made demonstrable progress toward adopting, an appropriate system of financial regulation to mitigate such risk.

Also, under the New York Banking Law (the "NYBL"), the NYDFS may take possession of the business and property of a New York state-licensed branch under certain circumstances, including:

- Violation of any law;
- Conduct of business in an unauthorized or unsafe manner;
- Capital impairments;
- Suspension of payment obligations;
- Initiation of liquidation proceedings against the foreign bank; or
- Reason to doubt the foreign bank's ability to pay in full certain claims of its creditors.

Pursuant to the NYBL, when the superintendent takes possession of a New York branch of a foreign bank, it succeeds to the branch's assets, wherever located, and the non-branch assets of the foreign bank located in New York. In liquidating or dealing with a branch's business after taking possession of the branch, the Superintendent will accept for payment out of the branch's assets only the claims of creditors (unaffiliated with the foreign bank) that arose out of transactions with the branch (without prejudice to the rights of such creditors to be satisfied out of the other assets of the foreign bank) and only to the extent those claims represent an enforceable legal obligation against such branch as if such branch were a separate legal entity. After such claims are paid, together with any interest thereon, and the expenses of liquidation have been paid or properly provided for, the Superintendent would turn over the remaining assets to the foreign bank, or to its duly appointed liquidator or receiver.

Under US federal banking laws, state-licensed branches (such as AIB's New York branch) may not, as a general matter, engage as a principal in any type of activity not permissible for their federally licensed counterparts, unless the FRB determines that the additional activity is consistent with sound banking practices. US federal and state banking laws also generally subject state branches to the same single-borrower lending limits that apply to federal branches or agencies, which are substantially similar to the lending limits applicable to national banks. These single-borrower lending limits are based on the worldwide capital of the entire foreign bank.

Anti-money laundering, anti-terrorism and economic sanctions regulations have become a major focus of US government policy relating to financial institutions and are rigorously enforced. Regulations applicable to AIB and its affiliates impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering. In particular, Title III of the USA PATRIOT Act, as amended, requires financial institutions operating in the United States to (i) give special attention to correspondent and payable-through bank accounts; (ii) implement enhanced due diligence and "know your customer" standards for private banking and correspondent banking relationships; (iii) scrutinise the beneficial ownership and activity of certain non-US and private banking customers (especially for so-called politically exposed persons); and (iv) develop new anti-money laundering programmes, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programmes are intended to supplement any existing compliance programmes under the Bank Secrecy Act and OFAC regulations.

OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists and international narcotics traffickers to carry out US foreign policy and national security objectives. Generally, the regulations require blocking of accounts and other property of specified countries, entities and individuals, and the prohibition of certain types of transactions (unless OFAC issues a licence) with specified countries, entities and individuals. Banks, including US branches of foreign banks, are expected to establish and maintain appropriate OFAC compliance programmes to ensure compliance with OFAC regulations.

Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution. AIB has implemented AML/CTF controls which aim to ensure that AIB and its employees adhere to the applicable AML/CTF obligations.

Other more recent federal laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"), include provisions that place potentially significant limitations on non-US banks operating in the United States, and also impact activity conducted outside the US. AIB monitors its ongoing business activities to ensure continued compliance with the applicable requirements under Title VII of Dodd-Frank with respect to OTC derivatives. AIB's swap trading activity as at 31 December 2016 with US persons was below the thresholds required for AIB to register as a swap dealer or major swap participant. In addition, the New York branch has submitted annual resolution plans under Section 165(d) of Dodd-Frank, most recently in December 2016. Final rules for implementing Section 619 of Dodd-Frank (the "Volcker Rule") which implements restrictions on both (i) proprietary trading and (ii) investments in "covered funds" such as private equity and hedge funds by financial institutions were issued in December 2013 by regulatory authorities. Banking organisations covered by the Volcker Rule, including AIB, were required to conform their activities to the Volcker Rule's requirements by 21 July 2015, though AIB has until 21 July 2017 to conform its investments in and relationships with covered funds established prior to 2014.

PART XIX
TAXATION

The following is a summary of certain Irish, United Kingdom and US federal income tax considerations relating to an investment in the Company's shares and is based on the laws and practices in these jurisdictions as of the date of this Prospectus. The comments in this "Part XIX: Taxation" are of a general nature and are not intended to be exhaustive and should be treated with appropriate caution. Particular rules may apply to certain classes of Shareholder. The summary does not constitute tax or legal advice. Any Shareholders or prospective shareholders who are in any doubt as to their tax position should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Ordinary Shares under the laws of their country of tax residence, citizenship and/or domicile, or the jurisdiction in which they are otherwise subject to taxation.

1 Irish Taxation

The following is a general summary of certain Irish tax consequences of the acquisition and ownership of the Ordinary Shares. This summary is based on Irish taxation law and the published practices of the Revenue Commissioners in force at the date of this Prospectus, each of which is subject to change, possibly with retrospective effect.

It does not constitute tax or legal advice, and it does not purport to be, and is not, a complete description of all of the Irish tax considerations that may be relevant to a decision to buy, hold, sell or otherwise dispose of the Ordinary Shares.

For the purposes of the following summary, the term "Shareholder" is used to refer only to a person who is the beneficial owner of Ordinary Shares and who hold, and will hold, them as investments (and not as securities to be realised in the course of a trade).

Separately, particular rules not referred to below may apply to certain classes of taxpayers holding shares, such as dealers in securities, investment funds, trustees, insurance companies and shareholders who have, or who are deemed to have Ordinary Shares by virtue of an Irish Office or employment (performed or carried on in Ireland). This summary does not necessarily apply where the income is deemed for tax purposes to be the income of any other person.

Prospective investors should consult their own professional advisers on the implications of buying, holding, selling or otherwise disposing of Ordinary Shares under the laws of any jurisdiction in which they may be liable to taxation.

1.1 Liability to Irish Capital Gains Tax

1.1.1 Subsequent disposal of Ordinary Shares

A Shareholder may, in the case of an individual, be liable to Irish capital gains tax or in the case of a body corporate, corporation tax on chargeable gains ("Irish CGT") on any gain arising on a subsequent disposal of Ordinary Shares.

1.1.2 Calculation of the capital gain or loss arising on a disposal

Where applicable, a gain on the disposal of Ordinary Shares will generally be calculated as the excess of the proceeds realised on a sale of the Ordinary Shares after deducting the costs of disposal, over the cost of acquisition of the Ordinary Shares and any incidental costs of acquiring those Ordinary Shares.

A loss on the disposal of Ordinary Shares will generally be calculated as the excess of the cost of acquisition of the Ordinary Shares and any incidental costs of acquiring those Ordinary Shares, over the proceeds realised on a sale of the Ordinary Shares after deducting the costs of disposal.

The rate of Irish CGT is currently 33 per cent.

1.1.3 Shareholders who are not resident or ordinarily resident in Ireland

For as long as the Ordinary Shares are listed on a stock exchange (e.g., the Irish Stock Exchange), a Shareholder will not be subject to Irish CGT on any gain arising on a disposal of Ordinary Shares, provided that Shareholder is neither resident in Ireland for the purposes of Irish tax ("Irish Resident") nor ordinarily resident in Ireland for the purposes of Irish tax ("Ordinarily Resident in Ireland"), and does not or did not carry on a trade in Ireland through a branch or agency in respect of which the Ordinary Shares are used or were used, or were held or acquired for use by or for the purposes of the branch or agency. To the extent that the Ordinary Shares were not listed, a charge to Irish CGT will arise where the shares derive the greater part of their value from Irish land or Irish minerals or certain rights, interests or other assets in relation to mining or minerals or the search for minerals.

1.1.4 Shareholders who are individuals and who are Irish Resident or Ordinary Resident in Ireland

Individual Shareholders who are Irish Resident and/or Ordinarily Resident in Ireland or who cease to be resident in Ireland for a period of five years or less, will generally (subject to the availability of exemptions or reliefs) be liable to Irish CGT on a disposal of Ordinary Shares in the Company.

However, an individual is generally exempted from Irish CGT if, for the year of assessment, the amount on which the individual is chargeable does not exceed €1,270. If the amount on which the individual is chargeable exceeds €1,270, generally, only the excess of that amount over €1,270 is charged.

1.1.5 Shareholders who are corporates and who are Irish Resident

Irish CGT will generally apply to chargeable gains arising on the disposal of Ordinary Shares in the Company by an Irish Resident corporate Shareholder.

1.1.6 Irish tax-exempt Shareholders

Certain Irish tax-exempt Shareholders will not be subject to Irish CGT on a gain arising on a disposal of Ordinary Shares.

1.2 Payment of Dividends

1.2.1 Withholding tax

1.2.2 The Company is required to operate dividend withholding tax in Ireland ("DWT") at source on any "relevant distribution" made on Ordinary Shares at the standard rate of Irish income tax (20 per cent.) unless an exemption applies and the relevant shareholder has submitted on time a properly completed declaration providing for exemption to the share Registrar. A distribution of cash, assets or other property would be a "relevant distribution" for this purpose unless paid to certain specified Irish persons.

1.2.3 Certain categories of Shareholder are entitled to an exemption from DWT if, prior to payment of the dividend, the Company or a "qualifying intermediary" from whom the dividend is received by that Shareholder, as the case may be, has received all documentation required by law in order for that exemption to apply, and in the case of Shareholders that are not Irish Resident, that documentation is current at the date of payment of the dividend.

1.2.4 Individual Shareholders who are Irish Resident and/or Ordinarily Resident in Ireland are generally not entitled to an exemption from DWT.

1.2.5 Categories of Shareholder that are entitled to exemption as outlined in paragraph 1.2.3 include (but are not limited to):

(a) companies that are Irish Resident;

(b) Irish established pension schemes;

(c) Irish authorised collective investment undertakings;

(d) Shareholders that are not companies, that are neither Irish Resident nor Ordinarily Resident in Ireland and are resident for tax purposes in an EU Member State other than Ireland or a territory that has signed a double taxation agreement with Ireland (a "Relevant Territory") under the laws of that Relevant Territory;

(e) Shareholders that are companies that are not Irish Resident and:

(I) are resident for tax purposes in a Relevant Territory under the laws of that Relevant Territory, provided that company is not under the control, whether directly or indirectly, of a person or persons who is or are Irish Resident;

(II) are ultimately under the control, directly or indirectly, of a person or persons resident in a Relevant Territory under the laws of that Relevant Territory; or

(III) the principal class of shares of which, or where the company is a 75 per cent. subsidiary of another company, of that other company, or where the company is wholly owned, directly or indirectly, by two or more companies, where the principal class of shares of each of those companies, is substantially and regularly traded on a recognised stock exchange in a Relevant Territory or Relevant Territories, or in Ireland or on such other stock exchange approved by the Minister for Finance for that purpose.

Shareholders should note that DWT will be deducted in cases where a properly completed DWT exemption form has not been received before the next dividend is declared and paid on the Ordinary Shares. Where a non-Irish Resident person suffers DWT on a distribution which would not have been deducted had a properly completed DWT declaration been received from that person, then that person should be entitled to receive a refund of the full amount of DWT deducted on application to the Irish Revenue Commissioners.

1.2.6 Taxation of Dividends

(a) *Irish taxation of individual Shareholders who are Irish Resident and/or Ordinarily Resident in Ireland*

Shareholders that are individuals and are Irish Resident are subject to Irish income tax at their marginal rate of Irish income tax, the USC and Pay Related Social Insurance, if applicable, on the gross amount of any dividend to which they are beneficially entitled. The gross dividend amount is the amount of the distribution before deduction of DWT, if applicable. Such Shareholders are entitled to a credit for any DWT deducted against their income tax liability in the relevant tax year, and any amount by which such DWT exceeds such income tax liability may be refunded to them, provided that they furnish a statement of DWT suffered to the Revenue Commissioners.

(b) *Irish taxation of Shareholders who are Irish Resident companies*

Companies that are Irish Resident are generally exempt from Irish tax on dividends received from a company that is Irish Resident, such as the Company.

However, Irish Resident shareholders that are close companies, as defined in Irish tax legislation, may be subject to a corporation tax surcharge on dividend income to the extent that it is not re-distributed by that company within the appropriate time frame.

(c) *Irish taxation of Shareholders who are not Irish Resident and/or Ordinarily Resident in Ireland*

Shareholders that are not Irish Resident or Ordinarily Resident in Ireland are liable to Irish income tax on dividends received, unless an exemption applies. A Shareholder that is not Irish Resident or Ordinarily Resident in Ireland is entitled to exemption from Irish income tax on dividends received if that Shareholder is exempt from DWT on that dividend or would have been entitled to be so exempt if that Shareholder had provided to the issuer or a "qualifying intermediary" from whom the dividend is received by that Shareholder, as the case may be, the documentation required by law in order for that exemption from DWT to apply, and that documentation had been current at the date of payment of the dividend.

If a Shareholder is either an individual that is not Irish Resident or Ordinarily Resident in Ireland or a body corporate that is not Irish Resident and has, in any such case, suffered DWT or ought to have suffered DWT on dividends paid in respect of the Ordinary Shares, then such Shareholder may be liable to income tax (plus USC and PRSI, if applicable) in Ireland on those dividends, with a credit given for the DWT withheld. Where the liability is less than the DWT withheld, the Shareholder may be entitled to a refund of the excess over the actual liability to Irish tax.

1.3 Stamp Duty

The sale of the Ordinary Shares by the Selling Shareholder may give rise to a stamp duty liability as it will involve a transfer of existing shares. Although any stamp duty would be payable by the person acquiring the Shares, the Selling Shareholder has notified the Revenue Commissioners of its intention to meet any stamp duty liability in the case of a transfer of shares under the Offer only, and the Revenue Commissioners have confirmed that, on that basis and pursuant to the provisions of Section 111 of the

Stamp Duties Consolidation Act 1999, no stamp duty will arise in relation to a transfer of shares under the Offer only.

Any instrument that gives effect to a subsequent transfer on sale or a voluntary disposition of Ordinary Shares will be liable to Irish stamp duty at a rate of 1 per cent. of the consideration passing or the market value of the Ordinary Shares transferring, if greater. Generally, the person accountable for such stamp duty is the transferee, except in the case of a voluntary disposition, in which case the transferor and the transferee are jointly accountable. Stamp duty is generally payable within 30 days of the date of execution of the relevant instrument.

1.4 Capital Acquisitions Tax

If Ordinary Shares are comprised in a gift or inheritance taken from a disponer that is Irish Resident or Ordinarily Resident in Ireland (or, in the case of certain settlements, an Irish domiciled disponer) or if the recipient is Irish Resident or Ordinarily Resident in Ireland, or if the Ordinary Shares are regarded as property situate in Ireland, the recipient (or, in certain cases, the disponer) may be liable for Irish capital acquisitions tax.

The Ordinary Shares, which are issued in registered form, will be regarded as property situate in Ireland because the principal register of the Ordinary Shares is maintained in Ireland. At the date of this Prospectus, the principal register of the Ordinary Shares must be maintained in Ireland.

The rate of Irish capital acquisitions tax is currently 33 per cent.

2 United Kingdom Taxation

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to shareholders of the Company that are resident and in the case of an individual, domiciled, in the United Kingdom for tax purposes and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom tax residents), who hold shares in the Company as an investment and who are the absolute beneficial owners thereof. In particular, shareholders holding their shares via a depositary receipt system or clearance service should note that they may not always be the absolute beneficial owners thereof. The discussion does not constitute tax or legal advice nor does it address all possible United Kingdom tax consequences relating to an investment in the shares. Certain categories of shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefitting from certain reliefs or exemptions, those connected with the Company or Group and those for whom the shares are employment related securities, may be subject to special rules and this summary does not apply to such shareholders. This summary also does not apply to any shareholder who, alone, or with certain associated persons, is (or has been) interested or treated as interested in, 5 per cent. or more of the ordinary share capital of the Company or any shareholder that owns (or is deemed to own) 5 per cent. or more of the shares and/or voting power of the Company (either alone or together with connected persons).

Shareholders and prospective shareholders who are in any doubt about their tax position, or who are tax resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

2.1 Taxation of Dividends

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend. Please refer to "*—Irish Taxation*" above for information regarding the entitlement of a non-Irish tax resident shareholder to claim exemption from Irish withholding tax on dividends.

With effect from the tax year beginning 6 April 2016, a United Kingdom resident individual shareholder will not be subject to income tax on a dividend such individual shareholder receives from the Company if the total amount of dividend income received by the individual in the tax year (including the dividend from the Company) does not exceed a dividend allowance of £5,000, which will be taxed at a nil rate (the "Dividend Allowance"). The amount of the Dividend Allowance is expected to reduce to an allowance of £2,000 from 6 April 2018.

In determining the income tax rate or rates applicable to a United Kingdom resident individual shareholder's taxable income, dividend income is treated as the highest part of such individual shareholder's income. Dividend income that falls within the Dividend Allowance will count towards the basic or higher rate limits (as applicable) which may affect the rate of tax due on any dividend income in excess of the Dividend Allowance.

To the extent that a United Kingdom resident individual shareholder's dividend income for the tax year exceeds the Dividend Allowance and, when treated as the top slice of such individual shareholder's income, falls above such individual shareholder's personal allowance but below the basic rate limit, such an individual shareholder will be subject to tax on that dividend income at the dividend basic rate of 7.5 per cent. To the extent that such dividend income falls above the basic rate limit but below the higher rate limit, such an individual shareholder will be subject to tax on that dividend income at the dividend upper rate of 32.5 per cent. To the extent that such dividend income falls above the higher rate limit, such an individual shareholder will be subject to tax on that dividend income at the dividend additional rate of 38.1 per cent.

Irish withholding tax withheld from the payment of a dividend may be available as a credit against the United Kingdom income tax payable by an individual shareholder in respect of the dividend.

Shareholders who are within the charge to United Kingdom corporation tax in respect of shares in the Company will be subject to United Kingdom corporation tax on the gross amount of any dividends paid by the Company, subject to any applicable credit for Irish withholding tax, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each shareholder's position will depend on its own individual circumstances, although in the majority of cases it would be expected that the dividends paid by the Company would fall within an exempt class.

A shareholder that is tax resident or otherwise subject to tax outside the United Kingdom (whether an individual or a body corporate) may be subject to foreign taxation on dividend income under local law. Shareholders to whom this may apply should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

2.2 Taxation of Capital Gains

Shareholders who are resident in the United Kingdom, or, in the case of individuals, who cease to be resident in the United Kingdom for a period of five years or less, may depending on their circumstances (including the availability of exemptions or reliefs) be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of shares in the Company.

For Shareholders who are resident in the United Kingdom subject to the charge to corporation tax on chargeable gains (notwithstanding any additional reliefs or exemptions that may be due) indexation allowance should be available to reduce the amount of chargeable gain realised on a disposal of shares in the Company (but not to create or increase any loss).

For individual Shareholders who are subject to capital gains tax ("CGT"), an annual exemption is available, such that CGT is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £11,300 for the tax year 2017-2018. CGT chargeable in respect of disposals of shares in the Company, on or after 6 April 2016, will be at the current rate of 10 per cent. (for basic rate taxpayers) and 20 per cent. (for higher and additional rate taxpayers).

2.3 Inheritance Tax

Shares in the Company will be assets situated outside the United Kingdom for the purposes of United Kingdom inheritance tax provided that the shares are not registered in any register kept in the United Kingdom. A gift of such assets by, or the death of, an individual holder of such assets who is domiciled or is deemed to be domiciled in the United Kingdom may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Where a holder is neither domiciled nor deemed domiciled (under certain rules relating to long residence or previous domicile) in the United Kingdom, neither a gift of such assets by the holder nor the death of such holder will give rise to a liability to United Kingdom inheritance tax.

2.4 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No United Kingdom stamp duty will be payable on the issue of shares in the Company and no United Kingdom stamp duty should be required to be paid on the transfer of shares in the Company provided that any instrument of transfer is not executed in the United Kingdom, and does not relate to any property situate or to any matter or thing done or to be done, in the United Kingdom. No United Kingdom SDRT will be payable on the issue or transfer of the shares in the Company provided that the shares are not registered in any register kept in the United Kingdom.

Any person who is in any doubt as to his or her taxation position or who is liable to taxation in any jurisdiction other than the United Kingdom should consult his or her professional advisers.

3 Certain US Federal Income Tax Considerations

The following is a summary of certain US federal income tax consequences of the acquisition, ownership and disposition of Ordinary Shares by a US Holder (as defined below). This summary deals only with initial purchasers of Ordinary Shares that are US Holders that will hold the Ordinary Shares as capital assets. The discussion does not constitute tax or legal advice nor does it cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-US or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5 per cent. or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Ordinary Shares as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes, persons that have ceased to be US citizens or lawful permanent residents of the United States, investors holding the Ordinary Shares in connection with a trade or business conducted outside of the United States, US citizens or lawful permanent residents living abroad or investors whose functional currency is not the US dollar).

As used herein, the term "US Holder" means a beneficial owner of Ordinary Shares that is, for US federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in an entity or arrangement treated as a partnership for US federal income tax purposes that holds Ordinary Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for US federal income tax purposes should consult their tax advisers concerning the US federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Ordinary Shares by the partnership.

Except as otherwise noted, the summary assumes that the Company is not a passive foreign investment company (a "PFIC") for US federal income tax purposes. If the Company were to be a PFIC in any year, materially adverse consequences could result for US Holders. See "*—Passive Foreign Investment Company Considerations*" below.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE ORDINARY SHARES, INCLUDING THE

APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-US AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

3.1 Dividends

General

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for US federal income tax purposes), before reduction for any Irish withholding tax paid by the Company with respect thereto, generally will be taxable to a US Holder as dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder's basis in the Ordinary Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distribution by the Company with respect to Ordinary Shares will be reported as ordinary dividend income. US Holders should consult their own tax advisers with respect to the appropriate US federal income tax treatment of any distribution received from the Company.

Dividends paid by the Company generally will be taxable to a non-corporate US Holder at the reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the income tax treaty between the United States and Ireland, and certain other requirements are met. The Company expects to qualify for the benefits of the Treaty for its current taxable year. However, the Company's eligibility for the benefits of the Treaty must be determined annually and no assurance can be given that the Company will qualify for the benefits of the Treaty for future taxable years. Prospective purchasers should consult their tax advisers concerning the eligibility of dividends paid by the Company to be taxed at the reduced tax rate normally applicable to long-term capital gains.

Dividends Paid in Euros

Dividends paid in euros will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the euros are converted into US dollars at that time. If dividends received in euros are converted into US dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

Effect of Irish Withholding Taxes

As discussed in "*—Irish Taxation—Payment of Dividends—Withholding tax*" above, under current law payments of dividends by the Company to foreign investors may be subject to Irish withholding tax where an exemption from Irish withholding tax is not available. Please refer to "*—Irish Taxation*" above for information regarding the entitlement of a US resident shareholder to claim exemption from Irish withholding tax on dividends. For US federal income tax purposes, US Holders will be treated as having received the amount of any Irish taxes withheld by the Company, and as then having paid over any such withheld taxes to the Irish taxing authorities. As a result of this rule, the amount of dividend income included in gross income for US federal income tax purposes by a US Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the US Holder from the Company with respect to the payment.

Subject to certain limitations, a US Holder generally will be entitled to a credit against its US federal income tax liability, or a deduction in computing its US federal taxable income, for any Irish income taxes withheld by the Company. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Irish withholding taxes.

3.2 Sale or other Disposition

Upon a sale or other disposition of Ordinary Shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the Ordinary Shares. This capital gain or loss will be long-term capital gain or loss if the US Holder's holding period in the Ordinary Shares exceeds one year. Any gain or loss generally will be US source.

A US Holder's tax basis in an Ordinary Share generally will be its US dollar cost. The US dollar cost of an Ordinary Share purchased with euros generally will be the US dollar value of the purchase price on the settlement date, in the case of a cash basis US Holder, or the trade date in the case of an accrual basis US Holder. However, in the case of Ordinary Shares traded on an established securities market, within the meaning of the applicable Treasury Regulations, accrual basis US Holders may elect to determine the US dollar cost of an Ordinary Share based on the exchange rate in effect on the settlement date. The amount realised on a sale or other disposition of Ordinary Shares for an amount in euros generally will be the US dollar value of such amount on the settlement date, in the case of a cash basis US Holder, or the trade date in the case of an accrual basis US Holder, of such sale or disposition. On the settlement date, an accrual basis US Holder generally will recognise US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the trade date and the settlement date. However, in the case of Ordinary Shares traded on an established securities market, accrual basis US Holders may elect to determine the US dollar value of the amount realised on the sale or other disposition of the Ordinary Shares based on the exchange rate in effect on the settlement date, and no exchange gain or loss will be recognised on such date. The election by an accrual basis US Holder discussed above to use the settlement date for purposes of determining tax basis and amount realised must be applied consistently from year to year and cannot be revoked without the consent of the Internal Revenue Service (the "IRS").

3.3 Disposition of Euros

Euros received on the sale or other disposition of an Ordinary Share will have a tax basis equal to the US dollar value on the settlement date. Euros that are purchased generally will have a tax basis equal to the US dollar value of the euros on the date of purchase. Any gain or loss recognised on a sale or other disposition of euros (including the use of euros to purchase Ordinary Shares or upon exchange for US dollars) will be US source ordinary income or loss.

3.4 Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not expect to be treated as a PFIC for the current taxable year or in the foreseeable future. Although interest income generally is passive income, special rules generally allow banks to treat their banking business income as non-passive in certain circumstances. To qualify for these rules, a bank must satisfy certain requirements regarding its licensing and activities. The Company believes that it currently meets these requirements. The Company's possible status as a PFIC is determined annually, however, and may be subject to change if the Company fails to qualify under these special rules for any year in which a US Holder holds Ordinary Shares. If the Company were to be treated as a PFIC in any year, US Holders of Ordinary Shares would be required (i) to pay a special US addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Ordinary Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

3.5 Backup Withholding and Information Reporting

Dividends and payments of other proceeds with respect to Ordinary Shares by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain US Holders are not subject to backup withholding. US Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Ordinary Shares, including requirements related to the holding of certain foreign financial assets.

4 US Foreign Account Tax Compliance Withholding

Pursuant to certain provisions of the US Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Ireland) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Ordinary Shares, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Ordinary Shares, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Ordinary Shares, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Ordinary Shares.

PART XX
TERMS AND CONDITIONS OF THE OFFER

1 Background and overview of the Offer

While the Company's ordinary shares have remained quoted on the Irish Stock Exchange since 1967, the quotation was transferred from the Irish Official List to the ESM and the Company's ordinary shares were delisted from the UK Official List when the Irish Government recapitalised AIB in December 2010. The completion of the sale of the Offer Shares by the Selling Shareholder will effect an increase in the Company's free float to approximately 25 per cent. and will facilitate the transition in the listing of the Ordinary Shares to the Official Lists (where a minimum free float of 25 per cent. is one of the key eligibility criteria under the Listing Rules). Whilst the transition to the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange will involve additional regulatory related costs for the Company, such listings will not only increase investor protections, but will be commensurate with the size of the Company, enhance the domestic and international profile of the Company, increase the range of investors eligible to invest in the Company and, accordingly, help provide liquidity in the Company's securities.

Pursuant to the Offer, the Selling Shareholder is currently expected to sell up to 678,595,310 Ordinary Shares, representing up to 25 per cent. of the issued ordinary share capital of the Company on Admission. In addition, further Ordinary Shares (up to a maximum of 15 per cent. of the total number of Offer Shares within the final Offer Size) may be sold by the Selling Shareholder pursuant to the Over-allotment Option. If the Offer Size is set at the maximum point of the Offer Size Range, the maximum number of Ordinary Shares comprised in the Over-allotment Option would be 101,789,296.

The Company will not receive any proceeds from the Offer.

Gross proceeds of approximately €2,986 million will be received by the Selling Shareholder from the sale of Ordinary Shares (assuming that the Offer Size is set at the maximum point of the Offer Size Range, and that the Offer Price is set at the mid-point of the Offer Price Range).

The Company has agreed with the Selling Shareholder and the Underwriters to pay: (i) commissions payable to the Underwriters and the Intermediaries in connection with the Offer, which are estimated to be approximately €12 million; and (ii) transaction advisory fees and expenses incurred by the Selling Shareholder and the Underwriters in respect of the Offer, which in aggregate are estimated to be approximately €4 million. The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the maximum point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Offer Price Range; and (c) the underwriting commissions payable by the Company to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Company.

In addition, the aggregate expenses of, or incidental to, Admission and the Offer incurred and to be borne by the Company are estimated to be approximately €25 million (inclusive of amounts in respect of VAT), which the Company intends to pay out of existing cash resources (to the extent they have not already been paid). No expenses will be directly charged to investors in connection with Admission or the Offer by the Company or the Selling Shareholder.

All Offer Shares being sold to investors pursuant to the Offer will be sold at the Offer Price.

Immediately following Admission and assuming an offering of 678,595,310 Ordinary Shares (being the maximum point of the Offer Size Range), it is expected that 25 per cent. of the Ordinary Shares will be held in public hands (within the meaning of Rule 3.3.19 of the Irish Listing Rules and Rule 6.1.19 of the UK Listing Rules), assuming no exercise of the Over-allotment Option. It is expected that 29 per cent. will be held in public hands if the Over-allotment Option is exercised in full, assuming an offering at the maximum point of the Offer Size Range.

The Offer is being made by way of:

- an Institutional Offer by the Selling Shareholder: (i) to certain institutional investors in Ireland and the United Kingdom and elsewhere outside the United States in reliance on Regulation S and in accordance with locally applicable laws and regulations; and (ii) in the United States, only to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "—*Institutional Offer*" section below; and

- an Intermediaries Offer by the Selling Shareholder to Intermediaries in Ireland for onward distribution to retail investors who or which are resident or incorporated in Ireland or the United Kingdom,

together known as the "Offer".

The Institutional Offer is, subject to certain conditions, fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement summarised in "*Part XXI: Additional Information—Material Contracts—Underwriting Agreement*". The Intermediaries Offer is not underwritten by the Underwriters.

Retail investors must apply through Intermediaries to purchase Offer Shares. Intermediaries are firms which have been invited to participate in the Intermediaries Offer by the Selling Shareholder and the Company and make applications for Offer Shares on behalf of retail investors resident or incorporated in Ireland or the United Kingdom and to submit those applications to the Retail Settlement Agent acting on behalf of the Selling Shareholder. Each of the Intermediaries is authorised by the competent authority for MiFID I Directive purposes in its home member state See "*—Intermediaries Offer*" section below.

Certain restrictions that apply to the distribution of this Prospectus and the Offer Shares being sold in jurisdictions outside Ireland and the United Kingdom are described in "*—Selling Restrictions*" below.

The Offer is subject to:

(A) the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature, including certain conditions related to events which are outside the control of the Company, the Directors, the Selling Shareholder and the Underwriters (see "*Part XXI: Additional Information—Material Contracts—Underwriting Agreement*"); and

(B) Admission becoming effective by no later than 8:00 a.m. on 27 June 2017 (or such later date as the Company and the Selling Shareholder may agree with the Joint Global Co-ordinators (on behalf of the Underwriters) and the Sponsors).

The Selling Shareholder expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to investors without interest. Following commencement of unconditional dealings in the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange, the Offer cannot be terminated.

2 Allocation

Allocations of Offer Shares under the Offer will be determined after the Offer Period has ended at the discretion of the Selling Shareholder (after having consulted with the Joint Global Co-ordinators and the Company). A number of factors will be considered in determining the basis of allocation, including the level and nature of the demand for the Offer Shares, the level of demand in the Intermediaries Offer, prevailing market conditions and the objective of establishing an orderly after-market in the Ordinary Shares. It is expected that the Selling Shareholder will publish the basis of allocation for the Intermediaries Offer on the date that the Offer Price and Offer Size is announced and the Pricing Statement is published by the Company.

If the demand for Offer Shares exceeds the number of Offer Shares made available in the Offer, allocations may be scaled down at the discretion of the Selling Shareholder and applicants may be allocated Offer Shares having an aggregate value (based on the Offer Price) which is less than the sum applied for. The Selling Shareholder may allocate such Offer Shares at its discretion. In such an event, there is no obligation for the Selling Shareholder to allocate such shares proportionately.

Prior to allocation, there is no fixed allocation of Offer Shares to investors in the Institutional Offer or the Intermediaries Offer and there are no special allocation arrangements in relation to the applications received from employees of AIB. After the Offer Period has ended, the Selling Shareholder, after having consulted with the Joint Global Co-ordinators and the Company, will determine the number of Offer Shares to be allocated in each of the Institutional Offer and the Intermediaries Offer.

3 Listing, conditional dealing, unconditional dealing and settlement arrangements

It is expected that trading in the Ordinary Shares on the ESM will be suspended at 8:00 a.m. on 23 June 2017 and that conditional dealings on the Irish Stock Exchange and the London Stock Exchange will commence at 8:00 a.m. on 23 June 2017. Admission to the Official Lists, together with admission to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange constitutes admission to official listing on a stock exchange. No application is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 27 June 2017. The earliest date for settlement of such dealings will be 27 June 2017. All dealings in Ordinary Shares following suspension of trading on the ESM prior to the commencement of unconditional dealings the Irish Stock Exchange and the London Stock Exchange will be on a conditional basis, will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. Immediately before Admission, the admission of the Ordinary Shares to trading on the ESM will be cancelled. These dates and times may be changed without further notice.

The latest time and date for trading of the Ordinary Shares on the ESM will be 8:00 a.m. on 23 June 2017 and admission to trading of the Ordinary Shares on the ESM will be cancelled immediately before Admission.

Between the announcement of the Offer Price and Admission to the Official Lists, the Ordinary Shares will revert to their existing ISIN and SEDOL for the period of conditional dealing. The temporary ISIN for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BZ0YPY56. The temporary SEDOL for the Irish Stock Exchange will be BZ0YPY5. The temporary SEDOL for the London Stock Exchange will be BF2P4M7.

Following Admission to the Official Lists and once dealing becomes unconditional, the Ordinary Shares will be registered with new ISIN and SEDOL. The ISIN for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BYSZ9G33. The SEDOL for the Irish Stock Exchange will be BYSZ9G3. The SEDOL for the London Stock Exchange will be BF2P4N8.

Where Offer Shares allocated to investors pursuant to the Offer are to be delivered in uncertificated form, settlement will take place through CREST on Admission. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the parties concerned. No temporary documents of title will be issued.

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. On Admission, the Articles will permit the holding of Ordinary Shares under the CREST system. CREST is a voluntary system and holders of Offer Shares who wish to receive and retain share certificates will be able to do so.

4 Over-allotment Option and stabilisation

In connection with the Offer, Deutsche Bank AG, London Branch (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings in the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares effected by it during the stabilising period, the Selling Shareholder has granted the Over-allotment Option, pursuant to which the Stabilising Manager may purchase or procure purchasers for additional Ordinary Shares up to a maximum of 15 per cent. of the total number of Offer Shares within the final Offer Size at the Offer Price. The Over-allotment Option is exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will rank *pari passu* in all respects with all other Ordinary Shares, including for all dividends and other distributions declared, made or paid on the Ordinary Shares, will be purchased on the same terms and conditions as the Offer Shares being issued or sold in the Offer and will form a single class for all purposes with the other Ordinary Shares.

In connection with the Over-allotment Option, Deutsche Bank AG, London Branch, as Stabilising Manager, will enter into the Stock Lending Agreement with the Selling Shareholder on the date of the Pricing Statement pursuant to which the Stabilising Manager will be able to borrow additional Ordinary Shares up to a maximum of 15 per cent. of the total number of Offer Shares within the final Offer Size for the purposes, among other things, of allowing the Stabilising Manager to settle, at Admission, over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be required to return equivalent shares to the Selling Shareholder in accordance with the terms of the Stock Lending Agreement.

5 Underwriting Arrangements

The Institutional Offer is fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement, which was entered into by the Company, the Directors, the Selling Shareholder and the Underwriters on 12 June 2017. A description of the key terms of the Underwriting Agreement is set out in "*Part XXI: Additional Information—Material Contracts—Underwriting Agreement*".

The Intermediaries Offer is not underwritten by the Underwriters.

6 Lock-up Arrangements

Each of the Selling Shareholder and the Company has agreed to certain lock-up arrangements.

Pursuant to the Underwriting Agreement, the Company has agreed that, subject to certain exceptions, it will not, and will procure that none of its subsidiaries will, for a period of 180 days from the date of the Underwriting Agreement, without the prior written consent of the Joint Global Co-ordinators, acting on behalf of the Underwriters (such consent not to be unreasonably withheld) directly or indirectly, offer, issue, lend, sell, mortgage, assign, charge, pledge or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

Pursuant to the Underwriting Agreement, the Selling Shareholder has agreed that, subject to certain exceptions, it will not, for a period of 180 days from the date of the Underwriting Agreement, without the prior written consent of the Joint Global Co-ordinators, acting on behalf of the Underwriters (such consent not to be unreasonably withheld) directly or indirectly, offer, issue, lend, sell, mortgage, assign, charge, pledge or contract to sell, issue options in respect of or otherwise dispose of, or announce an offering or issue of, any Ordinary Shares or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing.

7 Offer Price, Offer Size and bookbuilding

The Offer Price and the Offer Size will be determined by the Selling Shareholder in consultation with the Joint Global Co-ordinators, and are expected to be announced on or around 23 June 2017. The Pricing Statement, which will contain, among other things, the Offer Price and the Offer Size, will (subject to certain restrictions) be published on the Company's website at www.aib.ie.

It is currently expected that the Offer Price and the Offer Size will be within the Offer Price Range and the Offer Size Range, respectively. A number of factors will be considered in deciding the Offer Price and the Offer Size, including the level and nature of the demand for the Offer Shares, the level of demand in the Intermediaries Offer, prevailing market conditions and the objective of establishing an orderly after-market in the Ordinary Shares. The Offer Price and the Offer Size will be established at a level determined in accordance with these arrangements, considering indications of interest received (whether before or after the times and/or dates stated).

Unless required to do so by law or regulation, the Company does not envisage publishing any supplementary prospectus or pricing statement until the announcement of the Offer Price and the Offer Size. If the Offer Price is set above the Offer Price Range and/or the number of Offer Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the Irish Stock Exchange and the FCA), then the Selling Shareholder would make an announcement via a Regulatory Information Service and prospective investors would have a statutory right to withdraw their offer to purchase Offer Shares. Such withdrawal must be done within the time limits set out in the announcement (if any) (which shall not be shorter than two working days after the date on which an announcement of this is published by the Selling Shareholder via a Regulatory Information Service). The arrangements for withdrawing offers to purchase Offer Shares would be made clear in the announcement.

The Underwriters will solicit from prospective investors indications of interest in acquiring Offer Shares under the Institutional Offer. Prospective institutional investors will be required to specify the number of Offer Shares which they would be prepared to acquire either at specified prices or at the Offer Price (as finally determined). There is no minimum or maximum number of Offer Shares which can be applied for as part of the Institutional Offer.

In addition, applications for Offer Shares are expected to be made by the Intermediaries on behalf of their retail clients under the Intermediaries Offer on the basis that the number of Ordinary Shares which may be allocated will vary depending on the Offer Price. Applications will then be aggregated and submitted by each Intermediary on behalf of its clients and this demand will be considered by the Selling Shareholder, in consultation with the Joint Global Co-ordinators and the Company, alongside indications of interest in the Institutional Offer in establishing the Offer Price and the Offer Size as described above in respect of the Offer.

8 Institutional Offer

Under the Institutional Offer, the Offer Shares will be offered: (i) to certain institutional investors in Ireland and the United Kingdom and elsewhere outside the United States in reliance on Regulation S and in accordance with local applicable laws and regulations; and (ii) in the United States only to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Certain restrictions that apply to the distribution of this Prospectus and the offer and sale of the Offer Shares in jurisdictions outside Ireland and the United Kingdom are described below under "*—Selling Restrictions*".

The latest time and date for indications of interest in acquiring Offer Shares under the Institutional Offer is set out under "*Part V: Expected Timetable of Principal Events*" but that time is indicative only and may be subject to change without further notice.

Each investor in the Institutional Offer will be required to undertake to pay the Offer Price for the Offer Shares sold to such investor in such manner as shall be directed by the Underwriters, which is the same price at which all Offer Shares are to be sold in the Offer.

Participants in the Institutional Offer will be notified verbally or by email of the number of Offer Shares that they have been allocated as soon as practicable following pricing and allocation. Each prospective investor in the Institutional Offer will be contractually committed to acquire the number of Offer Shares allocated to it at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed that it will not be entitled to exercise any rights to rescind or terminate or, subject to any statutory withdrawal rights, otherwise withdraw from, such commitment.

9 Intermediaries Offer

Under the Intermediaries Offer, retail investors who are aged 18 or over and who are resident or incorporated in Ireland or the United Kingdom, will have the opportunity to apply, through the intermediaries, to purchase the Offer Shares at the Offer Price (subject to it being determined). Offer Shares allocated under the Intermediaries Offer will only be registered in the name of eligible persons whose registered address is in Ireland or the United Kingdom.

Retail investors in the Intermediaries Offer will be deemed to have invested solely on the basis of this Prospectus, together with any supplements thereto, and the Pricing Statement.

In the Intermediaries Offer, the minimum application amount is €10,000 and applications must be for one of the following € amounts:

10,000	11,000	12,000	13,000	14,000
15,000	20,000	30,000	40,000	50,000
60,000	70,000	80,000	90,000	100,000

To apply to invest an amount of more than €100,000, it must be in a multiple of €25,000 (together, the "Prescribed Application Amounts").

In the Intermediaries Offer, joint applications from more than one retail investor are permitted but retail investors acting on their own behalf are permitted to make only one application. Intermediaries have agreed not to permit any retail investors to submit multiple applications.

Allocations of Offer Shares under the Intermediaries Offer will be determined after the Offer Period has ended at the discretion of the Selling Shareholder after having consulted with the Joint Global Co-ordinators and the Company. The amount which a retail applicant in the Intermediaries Offer offers to invest may be scaled back on a basis to be determined by the Selling Shareholder in its absolute discretion. Accordingly, persons who apply for Offer Shares under the Intermediaries Offer may not receive all the Offer Shares that they apply for and it is possible that they may not receive any. If applications in the Intermediaries Offer are scaled back, the allocation policy may favour smaller applications. There is, however, no guaranteed minimum amount for which valid applications will be successful. The basis of allocation for applications will be determined by the Selling Shareholder. It is expected that the Selling Shareholder will publish the basis of allocation for the Intermediaries Offer on the date that the Offer Price is announced and the Pricing Statement is published.

Because the Offer Price will not be known until after the closing date for applications, applications for Offer Shares are required to be based on the amount in euros that retail investors wish to invest and not the number of Offer Shares they wish to purchase.

As noted above, the minimum application under the Intermediaries Offer is for €10,000. There is no maximum limit on the monetary amount retail applicants may apply to invest in the Intermediaries Offer.

The Underwriters and their affiliates are not in any way involved in the procurement of applications under the Intermediaries Offer (save where an Underwriter or an affiliate is acting as an Intermediary) and the Intermediaries Offer is not underwritten by the Underwriters.

Retail investors eligible to apply in the Intermediaries Offer may apply for Ordinary Shares through the Intermediaries by following their relevant application procedures. Retail investors should obtain confirmation from their chosen Intermediary as to the time and date by which their completed application to participate in the Intermediaries Offer must be received by their chosen Intermediary. Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Offer Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Offer Shares for them (including any fees relating to nominee and custody arrangements in relation to services provided by the Intermediary generally), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made. Any application made by retail investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary.

An application for Offer Shares in the Intermediaries Offer means that the retail applicant agrees (subject to any statutory withdrawal rights that may apply) to acquire the Offer Shares at the Offer Price and each retail applicant will be informed by the relevant Intermediary of the payment arrangements required by such Intermediary. Each retail applicant must comply with the appropriate money laundering checks required by the relevant Intermediary. Where an application is not accepted or there are insufficient Offer Shares available to satisfy an application in full, the relevant Intermediary will be obliged to refund the retail applicant as required and all such refunds shall be made without interest and such refund shall be sent at the relevant Intermediary's risk. The Selling Shareholder, the Company and the Underwriters accept no responsibility with respect to the obligation of the Intermediaries to refund monies in such circumstances.

In making an application, each Intermediary will also be required to represent and warrant that they are not located in the United States and are not acting on behalf of anyone located in the United States.

Under the Intermediaries Offer, the Offer Shares will be offered outside the United States only in offshore transactions as defined in, and in reliance on, Regulation S.

The Intermediaries may prepare certain materials for distribution or may otherwise provide information or advice to retail investors resident or incorporated in Ireland or in the United Kingdom, subject to certain restrictions. Any such materials, information or advice prepared or provided by any Intermediary are solely the responsibility of such Intermediary and shall not be reviewed or approved by any of the Selling Shareholder, the Company or the Underwriters. Any liability relating to such materials, information or advice will be for the relevant Intermediary only.

Each Intermediary will be informed by email of the aggregate number of Offer Shares allocated in aggregate to their underlying clients (or to the Intermediaries themselves) and the total amount payable in respect thereof. The basis of allocation for the Intermediaries Offer is expected to be announced on the date that the Offer Price is announced and the Pricing Statement is published. Each Intermediary will be required by the Selling Shareholder to apply the basis of allocation to all allocations to retail investors who applied through such Intermediary.

Pursuant to the Intermediaries Agreement, the Intermediaries have undertaken to make payment on their own behalf (not on behalf of any other person) of the consideration for the Offer Shares allocated, at the Offer Price, to the Retail Settlement Agent in accordance with details to be communicated on or after the time of allocation, by means of CREST against the delivery of the Ordinary Shares at the time and/or date set out in "*Part V: Expected Timetable of Principal Events*", or at some other time and/or date after the day of publication of the Offer Price as may be agreed by the Selling Shareholder (having consulted with the Joint Global Co-ordinators and the Company) and notified to the Intermediaries.

No fractional entitlements to Offer Shares will be allocated and therefore allocations will be satisfied by rounding down to the nearest whole Offer Share. Refunds in respect of the difference between the aggregate Offer Price of the Offer Shares applied for and the application monies tendered will be paid by the Intermediaries to retail investors who applied through the relevant Intermediary.

Each retail investor who applies for Offer Shares in the Intermediaries Offer through an Intermediary shall, by submitting an application to such Intermediary, be deemed to acknowledge and agree that: (i) such investor is in the case of an individual a person aged 18 or over who is resident or incorporated in Ireland or in the United Kingdom; (ii) such retail investor is not relying on any information or representation other than as is contained in this Prospectus, the Pricing Statement or any supplementary prospectus; (iii) if the laws of any jurisdiction outside Ireland or the United Kingdom are applicable to such retail investor's agreement to purchase Offer Shares, such retail investor has complied with all such laws and none of the Selling Shareholder, the Company or the Underwriters will infringe any laws of any jurisdiction outside Ireland and the United Kingdom as a result of such retail investor's rights and obligations under such retail investor's agreement to purchase Offer Shares and under the Articles; and (iv) such retail investor's personal information may be held and used by the Intermediary, the Selling Shareholder, the Company, and the Underwriters for purposes relating to the Intermediaries Offer, which may include providing its details to third parties for the purpose of performing credit reference checks, and money laundering checks, and keeping a record of retail applicants under the Intermediaries Offer for a reasonable period of time. Such retail investor also thereby acknowledges and agrees that if such retail investor is allocated shares under the Intermediaries Offer, its personal information will be shared with the Company, the Selling Shareholder and the Retail Settlement Agent and held and used by the Company, the Selling Shareholder and the Retail Settlement Agent for purposes relating to the Intermediaries Offer and for their ongoing purposes that require the keeping of records of, and dealing with, the Company's shareholders in the ordinary course of business (which may involve providing such retail investor's personal information to third parties, such as Euroclear UK & Ireland Limited ("Euroclear")).

The Selling Shareholder, the Company, the Underwriters and the Intermediaries have agreed to be bound by the Intermediaries Agreement. Pursuant to the Intermediaries Agreement, the Intermediaries agree that, among other things:

(A) in connection with the Intermediaries Offer, the Intermediaries will be acting as agent for their clients who apply for Offer Shares in the Intermediaries Offer. None of the Selling Shareholder, the Company, or any of the Underwriters will have any liability to the Intermediaries for liabilities, costs and expenses incurred by the Intermediaries in connection with the Intermediaries Offer;

(B) determination of the number of Offer Shares to be allocated to investors in the Intermediaries Offer will be determined solely by the Selling Shareholder. Allocations to Intermediaries will be determined solely by the Selling Shareholder. No specific number of Offer Shares has been set aside for allocation to the Intermediaries Offer and there will be no preferential treatment of Intermediaries;

(C) conditional upon Admission, the Company agrees to pay the Intermediaries a commission of, in aggregate, 0.4 per cent. of the aggregate value of the Offer Shares allocated to and paid for by each Intermediary in the Intermediaries Offer, subject to provisions relating to timing of payment and permanent withholding of commissions as set out in the Intermediaries Agreement. No deductions may be made directly by Intermediaries from any amount they are required to pay under the Intermediaries Offer in respect of this commission;

(D) the Intermediaries give certain undertakings regarding their role and responsibilities in the Intermediaries Offer and certain restrictions on their conduct in connection with the Intermediaries Offer, including in relation to their use of appointed representatives, their responsibility for information, communications, websites, advertisements and their communications with clients and the press; and

(E) the Intermediaries also give representations and warranties which are relevant for the Intermediaries Offer, and indemnify the Selling Shareholder, the Company and each of the Underwriters against any loss or claim arising out of any breach by the Intermediary of the representations, warranties, undertakings and obligations contained in the Intermediaries Agreement or any breach by the Intermediary of its duties or obligations under Irish Prospectus Law, the IR MiFID Regulations or the FSMA or any rules or codes of conduct of the CBI, the FCA or the Irish Stock Exchange, or applicable laws.

10 Withdrawal rights

If the Company is required to publish any supplementary prospectus, applicants who have applied for Offer Shares in the Offer shall have a statutory right to withdraw their offer to purchase Offer Shares in the Offer in its entirety before the end of a period of two working days commencing on the first working day after the date on which the supplementary prospectus is published (or such later date as may be specified in the supplementary prospectus).

In addition, in the event that the Offer Price is set by the Selling Shareholder (in consultation with the Joint Global Co-ordinators) above the Offer Price Range and/or the number of Offer Shares to be sold by the Selling Shareholder is set by the Selling Shareholder (in consultation with the Joint Global Co-ordinators) above or below the Offer Size Range (subject to the minimum free float requirements of the Irish Stock Exchange and the FCA), then applicants who have applied for Offer Shares in the Offer would have a statutory right to withdraw their offer to purchase Offer Shares in the Offer in its entirety before the end of a period of two working days commencing on the first working day after the date on which an announcement of this is published by the Selling Shareholder via a Regulatory Information Service announcement (or such later date as may be specified in that announcement).

The right to withdraw an application to purchase Offer Shares in the Offer in the circumstances set out above will be available to all investors under the Institutional Offer and Intermediaries Offer. If the application is not withdrawn within the period stipulated in any supplementary prospectus or announcement (as described above), any offer to apply for Offer Shares in the Offer will remain valid and binding.

Notice of withdrawal given by any other means or which is received by the Retail Settlement Agent after the expiry of such period will not constitute a valid withdrawal. Retail applicants who have applied for Offer Shares in the Intermediaries Offer through an Intermediary should contact the relevant Intermediary for details on how to withdraw an application.

Any supplementary prospectus will be published in accordance with Part 8 of the Irish Prospectus Regulations and the UK Prospectus Rules (and notification thereof will be made to a Regulatory Information Service) but will not be distributed to prospective investors individually. Any such supplementary prospectus will be available, free of charge, in electronic form on the Company's website, www.aib.ie.

11 Conditionality of the Offer

The Offer is subject to:

(A) the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature, including certain conditions related to events which are outside the control of the Company, the Directors, the Selling Shareholder and the Underwriters (see "*Part XXI: Additional Information—Material Contracts—Underwriting Agreement*"); and

(B) Admission becoming effective by no later than 8:00 a.m. on 27 June 2017 (or such later date as the Company and the Selling Shareholder may agree with the Joint Global Co-ordinators (on behalf of the Underwriters) and the Sponsors).

The Selling Shareholder expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to investors without interest. Following commencement of unconditional dealings in the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange, the Offer cannot be terminated.

12 Selling Restrictions

The distribution of this Prospectus and the offer of Offer Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken by the Selling Shareholder, the Company, the Directors or any of the Underwriters in any jurisdiction (other than Ireland and the United Kingdom) that would permit a public offering of the Offer Shares, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the Offer. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to sell or an invitation to purchase any of the Offer Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The Offer Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Offer Shares are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that the Underwriters may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Offer Shares within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Offer Shares an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each purchaser of Offer Shares within the United States pursuant to Rule 144A, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a QIB, (b) acquiring such Offer Shares for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Offer Shares has been advised, that the sale of such Offer Shares to it is being made in reliance on Rule 144A.

(2) It understands that such Offer Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB

purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that such Offer Shares, unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

> THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS SECURITY.

(4) The Company, the Selling Shareholder, the Directors and the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Offer Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Offer Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the Prospectus Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Bookrunners; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to with the Underwriters and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and any Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Offer Shares to the public in a Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State, all in accordance with the Prospectus Directive, other than their offer or resale to qualified investors or in circumstances in which the prior consent of the Joint Bookrunners has been obtained to each such proposed offer or resale.

The Company, the Selling Shareholder, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

DIFC

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for this Prospectus. The Offer Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this Prospectus you should consult an authorized financial advisor.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law (Law No.25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Offer Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of Offer Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offer Shares.

Canada

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"), the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the Offer.

Australia

This document does not constitute a prospectus, product disclosure statement or other disclosure document in Australia and will not be lodged with the Australian Securities & Investments Commission ("ASIC"). No formal offering document has been or will be lodged with ASIC or otherwise prepared in Australia in respect of the Offer. The provision of this document to any person in Australia does not constitute an offer of the Offer Shares to that person or an invitation to that person to apply for Offer Shares. Any such offer or invitation will only be extended to a person in Australia if that person is a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Cth) (the "Corporations Act") and is either a sophisticated investor or is a professional investor for the purposes of sections 708(8) or 708(11) of the Corporations Act respectively, in each case a "wholesale investor".

By retaining this document, the recipient represents that the recipient is a wholesale investor. This document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

The Company and the Selling Shareholder are not licensed in Australia to provide financial product advice in relation to the Offer Shares. No persons referred to in this document hold an Australian financial services licence. The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs and consider obtaining their own financial product advice from an independent person who is licensed by the ASIC to give such advice. This document has not been prepared specifically for Australian investors and does not purport to include all of the information required in a product disclosure statement, prospectus or other disclosure document under the Corporations Act.

If a person to whom the Offer Shares are issued on-sells those Offer Shares within 12 months from their issue, that person will be required to lodge a prospectus with ASIC unless either that sale is to another wholesale investor or the sale offer is received outside Australia.

13 Holding and dealing in Ordinary Shares

This section applies to Shareholders who acquire Ordinary Shares in the Offer.

The Company's Shareholders, depending on their circumstances, will be able to hold their Ordinary Shares in a number of ways. The principal options available where the Shareholder does not have a CREST account are to receive a share certificate in respect of their Ordinary Shares.

13.1 Share Certificates

Shareholders who hold their Ordinary Shares in certificated form will, subject to certain eligibility conditions, be able to buy and sell Ordinary Shares through banks, stockbrokers or intermediaries offering share dealing facilities.

14 Information relating to Intermediaries

Any new information with respect to financial intermediaries unknown at the time of approval of this Prospectus, including in respect of: (i) any intermediary financial institution that is invited by the Selling Shareholder and the Company to participate in the Intermediaries Offer after the date of this Prospectus following its agreement to adhere to and be bound by the terms of the Intermediaries Agreement; and (ii) any Intermediary that ceases to participate in the Intermediaries Offer, will be made available on the Company's website, www.aib.ie.

PART XXI
ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names and principal functions are set out in "*Part XI: Directors, Senior Executives and Corporate Governance*", accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation and registered office

The Company was incorporated in Ireland on 21 September 1966 as a limited company under the former Companies Act 1963 under the name Allied Irish Banks Limited. On 2 January 1985, the Company changed its name to its present name, Allied Irish Banks, p.l.c., and was re-registered under the former Companies Acts 1963 to 1983 as a public limited company. The Company is registered under company number 24173 under the Companies Act 2014 as a public limited company.

The Company is domiciled in Ireland. Its head office and registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland (telephone number +353 1 660 0311).

The principal laws and legislation under which the Company operates, and under which the Ordinary Shares have been created, is the Companies Act and regulations made thereunder.

3 Share capital

The authorised, issued and fully paid share capital of the Company on the Latest Practicable Date was, and on Admission will be, as follows:

	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Class of Share				
Ordinary shares of €0.625 each . . .	4,000,000,000	€2,500,000,000	2,714,381,238	€1,696,488,273.75

Save as disclosed in "*—History of share capital*" below, since 1 January 2014, there has been no issue of Ordinary Shares, fully or partly paid, either in cash or for other consideration. Other than in connection with the Warrants, no ordinary share in the capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

As at 31 March 2017, the Company had no Treasury Shares, or Ordinary Shares that were purchased by the Company, but not cancelled, in issue.

The Ordinary Shares are currently admitted to trading on the ESM. Admission to trading of the Ordinary Shares on the ESM will be cancelled immediately before Admission. The number of Ordinary Shares outstanding at the beginning and end of the last financial year in 2016 was as follows:

	Authorised		Issued and fully paid	
	1 January 2016	31 December 2016	1 January 2016	31 December 2016
Ordinary share capital				
Ordinary shares of €0.625 each	4,000,000,000	4,000,000,000	2,714,381,238	2,714,381,238

3.1 History of share capital

3.1.1 Authorised share capital

As at 1 January 2014, the first day covered by the historical financial information included in Section B of "*Part XVI: Consolidated Historical Financial Information*", the authorised share capital of the Company was €11,092,752,297. It was divided into (i) 702,000,000,000 ordinary shares with a nominal value at the time of €0.01 each; (ii) 3,500,000,000 2009 Preference Shares; and (iii) 403,775,229,679 deferred shares of €0.01 each. Between 1 January 2014 and the Latest Practicable Date, the authorised share capital was:

(a) reduced by €9,302,752,297 from €11,092,752,297 to €1,790,000,000 pursuant to a shareholder resolution passed at an EGM held on 19 June 2014 in connection with the 2014 Capital Reorganisation;

(b) increased by €745,000,000 from €1,790,000,000 to €2,535,000,000 pursuant to a shareholder resolution passed at an EGM held on 16 December 2015 in connection with the 2015 Capital Reorganisation; and

(c) reduced by €35,000,000 from €2,535,000,000 to €2,500,000,000 pursuant to a shareholder resolution passed at an EGM held on 16 December 2015 in connection with the 2015 Capital Reorganisation.

Further details of these movements in the authorised share capital are set out in "*—Issued share capital*" below).

3.1.2 Issued share capital

As at 1 January 2014, the first day covered by the historical financial information included in Section B of "*Part XVI: Consolidated Historical Financial Information*", 521,296,831,617 ordinary shares with a nominal value at the time of €0.01 each (of which 35,680,114 were held as Treasury Shares) were in issue fully paid or credited as fully paid. Between 1 January 2014 and the Latest Practicable Date, there have been the following changes in the issued ordinary share capital of the Company:

	2014	2015	2016	1 January 2017 to the Latest Practicable Date
Movements in units of ordinary shares(1)				
Period Start	521,261,151,503	523,438,445,437	2,714,381,238	2,714,381,238
Allotment of ordinary shares to NPRFC by way of bonus issue	2,177,293,934	—	—	—
Allotment of ordinary shares to NTMA pursuant to the conversion of the 2009 Preference Shares	—	155,146,574,363	—	—
Allotment of ordinary shares by way of bonus issue in connection with the Ordinary Share Consolidation	—	10,289,700	—	—
Total number of ordinary shares subject to the Ordinary Share Consolidation (250:1)	—	678,595,309,500/250	—	—
Period End	523,438,445,437	2,714,381,238	2,714,381,238	2,714,381,238

Note:

(1) Excludes 35,680,114 Treasury Shares in issue during the relevant period described at 3.1.2 above, which were cancelled on 17 December 2015 prior to the Ordinary Share Consolidation.

On 13 May 2014, 2,177,293,934 new ordinary shares in the capital of the Company were issued to the NPRFC by way of bonus issue in lieu of payment of the annual dividend on the 2009 Preference Shares.

On 22 December 2014, under the NTMA 2014 Act, the 2009 Preference Shares and the ordinary shares in the capital of the Company held by the NPRFC, became the assets of the ISIF, a fund whose assets are owned by the Minister for Finance.

On 17 December 2015, 155,146,574,363 new ordinary shares in the capital of the Company were issued to the NTMA pursuant to the conversion of the 2009 Preference Shares which formed part of the 2015 Capital Reorganisation.

On 21 December 2015, 10,289,700 new ordinary shares in the capital of the Company were issued to Shareholders by way of bonus issue to ensure that fractional entitlements did not arise as a result of the Ordinary Share Consolidation which formed part of the 2015 Capital Reorganisation.

On 26 April 2017, the Minister for Finance issued a Warrant Notice to the Company exercising his rights under the Warrant Agreement requiring the Company to issue Warrants to the Minister to subscribe for such number of Ordinary Shares representing 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised). Further details of the Warrants are set out in paragraph 12.3 of this "*Part XXI: Additional Information*".

2014 Capital Reorganisation

The following shareholder resolutions were passed at an EGM held on 19 June 2014 in connection with the 2014 Capital Reorganisation:

- the authorised share capital of the Company was reduced by €9,302,752,297 from €11,092,752,297 to €1,790,000,000;
- the 523,474,125,551 ordinary shares of €0.01 each then existing in the capital of the Company (including 35,680,114 Treasury Shares) were renominalised, each such ordinary share was subdivided into one ordinary share of €0.0025 each (carrying the same rights and obligations as an existing ordinary share) and one deferred share of €0.0075 each. The 702,000,000,000 deferred shares created on the renominalisation had no voting or dividend rights and had no economic value; and
- the Company acquired all of the 702,000,000,000 deferred shares for nil consideration and immediately cancelled them in accordance with its Articles (as amended at the EGM on 19 June 2014), which resulted in €3.926 billion transferring from share capital to a capital redemption reserve account of the Company.

On 15 October 2014, the High Court confirmed an application by the Company for a reduction of its share premium account by €1,073,944,058.37, in addition to a reduction of €3,926,055,941.63 of its capital redemption reserves. This resulted in a transfer from these reserve accounts to revenue reserves of the Company. The effect and purpose of this was to create additional distributable reserves of €5,000,000,000 in order to provide flexibility to pay future dividends where deemed appropriate by the Board and subject to legal, regulatory and capital requirements.

2015 Capital Reorganisation

At an EGM held on 16 December 2015, shareholders approved the 2015 Capital Reorganisation which simplified and rationalised the Company's capital structure. The following shareholder resolutions were passed at the EGM to give effect to the following measures:

- the authorised share capital of the Company was increased by €745,000,000 from €1,790,000,000 to €2,535,000,000;
- 2.14 billion of the 2009 Preference Shares were converted into ordinary shares of €0.0025 each in the capital of the Company, resulting in the creation of 155,146,574,363 additional ordinary shares. The conversion comprised a (i) sub-division of the 2.14 billion 2009 Preference Shares; (ii) the subsequent re-designation of such sub-divided shares into ordinary shares of €0.0025 each in the capital of the Company and (iii) a bonus issue of ordinary shares of €0.0025 each in the capital of the Company. The rights attached to the sub-divided 2009 Preference Shares were amended (prior to their re-designation as ordinary shares) in order to allow payment in cash to the NTMA of accrued but unpaid dividends on such shares up to the date of the conversion;
- the remaining 1.36 billion of the 2009 Preference Shares were redeemed for cash by the Company;
- on completion of the conversion and the redemption of the 2009 Preference Shares, all of the ordinary shares in the capital of the Company (excluding the 35,680,114 Treasury Shares) were consolidated such that, for every 250 ordinary shares of €0.0025 each held by a Shareholder, that Shareholder subsequently held one new ordinary share of €0.625 in the capital of the Company following the Ordinary Share Consolidation. Where residual fractions remained following the division of a Shareholder's holding into new Ordinary Shares of €0.625, the shareholding was rounded up by the allotment of new Ordinary Shares to Shareholders by way of bonus issue to ensure that no fractions remained following consolidation; and
- on completion of the Ordinary Share Consolidation, the authorised share capital of the Company was reduced by €35,000,000 from €2,535,000,000 to €2,500,000,000 by the cancellation of all unissued 2009 Preference Shares and authorised but unissued sub-divided 2009 Preference Shares.

The increase in the authorised share capital took effect on 16 December 2015. The conversion and redemption of the 2009 Preference Shares took effect on 17 December 2015. The Ordinary Share Consolidation and the reduction in the authorised share capital as part of the 2015 Capital Reorganisation took effect on 21 December 2015.

Cancellation of Treasury Shares

On 17 December 2015, the Company cancelled all of its 35,680,114 outstanding Treasury Shares and the nominal value of the shares cancelled was transferred from the ordinary share capital account to the capital redemption reserve account of the Company. The balance on the treasury shares account was transferred to the revenue reserves account of the Company.

3.1.3 Existing Shareholder authority

At the 2017 AGM, the following special resolutions, amongst others, were passed by Shareholders authorising the Directors generally and unconditionally during the period commencing on 27 April 2017 and expiring at the conclusion of the annual general meeting in 2018, or if earlier, 26 July 2018:

(a) to allot relevant securities up to an aggregate nominal amount of €565,496,091.25, being equal to approximately one third of the nominal value of the issued ordinary share capital of the Company as at the date of the 2017 AGM; and

(b) to:

  (I) generally allot equity securities for cash up to an aggregate nominal amount of €84,824,413.69 (which represents approximately 5 per cent. of the nominal value of the issued ordinary share capital of the Company); and

  (II) allot equity securities for cash up to a further aggregate nominal amount of €84,824,413.69 (which represents approximately 5 per cent. of the nominal value of the issued ordinary share capital of the Company) for the purpose of financing (or refinancing if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the "Statement of Principles on Disapplying Pre-Emption Rights" published by the Pre-Emption Group in March 2015,

  in each case without being first required to offer such securities to Shareholders pursuant to applicable statutory rights of pre-emption.

The expressions "acquisition" and "specified capital investment" are defined by the Statement of Principles on Disapplying Pre-Emption Rights as one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return. Items that are regarded as operating expenditure rather than capital expenditure will not typically be regarded as falling within the term "specified capital investment".

The Company currently has no intention to exercise the authority to issue shares pursuant to the above existing shareholder authorities.

At the EGM of the Company held on 16 December 2015, Shareholders passed a special resolution authorising the Directors generally and unconditionally to allot relevant securities to facilitate the issue of the Warrants upon a Regulated Market Event (which includes Admission), without being required to first offer the new ordinary shares to be issued by the Company pursuant to the Warrants to existing Shareholders in accordance with any applicable statutory rights of pre-emption. This authority expires six Business Days after the date of a Regulated Market Event.

4 Constitution

The following is a summary of the Constitution. Any person requiring further detail than provided in the summary is advised to consult the Constitution which is available for inspection at the address specified under "*Documents Available for Inspection*" below.

4.1 Registration details and Constitution

The Company is a public limited company that was incorporated as a limited company on 21 September 1966 and was subsequently re-registered as a public limited company on 2 January 1985.

The objects and purposes of the Company are set out in the Memorandum of Association. The principal object of the Company is to carry on the business of banking in all or any of its branches and departments and to provide and undertake all manner of financial services. A full description of the objects of the Company is set out in Clause 3 of the Memorandum of Association. The Company is registered under company number 24173 under the Companies Act.

4.2 Articles

The following is a summary of the principal provisions of the Articles (as most recently amended pursuant to a special resolution passed at the EGM held on 16 December 2015 and which took effect on 21 December 2015) and certain provisions of Irish law relating to the Company and its securities as at the date of this Prospectus:

4.2.1 Share rights—Ordinary Shares

The following rights attach to the Ordinary Shares:

(a) the right to receive duly declared dividends, or, where offered by the Directors and with the sanction of an ordinary resolution, the right to receive additional Ordinary Shares in lieu of cash in respect of all or any part of a dividend;

(b) the right to attend and speak, in person or by proxy, at general meetings of the Company;

(c) the right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held;

(d) the right to appoint a proxy, in the required form, to attend and/or to vote at general meetings of the Company;

(e) the right to receive (by post or electronically), at least 21 days before the annual general meeting of the Company (the "AGM"), a copy of the Directors' and auditors' reports accompanied by (i) copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or (ii) such summary financial statements as may be permitted by the Companies Act;

(f) the right to receive notice of general meetings of the Company; and

(g) in a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

4.2.2 Preferred shares

Subject to the Companies Act, and without prejudice to any special rights for the time being conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividend, return of capital, voting or otherwise as the Company may by ordinary resolution determine or as the Directors may from time to time determine pursuant to any power conferred on them by these Articles, and any preference share may be issued on the terms that it is, or at the option of the Company is to be liable, to be redeemed on such terms and in such manner as the Company may by special resolution determine.

4.2.3 Conversion

The Company may by ordinary resolution convert any paid up shares into stock and reconvert any stock into paid up shares of any denomination. The holders of stock may transfer the same or any part thereof, in the same manner, and subject to the same regulations, as and subject to which the shares from which the stock arose might previously to conversion have been transferred or as near thereto as circumstances will admit, but the Directors may from time to time fix the minimum amount of stock transferable, provided that such minimum shall not exceed the nominal amount of the shares from which the stock arose. The holders of stock shall have, according to the amount of stock held by them, the same rights, privileges and advantages in relation to dividends, participation in assets on a winding up, voting at meetings of the Company and other matters as if they held the shares from which the stock arose.

4.2.4 Redeemable shares and purchase of own shares

Subject to the provisions of the Companies Act, any shares may be issued on the terms that they are, or are liable at the option of the Company or the holder, to be redeemed on such terms and in such manner as may be provided by the Articles, and the Company may convert any of its shares into redeemable shares. Subject to the provisions of the Companies Act and to any rights conferred on the holders of any class of shares, the Company may purchase all or any of its shares of any class, including any redeemable shares. No purchase by the Company of its own shares may be made unless it has been authorised by special resolution of the Company. The Directors are not obliged to select the shares to be purchased rateably or in any other particular manner as between the holders of shares of the same class or different classes.

Subject to the provisions of the Companies Act, the Company may cancel any shares which it has redeemed or purchased or may hold them as treasury shares and reissue any such treasury shares as shares of any class or classes or cancel them.

4.2.5 Dividends

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends but no dividend shall be payable except out of distributable profits. No dividend shall exceed the amount recommended by the Directors.

No dividend or other monies payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attaching to the share.

Subject to any preferential or other special rights for the time being attached to any class of shares, the income to be distributed by way of dividend is to be applied in payment of dividends upon the shares of the Company in proportion to the amounts paid up thereon.

Subject to the provisions of the Companies Act, the Company may pay such interim dividends as appear to the Directors to be justified by the income of the Company available for distribution.

There are no fixed dates on which entitlements to dividends on Ordinary Shares arise or dividends are paid.

There are no dividend restrictions or specific procedures relevant to the payment of dividends to non-resident shareholders.

The Directors may, with the sanction of an ordinary resolution offer to the holders of Ordinary Shares the right to elect to receive an allotment of additional Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of any cash dividend or dividends specified by such resolution or such part of such dividend or dividends as the Directors may determine.

Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and will cease to remain owing by the Company and may be treated by the Company as having reverted on forfeiture, to the Company.

4.2.6 Liquidation rights

If the Company is liquidated voluntarily or compulsorily by order of court, the liquidator may, with the authority of a special resolution, divide among the members in specie or in kind the whole or any part of the assets of the Company. The liquidator may determine how such division is to be carried out as between members or classes of members.

4.2.7 Voting rights

Votes at general meetings may be given either personally or by proxy. Voting at any general meeting of the Company is by a show of hands unless a poll is properly demanded. Subject to any special rights or restrictions as to voting attached to any class of shares, on a show of hands, every member who is present in person or by proxy and entitled to vote has one vote regardless of the number of shares held by him or her and on a poll, every member who is present in person or by proxy has one vote for each share of which he or she is the holder. A poll may be demanded by the chairman of the meeting. Other than on the election of the chairman or on the adjournment of the meeting, a poll may also be demanded by not less than three members present in person or by proxy or by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or by a member or members holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

4.2.8 Changes in share capital

The Company may, by ordinary resolution, increase its share capital by such sum to be divided into shares of such amounts, and denominations in such currencies as prescribed by the resolution.

The Company may also, by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(b) subject to the provisions of the Companies Act, sub-divide its shares, or any of them, into shares of smaller amount; or

(c) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

4.2.9 Capitalisation of reserves

Subject to the Articles and the Companies Act, the Directors may with the authority of an ordinary resolution resolve to capitalise all or any part of the undivided profits of the Company not required for paying any fixed dividends on any shares entitled to fixed preferential dividends (with or without further participation in profits) and whether or not such undivided profits are available for distribution, or any sum standing to the credit of the Company's share premium account or capital redemption reserve. In that case the Directors shall appropriate the sum resolved to be capitalised to the holders of Ordinary Shares on the register of members at the close of business on the date of the resolution (or such other date as may be specified in the resolution or determined as therein provided) in the proportion in which such profits or sum would have been divisible amongst them had the same been applied or been applicable in paying dividends and to apply such profits or sum on their behalf either in or towards paying up the amounts (if any) for the time being unpaid on any Ordinary Shares held by such members or in paying up in full unissued Ordinary Shares.

Furthermore, the Directors are obliged, to the extent required by the Warrant Instrument (as to which, see further "*—Material Contracts—Warrant Agreement/Warrant Instrument*" below) to resolve that any sum standing to the credit of any of the Company's undistributable reserves (including any share premium account) and the distributable reserves of the Company, be capitalised as a new issue of Ordinary Shares issued in accordance with the Warrant Instrument to the holder of the Warrants ("Warrant Shares"). Warrant Shares shall be credited as paid up in full as follows:

(a) the monies received by the Company on exercise of the Warrants pursuant to the Warrant Instrument; and

(a) such sum standing to the credit of the Company's reserves (including any share premium account) as is equal to the nominal value of the Warrant Shares less the monies referred to in (a),

subject to the Company not being prohibited by law from doing so. Where, however, the Company has insufficient reserves to pay up in full any of the Warrant Shares referred to above it may be required by the holder of the Warrant pursuant to the Warrant Instrument to issue his/her/their entitlement of such Warrant Shares on the basis that the Company shall pay up the issue price of such Warrant Shares out of a portion of the available reserves of the Company corresponding to the percentage which such Warrant Shares corresponds to the total number of Warrant Shares which fall to be issued at such time and provided that the holder of the Warrants pays up the balance to be paid up on the Warrant Shares he or she or they require to be issued to him/her/them. Any capitalisation pursuant to the relevant provision of the Articles is be deemed to be authorised by the resolution adopting the particular provision of the Articles.

4.2.10 Pre-emption rights

Shareholders may grant authority to the Directors to issue equity securities in the Company. Except as detailed below, shareholders have pre-emption rights to subscribe for those securities on a pro rata basis.

Pursuant to the Companies Act, the authority granted to the Directors to allot such additional securities can be either specific or general, and may be for a fixed term not exceeding five years. The pre-emption rights in relation to such an allotment can be disapplied in any of the following circumstances:

(a) by shareholders passing a special resolution (such as those passed by shareholders at the 2017 AGM and described in section 3.1.3 "Existing Shareholders Authority."); or

(b) where same is provided in the Articles.

4.2.11 Lien and forfeiture

The Company has a lien on every partly paid share for all amounts payable to the Company in respect of that share. The lien extends to all dividends and moneys payable in respect of the share. Any shares subject to a lien may be sold by the Directors in such a manner as they think fit. At least seven days in advance of any such sale, a notice of intention to sell must be served on the member, or other person entitled to the share, and the default in payment must persist. The Directors may, by resolution or instrument under seal, authorise some person to execute a transfer of the shares. The purchaser's name shall be entered on the register of members of the Company and the validity of the purchaser's title shall not be impeached by any person aggrieved by the sale.

The net proceeds of the sale shall be applied toward satisfaction of the amount of the lien and any residue shall be paid to the person entitled to the shares at the time of sale.

The Directors may call any monies unpaid on shares and may sell shares on which all or any amounts payable under the terms of issues are not duly paid. If a member fails to pay any call, the Directors may serve a notice on the member requiring the payment of the call with interest by a certain date, not less than seven days following service, and at a certain place. If payment is not made in accordance with the notice, the shares may be forfeited by resolution of the Directors. A forfeiture of shares shall include all unpaid dividends on the forfeited shares. A member whose share has been forfeited shall cease to be a member in respect of the forfeited share but shall remain liable on all calls made, with interest, and not paid at the time of forfeiture.

4.2.12 Form, holding and transfer of Ordinary Shares

Ordinary Shares may be held in either certificated or uncertificated form.

Other than in relation to any Ordinary Shares which are held or to be held in uncertificated form (in respect of which no share certificate shall be issued), every person whose name is entered as a member in the register of members of the Company shall be entitled without payment to one certificate for all his or her Ordinary Shares. Existing Ordinary Shares held in uncertificated form are held through CREST (the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by Euroclear).

Ordinary Shares held in certificated form are transferable by instrument in writing in any usual form or any other form which the Directors may approve. The instrument of transfer of any certificated share shall be executed by or on behalf of the transferor and, in cases where the share is not fully paid, by or on behalf of the transferee.

Subject to applicable law and the Listing Rules, the Directors may decline to register any transfer of a partly paid share or any transfer to or by a minor or person of unsound mind.

Subject to any applicable restrictions in the Articles, any member may transfer all or any of his or her uncertificated shares by means of a relevant system in the manner provided for in the CREST Regulations and the rules of the relevant system without a written instrument.

Save as set out below, there are no restrictions on the free transferability of the Ordinary Shares set out in the constitutional documents of the Company.

Subject to applicable law and the Listing Rules, and, in the case of shares held in uncertificated form, the CREST Regulations, the Directors may decline to register any transfer in the following cases:

(a) a lien is held by the Company over the relevant Ordinary Shares or the Ordinary Shares are partly paid;

(b) a purported transfer to an infant or a person declared to be mentally disordered and incapable for the time being of dealing with his or her affairs; or

(c) it is in favour of more than four persons jointly.

The Directors may also decline to register any instrument of transfer of any Ordinary Shares held in certificated form unless: (a) it is lodged at the registered office of the Company or at such other place as the Directors may appoint and is accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to prove the title of the transferor; or (b) it is in respect of one class of share only.

In the case of Ordinary Shares held in uncertificated form, transfer of title to such Shares shall be registered where such registration is required under the terms of the CREST Regulations, and no transfer of title to such Ordinary Shares shall be registered except in accordance with CREST Regulations.

If the Directors decline to register a transfer of any Ordinary Shares, they shall send to the transferee notice of refusal within two months of the date on which the transfer was lodged (in the case of Ordinary Shares held in certificated form), or of the date on which the instruction by the operator of the relevant system was received by the Company (in the case of Ordinary Shares held in uncertificated form).

The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the register of members of the Company.

4.2.13 Shareholders' meetings

The Company must hold a general meeting in each year as its AGM in addition to any other meetings it may convene in that year and no more than 15 months may elapse between one AGM and the next. The Directors may, at any time, call an EGM. EGMs may also be convened on such requisition of Shareholders or, in default, may be convened by such requisitionists, as is provided for in the Companies Act.

In the case of an AGM or of an EGM for the passing of a special resolution or the appointment of a Director, at least 21 clear days' notice must be given (20 working days under the UK Code). In any other case, subject to compliance with the provisions of the Shareholder Rights (Directive 2007/36/EC) Regulations 2009, at least 14 clear days' notice must be given. A general meeting other than a meeting for the passing of a special resolution may be called on shorter notice, provided that the auditors for the time being of the Company and all the members entitled to attend and vote at the meeting agree to the short notice. A resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given, provided that a majority in number of the members having a right to attend and vote thereat agree, being a majority holding not less than 90 per cent. in nominal value of the shares giving that right.

Notice of a meeting is required to be in writing in the manner provided for in the Articles to all the members (other than those who, under the provision of the Articles or the conditions of issue of the shares held by them, are not entitled to receive the notice), to any other person entitled to such notice under the Companies Act, and to the statutory auditors for the time being of the Company. The accidental omission to give notice to, or the non-receipt of notice of a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at the general meeting.

The holders of the Ordinary Shares are entitled to attend any general meeting. The Directors are entitled to attend and speak at general meetings.

4.2.14 Quorum

No business may be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Ten members present in person and entitled to vote at such meeting constitutes a quorum.

4.2.15 Votes required for Shareholder action

A simple majority of Shareholders may pass an ordinary resolution. To pass a special resolution, a majority of not less than three-quarters of the members entitled to vote at the meeting is required.

4.2.16 Amendments affecting Shareholder rights

The Articles provide that, whenever the capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Companies Act and subject as otherwise provided in the Articles, be varied or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class but not otherwise. The provisions of the Articles relating to general meetings shall apply to such separate class meetings, except that (other than at an adjourned meeting) the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class, and that any holder of shares present in person or by proxy may demand a poll and on such a poll every holder shall have one vote for every share of the calls held by him or her.

4.2.17 Directors

Subject to the provisions of the Companies Act and the Constitution and to any directions given pursuant to a special resolution, the Directors are conferred with authority to manage the business of the Company, and are entitled to exercise all the powers of the Company. The Directors may establish such boards and committees and appoint such executive and administrative officers and attorneys and they consider appropriate, and delegate to them such functions, powers and duties as may seem to the Directors to be requisite or expedient.

Number of Directors

The Company may by ordinary resolution reduce the number of Directors and vary the maximum number of Directors. Unless provided otherwise in an ordinary resolution of the Company, the minimum number of Directors shall be not less than seven. A Director is not required to hold a share qualification.

Appointment and Retirement of Directors

At each AGM, one third of the Directors, or if their number is not three, or a multiple of three, then not less than one-third shall retire from office. The Directors to retire at each AGM are those longest in office since their last appointment. A retiring Director may be re-appointed. A retiring Director shall act as a Director throughout the meeting at which he or she retires.

A vacant office can be filled by a new and willing Director or, in default, by the retiring Director, if willing to be re-appointed, unless it is resolved not to fill the vacant office, or a vote for re-appointment is lost.

Unless recommended by the Directors, no person other than a retiring Director shall be eligible for appointment as a Director, unless proper written notice shall have been given to the Company by a member of the member's intention that such a person be proposed as a Director, together with a written acknowledgment of the proposed candidate's willingness to act as Director. Such notice must be given forty-two days in advance of the meeting. The appointment of any Director in this way shall be decided on a poll unless the chairman directs otherwise.

The Directors may appoint any person as a Director to fill a casual vacancy or as an additional Director. A director so appointed shall hold office until the conclusion of the next AGM, and shall then be eligible for re-election.

Vacation, Disqualification and Removal of Directors

A Director shall be disqualified from office if:

(a) that Director becomes bankrupt, has a receiving order made against him or her, or makes any arrangement with his or her creditors generally;

(b) that Director is declared mentally disordered by a court or other competent authority;

(c) that Director is restricted or prohibited from acting as a Director under the provisions of the Companies Act or any other statute or otherwise by law;

(d) that Director shall have been absent for more than six months without the permission of the Directors, from meetings of the Directors for six successive months and his or her alternate Director (if any) shall not have attended in his or her stead, and the Directors resolve that his or her office be vacated by reason of his or her absence;

(e) that Director is convicted of an indictable offence, unless the Directors or court otherwise determine;

(f) that Director is requested by unanimous resolution of the other Directors to resign at a specially convened meeting attended by all Directors. Seven days written notice of the meeting and the intention to move the resolution to remove the Director, together with the reason for the resolution, and a request to the Director to specify the reason it should not be passed must be given; or

(g) if that Director reaches the age specified by the Directors. A Director who reaches such age shall be required to relinquish office on the last day of the year in which the Director reaches that age. There is currently no age specified by the Directors for this purpose.

The office of a Director shall be vacated, subject to a right of appointment/re-appointment, if:

(h) not being a Director holding for term an executive office in his or her capacity as Director that Director resigns his or her office by written notice to the company;

(i) being a holder of an executive office other than for a fixed term, that Director shall cease to hold such office on retirement or otherwise;

(j) that Director's tender of resignation is accepted by the Directors; or

(k) that Director ceases to be a Director pursuant to any provision of the Articles.

The Company, by ordinary resolution, in accordance with the provisions of the Companies Act, may remove any Director before the expiry of his or her period in office notwithstanding anything in the Articles or in any agreement between the Company and such Director any may, if thought fit, by ordinary resolution appoint another Director in his or her stead.

Alternate Directors

Any Director may appoint any person to be his or her alternate and may at his or her discretion remove such an alternate Director. If the alternate Director is not already a Director, the appointment, unless previously approved by the Board, shall have effect only upon and subject to being so approved.

Every such alternate shall be entitled to notice of meetings of the Directors and to attend and vote at such meetings and to exercise all the powers, rights, duties and authorities of the Director appointing him or her.

Proceedings of the Board

The Articles entitle the Directors to regulate their meetings as they see fit. The chairman may, and on the request of a Director or the Secretary of the Company shall, at any time summon a meeting of the Directors. It shall not be necessary to give notice of a meeting of Directors to any Director for the time being outside Ireland who has not left at the Company's registered office an address within Ireland to which any such notice may be delivered.

Questions arising at any meeting of Directors shall be decided by a majority of votes. A Director who is also an alternate Director shall be entitled in the absence of the Director by whom he or she was appointed to a separate vote on behalf of such Director in addition to his or her own vote. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

The quorum necessary for the transaction of the business of the Directors is three or such lesser or higher number as from time to time may be fixed by the Directors. An alternate Director shall be counted in a quorum, provided that, in such circumstances, not less than two individuals shall constitute the quorum.

The Directors may from time to time appoint and remove a chairman or deputy chairman. The chairman shall preside at all meetings of the Directors, or if the chairman is not present at a meeting, or unwilling to preside, the deputy chairman shall preside.

If, in the opinion of the chairman (or, as the case may be, of the deputy chairman), it is necessary in the interests of the Company to hold a meeting of the Directors and it is not practicable to have a meeting at which the Directors are physically present, a meeting of Directors may be validly held by telephone (or by some other means of electronic communication which permits all persons who will participate in such a meeting to hear each other) provided:

(i) notice has been given to all Directors entitled thereto specifying the date and time at which such meeting is to occur together with an agenda for the meeting; and

(ii) the chairman (or, as the case may be, the deputy chairman) has, within one hour of the specified time, contacted as many Directors as are available to participate in such meeting, and at least such number of Directors as are required to satisfy the quorum.

All acts done at or by any meeting of Directors or of a committee of the Directors, or by any person acting as a Director or officer of the Company shall as regards all persons dealing in good faith with the Company, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director, committee or officer or in the case of a Director that he or she was disqualified or had vacated office or was not entitled to vote, be as valid as if every such person being a Director had been duly appointed and was qualified and had continued to be a Director and had been entitled to vote and in the case of any Officer (not being a Director) that he or she had been duly authorised to so act.

Remuneration

The ordinary fees of the Directors shall be determined from time to time by an ordinary resolution of the Company. A Director who holds the office of chairman or deputy chairman of the Board or who serves on a committee or who otherwise performs services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director may be paid such special remuneration as the Directors may determine. A Director holding an executive office shall receive such remuneration, whether in addition to or in substitution for his or her ordinary remuneration as a Director, as the Directors may determine. The Directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or of committees of Directors or general meetings or otherwise in connection with the discharge of their duties.

The Directors may provide benefits, whether by way of pensions, gratuities or otherwise, for any person who is or was in the employment or service of the Company or any company which is a subsidiary of the Company or is allied to or associated with the Company and to any member of his or her family or any person who is or was dependent on him or her.

Disclosure of interests by Directors

Any Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company must declare his or her interest at a meeting of the Directors. This applies unless the interest cannot reasonably be regarded as likely to give rise to a conflict of interest. In relation to a proposed contract, the declaration shall be made at the first meeting during which the question of entering into such contract first arises. If his or her interest then exists, or in any other case, the declaration shall be made at the first meeting of the Directors after he or she becomes so interested.

The Articles require that a Director may not vote in respect of any such contract or arrangement or any other proposal whatsoever in which he or she has a material interest. Interests in shares or debentures or other securities of or otherwise in or through the Company are disregarded for the purpose. This prohibition on voting is disapplied in respect of resolutions concerning the following matters (amongst others):

- where a Director is to be given security or indemnified in respect of money lent or obligations incurred by him or her for the benefit of the Company or any of its subsidiaries;
- the giving of security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he or she themself have assumed responsibility, in whole or in part, under a guarantee or indemnity or by the giving of security;
- any proposal concerning an offer of shares, debentures or securities of or by the Company or any of its subsidiaries in which a Director is interested as an underwriter or sub-underwriter;
- regarding any proposal concerning any other company in which a Director is interested, directly or indirectly, provided that he or she does not hold or is not beneficially interested in 1 per cent. or more of any class of the equity share capital of that company (or of any third company through which his or her interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purposes of this Article to be a material interest in all circumstances);

- any proposal concerning the adoption, modification or operation of any superannuation fund or retirement benefits plan under which he or she might benefit and which has been approved by or is subject to and conditional upon approval by the Revenue Commissioners; and
- relating to any other arrangement for the benefit of employees of the Company or any of its subsidiaries under which a Director benefits or stands to benefit in a singular manner as the employees concerned and which does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates.

4.2.18 Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and, subject to the Companies Act, to issue debentures, debenture stock and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third-party.

4.2.19 Indemnity of officers

Pursuant to the Articles, each Director and other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him or her in defending any proceedings, whether civil or criminal, in relation to his or her acts while acting in such office, in which judgment is given in his or her favour, or in which he or she is acquitted, or in connection with any application in which relief is granted to him or her by the court under the Companies Act.

In addition, the Company holds insurance cover to protect Directors and Senior Executives against liability arising from legal actions brought against them in the course of their duties, including in connection with the Offer and Admission.

4.2.20 Disclosure of holdings exceeding certain percentages

As an Irish incorporated company with Ordinary Shares admitted to trading on the regulated market of the Irish Stock Exchange (which will be the case assuming Admission occurs), the Transparency Regulations and Rules will apply to the Company. The Transparency Regulations and Rules require a person to notify both the Company and the Central Bank if the voting rights held by such person as a direct holder of shares or through indirect holdings of voting rights reach, exceed or fall below 3 per cent., and each 1 per cent. threshold thereafter up to 100 per cent. as a result of an acquisition or disposal of voting rights in shares. This notification obligation is also applied to a person who holds, directly or indirectly, financial instruments (which include transferable securities, options futures, swaps, forward rate agreements and any other derivative contracts) giving that person the right to acquire already issued voting shares of the issuer. Under the Transparency Regulations and Rules, certain acquisitions of voting rights may be disregarded.

In addition, the Substantial Acquisition Rules which prohibit substantial acquisitions of shares in the Company except in specified circumstances, require disclosure to the Irish Stock Exchange and the Irish Takeover Panel (the "Takeover Panel") where a shareholder becomes entitled to 15 per cent. or more of the voting rights in the Company, or, where a shareholder holds 15 per cent. or more but less than 30 per cent. of the voting rights in the Company, where a shareholder's percentage will be increased to or beyond any whole percentage figure.

Pursuant to the Companies Act, the Company may also send a notice to any person whom the Company knows or has reasonable cause to believe to be interested in the Company's shares requiring that person to confirm whether he or she has such an interest and, if so, details of such interest.

Under the Articles, the Directors may, by notice in writing, require such member to inform the Company in writing not more than 14 days after service of the notice of the capacity in which such member holds any share and, if held otherwise than as beneficial owner, to furnish in writing, so far as it is within the member's knowledge, the name and address of the person on whose behalf the member holds such share or such particulars as will enable or assist in the identification of such person and the nature of the interest of such person in such shares. Failure to respond to such notice within the prescribed period will result in the member not being entitled to attend meetings of the Company or to exercise the voting rights attached to such share, and, if the member holds 0.25 per cent. or more of the issued Ordinary Shares of the Company, the Directors are entitled to withhold payment of any dividend payable on such shares and the member shall not be entitled to transfer such shares except by sale through a stock exchange to a bona fide unconnected third party. These sanctions shall cease to apply not more than seven days after receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance to the Company's satisfaction with the disclosure notice.

4.2.21 Ownership of Shares by non-UK/non-Irish persons

There are no provisions in the Articles that restrict non-resident or foreign Shareholders from holding Ordinary Shares or from exercising voting rights attaching to Ordinary Shares.

5 Mandatory takeover bids, squeeze-out and sell-out rules, Irish merger control legislation and the European Union (Capital Requirements) Regulation 2014

With effect from Admission, other than as provided by the Takeover Bids Regulations, the Takeover Rules, the NPRF Act and the NTMA 2014 Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.

5.1 Mandatory takeover bids

As an Irish incorporated company with Ordinary Shares admitted to trading on the regulated market of the Irish Stock Exchange (which will be the case in respect of the Company assuming Admission occurs), the Takeover Panel will monitor and supervise a takeover bid for the Company. The Takeover Rules promulgated by the Takeover Panel regulate acquisitions of the Company's securities.

Rule 9 of the Takeover Rules provides that, where a person acquires securities which, when taken together with securities already held by that person and concert parties of that person, amount to 30 per cent. or more of the voting rights in such a company, that person is required under Rule 9 to make a general offer—a "mandatory offer"—to the holders of each class of equity share capital and also to the holders of transferable voting securities of the Company to acquire their securities. The obligation to make a Rule 9 mandatory offer is also imposed on a person who holds securities which, when taken together with securities held by concert parties of that person, confer 30 per cent. or more of the voting rights in a company and who increases that stake by 0.05 per cent. or more in any 12-month period. In either case, the obligation may also be imposed on concert parties of the person concerned. A single holder of securities (including persons regarded as such under the Takeover Rules) who holds securities conferring in excess of 50 per cent. of the voting rights in a company may purchase additional securities without incurring an obligation to make a Rule 9 mandatory offer.

A related rule, Rule 5 of the Takeover Rules, subject to exception, prohibits a person from acquiring securities or rights over securities of a company, such as the Company, in respect of which the Takeover Panel has jurisdiction to supervise, if the aggregate voting rights carried by the resulting holdings of securities and by the securities the subject of the resulting holding of rights, if any, would amount to 30 per cent. or more of the voting rights in that company. If a person holds securities or rights over securities which in the aggregate carry 30 per cent. or more of the voting rights, that person is also prohibited from acquiring securities or rights representing 0.05 per cent. or more of the voting rights in a 12-month period. Acquisitions by and holdings of concert parties must be aggregated. Amongst other significant exceptions, the prohibition does not apply to acquisitions of securities or rights over securities by a single holder of securities (including persons regarded as such under the Takeover Rules) who already holds securities, or rights over securities, which represent in excess of 50 per cent. of the voting rights; nor to an acquisition of voting securities from a single holder of securities if it is the only acquisition of voting securities in the company concerned made by the acquirer within any period of seven days.

The Substantial Acquisition Rules, which are also administered by the Takeover Panel, are designed to restrict the speed at which a person may increase a holding of voting securities (or rights over such securities) of a company which is subject to the Takeover Rules, including the Company, and prohibit substantial acquisitions of shares in the Company except in specified circumstances. A person may not, within any period of seven days, acquire securities or rights over securities if the aggregate voting rights represented by such securities would represent 10 per cent. or more of the voting rights in the Company and would, when aggregated with any securities already held by that person and any securities over which rights are already held by that person, carry 15 per cent. or more but less than 30 per cent. of the voting rights in the Company. Acquisitions by, and holdings of, concert parties are aggregated.

The terms of the NPRF Act and the NTMA 2014 Act collectively provide that no acquisition by, or on behalf of, the NPRFC, an NPRFC investment vehicle or an ISIF investment vehicle at the direction of the

Minister for Finance of shares or securities in a credit institution will constitute an offer, a takeover, the acquisition of control or any other takeover transaction for the purposes of the Takeover Panel Act or the Takeover Rules or a takeover bid or bid.

As at the Last Practicable Date, there have been no mandatory takeover bids or any public takeover bids by third parties in respect of the share capital of the Company.

5.2 Squeeze-out and sell-out

The Takeover Bids Regulations contain a procedure enabling a bidder for an Irish company that has securities admitted to trading on an EU regulated market, such as the Company with effect from Admission, to acquire compulsorily the securities of those holders who have not accepted a general offer—the "squeeze-out" right—on the terms of that general offer.

The main condition that needs to be satisfied before the "squeeze out" right can be exercised is that the bidder, pursuant to acceptance of a bid for the beneficial ownership of all the transferable voting securities (other than securities already in the beneficial ownership of the bidder) in the capital of the company, has acquired, or unconditionally contracted to acquire, securities which amount to not less than nine-tenths of the nominal value of the securities affected and carry not less than nine-tenths of the voting rights attaching to the securities affected.

The Takeover Bids Regulations also provide for rights of "sell-out" for shareholders in Irish companies with securities admitted to trading on an EU regulated market, such as the Company with effect from Admission. Holders of securities carrying voting rights in a company who have not accepted a bid by way of general offer for the beneficial ownership of all of the voting securities in such company (other than securities already in the beneficial ownership of the bidder) have a corresponding right to oblige the bidder to buy their securities on the terms of the general offer under which the beneficial ownership of the securities of the assenting security holders was acquired by the bidder. The main condition to be satisfied to enable the exercise of "sell-out" rights is that the bidder has acquired, or unconditionally contracted to acquire, securities which amount to not less than nine-tenths in nominal value of the securities affected and which carry not less than nine-tenths of the voting rights attaching to the securities affected.

The terms of the NPRF Act and the NTMA 2014 Act collectively provide that no acquisition by, or on behalf of, the NPRFC, an NPRFC investment vehicle or an ISIF investment vehicle at the direction of the Minister for Finance of shares or securities in a credit institution will constitute a takeover bid for the purposes of the Takeover Bids Regulations.

5.3 Irish Merger Control Legislation

Under Irish merger control legislation, any person or entity proposing to acquire direct or indirect control of the Company through the acquisition of Ordinary Shares or otherwise must, subject to various exceptions and if various financial thresholds are met or exceeded, provide advance notice of such acquisition to the CCPC. The financial thresholds to trigger mandatory notification are, subject to certain exceptions, (i) the aggregate turnover in Ireland of the undertakings involved is not less than €50 million; and (ii) the turnover in Ireland of each of two or more of the undertakings involved is not less than €3 million. Failure to notify when obliged to do so is an offence under the Competition Act 2002 (as amended). The Competition Act 2002, as amended, defines "control" as existing if, by reason of securities, contracts or any other means, decisive influence is capable of being exercised with regard to the activities of an undertaking. Under Irish law, any transaction subject to the mandatory notification obligation set out in the legislation (or any transaction which has been voluntarily notified to the Competition and Consumer Protection Commission) will be void if put into effect before the approval of the Competition and Consumer Protection Commission is obtained or before the prescribed statutory period following notification of such transaction lapses without the Competition and Consumer Protection Commission having made an order (whichever first occurs).

The terms of the NPRF Act and the NTMA 2014 Act collectively provide that certain parts of the Competition Act 2002 and Section 7 of the Financial Support Act do not apply to acquisitions or transfers of an interest in a listed credit institution by or on behalf of the Minister for Finance, or by or on behalf of the NPRFC, the NTMA, an NPRFC investment vehicle or an ISIF investment vehicle at the direction of the Minister for Finance.

5.4 European Union (Capital Requirements) Regulations 2014—Notification Requirements

Under the European Union (Capital Requirements) Regulations 2014, the proposed acquisition of any direct or indirect holding of the capital or of the voting rights of a credit institution such as the Company ("Relevant Interests") which represents a level of 10 per cent. or more of the Relevant Interests is notifiable to the ECB. Any person (including a person acting in concert with one or more persons) that intends, directly or indirectly, to (i) acquire 10 per cent. or more of the issued share capital of the Company; or (ii) acquire such number of Ordinary Shares as would increase its shareholding to 10 per cent. or more of the issued share capital of the Company, will be required to notify the proposed acquisition to the ECB. Where Relevant Interests representing a level of 10 per cent. or more of total Relevant Interests have been notified and acquired, the proposed acquisition of further Relevant Interests which on acquisition together with existing holdings of Relevant Interests would reach or exceed a level representing 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests is also notifiable to the ECB. A proposed acquisition of Relevant Interests which would reach or exceed a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests cannot proceed unless so notified and (i) the prescribed period of time has elapsed without the ECB notifying the proposed acquirer(s) that it opposes the proposed acquisition, or (ii) the ECB has confirmed to the proposed acquirer(s) that it does not oppose the acquisition. Where an acquisition proceeds in default of the above requirements, the exercise of voting rights based on the acquisition concerned is suspended. In turn, a person may not dispose of Relevant Interests representing a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. or more of total Relevant Interests without having given prior notice to the ECB. Equivalent regulatory requirements apply under other applicable legislation or regulatory requirements with respect to certain subsidiaries of the Company which are authorised in the United Kingdom or Ireland by the PRA, the FCA or, as applicable, the Central Bank.

6 Directors and Senior Executives of the Company

Details of the Directors and the Senior Executives and their functions within the Company and brief biographies are set out in "*Part XI: Directors, Senior Executives and Corporate Governance*".

6.1 Directors

In addition to directorships of any AIB company, the following Directors have held, in the past five years, the directorships set out below.

Richard Pym—Chairman (Non-Executive Director)

Company	Status (Current/Previous)
Bradford & Bingley p.l.c.	Previous
Brighthouse Group p.l.c.	Previous
Caversham Finance Limited	Previous
Co-operative Banking Group Limited	Previous
Nordax Bank AB (publ)	Previous
Nordax Group AB (publ)	Previous
Nordax Group Holding AB	Previous
Nordax Holding AB	Previous
Landmark Mortgages Limited (formerly NRAM p.l.c.)	Previous
NRAM Ltd.	Previous
The British Land Company p.l.c.	Previous
The Co-operative Bank p.l.c.	Previous
UK Asset Resolution Limited	Previous

Simon Ball—Non-Executive Director

Company	Status (Current/Previous)
Commonwealth Games England	Current
Anchura Group Limited	Previous
Anchura Partner Services Ltd.	Previous
Cable & Wireless Communications Limited	Previous
Tribal Group p.l.c.	Previous

Mark Bourke—Chief Financial Officer

Company	Status (Current/Previous)
Bumper2Bumper Automotive Limited	Previous
First Names Finance Limited	Previous
IFG Asia Holdings Limited	Previous
IFG Core Ireland Holdings Limited	Previous
IFG Finance Limited	Previous
IFG Group p.l.c.	Previous
IFG Investment and Mortgage Services Limited	Previous
IFG Ireland Management Limited	Previous
IFG Nominees Limited	Previous
IFG Partnership Limited	Previous
IFG Pensco Limited	Previous
IFG Properties Limited	Previous
IFG Securities Limited	Previous
IFG Treasury Limited	Previous
IFG UK Finance Limited	Previous
IFG UK Group Holdings Limited	Previous
IFG UK Holdings Limited	Previous
IPS Pensions Limited	Previous
James Hay Administration Company Limited	Previous
James Hay Holdings Limited	Previous
James Hay WRAP Managers Limited	Previous
John Siddal France SAS Limited	Previous
Mortgage and Assurance Services Limited	Previous
Nameridge Limited	Previous
Quigley Consultants Limited	Previous
Saunderson House Limited	Previous
The IPS Partnership p.l.c.	Previous
Title Underwriting Ireland Limited	Previous

Bernard Byrne—Chief Executive Officer

Company	Status (Current/Previous)
Horizons Education Limited	Current
Institute of Bankers in Ireland	Current
PKH Investments Limited	Current

Thomas (Tom) Foley—Non-Executive Director

Company	Status (Current/Previous)
Intesa San Paolo Life d.a.c	Current
BPV Finance (International) p.l.c.	Previous

Peter Hagan—Non-Executive Director

Company	Status (Current/Previous)
179 East 70th Street Corporation	Previous
IBRC Real Estate Corp.	Previous
IBRC Boston Corp.	Previous
IBRC Chicago Corp.	Previous
IBRC New York Corp.	Previous
Mainland Ventures Corporation	Previous
Thomas Edison State College Foundation, Inc.	Previous

Carolan Lennon—Non-Executive Director

Company	Status (Current/Previous)
Dublin Institute of Technology (DIT) Foundation	Previous
The Irish Management Institute	Previous

Brendan McDonagh—Non-Executive Director

Company	Status (Current/Previous)
Bradford and Bingley p.l.c.	Current
NRAM Limited	Current
UK Asset Resolution Limited	Current
National Treasury Management Agency	Previous
The Bank of N.T. Butterfield & Son Limited	Previous

Helen Normoyle—Non-Executive Director

Company	Status (Current/Previous)
DFS Trading Limited	Previous
WSN Consulting Limited	Previous

James (Jim) O'Hara—Non-Executive Director

Company	Status (Current/Previous)
Decawave Limited	Current
Decawave Nominees A Limited	Current
Decawave Nominees B Limited	Current
Enterprise Ireland	Previous
Wisetek Solutions Limited	Current
Fyffes p.l.c.	Previous
I.B.A.T. Limited	Previous
MpStor Limited	Previous

Dr Michael Somers—Deputy Chairman (Non-Executive Director)

Company	Status (Current/Previous)
Fexco Holdings Unlimited Company	Current
GANMAC Holdings (BVI) Ireland	Current
Goodbody Holdings Unlimited Company	Current
Goodbody Stockbrokers Unlimited Company	Current
Hewlett-Packard Financial Services Holding Unlimited Company	Current
Hewlett-Packard International Bank p.l.c.	Current
Institute of Directors in Ireland	Current
European Investment Bank	Previous
Pianora Limited	Previous
St. Vincent's Healthcare Group Limited	Previous
Willis Towers Watson p.l.c	Previous

Catherine Woods—Senior Independent Non-Executive Director

Company	Status (Current/Previous)
Beazley p.l.c.	Current
Beazley RE d.a.c.	Current
An Post	Previous

6.2 Senior Executives

In addition to positions held in any AIB company, the following Senior Executives have held, in the past five years, the directorships set out below. No senior executive has been a partner in any partnership in the past five years.

Helen Dooley—Group General Counsel

Company	Status (Current/Previous)
The Irish Society for the Prevention of Cruelty to Animals	Current

Triona Ferriter—Chief People Officer

Company	Status (Current/Previous)
None	N/A

Donal Galvin—Group Treasurer

Company	Status (Current/Previous)
Stormglen Limited	Current

Deirdre Hannigan—Chief Risk Officer

Company	Status (Current/Previous)
Vita (Rti)	Current
GE Capital Emea Services Limited	Previous
GE Capital Equipment Finance (Ireland) Limited	Previous
GE Capital Limited	Previous
GE Capital Solutions Europe Limited	Previous
Mercantile Credit Company of Ireland Limited	Previous
Better Finance Limited	Previous

Dr Colin Hunt—Managing Director, WIB

Company	Status (Current/Previous)
Dublin Cemeteries Committee	Current
Aer Lingus Group Designated Activity Company	Previous
Aer Lingus Limited	Previous
Amarenco Solar Ireland Limited	Previous
Carrigroe Retail Limited	Previous
Ggb inBalans BV	Previous
Ggb inBalans Investco Ireland Gp Limited	Previous
Hermes Infrastructure NV (Netherlands)	Previous
Hermes Infrastructure Investco Ireland GP Limited	Previous
Hornsby Schools Designated Activity Company	Previous
Léannta Ppp Investments Limited	Previous
Macquarie Group Investments (UK) Limited	Previous
Mpfi Investments Limited	Previous
Mpfi Investments 1 Limited	Previous
Mpfi Schools 1 (Holdings) Designated Activity Company	Previous
Mpfi Schools 1 Designated Activity Company	Previous
Mpfi Schools 1 Investments Designated Activity Company	Previous
Mpfi Investments 2 Limited	Previous
Nach BV (Belgium)	Previous
Nch Symphony Limited	Previous
Noctua Square Investments (Netherlands)	Previous
Pathglade Limited	Previous
Philanthropy Ireland Company Limited	Previous
Poseidon Investco GP Limited	Previous
Pymble Schools Designated Activity Company	Previous
Reach Out Ireland Company Limited By Guarantee	Previous
Turramurra Designated Activity Company	Previous

Tom Kinsella—Chief Marketing Officer

Company	Status (Current/Previous)
None	N/A

Robert Mulhall—Managing Director, RCB

Company	Status (Current/Previous)
None	N/A

Brendan O'Connor—Managing Director, AIB UK

Company	Status (Current/Previous)
Malin Project Holdings Limited	Previous
Malin Project No. 1 Limited	Previous
Malin Project No. 2 Limited	Previous

Jim O'Keeffe—Head of FSG

Company	Status (Current/Previous)
EJ Developments Sp. Z.o.o.	Current

Tomás O'Midheach—Chief Operating Officer

Company	Status (Current/Previous)
First Merchant Processing (Ireland) d.a.c.	Previous
Zolter Services d.a.c.	Previous

6.3 Directors' and Senior Executives' Confirmations

No Director or Senior Executive has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected by any member of AIB in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

There are no guarantees provided by any member of AIB for the benefit of the Directors or Senior Executives.

Save as set out in "*—Related party transactions—Associated Undertakings*" and "*—Transactions with key management personnel*", there are no loans provided by any member of AIB for the benefit of the Directors or Senior Executives.

Within the period of five years preceding the date of this Prospectus, none of the Directors or Senior Executives:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management, administration, supervision or conduct of the affairs of a company.

Save as set out below, none of the Directors or Senior Executives has any potential conflicts of interests between their duties to the Company and their private interests or other duties.

Dr Michael Somers joined the Board of Directors in January 2010 as a nominee of the Minister for Finance under the NPRF Act. The ordinary shares in the capital of the Company and the 2009 Preference Shares subscribed for by the NPRFC for the NPRF (a fund owned by the Minister for Finance) became assets of the Selling Shareholder on 22 December 2014 under the NTMA 2014 Act. The 2009 Preference Shares were redeemed and/or converted into Ordinary Shares and then cancelled as part of the 2015 Capital Reorganisation. Prior to the conversion and redemption of the 2009 Preference Shares, Dr Somers was reappointed on 15 December 2015, as Non-Executive Director for a further period to 31 December 2017. Dr Somers offered himself for re-election, and was re-elected at the 2017 AGM. Nevertheless, Dr Somers continues as a Government appointed Director and his re-appointment is in accordance with his existing terms of appointment. Dr Somers is also a director of Goodbody Stockbrokers UC, the Irish Sponsor, and its parent companies, Goodbody Holdings UC and Fexco Holdings UC. Dr Somers did not take part in the Board's consideration of the appointment of the Irish Sponsor.

There is no family relationship between any Directors or Senior Executives.

7 Directors', Secretaries' and Senior Executives' interests, options and awards

Save as set out below, no Director or Senior Executive has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

7.1 Directors', Secretaries' and Senior Executives' shareholdings

As at the Latest Practicable Date, the interests (all of which are beneficial unless otherwise stated) of the Directors, Secretaries' and Senior Executives, as well as their spouses and minor children, together with the interests which are expected to subsist immediately following Admission, are as follows:

	As at the Latest Practicable Date	
Directors, Secretaries and Senior Executives	**Number of Existing Ordinary Shares**	**Percentage of issued share capital**
Simon Ball	—	—
Mark Bourke	—	—
Bernard Byrne	—	—
Thomas (Tom) Foley	1	—
Peter Hagan	—	—
Carolan Lennon	—	—
Brendan McDonagh	—	—
Helen Normoyle	—	—
James (Jim) O'Hara	—	—
Richard Pym	—	—
Dr Michael Somers	—	—
Catherine Woods	—	—
Sarah McLaughlin	2	—
Robert Bergin	—	—
Helen Dooley	—	—
Triona Ferriter	—	—
Donal Galvin	—	—
Deirdre Hannigan	20	—
Dr Colin Hunt	—	—
Tom Kinsella	—	—
Robert Mulhall	19	—
Brendan O'Connor	17	—
Jim O'Keeffe	23	—
Tomas O'Midheach	—	—

7.2 Directors' and Senior Executives' options and awards

7.2.1 Share options

As at the Latest Practicable Date, neither the Directors nor any Senior Executives held options to subscribe for Ordinary Shares.

7.2.2 Long-term incentives

AIB does not currently operate a long-term incentives plan.

7.2.3 Application for Offer Shares in the Intermediaries Offer

The Board has determined that, in order to avoid any potential for a conflict of interest to arise, the Directors should not participate in the Intermediaries Offer. Certain of the Senior Executives may make applications in the Intermediaries Offer. The number of Ordinary Shares applied for by each Senior Executive will be published in the Pricing Statement. The Senior Executives will not receive any priority allocation or benefit from any terms more favourable than those applicable to all retail investors in the Intermediaries Offer.

8 Service agreements, benefits/incentive plans and remuneration

8.1 Remuneration approach

AIB's remuneration policy is currently governed by the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister's Letter, the Relationship Framework and the Government Guarantee Schemes, further details of which are set out in "*Part X: Relationship with Government and State Aid*".

The introduction of CRD III and CRD IV over the last number of years has significantly increased the regulatory focus on remuneration, particularly variable remuneration, across all EU financial institutions. The release of final EBA Guidelines on Sound Remuneration Policies in December 2015 provided institutions with further guidance on the application of CRD IV.

The principal objective of the remuneration policy incorporates AIB's strategic objective of promoting a truly customer focused culture. The policy further affirms that future variable remuneration schemes will be designed to protect the interests of customers and to reward superior customer outcomes. The design of remuneration practices will reflect the key principles of simplicity, transparency, fairness, performance based, external market alignment and strong risk management.

The policy reflects the key provisions of the recently issued EBA Guidelines as they apply to AIB's current remuneration practices. In the event of future variable remuneration being introduced, such schemes will be designed to fully comply with national and EU regulatory requirements / guidelines.

8.2 Remuneration of Directors and Senior Executives

In the financial year of the Company ended 31 December 2016, the aggregate total remuneration paid to the Directors was €2,326,000 and the total remuneration paid to the Senior Executives was €3,299,921. Under the terms of the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister's Letter, the Relationship Framework and the Government Guarantee Schemes, the Company is also required to comply with certain executive pay and compensation arrangements. Details of such restrictions are set out in "*Part X: Relationship with Government and State Aid—Governance Restrictions*".

The following table details the total remuneration of the Directors and Senior Executives in office during the financial year of the Company ended 31 December 2016:

Remuneration	Directors' fees Parent and Irish subsidiary companies[1]	Directors' fees Group (UK) p.l.c.[2]	Salary	Annual taxable benefits[3]	Pension contribution[4]	Total[7][8]
	2016					
				(€)		
Executive Directors						
Mark Bourke	—	—	467,000	30,000	93,000	590,000
Bernard Byrne	—	—	500,000	—	100,000	600,000
			967,000	30,000	193,000	1,190,000
Non-Executive Directors						
Simon Ball	85,000	—	—	—	—	85,000
Thomas (Tom) Foley[2]	90,000	40,000	—	—	—	130,000
Peter Hagan	95,000	—	—	—	—	95,000
Carolan Lennon *(Appointed 27 October 2016)*	13,000	—	—	—	—	13,000
Brendan McDonagh *(Appointed 27 October 2016)*	15,000	—	—	—	—	15,000
Helen Normoyle	73,000	—	—	—	—	73,000
James (Jim) O'Hara	103,000	—	—	—	—	103,000
Richard Pym[1(a)] *(Chairman)*	365,000	—	—	—	—	365,000
Dr Michael Somers *(Deputy Chairman)*	111,000	—	—	—	—	111,000
Catherine Woods	146,000	—	—	—	—	146,000
	1,096,000	40,000				1,136,000
Senior Executives[5][6]	—	—	2,582,055	289,566	428,300	3,299,921
Total	1,096,000	40,000	3,549,055	319,566	621,300	5,625,921

Notes:

(1) Fees paid to Non-Executive Directors during 2016 were based on the following computations:

(a) Mr Pym, Chairman was paid an annual non-pensionable flat fee of €365,000 which includes remuneration for all services as a director of the Company.

(b) All other Non-Executive Directors were paid a basic, non-pensionable fee of €65,000 in respect of their respective service as a Director and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or the board of a subsidiary company, or performing the role of Deputy Chairman or Senior Independent Non-Executive Director.

(2) Non-Executive Directors of the Company who also serve as Directors of AIB UK were separately paid a non-pensionable flat fee, agreed and paid by AIB UK, in respect of their service as a Director of that company.

(3) "Annual taxable benefits" represents a reduced non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits.

(4) "Pension Contribution" represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Non-Executive Directors are non-pensionable.

(5) Includes remuneration for the Senior Executives set out in *"Part XI: Directors, Senior Executives and Corporate Governance—Senior Executives"*. Ms Ferriter and Ms Hannigan were appointed in 2017 and accordingly the total remuneration for 2016 does not cover them. Remuneration for Dr Hunt is included from 8 August 2016, his date of appointment.

(6) Remuneration for Mr O'Connor is converted from pound sterling to euro using the average exchange rate for 2016, which was 0.8196.

(7) In addition to the amounts shown, Directors and Senior Executives are reimbursed by AIB for certain expenses which may be chargeable to Irish income tax.

(8) No bonuses were paid to Directors and Senior Executives in the period.

(*) All Directors' fees are subject to (i) Irish tax and other statutory deductions, including Pay Related Social Insurance, from which non-Irish resident directors can be exempt, and USC, and (ii) the consent/consultation procedure outlined in the Relationship Framework specified by the Minister for Finance in respect of the relationship between the Minister for Finance and AIB.

8.3 Executive Directors and Senior Executives

8.3.1 Short-term annual incentives

No annual incentives were or will be awarded to any Executive Director or Senior Executive in respect of the financial year ended 31 December 2016.

During 2014, the remuneration policy was updated to incorporate the provisions of CRD IV which came into force with effect from 1 January 2014 in the event that AIB were to pay variable remuneration in the future.

8.3.2 Long-term incentives share-based compensation schemes

AIB does not currently operate a long-term incentives plan and any share-based compensation schemes previously operated by AIB have been terminated or are no longer active as described in note 11 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

8.4 Directors' appointments and employment contracts

The original dates of appointment of the Directors are as follows:

Name	Date First Appointed
Mr Richard Pym	13 October 2014
Mr Simon Ball	13 October 2011
Mr Mark Bourke	29 May 2014
Mr Bernard Byrne	24 June 2011
Mr Thomas (Tom) Foley	13 September 2012
Mr Peter Hagan	26 July 2012
Ms Carolan Lennon	27 October 2016
Mr Brendan McDonagh	27 October 2016
Ms Helen Normoyle	17 December 2015
Mr James (Jim) O'Hara	13 October 2010
Ms Catherine Woods	13 October 2010
Dr Michael Somers (Government appointee)	14 January 2010

Non-Executive Directors are generally appointed for a three-year term, with the possibility of renewal for a further three years. Any additional term beyond six years will be subject to annual review and approval by the Board. Section 2 of "*Part XI: Directors, Senior Executives and Corporate Governance—Board Appointments*" contains further details relating to the appointment of Dr Somers as a Government appointed Director. Following appointment, all Directors are required by the Articles to retire at the next AGM and may go forward for reappointment. Subsequently, all Directors are required to submit themselves for reappointment at intervals of not more than three years. Since 2005, all the Executive Directors and Non-Executive Directors, with the exception of the Government appointees, have retired from office at the AGM and offered themselves for reappointment. In 2017, Dr Somers, the only Government appointee, was also put forward for reappointment and will continue to be put forward annually during his term of office. Under the terms of the 2009 Preference Shares, the Government appointee was not required to be put forward for reappointment. Following the conversion and redemption of the 2009 Preference Shares, the Government appointee is now required to be put forward for reappointment and Dr Somers offered himself for re-election at the 2017 AGM.

8.5 Severance provisions

No Executive Director is entitled to any non-contractual benefits upon termination of his or her appointment. No Non-Executive Director is entitled to any benefits upon termination of his or her appointment.

9 Significant shareholdings

As at the Latest Practicable Date, the Company had been notified of or was otherwise aware of the following Shareholder who was directly or indirectly interested in 3 per cent. or more of the issued Ordinary Shares, and assuming that the Offer Size is set at the maximum of the Offer Size Range and that no Over-allotment Shares are sold as part of the Over-allotment Option, the Shareholder's expected interests following Admission are as follows:

	As at the Latest Practicable Date		Following Admission	
	Ordinary Shares	Percentage of issued share capital	Ordinary Shares	Percentage of issued share capital(2)
Selling Shareholder(1)	2,710,821,149	99.8688	2,032,225,839	75

Notes:

(1) The Ordinary Shares owned by the Selling Shareholder comprise assets of the ISIF. Under the NTMA 2014 Act, these Ordinary Shares are controlled and managed by the NTMA pursuant to directions in writing given to it by the Minister for Finance from time to time. Ownership of the ISIF vests in the Minister for Finance under the NTMA 2014 Act. The Ordinary Shares owned by the Selling Shareholder are registered in the name of a professional nominee for the benefit of the Minister for Finance.

(2) Calculated (i) on the basis of the maximum number of Offer Shares in the Offer being sold by the Selling Shareholder and (ii) before taking into account any Over-allotment Shares pursuant to the Over-Allotment Option. In addition, the Minister for Finance will, 5 Business Days after Admission (or, if Admission does not occur, on any future Regulated Market Event), hold Warrants over 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or, if Admission does not occur, on any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised).

The Ordinary Shares owned by the Selling Shareholder comprise assets of the ISIF. Under the NTMA 2014 Act, these Ordinary Shares are controlled and managed by the NTMA pursuant to directions in writing given to it by the Minister for Finance from time to time. Ownership of the ISIF vests in the Minister for Finance under the NTMA 2014 Act. The Ordinary Shares owned by the Selling Shareholder are registered in the name of a professional nominee for the benefit of the Minister for Finance. The Minister beneficially owns circa 99.8688 per cent. of the issued share capital of the Company and has circa 99.8688 per cent. of the voting rights in the Company. In addition, the Minister for Finance will, 5 Business Days after Admission (or, if Admission does not occur, of any future Regulated Market Event), hold Warrants over 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or, if Admission does not occur, any future Regulated Market Event), (calculated on the basis that none of the Warrants have been exercised). Details of the Warrants are set out in paragraph 12.3 of "*Part XXI: Additional Information*".

Save as disclosed in this paragraph, the Company is not aware of: (i) any other person who as at the Latest Practicable Date, directly or indirectly, has a holding which equals or exceeds 3 per cent. or more of the total voting rights attaching to its issued ordinary share capital; nor (ii) any arrangements, the operation of which may, at a subsequent date, result in a change of control of the Company.

The Selling Shareholder has no voting rights in respect of the ordinary share capital of the Company which differ from any other Shareholders of the Company.

10 Pension Benefits

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

10.1 Defined contribution schemes

Defined contribution schemes have a standard employer contribution of 10 per cent. plus an additional matched employer contribution, subject to limits based on age bands, of 12 per cent., 15 per cent. or 18 per cent.

10.2 Defined benefit schemes

All defined benefit schemes operated by AIB closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit scheme (including hybrid arrangements) transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by AIB are the AIB Irish Pension Scheme and the AIB UK Pension Scheme.

Retirement benefits for employees who were still active members of the defined benefit schemes at the date they closed to future accrual are calculated by reference to service and final pensionable salary at 31 December 2013. The final pensionable salary used in the calculation of this benefit for Irish staff is based on their average pensionable salary in the periods between 30 June 2009 and 31 December 2013 for the AIB Irish Pension Scheme and between 31 December 2009 and 31 December 2013 for the AIB UK Pension Scheme. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirements to revalue deferred benefits. There is no link to any future changes in salaries.

10.3 Valuations

Independent actuarial valuations for the AIB Irish Pension Scheme and AIB UK Pension Scheme are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the AIB Irish Pension Scheme and AIB UK Pension Scheme were carried out as at 30 June 2015 and 31 December 2014 respectively using the projected unit credit method. The next actuarial valuations of the AIB Irish Pension Scheme and AIB UK Pension Scheme as at 30 June 2018 and 31 December 2017, must be completed by 31 March 2019 and 31 December 2018 respectively. Actuarial valuations are available for inspection by the members of the schemes.

For further detail regarding AIB's pensions, see *"—Retirement benefit obligations*" in note 2 of Section B, note 10 of Section D and note 12 of Section B of "*Part XVI: Consolidated Historical Financial Information*".

11 Principal Subsidiaries

The Company is the parent company of AIB. The following table contains a list of the principal subsidiaries of the Company (each of which is considered by the Company to be likely to have a significant effect on the assessment of the assets, the liabilities, the financial position and/or the profits and losses of AIB):

Name	Percentage ownership interest and voting power	Field of activity	Country of incorporation	Registered office
AIB Mortgage Bank	100	Mortgage covered securities	Ireland	Bankcentre, Ballsbridge, Dublin 4
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and trading as First Trust Bank in Northern Ireland .	100	Banking and financial services	Northern Ireland	92 Ann Street, Belfast BT1 3HH
EBS d.a.c.	100	Mortgages and savings	Ireland	The EBS Building, 2 Burlington Road,Dublin 4

12 Material Contracts

The following contracts have been entered into by the Company or another member of AIB on or prior to the date of this Prospectus or, in the case of the Warrant Instrument, is expected to be entered into shortly after Admission, and are or may be material.

12.1 Underwriting Agreement

On 12 June 2017, the Company, the Selling Shareholder, the Directors and the Underwriters entered into an underwriting agreement (the "Underwriting Agreement"). Pursuant to the terms of the Underwriting Agreement:

- the Selling Shareholder has agreed, subject to certain conditions (the last condition being Admission), to sell, at the Offer Price, the Offer Shares to be sold in connection with the Offer;
- the Underwriters have severally agreed, subject to certain conditions (the last condition being Admission), to procure purchasers for (or, failing which, to purchase themselves) the Offer Shares to be sold pursuant to the Institutional Offer;
- the Selling Shareholder has granted the Over-allotment Option to the Stabilising Manager, pursuant to which the Stabilising Manager may, subject to certain conditions, elect to purchase up to such additional Ordinary Shares from the Selling Shareholder representing 15 per cent. of the total number of Offer Shares comprised in the Offer (excluding the Ordinary Shares subject to the Over-allotment Option) at the Offer Price, for the purposes of allowing the Stabilising Manager to cover short positions resulting from over-allotments of Ordinary Shares, if any, made in connection with the Offer and to cover short positions resulting from stabilising transactions. The Over-allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager to the Selling Shareholder at any time during the period of 30 calendar days immediately following the commencement of conditional dealings in the Ordinary Shares on the Irish Stock Exchange and the London Stock Exchange;
- the obligations of the Selling Shareholder to sell the Offer Shares and the obligations of the Underwriters to procure purchasers for, or failing which, to purchase themselves the Offer Shares to be sold under the Institutional Offer are conditional upon certain conditions that are customary for agreements of this nature;
- the Underwriting Agreement will become unconditional on Admission;
- subject to Admission occurring, the Company may, on the direction of the Selling Shareholder acting in its sole discretion and after consultation with the Company, pay to the Underwriters a commission of up to 0.4 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of Offer Shares to be sold pursuant to the Institutional Offer;
- the Company has agreed to pay certain of the costs, charges, fees and expenses relating to the Offer (together with any related irrecoverable VAT); and
- the Company, the Selling Shareholder and the Directors have each given certain customary representations, warranties and undertakings to the Underwriters. In addition, the Company has given certain indemnities to the Underwriters in connection with the Offer. The liability of the Company pursuant to the Underwriting Agreement is unlimited by time and amount. The liability of the Directors and the Selling Shareholder pursuant to the Underwriting Agreement is limited by both time and amount.

The Offer Shares to be sold pursuant to the Institutional Offer (as set out in the Underwriting Agreement) shall be in the following proportions:

Name	Proportions (%)
J&E Davy	18
Deutsche Bank AG, London Branch	18
Merrill Lynch International	18
Citigroup Global Markets Limited	8.6
Goldman Sachs International	8.6
Goodbody Stockbrokers UC	8.6
J.P. Morgan Securities plc	8.6
UBS Limited	8.6
Investec Bank plc (Irish Branch)	3

12.2 Sponsor Agreement

On 12 June 2017, the Company, the Directors and the Sponsors entered into a sponsors' agreement (the "Sponsors' Agreement"). Pursuant to the terms of the Sponsors' Agreement:

- the Company has appointed (i) Morgan Stanley as sponsor in connection with the application for the admission of the Ordinary Shares to the premium listing segment of the UK Official List and to trading on the main market for listed securities of the London Stock Exchange, and (ii) Goodbody as sponsor in connection with the application for the admission of the Ordinary Shares to the primary listing segment of the Irish Official List and to trading on the main market for listed securities of the Irish Stock Exchange as well as in connection with the approval of this Prospectus by the Central Bank;
- the Company and the Directors have each given certain customary representations, warranties and undertakings to the Sponsors. In addition, the Company has given certain customary indemnities to the Sponsors pursuant to the Sponsors' Agreement. The liability of the Company pursuant to the Sponsors' Agreement is unlimited as to time and amount. The liability of the Directors pursuant to the Sponsors' Agreement is limited as to both time and amount;
- the obligations of the parties are subject to certain customary conditions, including there being no breach of certain of the representations and warranties given by the Company under the Sponsors' Agreement, the delivery of customary documents and Admission having occurred by not later than 8.00 a.m. on 27 June 2017 or such later time and/or date as the Sponsors and the Company may agree;
- the Sponsors are entitled to terminate the Sponsors' Agreement in certain circumstances prior to Admission, including following termination of the Underwriting Agreement; and
- subject to Admission occurring, the Company has agreed pay to each of the Sponsors a fee together with certain of the costs, charges, fees and expenses relating to Admission (together with, in each case, any related irrecoverable VAT).

12.3 Warrant Agreement/Warrant Instrument

In recognition of the significant financial support provided to AIB by the Government since 2008 and as consideration for its support and participation in the 2015 Capital Reorganisation, the Company received shareholder approval, at the EGM held on 16 December 2015, to enter into the Warrant Agreement with the Minister for Finance.

In accordance with the terms of the Warrant Agreement, on 26 April 2017, the Minister for Finance issued a Warrant Notice to the Company, requiring the Company to enter into the Warrant Instrument and issue Warrants to the Minister for Finance five Business Days after Admission (or, if Admission does not occur, any future Regulated Market Event). No cash consideration will be payable by the Minister for Finance to the Company for the Warrants. The Warrants are capable of assignment or transfer by the Minister for Finance.

On issue, the Warrants entitle the Minister for Finance to subscribe for such number of Ordinary Shares (which number may be adjusted in accordance with the terms of the Warrant Instrument) representing 9.99 per cent. in aggregate of the issued ordinary share capital of the Company at Admission (or if Admission does not occur, any future Regulated Market Event). Assuming Admission occurs, the exercise price for the Warrants is 200 per cent. of the Offer Price (being the Initial Regulated Market Price for the purpose of the Warrant Agreement) which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the Minister for Finance during the period commencing on the first anniversary of Admission and ending on the tenth anniversary of Admission. If Admission does not occur, the exercise price for the Warrants is 200 per cent. of any future Initial Regulated Market Price which price may be adjusted in accordance with the terms of the Warrant Instrument and the Warrants will be capable of exercise by the holder of the Warrants during the period commencing on any future Regulated Market Event and ending on the tenth anniversary of that Regulated Market Event.

The principal rights and conditions attached to the Warrants will be contained in the Warrant Instrument. The Warrant Instrument will contain customary terms and conditions including customary anti-dilution provisions in favour of the holder of the Warrants. The Warrants will not be listed or quoted by the Company or the Minister for Finance on any stock exchange or other market.

12.4 Relationship Framework

On 12 June 2017, the Minister for Finance specified an amended and restated Relationship Framework, in relation to the Company, which is conditional only on Admission, to amend and restate the 2012 Relationship Framework. The Relationship Framework provides the basis under which the relationship between the Minister for Finance and AIB is governed. Details of the key terms of the Relationship Framework are set out in "*Part X: Relationship with Government and State Aid—Relationship Framework*".

12.5 2010 Placing Agreement

On 23 December 2010, the Company, the Minister for Finance, the NPRFC and the NTMA entered into a placing agreement pursuant to which the NPRFC agreed to subscribe for 675,107,845 new ordinary shares of €0.32 each in the capital of the Company and 10,489,899,564 convertible non-voting shares of €0.32 each in the capital of the Company ("CNV Shares"). The aggregate consideration paid for the subscription for these ordinary shares and CNV shares was €3.8 billion. The CNV Shares converted into ordinary shares of €0.32 each in the capital of the Company on 7 April 2011. In 2014 the ordinary shares in the capital of the Company held by the NPRFC became the assets of the ISIF, a fund whose assets are owned by the Minister for Finance. As such, references in the 2010 Placing Agreement to the NPRFC shall be read as references to ISIF.

Under the 2010 Placing Agreement, the Company gave certain market standard representations, warranties and indemnities which are customary for an agreement of this nature concerning, among other things, the accuracy of the information and other matters relating to AIB and its business contained in the 2010 Placing Agreement, and agreed to:

(i) pay to the NPRFC a commission of €3.5 million in respect of the new ordinary shares and €62.5 million in respect of the CNV Shares;

(ii) pay the costs and expenses of each of the Minister for Finance, the NPRFC and the NTMA for the purposes of the subscription, the disposal of M&T Bank Corporation on 4 November 2010 and the disposal of BZWBK to Banco Santander S.A. on 10 September 2010;

(iii) indemnify and hold harmless each of the Minister for Finance, the NPRFC and the NTMA for losses arising out of or in connection with the subscription or the 2010 Placing Agreement except in the case of (a) the fraud, bad faith or wilful default of the Minister for Finance, the NPRFC or the NTMA, or (b) a decline in the market value of the ordinary shares suffered by the NPRFC not caused by any breach by the Company of its obligations under the 2010 Placing Agreement; and

(iv) do all necessary acts (at its own expense) to effect and/or facilitate the placing, or the offer to the public, or the admission to trading of the shares that are held by the NPRFC (now the ISIF) and to discharge all expenses of the Minister for Finance, the NPRFC, the NTMA and any other Irish State entity holding the ordinary shares in connection therewith.

Details of the covenants and governance imposed on AIB by the 2010 Placing Agreement are set out in paragraph 6.8 of "*Part X: Relationship with Government and State Aid*".

The Minister for Finance and the NPRFC (now the ISIF) are permitted to transfer their rights and/or obligations under the 2010 Placing Agreement, including by way of assignment, novation and/or contribution, to each other or to any other Irish State entity. The Company is not permitted to assign, novate, transfer or otherwise alienate all or any of its rights, interests and/or obligations under the 2010 Placing Agreement.

Whereas certain powers and functions under the 2010 Placing Agreement and the 2011 Placing Agreement were previously performed by the NTMA under delegated authority from the Minister, these powers and functions are now exercised by the Minister directly. The present position in this regard has been reflected in the above description of the provisions of the 2010 Placing Agreement.

12.6 2011 Placing Agreement

On 1 July 2011, the Company, the Minister for Finance, the NPRFC and the NTMA entered into a second placing agreement pursuant to which the NPRFC agreed to subscribe for 500 billion ordinary shares in the capital of the Company for an aggregate subscription price of €5.0 billion. The 2011 Placing Agreement is separate, exclusive and independent of the 2010 Placing Agreement and does not amend the 2010 Placing

Agreement in any way. As indicated in the case of the 2010 Placing Agreement above, references to the NPRFC in the 2011 Placing Agreement should be read as references to the ISIF.

Under the 2011 Placing Agreement, the Company gave certain market standard representations, warranties and indemnities which are customary for an agreement of this nature concerning, among other things, the accuracy of the information and other matters relating to AIB and its business contained in the 2011 Placing Agreement, and agreed to:

(i) pay the costs and expenses of each of the Minister for Finance, the NPRFC and the NTMA for the purposes of the subscription for the 500 billion ordinary shares, the issue of CCNs and the other transactions contemplated in the 2011 Placing Agreement;

(ii) indemnify and hold harmless each of the Minister for Finance, the NPRFC and the NTMA for losses arising out of or in connection with the subscription or the 2011 Placing Agreement except in the case of (a) the fraud, bad faith or wilful default of the Minister for Finance, the NPRFC or the NTMA, or (b) a decline in the market value of the Ordinary Shares or the CCNs suffered by the NPRFC not caused by any breach by the Company of its obligations under the 2011 Placing Agreement; and

(iii) do all necessary acts (at its own expense) to effect and/or facilitate the placing, or the offer to the public, or the admission to trading of the shares that are held by the NPRFC (now the ISIF) and to discharge all expenses of the Minister for Finance, the NPRFC, the NTMA and any other Irish State entity holding the ordinary shares in connection therewith.

Details of the covenants and governance restrictions imposed on AIB by the 2011 Placing Agreement are set out in "*Part X: Relationship with Government and State Aid*" and are substantially similar to the covenants and governance restrictions in the 2010 Placing Agreement.

The Minister for Finance and the NPRFC (now the ISIF) are permitted to transfer their rights and/or obligations under the 2011 Placing Agreement, including by way of assignment, novation and/or contribution, to each other or to or any other Irish State entity. The Company is not permitted to assign, novate, transfer or otherwise alienate all or any of its rights, interests and/or obligations under the 2011 Placing Agreement.

Whereas certain powers and functions under the 2010 Placing Agreement and the 2011 Placing Agreement were previously performed by the NTMA under delegated authority from the Minister, these powers and functions are now exercised by the Minister directly. The present position in this regard has been reflected in the above description of the provisions of the 2011 Placing Agreement.

12.7 Registration Rights Agreement

Pursuant to its obligations under the 2011 Placing Agreement, the Company entered into a Registration Rights Agreement with the NPRFC and the Minister for Finance on 1 July 2011, granting customary demand and "piggyback" registration rights in the United States under the Securities Act to the NPRFC and the Minister for Finance with respect to any securities of the Company, including the Ordinary Shares, held by the NPRFC or the Minister for Finance (for the purposes of this section only, "Registrable Securities"). Pursuant to the Registration Rights Agreement, each of the NPRFC (now the ISIF following the ordinary shares in the capital of the Company held by the NPRFC having become assets of the ISIF in 2014) and the Minister for Finance is permitted to transfer its registration rights to any of its wholly owned, directly or indirectly, entities, as well as to any third-party to whom it transfers not less than US$50 million in Registrable Securities to the public in the United States or US$75 million to the public within and outside the United States. In connection with any registered offering of Ordinary Shares under the Securities Act, any holders of Registrable Securities will have the right to participate in the offering, pursuant to customary 'piggyback' registration rights, to the extent that such participation would not prevent successful completion of the offering. In addition, all holders of Registrable Securities have 'piggyback' registration rights, on a pro rata basis, in any demand registration made by another holder pursuant to the Registration Rights Agreement.

12.8 CIFS Scheme, ELG Scheme and NAMA Programme

As part of their accession to the CIFS Scheme as Covered Institutions, each of the AIB CIFS Covered Institutions entered into guarantee acceptance deeds in respect of the CIFS Scheme in favour of the Minister for Finance in or about October and December 2008, whereby each of them consented to all of the terms and conditions of the CIFS Scheme and agreed to indemnify the Minister for Finance against any payments the Minister for Finance was required to make under the CIFS Scheme in respect of their Covered Liabilities.

Pursuant to guarantee acceptance deeds in respect of the ELG Scheme entered into in or about January 2010 and February 2010, the AIB ELG Participating Institutions and EBS, respectively, has each given certain covenants in favour of the Minister for Finance and also given an indemnity for costs incurred by the Minister for Finance in respect of the ELG Scheme.

In February 2010, AIB's application pursuant to section 62 of the NAMA Act to become a participating institution in NAMA was accepted by the Minister for Finance. The Minister for Finance accepted EBS' application to become a participating institution in NAMA in February 2010. As a consequence, AIB, including EBS, is subject to a range of constraints and obligations and is subject to additional powers of (as the case may be) the Central Bank and the Minister for Finance.

Details of the key terms of the CIFS Scheme, the ELG Scheme and the NAMA Act as they affect AIB are set out in "*Part X: Relationship with Government and State Aid—Relationship Framework*".

12.9 Restructuring Plan

Details of AIB's Restructuring Plan are contained in "*Part X: Relationship with Government and State Aid—State Aid*". The Restructuring Plan Term Sheet contains the terms of the Commitments undertaken by AIB in connection with the decision of the EC of 7 May 2014 to approve the state aid received by AIB (including EBS) as restructuring aid compatible with the internal market pursuant to Article 107(3)(b) of the TFEU. Some of the Commitments have expired whilst the others will expire in the course of 2017 or on 31 December 2017. These commitments which remain operable may restrict AIB's ability to operate its business as it would otherwise have done so. These commitments relate to: (i) subject to receipt of all regulatory and other approvals, the repayment of state aid prior to the end of the Restructuring Period, (ii) limitation of exposure to Irish sovereign bonds; (iii) behavioural commitments, which include restrictions on advertising, marketing and sponsorship in Ireland and a ban on discretionary coupon payments on instruments issued prior to 7 May 2014; (iv) measures to enhance competition in the Irish banking market (called competition measures and comprising a Services Package and a Customer Mobility Package, in each case as further described in "*Part X: Relationship with Government and State Aid—State Aid*" and a commitment to contribute €500,000 per annum for a period of three years from 1 July 2014 to a public awareness campaign to raise awareness and promote customer mobility); (v) expenditure caps on marketing, advertising and sponsorship, and (vi) the imposition of criteria for assessing most appropriate restructuring solution for non-performing SME loans and loans to corporates.

12.10 Outsourcing/Service Agreements

12.10.1 TSYS Payment Processing Agreement

The Company and TSYS entered into a combined settlement services agreement dated 16 December 2011 (as amended), pursuant to which TSYS agreed to provide credit card and debit card payment processing services (the "TSYS Agreement").

The initial term of the TSYS Agreement will expire in September 2018 in accordance with the terms of the TSYS Agreement and will automatically renew thereafter for two one-year terms unless one party provides the other with written notice of termination 180 days prior to the end of the then current term. Amongst the mutual termination rights of the parties, the TSYS Agreement may be terminated without cause in certain circumstances and may be terminated by either party where a regulatory change materially prevents or impairs either party from meeting its obligations. The Company may terminate its receipt of the debit settlement services and credit settlement services for convenience in certain circumstances and subject to certain conditions.

Subject to certain exclusions and limitations contained in the TSYS Agreement, the Company has warranted its ownership and rights in respect of hardware, software or equipment that is necessary for the Company's use of the services provided by TSYS and the Company has agreed to indemnify TSYS against certain losses caused by AIB or for which AIB may be responsible, including for (i) a product of AIB infringing any intellectual property rights of any third-party; (ii) acts or omissions of AIB; (iii) claims by customers of AIB for any violation by AIB of their privacy or of laws relating to the use of their data, or for AIB's unauthorised or fraudulent application of their customer accounts; (iv) failure to comply with certain laws or requirements relating to payment scheme programmes (e.g., Visa, MasterCard and American Express) and AIB credit/debit card portfolios supported by TSYS; and (v) liabilities and claims arising out of the application of the EC (Protection of Employees on Transfer of Undertakings) Regulations 2003 or any applicable national laws implementing the same.

Neither party can assign the TSYS Agreement without the prior written consent of the other party which consent shall not be unreasonably withheld (except that TSYS can assign to an affiliate of TSYS on condition that TSYS guarantees the performance by such affiliate of all TSYS' duties and liabilities under the TSYS Agreement). A change of control is not considered to be an assignment.

12.10.2 SEPA Hosted Services Agreement

The Company and Sentenial entered into an agreement dated 9 April 2012 and an order form dated 19 November 2012 for the provision, maintenance and support of a SEPA solution to enable EBS act as an indirect participant in the SEPA Debit and Credit Transfer payment.

The SEPA Services Agreement continues for an initial term of three years and shall renew for successive periods of one year unless either party serves at least 30 days' notice prior to the expiry of the term. Amongst other mutual termination rights of the parties, Sentenial may immediately terminate the SEPA Services Agreement by written notice to the Company if certain insolvency events occur in respect of the Company. Subject to the payment of a termination fee, the Company may terminate the SEPA Services Agreement (in whole or in part) by written notice to Sentenial at any time. The parties may not assign any of their rights or obligations under the SEPA Services Agreement without the other party's prior written consent.

12.10.3 Master Services Agreement and Transaction Services Agreement relating to Clearing Services

The Company and Banctec entered into a master services agreement and transaction services agreement each dated 18 December 2013, pursuant to which Banctec agreed to provide the Company with domestic and international cheque and drafts clearing processing operations ("Banctec Agreements").

The Banctec Agreements will continue in force for an initial term of six years and will automatically renew for a further two year period unless either party has provided the other with at least 12 months written notice prior to the then-current end of the term that it does not wish to renew.

The Company has the right to terminate the Banctec Agreements for cause in certain defined circumstances and has the right to terminate the transaction services agreement for convenience on at least six months' written notice subject to the payment of any applicable termination compensation. The Company may terminate the master services agreement for convenience without further liability at any time by providing not less than 30 days' prior written notice. Banctec may terminate the Banctec Agreements if the Company fails to make any payments which are due provided that the amount owing exceeds three times the average monthly charges over the preceding 12 month period.

The Company also provided indemnities in favour of Banctec under the Banctec Agreements in relation to certain employment matters. Banctec may not assign the Banctec Agreements without the prior written consent of the Company. The Company is entitled to assign the Banctec Agreements to an affiliate or any entity that acquires the whole or part of the Company's business to which provision of the services relates.

12.10.4 IT Outsourcing Agreements

Between 2013 and 2015, AIB completed an outsourcing programme to leverage the skills and capabilities of external vendors through a small number of global strategic partnerships. The Company entered into the following agreements with each of the following five service providers (each an "IT Outsourcing Supplier"):

- a Master Services Agreement with Wipro Limited and a services order for the provision of IT hosting and storage services and related support services, both dated 8 January 2015. A further services order relating to the provision of IT application development and maintenance services was entered into with Wipro Limited on 29 June 2015;
- a Master Services Agreement with HCL Technologies Limited and a services order for the provision of IT services desk and desktop support services, both dated 2 March 2013;
- a Master Services Agreement with Infosys Limited and a services order for the provision of IT application development and maintenance services, both dated 29 June 2015;

- a Master Services Agreement with Eircom Limited (now trading as Eir) and a services order for the provision of IT telecommunications services and related support services, both dated 8 January 2015; and
- a Master Services Agreement with Integrity Communications Limited and a services order for the provision of IT security services and related support services dated 8 January 2015

  (together the "IT Outsourcing Agreements" and each an "IT Outsourcing Agreement").

Each IT Outsourcing Agreement has an initial term of five years and, at the expiry of the initial term, the Company has the right to extend the term for up to two further 12-month periods.

The Company has the right to terminate each IT Outsourcing Agreement for cause in certain defined circumstances, and also for convenience on at least three months' notice at any time subject to the payment of any applicable termination compensation. The IT Outsourcing Suppliers' right to terminate is limited to a situation where the Company fails to make payment of an undisputed material sum within a specified time frame and an escalation process between the parties has been exhausted. This right of termination is subject to a requirement for the IT Outsourcing Supplier to continue to provide services during an agreed termination assistance period to allow for an orderly transition of services back to the Company or an alternative service provider. Under the terms of the IT Outsourcing Agreements, the Company provided certain general warranties to each IT Outsourcing Supplier, including in relation to the authority to execute and perform its obligations under the Agreements. To the extent that the warranties prove to be untrue or inaccurate, the Company may be liable to an IT Outsourcing Supplier for damages, subject to the exclusions and limitations contained in the IT Outsourcing Agreements. The Company also provided general indemnities in favour of the IT Outsourcing Suppliers in relation to certain employment and intellectual property matters which were given, in some instances, on an unlimited basis.

12.10.5 Service Bureau Agreement

The Company and Bottomline Technologies Limited ("Bottomline") (formerly EBS and SMA Financial Limited) entered into a service bureau agreement dated 10 September 2009 (as novated and amended) for the provision of a SWIFT access service to EBS ("SWIFT Service Agreement").

The SWIFT Service Agreement was for an initial period of 36 months and has been renewed thereafter for successive periods of 12 months each. Amongst other mutual termination rights of the parties, Bottomline is entitled to suspend the provision of SWIFT services or to terminate the SWIFT Service Agreement in the event that the Company is in breach of any applicable law or regulation or in the event that Bottomline is required to do so by any law, regulation or regulatory body. Neither of the parties is entitled to assign the SWIFT Service Agreement, in whole or in part, without the prior written consent of the other.

12.10.6 ATM and Secured Cash-In-Transit Agreements

G4S provides armoured transportation services to transport bank notes, coins, currency and cheques (cash-in-transit services) and coin-related services to AIB pursuant to the following agreements:

- an agreement dated 29 November 2010 (as amended) in respect of cash-in-transit services to Dublin city branches of AIB;
- an agreement dated 7 September 2009 (as amended) in respect of cash-in-transit services between AIB's cash centre in Blarney, Co. Cork and certain AIB branches;
- an agreement dated 12 November 2011 (as amended) in respect of cash-in-transit services between the AIB cash centre and AIB branches located in the West of Ireland; and
- an agreement dated 2 October 2012 (as amended) relating to the supply of coins for AIB's branches (together, the "CIT Agreements" and each a "CIT Agreement").

Each CIT Agreement will continue until 30 June 2017, and thereafter, unless terminated earlier by either party in accordance with the CIT Agreement. Either party may terminate the CIT Agreement (in whole or in part) for any reason by giving the other party written notice within the time period specified in each CIT Agreement (which is between 1 and 6 month(s)) served at any time and taking effect at any time on or after the first anniversary of the effective date or the date of expiry of the initial term (as relevant). Amongst other mutual termination rights of the parties, the CIT Agreement may also be terminated for cause by AIB in certain circumstances, including if there is a change of control of G4S to which AIB reasonably objects on the basis of a material impact on the business, commercial arrangements or reputation of AIB, or if a certain percentage (or less) of calls fail to take place. G4S may not assign the CIT Agreement without the prior written consent of AIB. AIB is entitled to assign the CIT Agreement to an affiliate of AIB for the purposes of solvent reconstruction or amalgamation as notified by AIB from time to time without the consent of G4S.

The Company and G4S have also entered into an agreement dated 21 March 2011 (as amended) for the supply of ATM replenishment and first line maintenance services ("ATM Agreement"). The terms of the ATM Agreement that correspond to the terms of the CIT Agreements summarised above are substantially consistent, except that the initial term of ATM Agreement is stated to expire automatically unless it is extended by the parties by written agreement before expiry of the initial term.

12.10.7 AIB Merchant Services Joint Venture Agreement with First Data

First Merchant Processing (Ireland) Limited, trading as AIB Merchant Services, accepts and processes debit and credit card payments pursuant to a joint venture arrangement between AIB and First Data, a provider of card acceptance services, the terms of which are governed by the following agreements:

- a Subscription Agreement between (1) the Company and AIB UK, (2) First Data Corporation and First Data Global Services Limited ("First Data") and (3) Zolter Services d.a.c (previously Zolter Services Limited) (the "JV Vehicle") and its subsidiaries First Merchant Processing (Ireland) Limited and First Merchant Processing UK (now dissolved) (the JV Vehicle and First Merchant Processing (Ireland) Limited together the "JV Companies") dated 14 November 2007, pursuant to which First Data Global Services Limited subscribed for 50.1 per cent. of the shares in the JV Vehicle (together the "JV Parties") with the remaining 49.9 per cent. being held by the Company;
- a Shareholders' Agreement between the JV Parties dated 18 January 2008 (as amended and restated in 2010), setting out certain shareholder rights together with the terms upon which the affairs of the JV Companies are to be conducted;
- an Operations Agreement between the Company, AIB UK, the JV Companies and First Data Merchant Services Corporation ("FDMS") dated 18 January 2008 (as amended and restated in 2010), pursuant to which AIB and FDMS each provide certain merchant payment services to each other and to the JV Companies;
- a Brand Agreement between the Company, AIB UK and the JV Companies dated 31 December 2010, pursuant to which AIB licences certain registered trademarks of the Company, to the JV Companies,

(together the "AIB Merchant Services JV Agreements").

The Shareholders' Agreement remains in force unless terminated upon notice served by (i) the Company on or within three months after the 15th or 20th anniversary of the joint venture and thereafter at the end of each subsequent five-year period or (ii) First Data Global Services Limited on or within three months after the 20th anniversary of the joint venture and thereafter at the end of each subsequent five-year period. Among other mutual termination rights of the parties, the Shareholders' Agreement may also be terminated by the Company or First Data Global Services Limited for material breach, upon an insolvency event, by agreement or upon a change of control. No party to the Shareholders' Agreement can assign its rights or obligations without the prior written consent of the other parties unless assigning to a transferee of that party's shares in the JV Vehicle.

The term of the Operations Agreement expires on 18 January 2018 and thereafter will renew for successive periods of five years. The Company, AIB UK or FDMS may immediately terminate the Operations Agreement upon written notice in circumstances where the Shareholders' Agreement is terminated, upon an insolvency event of another party or for material breach. FDMS may terminate the Operations Agreement in the event of the termination of the Company or AIB UK's membership in relevant card associations. None of the parties to the Operations Agreement can assign their rights and obligations without the prior written consent of the other parties.

The Brand Agreement automatically terminates upon termination of the Shareholders Agreement. The Company or AIB UK can terminate the Brand Agreement in certain specified circumstances, including where the licencees under the agreement do anything to diminish the Company's rights in the brands licensed or where they do anything inconsistent with the Company's ownership rights in the brands. The JV Companies can terminate the Brand Agreement immediately by, among other things, giving notice to the Company where the Company commits a material breach of the Brand Agreement or is subject to an insolvency event.

The Company, AIB UK, First Data and FDMS each provide general warranties and indemnities in favour of the other party under the terms of each of the AIB Merchant Services JV Agreements.

13 Intermediaries

The Intermediaries authorised at the date of this Prospectus to use this Prospectus in connection with the Intermediaries Offer are: Campbell O'Connor & Company Limited, Cantor Fitzgerald Ireland Limited, J&E Davy, Goodbody Stockbrokers UC, Investec Capital & Investments (Ireland) Limited, Merrion Stockbrokers Limited, Redmayne-Bentley LLP and Quilter Cheviot Limited.

14 Related party transactions

The related party transactions which must be disclosed in accordance with the standards adopted pursuant to the EC Regulation (EC) No. 1606/2002 are set out below.

Other than as disclosed below and in note 40 of Section D and note 51 of Section B of "*Part XVI: Consolidated Historical Financial Information*", no related party transactions were entered into by the Company or any other member of AIB during the years ended 31 December 2016, 2015 and 2014 or the three months ended 31 March 2017 or during the period between 31 March 2017 and the Latest Practicable Date. A number of banking transactions are entered into between the Company and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions and the provision of guarantees on an "arm's length" basis.

14.1 Associated Undertakings

AIB provides certain banking and financial services for its associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present any other unfavourable features. The amounts outstanding as at the Latest Practicable Date are set out below:

	Associates and joint ventures (€ million)
Loans and advances to customers	—
Customer accounts	253

14.2 Government

The Government, as a result of the equity investments in AIB in 2010 pursuant to the 2010 Placing Agreement and in 2011 pursuant to the 2011 Placing Agreement Investment, AIB's participation in the Government Guarantee Schemes and the NAMA Programme, the 2015 Capital Reorganisation and the ongoing relationship between the Minister for Finance and the Company (including the Selling Shareholder's holding of 99.8688 per cent. of the issued Ordinary Shares), is a related party of the Company. Other than as disclosed in note 40 of Section D and note 51 of Section B of "*Part XVI: Consolidated Historical Financial Information*", AIB has not entered into any related party transaction with the Government (which for these purposes are those set out in the standards adopted according to Regulation (EC) 1606/2002) during the period covered by "*Part XVI: Consolidated Historical Financial Information*".

14.3 Pension funds

As at the Latest Practicable Date, AIB provided banking and financial services including money transmission services, to various pension schemes operated by AIB for the benefit of its employees (principally the AIB Irish Pension Scheme and the AIB UK Pension Scheme), which are conducted on similar terms to third-party transactions and are not material to AIB.

14.4 Transactions with key management personnel

AIB's key management personnel comprises persons who are Executive Directors, Non-Executive Directors and Senior Executives.

Other than as set out in note 40 of Section D and note 51 of Section B of *"Part XVI: Consolidated Historical Financial Information* statements of AIB, no transactions with key management personnel were entered into by AIB during the financial periods ended 31 December 2014, 31 December 2015 or 31 December 2016, or the three-month period ended 31 March 2017. Other than the changes in loans to key management personnel set out below, no transactions with key management personnel were entered into during the period between 31 March 2017 and the Latest Practicable Date.

The aggregate amounts outstanding, and the number of persons concerned, in respect of all loans, quasi-loans and credit transactions between AIB and its key management personnel, as defined above (together with persons connected to the key management personnel) as at the Latest Practicable Date are shown in the table below. Loans to key management personnel (together with persons connected to the key management personnel) are made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with AIB, and do not involve more than the normal risk of collectability or present other unfavourable features.

	Balance as at Latest Practicable Date	Number of persons as at Latest Practicable Date
	(€)	
Key management personnel (together with persons connected to the key management personnel)		
Loans, overdrafts, credit cards	5,687,407	40

Since 31 December 2016, there have been no material changes to the terms of loans to key management personnel, including interest rates and collateral, which existed at that time.

Since 31 December 2016, there have been no material changes in guarantees entered into by key management personnel in favour of AIB as existed at that time, and there were no calls on those guarantees since that date.

The Company has not made any provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which, having fallen due on the above loans, has not been paid.

15 Litigation

Neither the Company nor any member of AIB is or has been involved in any governmental, legal or arbitration proceedings, nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of AIB which may have, or have had in the recent past (covering the 12 months immediately preceding the date of this Prospectus), a significant effect on the Company's or AIB's financial position or profitability.

16 Property and environmental

AIB operates from an estate of approximately 334 branches/outlets and offices. These are held exclusively in Ireland, the United Kingdom and the United States and include the EBS network of offices. The majority of the estate (branches and offices) are held under short-term commercial leases, with the remainder being held under freehold title. There are also approximately 244 off-site ATMs held under short leases or licences.

AIB's headquarters is located at Bankcentre, Ballsbridge, Dublin 4, Ireland. This is a campus-style complex of interlinked office buildings on a site of approximately 14 acres. This complex houses most of AIB's support functions and offers approximately 560,000 sq. ft. of office space, as well as extensive car parking, meeting and staff welfare facilities. Following a 2006 sale and leaseback programme, AIB now leases the majority of the Bankcentre campus under four separate lease arrangements.

In Northern Ireland, First Trust Bank is headquartered at First Trust Centre, 92 Ann Street, Belfast. This is held under a freehold/long leasehold title. In the United Kingdom, AIB UK is headquartered at St. Helen's, 1 Undershaft, London, EC3A 8AB. This is held under a short-term lease.

The EBS portfolio is comprised of 54 offices leased or owned by EBS, with a further 17 offices held by tied branch agents.

AIB does not have significant property holdings in the United States. The Company is of the opinion that there are currently no actual or potential environmental liabilities that affect AIB's utilisation of any property or other tangible fixed assets.

17 Working Capital

In the opinion of the Company, the working capital available to AIB is sufficient for AIB's present requirements, that is, for at least the next 12 months following the date of this Prospectus.

18 No Significant Change

There has been no significant change in the financial or trading position of AIB since 31 March 2017, being the date to which "*Part XVI: Consolidated Historical Financial Information*" was prepared.

19 Consents

Deloitte is a member firm of the Institute of Chartered Accountants in Ireland and has given and has not withdrawn its written consent to the inclusion of the reports in "*Part XVI: Consolidated Historical Financial Information*" and the inclusion in this Prospectus of the reference to its name, in the form and context in which they appear, and has authorised the contents of its reports for the purposes of Regulation 31 and paragraph 2(2)(f) of Schedule 1 to the Irish Prospectus Regulations and section 1353 of the Companies Act. Deloitte is, and has been throughout the period covered by *"Part XVI: Consolidated Historical Financial Information"* in the Prospectus, the auditor of the Company.

20 Expenses of Admission and the Offer

The Company has agreed with the Selling Shareholder and the Underwriters to pay: (i) commissions payable to the Underwriters and the Intermediaries in connection with the Offer, which are estimated to be approximately €12 million; and (ii) transaction advisory fees and expenses incurred by the Selling Shareholder and the Underwriters in respect of the Offer, which in aggregate are estimated to be approximately €4 million. The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the maximum point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Offer Price Range; and (c) the underwriting commissions payable by the Company to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Company.

In addition, the aggregate expenses of, or incidental to, Admission and the Offer incurred and to be borne by the Company are estimated to be approximately €25 million (inclusive of amounts in respect of VAT), which the Company intends to pay out of existing cash resources (to the extent they have not already been paid). No expenses will be directly charged to investors in connection with Admission or the Offer by the Company or the Selling Shareholder.

21 Third-Party Information

Where information has been sourced from a third-party in this Prospectus this information has been accurately reproduced. So far as the Company and the Directors are aware and are able to ascertain from information provided by that third-party, no facts have been omitted which would render the reproduced information inaccurate or misleading. All third-party information is generally identified alongside where it is used.

A number of third-party sources generally state that the information they contain has been obtained from sources believed to be reliable. However, these third-party sources also state that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on significant assumptions. As AIB does not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in these third-party sources, AIB is unable to verify such information.

In addition, certain information in this Prospectus, for which no source is given is not based on published statistical data or information obtained from independent third parties. Such information and statements reflect the Directors' best estimates based upon information obtained from industry and business organisations and associations and other contacts within the banking industry as well as information published by its competitors. Where information contained in this Prospectus is identified as being the Directors' belief, such information is based on information obtained from industry and business organisations and associations and other contacts within the banking industry and the Directors' business experience in the industry and the local markets in which AIB operates and the Company's internal analysis of the audited and unaudited Group information.

22 Documents Available for Inspection

Copies of the following documents are available for inspection in physical form during normal business hours or any weekday (Saturdays, Sundays and public holidays excluded) for the life in physical form of this Prospectus at the Company's registered office at Bankcentre, Ballsbridge, Dublin 4, Ireland:

- the Constitution;
- the financial statements of AIB included in *"Part XVI: Consolidated Historical Financial Information"*;
- the consent letters referred to under "—*Consents*" above; and
- this Prospectus.

PART XXII
DEFINITIONS

Definitions

The following definitions apply throughout this Prospectus unless the context requires otherwise.

2004 CBI Act	Central Bank and Financial Services Authority of Ireland Act 2004
2009 Preference Shares	the 3,500,000,000 2009 non-cumulative preference shares of €0.01 each in the capital of the Company issued to the NPRFC on 13 May 2009 pursuant to the 2009 Subscription Agreement which subsequently became assets of the ISIF pursuant to section 38 of the NTMA 2014 Act and which subsequently were redeemed and cancelled on 17 December 2015 as part of the 2015 Capital Reorganisation
2009 Preference Shares Investment	the issue of the 2009 Preference Shares to the NPRFC (for the NPRF) on 13 May 2009, which subsequently became assets of the ISIF pursuant to section 38 of the NTMA 2014 Act, and which were subsequently converted and redeemed as part of the 2015 Capital Reorganisation
2009 Subscription Agreement	the subscription agreement entered into on 13 May 2009 between the Company, the Minister for Finance and the NPRFC in connection with the 2009 Preference Shares Investment
2009 Warrants	the 294,251,819 warrants to subscribe for ordinary shares in the capital of the Company issued to the NPRFC on 13 May 2009 pursuant to the 2009 Subscription Agreement and which were cancelled on 23 December 2010
2010 Placing Agreement	the Placing Agreement dated 23 December 2010 between the Company, the Minister for Finance, the NPRFC and the NTMA
2011 Placing Agreement	the Placing Agreement dated 1 July 2011 between the Company, the Minister for Finance, the NPRFC and the NTMA
2012 Relationship Framework	the relationship framework specified by the Minister for Finance in relation to the Company on 29 March 2012
2013 CBI Act	Central Bank (Supervision and Enforcement) Act 2013
2014 Capital Reorganisation	the capital reorganisation approved by Shareholders at an EGM held on 19 June 2014 which comprised (i) the subdivision of the then existing ordinary shares in the capital of the Company; (ii) the subsequent cancellation of an amount of €1,073,944,058 standing to the credit of the Company's share premium account and €3,926,055,941 standing to the credit of the Company's capital redemption reserve account; and (iii) the transfer of these amounts to the Company's revenue reserves
2015 Capital Reorganisation	the capital reorganisation approved by Shareholders at an EGM held on 16 December 2015 which comprised, among other things, the conversion and redemption of the 2009 Preference Shares, a consolidation of the then existing ordinary shares in the capital of the Company, the entry into the Warrant Agreement and amendments to the memorandum and articles of association of the Company and the redemption and cancellation of the EBS Promissory Note
2017 AGM	the annual general meeting of the Company held on 27 April 2017

Admission	the admission of the Ordinary Shares to the Official Lists and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange becoming effective in accordance with the Listing Rules
AGM	the annual general meeting of the Company
AIB	the Company together with its consolidated subsidiaries and subsidiary undertakings from time to time
AIB CIFS Covered Institutions	the Company, AIB Group (UK) p.l.c., EBS, EBS Mortgage Bank, AIB Mortgage Bank, AIB Bank (CI) Limited and AIB North America Inc.
AIB ELG Participating Institutions	the Company, AIB Group (UK) p.l.c., EBS, AIB North America Inc, and formerly AIB Bank (CI) Limited and AIB International Savings Limited
AIB Irish Pension Scheme	the AIB Group Irish Pension Scheme, a defined benefit pension scheme operated by AIB in respect of its staff employed in Ireland
AIB UK	AIB Group (UK) p.l.c.
AIB UK Pension Scheme	the AIB Group UK Pension Scheme, a defined benefit pension scheme operated by AIB in respect of its staff employed in the United Kingdom
AML	anti-money laundering
AML Acts	the Criminal Justice (Money Laundering and Terrorist Financing) Acts of 2010 and 2013
Articles	the articles of association of the Company, as contained in the Constitution, as amended from time to time
ASIC	Australian Securities & Investments Commission
ASU	Arrears Support Unit
Auditor	Deloitte, Hardwicke House, Hatch Street, Dublin 2
Audit Committee	the audit committee of the Board of Directors
Banctec	Banctec Limited
Bank of Ireland	The Governor and Company of the Bank of Ireland
Bank Resolution Act	Central Bank and Credit Institutions (Resolution) Act 2011
Bankruptcy Act	Bankruptcy Act 1988
Bank Secrecy Act	US Bank Secrecy Act of 1970 (31 USC 5311 et seq)
Board or **Board of Directors**	the board of directors of the Company
BMI	Business Monitor International
BPFI	Banking and Payments Federation Ireland
BRRD	Directive 2014/59 establishing a framework for the recovery and resolution of credit institutions and investment firms
Business Day	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in Dublin and London
BZWBK	Bank Zachodni Wielkopolski Bank Kredytowy S.A.
Revised CGC Code	the Corporate Governance Requirements for Credit Institutions 2015 issued by the Central Bank

CBRA Regulations 2011	Central Bank Reform Act 2010 (Sections 20 and 22) Regulations 2011
CBRA Regulations	the CBRA Regulations 2011 and Central Bank Reform Act 2010 (Sections 20 and 22) (Amendment) Regulations 2015
CCA	Consumer Credit Act 1995
CCMA	Code of Conduct on Mortgage Arrears (2013) issued by the Central Bank
CCNs	the €1.6 billion of contingent capital tier 2 notes issued by the Company to the Minister for Finance on 27 July 2011 and which matured and were repurchased on 28 July 2016
CCPC	Competition and Consumer Protection Commission of Ireland
CCR	the Central Credit Register established under the Credit Reporting Act 2013 and regulated and operated by the Central Bank
Central Bank	Central Bank of Ireland
Central Bank Acts	Central Bank Acts 1942 to 2015
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIFS Scheme	the credit institutions financial support scheme introduced by the Government on 30 September 2008 pursuant to the Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008), which expired on 29 September 2010
CMA	Competition and Markets Authority
Co-Lead Manager	Investec Bank plc (Irish Branch)
Commitments	the commitments in connection with the Restructuring Plan, which Ireland has committed to implement as set out in the Annex to the State Aid Decision
Companies Act or **Companies Act 2014**	Companies Act 2014, as amended
Company	Allied Irish Banks, p.l.c.
Conduct Risk Framework	a framework that is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level, including the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation
Constitution	the constitution of the Company incorporating the Memorandum of Association and the Articles
Consumer Credit Directive	Directive 2008/48/EC on credit agreements for consumers
Consumer Credit Regulations	European Communities (Consumer Credit Agreements) Regulations 2010, which give effect to the Consumer Credit Directive in Irish law
Consumer Protection Acts	Consumer Protection Acts 2007 and 2014
Covered Institutions	certain institutions for whom certain types of liabilities are guaranteed by the Minister for Finance under the CIFS Scheme
Covered Liabilities	certain types of liabilities guaranteed by the Minister for Finance under the CIFS Scheme
Corporations Act	Corporations Act 2001 (Cth)

CPLRP	Code of Practice on Lending to Related Parties (2010)
CRA Regulations	These comprise the following regulations: • Credit Reporting Act 2013 (Section 6) (Additional Personal Information) Regulations 2016 • Credit Reporting Act 2013 (Section 11) (Provision of information for Central Credit Register) Regulations 2016 • Credit Reporting Act 2013 (Section 17) (Access to Central Credit Register) Regulations 2016 • Credit Reporting Act 2013 (Section 20) (Verification of Identity of Credit Information Subjects) Regulations 2016 • Credit Reporting Act 2013 (Section 24) (Notices) Regulations 2016
CRD	Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms: Capital adequacy legislation adopted by the EU and implemented by Member States which is designed to ensure the financial soundness of credit institutions and certain investment firms.
CRD IV	CRD and CRR
CREST	the UK-based system for the paperless settlement of trades in listed securities and the holding of uncertificated securities, operated by Euroclear UK & Ireland Limited in accordance with the CREST Regulations
CREST Regulations	the Companies Act 1990 (Uncertificated Securities) Regulations 1996, including a notification thereof or any regulations in substitution thereof or in addition thereto made under section 1086 of the Companies Act or otherwise for the time being in force or other legislative provisions dealing with the transfer of shares in dematerialised or electronic form and title to shares transferred in such manner
CRO	Chief Risk Officer
CRR	Regulation 575/2013 on prudential requirements for credit institutions and investment firms
CSO	Central Statistics Office of Ireland
CTF	counter-terrorist financing
Customer Mobility Package	a package permitting certain of AIB's competitors to advertise their services to AIB's customers
Dáil Éireann	the lower house of the Oireachtas (the Irish legislature)
Data Protection Directive	Directive 95/46 on the protection of individuals with regard to the processing of personal data and on the free movement of such data
Delegated Act	Commission Delegated Regulation 2015/61 to supplement the CRR with regard to liquidity coverage requirements for credit institutions
DGSD	Directive 2014/49/EU on deposit guarantee schemes
Distance Marketing of Financial Services Directive	Directive 2002/65 concerning the distance marketing of consumer financial services
Directors	the Executive Directors and Non-Executive Directors of the Company

Dividend Rules . . . . the rules made by the Minister for Finance under paragraph 42 of the CIFS Scheme on 28 February 2017 governing the declaration and payment of dividends by institutions covered by the CIFS Scheme, including the AIB CIFS Covered Institutions

DM Regulations . . . . European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004 which give effect in Irish law to the Distance Marketing of Financial Services Directive

Dodd-Frank . . . . Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

DPA . . . . the Data Protection Acts of 1988 and 2003

DRN . . . . debt relief notice under the Personal Insolvency Act

DSA . . . . debt settlement arrangement under the Personal Insolvency Act

EBA . . . . the European Banking Authority

EBS . . . . EBS d.a.c. (formerly EBS Limited and prior to that EBS Building Society), a company incorporated under the laws of Ireland (registered number 500748) and a wholly-owned subsidiary of the Company

EBS Promissory Note . . . . the promissory note with an initial principal amount of €250 million provided by the Minister for Finance to EBS Building Society on 17 June 2010 which was redeemed and cancelled as part of the 2015 Capital Reorganisation

ECB . . . . the European Central Bank

ECB banking authorisation . . . .

(a) in the case of a licence granted by the Central Bank under section 9 of the Central Bank Act 1971 prior to 4 November 2014 (including that issued to and held by the Company), such a licence which is deemed in accordance with the SSM Regulation to be an authorisation granted by the ECB under the SSM Regulation; or

(b) in any other case, an authorisation granted by the ECB under the SSM Regulation on the application therefor under section 9 of the Central Bank Act 1971;

EC . . . . the Commission of the EU (provided for under the provision of Title III of the Treaty on European Union), which operates as the executive body of the EU

EEA . . . . European Economic Area, which consists of the Member States, Iceland, Liechtenstein and Norway

EGM . . . . an extraordinary general meeting of the Company

ELG Directions . . . . the directions issued to the AIB ELG Participating Institutions on behalf of the Minister for Finance on 12 November 2012 pursuant to paragraph 22 of the ELG Scheme

ELG Scheme . . . . the Eligible Liabilities Guarantee Scheme established under the Financial Support Act and by the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009, which expired for new liabilities on 28 March 2013

E-money Directive . . . . Directive 2009/110 on the taking up, pursuit and prudential supervision of the business of electronic money institutions

E-money Regulations . . . . European Communities (Electronic Money) Regulations 2011 which give effect in Irish law to the E-money Directive

ERC . . . . Executive Risk Committee

ESM	the Enterprise Securities Market operated and regulated by the Irish Stock Exchange
EU	the European Union
EU MiFID Regulation	Regulation 600/2014 on Markets in Financial Instruments
EU Prospectus Regulation	Commission Regulation (EC) No. 809/2004 of 29 April 2004
euro or **€**	the official currency of the Eurozone
Euroclear	Euroclear UK & Ireland Limited
Eurozone	the eurozone consists of the following 19 EU countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.
EU/IMF Programme	Ireland's bailout programme from the EC, the ECB and the IMF
Exchange Act	US Exchange Act of 1934
Executive Directors	the executive directors of the Company
FATCA	Foreign Account Tax Compliance Act of the United States
FATF	Financial Action Task Force
FCA	the UK Financial Conduct Authority
Financial Support Act	the Credit Institutions (Financial Support) Act 2008
Financial Conglomerate Directive	Directive 2002/87 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate
Financial Conglomerate Regulations	European Communities (Financial Conglomerates) Regulations 2004 which give effect in Irish law to the Financial Conglomerate Directive
Fitch	Fitch Ratings Limited
FMP	Financial Measures Programme
FOS	UK Financial Ombudsman Service
FRB	Federal Reserve Board
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
FSG	Financial Solutions Group
FSMA	the UK Financial Services and Markets Act 2000
FSO	Financial Services Ombudsman
GDP	gross domestic product
GDPR	Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data
General Bail-In Tool	the power, provided by the BRRD to resolution authorities in circumstances where the credit institution is failing or likely to fail, to write down the claims of unsecured creditors of an institution and convert debt to equity, with, in broad terms, the first losses being taken by shareholders and thereafter by subordinated creditors and then senior creditors, with the objective of recapitalising an institution

Government or **Irish Government**	the Government of Ireland
Government Guarantee Schemes .	the CIFS Scheme and ELG Scheme
Group	the Company and its consolidated subsidiaries and subsidiary undertakings from time to time
GVA	Gross value added
G4S	G4S Cash Solutions Ireland Limited
Haven	Haven Mortgages Limited
High Court	the High Court of Ireland
HoldCo	the holding company directly above Allied Irish Banks, p.l.c.
HMRC	UK HM Revenue & Customs
IAS 39	International Accounting Standard 39
IBA	US International Banking Act of 1978
iBB	iBusiness Banking, an online service optimised for AIB's business and corporate customers
IBRC	the Irish Bank Resolution Corporation
IFRS	the International Financial Reporting Standards, as adopted by the EU
IMF	the International Monetary Fund
Initial Regulated Market Price . .	in connection with the Warrants, the price in euro per Ordinary Share payable under the first public, institutional, retail and/or intermediary offering and/or placing of Ordinary Shares made by the Minister for Finance and/or the NTMA in conjunction with a Regulated Market Event which, if Admission occurs, will be the Offer Price
Insolvency Service	the Insolvency Service of Ireland
Institutional Offer	the offer by the Selling Shareholder of Offer Shares to certain institutional investors, including QIBs in the United States, as described in "*Part XX: Terms and Conditions of the Offer*"
Interchange Fee Regulation	Regulation 2015/751 on Interchange Fees for Card-Based Payment Transactions
Intermediaries	the entities listed in "*Part XXI: Additional Information—Intermediaries*", together with any other intermediary financial institution (if any) that is invited by the Selling Shareholder and the Company to participate in the Intermediaries Offer after the date of this Prospectus and agrees to adhere to and be bound by the Intermediaries Agreement
Intermediaries Agreement	the agreement governing the Intermediaries Offer
Intermediaries Offer	the offer by the Selling Shareholder of Offer Shares to Intermediaries for onward distribution to retail investors who or which are resident or incorporated in Ireland or the United Kingdom, as described in "*Part XX: Terms and Conditions of the Offer*"
IR MiFID Regulations	the European Communities (Markets in Financial Instruments) Regulations 2007
Ireland or **Irish State**	the Republic of Ireland, and the word "Irish" shall be construed accordingly

Irish Code	the Irish Corporate Governance Annex to the UK Code recognised by the Irish Stock Exchange
Irish Life & Permanent	former name of permanent tsb
Irish Listing Rules	the rules of the Irish Stock Exchange
Irish Official List	Official List of the Irish Stock Exchange
Irish Prospectus Law	Chapter 1 of Part 23 of the Companies Act, the Irish Prospectus Regulations and the Irish Prospectus Rules
Irish Prospectus Regulations	the Prospectus (Directive 2003/71 EC) Regulations 2005 which give effect in Irish law to Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading
Irish Prospectus Rules	the prospectus rules and the prospectus handbook issued by the Central Bank from time to time under Section 1363 of the Companies Act
Irish Resident	a resident in Ireland for the purposes of Irish tax
Irish Stock Exchange or **ISE**	the Irish Stock Exchange plc
ISIF	the Ireland Strategic Investment Fund, a statutory fund owned by the Minister for Finance and managed and controlled, pursuant to directions in writing given to the NTMA by the Minister for Finance from time to time, by the NTMA, which was established under the NTMA 2014 Act
ISIN	international securities identification number
IT	information technology
Joint Bookrunners	the Joint Global Co-ordinators and Citigroup Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc and UBS Limited
Joint Global Co-ordinators	J&E Davy, Deutsche Bank AG and Merrill Lynch International
Latest Practicable Date	the latest practicable date prior to the publication of this Prospectus, being 8 June 2017, unless otherwise stated herein
LCR	Liquidity Coverage Ratio—the ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceed 60 per cent. from 1 January 2015 and 100 per cent. from 1 January 2018.
Leadership Team	the most senior executive committee of AIB, comprising twelve members, and is responsible for the day-to-day management of AIB's operations
Listing Rules	the Irish Listing Rules and the UK Listing Rules
London Stock Exchange	London Stock Exchange plc
Member States	member states of the EU
Memorandum of Association	the memorandum of association of the Company, as amended from time to time
Minimum Funding Standard or **MFS**	minimum funding standard as construed in accordance with Section 44 of the Pension Act 1990 (as amended)
MiFID I Directive	Directive 2004/39 on markets in financial instruments
MiFID II Directive	Directive 2014/65 on markets in financial instruments

Minister for Finance or **Minister**	the Minister for Finance of Ireland
Minister's Letter	the letter from the Minister for Finance to the Board dated 25 July 2011
MLD3	Directive 2005/60 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing
MLD4	Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing
Moody's	Moody's Investor Service Limited
Mortgage Credit Directive	Directive 2014/17 on Credit Agreements Relating to Residential Immovable Property which was transposed into Irish law with effect from 21 March 2016 by the Mortgage Credit Regulations
M&T	M&T Bank Corporation
NAMA	the National Asset Management Agency and, where the context permits, other members of NAMA's group, including subsidiaries and associated companies
NAMA Act	the National Asset Management Agency Act 2009
NAMA Assets	such classes of assets, including, but not limited to, land and property development loans and certain associated loans, as shall have been prescribed by the Minister for Finance as necessary for the purposes of the NAMA Act for inclusion in the NAMA Programme
NAMA Programme	the programme through which NAMA has acquired NAMA Assets from NAMA Participating Institutions on the terms specified in or pursuant to the NAMA Act
Nomination and Corporate Governance Committee	the nomination and corporate governance committee of the Board of Directors
Non-Executive Directors	the non-executive directors of the Company
NPRF	the National Pensions Reserve Fund, a fund owned by the Minister for Finance which was established under the NPRF Act
NPRF Act	the National Pensions Reserve Fund Act 2000
NPRFC	the National Pensions Reserve Fund Commission, as established by the NPRF Act to, *inter alia*, control, manage and invest the assets of the NPRF (or any replacement successor agency or authority), where references in this Prospectus to the NPRFC are to the NPRFC acting in its capacity as controller and manager of the NPRF
NTMA	the National Treasury Management Agency
NTMA 2014 Act	the National Treasury Management Agency (Amendment) Act 2014
OECD	the Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
Offer	the offering and sale of Offer Shares by the Selling Shareholder pursuant to the Institutional Offer and the Intermediaries Offer to investors in Ireland, the United Kingdom and elsewhere, as described in "*Part XX: Terms and Conditions of the Offer*"
Offer Period	the period commencing on the date of this Prospectus and ending on 22 June 2017
Offer Price	the price at which the Offer Shares are to be offered and sold under the Offer

Offer Price Range	the range within which the Offer Price is currently expected to be set, being between €3.90 to €4.90 per Offer Share
Offer Shares	the Ordinary Shares being made available by the Selling Shareholder in the Offer (excluding any Over-allotment Shares which may be over-allotted pursuant to the Over-allotment Option)
Offer Size	the number of Offer Shares to be offered and sold under the Offer
Offer Size Range	the range within which the Offer Size is currently expected to be set, being up to 678,595,310 Offer Shares (excluding any Over-allotment Shares which may be over-allotted pursuant to the Over-allotment Option)
Official Lists	the official list maintained by the Irish Stock Exchange and the official list of the FCA
ONS	the United Kingdom's Office for National Statistics
Oireachtas (the Irish legislature)	the national parliament of Ireland, consisting of the President of Ireland, Dáil Éireann and Seanad Éireann
Operational Risk Framework . . .	a framework that sets out the principles, roles and responsibilities, governance arrangements and processes for operational risk management across AIB. The Operational Risk Framework is supported by a suite of operational risk policies.
Ordinary Shares	the ordinary shares with a nominal value of €0.625 each in the capital of the Company
Ordinary Share Consolidation . .	the consolidation of the then existing ordinary shares of €0.0025 each in the capital of the Company into ordinary shares of €0.625 in the capital of the Company pursuant to the 2015 Capital Reorganisation
Over-allotment Option	the option to be granted to the Stabilising Manager by the Selling Shareholder to purchase, or procure purchasers for, the Over-allotment Shares as more particularly described in "*Part XX: Terms and Conditions of the Offer*"
Over-allotment Shares	additional Ordinary Shares up to a maximum of 15 per cent. of the total number of Offer Shares within the final Offer Size, which may be purchased by the Stabilising Manager under the Over-allotment Option
Payment Accounts Directive	Directive 2014/92 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features
Payment Accounts Regulations . .	European Union (Payment Accounts) Regulations 2016, which give effect in Irish law to the Payment Accounts Directive
Payment Services Regulations . . .	European Communities (Payment Services) Regulations 2009 which give effect in Irish law to Directive 2007/64 on payment services in the internal market
PCAR	the Prudential Capital Assessment Review carried out by the Central Bank, the results of which were published by the Central Bank on 31 March 2011
permanent tsb	Permanent TSB p.l.c., formerly Irish Life & Permanent
Personal Insolvency Act	Personal Insolvency Act 2012
PIA	personal insolvency arrangement under the Personal Insolvency Act
PLAR	the Prudential Liquidity Assessment Review carried out by the Central Bank, the results of which were published by the Central Bank on 31 March 2011

PRA	UK Prudential Regulation Authority
Pre-Emption Group	a group of members comprising representatives of listed companies, investors and intermediaries established in 2005 (and re-formed in 2015) in the United Kingdom to produce a statement of principles to be taken into account when considering the case for disapplying pre-emption rights
PSD	Directive 2007/64/EC on payment services in the internal market
PSD2	Directive 2015/2366 on payment services in the internal market
Prescribed Application Amounts	the minimum application amount in the Intermediaries Offer of €10,000, and for any amount over €100,000, it must be in a multiple of €25,000
Pricing Statement	the statement expected to be published by the Company and filed with the Central Bank pursuant to Article 8 of the Prospectus Directive and Rule 2.2.12 of the Irish Prospectus Rules on or around 23 June 2017, in which the Offer Price and the Offer Size will be announced and notified to the Central Bank
PRIIPs Regulation	Regulation 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)
Prospectus	this document
Prospectus Directive	Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading
QIBs	persons who are "qualified institutional buyers" as defined in Rule 144A
RCB	AIB's Retail & Commercial Banking segment
Registrar	Computershare Investor Services (Ireland) Limited
Registration Rights Agreement	the registration rights agreement entered into between the Company, the Minister for Finance and the NPRFC dated 1 July 2011 described in "*Part XXI: Additional Information—Material Contracts—Registration Rights Agreement*"
Regulation S	Regulation S under the Securities Act
regulated financial service provider	has the meaning given by section 2(1) of the Central Bank Act 1942 "(a) a financial services provider whose business is subject to regulation by the Bank under this Act or under a designated enactment or a designated statutory instrument, or (b) a financial service provider whose business is subject to regulation by an authority that performs functions in an EEA country that are comparable to the functions performed by the Bank under this Act or under a designated enactment or designated statutory instrument, or (bb) a financial service provider whose business is subject to supervision by the ECB under a designated enactment, or (c) in relation to Part VIIB only, any other financial service provider of a class specified in the regulations for the purposes of this paragraph" where "Bank" means the Relevant Banking Regulator
Regulated Market Event	in connection with the Warrants, the event (if any) whereby the Ordinary Shares are first admitted to trading on a regulated market for the purposes of MiFID I Directive, which, if Admission occurs, will be Admission
Regulatory Information Service	a regulatory information service authorised by the Irish Stock Exchange or the FCA to receive, process and disseminate regulatory information from listed companies

Relationship Framework	the relationship framework specified by the Minister for Finance in relation to the Company on 12 June 2017 amending and restating the 2012 Relationship Framework with effect from Admission
Relevant Banking Regulator	is a reference to: (a) subject to paragraph (b) below, the Central Bank; (b) the ECB, but only to the extent that the reference is in respect of functions conferred on the ECB by the SSM Regulation, the SSM Framework Regulation and the European Union (Single Supervisory Mechanism) Regulations 2014
Relevant Competitors	an undertaking which, at the date on which it requests services from AIB: (i) is licensed in Ireland or elsewhere to operate as a credit institution in Ireland; (ii) is not in receipt of state aid (i.e., banks which have received state aid and which are still in their restructuring periods are not considered "Relevant Competitors"; however, banks which have received state aid, but whose restructuring periods have ended, are considered "Relevant Competitors"); and (iii) has, by virtue of all related undertakings, a market share of less than 15 per cent. of stock or flow of the Relevant Product market in which AIB has a market share in excess of 30 per cent. of stock or flow of the Relevant Product market, based on a market share measurement by an independent external research source, including regulatory returns proposed by AIB and approved by the monitoring trustee
Relevant Product	(1) personal current accounts; (2) personal credit cards; (3) business current accounts; (4) business credit cards; (5) mortgages; and (6) SME loans and corporate loans
Remuneration Committee	the remuneration committee of the Board of Directors
Resolution Tools	the power, provided by the BRRD to resolution authorities in circumstances where the credit institution is failing or likely to fail, to (i) transfer to an investor, shares, other instruments of ownership and/or all specified assets, rights or liabilities of the failing institution; (ii) transfer all or specified assets, rights or liabilities of the failing institution to a bridge institution which is wholly or partially owned by public authorities; (iii) transfer assets, rights or liabilities to a legal entity which is wholly owned by public authorities for the purpose of sale or otherwise ensuring that the business is wound down in an orderly manner, to be applied in conjunction with another resolution tool; or (iv) write down the claims of unsecured creditors of an institution and convert debt to equity, with, in broad terms, the first losses being taken by shareholders and thereafter by subordinated creditors and then senior creditors, with the objective of recapitalising an institution
Restructuring Period	the period of the Restructuring Plan which runs from 7 May 2014 to 31 December 2017
Restructuring Plan	the restructuring plan approved by the European Commission on 7 May 2014 in respect of the state aid granted to AIB and EBS
Restructuring Plan Term Sheet	the term sheet which sets out the terms for the restructuring of AIB which Ireland has committed to implement in accordance with the Restructuring Plan, and which forms part of the State Aid Decision
Retail Settlement Agent	J&E Davy
Revenue Commissioners	the office of the Revenue Commissioners of Ireland
Risk Committee	the risk committee of the Board of Directors
Rule 144A	Rule 144A under the Securities Act

SBCI	Strategic Business Corporation of Ireland
SDRT	United Kingdom stamp duty reserve tax
Seanad Éireann	the upper house of the Oireachtas (the Irish legislature)
Securities Act	US Securities Act of 1933
Selling Shareholder	the Minister for Finance, a corporation sole having its address at Department of Finance, Government Buildings, Upper Merrion Street, Dublin 2, Ireland
Senior Executives	senior managers within the meaning of paragraph 14.1(d) of Annex I of the EU Prospectus Regulation
Sentenial	Sentenial Limited
Services Package	a package permitting certain of AIB's competitors to have access to certain of AIB's services and market information
Shareholders	the holders of Ordinary Shares
SME	small- and medium-sized enterprises
SME Regulations	the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015
SMRT	Sustainable Mortgage Resolution Template return made to the Relevant Banking Regulator in respect of mortgages secured on properties located within Ireland
Special Investment Shares	the special investment shares issued to EBS by the Minister for Finance pursuant to Section 18 (1A) of the Building Societies Act 1989 that were converted into ordinary shares in EBS and acquired by the Company on 1 July 2011
Sponsors' Agreement	the sponsor agreement entered into between the Company, the Directors and the Sponsors described in "*Part XXI: Additional Information—Material Contracts—Sponsor Agreement*"
Sponsors	Goodbody Stockbrokers UC and Morgan Stanley & Co. International plc
SRB	a Single Resolution Board, the EU resolution authority which, together with the national resolution authorities, forms the SRM
SREP	Supervisory Review and Evaluation Process undertaken by the competent authorities for the purposes of the CRR
SRM	Single Resolution Mechanism—a framework for the orderly resolution of failing banks. The SRM applies to banks covered by the SSM, including the Company
SRM Regulation	Regulation 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund
SSM	Single Supervisory Mechanism—a system of financial supervision comprising the ECB and the national competent authorities of participating EU countries which in Ireland is the Central Bank. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe

SSM Framework Regulation	Regulation 468/2014 of the European Central Bank establishing the framework for cooperation within the SSM between the European Central Bank and national competent authorities and with national designated authorities
SSM Regulation	Council Regulation 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
Stabilising Manager	Deutsche Bank AG, London Branch
State	the Republic of Ireland
State Aid Decision	the European Commission Decision of 7 May 2014 reference C(2014) 2638 made in connection with the Restructuring Plan
State Entity	any of the Minister for Finance, the NTMA (as controller and manager of the ISIF), any minister or department of the Irish Government or any other entity or agency of or related to the Irish Government
Stock Lending Agreement	the stock lending agreement to be dated the date of the Pricing Statement between the Selling Shareholder and the Stabilising Manager
Substantial Acquisition Rules	Takeover Panel Act, Substantial Acquisition Rules, 2007
S&P	Standard & Poor's Credit Market Services Europe Limited
SVR	standard variable interest rate
Takeover Bids Regulations	the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, which give effect in Irish law to Directive 2004/25 on takeover bids
Takeover Panel	the Irish Takeover Panel
Takeover Panel Act	the Irish Takeover Panel Act 1997
Takeover Rules	Takeover Panel Act, Takeover Rules, 2013
TFEU	the Treaty on the Functioning of the European Union
Tracker Mortgage Examination	the Central Bank's examination of tracker mortgage related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including the Company and certain Irish subsidiaries of the Company)
Transparency Regulations and Rules	the Transparency (Directive 2004/109/EC) Regulations 2007 and the related rules made by the Central Bank under section 1383 of the Companies Act
Treasury Shares	Ordinary Shares that have been purchased by the Company but not cancelled
Troika	the EC, the ECB and the IMF
TSYS	Total Systems Services, Inc.
TSYS Agreement	the combined settlement services agreement dated 16 December 2011 (as amended), pursuant to which TSYS agreed to provide credit card and debit card processing services
UK Authorities	HM Treasury, the Bank of England and the PRA
UK Code	the UK Corporate Governance Code published by the Financial Reporting Council and dated September 2014, as amended from time to time

UK Government	the Government of the United Kingdom of Great Britain and Northern Ireland
UK Listing Rules	the Listing Rules of the London Stock Exchange made by the FCA
UK Official List	Official List of the FCA
UK Prospectus Rules	the Prospectus Rules made by the FCA
Underwriters	the Joint Bookrunners and the Co-Lead Manager
Underwriting Agreement	the underwriting agreement entered into between the Company, the Directors, the Selling Shareholder, and the Underwriters described in "*Part XXI: Additional Information—Material Contracts—Underwriting Agreement*"
United Kingdom or **UK**	the United Kingdom of Great Britain and Northern Ireland
United States or **US**	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia
US Holder	a beneficial owner of Ordinary Shares that is, for US federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for US federal income tax purposes
UTCCR	European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 to 2014 which give effect in Ireland law to Council Directive 93/13 on unfair terms in consumer contracts
VAT	Value added tax—within the EU, such taxation as may be levied in accordance with Directive 2006/112 on the common system of value added tax and, outside the EU, any similar taxation levied by reference to added value or sales
Volcker Rule	final rules implementing Section 619 of Dodd-Frank
Warrant Agreement	the Warrant Agreement entered into between the Company and the Minister for Finance on 20 November 2015 in respect of the Warrants
Warrant Instrument	the warrant instrument (as amended in accordance with the terms of the Warrant Notice issued by the Minister for Finance on 26 April 2017) to be entered into by the Company five Business Days after a Regulated Market Event (which, if Admission occurs, will be the date of Admission) by way of deed poll in order to constitute the Warrants and provide for the terms of the Warrants
Warrant Notice	the notice issued by the Minister for Finance to the Company on 26 April 2017 pursuant to, and in accordance with, the Warrant Agreement, finalising the terms of the Warrants and the Warrant Instrument
Warrant Share	an Ordinary Share issued in accordance with the Warrant Instrument to the holder of the Warrants

Warrants	the warrants to be issued by the Company to the Minister for Finance to subscribe for such number of Ordinary Shares (which number may, subject as follows, be adjusted from time to time in accordance with the terms of the Warrant Instrument) representing 9.99 per cent. of the issued ordinary share capital of the Company at Admission (being a Regulated Market Event for the purpose of the Warrant Agreement), or if Admission does not occur, any future Regulated Market Event, subject to and with the benefit of the terms and conditions to be set out in the Warrant Instrument
Wholesale Investor	either a sophisticated investor or a professional investor for the purposes of sections 708(8) or 708(11) of the Corporations Act, respectively
WIB	AIB's Wholesale, Institutional & Corporate Banking segment
Wire Transfer Regulation	Regulation EU 1781/2006 on information accompanying transfer of funds
Write-Down Tool	in relation to the BRRD and the SRM Regulation, a statutory write-down and conversion power which gives the resolution authority the power to write down or to convert into equity the Company's capital instruments if certain conditions are met

A reference to (i) any enactment, statute, act, statutory instrument, regulation, order, decree, regulatory notice, code of conduct, directions or other legislative measure under the laws of Ireland or the laws of any other jurisdiction, (ii) an EU directive, EU regulation or any other legislative measure made under EU law or applying in respect of the EEA, (iii) any treaty, international agreement or other international legal act whether between Member States of the EU; the EEA or otherwise, or (iv) a provision of any of the foregoing measures referred to at or contemplated by (i) to (iii) above (in this paragraph, a ("Legal Measure") is to that Legal Measure as extended, amended or replaced as of the date of this Prospectus or to any other date indicated and includes any other Legal Measure that is to be read as one therewith.

PART XXIII
GLOSSARY OF TECHNICAL TERMS

The following explanations are not intended as technical definitions but, rather, are intended to assist the reader in understanding terms used in this Prospectus:

ABS	asset backed securities are securities that represent an interest in an underlying pool of referenced assets. They are typically structured in tranches of differing credit qualities. Some common types of asset backed securities are those backed by credit card receivables, home equity loans and car loans. ABS which are backed by an underlying pool of residential mortgage loans are referred to as RMBS
ALCo	Asset and Liability Committee
APR	annual percentage rate
Arrears	arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue
ATM	automated teller machine
Banking book	a regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on an available for sale or hold to maturity basis
Basel II	the second of the Basel Accords; an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations
Basel III	the third of the Basel Accords; an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations
Basis point	0.01 per cent., so 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities
Basis risk	a type of market risk that refers to the possibility that the change in the price of an instrument (e.g., asset, liability, derivative, etc.) may not match the change in price of the associated hedge, resulting in losses (or gains) arising in AIB's portfolio of financial instruments
Buy-to-let	a residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out
Cash flow hedge	hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction
CCLs	cash and cheque lodgement machines
CET1	common equity tier 1 for the purposes of the CRD
CET1 ratio	a measurement of a bank's CET1 capital as a percentage of its total risk-weighted assets

Collectively assessed impairment impairment assessment on a collective basis for portfolios of impaired loans that are not considered individually significant for specific provisioning. In addition, portfolios of performing loans are assessed on a collective basis to estimate the amount of losses incurred, but which have yet to be individually identified (IBNR provisions)

Commercial paper . . . . commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term funding requirements. In the US, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the US and 90 days in Europe

Commercial property . . . . commercial property refers to the following property segments:

- apartment complexes;
- develop to sell;
- office projects;
- retail projects;
- hotels; and
- selective mixed-use projects and special purpose properties

Concentration risk . . . . concentration risk is the risk of loss from lack of diversification; investing too heavily in one industry, one geographic area, one type of security or one customer

Contractual maturity . . . . the period when a scheduled payment is due and payable in accordance with the terms of a financial instrument

Core Tier 1 Capital . . . . called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank (this concept has been replaced by CET1 under CRD IV)

Credit default swaps . . . . a form of credit derivative between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty

Credit derivatives . . . . financial instruments where Credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection. The Credit risk might be the exposure inherent in a financial asset such as a loan or might be generic Credit risk such as the bankruptcy risk of an entity

Credit risk . . . . the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation

Credit risk mitigation . . . . techniques by lenders used to reduce the Credit risk associated with an exposure by the application of Credit risk mitigants. Examples include: collateral; guarantee; and credit protection via credit derivatives

Credit risk spread . . . . Credit risk spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality

Criticised loans	loans requiring additional management attention over and above that normally required for the loan type
CSA	Credit Support Annex
Customer accounts	a liability of AIB where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured
CVA	Counterparty Valuation Adjustment
Debt restructuring	this is the process whereby customers in Arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement, including a partial write down of the balance. In certain circumstances, the loan balance may be swapped for equity in the counterparty
Debt securities	assets on AIB's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings
Debt securities in issue	liabilities of AIB which are represented by transferable certificates of indebtedness of AIB to the bearer of the certificates
Default	when a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged, it can lead to loan impairment. default is also used in a Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside
Deposit Guarantee Scheme	a statutory deposit protection scheme, established in 2016, requiring credit institutions to pay an annual contribution calculated based on their covered deposits and degree of risk
Directive on Unfair Commercial Practices	Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market
DWT	dividend withholding tax in Ireland
EBITDA	earnings before interest, tax, depreciation and amortisation
Economic capital	the amount of capital which AIB needs to protect against extreme losses from a material risk it is running (e.g., Credit risk, market risk). It is based on internally developed calculation methodologies and estimates, as opposed to regulatory capital, which uses a methodology determined by the Basel Accord and imposed by the Relevant Banking Regulator
EL	expected loss—the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period
Eurosystem	the central banking system of the Eurozone comprising the ECB and the national central banks of the Eurozone Member States
Exposure at default or **EAD**	exposure at default is the expected or actual amount of exposure to the borrower at the time of default
Fair value hedge	Hedges of fair value of recognised assets or liabilities or firm commitments
Fintech	Technologies used to support or enable banking and financial services

First lien	where a property or other security is taken as collateral for a loan, first lien holders are paid before all other claims on the property
Forbearance	forbearance is the term that is used when repayment terms of a loan contract have been renegotiated in order to make repayment terms more manageable for borrowers. Forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB include: interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising Arrears amounts and related interest
foundation IRB	the foundation IRB approach to credit risk measurement under the CRR
FTE	full-time equivalent in relation to employee status
Funded exposures	loans, advances and debt securities where funds have been given to a debtor with an obligation to repay at some future date and on specific terms
Guarantee	an undertaking by a member of AIB/other party to pay a creditor should a debtor fail to do so
HQLA	high quality liquid assets as used in calculating capital ratios
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process—AIB's own assessment, through an examination of its risk profile from regulatory and Economic capital perspectives, of the levels of capital that it needs to hold
ILAAP	Internal Liquidity Adequacy Assessment Process
iDD machine	Intelligent Deposit Device self-service machine
Impaired loans	loans are typically internally reported as impaired when interest thereon is 91 days or more past due or where a provision exists in anticipation of loss, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs), will be made within a reasonable and identifiable time period, either from realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest, is adequately secured. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income
IRB	the Internal Ratings-Based approach which allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for Credit risk across different asset classes. The relevant risk components are: PD; LGD; and EAD
IRS	Internal Revenue Service of the United States
ISDA	International Swaps and Derivatives Association

Leverage ratio . . . . to prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduced a non-risk-based leverage ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of Tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure

Leveraged lending . . . . leveraged lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Leverage lending typically is to non-investment grade borrowers and carries commensurate rates of return

LGD . . . . Loss Given Default is the expected or actual loss in the event of default, expressed as a percentage of "Exposure at default"

Liquidity risk . . . . the risk that AIB does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows

Loan to deposit ratio . . . . this is the ratio of loans and receivables compared to Customer accounts as presented in the statement of financial position

Loan workout . . . . loan workout is the process whereby, once a loan is deemed to be criticised (i.e., "Watch", "Vulnerable" or "Impaired"), AIB monitors and reviews it regularly with the objective of working with the customer to resolve their financial difficulties, which may include restructuring, in order to maximise the level of recovery by AIB

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

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

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

Local Banking Authorisation . . . Local Banking Authorisation is:

(a) in the case of a licence granted by the Central Bank under section 9 of the Central Bank Act 1971 prior to 4 November 2014 (including that issued to and held by the Company), such a licence, which is deemed under the SSM Regulation to be an authorisation granted by the ECB under the SSM Regulation;

(b) an authorisation granted by the ECB under the SSM Regulation from 4 November 2014 on application therefor under section 9 of the Central Bank Act 1971; or

(c) an authorisation granted by the Central Bank under section 9A of the Central Bank Act 1971

LTI . . . . Loan-to-income ratio, calculated as the total loans to income

LTV . . . . Loan-to-value, an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan-carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance

MARP . . . . AIB's Mortgage Arrears Resolution Process

MARS . . . . AIB's Mortgage Arrears Resolution Strategy

Medium term notes or **MTNs** . . . medium term notes are notes issued by the Company across a range of maturities under its European medium term note programme

model material change . . . . In accordance with the requirements of the CRR, AIB's IRB change policy requires the submission of a material change request to the competent authorities in any of the following circumstances: an extension of the range of application of an IRB model; changes in the assignment of exposures to exposure classes and models; changes in assigning obligors to grades or pools; changes in the definition of default; changes in the validation process; or changes in risk-weighted assets.

MREL . . . . minimum requirement for own funds and eligible liabilities.

Net interest income . . . . the amount of interest received or receivable on assets net of interest paid or payable on liabilities

Net interest margin or **NIM** . . . . net interest margin is a measure of the difference between the interest income generated on average interest-earning financial assets (lendings) and the amount of interest paid on average interest-bearing financial liabilities (borrowings) relative to the amount of interest-earning assets

Non-performing exposures or **NPEs** . . . . defined by the EBA as being material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due

Non-performing loans or **NPLs** . . loans which qualify as non-performing exposures as defined by the EBA

NPS . . . . net promoter score—a measurement tool that tracks customers' loyalty and advocacy

NSFR . . . . net stable funding ratio—the ratio of available stable funding to required stable funding over a one-year time horizon

Operational risk . . . . the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk—the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk.

Optionality risk . . . . a type of market risk associated with option features that are embedded within assets and liabilities on AIB's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, affect its duration, yield and pricing. Examples include bonds with early call provisions or prepayment risk on a mortgage portfolio. Where these risks are left unhedged, it can result in losses arising in AIB's portfolio

OUBBs . . . . own-use bank bonds—where banks issue government-guaranteed bonds to themselves and use these bonds as collateral to procure funding from the ECB

PCA . . . . principal components analysis is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "de-meaned": adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (>95 per cent.) of yield curve movements can be explained using just three principal components (i.e., a parallel change, a rotation and a change of the curvature). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios

PD . . . . probability of Default, the likelihood that a borrower will Default on an obligation to repay.

PDH . . . . principal dwelling home

PFIC . . . . passive foreign investment company, for US federal income tax purposes

PPI . . . . payment protection insurance

Prime loan . . . . a loan in which both the criteria used to grant the loan (LTV, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk

RAROC . . . . risk adjusted return on capital

RAS . . . . risk appetite statement

RCA . . . . risk and control assessment, which is the process for the ongoing identification and evaluation of Operational Risks and related mitigating controls across AIB

Relationship NPS . . . . a measure of the customers overall perception of their relationship with AIB. Measured at an organisational level of everything the customer experiences internally and externally

Relevant Territory . . . . a territory that has signed a double taxation agreement with Ireland

Repo . . . . repurchase agreement—a short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the asset at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo

Re-pricing risk . . . . re-pricing risk is a form of interest rate risk (i.e., a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in AIB's portfolio of financial instruments

RMBS	residential mortgage-backed securities are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property
Second lien	Second lien holders are subordinate to the rights of First lien holders to a property security
Securitisation	securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flow, into securities that can be issued and traded in the capital markets
SEPA	Single European Payments Area, the EU payments integration initiative's single payment market
Single Resolution Fund	The Single Resolution Fund is established by the SRM Regulation, and is composed of contributions from credit institutions and certain investment firms in the 19 participating Member States within the Banking Union. Where necessary, the SRF may be used to ensure the efficient application of resolution tools and the exercise of the resolution powers conferred to the SRB by the SRM Regulation
SLO	Subordinated liabilities order on 14 April 2011, following an application by the Minister for Finance under Section 29 of the Credit Institutions (Stabilisation) Act 2010, the High Court issued a SLO in relation to all outstanding subordinated liabilities and other capital instruments, with the consent of AIB. The High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of certain subordinated liabilities and other capital instruments
SPE	special purpose entity is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle)
SPV	a special purpose vehicle is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPV for management or use by the SPV to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPE (special purpose entity)
Tier 1 capital	a measure of a bank's financial strength defined by the Basel Accord. It captures Core Tier 1 Capital plus other tier 1 securities in issue, but is subject to deductions relating to the excess of EL on the IRBA portfolios over the IFRS provision on the IRBA portfolios, Securitisation positions and material holdings in financial companies
Tier 2 capital	broadly includes qualifying subordinated debt and other tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of EL on the IRBA portfolios over the accounting impairment provisions on the IRBA portfolios, Securitisation positions and material holdings in financial companies
TLAC	total loss-absorbing capacity
Top-up	a further loan extended to an existing borrower

Tracker mortgage . . . . a mortgage with a variable interest rate which tracks the ECB rate, at an agreed margin above the ECB rate and will increase or decrease following an ECB rate movement

Transactional NPS . . . . a measure of a customers' perception of a recent transaction they have completed based on their feedback on that transaction/journey. Transactional NPS score is an amalgamation of the 17 transaction journey types through which customers engage with AIB

Unfunded exposures . . . . unfunded exposures are those where funds have not yet been advanced to a debtor, but where a commitment exists to do so at a future date or event

USC . . . . universal social charge tax rate introduced by the Irish Government in 2011

VaR . . . . Value at Risk technique, which is AIB's core risk measurement methodology based on an historical simulation application of the industry standard VaR technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange or equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one-day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95 per cent. statistical confidence level (i.e., the VaR metric may be exceeded at least 5 per cent. of the time)

Vulnerable loans . . . . loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources for repayment

Watch loan . . . . loans exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flow

Yield curve risk . . . . a type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g., flattening, steepening, non-parallel shift), resulting in losses arising in AIB's portfolio of interest rate instruments

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17ZBJ48301