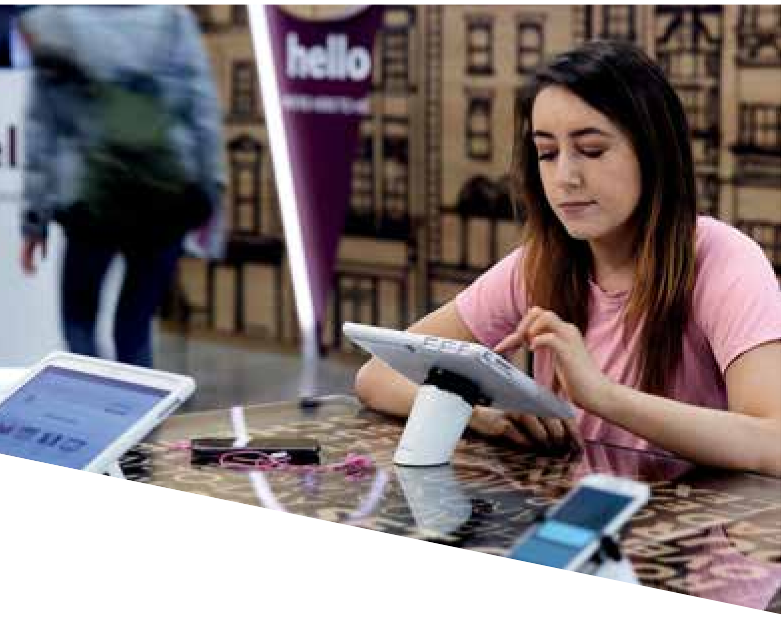


Backing our customers

Annual Financial Report 2017

AIB Group plc

AIB is a financial services group operating predominantly in the Republic of Ireland. We provide a comprehensive range of services to retail, business and corporate customers, and hold market-leading positions in key segments in the Republic of Ireland.

AIB also operates in Great Britain, as Allied Irish Bank (GB), and in Northern Ireland, under the trading name of First Trust Bank.

Our purpose, as a financial institution, is to back our customers to achieve their dreams and ambitions.

For more detailed information on our structure and business units, see pages 2 and 3.

Contents

This Annual Financial Report contains forward-looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. See page 378.

A strong performance in 2017

Net interest margin[1]

2.58%

2017	**2.58%**
2016	2.23%

Continued positive net interest margin (NIM) growth from stable asset yield and reducing cost of funds. NIM excluding interest on cured loans was 2.50%.

Cost income ratio[2]

48%

2017	**48%**
2016	52%

Increased income contributed to lower cost income ratio (CIR) of 48%. CIR excluding income from cured/restructured loans was 53%.

Profit before tax

€1.3bn

2017	**€1.3bn**
2016	€1.7bn

Profit before tax is lower due to higher exceptional costs. Profit before tax and exceptional items increased to €1.6bn.

New lending[3]

€9.4bn

2017	**€9.4bn**
2016	€8.4bn

New lending increased by 13% with growth across all segments.

Earning loans

€57.0bn

2017	**€57.0bn**
2016	€56.1bn

Growth of €1.6bn in earning loan book excluding FX impact, as a result of higher new lending and loans upgraded from impaired.

Impaired loans

€6.3bn

2017	**€6.3bn**
2016	€9.1bn

Continued focus on reducing impaired loans through sustainable restructuring solutions and disposal of distressed loan portfolios.

CET1 fully loaded

17.5%

2017	**17.5%**
2016	15.3%

Robust capital position with CET1 of 17.5%, after proposed ordinary dividend of €326m, supporting future growth and capacity for capital return.

1. Net interest margin (NIM) including eligible liabilities guarantee (ELG) charge. ELG charge is no longer material and is no longer separately disclosed.
2. Before bank levies, regulatory fees and exceptional items, cost income ratio (CIR) including these items was 61% in 2017 (2016: 54%). For exceptional items, see pages 41 and 51.
3. New lending for 2016 has been restated by €0.3bn to exclude all transaction based new lending.

Customer-focused, strong capital base and well-positioned for growth

Retail & Commercial Banking (RCB)

69% of net loans

RCB is the leading provider of financial products and services to personal and business customers in Ireland. Its key business lines include: mortgages, consumer lending, SME lending, asset-backed lending, wealth management, daily banking, and general insurance.

2.4m customers — Leading retail banking franchise in Ireland with 2.4 million personal and SME customers

297 locations — Number one physical distribution network in Ireland with 297 locations and a further c. 1,100 locations through An Post network

1.3m digital customers — Number one digital channel distribution in Ireland with 1.3 million active digital customers; over 60% of key products sold via digital channel

€4.6bn	€41.4bn	€1,199m
New lending	Net loans	Operating contribution[1]

Market offering

Leading mortgage provider
Number one mortgage provider in a growing market enabled via AIB's multi-brand strategy, incl. EBS and Haven.

Business banking
Sector-led strategy and local expertise delivering the leading market share across key SME products, incl. current account, deposits and loans (Source: IPSOS January 2018).

Personal banking
Leading provider of financial services to personal customers in the market, via digital innovation and relationship management expertise. Full suite of services, incl. daily banking, consumer credit, wealth management, savings and investments.

Wholesale, Institutional & Corporate Banking (WIB)

17% of net loans

WIB provides customer-focused solutions in private and public markets to AIB's largest customers and customers requiring specific sector or product expertise.

relationship-driven model — Well-established and diversified business with market-leading position in key sectors

sector specialist teams — Primary focus on senior debt origination through Corporate Banking, Real Estate Finance, Energy, Climate Action & Infrastructure

product specialist teams — Complementing traditional debt offering through Specialised Finance, Syndicated & International Finance, and advisory services in Corporate Finance

€3.2bn	€10.3bn	€225m
New lending	Net loans	Operating contribution[1]

Market offering

Corporate Banking
Leading domestic franchise and number one bank for foreign direct investment (FDI).

Real Estate Finance
Multi-disciplinary team with established market position.

Energy, Climate Action & Infrastructure
A centre of excellence with particular focus on supporting Ireland's decarbonisation.

Specialised Finance
Services such as mezzanine, equity and structured finance.

Syndicated and International Finance
Proven ability with strong track record and reputation.

Corporate Finance
Providing advisory services and solutions.

AIB UK

14%
of net loans

AIB UK operates in two distinct markets, providing corporate and commercial banking services in Great Britain, trading as Allied Irish Bank (GB), and retail and business banking services in Northern Ireland, trading as First Trust Bank.

322k customers
Over 322,000 retail, corporate and business customers across Great Britain and Northern Ireland

30 locations
A distribution network of 30 locations throughout the United Kingdom: Great Britain (15 business centres), and Northern Ireland (15 branches, including six co-located business centres)

119k digital customers
Over 119,000 active digital customers

£1.5bn	£7.3bn	£154m
New lending	Net loans	Operating contribution[1]

Market offering

Allied Irish Bank (GB)
Niche commercial and corporate bank with locations in key cities across Great Britain. Banking services include: lending, treasury, trade facilities, asset finance, invoice discounting, and day-to-day transactional banking.

First Trust Bank (FTB)
A long-established bank in Northern Ireland providing a full banking service, including mobile, online, post office and traditional banking to business and personal customers.

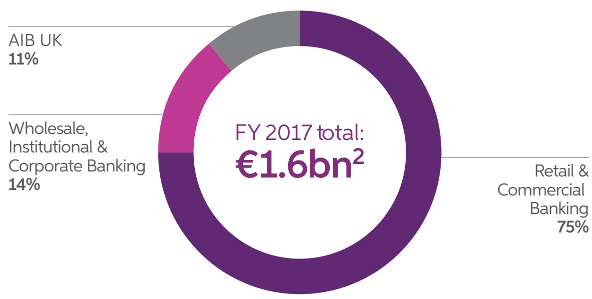
Group

Group comprises wholesale treasury activities, Group control and support functions.

Treasury
Treasury manages the Group's liquidity and funding position and provides customer treasury services and economic research

control and support
The Group control and support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources, and corporate affairs

Operating contribution[1] by segment



1. Pre-provision operating contribution.
2. Excludes the Group segment.

For a detailed report on our performance please read the 'Operating and financial review' on pages 35 to 52.

CHAIRMAN'S STATEMENT

2017 was a significant year for AIB

Reflecting on a year in which the bank delivered an IPO, a new group holding company and a strong financial performance while taking steps to rebuild trust and confidence in a challenging environment.

"Our IPO took place against the backdrop of an improving Irish economy."

I am delighted to report on a highly successful year for AIB. 2017 saw AIB deliver the largest Initial Public Offering (IPO) in Europe, the implementation of a new group holding company, our first payment of a dividend to shareholders in many years and the publication of our first Sustainability Report.

2017 was also a successful year financially, with a profit before tax of €1.3bn. The Board is pleased to propose a final dividend for the financial year ending 31 December 2017 of 12 cents per ordinary share, up from 9.21 cents at the previous year end. The strength of our financial performance underpinned the success of the IPO enabling the State to sell off 28.75% of their shareholding yielding a €3.4bn return to Ireland's taxpayers. It has always been the ambition of the bank to enable the State to achieve a full return on its investment in AIB and this is now achievable.

Our IPO took place against the backdrop of an improving Irish economy. We currently anticipate these conditions to continue across the Eurozone notwithstanding Brexit, for which we have sought to help our business and corporate customers plan for whatever eventuality might arise. Ireland's trade has diversified significantly since accession to the EEC in 1973 and it is fortunate that other overseas markets have been expanding significantly in 2017. However Brexit risk remains a major uncertainty.

For more information on board activities during the year see our 'Governance in action' section on page 32.

Dr. Michael Somers, our Deputy Chairman, retired on 31 December 2017 having served on the Board since 2010 as a State Nominated Director. We appreciate his contribution to the bank during that period. The Deputy Chair position is now taken by Catherine Woods, who also holds the role of Senior Independent Director. The State is entitled to appoint two Directors to the Board and we understand that the Minister for Finance has initiated a process in this regard.

The Board spent much of the first half of the year on the IPO process with a particular focus on ensuring the accuracy and completeness of the prospectus. Once the IPO was complete, our focus turned to the regulatory requirement to create a new holding company to satisfy the bank resolution directive, which involved another prospectus and shareholders' meeting in November. IFRS 9 was also a regular topic at Board meetings throughout the year in order to ensure that the bank was ready by the year end to apply this complex new accounting standard. Additionally, the Board continued to concentrate on resolving the problems of the past, including non-performing loans and the Tracker Mortgage Examination programme.

We commenced the tracker mortgage programme in 2015 conducting a review of c. 650,000 accounts in the process. Our review has been conducted in accordance with the Central Bank of Ireland's Framework. We believe we have conducted this review in a fair and transparent manner, most recently agreeing with the Central Bank to include within the Framework a grouping of additional customers who never had a tracker mortgage. However, the scale of this issue has continued to erode trust and confidence in the banking industry as a whole. This is regrettable as we are fully cognisant of our obligations, and being a good corporate citizen is an important objective of the Group. With this in mind, we published our first Sustainability Report during the year, which we launched at a well-attended and stimulating conference at Croke Park. Our Board Sustainable Business Advisory Committee led the work in this area and it will now be an annual publication.

Since the IPO, I have visited most of the large institutional shareholders on the share register. They have been pleased with their investment in the firm and showed an appetite to acquire further shares in any subsequent State sell down. Consistent with the commitment we gave in the IPO prospectus, we are putting the group remuneration policy to the Annual General Meeting for a non-binding advisory vote, enabling us to seek to introduce a Deferred Annual Share Plan designed as a retention vehicle for key executives considered critical to the delivery of the Group's strategic objectives. Under current agreements with the State, ministerial permission will be required for the introduction of this scheme.

We undertook an external evaluation of the Board in 2017 and during the review, the evaluator commented on the notable commitment of Directors, whom I would like to thank for their dedication. I would also like to extend my appreciation to the Leadership Team and all colleagues for their exceptional achievements during 2017. Our purpose is to back our customers to achieve their dreams and ambitions, a goal which we strive to meet on a daily basis.

We look forward to 2018 with confidence. We would like to see the political environment for banks and bankers to be normalised, and we realise that re-establishing trust and confidence is a complex objective. At the heart of this annual report I hope readers will see that AIB is a great bank, with fantastic employees, led by a top quality executive team with a relentless focus on our customers.

Richard Pym
Chairman
28 February 2018

CHIEF EXECUTIVE'S REVIEW

Customer First strategy continuing to deliver strong financial performance

2017 was a pivotal year for AIB, with the successful completion of the largest IPO in Europe, resulting in the relisting of the company on the Dublin and London stock exchanges.

"As this is our first set of annual results since the completion of the IPO, I am delighted they confirm we are delivering against the financial commitments made during that IPO process."

Introduction

2017 was a pivotal year for AIB, with the successful completion of the largest IPO in Europe, resulting in the relisting of the Group on the Dublin and London stock exchanges. We delivered another robust set of financial numbers, maintained strong positions in our core markets and continued to make good progress on our strategic priorities. All of this has taken place against the background of an improving domestic economy.

Our strategic pillars of Customer First, Simple & Efficient, Risk & Capital and Talent & Culture continue to be the foundations on which we build our business and measure our progress. Further details on the progress made in 2017 are contained in a later section of this report, and fundamentally they show momentum on our journey to become a bank that is all about efficiently and effectively anticipating and meeting our customers' financial needs over the course of their lives.

Highlights

The IPO, which raised €3.4bn for the Government and resulted in their shareholding reducing to c. 71%, was a significant public validation of the great work completed to repair this business. Strong investor interest in the bank, and ultimately the remarkable Irish economic recovery story, resulted in high demand for the stock. This strong appetite remains evident with a listing that continues to be well supported. It is very encouraging that the combination of the cash returned to the State to date and the recent valuation of their current shareholding in the Group has put the Government in a position where the €20.8bn bailout, injected during the crisis, can be recovered. As this is our first set of annual results since the completion of the IPO, I am delighted they confirm we are delivering against the financial commitments made during that IPO process.

There were many other highlights in the year, including the successful implementation of our Group holding company structure and the payment of our first ordinary dividend in nearly a decade. I am pleased to confirm that we intend to pay a full year dividend, for 2017, of €326m, an increase of 30% on 2016.

In the latter part of the year, we began to more publicly progress our sustainability agenda, hosting our first conference on the topic and also publishing our first Sustainability Report. We know that we need to be a leader in developing truly sustainable practices to ensure that we develop a real social licence to operate. More detail on our Sustainability agenda is provided in later pages of this report.

Importantly, we also launched our Purpose statement: To back our customers to achieve their dreams and ambitions. We believe that this conveys our intent as a bank. It defines who we ultimately work for, how we can add value and what we seek to become. It is what the actions we take and decisions we make must be focused on. We know this is ambitious; something that many may doubt and challenge. That, in part, is why we picked it. It sets a stretching goal that will not easily be achieved. That is what motivates an organisation to deliver. In 2018, we will bring our purpose to life throughout the bank, ensuring that all of our people can really connect, understand and contribute to our purpose in their daily roles.

We significantly transformed our UK business in 2017. It was a difficult programme for employees and for some customers but necessary to reposition this business. The changes made will ensure that we are well set up in the UK market to deliver against our strategy for the customers we serve. The uncertainties around Brexit continue to impact but our business in the UK is doing well.

We also made progress on our property strategy for the next phase of the bank's development, with the addition of two buildings at Molesworth Street and Central Park in Leopardstown. The building on Molesworth Street will be our new corporate HQ and Central Park will be the centre of excellence in digital innovation and enablement for our customers. This will be the new base for teams that design, deliver and support our digitally enabled products and services.

Diversity and inclusion are high on our agenda, and in 2017 we made good progress, leading to AIB becoming the first Irish company to be awarded the Investors in Diversity Ireland Standard. We are active supporters of the 30% Club. We set a gender diversity target for our management population of 40% female representation by the end of 2018, and at the end of 2017, we are just north of 38%. We also set a gender diversity target for our Leadership Team of 25% female representation, which we have met. Our agenda extends beyond gender, and following employee feedback we launched resource groups for Pride, Abilities, Women, Men, Families and Roots this year to ensure all employees can express views about improving AIB.

Financial performance

We delivered another strong financial performance in the year. We achieved a profit before tax of c. €1.3bn. This comprises c. €1.57bn of profit excluding exceptional items compared to c. €1.48bn in 2016. Our net interest margin (NIM) at 2.58% has increased by 35bps on last year. Combined with the strengthening and simplification of our capital, we are well-positioned for the future, with a robust fully loaded CET1 ratio of 17.5% (transitional 20.8%).

This sound capital base, comfortably above minimum regulatory requirements, gives us the ability to support our customers and to grow our business. We have a stable funding model and an improving credit profile, which enabled us, in 2017, to deliver good financial returns and a growing capital return to our shareholders. I am pleased that the Board is, today, proposing a dividend payment for the full year 2017. Including this dividend, the State will have received c. €10.5bn in capital, fees, dividends, coupons and levies to date.

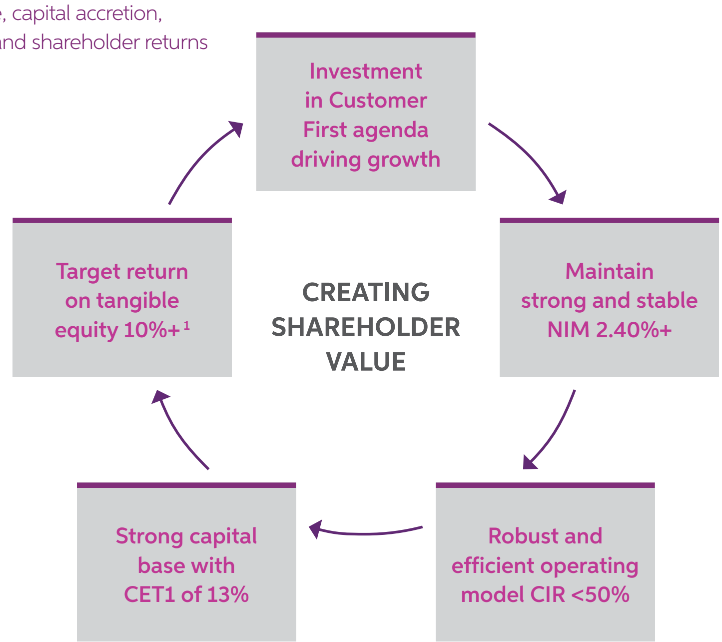
We continue to work hard to reduce our impaired loan balances, which fell by €2.8bn year on year to €6.3bn. The impaired loan balances are €3.6bn net of specific provision cover of 43%. Since 2013, we have reduced the overall impaired loan balance by c. €23bn or 78%. We are making steady progress as we continue to move these balances to more normalised European peer levels. We have almost 1,500 employees working in our Financial Solutions Group who work with customers to deliver long-term sustainable solutions. In 2017, we agreed on average over 1,000 such solutions each month. In addition, our deleveraging strategy includes the sale of certain commercial portfolios where appropriate.

Total costs for the year, excluding exceptionals, at c. €1.4bn, are up c. €50m on 2016 and represent a c. €320m reduction on 2012 levels. Our year-end cost income ratio was 48%, down 4 percentage points on 2016. The €870m three-year investment programme which commenced in 2015 has been completed with some real successes achieved. You will see further details on these achievements in the 'Our strategy' section of this report.

In 2017 we saw growth in new lending in our core customer markets. There are a number of internal initiatives and external variables which have contributed to this, including, in particular, the ongoing recovery of the Irish economy. We approved €14.4bn in new lending during 2017, with actual customer drawdowns at €9.4bn, up from €8.4bn in 2016. In Ireland, personal lending was up 16%, business lending was up 15%, corporate lending was up 15% and mortgages were up 17%. Our market share of mortgage drawdowns for the year was 33%. We monitor this closely, tracking our share of applications, which grew in the final quarter of 2017 and we have made a good start to 2018. Wholesale and Institutional (including syndicate and international lending in the US and Europe) was up 21%. In our UK business, we saw new lending recover, up 12% from 2016 levels.

Focused on delivering sustainable performance
Medium-term targets

Based on strong customer franchise, capital accretion, growth and shareholder returns



Source: Company information.
1. ROTE based on (PAT - AT1 coupon + DTA utilisation)/(CET1 @13% plus DTA).

In summary, we have a business that continues to achieve strong underlying profitability, maintains a robust capital base, has increased new lending and reduced impaired loan balances, while at the same time, maintaining cost discipline and investing in its future. All of this is being achieved by focusing on how best to back our customers while managing financial, operational and regulatory requirements. We still have more to do to achieve the operating platform we aim for but we are well positioned to do this.

Our culture

Having the right culture is critical to the success of any business and it sets a baseline for the beliefs and values of our people. These beliefs and values drive behaviour, and our collective behaviour determines how we face out to our colleagues, customers and those we engage with in our communities. Culture has rightly been identified as being at the heart of many of the issues the banking industry faced in the recent past. Too often, banks focused on their own short-term priorities over and above those of their customers. We are on a journey of cultural change at AIB. We have made good progress and we know that we still have more to do. Our cultural ambition reflects the three key themes of Accountability, Collaboration and Trust (ACT). Our Code of Conduct has been updated to reflect this, and was relaunched to all employees in 2017.

We have enhanced our performance management tool for all employees across the organisation. In terms of assessing individual performance, we now give equal weighting to WHAT results we deliver and HOW we actually deliver them. This means that how employees go about their job, including their behaviours and interactions with customers, is just as important as what they actually get done.

Our people

The success of AIB is built on the efforts and commitment of the people who work here. We are maintaining our focus on improving everyone's collective experience as employees. We are challenging ourselves to build a more collaborative and inclusive culture where everyone can be at their best. The momentum in our employee engagement journey continued in 2017 and I was particularly delighted to see another increase in our iConnect scores and a participation rate of 88%, which is our highest completion rate to date. Coming from the 5th percentile of the Gallup worldwide employee engagement database in 2013 to the 62nd percentile in 2017 is a great achievement and one that we will continue to strive to better year on year.

The Leadership Team is a diverse group of highly skilled senior executives. Some have long-standing experience of financial services, the banking industry and AIB, whilst others bring a depth and breath of non-banking-related knowledge. This mix of skillsets complement each other and ensure that diverse views are aired and considered when decisions are being made. The role that this team played in 2017 in continuing to lead the change agenda within the bank and delivering many successes was huge, including the vastly time-consuming IPO process.

I would like to thank them, their teams and all of my colleagues in the bank for their ongoing commitment, dedication and enthusiasm in what was a critical year for the bank and all our stakeholders. Together, we will continue to focus on positioning AIB to respond to our customers' needs and in so doing, will evolve and improve this business.

Our stakeholders

As a bank, we have many stakeholders. It is our job to know who our key stakeholders are and to understand what they expect of us. Our view is that our key stakeholders, first and foremost, are our customers. Others include our employees, regulators, shareholders and investors, and government representatives. We know that, on occasion, our stakeholders and the bank can have different and conflicting views, which we try to understand. We must balance, to the extent we can, if and how we can deliver for our stakeholders, knowing there will inevitably be conflict at times.

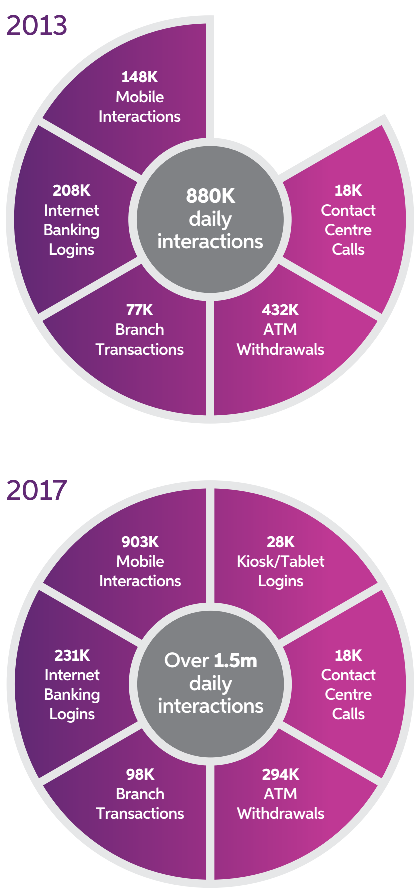
Customer First

We've made all this progress across our business while focusing on putting our customers first. Our Personal Relationship Net Promoter Score (NPS) increased by 2 points in the last quarter of 2017. Our Customer Transactional NPS was +39 in Q4 2017, up 1 point since Q3 but when compared to this time last year, down 6 points. This highlights the ongoing challenge that we all face in continuing to deliver a great banking experience for our customers. They continue to expect more from us and how they interact with us on a daily basis has changed significantly over recent years. We must continue to strive to evolve our products and services to meet their needs and to enable them to engage with us how and when they wish. In 2018 we will continue to focus on driving change and customer experience improvements.

Legacy customer challenges

We continue to face challenges, some new and some, like the Tracker Mortgage Examination programme, are still work in progress. As they arise, we commit the required resources to deal with them in an open and fair way for our customers and stakeholders. That is what is expected of us and it is how we will continue to rebuild trust and public confidence in AIB. The Tracker Mortgage Examination programme has been a long programme, which started in 2015 and is now defined by the Central Bank of Ireland Framework. This includes a full independent third party review and an appeals process, which takes time to complete. Customers are assured that payments they receive under the redress and compensation scheme will not compromise their right to appeal so we can reasonably expect that activities might flow on from this for some time. We have made very material progress and expect to conclude the main customer elements by Q2 2018.

Daily user interactions



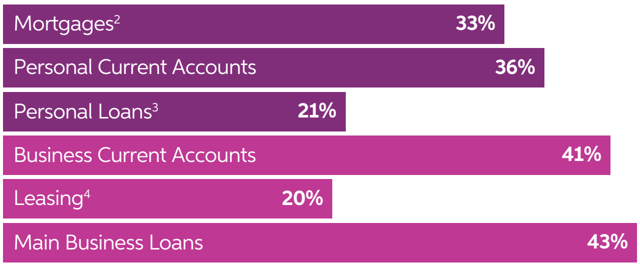
Source: Company information.

Our market position

We consider a number of factors when we think about how strong our market position is. These include how defined the market is, how many customers we have in that market and how active these customers are. We also take into account the size of our current lending to each sector in the market and our share of the flow of new business. We measure the level of approvals and drawdowns but focus on the movements in our balance sheet and the size of the overall commitment.

When it comes to Personal, Business and Corporate markets in Ireland we are the number one bank. This is because we have more customers and more balance sheet commitment in Ireland than any other provider in the marketplace.

Strong market share positions in retail and business banking – stock



#1 Mortgages
#1 Personal Main Current Accounts
#1 Personal Loans
#1 Personal Credit Cards
#1 Business Main Current Accounts[1]
#1 Business Main Loans
#1 Business Main Leasing[1]
#2 Business Credit Cards

Source: Ipsos MRBI AIB Personal Tracker 2017; AIB SME Financial Monitor 2017; BPFI – 2017.
1. Joint No. 1 position.
2. New lending flow 2017.
3. Amongst banks; excluding car finance.
4. Main business leasing agreement.

Outlook and priorities for 2018

The past number of years have seen a stronger than expected recovery by the Irish economy and this was again evident in 2017 as the economy performed ahead of expectations with increased employment levels and exports maintaining their strong upward trend. The unemployment rate fell to 6.2% by the end of 2017 and consumer confidence was close to a 15-year high in H2 2017.

There was a further increase in housing completions in Ireland in 2017 and a corresponding growth in mortgage lending of 29%. Housing completions continue to be well below the required demand level but further growth is expected in 2018.

As a bank, we have a crucial role to play in ensuring that the housing supply increases, and we are working to implement a number of initiatives to achieve this. We are very active in not just providing real estate finance but increasingly facilitating social and affordable housing.

Brexit remains an area of concern but to date there has been little net impact on the Irish economy. The UK economy has been negatively impacted, however, and we will continue to monitor this in the context of the Irish economy, the bank and our customers. The successful completion of the IPO demonstrated strong market sentiment towards AIB and the Irish economy. The next step on that journey is a matter for the Government.

Our strategic priorities will continue to evolve into 2018 as we focus on how we can better and more efficiently serve our customers, how we organise ourselves to manage our risk, finance and regulatory agenda, and how we must think beyond 2018 and what growth for this business looks like. All of these remain underpinned by our focus on the ongoing evolution of our operating model, cost discipline and continuing to digitally enable the bank to deliver for our customers.

We continue to focus on winning our social licence to operate, essentially to build a sustainable business and in doing so continue to rebuild trust in AIB. We want AIB to become a leader, both in thought and practice, in sustainability and we are working on setting clear targets for what we want to achieve as we build out our strategy in this space.

We will continue to face challenges and as noted earlier, as these issues arise, we will deal with them in a fair and transparent way for our customers and stakeholders.

Summary

2017 has been another strong year for AIB. The momentum in our business continues and these strong set of results are the output of that. I am proud of what we delivered in the year and I look forward to what 2018 will bring.

I want to thank our Chairman, my fellow Board and Leadership Team members, and my many other colleagues across the Group for the ongoing support that I receive in fulfilling my role as CEO. Together we are confident that we are building a better bank and are focused on delivering for our customers, which centres on our purpose, backing our customers to achieve their dreams and ambitions.

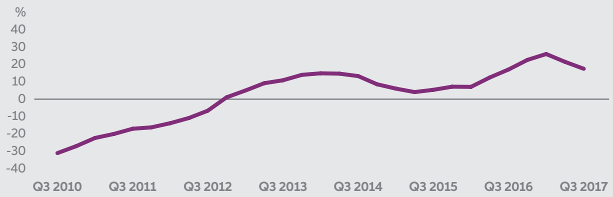
Bernard Byrne
Chief Executive Officer
28 February 2018

Our purpose

OVERVIEW OF THE IRISH ECONOMY

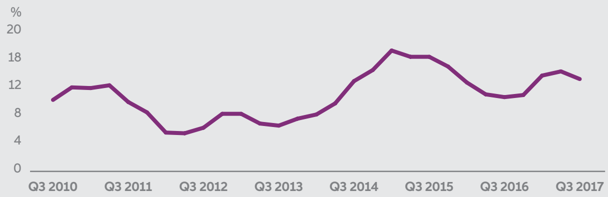
The economy in the Republic of Ireland continues to grow, with attractive market dynamics

Construction investment*
(Volume, 3 Qrt Mov Avg, YoY % Change)



Source: CSO.

Exports of services*
(Volume, 3 Qrt Mov Avg, YoY % Change)



Source: CSO.

* Charts refer to the Republic of Ireland economy only.

Economic overview of the Irish economy

Recent years have seen a stronger than expected recovery by the Irish economy. This has been led by robust export growth, but there has also been a strong rebound in domestic demand, including business investment, construction and consumer spending.

The Irish economy performed better than expected in 2017. The latest National Accounts data show that GDP grew by 7.4% in the first three quarters of the year. However, Irish GDP figures are distorted by large flows related to the activities of multinational companies. A better measure of underling activity is 'modified final domestic demand', which excludes factors such as intellectual property rights and aircraft leasing that distort GDP figures. This grew by 4.9% in the first three quarters of 2017.

Housing

Construction continued to rebound, with output up by 17% in the first three quarters of 2017. Housing output continued to rise steadily, albeit from low levels. Housing commencements rose by 33% in 2017, totalling 17,572 for the full year. Housing completions, as measured by electricity connections, rose by 29% to 19,271 in 2017, up from 14,932 the previous year.

This level of building activity is still well below the projected 30,000-35,000 units that are required to meet annual demand. The mismatch between supply and demand continued to exert strong upward pressure on house prices and rents last year. House price inflation was running at 12.3% year-on-year in December, with rents up by 6.1% in the same month.

Rising exports and consumer spending

Exports maintained their strong uptrend in 2017, with service exports rising by 13% in the first three quarters of the year.

Consumer spending rose by 2% in the first three quarters of the year, below the strong growth rates of 4.2% and 3.3% seen in 2015 and 2016, respectively. However, core retail sales (i.e. excluding the motor trade) maintained their robust growth rate, rising by 7% in 2017.

Conversely, consumer spending on services was particularly sluggish, showing no growth in the first three quarters of 2017. It is possible that this may be revised higher when more data become available.

Consumer price inflation remained very subdued reflecting global trends, modest wage growth and the strength of the euro against sterling. The HICP rose by 0.2% in 2017, well below inflation in the Eurozone, UK and US.

Employment

The Irish labour market remained strong last year, with employment expanding by an estimated 2.7%. Job growth was evident across nearly all sectors of the economy, with particularly strong employment gains in construction, IT, and healthcare. Meanwhile, the unemployment rate had declined to 6.2% by the end of 2017 from 7.5% at the end of 2016.

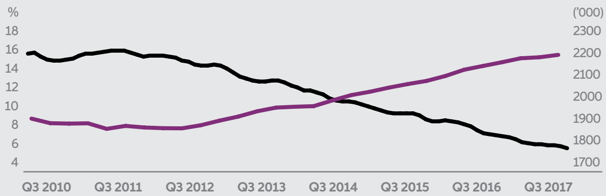
Housing commencements

+33%

in 2017

Employment/Unemployment*

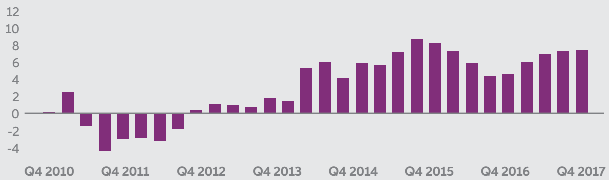
– Unemployment rate: (%) LHS – Employment ('000): RHS



Source: CSO via Thomson Datastream.

Retail sales (ex-autos)*

(Volume, YoY, %)



Source: CSO via Thomson Datastream.

Lending activity

The strength of economic activity was reflected in strong growth in new lending activity. Mortgage lending recorded a strong 29% increase in 2017, rising to €7.3bn from €5.7bn in 2016. However, this is still quite some way short of the level of lending that would be associated with a more normalised housing market.

Business lending also continued to grow. Central bank data show new lending to the SME sector at €3.4bn in the first three quarters of 2017, up 5% from the corresponding period of 2016, despite some signs of weakness in business investment.

Brexit

Brexit remains a concern. To date, there has been limited impact on the Irish economy from Brexit. The associated sharp weakening of sterling has clearly impacted those trading with the UK, as well as the number of British tourists coming to Ireland. Overall though, Irish companies have had to get used to dealing with a weak and volatile sterling during most of the past decade.

The Bank of England has observed that the progress made at the end of last year in the EU-UK Brexit negotiations has "reduced the likelihood of a disorderly exit". This is welcome news.

It is hoped that agreement can be reached in the spring of 2018 on a transition period being put in place when the UK departs the EU in March 2019, which would leave the current trading arrangements largely in place until at least 2020. This should permit the talks to proceed to discussing the future trading relationship between the UK and EU.

UK economy overview and outlook

The UK economy has already been impacted by Brexit. The pace of growth slowed in 2017 as a sharp rise in inflation and slower employment growth weighed on consumer spending, and uncertainty around Brexit held back investment. GDP growth in 2017 estimated at 1.7%, down from an average rate of 2.3% in the previous four-year period. Activity is expected to remain subdued in 2018, with GDP growth forecast at 1.5% and 1.4% by the International Monetary Fund (IMF) and UK Office for Budget Responsibility (OBR), respectively.

Outlook for the Irish economy

Most forecasters see economic growth in Ireland slowing somewhat to around 4% in 2018, with the uncertainty around Brexit, the slowdown in UK economic activity and the rise of the euro, especially against sterling, all seen as headwinds. However, this would still be a very good performance by the Irish economy.

Leading indicators of activity remain strong, pointing to continued good economic growth. The favourable external environment will support exports, with domestic spending underpinned by continuing low interest rates and rising employment and incomes, as well as the ongoing rebound in construction activity. This should result in a further strong rise in new lending activity in 2018.

OUR STRATEGY

How we run our business and measure our progress

AIB, and the banking industry, has been on a difficult journey over the last decade. Having gone through significant change and emerged from the financial crisis, our sights are set on ensuring that we have learned our lessons from the past and that we are building a business that is focused on meeting the needs of our customers to enable them to prosper. Our purpose is to back our customers to achieve their dreams and ambitions. We know that this is a brave statement and we know that we have a road to travel yet, but it does convey our intent. It defines who we ultimately work for, how we add value and what we seek to become. There are four strategic pillars that determine our areas of focus and drive our investment. These pillars, and the progress made against them in 2017, are set out below.

Customer First

What this means in AIB

We put our customers at the heart of our organisation, continually adapting our product and service offerings to meet their needs. We provide a digitally-enabled, omni-channel banking experience that allows customers to interact with the bank how and when they want.

Progress in 2017

- Further reductions for mortgage customers in the Standard Variable Rate (SVR), the fifth rate reduction for existing customers in three years.
- Launched an enhanced Mortgage to Rent scheme in conjunction with iCare Housing and the Irish Mortgage Holders Organisation.
- Funded the acquisition of social housing by voluntary housing associations.
- Continued participation in the Strategic Banking Corporation of Ireland (SBCI) fund to provide competitively-priced cash flow support to the agri-food sector.
- Automated the credit application process for customers who take out a personal loan, resulting in quicker decision-making.
- Hosted our inaugural sustainability conference and produced our first Sustainability Report.

Simple & Efficient

What this means in AIB

We are at the forefront of digitally enabled banking, with ongoing investment in technology and innovation. Our products and services are simple and easily accessible, supported by a resilient and agile technology platform.

Progress in 2017

- Completed the three-year €870m investment programme, focused on improving system resilience and delivering a better experience for customers.
- Delivered a further increase in digitally and device-enabled banking, resulting in 77% of personal loan applications online.
- Continued enhancements in our mobile platform, including the launch of Apple Pay.
- Significant progress in the digitisation of our back office functions, with 60% of activity now paperless.
- Ongoing deployment of robotic process automation resulting in faster fraud detection.

Risk & Capital

What this means in AIB

We are increasing the value of the business while maintaining a strong risk management framework, improved asset quality and robust capital levels. We offer value to our customers while consistently delivering a strong financial performance that paves the way for future development and addresses legacy challenges.

Progress in 2017

- €3.4bn raised through a successful IPO, with the State reducing its shareholding to c. 71%.
- Payment of an ordinary dividend of €250m to shareholders – the first since 2008.
- Successfully transitioned the Group structure into a holding company ("HoldCo") legal corporate structure.
- Continued strong momentum in the reduction in impaired loans, with a 31% reduction year-on-year, from €9.1bn to €6.3bn.
- Continued work on legacy challenges, with the Tracker Mortgage Examination programme expected to be substantially completed by end Q2 2018.

Talent & Culture

What this means in AIB

We ensure that we have the right talent, skills and capabilities within the organisation to support accountable, collaborative and trusted ways of working. We promote a culture of diversity and inclusion, where people can be at their best.

Progress in 2017

- Launched our purpose statement: To back our customers to achieve their dreams and ambitions.
- Continued improvement in employee engagement scores, with a grand mean of 4.08 out of 5 and in the 62nd percentile (Gallup worldwide data) versus 5th in 2013.
- Maintained our target of 25% representation of women on the Board, while the Leadership Team has 25% female representation and 38.7% of all management are women.
- Hosted internal Diversity and Inclusion week and Invest in You week, incorporating Group-wide events and significant employee engagement.
- Introduced paternity leave and paternity benefits.

"We run our business with the objective of achieving significant progress, every year, on each of our four strategic pillars – Customer First, Simple & Efficient, Risk & Capital and Talent & Culture. They continue to be the foundations on which we build our business and measure our success."

Bernard Byrne, CEO

Measure	Description	Outcomes 2017	Financial and non-financial targets[1]
Relationship Net Promoter Score (NPS)	A measure of our customers' overall AIB relationship experience	Personal 21 SME 19	50+
Transaction Net Promoter Score (NPS)	Measured after customer transactions for key touch points	39	50+
Channel trends	% number of our active customers transacting digitally	53%	55%+
Cost income ratio (CIR)[2]	**Financial benchmark of efficiency**	**48%[4]**	**Robust and efficient operating model CIR < 50%**
Cash paid to State	Cash paid to the Irish State, including value received through the IPO	€10.5bn[3]	Repay State investment of €20.8bn in full
Return on tangible equity (ROTE)[2]	**A measure of how well the bank deploys capital to generate earnings growth**	**12.3%**	**Target returns of 10%+**
CET1 ratio (fully loaded)[2]	**A measure of our ability to withstand financial stress and remain solvent**	**17.5%**	**Strong capital base with CET1 of 13%**
Non performing exposures (NPEs)	Measures the credit quality of our loan stock	16% of gross loans	In line with European banking norms
Net interest margin (NIM)[2]	**A measure of the difference between the interest income generated and the amount of interest paid out relative to (interest-earning) assets**	**2.58%**	**Strong and stable NIM 2.40%+**
Diversity	Women as % of all management	38.7%	40%
Engagement	Employee engagement relative to Gallup client population	62nd percentile	Top quartile

1. All targets are long-term, with the exception of medium-term financial targets communicated to the market on 9 March 2017.
2. Medium-term financial targets communicated to the market on 9 March 2017.
3. Includes proposed dividend for full-year 2017.
4. CIR excluding income from cured/restructured loans was 53%.

STRATEGY IN ACTION

Customer First

Home and mortgage customers

AIB leads the mortgage market with a 33% share in the Republic of Ireland, extending c. €2.4bn in new mortgage loans in 2017. Our strategy has been to pass on variable rate reductions to both new and existing customers, which means existing SVR customers automatically benefit from new variable rates. In 2017 we reduced our SVR by 0.25%, the fifth rate reduction in three years, resulting in a 1.25% reduction during that period, and we also established a Homes Centre of Excellence in Airside, Dublin.

We know that customers want choice and that different propositions appeal to different customers, which drives our multi-brand mortgage strategy. For our EBS customers, we continue to provide a cashback offer.

We also provide finance in support of social housing in Ireland. For example, in 2017 we partnered with Túath Housing Association to fund the acquisition of c. 200 social homes.

In September 2017, we launched an enhanced Mortgage to Rent scheme to help customers in difficulty. This is a joint initiative with iCare Housing and the Irish Mortgage Holders Organisation and, to date, we have seen good levels of customer engagement.

Personal loans and payments

We continue to enhance our service offering to enable customers to engage with us how and when they want. When making a personal loan application, for example, customers can now complete the process end-to-end on their mobile device, and receive a decision within three hours.

We continue to waive the transaction fee for contactless payments. Contactless is a convenient payment method which reduces the need for customers to carry cash.

Backing business and farming customers

In 2017, we partnered with the Strategic Banking Corporation of Ireland (SBCI) and the Department of Agriculture to deliver the Agriculture Cash Flow Support Loan to the primary agriculture sector. This extends credit at a discounted rate to farmers and SMEs engaged in primary agriculture.
In supporting start-up customers, we offered MyBusinessToolkit, a tailored suite of business applications, free to these customers for a three-month trial period. MyBusinessToolkit is an innovative way for AIB SME customers to manage their business, allowing them to access a host of business applications such as business planning, data back-up, and accounts and payroll. In 2017, we launched a programme to support female business owners by providing financial support, mentoring masterclasses and enterprise growth academies.

Corporate customers

AIB is Ireland's leading corporate bank and number one bank for foreign direct investment (FDI), with diversified portfolios and an end-to-end relationship model. We continue to back our larger corporate customers by providing them with different methods of funding and integrated solutions that meet their needs. For example, in 2017 AIB, along with the Ireland Strategic Investment Fund (ISIF), provided €76m of seed equity to Greencoat Renewables to fund the acquisition of wind farms in the south of Ireland. Greencoat Renewables completed a successful IPO later in the year. In 2017, AIB also made an equity investment in TransferMate, a global B2B fintech payments business whose products are primarily used by business customers to make and receive cross-border payments.

Early stage seed capital

In partnership with Frontline Ventures, AIB continues to support the next generation of Irish technology entrepreneurs through the AIB Discovery Programme. This reflects AIB's 'backing brave' philosophy, with AIB supporting entrepreneurs in the early stages.

Máire O'Meara,
Mortgage customer

Gareth Irvine, Copeland Gin,
SME customer (First Trust Bank)

Automated customer transactions

95%

STRATEGY IN ACTION

Simple & Efficient

Investment programme

The three-year investment programme of €870m, completed in 2017, is driving additional efficiencies, productivity enhancements, improved customer satisfaction and capacity for business growth.

The programme is delivering tangible outcomes, including more than 1.3 million active online users, and 700,000 mobile device users. 95% of customer transactions are now automated, with 77% of personal loans applied for online and 69% of transactional activity on digital channels.

Digitally enabled banking

The use of digital channels is growing across locations and age profiles. AIB is the market leader in digitally enabled banking in Ireland. Over 60% of all key products are now purchased via online channels, while over the counter (OTC) transactions have reduced by 52% in four years.

Digital centre of excellence

AIB is establishing a centre of excellence in digital innovation and enablement in Central park in Leopardstown, Dublin. This will be the new base for teams that design, deliver and support our digitally enabled products and services.

Branch refresh

Our branch network completed a four-year Branch Refresh Programme, delivering a more relaxed environment to do business. The refresh upgraded the 'look and feel' while also incorporating self-banking technology and new digital signage. The designs are aligned to customer-specific needs, e.g. our student campus branches look very different to those on the high street.

Nichola Murtagh, Beef farmer,
SME customer

Liquidity coverage ratio

132%

STRATEGY IN ACTION

Risk & Capital

Strengthened balance sheet
As a Group, we are generating capital and delivering strong ratios with a fully loaded CET1 ratio of 17.5% due to profit generation and a reduction in risk weighted assets. Our funding model is both stable and low cost. The net stable funding ratio was 123%, with a liquidity coverage ratio of 132% at year end. The loan to deposit ratio stands at c. 93%. Earning loans have increased due to growth in the quality of new-term lending and progress on case restructuring.

Strong risk management
Strong risk management continues to drive a reduction in impaired loans. This is underpinned by a full range of product solutions for customers in difficulty, coupled with significant capability in arrears management.
Risk Adjusted Return on Capital (RAROC) is the mechanism AIB uses to determine a risk-based return. RAROC metrics demonstrate that AIB is generating appropriate returns and allocating capital in an efficient manner. A RAROC rate comprises the margin and fee income arising from a loan, adjusted for expected loan losses, as a percentage of the capital that the Group is required to set aside against the loan. We have a consistent RAROC measure across the Group, which facilitates a meaningful comparison of returns across business units and product lines by adjusting for risk costs, enhancing the sustainability of our profitability over the long term.

AIB Group holding company
The establishment of a holding company in 2017 was a corporate restructure for AIB, giving effect to a regulatory decision taken by our resolution authorities under the EU Bank Recovery and Resolution Directive (BRRD).

Rating agency upgrades
The three main rating agencies all upgraded AIB in 2017, and we are now rated Investment Grade (IG) for all three for Allied Irish Banks, p.l.c.. Fitch upgraded AIB to BBB- from BB+ and Moody's moved AIB from Baa3 to Baa2, while S&P upgraded AIB to BBB- in January 2017 and revised its outlook to Positive in December.

Value creation
AIB has consistently delivered strong organic capital generation over the last three years. This has enabled substantial repayments to the State, including an ordinary dividend payment in 2017. The Group is now working towards an annual pay-out ratio in line with normalised European banks, with the capacity for excess capital to be returned to the shareholders.

STRATEGY IN ACTION
Talent & Culture

"We have moved from the 5th percentile of the worldwide Gallup database in 2013, to the 62nd percentile in 2017."

A purpose-led organisation
AIB aims to be a purpose-led organisation. In 2017, we launched our purpose statement: To back our customers to achieve their dreams and ambitions. We know that our future success is inextricably linked to that our of customers, and we want to help them to succeed.

Employee engagement
Since 2013, AIB has partnered with Gallup, international employee engagement experts. In that period we have seen improved levels of employee engagement as measured in the iConnect workplace survey.

The annual iConnect survey allows us to assess engagement levels of our people and to identify and address engagement issues, both at local team levels and across the organisation. We have moved from the 5th percentile of the worldwide Gallup database in 2013 to the 62nd percentile in 2017, and reached our highest participation rate of 88%. Our engaged employees compared to actively disengaged employees is now 8.4:1, compared to 0.3:1 in 2013.

Diversity and inclusion
Diversity and Inclusion are important aspects of our Talent & Culture agenda. As an organisation, AIB is committed to a more diverse workforce where employees can be at their best.

We launched our first Diversity and Inclusion week in 2017 aimed at raising employee awareness of the ambition to become a more diverse and inclusive place to work.

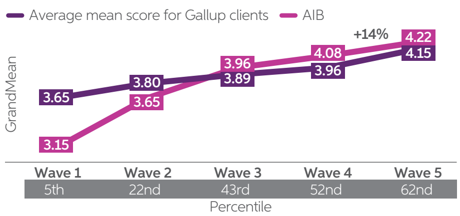
We set a gender diversity target of 25% female representation for our Leadership Team, which we have met. We also set a similar target of 40% for our management population by the end of 2018. At the end of 2017, we were at 38.7%.

Attracting talent
The graduate hiring programme which has been recently reintroduced saw over 80 talented graduates join the AIB team in 2017. Graduates joined departments across multiple areas of the bank including Technology, Finance, Treasury, Retail and Commercial Banking (RCB) and Wholesale, Institutional and Corporate Banking (WIB).

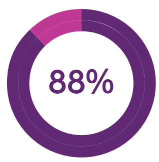
At AIB, we believe our employees work best when they are afforded flexibility and can work in a way that suits them. We advocate an Agile Working Policy which aims to provide a modern and supportive work environment.

Our engagement journey

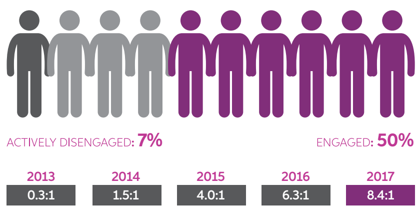
AIB outpaces other Gallup clients at similar stages of the journey



Strong participation



Engaged outnumber actively disengaged



RISK SUMMARY

AIB's governance arrangements include structures and processes to identify, manage, mitigate, monitor and report the risks to which AIB is exposed, including a three lines of defence risk management model.

Managing risk

AIB adopts an enterprise risk management approach to identifying, assessing and managing risks. 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.

The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them. The second line of defence sets the frameworks and policies for managing specific risk areas, provides advice and guidance in relation to the risk and provides independent reporting on AIB's risk profile. The third line of defence is the Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the risk and control environment.

Risk governance structure

The Board has ultimate responsibility for the governance of all risk-taking activity at AIB. The Board has delegated a number of risk governance responsibilities to various committees, principally:

- Board Risk Committee
- Board Audit Committee
- Executive Risk Committee
- Asset & Liability Committee
- Operational Risk Committee
- Group Credit Committee

Risk appetite

The Board sets AIB's Risk Appetite Statement (RAS), which is an articulation of the bank's tolerance and philosophy for risk-taking.The RAS is aligned to AIB's strategy in protecting risk and capital, and is cascaded to the business segment level. This is a key part of embedding risk culture and fostering responsible risk-taking and risk-management behaviours throughout the organisation. AIB's compliance with the RAS limits is reported to the Board on a monthly basis.

AIB's RAS is built on the following overarching qualitative statements:

1. We have low appetite for income volatility, and target steady, sustainable earnings to enable appropriate regular dividend payments.
2. We do not have an appetite for large market risk positions.
3. We accept the concentration risk arising from our focus on markets in Ireland and the UK. Within these markets we seek to avoid excessive concentrations to sectors or single-names, and test repayment capacity in stress conditions.
4. We seek to attract and retain skilled staff and reward behaviours consistent with our brand values and code of conduct.
5. We offer our customers transparent, consistent and fair products and services, and always seek to deliver fair customer outcomes.
6. We seek to maintain the highest level of availability of key services for our customers.
7. We seek to comply with all relevant laws and regulations; our business is underpinned by a strong control framework.
8. We hold capital in excess of the regulatory requirements while achieving returns on capital in line with stakeholder and market expectations.
9. We seek resilient, diversified funding, relying significantly on retail deposits.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code published in April 2016, the Directors have assessed the viability of AIB taking into account its current position and the principal risks facing AIB over the next three years to 31 December 2020. The Directors concluded that a three-year time span was an appropriate period for the annual assessment, given that this is the key period of focus within AIB's strategic planning process. The strategic plan is considered annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing AIB.

The assessment considered the current financial performance, funding and liquidity management and capital management of AIB, and the governance and organisation framework through which AIB manages and seeks, where possible, to mitigate risk. A robust assessment of the principal risks facing AIB, including those that would threaten business operations, governance and internal control systems was also undertaken and considered.

Taking into account AIB's current position, and subject to the identified principal risks, the Directors have a reasonable expectation that AIB will be able to continue operations and meet its liabilities as they fall due over the three-year period of assessment.

For more information, see our 'Risk management' section on pages 58 to 179.

Risk management in practice

AIB performs both a top-down and bottom-up Material Risk Assessment (MRA) to ensure all material risks to which AIB is exposed are identified and appropriately managed. The Risk Appetite Statement is developed based on the MRA and is cascaded down to licensed subsidiaries and significant business segments to enable responsible risk-taking and risk management behaviours throughout the Group.

AIB conducts comprehensive capital and liquidity adequacy assessments to ensure its capital and liquidity positions are in line with the regulatory requirements and AIB's internal strategic objectives. AIB also operates a wide-ranging stress testing programme to assess the strength and resilience of AIB and drive strategic decision-making.

Bottom-up risk and control assessments are also undertaken to ensure all risks are identified, evaluated and controlled in a consistent manner. AIB's risk management processes are supported by a comprehensive risk framework and policy architecture.

The following table summarises the linkage between AIB's strategic pillars, the principal risks and uncertainties, (see pages 58-68 for more details) and AIB's material risks.

Customer First | Simple & Efficient | Risk & Capital | Talent & Culture

Principal risks and uncertainties	Strategic pillars primarily impacted	Material risk primarily impacted
Macro-economic and geopolitical risks		
1. Deterioration in the Irish or UK economy or in global economic conditions	Customer First, Risk & Capital	Business model Credit
2. Geopolitical developments, particularly in Europe and the US	Customer First, Risk & Capital	Business model Financial
3. Brexit and UK	Customer First, Risk & Capital	Business model Credit
4. Market risk	Customer First, Risk & Capital	Financial
Regulatory and legal risks		
5. Impact of Bank Recovery and Resolution Directive	Risk & Capital	Capital adequacy Funding & liquidity
6. Impact of laws and regulations, regulatory actions, fines, litigation	Customer First, Simple & Efficient, Risk & Capital	Regulatory compliance
7. Impact of Anti-Money Laundering and terrorist financing regulations	Customer First, Risk & Capital	Regulatory compliance
8. Impact of changes to accounting standards	Risk & Capital	Regulatory compliance Capital adequacy
9. Impact of budgetary and taxation policies of the Irish, UK and other governments	Customer First, Risk & Capital	Business model Credit
10. Impact of Irish legislation and regulations in relation to mortgages	Customer First, Risk & Capital	Credit Restructure execution
11. Conduct risk	Customer First, Simple & Efficient, Risk & Capital, Talent & Culture	Conduct
Risks relating to business operations, governance and internal control systems		
12. Credit risks, including concentration risk	Customer First, Risk & Capital	Credit Capital adequacy
13. The Group's strategy may not be optimal and/or not successfully implemented	Customer First, Simple & Efficient, Risk & Capital, Talent & Culture	Business model
14. Impact of a poor or inappropriate culture across the Group	Customer First, Talent & Culture	People & culture Conduct
15. Reputational risk	Customer First, Simple & Efficient, Risk & Capital, Talent & Culture	All risks
16. Impact of constraints on the Group's access to funding	Customer First, Risk & Capital	Funding & liquidity
17. Risk of inadequate or non-effective Group risk management systems	Customer First, Simple & Efficient, Risk & Capital, Talent & Culture	All risks
18. Risk that the models used are inaccurate	Customer First, Simple & Efficient, Risk & Capital, Talent & Culture	Model
19. Impact of the high level of criticised loans	Customer First, Risk & Capital	Restructure execution Capital adequacy
20. Operational risks, including people, cyber, outsourcing, process and systems risks	Customer First, Simple & Efficient, Risk & Capital, Talent & Culture	Operational risk People & culture
21. The Group may have insufficient capital to meet increased minimum regulatory requirements	Customer First, Risk & Capital	Capital adequacy
22. Risk that the funding position of its defined benefit pension schemes will deteriorate	Customer First, Risk & Capital	Financial Capital adequacy
23. Impact of changes in legislation affecting deferred tax assets	Customer First, Risk & Capital	Capital adequacy

Backing a sustainable future

Having a sustainable and responsible approach to how we do business – now and in the future – is integral to everything AIB does. We want to create long-term value in our business, the economy and the communities where we work: shared value. We are acutely conscious of the need to rebuild our social licence to operate, in particular having received the support of the State when we needed it most. By framing our approach in this way, we are fully embedding a sustainable culture at every level of our business.

The AIB approach

We aim to be a sustainable bank. A sustainable bank puts its customers first, aiming to be profitable, offering products and services to both new and existing customers that are relevant, simple to access and consistently priced. A sustainable bank is technologically well-developed and organised, environmentally conscious' and socially responsible. A sustainable bank takes care of its employees, and plays a strong role in communities, in the economy and in society. Fundamentally, a sustainable bank is one that is trusted and, as a result, has the societal support needed to both survive and thrive.

The Office of Sustainable Business (OSB) was established in January 2016 to advise and support AIB's Leadership Team on sustainability issues. The Sustainable Business Advisory Committee (SBAC) was then established in April 2016 to advise the Board of Directors further and to provide focus to the efforts being made.

In December 2016 an extensive materiality exercise was completed, which identified and validated 32 key sustainability issues that mattered most to our stakeholders and formed the basis for our sustainability approach in 2017. This exercise is currently being refreshed in Q1 2018.

The SBAC is supported by the Sustainable Business Executive Council (SBEC), which was set up in April 2017. Both the SBEC and OSB support on-going projects and developments while also influencing decision-making and strategic direction.

Progress in 2017

2017 was a significant year for AIB, the key event being the completion of a successful IPO in June. Notwithstanding this, as a business, we have more to do to ensure our long-term success. We are still managing issues from the past where we failed to put the customer at the centre of our decision making. We are learning from these mistakes, so we never again lose sight of our role in the economy and our responsibility to society. Rebuilding trust and public confidence in our business will be done through actions, not just words.

Specific examples of how we are changing our culture towards more Customer First decision-making include:

1. Rebuilding our complaint management process, enabling swift and efficient local decision-making in addition to a centralised team of excellence for more complicated issues.
2. Improving our root cause analysis: where there are trends emerging in complaints, these can be managed quickly and appropriately.
3. Continued strong momentum in the reduction of imparied loans, with a 31% reduction year-on-year, from €9.1bn to €6.3bn, together with appropriate support and assistance for customers in difficulty.
4. Internal promotion of our confidential Speak Up policy, promoting the ability of our people to call out when they see any activity that goes against our culture of being customer-led.

In 2017 we set and achieved the following goals under the banner 'Backing a sustainable future':

1. To align the 2016 materiality research with our four pillar business strategy, understanding what matters and how we can respond.
2. To create an understanding of what sustainability means to AIB: the need to create shared value, for our business and for society.
3. To host our inaugural conference on sustainability, facilitating a conversation with customers, colleagues and other stakeholders, enabling us all to listen and learn from Irish and international experts.
4. To publish our first Sustainability Report, clearly articulating our approach, highlighting both what we already do well, and where we have more to do.

These were key milestones for AIB, setting us up well for continued progress in 2018.

Sustainability, governance & risk

Governance

The SBAC advises the Board of Directors on our sustainability strategy and agenda, which is aligned to AIB's strategic and financial plan. Chaired by Helen Normoyle, an independent Non-Executive AIB Director, the committee comprises two Non-Executive Directors as well as our Chief Marketing Officer, Chief People Officer and Director of Corporate Affairs. The SBAC supervises the development and execution of the bank's sustainable business strategy. Developing this strategy includes enhancing and safeguarding the bank's social licence to operate.

The SBAC is supported by the SBEC, comprising members of the leadership team and senior managers representing a cross-section of all the bank's functions. Our sustainability strategy and programme of activity originates, and is managed out of, the Office of Sustainable Business.

Board of Directors

↑

Sustainable Business Advisory Committee

↑

Leadership Team

↑

Sustainable Business Executive Council

Sustainability and risk

Managing the sustainability of our organisation involves identifying and managing all risks that relate to both day-to-day and future operations. It also means planning for and anticipating potential future risk across the business (e.g. environmental risk). We recognise the need to align our operational and lending risk frameworks, policies and practices to environmental, social and governance (ESG) principles of sustainability. This piece of work commenced in Q4 2017 and will be a key area of focus for completion in H1 2018.

For more information, see our 'Risk management' section on pages 58 to 179.

Materiality Index – stakeholder engagement

In late 2016, we developed an evaluation of the key sustainability issues that mattered to our stakeholders. This was a comprehensive process involving a representative group of c. 1,150 individuals, from which 32 material issues were identified and validated.

These are the issues that mattered most to our stakeholders, which we reported against in 2017. Full details on this, along with the report, are available on www.aib.ie/sustainability

In 2018, we commenced work to update our materiality index. We want to actively listen, understand and respond to the issues that matter to our customers, stakeholders and society. In doing this, we will deliver a more robust, pan-bank approach to our sustainability programme, anchored in our purpose, with clear targets and KPIs.

This work will be undertaken for us by KPMG, and also follows a recommendation from Deloitte, who assured our 2017 Sustainability Report.

A tense moment at the AIB GAA Hurling All Ireland Senior Club Championship 2017

Where we are on our sustainability journey...

Jan 2016

The Office of Sustainable Business (OSB) was established to advise and support AIB's Leadership Team on sustainability issues.

Apr 2016

Formation of the Sustainable Business Advisory Committee (SBAC).

Dec 2016

Extensive materiality exercise undertaken with input from over 1,150 stakeholders identified 32 key materiality issues.

Apr 2017

Formation of the Sustainabile Business Executive Council (SBEC), establishing AIB's sustainability governance structures.

Oct 2017

We hosted a conversation between Irish and international experts along with our customers and colleagues on how business can be truly sustainable. Over 300 people attended this event.

Iseult Ward (FoodCloud) and Geoff McDonald (ex-Unilever) at our conference in October 2017.

"We can either allow the past to prevent us from moving forward, or we can accept the fact that the future needs to be different and it's our job to make it both different and sustainable."

Bernard Byrne
Chief Executive Officer

Oct 2017

Published our first Sustainability Report

aib.ie/sustainability

"We want to be a positive contributor to society. In that way, our business will last."

Richard Pym
Chairman

What's next

In 2018, we will refresh our materiality exercise, build out our ESG credentials, publish our second report, and host a further conversation in October on sustainability matters.

Two participants in the Time to Read programme

Our community

As a pillar bank in Ireland, AIB can play an important role in supporting local communities.

We recognise our role and obligations in all of the communities where we do business. Prior to the financial crash, AIB was one of the biggest contributors to charitable initiatives and local volunteering in Ireland. While this was curtailed at a corporate level, there has remained a large number of local initiatives that were supported by various teams and individuals at AIB in recent years.

In 2017, we made a strategic decision to rebuild our community programme, focusing on two core themes in a more considered way, with both financial and volunteer support. A comprehensive Group-wide programme encompassing Youth & Education and Social Entrepreneurship in local communities will be launched in early 2018. This strategic approach to supporting impactful social programmes also includes a new initiative for our people to have two days' annual volunteering leave, enabling and supporting them to get involved with the project of their choice.

AIB's employees are already very active in volunteering, holding regular fundraising events and collections. Together with our customers, they are making a big difference to a wide range of worthy local causes. We hope that by enabling dedicated volunteer days as part of this programme, we can have even more impact at both local and national levels.

AIB and education – building on existing relationships

We already have a long-standing relationship with Junior Achievement Ireland (JAI), which helps children of all ages understand the benefits of staying in education. We have supported this organisation since its inception in 1996, and over 1,000 of our colleagues have been involved during the past 20 years, benefitting more than 27,000 students in Ireland.

We also enjoy partnerships with a variety of third-level institutions. In Dublin City University (DCU) AIB's support has established a Chair in Data Analytics, while we have partnered with University College Dublin (UCD) to establish the AIB Chair in Behavioural Economics, together with a PhD scholarship programme, an MSc programme, and a new UCD-AIB Behavioural Economics Lab. And in Northern Ireland, First Trust Bank supports Graduate and Student of the Year awards in both the Ulster University and Queen's University Belfast.

GAA – Backing club and county

AIB's partnership with the GAA dates back more than 30 years and is one of the most enduring in Irish sport. Since 1991 we have sponsored the All-Ireland Club Championships, in 2013 we became proud sponsors of the All Ireland Camogie Club Championships, and in 2015 we extended our relationship and became sponsors of the All Ireland Football Championship.

This partnership allows us to engage at the grassroots level of the GAA, with 1,700 GAA clubs and communities right across Ireland all year round. During 2017, AIB launched a bespoke Home Insurance offer for GAA clubs, contributing €50 per new Home Insurance policy to a GAA club of a new customer's choice. So far, over 800 GAA clubs have registered for this offer and over €100,000 is being distributed.

Our physical environment

Our ongoing actions to reduce carbon emissions, develop the low-carbon economy and mitigate our climate change risks, have resulted in AIB being recognised as a global leader for corporate action on climate change.

A leader tackling climate change
AIB has proudly earned a place on the CDP's Climate A List as of 2017, one of only two Irish companies to achieve this accolade. We have worked hard to attain accreditation of both ISO 50001 (energy management) and ISO 14001 (environmental management) across office locations.

In 2017 this certification was also achieved for all branches in all locations across Ireland and the UK.

Other 2017 highlights include:

- Winner of the Large Green Organisation of the year at the 2017 Green Awards.
- Digitisation of documentation with remote scanning and DocuSign eSignatures reducing paper and increasing efficiencies.
- Datahack, facilitated by AIB's Digital department with the theme of 'Smart Cities', saw 200 students competing in our Head Office to create innovative solutions for sustainable cities.
- With the introduction of AIB Bikes, a bike-sharing scheme, sustainable transport options have been bolstered and also include Go Car, a car-sharing programme and a shuttle bus service between central office locations, alongside the national Bike to Work and Tax Saver transport initiatives.
- For the first time, AIB purchased 100% renewable energy for all its power requirements for the full year. Energy reduction remains a continued focus with a 22% reduction on primary energy achieved since 2009.

AIB Group's target is to reduce its carbon emissions by 33% before 2020

Carbon reduction target achieved since 2009
28%

Expected carbon savings
7,182 tCO_2e*

*1 tCO_2e is equal to one tonne of carbon dioxide

Equivalent to a year of electricity use in
1,061 homes

Cathal & Richard King, The Kings of Connemara, SME Customer

Our virtual environment

We design and operate our systems to remain secure while providing fit-for-purpose products and services. We actively manage cyber threats to ensure that no unauthorised party may access, manipulate or acquire private information.

Data security and protection

While we recognise the many benefits of data analysis and data science in developing improved experiences, we acknowledge the importance of maintaining standards of confidentiality in the safeguarding of information about our customers, as well as our employees.

Our Data Protection Policy aims to protect an individual's right to freedom from unnecessary intrusion into their financial and personal privacy, while at the same time complying with our legal and regulatory obligations.

Our 8 Key Principles of Data Protection are:

1. Obtain and process information fairly.
2. Keep it only for specified lawful purposes.
3. Process it only in ways compatible with the purpose for which it was obtained.
4. Keep it safe and secure.
5. Keep it accurate, complete and up to date.
6. Ensure it is adequate, relevant, and not excessive.
7. Retain for no longer than necessary.
8. Give all personal information to a person on their request.

GOVERNANCE AT A GLANCE

High corporate governance standards are critical to creating and sustaining value for shareholders and in ensuring a well-managed and transparent business.

Richard Pym
Chairman

"Our governance framework underpins effective decision-making and accountability, and is the basis on which we conduct our business."

Corporate Structure

During 2017, at the direction of the European Single Resolution Board, and following shareholder approval, Allied Irish Banks, p.l.c. established a new parent holding company, AIB Group plc. The holding company is an Irish Registered Company which has securities listed on the main markets of the Irish and London stock exchanges. Allied Irish Banks, p.l.c. continues to be the principal operating and regulated financial services company, and the only direct subsidiary of the holding company.

Corporate governance

A key component of any corporate governance regime is an effective board, whose primary role is to promote the overall success of the organisation and to ensure a clear and transparent corporate governance and organisational structure.

The Board is committed to promoting effective corporate governance, and has ensured AIB Group's governance framework reflects the corporate governance provisions required by law, regulation and best practice guidance. The framework underpins effective decision-making and accountability, and is the basis on which we conduct our business and engage with our customers and stakeholders.

As a listed company, AIB Group plc is subject to the listing rules of the Exchanges, including the Irish Corporate Governance Annex to the Irish Stock Exchange Rules, the Disclosure & Transparency Rules of the London Stock Exchange, the Central Bank of Ireland's Transparency Rules, and the provisions of the UK Corporate Governance Code.

Allied Irish Banks, p.l.c., its sole subsidiary, as a credit institution licensed and regulated by the Central Bank of Ireland, is subject to the provisions of the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and the European Capital Requirements Directive.

> "The Board has established a number of Board Committees to facilitate in discharging its responsibilities for monitoring key activities."

Our Board
The Board has 11 Directors, with a majority of Independent Non-Executive Directors. The Board currently comprises a Chairman, who was independent on appointment, two executive Directors, and eight independent Non-Executive Directors, one of whom is the Senior Independent Director. Biographies for each Director can be found on pages 28 and 29.

Our Board Committees
The Board has established a number of Board Committees to facilitate in discharging its responsibilities for monitoring key activities.

The Board Committees are generally composed of Non-Executive Directors and operate under Board-approved Terms of Reference, details of which are available in the full Corporate Governance Report which can be found on page 186.

Leadership Team
The Leadership Team is responsible for developing and delivering the Group's strategy and monitoring and managing financial performance, capital allocation, risk strategy and policy, risk management and internal control, and operational and customer issues. Biographies for each Leadership Team Member can be found on pages 30 and 31.

AIB Group Board

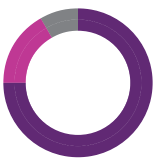
Board Audit Committee	Board Risk Committee	Remuneration Committee	Nomination and Corporate Governance Committee	Sustainable Business Advisory Committee
Quality and integrity of accounting policies, financial reporting and disclosure, internal control framework and audit	Risk management and compliance frameworks, risk appetite profile, concentrations and trends	Remuneration policies and practices, remuneration of Chairman, CEO, Executive Directors and Leadership Team	Board composition, committee membership, corporate governance policies and practices, and succession planning	Support the Group with its sustainable business strategy. which includes the development and safeguarding of the bank's social licence to operate

Please read in conjunction with our 'Corporate Governance report' on page 186.

BOARD OF DIRECTORS

					
Richard Pym	**Catherine Woods**	**Simon Ball**	**Tom Foley**	**Peter Hagan**	**Carolan Lennon**
Non-Executive Chairman (68)	**Senior Independent Non-Executive Director, Deputy Chairman (55)**	**Non-Executive Director (57)**	**Non-Executive Director (64)**	**Non-Executive Director (69)**	**Non-Executive Director (51)**
Nationality					
British	Irish	British	Irish	American	Irish
Date of appointment					
13 October 2014 Chairman Designate 1 December 2014 Chairman	13 October 2010	13 October 2011	13 September 2012	26 July 2012	26 October 2016
Committee membership					
R N	A R N	R R N	A R	A R	R S
Expertise					
Richard is a Chartered Accountant with extensive experience in financial services. He is a former Chairman of UK Asset Resolution Limited, the entity which manages the run-off of the UK Government owned closed mortgage books of Bradford & Bingley plc and NRAM Limited. Richard 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.	Appointed Deputy Chairman of the Board on 1 January, 2018, Catherine was appointed Senior Independent Non-Executive Director in January 2015. She 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. Catherine is a former director of An Post, a former member of the Electronic Communications Appeals Panel, and a former Finance Expert on the government adjudication panel overseeing the rollout of the National Broadband Scheme.	Simon has previously held roles as Chairman of Anchura Group Limited and 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. A Chartered Accountant, 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.	Tom qualified as a Chartered Accountant with PricewaterhouseCoopers and has extensive experience within financial services. He is a former Executive Director of KBC Bank Ireland, former CEO of KBC Homeloans, and has held a variety of senior management and board positions with KBC in Ireland and the UK. During the financial crisis, Tom was a member of the Nyberg Commission of Investigation into the Banking Sector and the Department of Finance Expert Group on Mortgage Arrears and Personal Debt.	Peter is former Chairman and CEO 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. Peter has held various executive positions across the international banking industry, including Vice Chairman and Representative Director of the Aozora Bank (Tokyo) and a Director of each US subsidiaries of IBRC. He is at present a consultant in the fields of financial service litigation and regulatory change.	Prior to her current role of Managing Director, Carolan held a variety of executive roles in Eir Limited, including Acting Managing Director Consumer and Chief Commercial Officer. Prior to joining Eir, she held a number of senior roles in Vodafone Ireland, including Consumer Director and Marketing Director. Carolan is a former Non-Executive Director of the DIT Foundation, Idiro Analytics Limited and the Irish Management Institute.
Key external appointments					
None	Chairman, Beazley Insurance d.a.c. Non-Executive Director, Beazley plc	Board member, Commonwealth Games England	Non-Executive Director, Intesa SanPaolo Life d.a.c.	None	Managing Director of Eir Sits on the Council of Patrons for Special Olympics Ireland

Nationality



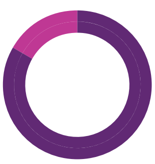
- Irish (8)
- British (2)
- American (1)

Board diversity, by tenure

0-3 years   3-6 years   6-9 years

	Helen Normoyle	Jim O'Hara	Brendan McDonagh	Bernard Byrne	Mark Bourke
					
	Non-Executive Director (50)	**Non-Executive Director (67)**	**Non-Executive Director (59)**	**Chief Executive Officer, Executive Director (49)**	**Chief Financial Officer, Executive Director (51)**
Nationality	Irish	Irish	Irish	Irish	Irish
Date of appointment	17 December 2015	13 October 2010	27 October 2016	24 June 2011	29 May 2014
Committee membership	S	A R N S	R	None	None
Expertise	Helen is currently Marketing Director of Boots UK and Ireland. She started her career working for one of Europe's leading market research agencies, Infratest+GfK, based in Germany. Helen moved to Motorola, where she held senior positions of Director of Marketing and Director of Global Consumer Insights and Product Marketing. In 2003, Helen moved to Ofcom, the UK's Telecoms and Communications Regulator as Director of Market Research. Helen also held the roles of Chief Marketing Officer at Countrywide, Chief Marketing Officer at DFS and Director of Marketing and Audiences at the BBC.	Jim is currently Chairman of a number of indigenous technology start-up companies. Jim 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 a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland and Fyffes plc.	Brendan started his banking career with HSBC in 1979, working across Asia, Europe and North America, where he held various roles such as Group Managing Director for HSBC Holdings Inc, membership of the HSBC Group management Board, and CEO of HSBC North America Holdings Inc. Brendan is a former Director of Ireland's National Treasury Management Agency. He was previously the Executive Chairman of Bank of N.T. Butterfield & Son Limited.	Bernard started his career in 1988 in PricewaterhouseCoopers before moving in 1994 to ESB International as Commercial Director for International Investments. In 1998 he joined IWP International plc as Finance Director, and later Deputy CEO. In 2003, Bernard joined ESB as Group Finance Director. Before his appointment as Chief Executive Officer of AIB in May 2015, Bernard was an Executive Director of the AIB Board, and held various executive positions such as Chief Financial Officer and Director of Personal, Business and Corporate Banking. Bernard was President of Banking and Payments Federation Ireland until December 2016.	Mark joined AIB in April 2014 as Chief Financial Officer and Leadership Team member, and was co-opted to the Board in May 2014. He joined AIB from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mark began his career at PricewaterhouseCoopers 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.
Key external appointments	Marketing Director, Boots UK and Ireland	Chairman, Decawave Limited Non-Executive Director, Wisetek	Non-Executive Director, Audit Committee Chairman and member of the Risk and Nomination Committees of UK Asset Resolution Limited Serves on the Advisory Board of the Trinity College Dublin Business School, and on the Board of The Ireland Funds, Ireland Chapter.	President of the Institute of Banking Ireland (until 5 March 2018)	None

Executive vs Non-Executive Directors



- Non-Executive Directors (9)
- Executive Directors (2)

Key to Committee membership

- A Board Audit Committee
- R Board Risk Committee
- R Remuneration Committee
- N Nomination and Corporate Governance Committee
- S Sustainability Business Advisory Committee

LEADERSHIP TEAM

Deirdre Hannigan (57)
Chief Risk Officer

Above centre

Deirdre joined AIB from the National Treasury Management Agency where she was Chief Risk Officer and chaired the Executive Risk Committee. In prior years she held a number of senior international risk management roles with GE Capital. Before joining GE Capital she held progressively senior roles in Bank of Ireland primarily in Strategy and Risk Management. The early part of her career was spent working in Retail and Corporate Banking with AIB and Rabobank. In 2010, she was admitted as a Chartered Director to the Institute of Directors in London.

Jim O'Keeffe (50)
Head of Financial Solutions Group

Above right

During his career, Jim 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. On his return to Ireland in 2009, he was appointed Head of AIB's Direct Channels before taking up the role of Head of AIB's Mortgage Business in June 2011.

Triona Ferriter (47)
Chief People Officer

Above left

Triona has 20 years' experience in Human Resources operating at an executive level within both US multinational and indigenous Irish companies, working across diverse business functions mainly in the pharmaceutical sector. With experience in companies such as Schering-Plough/MSD, Dunnes Stores and Procter & Gamble, her responsibilities included the full range of Human Resources functions, both at a local organisation and pan-European level. Her key areas of expertise include organisation restructuring and development, strategic business partnering and planning, and the management of industrial and employee relations in both unionised and non-unionised environments.

Brendan O'Connor (52)
Managing Director, AIB Group (UK) plc

Above centre

Brendan joined AIB in 1984 and has held a number of senior roles throughout the organisation, both in New York and Dublin, including Head of AIB Global Treasury Services, Head of Corporate Banking International, and Head of AIB Business Banking. He joined the Leadership Team as Head of Financial Solutions Group before moving to his current role as Managing Director of AIB Group (UK) plc in November 2015.

Tomás O'Midheach (48)
Chief Operating Officer

Above right

Tomás has over 22 years' experience in the financial services industry, spanning many diverse areas of banking, including Finance, Data, Customer Analytics, Direct Channels and Digital. Tomás spent 11 years with Citibank in the UK, Spain and Dublin, where he held several senior positions in Finance. He joined AIB in June 2006 to lead a finance operating model transformation, and has since held a number of senior executive positions, including Head of Direct Channels and Analytics and Chief Digital Officer.

Robert Mulhall (44)

Managing Director, Retail & Commercial Banking Ireland

Above left

Robert's career in AIB has spanned almost 20 years, covering a variety of roles up to senior executive management level in areas including Digital Channels Innovation, Retail Banking Distribution, Customer Relationship Management, Business Intelligence, Strategic Marketing and Development, Sales Management and Operations. Coupled with his AIB Career, Robert also held the position of Managing Director, Distribution & Marketing Consulting and Financial Services with Accenture in North America from 2013 to 2015, during which time he brought his industry experience to build a rapidly growing consulting practice in the fast-moving and innovative areas of Financial Services.

Tom Kinsella (48)

Chief Marketing Officer

Above centre

Tom joined AIB in November 2012 as Group Marketing Director and was appointed to his current role as Chief Marketing Officer and Leadership Team member in November 2015. Tom has responsibility for ensuring all parts of the Group are mobilised around providing a great customer experience. Prior to AIB, Tom worked in a variety of senior marketing roles in Diageo, working across a wide variety of brands both globally and domestically.

Colin Hunt (47)

Managing Director, Wholesale, Institutional & Corporate Banking

Above left

Prior to joining AIB, Colin was Managing Director at Macquarie Capital, where he led the development of its business in Ireland. Previously, he was a Special Policy Adviser at the Departments of Transport and 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.

Helen Dooley (49)

Group General Counsel

Above centre

Helen 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. Prior to her appointment as Group General Counsel and Leadership Team member at AIB, Helen held various executive positions in EBS d.a.c., such as Head of Legal, Head of Regulatory Compliance and Company Secretary.

Donal Galvin (44)

Group Treasurer

Above right

Donal has worked in domestic and international financial markets over the last twenty 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 its European and Asian Global Financial Markets business, as well as leading Rabobank's Global Client Structured Products division.

Bernard Byrne (CEO) and Mark Bourke (CFO) and are also on the Leadership Team. Their biographies can be found on page 29.

GOVERNANCE IN ACTION

Effective Board practice is the foundation to ensuring sound corporate governance standards. The Board is fully aware of the importance of its role and is committed to upholding high standards. This section provides a high level account of how the Group has applied a number of the key principles of the UK Corporate Governance Code.

Composition

There was one change to the Board during 2017. Deputy Chairman Dr. Michael Somers retired on 31 December 2017, and was succeeded on 1 January 2018 by Ms Catherine Woods.

The Nomination & Corporate Governance Committee is tasked with monitoring the Board succession plan so we are well positioned to ensure timely and suitable replacements for Directors reaching the end of their terms. In doing this, the Committee considers the performance, current skills and experience mix and diversity profile of the Board as a collective.

To that end, we have commenced the search for a successor to Ms Catherine Woods whose nine-year term concludes in late 2019. The search process commences early to ensure a rigorous assessment process to identify a suitable candidate with the necessary skills and experience to succeed Ms Woods, specifically in her role as Chairman of the Board Audit Committee.

Under the Relationship Framework governing the relationship between our majority shareholder, the Minister for Finance, and AIB Group plc, the Irish State may appoint two Directors to the Board.

The Board recognises and embraces the benefits of diversity among its own members, including diversity of skills, experience, background, gender and other qualities. We are committed to reflecting diversity in its broadest sense, while ensuring that we maintain the necessary skills and experience required to oversee the significant financial service activities and related requirements of the Group.

In reviewing the Board composition and appointments, candidates are considered on merit against objective criteria and with due regard for the benefits of diversity. The Board has a Board Diversity Policy, the aim of which is to ensure that the percentage of women on the Board remains at or exceeds 25%. The percentage is currently 27%.

All Directors are subject to re-election by shareholders at this year's Annual General Meeting and will be subject to annual re-election thereafter. The Board's composition will remain under continuous review.

Leadership

There is a clear division of responsibilities between the Chairman, responsible for leading the Board and ensuring its effectiveness, and the Chief Executive Officer, responsible for running the business.

Non-Executive Directors constructively challenge and assist the Leadership Team in developing proposals on strategy and other material matters. Meetings are held by the Non-Executive Directors without the executives being present, at least annually, and ad hoc as required.

Led by the Senior Independent Director, the Non-Executive Directors meet without the Chairman present at least annually to appraise the Chairman's performance, and on such other occasions as are deemed appropriate.

To ensure clarity, and that no single individual has unfettered powers of decision, roles and responsibilities, including a formal schedule of matters specifically reserved for Board decisions, are formally documented and communicated to key stakeholders.

It is expected that in order to discharge their responsibilities effectively, Directors will each allocate sufficient time to their role on the Board. A minimum annual time commitment is agreed with each Non-Executive Director, and each is required to operate within certain limitations on other directorships held by them, and to seek prior approval should they wish to take on any additional external roles.

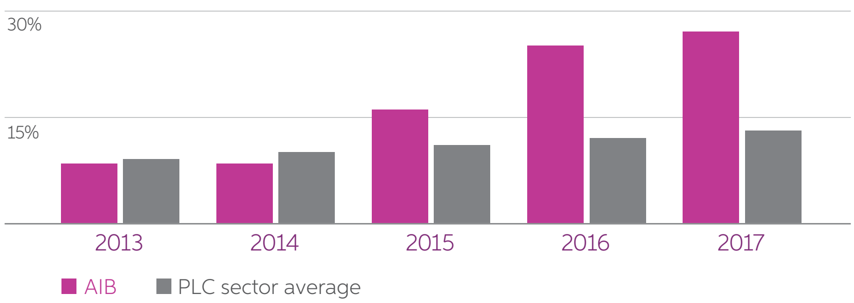
Given the nature of the Group, the role of Director is demanding, and Directors are expected to attend and to be well-prepared for all Board and

"The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted once every three years."

Committee meetings, and to make time to continue to ensure they understand the business, engage with executives and regulators, and complete relevant training.

An overview of the number of scheduled and out of course meetings held and attended by each Director can be found on page 189. If, due to exceptional circumstances, a Director is unable to attend a meeting, they ensure that their views are made known to the Chairman in advance of the meeting.

Board gender diversity over the last 5 years (%)



Effectiveness

The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted once every three years. An external evaluation was conducted in 2017. Details of that evaluation, along with progress made in addressing any findings identified during the 2016 internal evaluation, can be found on pages 192 to 193.

In addition to the external evaluation, the Chairman held meetings with individual Directors to discuss their individual effectiveness in their role. A review of the Chairman's effectiveness, and that of the Chief Executive Officer, was formally conducted during 2017 through a combination of external and internal evaluations.

We consider the independence of our Non-Executive Directors annually, using the independence criteria set out in the UK Corporate Governance Code and, having regard for the co-terminus appointments of the Directors to the Board of Allied Irish Banks, p.l.c. and the holding company, the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015. Any actual, potential or perceived conflicts of interest and certain behaviours that are essential in order to be considered independent, assessed as part of the Board and Director evaluations referred to above, are also continually monitored.

We currently exceed the necessary minimum ratio of independent Directors on the Board as determined by the UK Corporate Governance Code. Excluding the Chairman, 80% of the Board is deemed independent, the other 20% being the two Executive Directors who are deemed non-independent by virtue of their executive roles.

Accountability

The Board is required to present a fair, balanced and understandable assessment of the Group's position and prospects. Through a combination of the Board Audit Committee and the Board Risk Committee, a detailed review of the Group's risk management and internal control systems and financial record and reporting systems is conducted. In addition, as part of the recent process to re-list on the main markets of the Irish and London stock exchanges, the Board was required to conduct a Financial Position and Prospects Procedures (FPPP) process. This required a full review of the Group's control environment to ensure the necessary procedures were in place to provide a reasonable basis for the Board to make proper judgements on an on-going basis as to the financial position and prospects of the Group. This review is now required to be conducted on an annual basis, and will provide further assurance to the Board as to the robustness of the procedures in place across the Group.

Remuneration
The Board is cognisant of its obligation to ensure that remuneration, in particular that of Executive Directors' remuneration, is designed to promote the long-term success of the company and that any performance-related elements should be transparent, stretching and rigorously applied. As you will see later in the report, the Group's Remuneration Policy continues to be governed by restrictions contained in the Subscription and Placing Agreements in place with the Irish State. In light of these restrictions, as reported in previous years, the Group is unable to implement a competitive, market-aligned compensation and benefit structure to retain and incentivise key executives. This remains a key risk for the future stability and performance of the Group and is of utmost concern to the Committee and the Board as a whole.

The Board explains later in the Corporate Governance Report that it is unable to comply with remuneration-related provisions of the UK Code due to the fact that neither the Board nor the Remuneration Committee have autonomy over remuneration, as they are restricted in their ability to set remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments, and, to design Executive Directors' remuneration packages to promote the long-term success of the Group. The lack of autonomy with regard to remuneration is of ongoing concern to the Board.

You will also see in the Corporate Governance Remuneration Report that the Remuneration Committee and the Board have been working on designing a short-term retention tool to somewhat mitigate the heightened retention risk that currently exists arising from these restrictions until such time as the Group is able to return to normalised remuneration practices.

In designing this tool, the Remuneration Committee and the Board have ensured that the performance elements underpinning the plan reflect the strategic objectives of the Group are consistent with the medium term targets and commitments previously communicated to the market, and are appropriately stretching to reflect the quantum of remuneration potential, in line with the UK Code requirements.

Engagement
The Chairman and other Board representatives, including the Chief Executive Officer and Chief Financial Officer, regularly engage in investor relations activities to ensure that the Group's strategy and performance is being communicated effectively, and to receive a better understanding of investor views.

Reports on investor relations activity, along with regular reports of changes in the holdings of substantial shareholders and reports on share price movements, are provided to the Board. It is intended that a number of events will be held throughout the coming year to maintain an open dialogue with investors. The Annual General Meeting (AGM) provides a good opportunity for the Board to engage with a broader group of shareholders.

> "The Board is required to present a fair, balanced and understandable assessement of the Group's position and prospects."

Read more details in our Committee Reports in the 'Corporate governance and oversight' section on pages 180 to 228.

Business review

Business review - 1. Operating and financial review

Basis of presentation

This operating and financial review is prepared using IFRS and non-IFRS measures to analyse the Group's performance. Non-IFRS measures include management and regulatory performance measures which are considered Alternative Performance Measures ("APMs"). APMs are when the basis of calculation is derived from non-IFRS measures. A description of the Group's APMs and their calculation is set out on page 51.

These management performance measures are consistent with performance measures presented to the Board and Leadership Team and include the presentation of bank levies and regulatory fees and exceptional items separately on the income statement, as management believe that due to their size and nature they distort the comparability of performance from period to period. The management performance information should be considered in conjunction with IFRS information as set out in the consolidated financial statements on page 239. A reconciliation between IFRS and management performance summary income statement is set out on page 52.

Basis of calculation

Percentages presented throughout this review are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers. The impact of currency movements was calculated by comparing the results for the current reporting period to results for the comparative period retranslated at exchange rates for the current reporting period. This impact is set out in the following pages.

Management performance - summary income statement	2017 € m	2016 € m	% change
Net interest income	2,176	2,013	8
Business income	524	493	6
Other items	267	124	115
Other income	791	617	28
Total operating income	2,967	2,630	13
Personnel expenses	(711)	(717)	-1
General and administrative expenses	(601)	(566)	6
Depreciation, impairment and amortisation	(116)	(94)	23
Total operating expenses	(1,428)	(1,377)	4
Operating profit before bank levies, regulatory fees and provisions	1,539	1,253	23
Bank levies and regulatory fees	(105)	(112)	-6
Writeback of provisions for impairment on loans and receivables	113	294	-62
Writeback of provisions for liabilities and commitments	8	2	300
Writeback of provisions for impairment on financial investments available for sale	-	2	-
Total writeback of provisions	121	298	-59
Operating profit	1,555	1,439	8
Associated undertakings	19	35	-46
Profit on disposal	-	1	-
Profit from continuing operations before exceptional items	1,574	1,475	7
Gain on disposal of loan portfolios	33	-	-
Customer redress	(30)	-	-
Restitution and restructuring costs	(45)	(58)	-
Termination benefits	(70)	(24)	-
Property strategy costs	(65)	-	-
IPO and capital related costs	(51)	-	-
IFRS 9 costs	(41)	-	-
Gain on transfer of financial instruments	1	17	-
Profit on disposal of Visa Europe	-	272	-
Total exceptional items	(268)	207	-
Profit before taxation from continuing operations	1,306	1,682	-22
Income tax charge from continuing operations	(192)	(326)	-41
Profit for the year	1,114	1,356	-18

Net interest income

Net interest income	Net interest margin[1]
€2,176m	**2.58%**

Net interest income	2017 € m	2016 € m	% change
Interest income[2]	2,464	2,590	-5
Interest expense[2]	(288)	(577)	-50
Net interest income	2,176	2,013	8
Average interest earning assets	84,454	90,181	-6
	%	%	change
NIM[1]	2.58	2.23	0.35
NIM excluding interest on cured loans that was previously not recognised	2.50	2.16	0.34

Net interest income

€2,176m

Net interest income increased by € 163 million compared to 2016. Excluding the impact of currency movements, net interest income increased by € 178 million.

The increase in net interest income was driven by lower funding costs partly offset by a reduction in interest income as interest earning assets reduced.

Interest income

Interest income of € 2,464 million in 2017 decreased by € 126 million compared to 2016 mainly due to lower average interest earning assets.

Average interest earning assets of € 84.5 billion in 2017 decreased from € 90.2 billion in 2016. There was a reduction of € 1.5 billion in loans and receivables to customers (€ 0.6 billion is attributable to FX rates) driven by redemptions, restructures and disposals of the non performing loan book. Additionally reduced financial investments of € 1.4 billion and reduction in NAMA senior bonds of € 3.1 billion contributed to the decrease in interest income.

Average asset yield of 292 bps in 2017 was 5 bps higher than 2016 reflecting the impact of the overall portfolio mix being increasingly weighted towards loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds. Yields on loans and receivables to customers reduced to 357 bps from 362 bps. This was driven by mortgage rate reductions in the second half of 2016 and 2017 and a reduction in non-mortgage yields due to the impact of the competitive environment. This was partly offset by the reducing tracker mortgage book (average volume € 1.2 billion lower than 2016). Yields on financial investments available for sale reduced as a result of sales and maturities of higher yielding assets.

Interest expense

Interest expense of € 288 million in 2017 decreased by € 289 million compared to 2016. The reduction in interest expense was driven by lower cost of funds and a reduced funding requirement. The 2017 cost of funds of 60 bps reduced from 100 bps in 2016 due to the redemption of € 1.6 billion Contingent Capital Notes in July 2016, maturity of other higher yielding debt securities issued and a reduction in rates on customer accounts as higher interest bearing deposits matured.

Net interest margin

2.58%

NIM has continued its positive trajectory increasing to 2.58% in 2017 from 2.23% in 2016.

The material drivers of NIM movement were:

- Redemption of € 1.6 billion Contingent Capital Notes in July 2016, c. +20 bps impact.
- Reduction in customer accounts volumes and rates, c. +12 bps impact.
- Redemption of low yielding NAMA senior bonds, c. +8 bps impact.
- Variable rate cuts in H2 2016 and 2017, c. -3 bps impact.

The 2017 NIM excluding interest on cured loans that was previously not recognised, was 2.50%. Cured loans are loans upgraded from impaired without incurring financial loss.

[1]Net interest margin (“NIM”) including eligible liabilities guarantee (“ELG”) charge. ELG charge is no longer material and is no longer separately disclosed.
[2]Negative interest expense on liabilities amounting to € 13 million (2016: € 21 million) is offset against interest expense. Negative interest income on assets amounting to € 4 million (2016: Nil) is offset against interest income.

Net interest income *(continued)*

Average balance sheet

The table below provides a summary of the Group's average balance sheet, volumes and rates. This table has been extracted from page 369 of the notes to the consolidated financial statements.

	Year ended 31 December 2017			Year ended 31 December 2016		
Assets	Average balance € m	Interest[1] € m	Average rate %	Average balance € m	Interest[1] € m	Average rate %
Loans and receivables to customers	60,619	2,166	3.57	62,116	2,248	3.62
NAMA senior bonds	531	2	0.39	3,644	11	0.30
Financial investments available for sale	13,635	154	1.13	14,925	182	1.22
Financial investments held to maturity	3,273	130	3.99	3,419	131	3.83
Other interest earning assets	6,396	12	0.20	6,077	18	0.30
Average interest earning assets	84,454	2,464	2.92	90,181	2,590	2.87
Non interest earning assets	7,165			8,005		
Total assets	91,619	2,464		98,186	2,590	
Liabilities & equity						
Deposits by banks	5,071	(4)	(0.08)	9,728	(13)	(0.13)
Customer accounts	36,608	228	0.62	38,894	341	0.88
Subordinated liabilities	792	31	3.95	1,629	199	12.22
Other interest earning liabilities	5,667	33	0.59	7,474	50	0.67
Average interest earning liabilities	48,138	288	0.60	57,725	577	1.00
Non interest earning liabilities	30,141			28,056		
Equity	13,340			12,405		
Total liabilities & equity	91,619	288		98,186	577	
Net interest income		2,176	2.58		2,013	2.23

[1]Negative interest expense on liabilities amounting to € 13 million (2016: € 21 million) is offset against interest expense. Negative interest income on assets amounting to € 4 million (2016: Nil) is offset against interest income.

Other income

Other income[1]

€791m

Business income

€524m

Other items

€267m

Other income	2017 € m	2016 € m	% change
Net fee and commission income	391	395	-1
Dividend income	28	26	8
Net trading income	100	68	47
Miscellaneous business income	5	4	25
Business income	524	493	6
Net profit on disposal of AFS securities	55	31	77
Effect of acceleration of the timing of cash flows on NAMA senior bonds	4	10	-60
Settlements and other gains	208	83	151
Other items	267	124	115
Other income	791	617	28

Other income

€791m

Other income increased by € 174 million compared to 2016.

Excluding the impact of currency movements, other income increased by € 180 million. This was driven by increases in both business income of € 31 million and other items of € 143 million.

Business income

€524m

Net fee and commission income

Net fee and commission income	2017 € m	2016 € m	% change
Customer accounts	218	217	-
Card income	77	83	-7
Lending related fees	47	51	-8
Other fees and commissions	49	44	11
Net fee and commission income	391	395	-1

Net fee and commission income of € 391 million in 2017 decreased by € 4 million compared to 2016. Customer accounts income remained stable. Card income reduced by € 6 million primarily due to the cessation of annual profit share rebates following the sale of Visa Europe in 2016. Lending related fees reduced by € 4 million. Other fees and commissions income increased by € 5 million mainly due to an increase in wealth management income of € 3 million.

Dividend income

Dividend income was € 28 million in 2017, € 26 million in 2016. € 25 million was received on NAMA subordinated bonds in each year.

Net trading income

The increase in net trading income was mainly due to movement in valuations on long term customer derivative positions with a net positive movement € 21 million in 2017 compared to € 1 million in 2016. There was an increase in income on interest rate contracts and debt securities of € 16 million to € 27 million in 2017. Foreign exchange income, 87% of which is customer related, increased by € 1 million to € 56 million in 2017.

Other items

€267m

Other items were € 267 million in 2017, € 124 million in 2016.

Other items in 2017 include:

- Net profit of € 55 million on the disposal of available for sale securities of which € 32 million related to partial sale of NAMA subordinated bonds (being the gain over original cost on initial recognition less impairment).
- The acceleration of the timing of cash flows on NAMA senior bonds resulted in a gain of € 4 million.
- Settlements and other gains includes the realisation / re-estimation of cash flows on loans and receivables previously restructured[2] which resulted in income recognised of € 213 million. This included € 116 million of gains recognised on a small number of legacy property cases.

[1]Other income before exceptional items.
[2]For further detail please see pages 149 to 150.

Business review - 1. Operating and financial review

Total operating expenses

Total operating expenses[1]	Cost income ratio[1]
€1,428m	48%

Operating expenses	2017 € m	2016 € m	% change
Personnel expenses	711	717	-1
General and administrative expenses	601	566	6
Depreciation, impairment and amortisation	116	94	23
Total operating expenses[1]	1,428	1,377	4
Staff numbers at period end[2]	9,720	10,376	-6
Average staff numbers[2]	10,137	10,226	-1

Total operating expenses[1]

€1,428m

Total operating expenses increased by € 51 million compared to 2016. Excluding the impact of currency movements, operating expenses increased by € 61 million.

The increase in costs was driven by increased general and administrative expenses of € 35 million and depreciation, impairment and amortisation of € 22 million partly offset by lower personnel expenses of € 6 million.

Personnel expenses

Personnel expenses decreased by € 6 million compared to 2016. Reduction mainly due to lower average staff numbers and a favourable staff grade mix partly offset by salary increases.

Staff numbers at period end of 9,720 decreased by 656 from 2016 mainly due to rationalisation in the RCB and AIB UK distribution networks. This was partly offset by increased resourcing of loan restructuring operations to support the non performing loan deleveraging strategy.

General and administrative expenses

General and administration expenses increased € 35 million compared to 2016, including an increase in investment spend and third party resourcing for loan restructuring operations.

Depreciation, impairment and amortisation

The charge increased by € 22 million compared to 2016 as assets created under the investment programme were brought into operational use.

Cost income ratio[1]

48%

Costs of € 1,428 million and income of € 2,967 million resulted in a cost income ratio[1] of 48% in 2017 compared to 52% in 2016.
The cost income ratio of 48% is enhanced by the income from realisation / re-estimation of cash flows on loans and receivables previously restructured of € 213 million and interest on cured loans that was previously not recognised of € 61 million. Excluding these items the cost income ratio was 53% in 2017.

The Group is on track to achieve a sustainable cost income ratio[1] of less than 50% in the medium term.

[1]Before bank levies, regulatory fees and exceptional items. Cost income ratio including bank levies, regulatory fees and exceptional items was 61% in 2017 compared to 54% 2016.
[2]Staff numbers are on a full time equivalent ("FTE") basis.

Bank levies and regulatory fees
€105m

Bank levies and regulatory fees	2017 € m	2016 € m
Irish bank levy	**(49)**	(60)
Deposit Guarantee Scheme	**(38)**	(35)
Single Resolution Fund/BRRD	**(20)**	(18)
Other	**2**	1
Bank levies and regulatory fees	**(105)**	(112)

Following the revision of the legislation on the Irish bank levy for financial institutions, the Group charge reduced to € 49 million in 2017 (2016: € 60 million).

Total writeback of provisions
€121m

Total writeback of provisions of € 121 million in 2017 compared to € 298 million in 2016. It includes the writeback of provisions for impairment on loans and receivables of € 113 million and writeback of provisions for liabilities and commitments of € 8 million in 2017.

Writeback of provisions for impairment on loans and receivables

The net writeback of provisions of € 113 million in 2017, compared to € 294 million in 2016, comprises of € 199 million in specific provision writebacks partly offset by an IBNR charge of € 86 million. Specific provision writebacks were € 171 million in 2016 with an IBNR writeback of € 123 million.

Specific provision writeback

The key drivers of the net specific provision writeback in 2017 were writebacks (net of top ups) of € 472 million as restructuring activity continued, partially offset by € 273 million charge on newly impaired loans (includes € 110 million charge on re-impaired loans). Restructuring activity is continuing across the portfolios, albeit at lower levels, and the writebacks reflect improved cash flows due to improved economic conditions and additional security made available. Provisions on newly impaired loans remain consistent with 2016 levels.

IBNR charge / writeback

The IBNR charge of € 86 million in 2017 mainly reflects an increase in provisions on the long term arrears mortgage portfolio and the lengthening of emergence periods on certain non-mortgage portfolios. These were offset by releases due to continuing increases in property prices and improving credit quality profile. See the Risk management section on page 105 and 106 for more detail.

Income tax charge
€192m

The effective tax rate was 15% in 2017 compared with 19% in 2016. The effective tax rate is influenced by the geography and the mix of profit streams which may be taxed at different rates. The higher effective tax rate in 2016 was mainly due to a change in UK legislation restricting the use of tax losses and tax provided on equity transaction profits.

For further detail on the taxation charge see note 17 to the consolidated financial statements.

Total exceptional items
€268m

Total exceptional items net charge of € 268 million in 2017 compared to a net credit of € 207 million in 2016.

Total exceptional items	2017 € m	2016 € m
Gain on disposal of loan portfolios	**33**	-
Gain on transfer of financial instruments	**1**	17
Customer redress	**(30)**	-
Restitution and restructuring costs	**(45)**	(58)
Termination benefits	**(70)**	(24)
Property strategy costs	**(65)**	-
IPO and capital related costs	**(51)**	-
IFRS 9 costs	**(41)**	-
Profit on disposal of Visa Europe	**-**	272
Total exceptional items	**(268)**	207

Given the nature and materiality of these items, the associated gain or cost was viewed as exceptional by management. For further detail on exceptional items see page 51.

Gain on disposal of loan portfolios. A number of distressed loan portfolios were disposed of in 2017 which resulted in a gain recognised of € 33 million.

Customer redress. Further provision required for customer redress and compensation in relation to the examination of tracker mortgage related issues.

Restitution and restructuring costs include other costs associated with the Tracker examination, other restitution, transformation, and asset write-offs.

Termination benefits of € 70 million mainly due to rationalisation in the RCB and AIB UK distribution networks.

Property strategy costs. As the Group implements its property footprint strategy certain office space will become surplus. Onerous contracts provisions have been raised for lease commitments and other costs on this office space totalling € 65 million.

IPO and capital related costs include commissions and transaction advisory fees and expenses associated with the IPO and the implementation of the new Group holding company.

IFRS 9 costs. Implementation of IFRS 9 was a significant undertaking in the year. These costs, amounting to € 41 million, represent the one off exceptional costs relating to the implementation of IFRS 9 within the Bank. Other costs associated with IFRS 9 which are not exceptional are for the build of the intangible modelling asset and these amount to € 28 million.

Return on tangible equity
12.3%

ROTE decreased to 12.3% in 2017 from 13.5% in 2016 mainly due to lower profit before tax partially offset by lower risk weighted assets.

Assets

Earning loans

€57.0bn

Impaired loans

€6.3bn

Assets	31 Dec 2017 € bn	31 Dec 2016 € bn	% change
Gross loans to customers	63.3	65.2	-3
Provisions	(3.3)	(4.6)	-27
Net loans to customers	60.0	60.6	-1
Financial investments available for sale	16.3	15.4	6
Financial investments held to maturity	-	3.4	-
NAMA senior bonds	-	1.8	-
Other assets	13.8	14.4	-4
Total assets	90.1	95.6	-6

Earning loans

€57.0bn

Earning loans, excluding the impact of currency movements of € 0.7 billion, increased by € 1.6 billion compared to 31 December 2016. Growth in the earning book is driven by new term lending of € 9.4 billion. The increase also includes € 1.2 billion of loans upgraded to earning in the year. This growth was offset by redemptions[(1)] of € 8.7 billion and new to impaired (including re-impaired loans) of € 0.7 billion.

New lending

€9.4bn

New lending of € 9.4 billion in 2017, € 1.0 billion higher (+13%) than 2016. Increased demand for credit across all segments:

- RCB new lending of € 4.6 billion up 17%, including mortgage lending up 17% and other lending up 16%. The increase in mortgage lending is driven by a growing Irish market and the Group retaining its position as the no. 1 provider of mortgage lending in Ireland.
- WIB new lending of € 3.2 billion is up 12% driven by Corporate Banking lending and Syndicated & International lending.
- AIB UK new lending of € 1.6 billion is up 5% (up 12% excluding the impact of currency movements) with an increase in both AIB GB and FTB.

Transaction lending

In addition to new term lending of € 9.4 billion there was new transaction lending of € 1.1 billion in 2017. This is defined as balances which are drawn down for the first time on transactional based products.

Impaired loans

€6.3bn

Impaired loans reduced by € 2.8 billion compared to 31 December 2016. This reflects the continued implementation of sustainable restructure solutions for customers and improved economic conditions. The Group also disposed of distressed loan portfolios of € 0.7 billion. New to impaired loans (including re-impaired loans) were € 0.7 billion in 2017.

Provisions

€3.3bn

Specific provisions cover

43%

Provisions reduced by € 1.3 billion compared to 31 December 2016 driven by restructuring, write-offs and loan portfolio sales. Specific impairment provisions as a percentage of impaired loans decreased to 43% at 31 December 2017 from 44% at 31 December 2016, driven by the restructure and disposal of loans with higher provision cover. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions were € 0.6 billion at 31 December 2017 compared to € 0.5 billion at 31 December 2016.

Net loans

€60.0bn

Net loans of € 60.0 billion, excluding the impact of currency movement of € 0.7 billion, increased by € 0.1 billion.

Summary of movement in Loans to customers

The table below sets out the movement in loans to customers from 1 January 2017 to 31 December 2017.

Loans to customers	Earning loans € bn	Impaired loans € bn	Gross loans € bn	Specific provisions € bn	IBNR provisions € bn	Net loans € bn
Opening balance (1 January 2017)	56.1	9.1	65.2	(4.1)	(0.5)	60.6
New lending volumes	9.4	-	9.4	-	-	9.4
New impaired loans[(2)]	(0.7)	0.7	-	(0.3)	-	(0.3)
Restructures and write-offs	1.2	(1.6)	(0.4)	1.0	-	0.6
Disposals	0.0	(0.7)	(0.7)	0.4	-	(0.3)
Redemptions of existing loans[(1)]	(8.7)	(0.8)	(9.5)	-	-	(9.5)
Other movements	0.4	(0.4)	-	0.3	(0.1)	0.2
Balance excluding foreign exchange movements	57.7	6.3	64.0	(2.7)	(0.6)	60.7
Foreign exchange movements	(0.7)	-	(0.7)	-	-	(0.7)
Closing balance (31 December 2017)	57.0	6.3	63.3	(2.7)	(0.6)	60.0

[(1)]New transaction lending is netted against redemptions given the revolving nature of these products.
[(2)]New to impaired includes re-impaired loans.

Assets *(continued)*

The tables[1] below sets out the asset quality by sector for a range of credit metrics. Further details on the risk profile of the Group and non performing exposures are available in the Risk management section on pages 73 to 133.

Loan book sectoral profile 31 December 2017	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Loans and receivables to customers	**33.7**	**3.1**	**8.8**	**17.7**	**63.3**
Of which: Impaired	**3.3**	**0.4**	**1.8**	**0.8**	**6.3**
Balance sheet provisions (specific + IBNR)	**1.4**	**0.2**	**1.1**	**0.6**	**3.3**
Specific provisions / Impaired loans (%)	**34%**	**56%**	**51%**	**54%**	**43%**
Total provisions / Total loans (%)	**4%**	**8%**	**12%**	**3%**	**5%**
12 months to 31 December 2017	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit) / charge	**(111)**	**(9)**	**(100)**	**21**	**(199)**
Total impairment (credit) / charge	**(101)**	**(2)**	**(50)**	**40**	**(113)**
31 December 2016	€ bn	€ bn	€ bn	€ bn	€ bn
Loans and receivables to customers	35.2	3.1	9.4	17.5	65.2
Of which: Impaired	4.6	0.4	2.7	1.4	9.1
Balance sheet provisions (specific + IBNR)	2.0	0.3	1.5	0.8	4.6
Specific provisions / Impaired loans (%)	38%	58%	50%	51%	44%
Total provisions / Total loans (%)	6%	9%	15%	5%	7%
12 months to 31 December 2016	€ m	€ m	€ m	€ m	€ m
Specific impairment (credit) / charge	(110)	(11)	(74)	24	(171)
Total impairment (credit)	(111)	(22)	(145)	(16)	(294)

Non performing loans

Non performing loans 31 December 2017	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Impaired	**3.3**	**0.4**	**1.8**	**0.8**	**6.3**
Greater than 90 days past due but not impaired	**0.2**	**0.1**	**0.1**	**0.2**	**0.6**
Non impaired (unlikely to pay)	**0.5**	**0.0**	**0.3**	**0.1**	**0.9**
Non default	**0.8**	**0.1**	**0.7**	**0.8**	**2.4**
Total non performing loans	**4.8**	**0.6**	**2.9**	**1.9**	**10.2**
Total non performing loans / Total loans (%)	**14%**	**18%**	**33%**	**11%**	**16%**
31 December 2016					
Impaired	4.6	0.4	2.7	1.4	9.1
Greater than 90 days past due but not impaired	0.3	0.1	0.1	0.1	0.6
Non impaired (unlikely to pay)	0.6	0.0	0.7	0.2	1.5
Non default	1.2	0.2	0.7	0.8	2.9
Total non performing loans	6.7	0.7	4.2	2.5	14.1
Total non performing loans / Total loans (%)	19%	21%	45%	14%	22%

Non performing exposures

The Group also focuses on non performing exposures, including both loans and receivables to customers and off balance sheet commitments, when managing the credit quality of the loan book. Non performing loans have reduced to € 10.2 billion at 31 December 2017 from € 14.1 billion at 31 December 2016. Total non performing off balance sheet commitments at 31 December 2017 amounted to € 322 million (31 December 2016: € 321 million).

[1]Percentages and certain amounts in the tables above have been rounded. Sourced from page 99 and 132 of the Risk management section and rounded to billions.

Assets *(continued)*

Financial investments Available for Sale ("AFS")

AFS assets of € 16.3 billion held for liquidity and investment purposes have increased by € 0.9 billion compared to 31 December 2016. In order to provide flexibility in managing the overall bond portfolio, and to avail of opportunities through selling elements of this portfolio, the Group reclassified the held to maturity portfolio of € 3.3 billion to financial investments available for sale at 31 December 2017. The transfer was partly offset by net sales, maturities, redemptions and purchases of € 2.4 billion.
Further detail in respect of AFS is available in note 27 to the consolidated financial statements.

Financial investments Held to Maturity ("HTM")

HTM assets were reclassified to financial investments AFS.

NAMA senior bonds

NAMA senior bonds were fully redeemed in 2017.

Other assets

Other assets of € 13.8 billion comprised:

- Cash and loans to banks of € 7.7 billion, € 0.2 billion lower than 31 December 2016. This included balances with Central Banks of € 6.4 billion, and loans and receivables to banks of € 1.3 billion.
- Deferred taxation of € 2.7 billion, € 0.1 billion lower than 31 December 2016.
- Derivative financial instruments of € 1.2 billion, € 0.6 billion lower than 31 December 2016.
- Remaining assets of € 2.2 billion, € 0.3 billion higher than 31 December 2016, includes € 0.14 billion proceeds awaiting settlement on the disposal of a UK loan portfolio.

Liabilities & equity

Customer accounts

€64.6bn

Equity

€13.6bn

Liabilities & equity	31 Dec 2017 € bn	31 Dec 2016 € bn	% change
Customer accounts	**64.6**	63.5	*2*
Monetary authority funding	**1.9**	1.9	*-*
Other market funding	**1.7**	5.8	*-70*
Debt securities in issue	**4.6**	6.9	*-33*
Other liabilities	**3.7**	4.4	*-16*
Total liabilities	**76.5**	82.5	*-7*
Equity	**13.6**	13.1	*4*
Total liabilities & equity	**90.1**	95.6	*-6*
	%	%	*change*
Loan to deposit ratio	**93**	95	-2

Customer accounts

€64.6bn

Customer accounts, excluding the impact of currency movements of € 0.6 billion, increased by € 1.7 billion compared to 31 December 2016. The customer accounts mix profile continued to change in 2017 with an increase of € 3.4 billion in current accounts offset by a reduction of € 2.3 billion in deposits primarily corporate and treasury deposits (including repos).
The loan to deposit ratio remained stable at 93% at 31 December 2017 compared to 95% at 31 December 2016.

Monetary authority funding

Monetary authority funding of € 1.9 billion was in line with 31 December 2016.

Other market funding

Other market funding reduced by € 4.1 billion from € 5.8 billion at 31 December 2016 due to a reduced funding requirement following NAMA senior bond redemptions and a reduction in both financial investments and loans to customers.

Debt securities in issue

Debt securities reduced following maturities of € 0.4 billion in March 2017 and € 1.7 billion in June 2017.

Other liabilities

Other liabilities of € 3.7 billion comprised:
- Subordinated liabilities of € 0.8 billion, unchanged from 31 December 2016.
- Derivative financial instruments of € 1.2 billion, € 0.4 billion lower than 31 December 2016.
- Remaining liabilities of € 1.7 billion, € 0.3 billion lower than 31 December 2016.

Equity

€13.6bn

Equity increased by € 0.5 billion to € 13.6 billion compared to € 13.1 billion at 31 December 2016.
The table below sets out the movements in the year.

Equity	€ bn
Opening balance (1 January 2017)	**13.1**
Profit for the year	**1.1**
Other comprehensive income:	
Cash flow hedging reserves	**(0.2)**
Available for sale securities reserves	**(0.1)**
Dividends / distributions paid	**(0.3)**
Closing balance (31 December 2017)	**13.6**

Business review - 1. Operating and financial review

Segment reporting

Segment overview

From 1 January 2017, following realignment of Leadership Team responsibilities, the Group has been managed through the following business segments: Retail & Commercial Banking ("RCB")*, Wholesale, Institutional & Corporate Banking ("WIB")*, AIB UK* and Group. The performance in 2016 has been restated to reflect this revised structure.

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 the Group'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.

*Within the above segments, the Group has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group (''FSG''), a 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. The Group is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

Retail & Commercial Banking ("RCB")

RCB contribution statement	2017 € m	2016 € m	% change
Net interest income	1,435	1,273	13
Business income	329	320	3
Other items	204	78	162
Other income	533	398	34
Total operating income	1,968	1,671	18
Total operating expenses	(769)	(745)	3
Operating contribution before bank levies, regulatory fees and provisions	1,199	926	29
Total provisions	143	290	-51
Operating contribution	1,342	1,216	10
Associated undertakings	14	31	-55
Loss on disposal	(1)	-	-
Contribution before exceptional items	1,355	1,247	9

RCB balance sheet metrics	31 Dec 2017 € bn	31 Dec 2016 € bn	% change
Mortgages	2.4	2.0	17
Personal	0.8	0.7	16
Business	1.4	1.2	15
New lending	4.6	3.9	17
Mortgages	32.2	33.3	-4
Personal	3.0	3.0	4
Business	8.5	9.2	-7
Legacy distressed loans[1]	0.7	1.1	-36
Gross loans	44.4	46.6	-5
of which - earning loans	*38.5*	*38.7*	*-*
- impaired loans	*5.9*	*7.9*	*-25*
Provisions	(3.0)	(3.9)	-23
Net loans	41.4	42.7	-3
Current accounts	22.6	19.4	16
Deposits	24.0	23.5	2
Customer accounts	46.6	42.9	9

Net interest income

€1,435m Net interest income has increased by € 162 million due to the continued reduction in cost of funds partly offset by the impact of further mortgage rate cuts. Net interest income includes interest on cured loans that was previously not recognised of € 54 million in 2017, € 65 million in 2016.

Net interest income on earning loans of € 1,361 million in 2017 increased by € 164 million from € 1,197 million in 2016. Net interest income on impaired loans of € 74 million in 2017 reduced from € 76 million in 2016 as loan deleveraging continues partly offset by lower cost of funds.

Other income

€533m Business income increased by € 9 million driven by net fee and commission income of € 4 million and net trading income of € 5 million as customer transaction activity increased. Other items of € 204 million primarily relate to income on realisation / re-estimation of cashflows on loans previously restructured.

Total operating expenses

€769m Total operating expenses increased by € 24 million driven by an increase in resourcing for loan restructuring operations c. € 22 million and an increase in depreciation as assets created under the investment programme are put into operational use. This was partly offset by lower distribution network costs.

Total provisions

€143m The key driver of the lower net writeback is the IBNR charge of € 73 million in 2017 (writeback of € 103 million in 2016). This reflects an increase in provisions on the long term arrears mortgage portfolio and the lengthening of emergence periods on certain non-mortgage portfolios.

New lending

€4.6bn New lending increased by € 0.7 billion showing strong growth across mortgages, business and personal driven by a combination of internal initiatives and an improving Irish economy. The Group remains the no. 1 mortgage provider in Ireland.

In addition to new term lending of € 4.6 billion, there was new transaction lending of € 0.2 billion in 2017.

Gross earning loans

€38.5bn Earning loans reduced by € 0.2 billion driven by € 0.3 billion reduction in legacy distressed loans[1] due to repayments. This was partially offset by an increase in personal loans of € 0.2 billion, while business and mortgages portfolios were in line with 31 December 2016.

Gross impaired loans

€5.9bn Gross impaired loans decreased by € 2.0 billion driven by repayment and restructures of € 2.3 billion and loan portfolio disposals of € 0.4 billion as loan deleveraging is progressed. This was offset by new to impaired loans of € 0.6 billion.

Provisions

€3.0bn The reduction in provisions of € 0.9 billion was driven by restructuring, write-offs and loan portfolio disposals.

Customer accounts

€46.6bn The customer accounts base continued to grow in 2017, maintaining market share while reducing overall cost of funds.

[1]Larger legacy distressed loans that have been subject to restructuring arrangement which are managed through the loan restructuring unit in RCB.

Business review - 1. Operating and financial review

Wholesale, Institutional & Corporate Banking ("WIB")

WIB contribution statement	2017 € m	2016 € m	% change
Net interest income	**267**	269	*-1*
Other income	**49**	51	*-4*
Total operating income	**316**	320	*-1*
Total operating expenses	**(91)**	(96)	*-5*
Operating contribution before bank levies, regulatory fees and provisions	**225**	224	-
Total provisions	**(4)**	(23)	*-83*
Operating contribution	**221**	201	*10*
Associated undertakings	**2**	-	-
Contribution before exceptional items	**223**	201	*11*

WIB balance sheet metrics	31 Dec 2017 € bn	31 Dec 2016 € bn	% change
Corporate	**1.0**	0.9	*15*
Syndicated & International	**1.6**	1.3	*21*
Real Estate Finance	**0.5**	0.6	*-14*
Specialised Finance	**0.1**	0.1	*44*
Energy, Climate Action & Infrastructure	**0.0**	0.0	-
New lending	**3.2**	2.9	*12*
Corporate	**4.6**	4.4	*5*
Syndicated & International	**3.2**	2.8	*15*
Real Estate Finance	**2.2**	1.7	*27*
Specialised Finance	**0.2**	0.2	*30*
Energy, Climate Action & Infrastructure	**0.1**	0.1	37
Gross loans	**10.3**	9.2	*13*
of which - earning loans	*10.3*	*8.9*	*16*
- impaired loans	*0.0*	*0.3*	*-97*
Provisions	**(0.0)**	(0.1)	*-39*
Net loans	**10.3**	9.1	*13*
Current accounts	**3.7**	3.7	-
Deposits	**2.0**	2.7	*-27*
Customer accounts	**5.7**	6.4	*-12*

Net interest income

€267m Net interest income decreased by € 2 million compared to 2016. Growth in gross loans was offset by lower levels of reward on customer accounts in 2017 compared to 2016.

Other income

€49m Other income decreased by € 2 million compared to 2016. This was driven by € 3 million lower customer related FX income partly offset by € 2 million increase in income on realisation / re-estimation of cash flows on loans and receivables previously restructured.

Total operating expenses

€91m Total operating expenses decreased by € 5 million due to a reduction in support costs from other areas of the Group.

Total provisions

(€4m) Total net provision charge of € 4 million in 2017 compared to a charge of € 23 million in 2016.

New lending

€3.2bn New lending increased by € 0.3 billion (+12%) compared to 2016, with strong growth in Syndicated & International (+21%) and Corporate Banking (+15%).

In addition to new term lending of € 3.2 billion there was new transaction lending of € 0.5 billion in 2017 mainly due to demand from Corporate Banking customers.

Gross loans

€10.3bn Gross earning loans of € 10.3 billion at 31 December 2017 increased by € 1.4 billion compared to € 8.9 billion at 31 December 2016. There was an increase across all WIB portfolios as new lending exceeded redemptions. Gross impaired loans were nil at 31 December 2017 compared to € 0.3 billion at 31 December 2016.

Customer accounts

€5.7bn Customer current accounts of € 3.7 billion were in line with 31 December 2016, while customer deposits decreased by € 0.7 billion as part of the overall management of the customer resources portfolio. The significant majority of the reductions were in term deposits.

AIB UK

AIB UK contribution statement	2017 £ m	2016 £ m	% change
Net interest income	209	183	14
Other income	61	54	14
Total operating income	270	237	14
Total operating expenses	(116)	(115)	1
Operating contribution before bank levies, regulatory fees and provisions	154	122	26
Bank levies and regulatory fees	2	1	100
Total provisions	(16)	30	-
Operating contribution	140	153	-8
Associated undertakings	3	3	-
Profit on disposal	1	1	-
Contribution before exceptional items	144	157	-8
Contribution before exceptional items €m	164	193	-15

AIB UK balance sheet metrics	31 Dec 2017 £ bn	31 Dec 2016 £ bn	% change
AIB GB	1.2	1.0	12
FTB	0.3	0.2	10
New lending[(1)]	1.5	1.2	12
AIB GB	5.2	5.2	-
FTB	2.4	2.8	-15
Gross loans	7.6	8.0	-5
of which - earning loans	*7.2*	*7.2*	*-*
- impaired loans	*0.4*	*0.8*	*-53*
Provisions	(0.3)	(0.5)	-48
Net loans	7.3	7.5	-2
Current accounts	5.6	5.2	9
Deposits	3.4	3.7	-8
Customer accounts	9.0	8.9	2

Net interest income

£209m Net interest income increased by £ 26 million compared to 2016 due to a reduction in the cost of funds as average loan volumes remained broadly stable.

Other income

£61m Other income increased by £ 7 million mainly due to a net positive movement in valuations of long-term customer derivative positions of £ 3 million in 2017 compared to a net negative movement of £ 2 million in 2016. Other income includes net profit on disposal of AFS securities of £ 13 million, nil in 2016. This was partly offset by lower net fee and commission income of £ 4 million, a reduction of £ 4 million in miscellaneous business income and £ 2 million mark to market loss on equity warrants in 2017.

Total operating expenses

£116m Total operating expenses of £ 116 million were broadly in line with 2016 reflecting cost control and management. During 2017 AIB UK underwent a restructuring programme resulting in a reduction in staff numbers in the second half of the year.

Total provisions

(£16m) Total net provisions charge of £ 16 million in 2017 was driven by two significant new impairments in the first half of 2017 offset by provision writebacks.

New lending

£1.5bn New lending of £ 1.5 billion in 2017, increased 12% compared to 2016 mainly driven by an increase in corporate lending in AIB GB. FTB showed positive momentum in mortgage lending in the year.

In addition to new term lending of £ 1.5 billion there was new transaction lending of £ 0.3 billion in 2017.

Gross loans

£7.6bn Gross loans of £ 7.6 billion includes earning loans of £ 7.2 billion and impaired loans of £ 0.4 billion. Earning loans of £ 7.2 billion were in line with 31 December 2016 with strong new lending of £ 1.5 billion being offset by redemptions due to excess liquidity in the market. Impaired loans of £ 0.4 billion at 31 December 2017 have reduced from £ 0.8 billion at 31 December 2016 mainly due to disposal of loan portfolios of £ 0.3 billion.

Customer accounts

£9.0bn Customer accounts of £ 9.0 billion at 31 December 2017, increased by £ 0.1 billion compared to 31 December 2016 with a change in mix, being weighted more towards current accounts.

[(1)]New lending in 2016 has been restated by £ 0.3 billion to exclude all transaction based new lending.

Business review - 1. Operating and financial review

Group

Group contribution statement	2017 € m	2016 € m	% change
Net interest income	236	247	-4
Other income	139	103	35
Total operating income	375	350	7
Total operating expenses	(436)	(397)	10
Operating contribution before bank levies, regulatory fees and provisions	(61)	(47)	30
Bank levies and regulatory fees	(107)	(113)	-5
Total provisions	-	(6)	-
Contribution before exceptional items	(168)	(166)	1

Group balance sheet metrics	31 Dec 2017 € bn	31 Dec 2016 € bn	% change
Gross loans	0.1	0.1	-
Financial investments available for sale	16.3	15.4	6
Financial investments held to maturity	-	3.4	-
NAMA senior bonds	-	1.8	-
Customer accounts	2.2	3.9	-44

Net interest income

€236m Net interest income decreased by € 11 million compared to 2016 due to lower income on NAMA senior bonds and from the securities portfolio as balances reduced. This was partly offset by lower cost of funds.

Other income

€139m Other income increased by € 36 million compared to 2016 mainly due to movement in valuations of long-term customer derivative positions with a net positive movement of € 16 million in 2017 compared to a net negative movement of € 4 million in 2016. There was an increase in income on interest rate contracts and debt securities of € 16 million to € 27 million in 2017. There were other items of € 44 million in 2017, € 42 million in 2016. This includes net profit on disposal of AFS securities of € 55 million in 2017.

Total operating expenses

€436m Total operating expenses increased by € 39 million compared to 2016 reflecting the impact of salary inflation and an increase in investment spend.

Bank levies and regulatory fees

€107m Bank levies and regulatory fees of € 107 million in 2017 includes the Irish bank levy € 49 million, the Deposit Guarantee Scheme ("DGS") € 38 million (includes credit on the DGS legacy fund) and the Single Resolution Fund € 20 million.

Gross loans

€0.1bn Gross loans were in line with 31 December 2016.

Financial investments Available for Sale ("AFS")

€16.3bn AFS assets of € 16.3 billion held for liquidity and investment purposes have increased by € 0.9 billion compared to 31 December 2016. In order to provide flexibility in managing the overall bond portfolio and to avail of opportunities through selling elements of this portfolio, the Group reclassified the held to maturity portfolio of € 3.3 billion to financial investments available for sale at 31 December 2017. The transfer was partly offset by net sales, maturities, redemptions and purchases of € 2.4 billion.

Financial investments Held to Maturity ("HTM")

Nil HTM assets were reclassified to financial investments AFS.

NAMA senior bonds

Nil NAMA senior bonds were fully redeemed in 2017.

Customer accounts

€2.2bn Customer accounts have reduced by € 1.7 billion mainly due to maturity of higher yielding term deposits and a reduction in repos.

Alternative performance measures

The following is a list, together with a description, of APMs used in analysing the Group's performance, provided in accordance with the European Securities and Markets Authority ("ESMA") guidelines.

Average asset yield	Interest and similar income divided by average interest-earning assets.
Average cost of funds	Interest expense and similar charges divided by average interest-earning liabilities.
Average interest-earning assets	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 daily balances for all categories with the exception of loans and receivables to banks (included in other interest earning assets), which are based on a combination of daily / monthly balances.
Average interest-earning liabilities	Average interest-earning liabilities includes deposits by banks, customer accounts, subordinated liabilities and other interest earning liabilities. Averages are based on daily balances for customer accounts while other categories are based on a combination of daily / monthly balances.
CET1 Fully loaded	Total common equity tier 1 capital on a fully loaded basis divided by total risk weighted assets on a fully loaded basis.
CET1 Transitional	Total common equity tier 1 capital on a transitional basis divided by total risk weighted assets on a transitional basis.
Cost income ratio	Total operating expenses excluding exceptional items and bank levies and regulatory fees divided by total operating income excluding exceptional items.
Specific provision cover	Specific impairment provisions as a percentage of impaired loans.
Exceptional items	These are items that management believe due to their size and nature distort the comparability of performance from period to period; *- Gain on disposal of loan portfolios* in reducing the Group's level of non performing exposures. *- Gain on transfer of financial instruments.* Valuation adjustments arising from transfers of customer loans and receivables to NAMA during 2010 and 2011. *- Customer redress.* Customer redress and compensation in relation to the examination of tracker mortgage related issues. *- Restitution and restructuring costs* include other costs associated with the Tracker examination, other restitution, transformation, and asset write-offs. *- Termination benefits.* The cost associated with the reduction in employees arising from the voluntary severance programme. *- Property strategy costs.* The Group is implementing a significant property strategy. This includes a new Headquarters and a Technology Centre in Sandyford together with certain office space becoming surplus. Costs directly associated with this strategy (e.g. onerous contracts) are deemed exceptional. *- IPO and capital related costs* are mainly in connection with the IPO and the implementation of a new AIB Group holding company. *- IFRS 9 costs.* Implementation of IFRS 9 was a significant undertaking in the year. The costs associated with the build of the intangible modelling asset have been capitalised. The revenue costs of implementation of IFRS 9 are one off costs and given their nature are deemed exceptional. *- Profit on disposal of Visa Europe.* AIB's membership in Visa Europe was disposed of during 2016.
Leverage ratio	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.
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.
Loan to deposit ratio	Loans and receivables to customers divided by customer accounts.
Net interest margin	Net interest income divided by average interest-earning assets.
Net interest margin excluding interest on cured loans that was previously not recognised	Net interest margin excluding interest on cured loans that was previously not recognised. Cured loans are defined as loans upgraded from impaired without incurring financial loss. This additional measure has been disclosed given the impact of the additional income on assessing the actual performance.
Net stable funding ratio	The ratio of available stable funding to required stable funding over a 1 year time horizon.
Non performing exposures	Non performing exposures are defined by the European Banking Authority 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.
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. In assessing capital efficiency, ROTE reflects performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity.

Business review - 1. Operating and financial review

Reconciliation between IFRS and management performance

The tables set out below are a reconciliation of each impacted line item from the most directly reconcilable IFRS line item in consolidated financial statements.

IFRS - summary income statement	2017 € m	2016 € m
Net interest income	2,176	2,013
Other income	825	906
Total operating income	3,001	2,919
Total operating expenses	(1,835)	(1,571)
Operating profit before provisions	1,166	1,348
Writeback of provisions	121	298
Operating profit	1,287	1,646
Associated undertakings	19	35
Profit on disposal	-	1
Profit before taxation from continuing operations	1,306	1,682
Income tax charge from continuing operations	(192)	(326)
Profit for the year	1,114	1,356

Adjustments - between IFRS and management performance		
Total exceptional items	*268*	*(207)*
Total bank levies and regulatory fees	*105*	*112*
Other income	*(34)*	*(289)*
of which exceptional items		
Gain on disposal of loan portfolios	*(33)*	*-*
Gain on transfer of financial instruments	*(1)*	*(17)*
Profit on disposal of Visa Europe	*-*	*(272)*
Operating expenses	*407*	*194*
of which exceptional items		
Customer redress	*30*	*-*
Restitution and restructuring costs	*45*	*58*
Termination benefits	*70*	*24*
Property strategy costs	*65*	*-*
IPO and capital related costs	*51*	*-*
IFRS 9 costs	*41*	*-*
of which bank levies and regulatory fees	*105*	*112*

Management performance - summary income statement	2017 € m	2016 € m
Net interest income	2,176	2,013
Other income	791	617
Total operating income	2,967	2,630
Total operating expenses	(1,428)	(1,377)
Operating profit before bank levies, regulatory fees and provisions	1,539	1,253
Bank levies and regulatory fees	(105)	(112)
Writeback of provisions	121	298
Operating profit	1,555	1,439
Associated undertakings	19	35
Profit on disposal	-	1
Profit from continuing operations before exceptional items	1,574	1,475
Total exceptional items	(268)	207
Profit before taxation from continuing operations	1,306	1,682
Income tax charge from continuing operations	(192)	(326)
Profit for the year	1,114	1,356

Business review - 2. Capital

Objectives*

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Detail on the management of capital and capital adequacy risk can be found in Risk Management 3.5 on pages 164 to 165.

Regulatory capital and capital ratios

	CRD IV transitional basis		CRD IV fully loaded basis	
	31 December 2017 € m	31 December 2016[1] € m	**31 December 2017 € m**	31 December 2016[1] € m
Equity	**13,612**	13,148	**13,612**	13,148
Less: Additional Tier 1 Securities	**(494)**	(494)	**(494)**	(494)
Proposed ordinary dividend	**(326)**	(250)	**(326)**	(250)
Regulatory adjustments:				
Intangible assets	**(569)**	(392)	**(569)**	(392)
Cash flow hedging reserves	**(257)**	(460)	**(257)**	(460)
Available for sale securities reserves	**(196)**	(445)	**–**	–
Pension	**(150)**	(140)	**(139)**	(126)
Deferred tax	**(829)**	(610)	**(2,764)**	(3,050)
Expected loss deduction	**–**	(28)	**–**	(46)
Other	**(23)**	(22)	**(18)**	(16)
	(2,024)	(2,097)	**(3,747)**	(4,090)
Total common equity tier 1 capital	**10,768**	10,307	**9,045**	8,314
Additional tier 1 capital				
Additional Tier 1 Securities	**–**	494	**–**	494
Instruments issued by subsidiaries that are given recognition in additional tier 1 capital	**260**	–	**291**	–
Expected loss deduction	**–**	(9)	**–**	–
Total additional tier 1 capital	**260**	485	**291**	494
Total tier 1 capital	**11,028**	10,792	**9,336**	8,808
Tier 2 capital				
Subordinated debt	**–**	783	**–**	783
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**442**	–	**492**	–
Credit provisions	**199**	200	**28**	–
Expected loss deduction	**–**	(9)	**–**	–
Other	**3**	6	**–**	–
Total tier 2 capital	**644**	980	**520**	783
Total capital	**11,672**	11,772	**9,856**	9,591
Risk weighted assets				
Credit risk	**46,319**	48,843	**46,414**	49,027
Market risk	**360**	288	**360**	288
Operational risk	**4,248**	3,874	**4,248**	3,874
Credit valuation adjustment	**796**	1,225	**796**	1,225
Other	**5**	5	**5**	5
Total risk weighted assets	**51,728**	54,235	**51,823**	54,419
	%	%	**%**	%
Common equity tier 1 ratio	**20.8**	19.0	**17.5**	15.3
Tier 1 ratio	**21.3**	19.9	**18.0**	16.2
Total capital ratio	**22.6**	21.7	**19.0**	17.6

[1]Relates to the consolidated capital position of Allied Irish Banks, p.l.c. as at the 31 December 2016.

Business review - 2. Capital

Capital requirements

The Group is required to maintain a CET 1 ratio of 9.525% effective from 1 January 2018 (2017: 9%). This includes a Pillar 1 requirement of 4.5%, a Pillar 2 requirement ("P2R") of 3.15% and a capital conservation buffer ("CCB") of 1.875%. The minimum requirement for the transitional total capital ratio is 13.025% (2017 12.5%). This requirement excludes Pillar 2 guidance ("P2G") which is not publicly disclosed. The transitional CET1 and total capital ratios at 31 December 2017 were 20.8% and 22.6 % respectively. Based on these ratios, the Group has a very significant buffer over maximum distributable amount ("MDA") trigger levels.

The Group has been designated as an Other Systemically Important Institution ("O-SII"). A buffer for O-SII will be added to the minimum requirement at 0.5% from 1 July 2019, rising to 1.5% on 1 July 2021.

During 2017, the Financial Policy Committee (UK) announced the UK countercyclical capital buffer ("CCyB") will increase to 0.5% in June 2018 and to 1% from November 2018. The Group's minimum requirement will increase in proportion to its level of UK exposures which equates to c. 0.2% for the Group in November 2018. Other jurisdictional CCyB in place have a negligible impact on capital requirements.

The Central Bank of Ireland have maintained the CCyB on Irish exposures at 0%.

Capital ratios at 31 December 2017

Transitional ratio

The transitional CET1 ratio increased to 20.8% at 31 December 2017 from 19.0% at 31 December 2016. The increase in the CET1 ratio is due to an increase in CET1 capital and a reduction in risk weighted assets ("RWA").

CET1 capital increased by € 461 million to € 10,768 million at 31 December 2017. This consisted of profit for the year of € 1,114 million, partially offset by a proposed dividend on ordinary shares of € 326 million, an increase in the deduction for the deferred tax assets relating to unutilised tax losses of € 219 million due to the transitional phasing arrangements increasing from 20% to 30% in 2017 and an increase in intangible assets of € 177 million. Other movements in the period included an increase in the recognition of unrealised gains in the AFS debt and equity securities increasing from 60% to 80%.

The CET1 transitional ratio, at 20.8%, is significantly in excess of the minimum capital requirement.

The transitional tier 1 capital ratio increased to 21.3% at 31 December 2017 from 19.9% at 31 December 2016. The transitional total capital ratio increased to 22.6% at 31 December 2017 from 21.7% at 31 December 2016. The increase in the ratio was driven by the CET1 capital movements outlined above combined with RWA reductions offset by the introduction of a minority interest restriction[(1)].

Under CRD IV, a portion of the capital reserves attributable to the Additional Tier 1 Securities and tier 2 capital instruments issued by Allied Irish Banks, p.l.c., which exceed the minimum own funds requirement, is not recognised for AIB Group plc consolidated regulatory capital purposes. The impact on the consolidated regulatory capital will reduce if the outstanding Additional Tier 1 Securities and tier 2 capital instruments issued by Allied Irish Banks, p.l.c. are redeemed.

The restriction reduced qualifying transitional tier 1 capital by € 234 million and qualifying transitional tier 2 capital by € 341 million.

Risk weighted assets

Credit risk RWA reduced by € 2.5 billion (€ 2.6 billion fully loaded) during the year to 31 December 2017. Of the reduction €1.8 billion related to an agreement to remove a national discretion regarding measurement of asset maturity and a further € 0.7 billion decrease related to foreign exchange movements. Credit valuation adjustment RWA decreased by € 0.4 billion. These decreases were partially offset by an increase in operational risk RWA of € 0.4 billion reflecting the increased levels of income in the annual calculation and market risk of € 0.1 billion.

Fully loaded ratio

The fully loaded CET1 ratio increased to 17.5% at 31 December 2017 from 15.3% at 31 December 2016. The increase in the CET1 ratio is due to an increase in CET1 capital and a reduction in RWA.

CET1 capital increased by € 731 million to € 9,045 million at 31 December 2017. This consisted of profit for the year of € 1,114 million and a decrease in the capital deduction for the deferred tax asset of € 286 million offset by a proposed dividend on ordinary shares of € 326 million, a reduction in AFS reserves of € 132 million and an increase in intangible assets of € 177 million.

The fully loaded tier 1 capital ratio increased to 18.0% at 31 December 2017 from 16.2% at 31 December 2016. The fully loaded total capital ratio increased to 19.0% at 31 December 2017 from 17.6% at 31 December 2016. The increase in the ratio was driven by the CET1 movements outlined above combined with RWA reductions offset by the introduction of a minority interest restriction[(1)]. The restriction reduced qualifying fully loaded tier 1 capital by € 203 million and qualifying fully loaded tier 2 capital by € 291 million.

[(1)]The minority interest calculation may require adjustment pending the final communication of the EBA's position on the matter.

*Forms an integral part of the audited financial statements.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on the full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 10.3% at 31 December 2017 (9.2% at 31 December 2016).

	31 December	
	2017 € m	2016 € m
Total exposure (transitional)	**92,328**	97,935
Total exposure (fully loaded)	**90,593**	95,930
Tier 1 capital (transitional basis)	**11,028**	10,792
Tier 1 capital (fully loaded)	**9,336**	8,808
Leverage ratio (transitional basis)	**11.9%**	11.0%
Leverage ratio (fully loaded)	**10.3%**	9.2%

Total leverage exposures (transitional) reduced by € 5.6 billion in the year mainly driven by a reduction in the following exposures:

– Net customer loans € 0.6 billion
– NAMA senior bonds € 1.8 billion
– AFS and derivative instruments € 3.2 billion

Dividends

The Board proposes to pay an ordinary dividend of € 326 million or € 0.12 per share from full year 2017 profits. This is subject to the approval of shareholders at the Annual General Meeting in April 2018.

IFRS 9

IFRS 9 is effective from 1 January 2018 and replaces current impairment rules. The estimated possible impact of implementing IFRS 9, including the impact on RWA and regulatory deductions, would reduce the Group's fully loaded CET1 ratio by 0.7% or an expected CET1 ratio reduction from 17.5% to 16.8%.

The Group intends to apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds as per Regulation (EU) 2017/2395 of the European Parliament and of the Council. After applying IFRS 9 transitional arrangements, the expected transitional CET1 ratio would reduce from 20.8% to 20.6%.

Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")

The Group continues to work towards its MREL target ensuring that there are sufficient subordinated instruments to implement the Group's preferred resolution strategy. The indicative MREL target is 29.05% with MREL eligible issuance expected to be in the range of € 3 billion to € 5 billion. The Group continues to monitor the developments in MREL legislation.

AIB Group plc

In February 2017, AIB announced that it had been informed by the Single Resolution Board ("SRB") that the preferred strategy for the Group is a single point of entry bail-in strategy through a holding company. All new issuances of MREL eligible liabilities will be issued by AIB Group plc.

On 6 December 2017, the High Court of Ireland sanctioned the setup of the new Holding Company ("AIB Group plc"), which became effective on 8 December 2017 upon the registration of the Court Order with the Registrar of Companies.

On 13 December 2017, AIB Group plc received High Court approval for a capital reduction of approximately € 5 billion, involving a reduction in the nominal value of AIB Group plc's ordinary shares, in order to create distributable reserves at the level of the new holding company.

Finalisation of Basel III

The final text of the Basel III reforms were published in December 2017 which was less severe than initial industry expectations. The aim of the reforms is to enhance the reliability and comparability of risk-weighted capital ratios. Due to the Groups' high RWA density it is likely to be less severely impacted by RWA floors. The Group will continue to assess the impact of the reforms as and when they are applied to European law and regulations.

The Group is actively monitoring the advancement in regulatory frameworks and assessing potential capital impacts to ensure that the Group maintains a strong capital position.

Business review - 2. Capital

Ratings

AIB is currently engaging with the rating agencies to obtain a rating for AIB Group plc. In relation to Allied Irish Banks, p.l.c. the following ratings are applicable.

Moody's upgraded the long term rating in June 2017, by one notch to Baa2 (investment grade) with stable outlook. According to Moody's, this rating upgrade reflects a range of positive factors, including further reduction in non-performing loans, improved capital ratios and achievement of stable core profitability.

S&P upgraded the long term rating in January 2017, by one notch to BBB- (investment grade) with a stable outlook. This rating action by S&P reflects their view that economic risks have decreased for Irish banks due to economic growth, the sustained recovery in property prices and reducing unemployment. S&P affirmed the long term rating in December 2017 at BBB- and changed the outlook to positive.

Fitch upgraded the long term rating by one notch in November 2017, to BBB- (investment grade) with a positive outlook. According to Fitch, the upgrade reflects continued improvements in asset quality, a longer record of stable profitability and strengthened capitalisation.

	31 December 2017		
Long-term ratings	**Moody's**	**S&P**	**Fitch**
Long-term	**Baa2**	**BBB-**	**BBB-**
Outlook	**Stable**	**Positive**	**Positive**
Investment grade	✓	✓	✓

	31 December 2016		
Long-term ratings	Moody's	S&P	Fitch
Long-term	Baa3	BB+	BB+
Outlook	Positive	Positive	Positive
Investment grade	✓		

Risk management

[(1)]The credit risk disclosures in this section are aligned with the Central Bank of Ireland ('Central Bank') guidelines issued in December 2011 and May 2013 respectively.

Risk management – 1. Principal risks and uncertainties

Introduction

The Group is exposed to a number of material risks which have been identified through the Material Risk Assessment process carried out by the Group. The Group has implemented comprehensive risk management strategies in seeking to manage these risks. Further details on the overall governance and organisational framework through which the Group manages and seeks to manage and mitigate risk, are provided in 'Risk management – 2. Framework'. More detailed summary disclosures in respect of the Group's material risks are included in 'Risk management – 3. Individual risk types'.

Although the Group 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 facing the Group fall under the following broad categories:
– Macroeconomic and geopolitical risks;
– Regulatory and legal risks; and
– Risks relating to business operations, governance and internal control systems.

Page 19 of this Report provides a summary of the linkages between the 'Principal risks and uncertainties' (set out below) to the Group's four Strategic Pillars and to its Material risks.

This list of principal risks and uncertainties should not be considered as exhaustive, and other factors not yet identified or not currently considered material may adversely affect the Group.

Macroeconomic and geopolitical risk

The Group's business may be adversely affected by any deterioration in the Irish or UK economy or in global or relevant regional economic conditions.
The Group's business activities are almost entirely based in the Irish and UK markets. A deterioration in the performance of the Irish economy or in the European Union (EU), the United Kingdom (UK) and/or other relevant economies could adversely affect the Group's overall financial condition and performance. Such a deterioration could result in reductions in business activity, lower demand for the Group's products and services, reduced availability of credit, increased funding costs, and decreased asset values.

Deterioration in the economic and market conditions in which the Group operates could negatively impact on the Group's income and level of loan impairments and put additional pressure on the Group to more aggressively manage its cost base. This could have negative consequences for the Group to the extent that strategic investments are de-scoped or de-prioritised, and could increase operational risk. Market conditions are also impacted by the competitive environment in which the Group operates.

Any deterioration in the UK economy, whether caused by the UK's exit from the EU or otherwise, could also have an impact on the Group's business in the UK.

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

Examples of specific sources of uncertainty include:
– The existence of significant anti-austerity sentiment in certain eurozone countries;
– Conflicts in the Middle East and ongoing political tensions in North Korea;
– The UK's continuing negotiations to withdraw from the EU;
– Continued political instability and deadlock in Northern Ireland having an adverse impact on economic conditions in the region; and
– The US administration's policies, such as trade protectionism, travel bans and taxation.

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

The UK's exit from the EU could lead to a deterioration in market and economic conditions in the UK and Ireland, which could adversely affect the Group's business, financial condition, results of operations and prospects.
Although the overall impact of the UK's withdrawal from the EU remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the UK's future trading relationship with the EU post-Brexit being the key consideration in this regard.

The legal and regulatory position of the Group’s operations in the UK may also become uncertain. If UK regulatory capital rules diverge from those of the EU as a result of future changes in EU law which are not mirrored by the UK or vice versa, the Group’s regulatory burden could increase, which would likely increase compliance costs. Depending on the nature of the agreement reached between the UK and the EU on migration and immigration (if any), the UK’s exit from the EU could also result in restrictions on the mobility of personnel, and could create difficulties for the Group in recruiting and retaining qualified employees, both in the UK and Ireland. In addition, financial institutions and other financial operations currently based in the UK may seek to relocate some operations to Ireland. This may result in heightened competition for suitably qualified employees, which could adversely affect the Group’s ability to attract and retain employees. Accordingly, the UK exiting the EU could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

The mitigating actions for the previous three macroeconomic and geopolitical risk factors are that the Group closely monitors global activities and developments, particularly in the UK, the EU and the eurozone. Furthermore, the Group's stress testing and integrated planning frameworks evaluate its risk profile under a range of scenarios. The most severe systemic risks, together with their associated risk mitigants are evaluated as part of the Internal Capital Adequacy Assessment Process (“ICAAP”).

The Group faces risks associated with the level of, and changes in, interest rates, as well as certain other market risks.

The following market risks arise in the normal course of the Group's banking business; interest rate risk, credit spread risk (including sovereign credit spread risk), foreign exchange rate risk, equity risk and inflation risk. Further details on market risk are provided in section 3.6 of this report.

The Group's earnings are exposed to interest rate risk, including basis risk, i.e. an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics. The persistence of exceptionally low interest rates for an extended period can adversely impact the Group’s earnings through a compression of net interest margin. Widening credit spreads can adversely impact the value of the Group’s available for sale bond positions.

Interest rates also affect the affordability of the Group’s products to customers. A rise in interest rates, without sufficient improvements in levels of customers’ earnings, could lead to an increase in default or re-default rates among customers with variable rate obligations.

Trading book risks predominantly result from supporting client businesses with small residual discretionary positions remaining. Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) to derivative valuations arising from customer activity potentially have the largest trading book derived impact on earnings.

Changes in foreign exchange rates, particularly the euro-sterling rate, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of the Group’s non-Irish subsidiaries. Any failure to manage market risks to which the Group is exposed could have a material adverse effect on its business, financial conditions and prospects.

The Group’s market risk management operates under a Board approved framework and policy. The Group’s Asset and Liability Committee (ALCo) reviews the Group’s market risk position and makes decisions on the management of the Group’s assets and liabilities. The Group’s Treasury function actively manages market risk – proposing and executing market risk strategy and managing market risk on a day to day basis. The Group’s Capital and Liquidity function is responsible for making strategic asset and liability management recommendations to ALCo. The Group’s Financial Risk function provides second line assurance on market risk, defining the market risk control framework and monitoring adherence to this framework. The Group’s Internal Audit function provides third line assurance on market risk.

Risk management – 1. Principal risks and uncertainties

Regulatory and legal risks

The Bank Recovery and Resolution Directive ("BRRD") and the Single Resolution Mechanish ("SRM") Regulation provide for resolution tools that may have a material adverse effect on the Group.

In February 2017, the Group announced that it had been notified by the Single Resolution Board ("SRB") that the preferred resolution strategy for the Group consists of a single point of entry bail-in at the group holding company level, which would require the establishment of a holding company directly above Allied Irish Banks, p.l.c. Under a single point of entry resolution strategy with bail-in at Group holding company level, the holding company would issue external equity and debt instruments that would be expected to meet the minimum requirements for own funds and eligible liabilities ("MREL") purposes, whereas customer accounts would continue to be held in regulated operating companies below the holding company level. AIB Group plc (the holding company) was established and was listed on the Irish and London Stock Exchanges in December 2017.

Any further changes removing impediments to resolution, to be implemented in respect of the SRM Regulation and the BRRD, may have an effect on the Group's business, financial condition or prospects. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements.

The Group continues to actively engage as the SRB develops its resolution plan.

The Group is required to comply with a wide range of laws and regulations. If the Group 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.

The legal and regulatory landscape in which the Group operates is constantly evolving, and the burden of compliance with laws and regulations is increasing. As new laws or regulatory schemes are introduced, the Group may be required to invest significant resources in order to comply with the new legislation or regulations. For example, the introduction of Payment Services Directive 2 ("PSD2") will result in the Group being required to introduce significant changes to its systems and processes in order to ensure compliance, while the implementation of International Financial Reporting Standards 9 (IFRS 9) requires investment in developing an IFRS 9 compliant accounting system and models, as well as increased ongoing compliance costs. The General Data Protection Regulation (GDPR) will take effect from 25 May 2018, and will replace the Data Protection Act ("DPA") as the primary legislation governing the Group's use of customer personal data, and will require significant investment by the Group in order to comply with this new regulation. Furthermore, the laws and regulations to which the Group are already subject could change as a result of changes in interpretation or practice by courts, regulators or other authorities.

The Group is incorporated and has its head office in Ireland, and is authorised as a credit institution in Ireland by the ECB. The Group has exercised its EU "passport" rights to provide banking, treasury and corporate treasury services in the United Kingdom through the London branch of Allied Irish Banks, p.l.c. The Group must comply with FCA Conduct of Business rules in so far as they apply to its business carried out in the United Kingdom. In the United States, the Group is subject to federal and state banking and securities law supervision and regulation as a result of the banking activities conducted by Allied Irish Banks, p.l.c.'s branch in New York.

Systemically important banks located in the eurozone, including the Group, came under the direct supervision of, and are deemed to be authorised by, the ECB since the introduction on 4 November 2014 of the Single Supervisory Mechanism ("SSM"). The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

While the Central Bank of Ireland ('Central Bank') continues to regulate the Group in relation to certain areas including consumer protection in Ireland, the ECB with support from the Central Bank has primary responsibility for the prudential supervision of the Group.

The Group 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. The Group's borrowing costs and capital requirements could be affected by prudential regulatory developments, including Capital Requirements Directive IV ("CRD IV") and, potentially, the CRD V/BRRD2 Proposals, which include legislative proposals for amendments to the Capital Requirements Regulation ("CRR") and CRD IV.

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.

Thus, the Group 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 and require increased management attention, which may divert focus from other areas of its business. Adverse regulatory action or adverse judgements in litigation could result in a monetary fine or penalty, adverse monetary judgement or settlement, and/or restrictions or limitations on the Group's operations, or could result in a material adverse effect on the Group's reputation.

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 Competition and Consumer Protection Commission ("CCPC") as part of the current programme for the Government (a similar review having been completed on the UK banking sector in 2016). As part of such a review, the Group may be required to modify its business and the pricing of its products to satisfy the regulatory requirements arising from the review.

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

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

The Group adopts a systematic approach to the identification, assessment, transposition, control and monitoring of new or changing laws and regulatory requirements. Once implemented, a compliance monitoring team tests the adequacy of, and adherence to, the control environment.

The Group is subject to anti-money laundering and terrorist financing, 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.

The Group is subject to laws aimed at preventing money laundering, anti-corruption and the financing of terrorism.

Monitoring compliance with anti-money laundering ("AML"), counter-terrorist financing ("CTF") and anti-corruption and sanctions rules can put 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 intrusive, resulting in several landmark fines against financial institutions. In addition, the Group 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.

The 4th EU Anti-Money Laundering Directive ("MLD4") emphasises a "risk-based approach" to AML and CTF and imposes obligations on Irish incorporated bodies 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 leaking of papers containing highly sensitive information, as well as from a desire to align European AML/CTF laws with recommendations from the Financial Action Task Force.

The combined impact of these changes is the 5th EU Anti-Money Laundering Directive ("MLD5"), which was agreed by the EU Council and Parliament in December 2017. This is expected to come into force in each member state by mid-2019. The Group will need to continue to monitor and reflect the changes under MLD4 and MLD5 in its own policies, procedure and practices, and to update its framework to take account of the risk-based approach and the specific manner in which these requirements are transposed into national law by the transposing legislation in Ireland and the UK.

Although the Group has policies and procedures that it believes are sufficient to comply with applicable AML/CTF, anti-corruption and sanctions rules and regulations, it cannot guarantee that such policies and procedures will completely prevent situations of money laundering, terrorist financing or corruption, including actions by the Group's employees, agents, third-party suppliers or other related persons for which the Group might be held responsible. Any such events may have severe consequences, including litigation, sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group has established robust control frameworks to identify and comply with the AML/CTF, sanctions and anti-bribery laws that apply to all of its business operations. Key aspects include comprehensive Group policies and standards, detailed customer on-boarding and ongoing due diligence requirements, ongoing transaction monitoring, and automated screening of the customer base and payments against relevant official sanctions lists, together with escalation protocols and staff training programmes.

Risk management – 1. Principal risks and uncertainties

The Group's financial results may be negatively affected by changes to, or the application of, accounting standards.
The Group reports its results of operations and financial position in accordance with International Financial Reporting Standards ("IFRS"). Changes to IFRS or interpretations thereof may cause the Group'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. Such changes may also affect the Group's regulatory capital and ratios by requiring the recognition of additional provisions for loss on certain assets.

The Group monitors potential accounting changes and, when these are finalised, it determines their potential impact and discloses significant future changes in its financial statements. The Group has adopted an IFRS 9 methodology from January 2018. This will impact the Group's reported results of operations, financial position and regulatory capital in the future. For example, the replacement of IAS 39 with IFRS 9 will require the Group 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, as is the case for the banking industry as a whole.

The Group mitigates this risk by monitoring developments with regard to impending accounting standards, anticipates business impacts, and takes appropriate actions where applicable. The Group also mitigates this risk by holding capital resources in excess of the minimum regulatory and internal requirements to act as a buffer against volatility and unexpected events.

The Group may be adversely affected by the budgetary and taxation policies of the Irish, UK and other governments through changes in taxation law and policy.
The future budgetary and taxation policy of Ireland and other measures adopted by the Irish Government or the UK Government may have an adverse impact on borrowers' ability to repay their loans and, as a result, on the Group's business.

Furthermore, some measures may directly impact the financial performance of the Group through the imposition of measures such as the bank levy introduced by the Irish Government in Budget 2014, which during Budget 2016, the Irish Government announced would be extended to 2021.

In addition, the UK Government introduced legislation restricting 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. This was subsequently further reduced to 25 per cent, effective 1 April 2016. The impact associated with these and any future changes in budgetary and taxation policies globally could have a material adverse effect on the Group's financial position.In addition, multi-national corporations' recognition of resources for taxation purposes has come under considerable political scrutiny recently. The Organisation for Economic Co-Operation and Development ("OECD"), with the support of the G-20, has embarked on a project to address base erosion and profits shifting ("BEPS") 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 Court of Justice 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, 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 Group assesses this risk by undertaking sensitivity analysis in its financial planning process, and monitoring financial performance against the Group's financial plan on a regular basis.

Irish legislation and regulations in relation to mortgages, as well as judicial procedures for the enforcement of mortgages, custom, practice and interpretation of such legislation, regulations and procedures, may result in higher levels of default by the Group's customers, delays in the Group's recoveries in its mortgage portfolio, and increased impairments.
Legislation and regulations introduced in 2013 to the Irish mortgage market has had an effect on the Group's customers' attitudes towards their debt obligations, and hence their interactions with the Group in relation to their mortgages.

Regulations such as the Personal Insolvency Act and the Code of Conduct on Mortgages Arrears ("CCMA") may result in changes in customers' attitudes, where they may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. This could result in delays in the Group's recoveries in respect of its mortgage portfolio, and in increased impairments, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

During 2017, legislation was introduced in Dáil Éireann, entitled the 'Keeping People in their Homes Bill 2017' and 'Mortgage Arrears Resolution (Family Home) Bill 2017'.

As a result, the Government may seek to influence how credit institutions set interest rates on mortgages, may amend the Personal Insolvency Act to reduce the entitlements currently afforded to mortgage holders thereunder, or may enact other legislation or introduce further regulation that affects the rights of lenders in other ways that could have a material adverse effect on the Group's business, financial condition and prospects.

Loan to Value ("LTV")/Loan to Income ("LTI") related regulatory restrictions on residential mortgage lending could restrict the Group's mortgage lending activities and balance sheet growth generally. The Group is required to restrict lending above 3.5 times LTI to no more than 20 per cent (for first time buyers) of the aggregate value of the Private Dwelling House ("PDH") loans that the Group makes in the relevant period. The restriction is 10% for second time and subsequent buyers.

These restrictions could adversely affect the level of new mortgage lending the Group can undertake and the costs of administering its residential mortgage lending, and hence could have a material adverse effect on its business, results of operations, financial condition and prospects.

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

The Group actively engages with all relevant industry and government stakeholders, highlighting, as appropriate, the intended and unintended consequences of any proposed regulatory or legislative changes, including its impacts on customers, the Group and the industry as a whole.

The Group is subject to conduct risk, including changes in laws, regulations and practices of relevant authorities and the risk that its practices may be 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.

The Group is exposed to conduct risk, which the Group defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of the Group's business may be determined by 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. If the Group fails to comply with any relevant laws or regulations, it may suffer reputational damage and may be subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. The Group's practices may also be challenged under current regulations and standards. There is also a risk that pressures from the media, consumer groups and/or politicians could influence the agenda of the Central Bank and the FCA.

In addition, the Group 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 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 the Group in a short period of time and/or without transitional arrangements. If the Group is unable to manage these risks, its business, results of operations, financial condition and prospects could be materially adversely affected.

The Group has a Conduct Risk Framework, aligned with the Group Strategy, which is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level by way of two key fora:
– The Group Conduct Committee: provides the Group Leadership team oversight of conduct through promoting and supporting a 'customer first' culture, and also oversees the key conduct Risk Appetite metrics for Complaints Management and Product Reviews.
– The Group Product and Proposition Committee: focus is exclusively in product oversight and management, including overseeing a rolling programme of product reviews.

Risk management – 1. Principal risks and uncertainties

Risks relating to business operations, governance and internal control systems

The Group 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 the Group's businesses. In addition to the credit exposures arising from loans to individuals, Small and Medium Enterprises ("SME's") and corporates, the Group also has exposure to credit risk arising from loans to financial institutions, its trading portfolio, financial investments available for sale, derivatives, and from off-balance sheet guarantees and commitments. Due to the nature of its business, the Group has extensive exposure to the Irish 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 have a disproportionate impact on the Group. If the Group is unable to manage its credit risk effectively, its business, results of operations, financial condition and prospects could be materially adversely affected. The Group'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.

The Group's credit risk management operates under a Board approved framework and suite of policies. The Group's Credit Committee ("GCC") monitors credit risk. The Group's Credit Risk function provides second-line assurance, defining the credit risk framework and monitoring compliance with this framework. The Group internal Audit function provides third line assurance on credit risk.

The Group's strategy may not be optimal and/or not successfully implemented.

The Group has identified several strategic objectives for its business. There can be no assurance that the Group's strategy is the optimal strategy for delivering returns to shareholders.

The various elements of the Group's strategy may be individually unnecessary or collectively incomplete. The Group's strategy may also prove to be based on flawed assumptions regarding the pace and direction of future change across the banking sector.

Finally, the Group may not be successful in implementing its strategy in a cost effective manner. The Group'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.

The Group operates in competitive markets in Ireland and the UK, 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.

Medium term competitive risks include:
- more intense price-based competition from incumbent providers;
- an increase in the use of intermediaries in the mortgage market;
- the emergence of new, lower-cost competitors in the Irish mortgage market;
- sustained disintermediation of traditional banks, including the Group, from specialist and generalist product lines;
- the internationalisation of supply and demand for low-complexity products such as deposits;
- the successful establishment of virtual banks; and
- the introduction of 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.

In addition, 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 entry of bank and non-bank competitors into the Group's markets may put additional pressure on the Group's income streams and, consequently, have an adverse impact on its financial performance.

The Group mitigates this risk by monitoring its performance against its strategic objectives on a regular basis, by periodically reviewing the competitive landscape, and by benchmarking its performance to peers.

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

The Group 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 that 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 financial crisis, if an inappropriate culture develops, then a strategy or course of action could be adopted that results in poor customer outcomes. If the Group is unable to maintain an appropriate culture, this could have a negative impact on the Group's business, result of operations, financial condition and prospects.

The Group promotes, amongst all staff, the principle of 'doing the right thing'. It monitors the evolving culture through a staff engagement programme, iConnect, and through its performance management system. The performance management system facilitates quality discussions with staff on 'what' and 'how' they will achieve their objectives. As a result, initiatives continue to be undertaken at team level to improve the way we do things and from which we continuously identify opportunities to evolve our culture at Group level as a competitive advantage. As further support, the Group has implemented a Code of Conduct supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'.

Damage to the Group's brand or reputation could adversely affect its relationships with customers, staff, shareholders and regulators.

Management aims to ensure that the Group's brands, which include the AIB and EBS brands in Ireland, the AIB 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 by providing an exceptional customer experience. The Group's relationships with its stakeholders, including its customers, staff and regulators, could be adversely affected by any circumstance that cause real or perceived damage to its brands or reputation. In particular, any regulatory investigations, inquiries, litigation, actual or perceived misconduct or poor market practice in relation to customer-related issues could damage the Group's brands and/or reputation. Any damage to the Group's brands and/or reputation could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group monitors the 'health' of its brand and reputation by regularly seeking feedback from its customers and other stakeholders, and by tracking metrics in relation to these, e.g. the Net Promoter Score ("NPS") gauges the loyalty of customer relationships. The Group maintains open communication with all regulatory bodies.

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

Conditions may arise which would constrain funding or liquidity opportunities for the Group over the longer term. Currently, the Group funds its lending activities primarily from customer accounts. Consequently, a loss of confidence by depositors in the Group, the Irish banking industry or the Irish economy, could ultimately lead to a reduction in the availability and/or an increase in the cost of funding or liquidity resources. Concerns around debt sustainability and sovereign downgrades in the eurozone could impede access to wholesale funding markets, adversely impacting the ability of the Group to issue debt securities or regulatory capital instruments to the market. Execution risk to the MREL issuance plan may arise, as AIB Group MREL eligible issuance products have limited precedence, and this may result in a lack of depth to the market and minimal investor demand. At the same time, competitor banks across Europe will be following a similar strategy.

The Group could also be negatively affected by an actual or perceived deterioration in the soundness of other financial institutions and counterparties. 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 the Group interacts on a daily basis.

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

A stable customer deposit base has allowed the Group to reduce its wholesale funding requirements. This, in turn, has facilitated an increase in the Group's unencumbered high quality liquid assets. The Group has also identified certain management and mitigating actions which could be considered on the occurrence of a liquidity stress event. However, in the unlikely event that the Group exhausted these sources of liquidity, it would be necessary to seek alternative sources of funding from monetary authorities.

The Group's funding and liquidity risk management operates under a Board-approved framework and policy. The Group's ALCo reviews the Group's funding and liquidity risk position and makes decisions on the management of the Group's assets and liabilities. The Group's Treasury and Capital and Liquidity functions actively manage funding and liquidity risk – proposing and executing funding strategy and managing liquidity risk on a day- to-day basis. The adequacy of the Group's funding and liquidity is evaluated under both forecast and stress conditions as part of the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP process includes the identification and evaluation of potential liquidity mitigants.

The Group's Financial Risk function provides second line assurance on funding and liquidity risk, defining the funding and liquidity control framework, and monitoring adherence to this framework. The Group's Internal Audit function provides third-line assurance on funding and liquidity risk.

The Group'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 the Group's business.

The Group is exposed to a number of material risks that it manages through its Risk Management Framework. Although the Group invests substantially in its risk management strategies and techniques, there is a risk that these could fail to fully mitigate these risks in some circumstances.

Risk management – 1. Principal risks and uncertainties

Furthermore, Senior Management are required to make complex judgements, and there is a risk that decisions made by Senior Management may not be appropriate or yield the results expected, or that Senior Management may be unable to recognise emerging risks in order to take appropriate action in a timely manner.

The Group mitigates this risk by regularly reviewing the design and operating effectiveness of its risk management policies and methodologies. These reviews are supplemented in some instances by external review and validation.

The Group 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.

The Group 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. The Group also uses financial models to determine the fair value of 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 in accordance with IFRS as adopted by the EU. Since the Group uses risk measurement models based on historical observations, there is a risk that it may 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 the Group'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.

The Group's credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, a replacement of Internal ratings-based ("IRB") models for a standardised approach, or a reputational risk for the Group.

CRD IV provides for the use of an 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.

If the Group'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.

The Group mitigates this risk through the review and monitoring of the design and operating effectiveness of the Model Risk Framework and supporting policies.

The Group requires approval from the ECB in order to implement new IRB models or to change existing approved IRB 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 the approaches to internal models used by banks across the EU.

The Group 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 vulnerability to challenges 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 the Group's business.

The Group 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. The Group has been proactive in managing its criticised loans, in particular through restructuring activities and the Mortgage Arrears Resolution Process ("MARP") that was introduced in order to comply with the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"). The Group has reduced the level of criticised loans, but, there can be no assurance that the Group will continue to be successful in reducing the level of its criticised loans.

The percentage of the Group's loan portfolio which is impaired is higher than the average of other European financial institutions and remains a main concern for the Group's joint supervisory team at the ECB and Central Bank in light of the implications for the Group's profitability, capital and senior management agenda.

The monitoring of such loans can be time-consuming, and typically requires case-by-case resolution, which may divert resources from other areas of the Group's business.

The Group's ability to manage criticised loans may be adversely affected by changes in the regulatory regime or changes in government policy.

In addition, for regulatory reporting purposes, the Group discloses details of its non-performing exposures, and this includes a) loans and receivables to customers and b) off-balance sheet commitments such as loan commitments and financial guarantee contracts.

The Group has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage criticised loans and non-performing exposures. The Group regularly reviews these credit policies, as well as the performance of criticised loans and non-performing exposures, against financial plans.

The Group faces operational risks – including people, cyber, outsourcing, process and systems risks.
Operational risk 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.

The management of the Group's operational risks is central to the delivery of its strategic objectives. To support the management of operational risks, the Group has a defined Operational Risk Framework, which sets out the principles, roles and responsibilities, governance arrangements and processes for operational risk management across the Group. The operational risk strategy of the Group is to adopt sound practices in the identification, evaluation, mitigation, monitoring, assurance and reporting of operational risks to ensure that they are within the operational risk appetite of the Group.

Key Operational Risks
Currently, the Group considers an area of heightened risk to be people risk. People risk is the risk associated with being unable to recruit and retain appropriately skilled staff to ensure the stability of the business in the long-term.

Under the terms of the recapitalisation of the Group by the Irish Government, the Group is required to comply with certain executive pay and compensation arrangements, including a cap on salaries 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. As a result of these restrictions, and in the increasingly competitive markets in Ireland and the UK, the Group may not be able to attract, retain and remunerate highly skilled and qualified personnel. The proposals set out by the Remuneration Committee in relation to a Deferred Annual Share Plan is a step towards helping to manage retention risk. Failure by the Group to staff its day-to-day operations appropriately, or to attract and appropriately develop, motivate and retain highly skilled and qualified personnel, could have an adverse effect on the Group’s results, financial condition and prospects. In addition, 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 could give rise to employee dissatisfaction and/or tensions with trade unions.

The Group’s employees are expected to continue to be affected by change across the organisation, as the Group’s business model evolves to meet customer demand and react to competitive pressures. Additional change during 2018 will be driven by the implementation of the Group’s property programme, with circa 2,300 employees moving to new locations within Dublin – Central Park (Sandyford) and Molesworth Street.

The Group’s business is dependent on the accurate and efficient processing and reporting of a high volume of complex transactions across numerous and diverse products and services. This is enabled by the high-performing information technology (“IT”) and communications infrastructure on which the Group relies. Weaknesses or issues which may result in these systems or processes not operating as expected could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes or to achieve its organisational objectives. This could include issues such as technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events.

The Group is dependent on the performance of third-party service providers, and if these providers do not perform their services or fail to provide services to the Group or renew their licences with the Group, the Group’s business could be disrupted and it could incur unforeseen costs.

The Group seeks to ensure that procedures are in place to effectively manage the relevant data protection obligations of its employees and any third-party service providers, and also continues to enhance security measures to help prevent cybercrime. Notwithstanding such efforts, the Group is exposed to the risk that personal customer data could be wrongfully lost, disclosed or stolen, as a result of human error or otherwise.

The Group mitigates its operational risks by having detailed risk assessment and internal control requirements in relation to the management of its key people, process and systems risk, and through comprehensive and robust business continuity management arrangements. The Group continues to invest significantly in technology. Its IT transformation programmes are aimed at delivering resilience, agility and a simple, efficient operating model focused on improving the customer experience. The Group has a defined Cyber Security Strategy in place, ensuring that the Group’s capabilities continue to secure the Group.

The Group maintains insurance policies to cover a number of risk events. These include financial 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 the Group maintains is appropriate for the risks to its business or adequate to cover all potential claims.

Risk management – 1. Principal risks and uncertainties

The Group may have insufficient capital to meet increased minimum regulatory requirements.
The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the SSM. As a result of these requirements, banks in the EU have been and could continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected and/or that losses on the Group’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 pension risk to increase significantly, there is a risk that the Group’s capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements.

This risk is mitigated by evaluating the adequacy of the Group's capital under both forecast and stress conditions as part of the ICAAP. The Group ensures that, as part of its capital planning, it maintains an appropriate buffer over the minimum regulatory and internal capital requirements. The ICAAP process also includes the identification and evaluation of potential capital mitigants should this buffer come under threat.

The Group 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.
The Group 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. In relation to these schemes, the Group faces the risk that the funding position of the schemes will deteriorate over the longer term. This may require the Group 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 the Group’s pension deficit may adversely affect its capital position. There could also be a negative impact on industrial relations if the funding level of the schemes were to deteriorate.

The Group 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 MFS) requirements of the AIB Irish Pension Scheme. For the defined benefit scheme in the UK, the Group established an asset-backed funding vehicle to provide the required regulatory funding. 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 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 pension scheme liabilities may increase due to changes in actuarial assumptions.

Pension risk is monitored and controlled in line with the requirements of the Group’s Pension Risk Framework. The extent of the IAS 19 surplus or deficit is monitored on a monthly basis. In addition, the potential change in this value over a one year time horizon is assessed on a monthly basis and is reported versus a Group RAS watch trigger.

Deferred tax assets that are recognised by the Group may be affected by changes in tax legislation, the interpretation of such legislation, or relevant practices. The Group is also required under capital adequacy rules to deduct from its CET1 the value of most of its deferred tax assets, which may result in it being required to hold more capital.
As at 31 December 2017, the Group had € 2.7 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 authority, 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 decrease in the Group’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. This legislation has adversely affected the value of the Group’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 the Group’s deferred tax assets, which could adversely affect the Group’s business, results of operations, financial condition and prospects.

There is also a risk that the Group may not generate the future taxable profits in Ireland or in the UK necessary to support the current level of deferred tax assets.

The capital adequacy rules under CRD IV also require the Group, 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.

Because of these rules, the Group may be required to hold more capital in the transitional period.

The Group monitors this risk by regularly reviewing the basis for recognition of its deferred tax assets. In addition, the Group monitors and sets limits on its fully-loaded capital position, which excludes deferred tax assets, from the Group’s available capital resources.

Risk management – 2. Framework

Introduction

The principal risks and uncertainties to which the Group is exposed are set out in the previous section. The governance and organisation framework through which the Group manages and seeks to mitigate these risks is described below.

2.1 Risk management framework

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase cash flow volatility, reduce capital, threaten its business reputation or viability, and/or breach its regulatory or legal obligations. The Group 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 Board delegation) are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed and mitigated. The core aspects of the Group's risk management approach are described below.

2.2 Risk identification and assessment

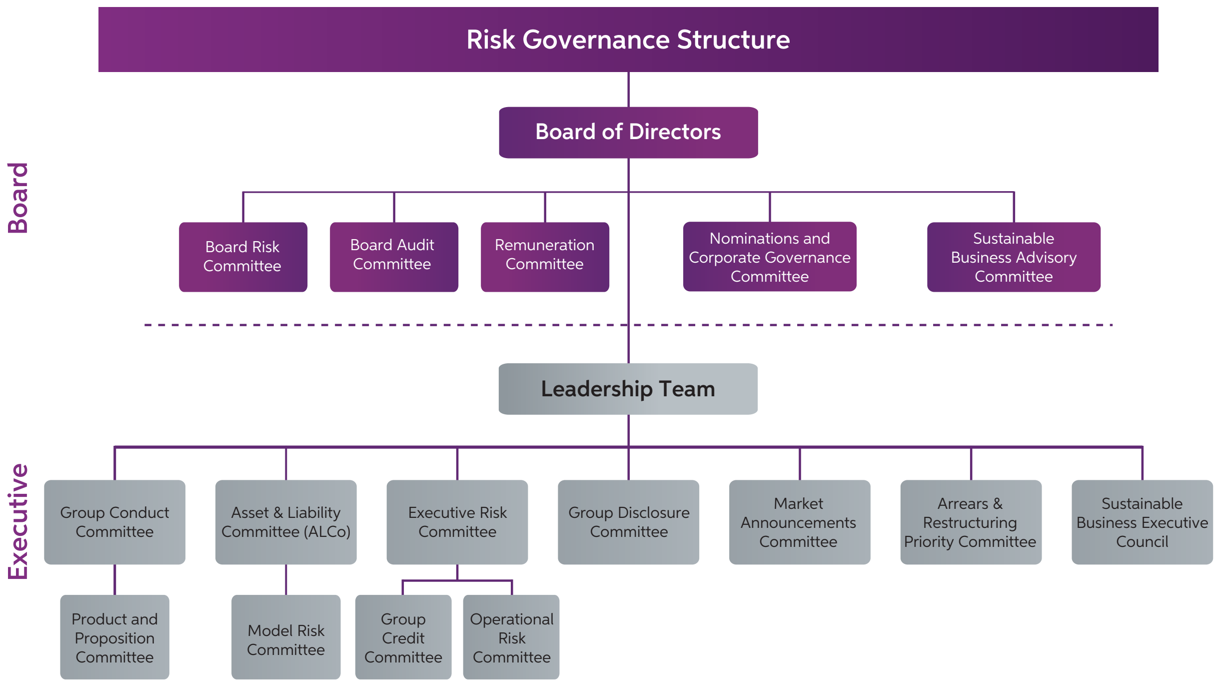
The Group uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment ("MRA") is undertaken on at least an annual basis. The MRA identifies and assesses the most serious material risks facing the Group in terms of their likelihood and impact. Other assessments of risk are undertaken, as required, by business areas, focusing 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. Reports on the Group's risk profile and emerging risks are presented at each Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") meeting. The ERC meets on a monthly basis.

2.3 Risk appetite

The Group's risk appetite is defined as the amount and type of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives. The Group Risk Appetite Statement ("RAS") is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives.

The Group RAS is reviewed and approved by the Board at least annually and more often if required, in alignment with the business and financial planning process. The Group RAS is cascaded down to the Group authorised bank subsidiaries and significant business areas to ensure it is embedded throughout the Group.

While the Board approves the Group RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. The Group's risk profile is measured against its risk appetite and adherence to the Group RAS is reported on a monthly basis to the ERC and BRC. Should any breaches of Group RAS limits arise, these, together with associated management action plans, are escalated to the Board for review, and also reported to the Central Bank of Ireland ("CBI")/Joint Supervisory Team ("JST"), in line with the provisions of the revised Corporate Governance Code.



2.3 Risk appetite *(continued)*

The Group RAS is built on the following overarching qualitative statements:

1. We have low appetite for income volatility and target steady, sustainable earnings to enable appropriate regular dividend payments;
2. We do not have an appetite for large market risk positions;
3. We accept the concentration risk arising from our focus on markets in Ireland and the UK. Within these markets we seek to avoid excessive concentrations to sectors or single-names and test repayment capacity in stress conditions;
4. We seek to attract and retain skilled staff and reward behaviour consistent with our brand values and code of conduct;
5. We offer our customers transparent, consistent and fair products and services, and always seek to deliver fair customer outcomes;
6. We seek to maintain the highest level of availability of key services for our customers;
7. We seek to comply with all relevant laws and regulations; our business is underpinned by a strong control framework;
8. We hold capital in excess of regulatory requirements whilst achieving returns on capital in line with stakeholder and market expectations; and
9. We seek resilient, diversified funding, relying significantly on retail deposits.

Risk appetite is embedded within the Group in a number of ways, including alignment with risk frameworks and policies, segment and subsidiary risk appetite statements, delegated authorities and limits, and new product approval processes. Extensive communication and the cascade of key aspects of the Group's risk appetite framework, as relevant, serve to ensure that risk appetite drives strategy and informs day-to-day decision-making.

2.4 Risk governance

2.4.1 Risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group has adopted a 'three lines of defence' framework in the delineation of accountabilities for risk governance. Under this model, the primary responsibility for risk management lies with business line management. The Risk Management function together with the Compliance function, headed by the Group Chief Risk Officer ("CRO") provide the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function, under the Head of Group Internal Audit ("GIA"), which provides independent assurance to the Board Audit Committee on the effectiveness of the system of internal control.

2.4.2 Committees with risk management responsibilities

The Board has delegated a number of risk governance responsibilities to various committees and key officers. The diagram on the previous page summarises the current risk committee structure of the Group.

The roles of the Board, the Board Audit Committee, the BRC, the Remuneration Committee and the Nominations and Corporate Governance Committee are set out in the Governance and Oversight – Corporate Governance report on pages 186 to 194. The role of the Sustainable Business Advisory Committee ("SBAC") is set out on page 21 Sustainability, governance and risk.

The Leadership Team comprises the Senior Executive managers of the Group who manage the strategic business risks of the Group. The team establishes the business strategy and risk appetite within which the Group operates.

The role of the ERC is to foster risk governance within the Group, to ensure that risks within the Group are appropriately managed and controlled, and to evaluate the Group's risk appetite against the Group's strategy. It is a sub-committee of the Leadership Team chaired by the Chief Financial Officer ("CFO"), and its membership includes the CRO and Chief Operating Officer ("COO") and the heads of significant business areas.

The ERC's principal duties and responsibilities include reviewing the effectiveness of the Group's risk frameworks and policies, monitoring and reviewing the Group'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 the Group; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; approving credit inputs to credit decisioning models, as well as reviewing and approving other credit-related matters as they occur. The principal responsibility of the ORC is to provide oversight to ERC in relation to the current and potential future operational risks/profile facing the Group and operational risk strategy in that regard. The ORC reviews, approves and recommends, as appropriate, to the ERC, the BRC and the Board, 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 is to promote a sustaining customer-first culture through the oversight of conduct across the Group's operations, including in Republic of Ireland, the UK and the USA, and to 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 ("CMO"), who is responsible for ensuring a consistent approach to conduct risk management across the Group.

The Group Conduct Committee's principal duties include monitoring the Group's conduct profile to ensure it remains within risk appetite, approving and monitoring the effectiveness of the Group Conduct Risk Framework, and reviewing, and approving other conduct-related matters, including reviewing the process by which the Group and its subsidiaries identify and manage conduct risk, reviewing the Group's strategy to ensure customer outcomes and risks to customers are fully articulated, and developing conduct training programmes. The Group Conduct Committee acts as a parent to the Group Product and Proposition Committee, which has delegated authority for approving the launch of products and propositions, and oversight of the Group's overall product portfolio.

The role of the Asset and Liability Committe ("ALCo") is to act as the Group'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 the Group's balance sheet structure, including capital, liquidity, funding, interest rate risk in the Banking Book ("IRRBB") 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 risk adjusted returns on capital ("RAROC").

The Model Risk Committee ("MRC") is established under the AIB Model Risk Framework and acts as a sub-committee of the Group ALCo. The Committee reviews and approves, or recommends to a higher governance authority, the use of AIB credit, operational and financial risk models. The Committee also monitors and maintains oversight of the performance of these models. The chair of the MRC is a member of the Risk senior management team, and the membership of the Committee includes representatives from Risk, Finance and relevant business lines in the Group.

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 the Group and its impacted subsidiary entities in order to comply with insider information disclosure obligations under the Market Abuse Regulation ("MAR"), the Central Bank of Ireland's Market Abuse Rules, and the Irish Stock exchange Listing Rules.

The MAC's principal duties include determining whether information raised is deemed to be inside information and, if so, implementing and monitoring the appropriate procedure to be followed, together with assigning a business owner for each inside information event. The Committee also ensures that the Group issues an announcement in circumstances where an obligation to disclose insider information has arisen under MAR but where the Group 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, the Director of Corporate Affairs, and the Group Treasurer.

The Group Disclosure Committee (GDC) is responsible for reviewing Group financial information for compliance with the 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 the Group conform to the highest standards in financial reporting. The GDC is chaired by the Group Director of Finance.

The role of the Arrears and Restructuring Priority Committee ("ARPC") is to take all decisions and actions required or deemed necessary in relation to the Group's non-performing loan exposures. It is a sub-committee of the Leadership Team, and is chaired by the Head of Financial Solutions Group.

The Sustainable Business Executive Council ("SBEC") was established by the Leadership Team in 2017 as an executive council supporting the SBAC in the execution of the bank's sustainable business strategy in accordance with the approved group strategic and financial plan.

The Council is comprised of members of the leadership team and senior managers representing a cross-section of all the Group's functions, and is co-chaired by the Director of Corporate Affairs and the CMO.

Risk management

3.1 Credit risk

Risk management – 3. Individual risk types

3.1 Credit risk

Credit risk is the risk that the Group 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 the Group 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.

The Group lends to personal and retail customers, commercial entities and government entities and banks. Credit risk arises on the drawn amount of loans and receivables, and 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.

Credit risk organisation and structure

The Group'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. The Group Risk Appetite Statement ("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 the Group's approved risk appetite. The Group's risk appetite for credit risk is reviewed and approved annually.

The Group operates credit approval criteria which:

- Includes a clear indication of the Group's target market(s), in line with Group and segment risk appetite statements;
- Requires 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
- Enforces 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, 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 AIB 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 the Group's written policies and guidelines. All exposures above certain levels require approval by the Group Credit Committee ("GCC") and/or 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.

Measurement of credit risk

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

The primary model measures used are:

- Probability of default ("PD") – the likelihood that a borrower is unable to repay their obligations;
- Exposure at default ("EAD") – the exposure to a borrower who is unable to repay their 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.

Risk management – 3. Individual risk types

3.1 Credit risk

Measurement of credit risk *(continued)*

To calculate PD, the Group 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 on-going 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 probability of default 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 decisioning 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' earnings before interest, tax, depreciation and amortisation ("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. In AIB, 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, or loans that are in a post impairment/restructuring phase.

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 estimated 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 Group'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 on-going review in order to ensure that the Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

Use of PD, LGD, and EAD within regulatory capital

The Group uses a combination of Standardised and Internal Ratings Based ("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. The Group has regulatory approval to use certain of its internal credit models in the calculation of its capital requirements.

Information on the distribution of outstanding non-defaulted credit exposures to customers in terms of EAD, PD, LGD and EL by IRB portfolios is disclosed in the 2017 Pillar 3 report.

3.1 Credit risk

Measurement of credit risk *(continued)*

Control mechanisms for rating systems

The Group ALCo approves all material risk rating models, model development, model implementation and all associated polices. The Group mitigates model risk for IRB portfolios as follows:

- The Group has specific policies relating to 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, and the results are reported to a model risk committee, and where appropriate, to ALCo.

Credit risk principles and policy*

The Group 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 the Group identifies, assesses, approves, monitors, reports and controls credit risk. It contains minimum standards that are applied across the Group 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. Credit Risk monitors credit performance trends, reviews and challenges exceptions to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows the Group 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 the Group's capital, total assets, earnings or overall risk level to threaten its ability to deliver its core objectives. Credit policy is aligned to the Group'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 the Group and in turn facilitate appropriate management action and decision making.

Country risk*

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable/unwilling to fulfil or are precluded from fulfilling their obligations to the Group 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, interbank exposure as well as corporate and equity exposures. Exposures against limits are monitored on an on-going 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 the Group'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. The Group 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 on-going basis.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

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. This includes 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, 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 a Group wide level, at a segment and by rating model and portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – 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 the Group 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.

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2017 and 2016:

			2017			2016
Maximum exposure to credit risk*	**Amortised cost[1] € m**	**Fair value[2] € m**	**Total € m**	Amortised cost[1] € m	Fair value[2] € m	Total € m
Balances at central banks[3]	5,731	–	5,731	5,921	–	5,921
Items in course of collection	103	–	103	134	–	134
Trading portfolio financial assets[4]	–	32	32	–	–	–
Derivative financial instruments	–	1,156	1,156	–	1,814	1,814
Loans and receivables to banks	1,313	–	1,313	1,399	–	1,399
Loans and receivables to customers	59,993	–	59,993	60,639	–	60,639
NAMA senior bonds	–	–	–	1,799	–	1,799
Financial investments available for sale[5]	–	15,642	15,642	–	14,832	14,832
Financial investments held to maturity	–	–	–	3,356	–	3,356
Included elsewhere:						
Trade receivables	277	–	277	90	–	90
Accrued interest	307	–	307	340	–	340
	67,724	16,830	84,554	73,678	16,646	90,324
Financial guarantees	880	–	880	910	–	910
Loan commitments and other credit related commitments	10,231	–	10,231	10,289	–	10,289
	11,111	–	11,111	11,199	–	11,199
Total	78,835	16,830	95,665	84,877	16,646	101,523

[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 € 6,364 million (2016: € 6,519 million).

[4]Excluding equity shares of € 1 million (2016: € 1 million).

[5]Excluding equity shares of € 679 million (2016: € 605 million).

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

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 the section on Collateral. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

Occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

The Group 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 the International Swaps and Derivatives Association ("ISDA") Master Agreement.

The Group 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 a requirement to obtain collateral as set out in the Group'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. The Group maintains policies which 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 the Group's loans and receivables portfolio, some key principles have been applied in respect of property collateral held by the Group.

In accordance with the Group's policy and guidelines on Property Collateral Valuation, the Group 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
- Application of local knowledge in respect of the property and its location.

Use of independent professional valuations represent circumstances where external firms are engaged to provide formal written valuations in respect of the property. Up to date external independent professional valuations are sought in accordance with the Group's Property Valuation Policy. Historic 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

The residual value analysis 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 the Group, including covering the costs to complete and additional funding costs. The key factors considered in this methodology 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 the Group will be obtained through the development/completion of the project, a residual value methodology is used. When, in the opinion of the Group, 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, provide indications of the likely realisable value and a potential timeline for realisation. Current 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 an area combined with the Central Statistics Office ("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 cases, a charge over 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 held are included in impairment assessments, in many cases management rely on valuations or business appraisals from independent external professionals.

Property 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 the Group'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, e.g. 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 the Group 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 on-going 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

In assessing the value of collateral for collectively provisioned impaired mortgage loans in the Republic of Ireland, the Group has used a house price fall from peak of 32% Dublin and 37% non-Dublin as a base (2016: 40% and 44% respectively). This reflects a collateral value buffer against the latest available CSO residential property price index which at 31 December 2017 showed a 25% and a 30% fall from peak for Dublin and non-Dublin respectively (2016: 33% Dublin and 37% non-Dublin).

AIB's buffer to the latest available CSO index remained unchanged at 10% throughout 2017.

Collateral for the residential mortgage portfolio

For residential mortgages, the Group 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. The Group 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 at 31 December 2017 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 (United Kingdom) to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 77.

Loans and receivables to customers – residential mortgages

The following table shows the estimated fair value of collateral held for the Group's residential mortgage portfolio at 31 December 2017 and 2016:

				2017				2016
	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Fully collateralised[1]								
Loan-to-value ratio:								
Less than 50%	**9,901**	**282**	**488**	**10,671**	7,797	234	430	8,461
50% - 70%	**8,991**	**248**	**564**	**9,803**	7,804	225	553	8,582
71% - 80%	**4,074**	**98**	**303**	**4,475**	4,077	110	356	4,543
81% - 90%	**2,876**	**86**	**308**	**3,270**	3,364	83	374	3,821
91% - 100%	**1,800**	**55**	**336**	**2,191**	2,308	99	423	2,830
	27,642	**769**	**1,999**	**30,410**	25,350	751	2,136	28,237
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**1,695**	**82**	**1,005**	**2,782**	3,760	144	1,786	5,690
Total collateral value	**29,337**	**851**	**3,004**	**33,192**	29,110	895	3,922	33,927
Gross residential mortgages	**29,558**	**869**	**3,293**	**33,720**	29,730	933	4,576	35,239
Statement of financial position specific provisions			**(1,135)**	**(1,135)**			(1,728)	(1,728)
Statement of financial position IBNR provisions				**(283)**				(274)
Net residential mortgages			**2,158**	**32,302**			2,848	33,237

[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 financial year end.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Loans and receivables to customers - other

In addition to the credit risk mitigants outlined on the previous page, the Group holds reverse repurchase agreements amounting to € 19 million (2016: Nil) in its loans and receivables portfolio for which it had accepted collateral with a fair value of € 19 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 2017 amounted to € 1,156 million (2016: € 1,814 million) and those with a negative fair value are reported as liabilities which at 31 December 2017 amounted to € 1,170 million (2016: € 1,609 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 534 million at 31 December 2017 (2016: € 971 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2017, € 522 million (2016: € 487 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 193 million (2016: € 322 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 45 to the consolidated financial statements). Additionally, the Group 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 2017, repurchase agreements amounted to € 3 million (2016: Nil) for which the Group had accepted collateral with a fair value of € 3 million.

Financial investments available for sale

At 31 December 2017, government guaranteed senior bank debt which amounted to € 196 million (2016: € 190 million) was held within the available for sale portfolio.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit risk management

Credit risk monitoring*

To manage credit risk effectively, the Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios. It is the Group's practice to ensure that adequate up to date credit management information 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 the Group'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.

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on any exceptions to credit policy is presented and reviewed on a monthly basis. The Group allocates significant resources to ensure on-going monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly. 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.

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.

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.

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which the Group has granted a concession, whether temporarily or permanently are set out below. The Group 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.

The Group uses a range of initiatives to support customers. The Group 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 Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in the family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Mortgage portfolio

Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"), the Group has introduced a four-step process called the Mortgage Arrears Resolution Process, or MARP. This process aims to engage with, support and find resolution for our mortgage customers (for their primary residence only) who are in arrears, or are at risk of going into arrears.

The four step process is summarised as follows:
- Communications – We are here to listen, support and provide advice;
- Financial information – To allow us to understand the customer finances;
- Assessment – Using the financial information to assess the customer's situation; and
- Resolution – We work with the customer to find a resolution.

The core objective of the process is to determine sustainable solutions that where possible, help to keep customers in their home. This 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 the 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/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/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; and

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 the Group's approach to mortgage forbearance.

Non-mortgage portfolio

The Group 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Non-mortgage portfolio *(continued)*

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 the Group, 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 is a trigger event for the Group 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 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); 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.

See accounting policy (t) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

The effectiveness of the forbearance measures over the lifetime of the arrangements are subject to on-going 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 the Group and the borrower.

Further details on forbearance are set out in 'Risk management 3.2 Additional credit risk information – Forbearance'.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning

The Group'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 the Group'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 the Group'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;
– A material decrease in property value; and
– A request for a forbearance measure from the borrower.

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; and
– A request for a forbearance measure from the borrower.

Small Medium Enterprises ("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; and
– A request for a forbearance measure from the borrower.

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;
– Reduction in debt service capacity;
– Reduced prospects of support from any financially responsible guarantors;
– 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;
– Reduction in net worth; and
– Country risk.

Risk management – 3. Individual risk types

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

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 estimated 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 estimated 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 is € 1,000,000 for RCB and WIB by customer connection and £ 500,000 for AIB UK. The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.

Individually significant loans and receivables*

Within AIB, all loans that are considered individually significant are assessed on a case-by-case basis throughout the period for any objective evidence that the loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Group Property Valuation Guidelines as described on pages 78 to 80. 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 d.a.c. which is included in RCB, principal dwelling home ("PDH") loans greater than € 1,000,000 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 with balances less than € 1,000,000 for RCB and £ 500,000 for AIB UK.

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 for each loan: cure; advanced forbearance with loss; and property disposal (forced and voluntary), with different loss rates associated with each. The model parameters are regularly reviewed and updated to reflect current data on loss history and portfolio composition.

The model parameters were refined during the year based on updated market and transactional data.

Key model parameters at 31 December 2017 for owner-occupier mortgages are as follows: cure (19%) and disposal/forbearance (81%) (2016: cure 14% and disposal/forbearance 86%).

The corresponding buy-to-let model parameters at 31 December 2017 are as follows: cure (11%) and disposal/forbearance (89%) (2016: cure 7% and disposal/forbearance 93%).

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 with no loss to the Group.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Individually insignificant – Mortgage portfolio (Republic of Ireland)* *(continued)*

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: likelihood of property disposal, haircuts; costs and time to dispose (voluntary and forced); house price fall from peak; and loss rate on advanced forbearance.

The model parameters are reviewed at the Group Credit Committee on a quarterly basis. The main parameter changes for the year to 31 December 2017 were improvements in the CSO index and the property market fall from peak, an increase in observed cure rates, and increases in disposal haircuts and recovery periods. Whilst each parameter is reviewed on an individual basis, the interconectedness of the parameters within the model is taken into account. Each loan is assigned probability weighted resolution outcomes which determine the loss amounts.

Individually insignificant – Non-mortgage portfolio (Republic of Ireland)*

The non-mortgage individually insignificant and IBNR model takes into consideration underlying security, where available, 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.

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 4 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 the Group has incurred as a result of events occurring before the balance sheet date, which the Group 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 the group, those loans are removed from the group 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 occur 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 historic grade migration experience or probability of default) in portfolios of similar credit risk characteristics (for example, 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Republic of Ireland residential mortgage portfolio – IBNR

The residential mortgage portfolio IBNR is calculated using the individually insignificant and IBNR mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio as at 31 December 2017 and 2016:

						2017
	Owner-occupier			Buy-to-let		
	Exposure	Average PD	Average LGD	Exposure	Average PD	Average LGD
	€ m	%	%	€ m	%	%
Good upper[(1)]	**16,458**	**0.5**	**17.3**	**1,238**	**2.2**	**17.9**
Good lower[(1)]	**7,604**	**1.8**	**17.7**	**1,091**	**6.2**	**22.4**
Watch[(1)]	**1,502**	**13.8**	**19.5**	**223**	**24.6**	**22.9**
Vulnerable[(1)]	**344**	**38.0**	**16.9**	**122**	**45.3**	**25.9**
Included in the above are the following sub portfolios which carry a higher level of IBNR:						
Cured	**511**	**34.6**	**20.0**	**147**	**48.5**	**26.9**
Forborne – non-impaired	**2,900**	**9.1**	**19.6**	**497**	**16.2**	**26.8**

						2016
	Owner-occupier			Buy-to-let		
	Exposure	Average PD	Average LGD	Exposure	Average PD	Average LGD
	€ m	%	%	€ m	%	%
Good upper[(1)]	15,050	0.5	13.8	1,203	2.1	19.7
Good lower[(1)]	8,191	1.7	15.4	1,212	6.1	24.9
Watch[(1)]	1,913	12.6	17.2	327	22.9	27.4
Vulnerable[(1)]	407	35.3	15.6	152	37.3	26.2
Included in the above are the following sub portfolios which carry a higher level of IBNR:						
Cured	860	25.7	17.6	212	41.6	31.3
Forborne – non-impaired	2,828	10.0	16.6	571	17.0	28.7

[(1)]For definition – see page 130.

The IBNR is calculated as PD multiplied by LGD multiplied by Exposure (adjusted for the Emergence Period) with the PD and LGD derived from statistical models. Cured and Forborne non-impaired loans are higher stressed and are therefore, assigned a higher PD.

The parameters for Cured and Forborne non-impaired, are as follows:
Average PD and LGD are based on the PDs and LGDs, weighted by the EAD for all owner-occupier and buy-to-let loans included in the individually insignificant and IBNR mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR provisions.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Republic of Ireland non-mortgage portfolio – IBNR

The non-mortgage portfolio IBNR, which excludes credit card portfolios, is calculated using the individually insignificant and IBNR non-mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for this portfolio at 31 December 2017 and 2016:

			2017			2016
	Exposure € m	Average PD %	Average LGD %	Exposure € m	Average PD %	Average LGD %
Good upper[1]	78	0.1	45.9	79	0.1	45.8
Good lower[1]	7,006	0.7	37.6	5,919	0.5	38.6
Watch[1]	405	4.5	39.9	654	2.8	37.1
Vulnerable[1]	2,756	12.2	33.7	3,165	7.7	33.3
Included within the above are:						
> 90 days past due but not impaired	277	16.7	31.0	333	10.3	33.4
Cured in the past 12 months	292	15.7	31.8	390	10.8	33.5

[1]For definition – see page 130.

The IBNR for the portfolio is calculated as PD multiplied by LGD multiplied by Exposure (adjusted for the Emergence Period) with the PD and LGD coming from statistical models.

The IBNR for some larger exposures continues to be calculated based on the "average annual loss rate" for each homogeneous pool, suitably adjusted where appropriate for any factors currently affecting the portfolio, which may not have been a feature in the past. Credit card provisions (specific and IBNR) are calculated on a custom built provisioning model.

Cured and > 90 days past due but not impaired loans are higher stressed and, therefore, assigned a higher PD.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

Risk management – 3. Individual risk types

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

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, incorporating management judgement, historic 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 historic loan loss experience supported by back-testing, and as appropriate, individual case sampling.

Emergence periods are reviewed on at least an annual basis. At 31 December 2017, there was no change made to the Republic of Ireland emergence period for mortgages (12 months) however, the emergence period in the non-mortgage portfolio was increased from 8 months to 12 months reflecting the impact of economic uncertainty on the restructured and SME portfolios. The emergence period for credit cards and corporate portfolios remains at 3 and 6 months respectively.

The average emergence period for UK mortgages is 12 months with the non-mortgage emergence period ranging from between 3 to 8 months.

Approval process*

The Group operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities and referred to 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 the Group Credit Committee and the Board, where applicable. Segment impairments and related provisions are ultimately reviewed by the Group Credit Committee as part of the quarterly process.

The valuation assumptions and approaches used in determining the impairment provisions are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by segment and Group 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 account of 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 revised agreement and subsequent satisfactory performance.

Reversal 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 judgemental area 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Impact of changes to key assumptions and estimates on impairment provisions* *(continued)*

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 vintage, 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 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 32% Dublin and 37% non-Dublin 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) (2016: 40% and 44% respectively).

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the house price fall from peak assumption used for the Republic of Ireland collective mortgage provision model for 31 December 2017 is estimated to result in movements in provisions of c. € 14 million (€ 11 million specific provision and € 3 million IBNR) (2016: c. € 19 million (€ 16 million specific and € 3 million IBNR)).

A 1% change in the haircut on disposal for Dublin properties would result in a movement in provisions of c. € 4 million (€ 3 million specific provisions and € 1 million IBNR) (2016: € 5 million (€ 4 million specific and € 1 million IBNR)). A similar 1% change in the haircut on disposal for properties outside of Dublin would result in a movement in provisions of c. € 10 million (€ 8 million specific provisions and € 2 million IBNR) (2016: € 12 million (€ 10 million specific and € 2 million IBNR)).

An increase in the assumed repossession rate of 1% for the Republic of Ireland collective mortgage provision model would result in an increase in provisions of 0.5% (blended rate of owner-occupier/buy-to-let) or c. € 5 million (2016: 0.7% or c. € 10 million).

A 1% 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 0.8% (blended rate of owner-occupier/buy-to-let) or c. € 9 million (2016: 0.5% or c. € 7 million).

For € 3.1 billion of the total impaired loans (€ 0.8 billion mortgages and € 2.3 billion non-mortgages) 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%, this would have an impact on the discounting effect, resulting in an increase in impairment provisions of € 26 million (€ 11 million mortgages and € 15 million non-mortgages) (2016: € 40 million (€ 16 million mortgages and € 24 million non-mortgages)); and
– If anticipated cash receipt timelines moved out by 1 year, the impact on impairment provisioning would be an increase of € 45 million (€ 15 million mortgages and € 30 million non-mortgages) (2016: € 56 million (€ 18 million mortgages and € 38 million non-mortgages)).

An IBNR provision is made for impairments that have been incurred but are not 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 c. € 12 million in IBNR provisions (2016: c. € 14 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 c. € 21 million (2016: c. € 22 million).

For the Republic of Ireland non-mortgage portfolio, the impact on impairment provisions of a 1% favourable change in the average PD would be a decrease in impairment provisions of c. € 39 million (2016: c. € 26 million).

For the Republic of Ireland collective mortgage provision model, the impact on impairment provisions of a 1% favourable change in the average PD would be a decrease in impairment provisions of c. € 37 million (2016: € 57 million).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

AIB Group's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The following tables show for the financial years ended 31 December 2017 and 2016 loans and receivables to customers by industry sector and geography[1]:
(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.

					2017
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers*	€ m	%	€ m	€ m	€ m
Agriculture	1,818	2.9	1,716	97	5
Energy	717	1.1	363	305	49
Manufacturing	2,390	3.8	989	533	868
Property and construction	8,820	13.9	6,150	2,505	165
Distribution	5,547	8.7	3,688	1,387	472
Transport	1,352	2.1	617	305	430
Financial	478	0.8	132	196	150
Other services	5,374	8.5	2,084	1,886	1,404
Personal:					
Residential mortgages	33,720	53.3	32,103	1,566	51
Other	3,122	4.9	2,895	226	1
Gross loans and receivables	63,338	100.0	50,737	9,006	3,595
Analysed as to:					
Neither past due nor impaired	55,425				
Past due but not impaired	1,583				
Impaired – provisions held	6,330				
	63,338				
Provisions for impairment:					
Specific	(2,722)				
IBNR	(623)				
Total statement of financial position	59,993				

[1]Based on country of risk.

The credit portfolio is diversified within each of its geographic markets by spread of locations, industry classification and individual customer. At 31 December 2017, residential mortgages in the Republic of Ireland (51%) and property and construction (10%) represent the largest concentrations within the portfolio (2016: 51% and 10% respectively). No other industry or loan category in any geographic market accounts for more than 10% of the Group's total loan portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

					2016
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers*	€ m	%	€ m	€ m	€ m
Agriculture	1,773	2.7	1,661	93	19
Energy	459	0.7	245	155	59
Manufacturing	2,029	3.1	873	487	669
Property and construction	9,394	14.4	6,566	2,675	153
Distribution	5,439	8.3	3,748	1,243	448
Transport	1,405	2.2	535	338	532
Financial	684	1.1	169	219	296
Other services	5,706	8.8	2,160	2,382	1,164
Personal:					
Residential mortgages	35,239	54.0	33,334	1,849	56
Other	3,100	4.7	2,806	294	–
Gross loans and receivables	65,228	100.0	52,097	9,735	3,396
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)				
Total statement of financial position	60,639				

[1]Based on country of risk.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

				2017
	Total	Analysed geographically[1]		
Impaired loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	**101**	**100**	**1**	**–**
Energy	**36**	**25**	**11**	**–**
Manufacturing	**60**	**54**	**6**	**–**
Property and construction	**1,803**	**1,531**	**242**	**30**
Distribution	**417**	**384**	**33**	**–**
Transport	**14**	**14**	**–**	**–**
Financial	**14**	**4**	**–**	**10**
Other services	**230**	**215**	**7**	**8**
Personal:				
Residential mortgages	**3,293**	**3,125**	**149**	**19**
Other	**362**	**347**	**15**	**–**
Total	**6,330**	**5,799**	**464**	**67**

[1]Based on county of risk.

				2016
	Total	Analysed geographically[1]		
Impaired loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	121	117	4	–
Energy	32	31	1	–
Manufacturing	76	60	16	–
Property and construction	2,724	2,094	554	76
Distribution	681	554	72	55
Transport	38	37	1	–
Financial	144	3	9	132
Other services	312	237	50	25
Personal:				
Residential mortgages	4,576	4,331	221	24
Other	432	383	49	–
Total	9,136	7,847	977	312

[1]Based on country of risk.

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3.1 Credit risk – Credit profile of the loan portfolio

				2017
	Total	Analysed geographically[1]		
Provisions for impairment on loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	32	31	1	–
Energy	12	8	4	–
Manufacturing	49	43	6	–
Property and construction	914	734	159	21
Distribution	211	198	13	–
Transport	8	8	–	–
Financial	11	3	–	8
Other services	147	137	8	2
Personal:				
Residential mortgages	1,135	1,085	42	8
Other	203	190	13	–
Specific	2,722	2,437	246	39
IBNR	623			
Total	3,345			

[1]Based on country of risk.

				2016
	Total	Analysed geographically[1]		
Provisions for impairment on loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	40	37	3	–
Energy	11	10	1	–
Manufacturing	53	44	9	–
Property and construction	1,350	996	327	27
Distribution	305	267	27	11
Transport	34	33	1	–
Financial	94	3	3	88
Other services	180	151	25	4
Personal:				
Residential mortgages	1,728	1,626	93	9
Other	252	217	35	–
Specific	4,047	3,384	524	139
IBNR	542			
Total	4,589			

[1]Based on country of risk.

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Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and receivables to customers by segment showing asset quality and impairment provisions for the financial years ended 31 December 2017 and 2016:

					2017					2016
Gross loans and receivables to customers*	**RCB €m**	**WIB €m**	**AIB UK €m**	**Group €m**	**Total €m**	RCB €m	WIB €m	AIB UK €m	Group €m	Total €m
Residential mortgages:										
Owner-occupier	**28,332**	**5**	**1,327**	**–**	**29,664**	28,624	7	1,564	–	30,195
Buy-to-let	**3,840**	**23**	**193**	**–**	**4,056**	4,784	29	231	–	5,044
	32,172	**28**	**1,520**	**–**	**33,720**	33,408	36	1,795	–	35,239
Other personal	**2,888**	**43**	**186**	**5**	**3,122**	2,768	102	230	–	3,100
Property and construction	**3,448**	**3,048**	**2,324**	**–**	**8,820**	4,403	2,499	2,492	–	9,394
Non-property business	**5,927**	**7,203**	**4,493**	**53**	**17,676**	6,025	6,520	4,800	150	17,495
Total	**44,435**	**10,322**	**8,523**	**58**	**63,338**	46,604	9,157	9,317	150	65,228
Analysed as to asset quality[1]										
Satisfactory	**31,570**	**9,938**	**7,421**	**58**	**48,987**	30,397	8,588	7,363	114	46,462
Watch	**1,691**	**12**	**332**	**–**	**2,035**	2,441	28	532	–	3,001
Vulnerable	**5,277**	**364**	**345**	**–**	**5,986**	5,858	310	461	–	6,629
Impaired	**5,897**	**8**	**425**	**–**	**6,330**	7,908	231	961	36	9,136
Total criticised loans	**12,865**	**384**	**1,102**	**–**	**14,351**	16,207	569	1,954	36	18,766
Total loans percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Criticised loans/total loans	**29**	**4**	**13**	**–**	**23**	35	6	21	24	29
Impaired loans/total loans	**13**	**–**	**5**	**–**	**10**	17	3	10	24	14
Statement of financial position	**€m**	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m	€m
Specific provisions	**2,488**	**2**	**232**	**–**	**2,722**	3,462	44	516	25	4,047
IBNR provisions	**525**	**45**	**53**	**–**	**623**	453	33	56	–	542
Total impairment provisions	**3,013**	**47**	**285**	**–**	**3,345**	3,915	77	572	25	4,589
Provision cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Specific provisions/impaired loans	**42**	**25**	**55**	**–**	**43**	44	19	54	69	44
Total provisions/impaired loans	**51**	**588**	**67**	**–**	**53**	50	33	60	69	50
Total provisions/total loans	**7**	**–**	**3**	**–**	**5**	8	1	6	17	7
Income statement – impairment (credit)/charge	**€m**	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m	€m
Specific	**(206)**	**(10)**	**17**	**–**	**(199)**	(183)	35	(31)	8	(171)
IBNR	**73**	**12**	**1**	**–**	**86**	(103)	(14)	(6)	–	(123)
Total impairment (credit)/charge	**(133)**	**2**	**18**	**–**	**(113)**	(286)	21	(37)	8	(294)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Impairment (credit)/charge/ average loans	**(0.29)**	**0.02**	**0.20**	**–**	**(0.18)**	(0.60)	(0.23)	(0.37)	2.12	(0.44)

[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 page 74.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Gross loans and receivables to customers reduced by 3% or € 1.9 billion in 2017. While there was an increase in the level of new lending to € 9.4 billion in the year, this was offset by loan redemptions of € 9.5 billion, disposals of € 0.7 billion, restructures and write-offs of € 0.4 billion and a currency impact of € 0.7 billion.

The following summarises the key points affecting the credit profile of the loan portfolio:

– The Group is predominantly Republic of Ireland and United Kingdom focused with most sectors experiencing improved trading conditions due to a stronger economic environment. The Group has material concentrations in residential mortgages (53% of gross loans) and property and construction (14%). In addition, there is a non-property business lending portfolio (28%) which is spread across a number of sub-sectors and a personal loan portfolio (5%);
– Improved demand for credit resulted in new lending of € 9.4 billion in 2017 (2016: € 8.4 billion) spread across most sectors and included € 2.4 billion mortgage and € 2.2 billion non-mortgage in RCB, € 3.2 billion in WIB, € 1.6 billion in AIB UK;
– The quantum of impaired loans reduced by € 2.8 billion in 2017 (a decrease of 31%). The reduction was driven primarily by the continued progress in working with customers in restructuring their facilities. This restructuring activity with associated write-offs reduced impaired loans by € 1.6 billion. In addition, redemptions and repayments of impaired loans by customers amounted to € 0.8 billion with a further reduction of € 0.7 billion due to sales of portfolios of distressed impaired loans;
– As a result of the restructuring activity and the reduction in impaired loans, the overall credit quality profile has shown a significant improvement. Criticised loans (including impaired) have reduced from 29% of total loans at 31 December 2016 to 23% at 31 December 2017; and
– The net writeback of specific impairment provisions of € 199 million in 2017 compared to a writeback of € 171 million in 2016. The key drivers of the net writeback continues to be restructuring activity, offset by provisions on newly impaired loans and which has remained consistent with 2016 levels.

Restructuring*

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Customer treatment strategies, as described on pages 82 to 84 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 asset 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 resulted in c. € 1.3 billion of loans restructured out of impairment during the year with a further € 0.3 billion of impaired loans written off (including non-contracted write-offs) (2016: € 1.5 billion and € 1.8 billion respectively).

Provision writebacks*

There was a total provision net writeback of € 113 million in 2017 compared to a net write back of € 294 million in 2016. Specific provision writebacks (net of top-ups) during the year were € 472 million (equivalent to c. 5.2% of opening impaired loans) (2016: € 452 million and 3.5%). These writebacks were split into mortgages € 176 million (2016: € 205 million); other personal € 67 million (2016: € 53 million); property and construction € 144 million (2016: € 143 million); and non-property business lending € 85 million (2016: € 51 million). These writebacks were partially offset by specific provisions amounting to € 273 million on newly impaired loans (2016: € 281 million).

The 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 provision charge in 2017 was € 86 million (2016: a release of € 123 million). The charge was impacted by a number of factors including an increase in provisions on the long term arrears mortgage portfolio and the lengthening of emergence periods on some non-mortgage portfolios in light of the relatively benign credit environment. These were partly offset by releases of IBNR due to the continuing increases in property prices throughout 2017, and the improving credit quality profile of the ‘business as usual’ and post restructuring portfolios.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality

Credit quality in the portfolio continues to improve. Criticised loans, including impaired, decreased by € 4.4 billion or 24%, and have decreased from 29% of total loans at 31 December 2016, to 23% at 31 December 2017. The improving credit quality is driven by the level of new business in the year combined with the reduction in the criticised portfolio arising from the restructuring process and disposals of distressed loans.

Residential mortgages

At 31 December 2017, residential mortgages accounted for 53% of gross loans and receivables to customers (€ 33.7 billion), with the loans mainly located in the Republic of Ireland (95%) (see page 109) and the remainder in the United Kingdom (see page 118). The portfolio consists of 88% owner-occupier loans and 12% buy-to-let.

In the Republic of Ireland, total loans in arrears by value decreased by 20% during 2017, a decrease of 12% in the owner-occupier portfolio and a decrease of 37% in the buy-to-let portfolio. By number of customers, these decreases were 15%, 9% and 30% respectively. This decrease in arrears can be mainly attributed to the restructuring of the portfolio and the improving economic conditions and was also impacted by the sale of a portfolio of distressed mortgages. The reduction in arrears was evident in both early arrears (less than 90 days past due) and late arrears (greater than 90 days past due).

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 109 to 117 and the United Kingdom mortgage portfolio on pages 118 to 124.

Other personal

At 31 December 2017, the other personal portfolio amounted to € 3.1 billion (5% of gross loans and receivables to customers). 93% of loans relate to RCB, 6% to AIB UK and 1% in WIB. The portfolio comprises € 2.2 billion in loans and overdrafts and € 0.9 billion in credit card facilities. Strong levels of new lending at € 0.8 billion were observed and was due to both the improved economic environment and an expanded product offering, and was offset by loan redemptions and repayments. The satisfactory element of the portfolio increased from 73% in 2016 to 77% in 2017.

Further detailed disclosures in relation to the other personal portfolio are provided on page 125.

Property and construction

At 31 December 2017, the property and construction portfolio amounted to € 8.8 billion (14% of gross loans and receivables to customers). 39% of loans relate to RCB, 35% to WIB and the remaining 26% to AIB UK. The portfolio comprises of 71% investment loans (€ 6.2 billion), 21% land and development loans (€ 1.9 billion) and 8% other property and construction loans (€ 0.7 billion). Overall, the portfolio reduced by € 0.6 billion or 6% during 2017. This reduction is due primarily to the continuing impact of restructuring and to write-offs, amortisations and repayments resulting from asset disposals by customers which was offset by new business written of € 1.2 billion.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 126 and 127.

Non-property business

At 31 December 2017, the non-property business portfolio amounted to € 17.7 billion (28% of gross loans and receivables to customers). 41% of loans relate to WIB, 34% to RCB and 25% to AIB UK. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and syndicated and international lending exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (11% of the portfolio), licensed premises (4% of the portfolio), retail/wholesale (14% of the portfolio) and other services (31% of the portfolio). Satisfactory loans increased from 80% at 31 December 2016 to 85% at 31 December 2017 continuing the positive trend experienced in 2016. The level of criticised loans reduced by 23%, mainly due to a reduction of € 0.5 billion in impaired loans.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 128 and 129.

3.1 Credit risk – Credit profile of the loan portfolio

Impairment provisions

Specific impairment provisions as a percentage of impaired loans decreased from 44% at 31 December 2016 to 43% at 31 December 2017. 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 are generated through both restructuring agreements with customers and also where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.6 billion were held at 31 December 2017 compared to € 0.5 billion at 31 December 2016. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

The income statement provision writeback of € 113 million in 2017 compared to a provision writeback of € 294 million in 2016. Income statement specific provisions include € 273 million from new impairments and a € 472 million writeback of provisions (net of top-ups) as described above.

Asset quality

The following table profiles the asset quality of the Group's loans and receivables at 31 December 2017 and 2016:

					2017
Asset quality*	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Neither past due nor impaired	**29,558**	**2,604**	**6,742**	**16,521**	**55,425**
Past due but not impaired	**869**	**156**	**275**	**283**	**1,583**
Impaired – provisions held	**3,293**	**362**	**1,803**	**872**	**6,330**
Gross loans and receivables	**33,720**	**3,122**	**8,820**	**17,676**	**63,338**
Specific provisions	**(1,135)**	**(203)**	**(914)**	**(470)**	**(2,722)**
IBNR provisions	**(283)**	**(43)**	**(150)**	**(147)**	**(623)**
Total provisions for impairment	**(1,418)**	**(246)**	**(1,064)**	**(617)**	**(3,345)**
Gross loans and receivables less provisions	**32,302**	**2,876**	**7,756**	**17,059**	**59,993**

					2016
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € 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

Gross loans and receivables to customers reduced by 3% to € 63.3 billion in 2017. The reduction was due to loan redemptions of € 9.5 billion, and the sale of portfolios of distressed loans of € 0.7 billion, restructures and write-offs of € 0.4 billion and the impact of currency movements of € 0.7 billion, all offset by new lending of € 9.4 billion. The satisfactory portfolio grew by € 2.5 billion (5%) in the year (including currency movements).

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following table analyses gross loans and receivables to customers by contractual residual maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 2% of the portfolio at 31 December 2017, are classified as repayable within one year. Approximately 10% of AIB Group's loan portfolio is provided on a fixed rate basis. 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.

							2017
	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Republic of Ireland	**5,662**	**49,064**	**54,726**	**10,186**	**10,036**	**34,504**	**54,726**
United Kingdom	**753**	**7,786**	**8,539**	**1,154**	**3,788**	**3,597**	**8,539**
Rest of the World	**–**	**73**	**73**	**10**	**63**	**–**	**73**
Total	**6,415**	**56,923**	**63,338**	**11,350**	**13,887**	**38,101**	**63,338**

							2016
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
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	5,527	59,701	65,228	14,707	12,972	37,549	65,228

3.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers*

Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
							31 December 2017
Agriculture	29	10	2	5	8	24	78
Energy	1	4	–	–	–	2	7
Manufacturing	13	1	1	1	1	2	19
Property and construction	94	28	12	32	32	77	275
Distribution	52	4	4	5	10	19	94
Transport	3	–	–	2	–	–	5
Financial	1	–	–	–	–	–	1
Other services	27	6	3	6	3	34	79
Personal:							
Residential mortgages	453	114	56	49	52	145	869
Credit cards	24	5	3	–	–	–	32
Other	55	14	8	7	16	24	124
	752	186	89	107	122	327	1,583
Segment							
RCB	688	163	78	89	117	314	1,449
WIB	6	2	–	1	–	4	13
AIB UK	58	21	11	17	5	8	120
Group	–	–	–	–	–	1	1
	752	186	89	107	122	327	1,583
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.19	0.29	0.14	0.17	0.19	0.52	2.50

Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
							31 December 2016
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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers* *(continued)*

At 31 December 2017, loans past due but not impaired reduced by € 0.2 billion to € 1.6 billion or 2.5% of total loans and receivables to customers (2016: € 1.8 billion or 2.8%).

Residential mortgage loans which were past due but not impaired at 31 December 2017, amounted to € 0.9 billion. This represents 55% of total loans which were past due but not impaired (2016: € 0.9 billion or 51%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the favourable economic environment.

Property and construction loans which were past due but not impaired represent 17% or € 0.3 billion of total loans which were past due but not impaired (2016: 20% or € 0.4 billion), with non-property business at 18% or € 0.3 billion (2016: 20% or € 0.4 billion) and other personal at 10% or € 0.1 billion (2016: 9% or € 0.2 billion).

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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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 at 31 December 2017 and 2016:

2017

	Gross loans and receivables	Impaired loans: Individually assessed	Impaired loans: Collectively assessed	Impaired loans: Total	Impaired loans: % of total gross loans	Specific impairment provisions: Total	Specific impairment provisions: % of impaired loans
	€ m	€ m	€ m	€ m		€ m	
Retail							
Residential mortgages	33,720	978	2,315	3,293	10	1,135	34
Other personal	3,122	228	134	362	12	203	56
Total retail	36,842	1,206	2,449	3,655	10	1,338	37
Commercial							
Property and construction	8,820	1,685	118	1,803	20	914	51
Non-property business	17,676	683	189	872	5	470	54
Total commercial	26,496	2,368	307	2,675	10	1,384	52
Total	63,338	3,574	2,756	6,330	10	2,722	43
Specific impairment provisions at 31 December 2017		1,655	1,067	2,722			
		%	%	%			
Specific provision cover percentage		46	39	43			

2016

	Gross loans and receivables	Impaired loans: Individually assessed	Impaired loans: Collectively assessed	Impaired loans: Total	Impaired loans: % of total gross loans	Specific impairment provisions: Total	Specific impairment provisions: % of impaired loans
	€ 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 at 31 December 2016		2,470	1,577	4,047			
		%	%	%			
Specific provision cover percentage		47	41	44			

Specific impairment provisions as a percentage of impaired loans decreased from 44% at 31 December 2016 to 43% at 31 December 2017. The decrease occurred in collectively assessed loans where the cover decreased from 41% at 31 December 2016 to 39% at 31 December 2017. The cover on individually assessed loans also decreased slightly to 46%.

The decrease in provision cover was impacted by the writeoff and/or disposal of loans which had a higher provision cover and had the impact of reducing overall cover for the remaining portofolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Movements on impairment provisions*

The following table sets out the movements on the Group impairment provisions for the financial years ended 31 December 2017 and 2016:

2017	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	2,002	290	1,449	848	4,589
Exchange translation adjustments	(9)	(1)	(12)	(4)	(26)
(Credit)/charge to income statement – customers[1]	(101)	(2)	(50)	40	(113)
Amounts written off[2]	(286)	(30)	(190)	(210)	(716)
Disposals	(190)	(11)	(134)	(69)	(404)
Recoveries of amounts written off in previous years[2]	2	–	1	12	15
At 31 December 2017	1,418	246	1,064	617	3,345
Total provisions are split as follows:					
Specific	1,135	203	914	470	2,722
IBNR	283	43	150	147	623
	1,418	246	1,064	617	3,345
Amounts include:					
Loans and receivables to customers *(note 24 to the consolidated financial statements)*					3,345
					3,345

2016	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € 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[2]	(181)	(213)	(985)	(450)	(1,829)
Recoveries of amounts written off in previous years[2]	–	–	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 to the consolidated financial statements)*					4,589
					4,589

[1]Geographic split by country of risk: Republic of Ireland a credit of € 142 million, United Kingdom a charge of € 17 million and rest of the world a charge of € 12 million.

[2]For geographical and sector split, see page 107.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provisions/writeback of provisions split between individually significant, individually insignificant and IBNR for loans and receivables for the financial years ended 31 December 2017 and 2016:

	RCB € m	WIB € m	AIB UK € m	Group € m	2017 Total € m
Specific provisions – Individually significant	**(176)**	**(10)**	**30**	**–**	**(156)**
– Individually insignificant	**(30)**	**–**	**(13)**	**–**	**(43)**
IBNR	**73**	**12**	**1**	**–**	**86**
Total provisions for impairment (credit)/charge on loans and receivables to customers	**(133)**	**2**	**18**	**–**	**(113)**
Writeback of provisions for liabilities and commitments					**(8)**
Total					**(121)**

	RCB € m	WIB € m	AIB UK € m	Group € m	2016 Total € m
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)

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

The following table analyses by segment the income statement impairment (credit)/charge provisions/writeback of provisions for the financial years ended 31 December 2017 and 2016:

	2017			2016		
	Residential mortgages € m	Other € m	Total € m	Residential mortgages € m	Other € m	Total € m
RCB	(91)	(42)	(133)	(110)	(176)	(286)
WIB	(1)	3	2	–	21	21
AIB UK	(9)	27	18	(1)	(36)	(37)
Group	–	–	–	–	8	8
Total	(101)	(12)	(113)	(111)	(183)	(294)

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 financial years ended 31 December 2017 and 2016:

	2017			2016		
	Residential mortgages bps	Other bps	Total bps	Residential mortgages bps	Other bps	Total bps
RCB	(28)	(32)	(29)	(32)	(126)	(60)
WIB	(233)	2	2	–	23	23
AIB UK	(58)	37	20	(10)	(44)	(37)
Group	–	–	–	–	212	212
Total	(29)	(4)	(18)	(31)	(59)	(44)

A net writeback of € 113 million in 2017 compared to a net writeback of € 294 million in 2016. The writeback comprises of € 199 million in specific provision writebacks offset by an IBNR charge of € 86 million (2016: € 171 million net writeback in specific provision writebacks and a release of IBNR provisions of € 123 million).

The specific provision writeback of € 199 million is split into a € 472 million writeback net of top-ups and a charge of € 273 million on newly impaired loans (2016: € 171 million, € 452 million and € 281 million respectively). Restructuring activity is continuing across the portfolios, albeit at lower levels, which reflects economic improvements (residential and commercial asset price increase) and additional security made available to the Group. The quantum of new impairments across the different portfolios remains within expected risk levels.

The IBNR provision charge in 2017 was € 86 million (2016: a release of € 123 million). The charge was impacted by a number of factors including an increase in provisions on the long term arrears mortgage portfolio and the lengthening of emergence periods on some non-mortgage portfolios in light of the relatively benign credit environment. These were partly offset by releases of IBNR due to the continuing increases in property prices throughout 2017, and the improving credit quality profile of the 'business as usual' and post restructuring portfolios.

In RCB, the provision writeback of € 133 million comprises a specific provision writeback of € 206 million and an IBNR charge of € 73 million. This compares to a specific provision writeback of € 183 million and an IBNR release of € 103 million in 2016. The writeback was primarily due to the positive impact of debt restructuring activities which exceeded new impairments and additional provisions on existing impaired loans.

In AIB UK, the provision charge of € 18 million comprises a specific provision charge of € 17 million and an IBNR charge of € 1 million. This compares to a specific provision writeback of € 31 million and an IBNR release of € 6 million in 2016. The provision charge was driven by two significant new impairments in the first half of 2017 offset by provision writebacks.

In WIB, the provision charge of € 2 million comprises a specific provision writeback of € 10 million and an IBNR charge of € 12 million. This compares to a specific provision charge of € 35 million and an IBNR release of € 14 million in 2016.

In Group, there was no provision impact for 2017 compared to a provision charge of € 8 million in 2016.

3.1 Credit risk – Credit profile of the loan portfolio

Loans written off and recoveries of previously written off loans

The following table analyses loans written off and recoveries of previously written off loans by geography and industry sector for the financial years ended 31 December 2017 and 2016:

	Loans written off		Recoveries of loans previously written off	
	2017[(1)] € m	2016[(1)] € m	**2017[(1)] € m**	2016[(1)] € m
IRELAND				
Agriculture	**–**	47.4	**0.1**	0.1
Energy	**0.9**	5.2	**–**	–
Manufacturing	**5.9**	28.9	**–**	0.1
Property and construction	**127.2**	703.2	**–**	0.6
Distribution	**47.6**	169.0	**4.5**	–
Transport	**25.6**	16.6	**–**	0.1
Financial	**–**	1.5	**0.8**	0.6
Other services	**48.6**	108.7	**4.0**	5.1
Personal – Residential mortgages	**280.1**	158.9	**1.8**	–
– Other	**20.0**	207.4	**–**	–
	555.9	1,446.8	**11.2**	6.6
UNITED KINGDOM				
Agriculture	**0.1**	0.2	**–**	–
Manufacturing	**0.5**	11.5	**–**	1.8
Property and construction	**46.3**	268.3	**0.3**	2.0
Distribution	**17.1**	43.1	**0.1**	–
Transport	**24.4**	0.1	**–**	–
Financial	**3.0**	1.6	**–**	–
Other services	**–**	5.8	**2.1**	–
Personal – Residential mortgages	**4.2**	21.3	**–**	–
– Other	**9.7**	5.9	**–**	–
	105.3	357.8	**2.5**	3.8
REST OF THE WORLD				
Energy	**–**	4.6	**0.1**	–
Property and construction	**16.5**	13.1	**0.2**	–
Distribution	**11.7**	–	**0.4**	–
Financial	**20.7**	0.1	**–**	–
Other services	**4.3**	6.0	**0.4**	–
Personal – Residential mortgages	**1.4**	0.7	**–**	–
	54.6	24.5	**1.1**	–
TOTAL	**715.8**	1,829.1	**14.8**	10.4

[(1)]By country of risk

Write-offs in 2017, as a percentage of gross loans and receivables at 1 January 2017, were 1.1% compared to 2.6% in 2016. These include all write-offs, both full and partial and write-offs not contracted with customers of c. € 0.2 billion.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Residential mortgages

Residential mortgages amounted to € 33.7 billion at 31 December 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 € 29.7 billion and buy-to-let € 4 billion (2016: owner-occupier € 30.2 billion and buy-to-let € 5.0 billion).

Statement of financial position provisions of € 1.4 billion were held at 31 December 2017, split € 1.1 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 € 101 million to the income statement in 2017 comprising a € 111 million specific writeback and a € 10 million IBNR charge (2016: € 111 million provision credit comprising € 110 million specific writeback and a € 1 million IBNR release).

This section provides the information listed below in relation to residential mortgages.

Republic of Ireland residential mortgages – pages 109 to 117

- Credit profile
- Origination profile
- Loan-to-value profile:
  - Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages
  - Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were neither past due nor impaired
  - Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- Republic of Ireland residential mortgages that were past due but not impaired
- Collateral value of Republic of Ireland residential mortgages that were past due but not impaired
- Republic of Ireland residential mortgages that were impaired
- Republic of Ireland properties in possession
- Repossessions disposed of

United Kingdom ("UK") residential mortgages – pages 118 to 124

- Credit profile
- Origination profile
- Loan-to-value profile:
  - Actual and weighted average indexed loan-to-value ratios of UK residential mortgages
  - Loan-to-value ratios of UK residential mortgages *(index linked)* that were neither past due nor impaired
  - Loan-to-value ratios of UK residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- UK residential mortgages that were past due but not impaired
- Collateral value of UK residential mortgages that were past due but not impaired
- UK residential mortgages that were impaired
- UK properties in possession
- Repossessions disposed of

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.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio showing impairment provisions for the financial years ended 31 December 2017 and 2016:

			2017*			2016*
Statement of financial position	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	28,337	3,863	32,200	28,631	4,813	33,444
In arrears (>30 days past due)[1]	2,556	1,005	3,561	3,176	1,649	4,825
In arrears (>90 days past due)[1]	2,423	982	3,405	3,042	1,593	4,635
Of which impaired	2,277	888	3,165	2,898	1,484	4,382
Statement of financial position specific provisions	793	309	1,102	1,042	605	1,647
Statement of financial position IBNR provisions	188	90	278	160	106	266
Provision cover percentage	%	%	%	%	%	%
Specific provisions/impaired loans	34.8	34.8	34.8	35.9	40.8	37.6
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	(32)	(72)	(104)	(50)	(61)	(111)
Income statement IBNR provisions	29	(17)	12	(27)	29	2
Total impairment (credit)	(3)	(89)	(92)	(77)	(32)	(109)

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages *(continued)*

Residential mortgages in the Republic of Ireland amounted to € 32.2 billion at 31 December 2017 compared to € 33.4 billion at 31 December 2016. 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 2017 were € 2.4 billion, of which 97% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 68%. New lending in 2017 increased by 17% compared to 2016 driven by the favorable macro-economic conditions.

The split of the residential mortgage portfolio is 88% owner-occupier (€ 28.3 billion) and 12% buy-to-let (€ 3.9 billion) and comprised 33% tracker rate (€ 10.5 billion), 57% variable rate (€ 18.3 billion) and 10% fixed rate mortgages (€ 3.4 billion). The proportion of the total residential mortgage portfolio in negative equity decreased from 20% at 31 December 2016 (€ 6.7 billion) to 10% at 31 December 2017 (€ 3.1 billion) reflecting the increase in residential property prices in Ireland during 2017 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from € 1.0 billion to € 0.4 billion.

Residential mortgage arrears

Total loans in arrears by value decreased by 20% during 2017 down from € 4.2 billion to € 3.4 billion, a decrease of 12% in the owner-occupier portfolio and a decrease of 37% in the buy-to-let portfolio in the year. By number of customers, these decreases were 15%, 9% and 30% respectively. The 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 2017 fell by 11% compared to 2016.

Total loans in arrears greater than 90 days at 6.1% at 31 December 2017 decreased from 7.2% at 31 December 2016 and remain below the industry average of 8.1%[(1)]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 4.9% were below the industry average of 6.9%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 14.8% were below the industry average of 15.1%.

Forbearance

Residential mortgages subject to forbearance measures decreased by € 1.2 billion from 31 December 2016 to € 4.7 billion at 31 December 2017, compared to an increase of € 0.5 billion in the 12 months to 31 December 2016. This decrease arose from c. € 1 billion of mortgages exiting forbearance in the year, having met the forbearance and probation terms. This was driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Details of forbearance measures are set out in Section 3.2 pages 137 to 150.

Impairment provisions

Impaired loans decreased from € 4.4 billion at 31 December 2016 to € 3.2 billion at 31 December 2017, a decrease of € 1.2 billion or 28%. The decrease arose from the sale of a portfolio of distressed mortgages (€ 0.4 billion) and also due to restructuring, write-offs, repayments and redemptions.

There was a specific provision writeback of € 104 million in 2017 compared to a € 111 million writeback in 2016. This can be split into a charge for new impairments of € 63 million and a writeback of provisions (net of top-ups) of € 167 million. The writeback was mainly due to the impact of restructuring and loans curing from impairment as a result of improvements in the general economic environment, improved employment opportunities and growth in residential property prices. The specific provision cover level decreased from 38% at 31 December 2016 to 35% at 31 December 2017. The decrease was primarily due to write offs and the disposal of a distressed mortgage portfolio in the year.

An IBNR charge in 2017 of € 12 million compares to a charge of € 2 million in 2016, mainly due to changes in the mortgage model and the time to disposal parameter.

Specific provisions of € 0.6 billion were held against the forborne impaired portfolio of € 1.7 billion providing cover of 32%. In relation to the non-impaired forborne portfolio of € 3.0 billion, of which € 0.2 billion is on an interest only arrangement, IBNR impairment provisions of € 0.1 billion were held at 31 December 2017.

[(1)]Source: Central Bank of Ireland (“CBI”) Residential Mortgage Arrears and Repossessions Statistics at 30 September 2017, based on numbers of accounts.

3.1 Credit risk – Credit profile of the loan portfolio

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 2017 and 2016:

	2017*				2016*			
	Total		Impaired		Total		Impaired	
Republic of Ireland	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	2,472	78	345	12	2,948	95	436	14
1997	925	30	134	5	2,267	40	171	6
1998	2,474	54	196	8	2,834	73	258	12
1999	3,377	106	266	18	3,785	135	339	25
2000	4,393	184	386	26	4,816	223	474	35
2001	4,991	270	395	33	5,424	316	494	41
2002	7,787	529	660	61	9,052	629	863	83
2003	11,804	916	1,044	112	12,809	1,076	1,370	156
2004	16,272	1,580	1,650	209	17,612	1,836	2,164	307
2005	22,944	2,584	2,651	394	24,780	2,972	3,446	550
2006	30,178	4,147	4,057	679	32,290	4,736	5,307	988
2007	29,712	4,322	4,180	720	32,049	4,861	5,300	993
2008	28,971	4,231	3,311	574	30,557	4,684	4,124	774
2009	18,862	2,558	1,324	214	19,973	2,823	1,657	278
2010	13,137	1,786	507	82	13,916	1,955	584	97
2011	3,938	520	74	11	4,218	578	87	14
2012	5,781	797	9	1	6,196	889	17	4
2013	5,088	712	6	1	5,338	779	6	1
2014	7,047	1,040	20	2	7,409	1,138	14	2
2015	9,849	1,530	14	2	10,178	1,636	7	2
2016	11,414	1,954	7	1	11,669	1,970	–	–
2017	12,764	2,272	1	0	–	–	–	–
Total	254,180	32,200	21,237	3,165	260,120	33,444	27,118	4,382

A significant element (€ 15.3 billion or 47%) of the € 32.2 billion residential mortgage portfolio was originated between 2005 and 2008, of which 15% (€ 2.4 billion) was impaired at 31 December 2017. This cohort was impacted by reduced household income and increased unemployment rates in the years during the financial crisis, and where property prices had decreased from a peak in 2007. 12% of the residential mortgage portfolio was originated before 2005 of which 13% was impaired at 31 December 2017, while the remaining 41% of the portfolio was originated from 2009 onwards, of which 2% was impaired at 31 December 2017.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following 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 2017. The CSO Residential Property Price Index for October 2017 reported that national residential property prices were 24% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 12% for the twelve months to October 2017.

Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages

The following table profiles 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 2017 and 2016:

						2017*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
Less than 50%	**8,888**	**31.4**	**1,220**	**31.6**	**10,108**	**31.4**
50% to 70%	**8,422**	**29.7**	**1,015**	**26.3**	**9,437**	**29.3**
71% to 80%	**3,895**	**13.7**	**418**	**10.8**	**4,313**	**13.4**
81% to 90%	**2,799**	**9.9**	**348**	**9.0**	**3,147**	**9.8**
91% to 100%	**1,797**	**6.4**	**294**	**7.6**	**2,091**	**6.5**
101% to 120%	**1,810**	**6.4**	**270**	**7.0**	**2,080**	**6.4**
121% to 150%	**463**	**1.6**	**137**	**3.5**	**600**	**1.9**
Greater than 150%	**200**	**0.7**	**112**	**2.9**	**312**	**1.0**
Unsecured	**63**	**0.2**	**49**	**1.3**	**112**	**0.3**
Total	**28,337**	**100.0**	**3,863**	**100.0**	**32,200**	**100.0**
Weighted average indexed loan-to-value(1):						
Stock of residential mortgages at financial year end		**63.6**		**68.8**		**64.2**
New residential mortgages issued during the year		**67.9**		**55.6**		**67.5**
Impaired residential mortgages		**92.2**		**87.8**		**91.0**

						2016*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
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 the year		68.8		56.4		68.4
Impaired residential mortgages		103.4		101.2		102.7

(1)Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

9% of the total owner-occupier and 13% of the total buy-to-let mortgages were in negative equity at 31 December 2017 (excluding unsecured) compared to 18% and 26% respectively at 31 December 2016. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 64% at 31 December 2017 compared to 74% at 31 December 2016, with the reduction driven primarily by the amortisation of the portfolio and the increase in property prices in the year.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio *(continued)*

Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the Republic of Ireland residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2017 and 2016:

						2017*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**8,364**	**32.9**	**1,010**	**36.0**	**9,374**	**33.2**
50% to 70%	**7,853**	**30.9**	**797**	**28.4**	**8,650**	**30.7**
71% to 80%	**3,622**	**14.3**	**304**	**10.9**	**3,926**	**13.9**
81% to 90%	**2,514**	**9.9**	**249**	**8.9**	**2,763**	**9.8**
91% to 100%	**1,520**	**6.0**	**197**	**7.0**	**1,717**	**6.1**
101% to 120%	**1,367**	**5.4**	**139**	**5.0**	**1,506**	**5.3**
121% to 150%	**115**	**0.5**	**55**	**2.0**	**170**	**0.6**
Greater than 150%	**30**	**0.1**	**40**	**1.4**	**70**	**0.3**
Unsecured	**9**	**–**	**11**	**0.4**	**20**	**0.1**
Total	**25,394**	**100.0**	**2,802**	**100.0**	**28,196**	**100.0**

						2016*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
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

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2017 (excluding unsecured) decreased to 6% compared to 15% at 31 December 2016, reflecting residential property price increases during the year, coupled with amortisation of the loan portfolio.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

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 table profiles 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 2017 and 2016:

								2017*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**381**	**15.7**	**186**	**18.9**	**567**	**16.7**	**10,108**	**31.4**
50% to 70%	**419**	**17.3**	**196**	**20.0**	**615**	**18.1**	**9,437**	**29.3**
71% to 80%	**207**	**8.5**	**105**	**10.7**	**312**	**9.2**	**4,313**	**13.4**
81% to 90%	**230**	**9.5**	**91**	**9.2**	**321**	**9.4**	**3,147**	**9.8**
91% to 100%	**239**	**9.9**	**91**	**9.3**	**330**	**9.7**	**2,091**	**6.5**
101% to 120%	**389**	**16.1**	**125**	**12.8**	**514**	**15.1**	**2,080**	**6.4**
121% to 150%	**337**	**13.9**	**80**	**8.1**	**417**	**12.2**	**600**	**1.9**
Greater than 150%	**168**	**6.9**	**71**	**7.2**	**239**	**7.0**	**312**	**1.0**
Unsecured	**53**	**2.2**	**37**	**3.8**	**90**	**2.6**	**112**	**0.3**
Total	**2,423**	**100.0**	**982**	**100.0**	**3,405**	**100.0**	**32,200**	**100.0**

								2016*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	€ m	%	€ m	%	€ m	%	€ m	%
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

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 2017 (34%) decreased compared to 31 December 2016 (47%). This reflects the increase in residential property prices during the year.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio at 31 December 2017 and 2016:

			2017*			2016*
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**25,394**	**2,802**	**28,196**	25,069	3,093	28,162
Past due but not impaired	**666**	**173**	**839**	664	236	900
Impaired - provisions held	**2,277**	**888**	**3,165**	2,898	1,484	4,382
Gross residential mortgages	**28,337**	**3,863**	**32,200**	28,631	4,813	33,444
Provisions for impairment	**(981)**	**(399)**	**(1,380)**	(1,202)	(711)	(1,913)
	27,356	**3,464**	**30,820**	27,429	4,102	31,531

The percentage of the portfolio which is neither past due nor impaired increased at 31 December 2017 to 88% from 84% at 31 December 2016.

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 the Group 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 2017 and 2016:

			2017*			2016*
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**387**	**56**	**443**	386	71	457
31 - 60 days	**91**	**15**	**106**	96	26	122
61 - 90 days	**42**	**8**	**50**	38	30	68
91 - 180 days	**28**	**16**	**44**	34	25	59
181 - 365 days	**30**	**21**	**51**	35	26	61
Over 365 days	**88**	**57**	**145**	75	58	133
Total past due but not impaired	**666**	**173**	**839**	664	236	900
Total gross residential mortgages	**28,337**	**3,863**	**32,200**	28,631	4,813	33,444

Loans past due but not impaired at 31 December 2017 decreased by 7% when compared to 31 December 2016, driven by the improved economic environment and continued increased focus on the management of early arrears.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

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 2017 and 2016:

			2017*			2016*
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Republic of Ireland	€ m	€ m	€ m	€ m	€ m	€ m
1 - 30 days	382	54	436	372	68	440
31 - 60 days	89	15	104	91	25	116
61 - 90 days	41	8	49	37	29	66
91 - 180 days	28	16	44	33	24	57
181 - 365 days	30	20	50	34	25	59
Over 365 days	87	52	139	73	53	126
Total	657	165	822	640	224	864

The collateral value for the past due but not impaired portfolio was 98% of the outstanding loan balances at 31 December 2017, an increase from 96% at 31 December 2016.

Republic of Ireland residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired at 31 December 2017 and 2016:

			2017*			2016*
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Republic of Ireland	€ m	€ m	€ m	€ m	€ m	€ m
Not past due	398	153	551	584	263	847
1 - 30 days	100	26	126	133	46	179
31 - 60 days	51	20	71	63	26	89
61 - 90 days	44	13	57	53	19	72
91 - 180 days	107	30	137	138	44	182
181 - 365 days	137	50	187	173	83	256
Over 365 days	1,440	596	2,036	1,754	1,003	2,757
Total impaired	2,277	888	3,165	2,898	1,484	4,382
Total gross residential mortgages	28,337	3,863	32,200	28,631	4,813	33,444

Impaired loans decreased by € 1.2 billion in 2017 due to restructuring, distressed portfolio sales, cures and write-offs. In addition, the rate of new impairment continued to slow significantly compared to 2016 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2017, € 0.6 billion or 17% was not past due (31 December 2016: € 0.8 billion or 19%), of which € 0.5 billion was subject to forbearance measures at 31 December 2017 (31 December 2016: € 0.7 billion).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages – properties in possession[1]

The Group 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 the Group 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 at 31 December 2017 and 2016 is set out below:

	2017*		2016*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	602	145	691	172
Buy-to-let	53	11	104	24
Total	**655**	**156**	795	196

[1]The number of residential properties in possession relates to those held as security for residential mortgages only.

The stock of residential properties in possession decreased by 140 properties in 2017. This decrease relates to the disposal of 203 properties (31 December 2016: 187 properties) which were offset by the addition of 112 properties (31 December 2016: 273 properties). In addition, a further 49 properties were removed from the stock in 2017 as part of the sale of a portfolio of distressed mortgages.

Republic of Ireland residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2017 and 2016:

2017*	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	187	48	30	3	21
Buy-to-let	16	4	2	–	2
Total	**203**	**52**	**32**	**3**	**23**

2016*	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	170	42	20	2	24
Buy-to-let	17	4	2	–	2
Total	187	46	22	2	26

[1]Before specific impairment provisions.

The disposal of 203 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 23 million at 31 December 2017 (before specific impairment provisions) and compares to 31 December 2016 when 187 residential properties were disposed of resulting in a total loss of € 26 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom ("UK") residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions for the years ended 31 December 2017 and 2016:

			2017*			2016*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Total gross residential mortgages	**1,327**	**193**	**1,520**	1,564	231	1,795
In arrears (>30 days past due)[1]	**129**	**19**	**148**	181	34	215
In arrears (>90 days past due)[1]	**115**	**19**	**134**	169	33	202
Of which impaired	**109**	**19**	**128**	161	33	194
Statement of financial position specific provisions	**29**	**4**	**33**	62	19	81
Statement of financial position IBNR provisions	**5**	**–**	**5**	7	1	8
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**27.2**	**19.4**	**26.1**	38.6	56.1	41.5

Income statement charge/(credit)	**€ m**	**€ m**	**2017* € m**	€ m	€ m	2016* € m
Income statement specific provisions	**(6)**	**(1)**	**(7)**	(1)	2	1
Income statement IBNR provisions	**(2)**	**–**	**(2)**	(3)	–	(3)
Total impairment charge/(credit)	**(8)**	**(1)**	**(9)**	(4)	2	(2)

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

The UK mortgage portfolio is predominantly based in Northern Ireland (73% of total) with the remainder located in Great Britain. The portfolio decreased in sterling terms by c.12% on the financial year end December 2016. Due to the impact of currency movements, the portfolio decreased by c.15% in euro terms.

Impaired loans reduced by 34% during the last 12 months and were significantly impacted by the sale of a portfolio of distressed mortgages.

The improved UK domestic economic position has continued to have a positive impact on mortgage arrears. Total loans in arrears greater than 90 days has reduced to 8.8% of the total portfolio (2016: 11.2%).

Statement of financial position specific provisions of € 33 million were held at 31 December 2017 and provided cover of 26% for impaired loans (2016: € 81 million, providing cover of 42%).

Statement of financial position IBNR provisions of € 5 million were held at 31 December 2017, down from € 8 million at 31 December 2016, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages by year of origination

The following table profiles the UK total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2017 and 2016:

	2017*				2016*			
	Total		Impaired		Total		Impaired	
United Kingdom	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	925	20	32	1	1,208	28	34	2
1997	298	6	4	–	360	7	2	–
1998	311	6	11	–	345	9	13	–
1999	561	17	38	1	665	21	45	2
2000	639	17	24	1	703	22	27	1
2001	663	21	55	2	720	27	65	3
2002	1,038	43	58	3	1,204	53	70	3
2003	1,495	73	102	4	1,655	92	121	6
2004	1,687	95	136	10	1,881	122	160	10
2005	2,307	167	206	15	2,559	199	267	22
2006	3,123	290	230	25	3,437	345	344	38
2007	2,638	346	227	40	3,053	437	413	75
2008	1,085	136	82	18	1,202	167	108	23
2009	474	41	17	3	547	52	26	4
2010	238	22	13	5	273	28	14	5
2011	116	9	–	–	136	11	4	–
2012	126	12	1	–	146	15	1	–
2013	244	23	1	–	283	29	1	–
2014	342	46	–	–	383	58	–	–
2015	223	35	–	–	234	39	1	–
2016	198	29	–	–	207	34	–	–
2017	434	66	–	–	–	–	–	–
Total	19,165	1,520	1,237	128	21,201	1,795	1,716	194

The majority (€ 0.9 billion or 62%) of the € 1.5 billion residential mortgage portfolio in the UK was originated between 2005 and 2008. 10% (€ 0.1 billion) of mortgages from this period were impaired as at 31 December 2017, driven by the financial crisis in 2008 leading to unemployment and reduced disposable incomes, and the rapid reduction in house prices experienced following the peak in 2007. 20% of the portfolio was originated before 2005 of which 7% was impaired at 31 December 2017, and the remaining 18% of the portfolio was originated since 2009 of which 3% was impaired at 31 December 2017. The improving impairment profile in recent years is reflective of more responsible lending practices and affordability regulations introduced following the financial crisis.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Nationwide House Price Index ("HPI") in the UK for Quarter 3 2017. The index for Quarter 3 2017 reported the UK annual rate of house price growth at 2.0%.

In Northern Ireland (which includes 73% of the UK residential mortgage portfolio), the Nationwide HPI for Quarter 3 2017 reported an increase of 2.4% for the twelve months to the end of Quarter 3 2017.

Actual and weighted average indexed loan-to-value ratios of United Kingdom residential mortgages

The following table profiles the UK residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2017 and 2016:

						2017*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**504**	**38.0**	**58**	**30.2**	**562**	**37.0**
50% to 70%	**330**	**24.9**	**36**	**18.4**	**366**	**24.0**
71% to 80%	**137**	**10.3**	**25**	**12.9**	**162**	**10.6**
81% to 90%	**107**	**8.0**	**16**	**8.4**	**123**	**8.1**
91% to 100%	**83**	**6.2**	**17**	**8.7**	**100**	**6.6**
101% to 120%	**88**	**6.7**	**25**	**13.0**	**113**	**7.5**
121% to 150%	**47**	**3.5**	**8**	**4.2**	**55**	**3.6**
Greater than 150%	**25**	**1.9**	**7**	**3.5**	**32**	**2.1**
Unsecured	**6**	**0.5**	**1**	**0.7**	**7**	**0.5**
Total	**1,327**	**100.0**	**193**	**100.0**	**1,520**	**100.0**
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at financial year end		**63.9**		**71.2**		**64.8**
New residential mortgages issued during the year		**77.9**		**79.8**		**77.9**
Impaired residential mortgages		**97.1**		**113.5**		**99.5**

						2016*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	556	35.6	63	27.4	619	34.5
50% to 70%	360	23.0	37	15.9	397	22.1
71% to 80%	171	10.9	21	9.0	192	10.7
81% to 90%	119	7.6	24	10.2	143	7.9
91% to 100%	89	5.7	21	9.0	110	6.1
101% to 120%	116	7.4	29	12.7	145	8.1
121% to 150%	88	5.6	17	7.3	105	5.9
Greater than 150%	40	2.6	8	3.7	48	2.7
Unsecured	25	1.6	11	4.8	36	2.0
Total	1,564	100.0	231	100.0	1,795	100.0
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at financial year end		67.6		75.7		68.6
New residential mortgages issued during the year		72.0		69.7		72.0
Impaired residential mortgages		108.1		114.7		109.0

[(1)]Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

12% of the total owner-occupier and 21% of the total buy-to-let mortgages were in negative equity at 31 December 2017 (excluding unsecured), compared to 16% and 24% respectively at 31 December 2016, impacted by low interest rates and a sustained increase in house prices, coupled with amortisation of the loan portfolio. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 64.8% at 31 December 2017 compared to 68.6% at 31 December 2016, again reflecting the increase in residential property prices and overall improved domestic economic factors. The significant reduction in the unsecured element is mainly attributable to a portfolio sale of unsecured distressed mortgages.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the UK residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2017 and 2016:

						2017*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**470**	**39.5**	**56**	**32.6**	**526**	**38.6**
50% to 70%	**307**	**25.8**	**34**	**19.5**	**341**	**25.0**
71% to 80%	**124**	**10.4**	**24**	**13.6**	**148**	**10.8**
81% to 90%	**99**	**8.3**	**14**	**8.3**	**113**	**8.3**
91% to 100%	**67**	**5.6**	**16**	**9.1**	**83**	**6.1**
101% to 120%	**75**	**6.4**	**23**	**13.6**	**98**	**7.3**
121% to 150%	**36**	**3.0**	**5**	**2.9**	**41**	**3.0**
Greater than 150%	**11**	**1.0**	**1**	**0.4**	**12**	**0.9**
Total	**1,189**	**100.0**	**173**	**100.0**	**1,362**	**100.0**

						2016*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	523	38.1	60	30.9	583	37.2
50% to 70%	332	24.1	34	17.5	366	23.3
71% to 80%	153	11.1	19	9.8	172	11.0
81% to 90%	108	7.9	22	11.2	130	8.3
91% to 100%	74	5.4	19	9.6	93	5.9
101% to 120%	101	7.4	27	13.7	128	8.2
121% to 150%	68	5.0	13	6.8	81	5.2
Greater than 150%	14	1.0	1	0.5	15	0.9
Total	1,373	100.0	195	100.0	1,568	100.0

Residential mortgages that were neither past due nor impaired and in negative equity at 31 December 2017 decreased in comparison to 31 December 2016, in part as a result of the increase in residential property prices in the year, as well as the amortisation of the loan portfolio. 11% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2017 compared with 14% at 31 December 2016.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the UK residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2017 and 2016:

								2017*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**21**	**18.2**	**2**	**10.2**	**23**	**17.1**	**562**	**37.0**
50% to 70%	**21**	**18.4**	**1**	**7.9**	**22**	**17.0**	**366**	**24.0**
71% to 80%	**12**	**10.0**	**1**	**6.2**	**13**	**9.5**	**162**	**10.6**
81% to 90%	**6**	**5.5**	**2**	**9.7**	**8**	**6.0**	**123**	**8.1**
91% to 100%	**13**	**11.1**	**1**	**4.6**	**14**	**10.2**	**100**	**6.6**
101% to 120%	**12**	**10.3**	**2**	**7.1**	**14**	**9.8**	**113**	**7.5**
121% to 150%	**11**	**9.3**	**3**	**14.8**	**14**	**10.1**	**55**	**3.6**
Greater than 150%	**13**	**11.6**	**6**	**32.5**	**19**	**14.5**	**32**	**2.1**
Unsecured	**6**	**5.6**	**1**	**7.0**	**7**	**5.8**	**7**	**0.5**
Total	**115**	**100.0**	**19**	**100.0**	**134**	**100.0**	**1,520**	**100.0**

								2016*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	25	15.0	3	8.1	28	13.9	619	34.5
50% to 70%	26	15.3	2	6.3	28	13.8	397	22.1
71% to 80%	15	8.6	1	3.5	16	7.7	192	10.7
81% to 90%	9	5.6	1	3.7	10	5.2	143	7.9
91% to 100%	12	7.0	2	5.3	14	6.8	110	6.1
101% to 120%	13	7.9	2	7.1	15	7.8	145	8.1
121% to 150%	19	11.1	3	9.3	22	10.8	105	5.9
Greater than 150%	25	15.0	8	23.0	33	16.3	48	2.7
Unsecured	25	14.5	11	33.7	36	17.7	36	2.0
Total	169	100.0	33	100.0	202	100.0	1,795	100.0

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity (excluding unsecured loans) at 31 December 2017 (34%), decreased in comparison to 31 December 2016 (35%). This arose from the increases in residential property prices and the overall improved domestic economic factors.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of United Kingdom residential mortgages

The following table profiles the asset quality of the UK residential mortgage portfolio at 31 December 2017 and 2016:

United Kingdom	Owner-occupier € m (2017*)	Buy-to-let € m (2017*)	Total € m (2017*)	Owner-occupier € m (2016*)	Buy-to-let € m (2016*)	Total € m (2016*)
Neither past due nor impaired	1,189	173	1,362	1,373	195	1,568
Past due but not impaired	29	1	30	30	3	33
Impaired - provisions held	109	19	128	161	33	194
Gross residential mortgages	1,327	193	1,520	1,564	231	1,795
Provisions for impairment	(34)	(4)	(38)	(69)	(20)	(89)
	1,293	189	1,482	1,495	211	1,706

United Kingdom 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 the Group based on objective evidence of loss events ('impairment triggers') such as a request for forbearance. Loans are deemed impaired where the expected future cash flows either from the loan itself or from associated collateral will not be sufficient to repay the loan 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 UK residential mortgages that were past due but not impaired at 31 December 2017 and 2016:

United Kingdom	Owner-occupier € m (2017*)	Buy-to-let € m (2017*)	Total € m (2017*)	Owner-occupier € m (2016*)	Buy-to-let € m (2016*)	Total € m (2016*)
1 - 30 days	9	1	10	10	2	12
31 - 60 days	8	–	8	8	1	9
61 - 90 days	6	–	6	4	–	4
91 - 180 days	5	–	5	3	–	3
181 - 365 days	1	–	1	2	–	2
Over 365 days	–	–	–	3	–	3
Total	29	1	30	30	3	33

Collateral value of United Kingdom residential mortgages that were past due but not impaired

The following table profiles the collateral value of UK residential mortgages that were past due but not impaired at 31 December 2017 and 2016:

United Kingdom	Owner-occupier € m (2017*)	Buy-to-let € m (2017*)	Total € m (2017*)	Owner-occupier € m (2016*)	Buy-to-let € m (2016*)	Total € m (2016*)
1 - 30 days	9	1	10	10	2	12
31 - 60 days	8	–	8	7	1	8
61 - 90 days	6	–	6	3	–	3
91 - 180 days	5	–	5	3	–	3
181 - 365 days	1	–	1	2	–	2
Over 365 days	–	–	–	3	–	3
Total	29	1	30	28	3	31

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages that were impaired

The following table profiles the UK residential mortgages that were impaired at 31 December 2017 and 2016:

			2017*			2016*
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	24	3	27	26	3	29
1 - 30 days	9	1	10	7	1	8
31 - 60 days	3	1	4	5	–	5
61 - 90 days	4	–	4	2	–	2
91 - 180 days	6	2	8	8	2	10
181 - 365 days	12	1	13	17	3	20
Over 365 days	51	11	62	96	24	120
Total impaired	**109**	**19**	**128**	161	33	194
Total gross residential mortgages	**1,327**	**193**	**1,520**	1,564	231	1,795

At 31 December 2017, the level of residential mortgages that were impaired was 8.4% and has decreased from 10.8% as at 31 December 2016.

United Kingdom residential mortgages – properties in possession[(1)]

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property.

The number (stock) of properties in possession at 31 December 2017 and 2016 is set out below:

		2017*		2016*
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	13	3	37	9
Buy-to-let	14	2	11	2
Total	**27**	**5**	48	11

[(1)]The number of residential properties in possession relates to those held as security for residential mortgages only.

The stock of residential properties continued to decrease in 2017, and has reduced from 48 properties at December 2016 to 27 properties.

United Kingdom residential mortgages – repossessions disposed of

The disposal of 53 residential properties in possession resulted in a loss on disposal of € 5 million before specific impairment provisions (2016: disposal of 60 properties resulting in a loss on disposal of € 5 million). Losses on the sale of properties in possession are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan 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 financial years ended 31 December 2017 and 2016:

	2017*					2016*				
	RCB € m	**WIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Analysed as to asset quality										
Satisfactory	**2,203**	**42**	**162**	**5**	**2,412**	1,995	96	161	–	2,252
Watch	**87**	**–**	**5**	**–**	**92**	110	–	10	–	120
Vulnerable	**249**	**1**	**6**	**–**	**256**	279	4	13	–	296
Impaired	**349**	**–**	**13**	**–**	**362**	384	2	46	–	432
Total criticised loans	**685**	**1**	**24**	**–**	**710**	773	6	69	–	848
Total gross loans and receivables	**2,888**	**43**	**186**	**5**	**3,122**	2,768	102	230	–	3,100
Total loans percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Criticised loans/total loans	**24**	**2**	**13**	**–**	**23**	28	6	30	–	27
Impaired loans/total loans	**12**	**–**	**7**	**–**	**12**	14	2	20	–	14
Statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Specific provisions	**190**	**–**	**13**	**–**	**203**	218	–	34	–	252
IBNR provisions	**40**	**–**	**3**	**–**	**43**	34	–	4	–	38
Total impairment provisions	**230**	**–**	**16**	**–**	**246**	252	–	38	–	290
Provision cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Specific provisions/impaired loans	**54**	**–**	**100**	**–**	**56**	57	–	74	–	58
Total provisions/impaired loans	**66**	**–**	**123**	**–**	**68**	66	–	83	–	67
Total provisions/total loans	**8**	**–**	**9**	**–**	**8**	9	–	17	–	9
Income statement – (credit)/charge	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Specific	**(8)**	**–**	**(1)**	**–**	**(9)**	(21)	12	(2)	–	(11)
IBNR	**8**	**–**	**(1)**	**–**	**7**	(7)	(2)	(2)	–	(11)
Total impairment (credit)/charge	**–**	**–**	**(2)**	**–**	**(2)**	(28)	10	(4)	–	(22)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Impairment (credit)/charge/ /average loans	**(0.01)**	**–**	**(0.83)**	**–**	**(0.07)**	(0.46)	6.67	(1.06)	–	(0.63)

The other personal lending portfolio of € 3.1 billion comprises € 2.2 billion in loans and overdrafts and € 0.9 billion in credit card facilities (31 December 2016: € 3.1 billion, € 2.2 billion and € 0.9 billion respectively).

An increase in demand for personal loans was observed during the period and was due to both the favourable economic environment and AIB's service offering, especially increased online approval through internet and mobile credit application activity. The strong level of new lending at € 0.8 billion evident in 2017 is 15% higher than in 2016, and was offset by redemptions and repayments.

The portfolio experienced a € 0.1 billion reduction in criticised loans in 2017 (16%). At 31 December 2017, € 0.7 billion or 23% of the portfolio was criticised of which impaired loans amounted to € 0.4 billion (31 December 2016: € 0.8 billion or 27% and € 0.4 billion).

At 31 December 2017, the specific provision cover decreased from 58% to 56% impacted by the write-off of impaired balances with a high provision cover which were predominately low value retail loans on which recovery options had been exhausted. The income statement provision writeback of € 2 million compares to a € 22 million writeback in 2016. Specific provisions on new impairments amounted to € 58 million (2016: € 42 million) which were off-set by a writeback of € 67 million (net of top-ups) (2016: € 53 million).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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 financial years ended 31 December 2017 and 2016:

	2017*				2016*			
	RCB € m	WIB € m	AIB UK[(1)] € m	Total € m	RCB € m	WIB € m	AIB UK € m	Total € m
Investment:								
Commercial investment	2,002	2,375	881	5,258	2,612	2,053	1,533	6,198
Residential investment	571	124	249	944	716	102	233	1,051
	2,573	2,499	1,130	6,202	3,328	2,155	1,766	7,249
Land and development:								
Commercial development	275	216	427	918	324	100	20	444
Residential development	485	253	223	961	638	162	277	1,077
	760	469	650	1,879	962	262	297	1,521
Contractors	115	80	287	482	113	82	170	365
Housing associations	–	–	257	257	–	–	259	259
Total gross loans and receivables	3,448	3,048	2,324	8,820	4,403	2,499	2,492	9,394
Analysed as to asset quality								
Satisfactory	679	2,758	1,932	5,369	661	2,133	1,643	4,437
Watch	142	–	64	206	246	3	129	378
Vulnerable	1,052	290	100	1,442	1,421	264	170	1,855
Impaired	1,575	–	228	1,803	2,075	99	550	2,724
Total criticised loans	2,769	290	392	3,451	3,742	366	849	4,957
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	80	10	17	39	85	15	34	53
Impaired loans/total loans	46	–	10	20	47	4	22	29
Statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific provisions	761	–	153	914	1,011	9	330	1,350
IBNR provisions	104	26	20	150	77	7	15	99
Total impairment provisions	865	26	173	1,064	1,088	16	345	1,449
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	48	–	67	51	49	9	60	50
Total provisions/impaired loans	55	–	76	59	52	16	63	53
Total provisions/total loans	25	1	7	12	25	1	14	15
Income statement – (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(85)	(1)	(14)	(100)	(76)	12	(10)	(74)
IBNR	26	20	4	50	(56)	(11)	(4)	(71)
Total impairment (credit)/charge	(59)	19	(10)	(50)	(132)	1	(14)	(145)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(1.55)	0.65	(0.38)	(0.56)	(2.63)	0.04	(0.48)	(1.38)

[(1)]In 2017, AIB UK implemented a new range of sector codes to bring them into alignment with the rest of the Group. This resulted in € 0.6 billion reported in the 'Investment' sector in 2016 being reclassified as 'Land and development' and 'Contractors' in the above table for 2017.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

The property and construction sector amounted to 14% of total loans and receivables. The portfolio is comprised of 71% investment loans (€ 6.2 billion), 21% land and development loans (€ 1.9 billion) and 8% other property and construction loans (€ 0.7 billion). AIB UK accounts for 26% of the total property and construction portfolio.

Overall, the portfolio reduced by € 0.6 billion or 6% during 2017. 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 € 0.9 billion (34%) during 2017.

There was a writeback of specific provisions net of top-ups of € 144 million (5% 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 € 44 million.

Investment

Investment property loans amounted to € 6.2 billion at 31 December 2017 (2016: € 7.2 billion) of which € 5.3 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. € 2.6 billion (42%) of the investment property portfolio relates to RCB, € 2.5 billion (40%) to WIB, and with the remaining € 1.1 billion (18%) in AIB UK.

Total impairment provisions as a percentage of total loans is 9%, and is down from 12% at 31 December 2016. The impairment charge to the income statement was € 2 million on the investment property element of the property and construction portfolio compared to a writeback of € 67 million in 2016, with the increase largely due to the lengthening of emergence periods.

Land and development

At 31 December 2017, land and development loans amounted to € 1.9 billion (2016: € 1.5 billion). € 1.2 billion of this portfolio related to loans in RCB and WIB, with the remaining € 0.7 billion in AIB UK.

€ 0.8 billion of the land and development portfolio was criticised at 31 December 2017 (2016: € 1.1 billion), including € 0.6 billion of loans which were impaired (2016: € 0.8 billion) and on which the Group had € 0.4 billion in statement of financial position specific provisions, providing cover of 60% (2016: € 0.5 billion and 61%). The impairment writeback of € 53 million to the income statement compares to a writeback of € 79 million in 2016.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

The following table analyses non-property business lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2017 and 2016:

					2017*					2016*
Gross loans and receivables to customers	**RCB €m**	**WIB €m**	**AIB[1] UK €m**	**Group €m**	**Total €m**	RCB €m	WIB €m	AIB UK €m	Group €m	Total €m
Agriculture	1,568	168	82	–	1,818	1,531	148	94	–	1,773
Distribution:										
Hotels	496	915	527	–	1,938	508	1,012	791	–	2,311
Licensed premises	401	156	123	–	680	386	155	–	–	541
Retail/wholesale	1,071	974	505	–	2,550	1,090	885	364	–	2,339
Other distribution	133	135	111	–	379	127	121	–	–	248
	2,101	2,180	1,266	–	5,547	2,111	2,173	1,155	–	5,439
Other services	1,380	2,111	1,882	1	5,374	1,435	1,897	2,368	6	5,706
Other	878	2,744	1,263	52	4,937	948	2,302	1,183	144	4,577
Total gross loans and receivables	5,927	7,203	4,493	53	17,676	6,025	6,520	4,800	150	17,495
Analysed as to asset quality										
Satisfactory	3,658	7,118	4,126	53	14,955	3,333	6,339	4,184	114	13,970
Watch	209	12	192	–	413	327	24	296	–	647
Vulnerable	1,252	65	119	–	1,436	1,296	29	149	–	1,474
Impaired	808	8	56	–	872	1,069	128	171	36	1,404
Total criticised loans	2,269	85	367	–	2,721	2,692	181	616	36	3,525
Total loans percentage	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	38	1	8	–	15	45	3	13	24	20
Impaired loans/total loans	14	–	1	–	5	18	2	4	24	8
Statement of financial position	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Specific provisions	435	2	33	–	470	587	34	71	25	717
IBNR provisions	103	19	25	–	147	77	25	29	–	131
Total impairment provisions	538	21	58	–	617	664	59	100	25	848
Provision cover percentage	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	54	25	59	–	54	55	27	42	69	51
Total provisions/impaired loans	67	263	104	–	71	62	46	58	69	60
Total provisions/total loans	9	–	1	–	3	11	1	2	17	5
Income statement – charge/ (credit)	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Specific	(9)	(9)	39	–	21	24	12	(20)	8	24
IBNR	26	(7)	–	–	19	(41)	(2)	3	–	(40)
Total impairment charge/ (credit)	17	(16)	39	–	40	(17)	10	(17)	8	(16)
	%	%	%	%	%	%	%	%	%	%
Impairment charge/(credit) /average loans	0.28	(0.23)	0.83	0.00	0.23	(0.28)	0.16	(0.31)	2.12	(0.08)

[1] In 2017, AIB UK implemented a new range of sector codes to bring them into alignment with the rest of the Group. This resulted in € 0.2 billion in 2016 being reclassified within 'Distribution' in the above table for 2017.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Non-property business *(continued)*

The non-property business portfolio comprises of Small and Medium Enterprises ("SME") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers which are impacted by global economies. There was increased credit demand across all segments and in most subsectors resulting in new lending of € 4.9 billion in the year to 31 December 2017 (31 December 2016: € 4.1 billion), an increase of 18%. This new lending was offset by amortisation, restructuring activity and sterling depreciation, resulting in an overall increase of € 0.2 billion or 1% in the portfolio. The portfolio amounted to 28% of total loans and receivables at 31 December 2017, with the majority of the exposure to Irish borrowers with the UK and USA being the other main geographic concentrations.

Satisfactory loans and receivables increased continuing the positive trend experienced in 2016, with new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The level of criticised loans reduced from € 3.5 billion at 31 December 2016 to € 2.7 billion at 31 December 2017, mainly due to a reduction of € 0.5 billion (38%) in impaired loans as a result of restructuring activity and portfolio disposals.

The following are the key themes within the main sub-sectors of the non-property business portfolio:
– The agriculture sub-sector (10% of the portfolio) continued to perform well in 2017, with the dairy sector recovering as the positive momentum in milk prices continued. Downward pressure on prices exists in non-dairy sectors;
– The hotels sub-sector comprises 11% of the portfolio. This sector continued to perform well in the 2017, helped by a stronger local economy. There has been a net growth in tourist numbers despite a decline in visitors from UK. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for available properties. Additional supply from extensions to existing hotels and some new hotel developments are now coming on stream, mainly in key urban areas;
– The licensed premises sub-sector comprises 4% of the portfolio. This sector continues to perform strongly in key urban centres, but outside the main cities, trading performance continues to be more challenging;
– The retail/wholesale sub-sector (14% of the portfolio) was broadly stable in 2017; there are still some areas of stress, in particular in rural areas and some sub sectors; and
– The other services sub-sector comprises 31% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector has continued to perform well in 2017.

In the table on the preceding page, there is a category of "Other" totalling € 4.9 billion (28% of the portfolio). This category includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

The Republic of Ireland continued to show strong economic growth during 2017. Notwithstanding this continued strong economic performance, there are still challenges. In particular, there is heightened economic uncertainty and increased foreign exchange volatility since the UK voted in favour of Brexit in 2016. The medium-term outlook for the UK economy remains uncertain as Brexit negotiations between the UK and the EU continues.

WIB includes € 3.2 billion (31 December 2016: € 2.8 billion) in syndicated and international lending exposures. The Group 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. At 31 December 2017, 99.6% of the syndicated and international lending portfolio is in a satisfactory grade. 66% of the customers in this portfolio are domiciled in the USA, 6% in the UK, and 28% in the Rest of the World (primarily Europe) (31 December 2016: 76% in the USA, 5% in the UK and 19% in the Rest of the World (primarily Europe) respectively). The largest industry sub-sectors within the portfolio include healthcare, business services and telecoms.

The income statement provision charge in 2017 was € 40 million compared to a writeback of € 16 million in 2016.

IBNR provisions increased from € 131 million at 31 December 2016 to € 147 million or from 0.8% to 0.9% of non-impaired loans and receivables, in line with the evolving nature of the performing portfolios and the lengthening of emergence periods.

The specific provision cover increased from 51% at 31 December 2016 to 54% at 31 December 2017, impacted by write-offs of provisions for loans with lower provision cover.

Specific provisions on new impairments amounted to € 106 million (2016: € 75 million) which were off-set by a writeback (net of top-ups) of € 85 million (2016: € 51 million). The writebacks amounted to 6% of opening impaired loans and was driven by the improved economic environment and the ongoing restructuring programme.

Risk management – 3. Individual risk types

3.1 Credit risk – credit profile of the loan portfolio

Large exposures

The Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2017, the Group's top 50 exposures amounted to € 4.3 billion, and accounted for 6.7% (2016: € 4.5 billion and 6.9%) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to € 146 million (2016: € 83 million). No single customer exposure exceeded regulatory requirements.

Credit ratings

Internal credit ratings*

The Group 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 on pages 73 to 76. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired, and are defined on page 74.

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 the Group.

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 estimated 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.

Loans that are neither past due nor impaired or past due but not 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, or loans that are in a post impairment/restructuring phase.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings *(continued)*

Internal credit ratings of loans and receivables to customers*

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2017 and 2016 is set out below:

2017	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	17,564	227	205	1,861	19,857
Good lower	8,657	2,135	5,123	13,012	28,927
Watch	1,033	69	187	384	1,673
Vulnerable	2,304	173	1,227	1,264	4,968
Total	29,558	2,604	6,742	16,521	55,425
Past due but not impaired					
Good upper	3	3	–	1	7
Good lower	27	47	41	81	196
Watch	291	23	19	29	362
Vulnerable	548	83	215	172	1,018
Total	869	156	275	283	1,583
Total impaired	3,293	362	1,803	872	6,330
Total gross loans and receivables	33,720	3,122	8,820	17,676	63,338
Impairment provisions					(3,345)
Total					59,993

2016	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € 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

The above table shows reductions in the watch, vulnerable and impaired (i.e.'criticised') categories across all asset classes in 2017. The increase in 'good' grade categories was driven by new lending partially offset by pay-downs. Loans reduced in total by € 1.9 billion from 31 December 2016 (a decrease of 3%) representing a net increase in 'good' loans of € 2.5 billion and a decrease in 'criticised' of € 4.4 billion.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings *(continued)*

Non-performing exposures to customers

The internal credit ratings profile of loans and receivables to customers on the table above sets out the basis on which the Group manages its credit portfolio. In addition, the Group's off–balance sheet commitments are set out in note 46 to the financial statements.

For regulatory reporting purposes, the Group discloses details of its non-performing exposures which are set out in the table below. Non-performing exposures include a) loans and receivables to customers and b) off-balance sheet commitments such as loan commitments and financial guarantee contracts. In some respects, loans and receivables as reported in non-performing exposures overlap with the tables reported above, i.e. impaired loans (page 103) and greater than 90 days past due but not impaired (page 101). However, the category below 'Neither past due nor impaired and/or less than 90 days past due' will contain elements of the satisfactory portfolio, and the 'Watch' and 'Vulnerable' categories as set out above. All exposures categorised as non-performing have been tested for impairment.

A profile of non-performing loans and receivables to customers by asset class together with the total outstanding value for non-performing off-balance sheet commitments at 31 December 2017 and 2016 is set out below:

					2017*
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Total gross loans and receivables	**33,720**	**3,122**	**8,820**	**17,676**	**63,338**
(a) Non-performing loans					
Impaired	**3,293**	**362**	**1,803**	**872**	**6,330**
Greater than 90 days past due but not impaired	**246**	**47**	**141**	**122**	**556**
Neither past due nor impaired and/or less than 90 days past due	**1,277**	**145**	**1,005**	**881**	**3,308**
Total non-performing loans	**4,816**	**554**	**2,949**	**1,875**	**10,194**
Non-performing loans as % of total gross loans	**14%**	**18%**	**33%**	**11%**	**16%**

					2016*
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
(a) 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

(b) Total non-performing off-balance sheet commitments amounted to € 322 million (2016: € 321 million).

Non-performing exposures as defined by the EBA are:

- Material exposures which are more than 90 days past-due; and or,
- 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 of the number of days past due.

Non-performing loans in the table above include:

- Impaired loans;
- Loans that are greater than 90 days past due and not impaired;
- Loans that are deemed unlikely to repay without realisation of the underlying collateral; and
- Certain other loans including those that have previously received a forbearance solution and that are required to remain as non-performing for a probation period, as defined under regulatory and EBA Implementing Technical Standards.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio
Credit ratings *(continued)*

Continued momentum in 2017 in reducing the stock of non-performing loans resulted in a reduction from € 14.1 billion (22% of total gross loans at 31 December 2016) to € 10.2 billion (16% at 31 December 2017), a decrease of € 3.9 billion or 28%. This reduction was achieved through case by case restructuring, cash redemptions and strategic initiatives.

The reductions were evident across all the components and asset classes with reductions noted in impaired, loans greater than 90 days past due and loans in a probationary period (which are included in the "neither past due nor impaired and/or less than 90 days past due" category).

AIB adopts a conservative approach to probation loans and for some categories holds a two year probation period (EBA rules on probation requires a minimum of one year since forbearance was granted). AIB's approach is subject to on-going review.

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 shares) and financial investments available for sale (excluding equity shares) and financial investments held to maturity at 31 December 2017 and 2016 is set out below:

					2017
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,430**	**–**	**1,867**	**295**	**6,592**
A/A-	**961**	**3**	**7,139**	**–**	**8,103**
BBB+/BBB/BBB-	**164**	**36**	**1,982**	**–**	**2,182**
Sub investment	**–**	**17**	**–**	**–**	**17**
Unrated	**94**	**–**	**–**	**–**	**94**
Total	**5,649**	**56**	**10,988**[1]	**295**	**16,988**

					2016
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,901	–	2,440	446	7,787
A+/A/A-	847	27	10,456	–	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[1]	446	21,387

[1]Includes supranational banks and government agencies. In 2016, this category also included NAMA senior bonds and financial investments held to maturity, both of which had NIL balances at 31 December 2017.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – 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 at 31 December 2017 and 2016:

			2017*			2016*
Debt securities	**Fair value € m**	**Unrealised gross gains € m**	**Unrealised gross losses € m**	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m
Irish Government securities	**7,021**	**646**	**(6)**	5,114	458	(13)
Euro government securities	**2,406**	**124**	**–**	2,706	148	(6)
Non Euro government securities	**161**	**5**	**(1)**	230	8	(1)
Supranational banks and government agencies	**1,368**	**40**	**(4)**	1,719	64	(1)
Collateralised mortgage obligations	**278**	**–**	**(8)**	433	–	(8)
Other asset backed securities	**16**	**–**	**–**	12	–	–
Euro bank securities	**4,336**	**79**	**(1)**	4,551	102	(1)
Euro corporate securities	**56**	**–**	**–**	47	–	–
Non Euro corporate securities	**–**	**–**	**–**	20	3	–
Total debt securities	**15,642**	**894**	**(20)**	14,832	783	(30)
Equity securities[(1)]	**679**	**467**	**(3)**	605	448	(2)
Total financial investment available for sale	**16,321**	**1,361**	**(23)**	15,437	1,231	(32)

[(1)]Includes NAMA subordinated bonds with a fair value of € 466 million (31 December 2016: € 466 million) of which unrealised gains amount to € 423 million (31 December 2016: € 419 million).

The following table categorises the available-for-sale debt securities portfolio by contractual residual maturity and weighted average yield at 31 December 2017 and 2016:

								2017
	Within 1 year		**After 1 but within 5 years**		**After 5 but within 10 years**		**After 10 years**	
	€ m	**Yield %**	**€ m**	**Yield %**	**€ m**	**Yield %**	**€ m**	**Yield %**
Irish Government securities	**1,071**	**4.7**	**3,400**	**4.5**	**2,166**	**2.4**	**384**	**1.4**
Euro government securities	**51**	**1.1**	**1,380**	**1.8**	**975**	**1.4**	**–**	**–**
Non Euro government securities	**–**	**–**	**117**	**2.5**	**44**	**1.7**	**–**	**–**
Supranational banks and government agencies	**305**	**1.2**	**694**	**1.2**	**123**	**1.5**	**246**	**2.3**
Collateralised mortgage obligations	**–**	**–**	**–**	**–**	**10**	**2.0**	**268**	**1.8**
Other asset backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**16**	**0.1**
Euro bank securities	**133**	**0.9**	**3,787**	**0.7**	**416**	**0.5**	**–**	**–**
Euro corporate securities	**1**	**(0.1)**	**49**	**0.9**	**4**	**1.0**	**2**	**1.5**
Non Euro corporate securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**1,561**	**3.6**	**9,427**	**2.3**	**3,738**	**1.9**	**916**	**1.8**

								2016
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments available for sale

The following tables analyse the available for sale portfolio by geography at 31 December 2017 and 2016:

Government securities	2017* Irish Government € m	2017* Euro government € m	2017* Non Euro government € m	2016* Irish Government € m	2016* Euro government € m	2016* Non Euro government € m
Republic of Ireland	**7,021**	**–**	**–**	5,114	–	–
Italy	**–**	**907**	**–**	–	928	–
France	**–**	**122**	**–**	–	269	–
Spain	**–**	**1,075**	**–**	–	1,100	–
Netherlands	**–**	**195**	**–**	–	254	–
Germany	**–**	**56**	**–**	–	93	–
Belgium	**–**	**23**	**–**	–	–	–
Austria	**–**	**28**	**–**	–	30	–
United Kingdom	**–**	**–**	**62**	–	–	76
Slovakia	**–**	**–**	**–**	–	32	–
Czech Republic	**–**	**–**	**12**	–	–	36
Poland	**–**	**–**	**44**	–	–	89
Saudi Arabia	**–**	**–**	**43**	–	–	29
	7,021	**2,406**	**161**	5,114	2,706	230

Asset backed securities	2017* Total € m	2016* Total € m
United States of America	**278**	433
Republic of Ireland	**16**	12
	294	445

Bank securities	2017* Euro € m	2017* Non Euro € m	2016* Euro € m	2016* Non Euro € m
Republic of Ireland	**423**	**–**	471	–
France	**529**	**–**	569	–
Netherlands	**516**	**–**	712	–
United Kingdom	**553**	**–**	443	–
Australia	**335**	**–**	315	–
Sweden	**372**	**–**	394	–
Canada	**728**	**–**	661	–
Finland	**198**	**–**	234	–
Norway	**282**	**–**	300	–
Belgium	**289**	**–**	297	–
Germany	**30**	**–**	31	–
Denmark	**57**	**–**	57	–
New Zealand	**24**	**–**	24	–
Switzerland	**–**	**–**	18	–
Luxembourg	**–**	**–**	25	–
	4336	**–**	4,551	–

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Risk management – 3. Individual risk types

3.1 Credit risk

Financial investments available for sale

Debt securities

Debt securities available for sale (“AFS”) increased from a fair value of € 14.8 billion (nominal € 14.1 billion) at 31 December 2016 to € 15.6 billion (nominal € 14.9 billion) at 31 December 2017. An increase in Irish Government securities of € 1.9 billion was the main driver. This was offset by reductions in collateralised mortgage obligations (€ 0.2 billion), supranational banks and government agencies (€ 0.4 billion) and euro bank securities (€ 0.2 billion).

Within the € 1.9 billion increase in Irish Government Securities, the reclassification from the held to maturity securities portfolio contributed € 3.2 billion (nominal € 2.9 billion). Sales, maturities and redemptions amounted to € 1.3 billion (nominal € 1.2 billion).

The external ratings profile remained relatively static with total investment grade ratings now at 100% (2016: 99%). The breakdown by ratings was AAA: 27% (2016: 31%); AA: 13% (2016: 18%); A: 47% (2016: 37%); BBB: 13% (2016: 13%); and sub investment grade 0% (2016: 1%).

Republic of Ireland securities

The fair value of Irish debt securities amounted to € 7.5 billion at 31 December 2017 (2016: € 5.6 billion) and consisted of sovereign debt € 7.0 billion (2016: € 5.1 billion), senior unsecured bonds of € 0.2 billion (2016: € 0.2 billion) and covered bonds of € 0.2 billion (2016: € 0.3 billion).

United Kingdom securities

The fair value of United Kingdom securities amounted to € 0.6 billion at 31 December 2017 (2016: € 0.5 billion) and consisted of sovereign debt € 0.1 billion (2016: € 0.1 billion), senior unsecured bonds of € 0.1 billion (2016: € 0.1 billion) and covered bonds of € 0.4 billion (2016: € 0.3 billion).

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 € 2.4 billion (2016: € 2.7 billion). This decrease was largely due to net sales and maturities and included reductions in French government securities of € 0.1 billion.

Bank securities

At 31 December 2017, the fair value of bank securities of € 4.3 billion (2016: € 4.5 billion) included € 2.8 billion in covered bonds (2016: € 3 billion), € 1.3 billion in senior unsecured bank debt (2016: € 1.3 billion) and € 0.2 billion in government guaranteed senior bank debt (2016: € 0.2 billion). The bank debt was diversified across banks in 13 countries with the largest exposure to Canadian banks (€ 0.7 billion).

Asset backed securities

Asset backed securities decreased to € 0.3 billion (2016: € 0.4 billion).

Equity securities

The fair value of NAMA subordinated bonds was € 466 million (106.69% of nominal € 437 million). In 2016, the fair value was € 466 million being 99.02% of nominal of € 474 million. During 2017, the Group disposed of € 34 million in nominal value.

Financial investments held to maturity

The Group’s held to maturity portfolio was reclassified as available for sale in order to provide flexibility in managing the overall bond portfolio and to avail of opportunities through selling elements of this portfolio.

	2017 € m	2016 € m
At 1 January	**3,356**	3,483
Amortisation of fair value gain	**(122)**	(127)
IAS 39 reclassification out *(note 27)*	**(3,234)**	–
At 31 December	**–**	3,356

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

The Group's forbearance initiatives are detailed on pages 82 to 84 in the 'Risk management' section of this report.

The following table sets out the risk profile of loans and receivables to customers analysed as to non-forborne and forborne at 31 December 2017 and 2016:

2017	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	17,038	226	204	1,860	19,328
Good lower	8,080	1,802	5,090	12,893	27,865
Watch	804	57	137	348	1,346
Vulnerable	1,148	75	541	569	2,333
Total	27,070	2,160	5,972	15,670	50,872
Past due but not impaired	384	100	139	180	803
Impaired	1,528	218	1,349	545	3,640
Total	1,912	318	1,488	725	4,443
Total non-forborne loans and receivables to customers	28,982	2,478	7,460	16,395	55,315
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	526	1	1	1	529
Good lower	577	333	33	119	1,062
Watch	229	12	50	36	327
Vulnerable	1,156	98	686	695	2,635
Total	2,488	444	770	851	4,553
Past due but not impaired	485	56	136	103	780
Impaired	1,765	144	454	327	2,690
Total	2,250	200	590	430	3,470
Total forborne loans and receivables to customers	4,738[1]	644	1,360	1,281	8,023
Total gross loans and receivables to customers	33,720	3,122	8,820	17,676	63,338
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.3	6.7	2.9	3.6	3.0

[1]Republic of Ireland: € 4,692 million and United Kingdom: € 46 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 138 to 145 and further detail on the non-mortgage forbearance portfolio is included on pages 146 to 150.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy (f) 'Interest income and expense recognition' in note 1 to the consolidated financial statements 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 value after specific provisions is used for impaired forborne loans.

Interest income on overall impaired loans amounted to € 100 million in 2017 (2016: € 140 million). At 31 December 2017, the net carrying value of impaired loans was € 3,608 million (2016: € 5,089 million) which included forborne impaired mortgages of € 1,199 million (2016: € 1,535 million) and forborne impaired non-mortgages of € 496 million (2016: € 680 million).

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

The following table sets out the risk profile of loans and receivables to customers analysed as to non-forborne and forborne at 31 December 2016:

2016	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € 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

[1]Republic of Ireland: € 5,931 million and United Kingdom: € 56 million.

Republic of Ireland residential mortgages

The Group has introduced a Mortgage Arrears Resolution Process ("MARP") for dealing with mortgage customers in difficulty or likely to be in difficulty. The core objectives of this process is 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. It includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Further details on MARP together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out on page 83.

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.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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:

Republic of Ireland owner-occupier	2017 Number	2017 Balance € m	2016 Number	2016 Balance € m
At 1 January	29,865	4,274	29,514	3,995
Additions	2,973	438	3,805	537
Expired arrangements	(6,691)	(899)	(3,217)	(450)
Payments	–	(209)	–	(216)
Interest	–	95	–	101
Closed accounts[1]	(1,000)	(91)	(869)	(67)
Advanced forbearance arrangements - valuation adjustments	–	(8)	–	(6)
Write-offs[2]	(87)	(53)	(15)	(6)
Transfer between owner-occupier and buy-to-let	7	2	(6)	1
Adoption of EBA forbearance definition	–	–	653	385
At 31 December	25,067	3,549	29,865	4,274

Republic of Ireland buy-to-let	2017 Number	2017 Balance € m	2016 Number	2016 Balance € m
At 1 January	9,509	1,657	7,826	1,486
Additions	415	54	659	104
Expired arrangements	(530)	(91)	(1,359)	(250)
Payments	–	(130)	–	(113)
Interest	–	28	–	29
Closed accounts[1]	(1,544)	(219)	(692)	(86)
Advanced forbearance arrangements - valuation adjustments	–	(7)	–	(1)
Write-offs[2]	(78)	(45)	(26)	(16)
Transfer between owner-occupier and buy-to-let	(7)	(2)	6	(1)
Disposals	(521)	(102)	–	–
Adoption of EBA forbearance definition	–	–	3,095	505
At 31 December	7,244	1,143	9,509	1,657

Republic of Ireland – Total	2017 Number	2017 Balance € m	2016 Number	2016 Balance € m
At 1 January	39,374	5,931	37,340	5,481
Additions	3,388	492	4,464	641
Expired arrangements	(7,221)	(990)	(4,576)	(700)
Payments	–	(339)	–	(329)
Interest	–	123	–	130
Closed accounts[1]	(2,544)	(310)	(1,561)	(153)
Advanced forbearance arrangements - valuation adjustments	–	(15)	–	(7)
Write-offs[2]	(165)	(98)	(41)	(22)
Disposals	(521)	(102)	–	–
Adoption of EBA forbearance definition	–	–	3,748	890
At 31 December	32,311	4,692	39,374	5,931

[1]Accounts closed during year due primarily to customer repayments and redemptions.

[2]Includes contracted and non-contracted write-offs in 2017 and 2016.

The stock of loans subject to forbearance measures decreased by € 1.2 billion since 31 December 2016 to € 4.7 billion at 31 December 2017 driven by customers exiting forbearance having met their forbearance terms, and lower numbers of customers seeking new forbearance solutions which is reflective of improving customer ability to meet their mortgage terms.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Under the definition of forbearance, which complies with the definition of Forbearance prescribed by the EBA, loans subject to forbearance measures remain in forbearance stock for a period of two years from the date forbearance is granted regardless of the forbearance type. Therefore, cases that receive a short-term forbearance measure, such as interest only, and return to a full principal and interest repayment schedule at the end of the interest only period, will remain in the stock of forbearance for at least two years.

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 at 31 December 2017 and 2016:

						2017
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	5,008	756	2,537	359	2,471	397
Reduced payment	973	191	399	74	574	117
Payment moratorium	1,984	325	1,713	292	271	33
Restructure	258	22	71	9	187	13
Arrears capitalisation	10,744	1,477	6,784	918	3,960	559
Term extension	1,284	135	1,005	108	279	27
Split mortgages	1,848	287	1,360	213	488	74
Voluntary sale for loss	380	13	183	4	197	9
Low fixed interest rate	1,036	159	855	130	181	29
Positive equity solutions	1,318	143	1,220	133	98	10
Other	234	41	177	31	57	10
Total forbearance	25,067	3,549	16,304	2,271	8,763	1,278

						2017
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,641	306	725	131	916	175
Reduced payment	500	103	248	52	252	51
Payment moratorium	269	41	98	16	171	25
Fundamental restructure	837	113	412	57	425	56
Restructure	725	50	86	10	639	40
Arrears capitalisation	2,108	378	1,013	176	1,095	202
Term extension	446	72	353	50	93	22
Split mortgages	118	20	48	7	70	13
Voluntary sale for loss	293	13	183	4	110	9
Low fixed interest rate	8	1	8	1	–	–
Positive equity solutions	20	2	18	2	2	–
Other	279	44	90	15	189	29
Total forbearance	7,244	1,143	3,282	521	3,962	622

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

	2017					
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	6,649	1,062	3,262	490	3,387	572
Reduced payment	1,473	294	647	126	826	168
Payment moratorium	2,253	366	1,811	308	442	58
Fundamental restructure	837	113	412	57	425	56
Restructure	983	72	157	19	826	53
Arrears capitalisation	12,852	1,855	7,797	1,094	5,055	761
Term extension	1,730	207	1,358	158	372	49
Split mortgages	1,966	307	1,408	220	558	87
Voluntary sale for loss	673	26	366	8	307	18
Low fixed interest rate	1,044	160	863	131	181	29
Positive equity solutions	1,338	145	1,238	135	100	10
Other[1]	513	85	267	46	246	39
Total forbearance	32,311	4,692	19,586	2,792	12,725	1,900

[1]Included in 'Other' are: € 35 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 € 4 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

						2016
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	5,214	796	2,627	379	2,587	417
Reduced payment	1,030	213	401	74	629	139
Payment moratorium	1,526	241	1,279	208	247	33
Fundamental restructure	2	–	2	–	–	–
Restructure	303	38	103	13	200	25
Arrears capitalisation	13,494	1,888	8,401	1,122	5,093	766
Term extension	1,857	212	1,521	176	336	36
Split mortgages	3,066	474	2,420	377	646	97
Voluntary sale for loss	510	28	269	7	241	21
Low fixed interest rate	1,163	182	993	153	170	29
Positive equity solutions	1,453	157	1,392	151	61	6
Other	247	45	212	36	35	9
Total forbearance	29,865	4,274	19,620	2,696	10,245	1,578

						2016
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,990	412	956	189	1,034	223
Reduced payment	770	175	356	83	414	92
Payment moratorium	307	40	116	15	191	25
Fundamental restructure	1,195	169	817	116	378	53
Restructure	804	72	101	13	703	59
Arrears capitalisation	3,015	564	1,279	243	1,736	321
Term extension	619	110	482	72	137	38
Split mortgages	138	37	53	9	85	28
Voluntary sale for loss	303	25	193	5	110	20
Low fixed interest rate	8	1	8	1	–	–
Positive equity solutions	27	3	26	3	1	–
Other	333	49	76	7	257	42
Total forbearance	9,509	1,657	4,463	756	5,046	901

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

						2016
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	7,204	1,208	3,583	568	3,621	640
Reduced payment	1,800	388	757	157	1,043	231
Payment moratorium	1,833	281	1,395	223	438	58
Fundamental restructure	1,197	169	819	116	378	53
Restructure	1,107	110	204	26	903	84
Arrears capitalisation	16,509	2,452	9,680	1,365	6,829	1,087
Term extension	2,476	322	2,003	248	473	74
Split mortgages	3,204	511	2,473	386	731	125
Voluntary sale for loss	813	53	462	12	351	41
Low fixed interest rate	1,171	183	1,001	154	170	29
Positive equity solutions	1,480	160	1,418	154	62	6
Other[(1)]	580	94	288	43	292	51
Total forbearance	39,374	5,931	24,083	3,452	15,291	2,479

[(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.

A key feature of the forbearance portfolio is the level of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at € 0.7 billion accounted for 14% of the total forbearance portfolio at 31 December 2017 (2016: € 1 billion, 17%). Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Arrears capitalisation continues to be the largest category of forbearance solutions which at 31 December 2017 accounted for 40% by value of the total forbearance portfolio (31 December 2016: 41%). While actually decreasing year on year, a high proportion of the arrears capitalisation portfolio (41% by value) is greater than 90 days in arrears and/or impaired, a decrease from 44% at 31 December 2016. The majority of arrears capitalisations that are impaired, excluding legal cases, are performing in line with agreed terms and should exit forbearance, subject to EBA probationary criteria. Impaired loans in this category included c. 2,000 cases which are in a legal process and are expected to remain impaired pending conclusion of that process.

In 2017, out of course repayments by customers on restructured mortgage loans resulted in the recognition of an additional € 4 million in the income statement.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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 2017 and 2016:

			2017			2016
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	190	33	223	194	46	240
31 – 60 days	55	7	62	60	18	78
61 – 90 days	28	5	33	24	10	34
91 – 180 days	22	11	33	20	19	39
181 – 365 days	21	17	38	24	20	44
Over 365 days	61	32	93	50	29	79
Total past due but not impaired	377	105	482	372	142	514

Loans subject to forbearance and past due but not impaired decreased by € 32 million in 2017 with later arrears (greater than 90 days in arrears) increasing by € 2 million. The proportion of the portfolio past due but not impaired increased slightly to 10.3% at 31 December 2017 (2016: 8.7%).

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 2017 and 2016:

			2017			2016
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	335	117	452	491	179	670
1 – 30 days	88	21	109	116	36	152
31 – 60 days	41	17	58	51	20	71
61 – 90 days	37	8	45	43	14	57
91 – 180 days	84	24	108	102	31	133
181 – 365 days	108	39	147	127	60	187
Over 365 days	481	336	817	554	493	1,047
Total impaired	1,174	562	1,736	1,484	833	2,317

Impaired loans subject to forbearance decreased by € 0.6 billion in 2017. Statement of financial position specific provisions of € 0.6 billion were held against the forborne impaired portfolio at 31 December 2017 (2016: € 0.8 billion), providing cover of 32% (2016: 35%), while the income statement specific provision charge was € 76 million for the year (2016: € 101 million).

Within the impaired portfolio of € 1.7 billion at 31 December 2017, € 0.5 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 € 1.2 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.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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 2017 and 2016:

			2017			2016
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	838	263	1,101	728	235	963
50% – 70%	895	250	1,145	875	266	1,141
71% – 80%	425	126	551	505	143	648
81% – 90%	383	118	501	470	159	629
91% – 100%	350	117	467	398	162	560
101% – 120%	444	129	573	693	287	980
121% – 150%	167	71	238	483	191	674
Greater than 150%	33	56	89	73	137	210
Unsecured	14	13	27	49	77	126
Total forbearance	3,549	1,143	4,692	4,274	1,657	5,931

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2017 was 18% of the owner-occupier portfolio (2016: 29%) and 22% of the buy-to-let portfolio (2016: 37%), due primarily to the continued increase in property prices in 2017 and loan repayments.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage

The following table analyses the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding residential mortgages which are analysed on page 139:

				2017
Republic of Ireland	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January	608	1,862	1,527	3,997
Additions	188	157	130	475
Fundamental restructures - valuation adjustments	(4)	(36)	(22)	(62)
Write-offs	–	–	(3)	(3)
Expired arrangements	(81)	(21)	(136)	(238)
Closed accounts	(48)	(553)	(175)	(776)
Movements in the stock of forbearance loans	(22)	(98)	(85)	(205)
At 31 December	641	1,311	1,236	3,188

				2017
United Kingdom	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January	7	84	56	147
Additions	1	9	19	29
Expired arrangements	–	(2)	(1)	(3)
Closed accounts	(1)	(12)	(7)	(20)
Movements in the stock of forbearance loans	(3)	(8)	(3)	(14)
Disposals	(1)	(19)	(17)	(37)
FX adjustments	–	(3)	(2)	(5)
At 31 December	3	49	45	97

				2017
Total	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January	615	1,946	1,583	4,144
Additions	189	166	149	504
Fundamental restructures - valuation adjustments	(4)	(36)	(22)	(62)
Write-offs	–	–	(3)	(3)
Expired arrangements	(81)	(23)	(137)	(241)
Closed accounts	(49)	(565)	(182)	(796)
Movements in the stock of forbearance loans	(25)	(106)	(88)	(219)
Disposals	(1)	(19)	(17)	(37)
FX adjustments	–	(3)	(2)	(5)
At 31 December	644	1,360	1,281	3,285

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3.2 Additional credit risk information – Forbearance*
Non-mortgage *(continued)*

Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
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	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
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	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
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

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table sets out an analysis of non-mortgage forbearance solutions at 31 December 2017 and 2016:

						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 %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	37	18	8	11	7	69.6
Reduced payment	20	9	3	8	5	63.1
Payment moratorium	161	157	–	4	3	65.0
Arrears capitalisation	15	5	1	9	2	23.2
Term extension	171	158	4	9	6	70.8
Fundamental restructure	44	26	1	17	7	42.1
Restructure	151	89	7	55	28	50.7
Asset disposals	42	7	5	30	7	24.9
Other	3	2	–	1	1	67.7
Total	644	471	29	144	66	46.4
Property and construction						
Interest only	120	43	15	62	35	54.4
Reduced payment	69	43	9	17	7	43.4
Payment moratorium	9	4	3	2	1	51.1
Arrears capitalisation	35	13	1	21	10	45.7
Term extension	120	68	4	48	31	65.4
Fundamental restructure	582	424	18	140	42	30.3
Restructure	296	168	12	116	53	45.6
Asset disposals	92	55	6	31	13	43.8
Other	37	19	1	17	8	44.4
Total	1,360	837	69	454	200	43.9
Non-property business						
Interest only	122	86	7	29	18	61.0
Reduced payment	54	23	5	26	16	63.5
Payment moratorium	23	12	1	10	2	20.4
Arrears capitalisation	21	4	1	16	9	55.1
Term extension	135	113	4	18	11	61.3
Fundamental restructure	455	377	5	73	25	34.3
Restructure	408	244	30	134	72	53.9
Asset disposals	32	19	2	11	6	56.0
Other	31	20	1	10	4	37.8
Total	1,281	898	56	327	163	49.9
Total non-mortgage forbearance	3,285	2,206	154	925	429	46.4

The Group 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. Further information on non-mortgage forbearance is included on pages 83 and 84.

Non-retail customers in difficulty typically have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

						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 %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € 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

At 31 December 2017, non-mortgage loans subject to forbearance amounted to € 3.3 billion, of which € 0.9 billion is impaired with specific provision cover of 46%. The majority of these forborne loans are in property and construction (€ 1.4 billion) and non-property business (€ 1.3 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 1.1 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'.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

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 2017, approximately € 0.2 billion of main facilities were recognised following the derecognition of € 0.5 billion of impaired loans with related impairment provisions of € 0.2 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 in 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, the Group keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainty over the crystallisation of such additional cash flows through asset sales in excess of those initially estimated that would be applied to secondary facilities over an extended period. In the case of other restructured lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain.

In 2017, additional cashflows received resulted in income of € 137 million being recognised (2016: € 82 million) as asset sales were particularly strong during the year. Furthermore, significant future cash flows have now been estimated for a small number of complex cases with secondary facilities which has resulted in these facilities having a revised carrying value at 31 December 2017 of € 72 million (2016: Nil). This reflects the reassesment of future cashflows and/or higher valuations on collateral.

At 31 December 2017, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 1.2 billion (2016: € 1.5 billion).

The gross carrying value of main facilities that rely principally on the realisation of collateral (property assets held as security) is as follows:

– Buy-to-let € 111 million which have associated contractual secondary facilities of € 144 million (2016: € 169 million and € 204 million respectively).
– Property and construction of € 466 million which has associated contractual secondary facilities of € 1,676 million (2016: € 809 million and € 2,129 million respectively). These are further analysed as:
– Commercial real estate primary facilities of € 374 million which have associated contractual secondary facilities of € 873 million (2016: € 703 million and € 1,237 million respectively).
– Land and development primary facilities of € 92 million which have associated contractual secondary facilities of € 803 million (2016: € 106 million and € 892 million respectively).

The gross carrying value of non-property business lending and other personal lending where fundamental restructures have been granted amounts to € 478 million. These have associated secondary facilities of € 724 million (2016: € 496 million and € 778 million respectively).

The 'Restructure' category (€ 0.9 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 may yet qualify for a 'Fundamental restructure' following ongoing 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 2017, the stock of non-mortgage forbearance loans reduced by € 859 million with new forborne borrowers (€ 504 million) being offset by reductions due to expired and closed forbearance arrangements and repayments.

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3.3 Restructure execution risk

There is a restructure execution risk that the Group's restructuring activity programme for customers in difficulties will not be executed in line with management's expectations.

AIB has reduced its impaired loans from € 29 billion at December 2013 to € 6.3 billion as at 31 December 2017. A significant element of this reduction was through a customer debt restructuring programme. 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 to explore appropriate solutions. By continuing to work together in this process, the Group and the customer can find a mutually acceptable and alternative way forward. This approach has, and will continue to, materially improve the Group's asset quality, and lower its overall risk profile, and strengthen its solvency.

The Group 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. The Group has been proactive in managing its criticised loans through the restructuring process. All restructured loans are managed in line with AIB's overall credit management practices.

The Group has credit policies and strategies, implementation guidelines and monitoring structures in place to manage its loan portfolios, including restructured loans. The Group regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio.

The Group remains focused on reducing impaired loans to a level more in line with normalised European peer levels and will continue to implement sustainable solutions for customers, where feasible, who engage with the Group. The Group continues to review all options in relation to reducing impaired loans including sales and strategic initiatives.

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

Liquidity risk is the risk that the Group 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, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Funding and liquidity risk is measured and controlled using a range of metrics and methodologies including, Liquidity Stress Testing and ensuring adherence to limits based on the regulatory defined liquidity ratios, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The simulated survival period is a key risk metric and is controlled using Board approved limits. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

Risk management and mitigation

The Group's Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and has a decision making and risk governance mandate in relation to the Group's strategic balance sheet management including the management of funding and liquidity risk. The ALCo is responsible for approving the liquidity risk management control structures, for approving liquidity risk limits, for monitoring adherence to these limits and making decisions on risk positions where necessary and for approving liquidity risk measurement methodologies.

The Group operates a three lines of defence model for risk management. For Funding and Liquidity Risk, the first line comprises of the Finance and Treasury functions. The Group's Finance department is the owner of the Group's Funding and Liquidity plan which sets out the strategy for funding and liquidity management for the Group and is responsible for providing the necessary information for the management of the Group's liquidity gap and the efficient management of the liquidity buffer by Treasury. This involves the identification, measurement and reporting of funding and liquidity risk and the application of behavioural adjustments to assets and liabilities.

The Group's Treasury function is responsible for the day to day management of liquidity to meet payment obligations, execution of wholesale funding requirements in line with the Funding and Liquidity Plan and the management of the foreign exchange funding gap.

First line management of funding and liquidity risk consists of:

- firstly, through the Group's 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 1 month. Monitoring ratios also apply to longer periods for long term funding stability;
- secondly, the Group aims to maintain a stock of high quality liquid assets 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.

The Financial Risk function, reporting to the CRO, provides second line assurance. Financial Risk is responsible for exercising independent risk oversight and control over the Group's funding and liquidity management. Financial Risk provides oversight on the effectiveness of the risk and control environment. It proposes and maintains the Funding and Liquidity Framework and Policy as the basis of the Group's control architecture for funding and liquidity risk activities, including the annual agreement of funding and liquidity risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the Group's liquidity risk methodologies.

Group Internal Audit provides third line assurance on Funding and Liquidity Risk.

The Group's Internal Liquidity Adequacy Assessment Process ("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 the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement as part of ILAAP.

3.4 Funding and liquidity risk

Risk monitoring and reporting

The Group 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 on-going basis.

At 31 December 2017, the Group held € 27 billion (2016: € 30 billion) in qualifying liquid assets/contingent funding of which € 8 billion (2016: € 12 billion) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2017, the Group liquidity pool was € 19 billion (2016: € 18 billion). During 2017, the liquidity pool ranged from € 16 billion to € 21 billion and the average balance was € 19 billion.

(1)A qualifying liquid asset ("QLA") is an asset that can be readily converted into cash, either with the market or with the monetary authorities, and where there is no legal, operational or prudential impediments to their use as liquid assets.

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool at 31 December 2017 and 2016:

				2017
		Liquidity pool available	High Quality Liquid Assets (HQLA) in the liquidity pool	
	Liquidity pool € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	**1.5**[1]	**–**	**3.7**[1]	**–**
Total government bonds	**9.6**	**9.2**	**9.4**	**0.1**
Other:				
Covered bonds	**3.3**	**3.0**	**2.5**	**0.8**
Other	**4.6**	**4.4**	**0.3**	**0.2**
Total other	**7.9**	**7.4**	**2.8**	**1.0**
Total	**19.0**	**16.6**	**15.9**	**1.1**

				2016
		Liquidity pool available	High Quality Liquid Assets (HQLA) in the liquidity pool	
	Liquidity pool € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	1.9[1]	–	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 the Group, this means that UK HQLA (cash held with the Bank of England) can qualify up to the amount of 30 days UK outflows under LCR but are not included in the Group's calculation of available QLA stocks.

Liquidity pool by currency

	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Liquidity pool at 31 December 2017	**18.3**	**0.1**	**0.6**	**–**	**19.0**
Liquidity pool at 31 December 2016	17.3	0.1	0.3	–	17.7

Level 1 - HQLA 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.

3.4 Funding and liquidity risk

Management of the Group 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 2017 by € 1.3 billion which was predominantly due to a decrease in the funding requirement following a reduction in customer loans and an increase in customer deposits which was partially offset by wholesale maturities that occurred during the year.

Other contingent liquidity*

AIB has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group'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.

Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework and ILAAP. The Group 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 the Group's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels.

The Group has established the Contingency Funding Plan ("CFP") which is designed to ensure that the Group 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 the Board approved survival limit is 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 the formulation of the Group's Recovery Plan in relation to funding and liquidity.

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the SSM/CBI and also with the requirements of local regulators in jurisdictions in which it operates. In addition, the Group is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. AIB adheres to these requirements.

The Group monitors and reports its current and forecast position against CRD IV related liquidity metrics – the LCR and the NSFR.

AIB Group had an LCR of 132% at 31 December 2017 (31 December 2016: 128%). The minimum LCR requirement in 2017 was 80% ìncreasing to 100% at 1 January 2018. AIB Group has fully complied with the requirement.

A minimum NSFR requirement of 100% is scheduled to be introduced from 1 January 2018 and AIB is awaiting further developments in this regard. At 31 December 2017, the Group had an estimated NSFR of 123% (31 December 2016: 119%).

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Liquidity risk

The LCR table below has been produced in line with the 2014 Basel Committee on Banking Supervision ("BCBS") LCR disclosure. All figures included in the table are averages of 12 month end LCRs from January to December 2017.

	2017		2016	
	Total unweighted value (average) € m	Total weighted value (average) € m	Total unweighted value (average) € m	Total weighted value (average) € m
High Quality Liquid Assets ("HQLA")				
Total HQLA		16,923		16,251
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
Stable deposits	21,099	1,065	20,716	1,035
Less stable deposits	13,257	1,892	11,738	1,690
Unsecured wholesale funding of which:				
Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–	–	–
Non-operational deposits (all counterparties)	20,115	8,938	16,880	8,162
Unsecured debt	224	224	369	369
Secured wholesale funding	–	66	–	140
Additional requirements, of which:				
Outflows related to derivative exposures and other collateral requirements	362	362	401	401
Outflows related to loss of funding on debt products	–	–	220	220
Credit and liquidity facilities	9,927	827	10,012	887
Other contractual funding obligations	445	328	–	–
Other contingent funding obligations	1,329	89	1,415	1,110
Total cash outflows		13,791		14,014
Cash inflows				
Secured lending (reverse repos)	98	13	37	–
Inflows from fully performing exposures	758	443	1,736	692
Other cash inflows	940	206	123	144
Total cash inflows	1,796	662	1,896	836
		€ m		€ m
Total HQLA		16,923		16,251
Total net cash outflows		13,129		13,178
		%		%
Liquidity coverage ratio (average)		129[(1)]		123[(1)]

The month-end LCR ranged from 118% to 137% with the average being 129% in the twelve months to 31 December 2017 (2016: 123%). The average HQLA for the twelve months ended 31 December 2017 was c. € 16,923 million of which government securities constituted 59% (2016: 71%). Average cash outflows were € 13,791 million of which non-operational deposits constituted 65% (2016: 58%). The outflows relating to undrawn commitments as a percentage of total cash outflows remained constant at 6%. Average cash inflows were € 662 million with fully performing exposures constituting 67% (2016: 83%).

[(1)]LCR = Total HQLA/total net cash outflows

3.4 Funding and liquidity risk

Funding structure*

The Group'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 reduce the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

Sources of funds	31 December 2017 € bn	31 December 2017 %	31 December 2016 € bn	31 December 2016 %
Customer accounts	**64.6**	**74**	63.5	69
Deposits by central banks and banks – secured	**2.8**	**3**	7.0	8
– unsecured	**0.8**	**1**	0.7	1
Certificates of deposit and commercial paper	**–**	**–**	0.2	–
Asset covered securities ("ACS")	**3.6**	**4**	5.2	5
Asset backed securities ("ABS")	**–**	**–**	0.5	1
Senior debt	**1.0**	**1**	1.0	1
Capital	**14.4**	**17**	13.9	15
Total source of funds	**87.2**	**100**	92.0	100
Other	**2.9**		3.6	
	90.1		95.6	

The following table analyses average deposits by customers for 2017 and 2016:

Customer accounts	2017 € m	2016 € m
Current accounts	**31,107**	27,003
Deposits:		
Demand	**13,466**	12,076
Time	**18,792**	22,294
Repurchase agreements	**199**	525
Total	**63,564**	61,898

Current accounts include both interest bearing and non-interest bearing cheque accounts raised through the Group'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.

The following table analyses customer accounts by currency:

Customer deposits by currency	31 December 2017 € m	31 December 2016 € m
Euro	**51,773**	50,220
US dollar	**1,642**	1,887
Sterling	**11,065**	11,294
Other currencies	**92**	101
Total	**64,572**	63,502

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Funding structure *(continued)*

Customer deposits represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK providing a stable and reasonably predictable source of funds. Customer accounts increased by € 1.1 billion in 2017. This was mainly due to a € 1.6 billion increase in Euro deposits. There was an underlying growth in GBP deposits of £ 0.1 billion (€ 0.2 billion) which was offset by a reduction in the value of GBP of € 0.4 billion due to currency movements. In addition, the reduction in the euro/US$ exchange rate accounted for € 0.2 billion. The Group's loan to deposit ratio at 31 December 2017 was 93% (2016: 95%).

The management of stable retail funds is paramount to the Group's overall funding and liquidity strategy and will be a key factor in the Group's capacity for future asset growth.

The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

The Group participates in CBI/ECB operations, the funding from which amounted to € 1.9 billion at 31 December 2017 (2016: € 1.9 billion).

In the 12 months to 31 December 2017, the Group did not issue any term wholesale debt in light of the Group's strong funding position. Outstanding asset covered securities (ACS) decreased from € 5.2 billion at 31 December 2016 to € 3.7 billion at 31 December 2017 due to contractual maturities. During the year, € 0.5 billion in securities issued by two of the Group's securitisation vehicles, Emerald Mortgages No. 4 Public Limited Company and Tenterden Funding p.l.c., were redeemed. In November 2017 Emerald Mortgages No 4 Public Limited Company filed notice to liquidate the company.

AIB Group plc became the group holding company on 8 December 2017. In advance of this, the Group had considered plans for the issuance of MREL debt in the Group's funding and liquidity strategy.

Composition of wholesale funding*

At 31 December 2017, total wholesale funding outstanding was € 9 billion (2016: € 15 billion). € 2 billion of wholesale funding matures in less than one year (2016: € 8 billion). € 7 billion of wholesale funding has a residual maturity of over one year (2016: € 7 billion) including € 1.9 billion of TLTRO II drawings.

Outstanding wholesale funding comprised € 7 billion in secured funding (2016: € 13 billion) and € 2 billion in unsecured funding (2016: € 2 billion).

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Composition of wholesale funding* *(continued)*

	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	2017 Total € bn
Deposits by central banks and banks	1.0	0.5	0.2	–	1.7	1.9	–	–	3.6
Senior debt	–	–	–	–	–	1.0	–	–	1.0
ACS/ABS	–	–	–	0.5	0.5	0.8	1.3	1.0	3.6
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	0.8	0.8
Total 31 December 2017	1.0	0.5	0.2	0.5	2.2	3.7	1.3	1.8	9.0
Of which:									
Secured	0.7	0.5	0.2	0.5	1.9	2.7	1.3	1.0	6.9
Unsecured	0.3	–	–	–	0.3	1.0	–	0.8	2.1
	1.0	0.5	0.2	0.5	2.2	3.7	1.3	1.8	9.0

	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	2016 Total € 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

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Currency composition of wholesale debt

At 31 December 2017, 89% (31 December 2016: 93%) of wholesale funding was in euro with the remainder held in GBP and USD. AIB manages cross-currency refinancing risk to foreign exchange cash-flow limits.

					31 December 2017
	EUR € bn	**GBP € bn**	**USD € bn**	**Other € bn**	**Total € bn**
Deposits by central banks and banks	**2.6**	**0.2**	**0.8**	**–**	**3.6**
Senior debt	**1.0**	**–**	**–**	**–**	**1.0**
ACS/ABS	**3.6**	**–**	**–**	**–**	**3.6**
Subordinated liabilities and other capital instruments	**0.8**	**–**	**–**	**–**	**0.8**
Total wholesale funding	**8.0**	**0.2**	**0.8**	**–**	**9.0**
% of total funding	**%**	**%**	**%**	**%**	**%**
	88.9	**2.2**	**8.9**	**–**	**100**

					31 December 2016
	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
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 wholesale funding	14.4	0.4	0.6	–	15.4
% of total funding	%	%	%	%	%
	93.5	2.6	3.9	–	100

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The asset encumbrance disclosure has been produced in line with the 2014 European Banking Authority ("EBA") Guidelines complemented by EBA clarifications on the disclosure of encumbered and unencumbered assets.

The ability to encumber certain pools of assets is an important element of the Group's funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding the Group's financial investments available for sale portfolio. 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. The Group has seen a downward trend in asset encumbrance in recent years, this trend is expected to continue over the coming years.

The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage asset covered securities ("ACS"). In addition, the Group 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 the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between Allied Irish Banks, p.l.c. and other Group entities (e.g. EBS d.a.c. and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

3.4 Funding and liquidity risk

Encumbrance *(continued)*

The following table analyses total assets by encumbered assets and unencumbered assets at 31 December 2017 and 2016:

				2017
			Unencumbered assets	
	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral
	€ m	€ m	€ m	€ m
Loans and receivables to banks	**1,313**	**1,229**	**84**	**–**
Loans and receivables to customers	**59,993**	**9,380**	**10,798**	**39,815**
Financial investments available for sale:				
Debt securities	**15,642**	**1,820**	**13,822**	**–**
Equity securities	**679**	**–**	**–**	**679**
Other	**12,435**	**183**	**3,450**	**8,802**
Total	**90,062**	**12,612**	**28,154**	**49,296**

				2016
			Unencumbered assets	
	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral
	€ m	€ m	€ m	€ m
Loans and receivables to banks	1,399	1,287	101	11
Loans and receivables to customers	60,639	11,848	9,632	39,159
NAMA senior bonds	1,799	542	1,257	–
Financial investments available for sale:				
Debt securities	14,832	5,762	9,070	–
Equity securities	605	–	–	605
Financial investments held to maturity	3,356	238	3,118	–
Other	12,992	457	–	12,535
Total	95,622	20,134	23,178	52,310

The Group had an encumbrance ratio of 14% at 31 December 2017 which has decreased 7% over the year due mainly to a reduction in the funding requirement of the Group (2016: 21%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. However, 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 2017, € 10,798 million of residential loan mortgages are unencumbered but are regarded by the Group as readily available as they are held in covered bond and securitisation structures (2016: € 9,632 million). The remaining loan assets in this category amounting to € 39,815 million, whilst unencumbered, are not regarded as being available in support of liquidity management at present on account of not being in covered bond and securitisation structures (2016: € 39,159 million). Other assets such as deferred tax assets, derivative assets, 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.

3.4 Funding and liquidity risk

Encumbrance *(continued)*

The following table analyses the asset encumbrance of loans and receivables to customers at 31 December 2017 and 2016:

				2017
	Assets[1] € bn	Externally issued notes € bn	Other secured funding € bn	Retained notes[4] € bn
Mortgages (residential mortgage backed securities)	19.5	3.6[2]	2.1[3]	3.6
Other	0.7	–	–	–
Total	20.2	3.6	2.1	3.6

				2016
	Assets[1] € bn	Externally issued notes € bn	Other secured funding € bn	Retained notes[4] € bn
Mortgages (residential mortgage backed securities)	20.7	5.7[2]	1.8[3]	3.3
Other	0.8	–	–	–
Total	21.5	5.7	1.8	3.3

[1]Loans and receivables which are both encumbered and readily available for encumbrance.

[2]Mortgage covered securities issued by the Group and held by third parties

[3]Mortgage covered securities issued and retained by the Group which were used in secured transactions at the reporting date.

[4]Mortgage covered securities retained by the Group and not used in secured transactions at the reporting date were available as collateral.

AIB issues asset backed securities ("ABS"), covered bonds 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, at 31 December 2017, the Group had excess collateral within its asset backed funding programmes that could readily be used to issue additional bonds of € 4.1 billion (2016: € 3.2 billion).

Interbank repurchase agreements and ECB refinancing operations

The following table analyses the interbank repurchase agreements and ECB refinancing operations as at 31 December 2017 and 2016:

				2017				2016
	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn
Highly liquid	1	–	–	1	3	2	–	5
Less liquid	–	–	2	2	–	–	2	2
Maturity profile	1	–	2	3	3	2	2	7

Credit ratings

AIB is currently engaging with the rating agencies to obtain a rating for AIB Group plc. The ratings for Allied Irish Banks, p.l.c. are as follows:

- S&P long-term "BBB-" and short-term "A-3";
- Fitch long-term "BBB-" and short-term "F3"; and
- Moody's long-term "Baa1" for deposits and "Baa2" for senior unsecured debt and short-term "Prime 2" for deposits and "Prime 2" for senior unsecured debt.

Bank and sovereign rating downgrades have the potential to adversely affect the Group's liquidity position and this has been factored into the Group's stress tests.

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

Financial assets and financial liabilities by contractual residual maturity*

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	2017 Total € m
Financial assets						
Trading portfolio financial assets(1)	–	–	–	18	14	32
Derivative financial instruments(2)	–	77	64	326	689	1,156
Loans and receivables to banks(3)	1,306	6	1	–	–	1,313
Loans and receivables to customers(3)	8,125	671	2,554	13,887	38,101	63,338
NAMA senior bonds	–	–	–	–	–	–
Financial investments available for sale(4)	–	118	1,443	9,427	4,654	15,642
Financial investments held to maturity	–	–	–	–	–	–
Other financial assets	–	736	–	–	–	736
	9,431	1,608	4,062	23,658	43,458	82,217
Financial liabilities						
Deposits by central banks and banks	241	1,332	167	1,900	–	3,640
Customer accounts	47,168	10,727	4,880	1,666	131	64,572
Trading portfolio financial liabilities(1)	–	–	–	4	26	30
Derivative financial instruments(2)	3	58	39	369	701	1,170
Debt securities in issue	–	–	500	3,065	1,025	4,590
Subordinated liabilities and other capital instruments	–	–	–	–	793	793
Other financial liabilities	1,061	–	–	–	–	1,061
	48,473	12,117	5,586	7,004	2,676	75,856

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	2016 Total € m
Financial assets						
Derivative financial instruments(2)	–	124	226	470	994	1,814
Loans and receivables to banks(3)	1,387	11	1	–	–	1,399
Loans and receivables to customers(3)	11,112	899	2,696	12,972	37,549	65,228
NAMA senior bonds	–	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(1)	–	–	–	–	–	–
Derivative financial instruments(2)	–	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

(1)Trading portfolio financial assets and 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' bucket reflecting their nature. Trading portfolio financial assets are shown excluding equity shares.
(2)Shown by maturity date of contract.
(3)Shown gross of provisions for impairment.
(4)Excluding equity shares.

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3.4 Funding and liquidity risk

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 undiscounted cash flows.

In the daily management of liquidity risk, the Group 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, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2017 and 2016:

						2017
	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial liabilities						
Deposits by central banks and banks	**241**	**1,342**	**168**	**1,900**	**–**	**3,651**
Customer accounts	**47,168**	**10,792**	**4,901**	**1,685**	**132**	**64,678**
Trading portfolio financial liabilities	**–**	**–**	**–**	**4**	**26**	**30**
Derivative financial instruments	**–**	**73**	**195**	**497**	**454**	**1,219**
Debt securities in issue	**–**	**33**	**538**	**3,197**	**1,043**	**4,811**
Subordinated liabilities and other capital instruments	**–**	**–**	**31**	**117**	**958**	**1,106**
Other financial liabilities	**1,061**	**–**	**–**	**–**	**–**	**1,061**
	48,470	**12,240**	**5,833**	**7,400**	**2,613**	**76,556**

						2016
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
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

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

Financial liabilities by undiscounted contractual maturity* *(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. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects that most guarantees it provides will expire unused.

The Group 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. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

The undiscounted cash flows potentially payable under guarantees and similar contracts

						31 December 2017
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	880	–	–	–	–	880
Commitments	10,231	–	–	–	–	10,231
	11,111	–	–	–	–	11,111

						31 December 2016
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	910	–	–	–	–	910
Commitments	10,289	–	–	–	–	10,289
	11,199	–	–	–	–	11,199

3.5 Capital adequacy risk*

Capital adequacy risk is defined as the risk that the Group breaches or may breach regulatory capital ratios and internal targets. The key material risks impacting on the capital adequacy position of the Group is credit risk, although it should be noted that all material risks can, to some degree, impact capital ratios.

Risk identification and assessment

The key processes through which capital adequacy risk is evaluated are the Internal Capital Adequacy Assessment Process ("ICAAP") and quarterly stress tests, both of which are subject to supervisory review and evaluation. The key stages in the ICAAP process are as follows:

– A Risk Appetite Statement is reviewed and approved by the Board annually which contains lending and other limits to mitigate against the risk of excessive leverage;
– Business Strategy is set consistent with risk appetite which underpins the annual financial planning process;
– Performance against plan and risk appetite is monitored monthly;
– An annual material risk assessment which identifies all relevant (current and anticipated) risks and those that require capital adequacy assessment;
– Financial Planning drives the level of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
– Scenario analysis and stress testing is applied to capital plans and to all material risks in order to assess the resilience of the Group and inform capital needs as they arise. Stress testing is also applied to assess the viability of management actions in the ICAAP, the Capital Contingency Plan and the Recovery Plan;
– Reverse stress tests are undertaken to determine scenarios that could lead to a pre-defined breach of capital ratios;
– The final stage of the ICAAP is the creation of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. This is fully integrated with the Group's financial planning process and ensures that the Group has adequate capital resources in excess of minimum regulatory and internal capital requirements.

*Forms an integral part of the audited financial statements

3.5 Capital adequacy risk* *(continued)*

The Board reviews and approves the ICAAP on an annual basis and is also responsible for signing a Capital Adequacy Statement attesting that the Board has reviewed and is satisfied with the capital adequacy of the Group.

The ICAAP process is supported by a programme of quarterly stress testing which serves to ensure that the Group's assessment of capital adequacy is dynamic and responsive to changes in such factors as balance sheet size, business mix and the macro-economic and financial market outlook.

Risk management and mitigation

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. This is facilitated through capital planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the Capital Plan, a Capital Contingency Plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. A further set of triggers and capital options are set out in the Group's Recovery Plan, which presents the actions available to the Group to restore viability in the event of extreme stress. Finally, the Group has an approved capital allocation mechanism in place which seeks to ensure that capital is allocated on a risk-adjusted basis.

The Group uses Risk Adjusted Return on Capital ("RAROC") for capital allocation purposes and as a behavioural driver of sound risk management. The use of RAROC for portfolio management and in lending decisions continues to be an area of focus and a key consideration for pricing of lending products, both at portfolio level and individually for large transactions.

Risk monitoring and reporting

The Group monitors its capital adequacy on a monthly basis when a capital reporting pack is presented to senior executive and Board Committees setting out the evolution of the Group's capital position. The output of quarterly stress tests is reviewed by the Group's Asset and Liability Committee (ALCo) and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team, where it forms the basis of their Supervisory Review and Evaluation Process (SREP).

Further detail on the Group's capital management, together with its overall capital position can be found in the Capital Management section of the AFR.

3.6 Financial risks*: (a) Market risk

Market risk refers to the risk of income and capital losses arising from adverse movements in wholesale market prices. The Group assumes market risk through the following wholesale market risk factors: interest rates, foreign exchange rates, equity prices, inflation rates and credit spreads. Changes in customer behaviours and the relationship between wholesale and retail rates give rise to changes in the Group's exposure to market risk factors and are therefore also an important component of market risk.

The Group assumes market risk as a result of its banking and trading book activities.

Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the trading or available for sale ("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 the Group as a result of adverse movements in interest rates. Changes in interest rates impact the underlying value of the Group's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Group's net interest income (NII) through interest-sensitive income and expense effects.

The Group 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 the Group's Treasury function.

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Risk management – 3. Individual risk types

3.6 Financial risks*: (a) Market risk *(continued)*

The Group's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function which exists within 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 the Group'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, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data.
The Group'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% confidence level and a longer set of data.

Risk management and mitigation

The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and makes decisions on the management of the Group'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 the Group's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement.

The Group operates a three lines of defence model for risk management. In terms of market risk the first line comprises the Finance and Treasury functions.

Finance 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 the reporting the Group's aggregate market risk profile and managing the Group'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 the Group'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 the Group'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.

Group Internal Audit provides third line assurance on market risk.

Market risk in the Group is transferred to and managed by Treasury, subject to Finance review and oversight by the Group ALCo. Treasury proactively manages the market risk on the Group's balance sheet, as well as providing risk management solutions to the core retail and corporate customers. Within Treasury, credit spread risk on the AFS portfolio, IRRBB and trading risk are managed by separate 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 Appetite statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with the Group'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 measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile. Market risk exposures are reported to the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

[(1)]The Capital at Risk on core trading book positions is assessed using a ten day horizon.
*Forms an integral part of the audited financial statements

3.6 Financial risks*: (a) Market risk *(continued)*

The following table sets out financial assets and financial liabilities at 31 December 2017 and 2016 subject to market risk analysed between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

2017

	Carrying amount € m	Market risk measures: Trading portfolios € m	Market risk measures: Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	6,364	–	6,364	Interest rate, foreign exchange
Trading portfolio financial assets	33	33	–	Equity, interest rate, credit spreads
Derivative financial instruments	1,156	613	543	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and receivables to banks	1,313	–	1,313	Interest rate, foreign exchange
Loans and receivables to customers	59,993	–	59,993	Interest rate, foreign exchange
Financial investments available for sale	16,321	–	16,321	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	3,640	–	3,640	Interest rate
Customer accounts	64,572	–	64,572	Interest rate, foreign exchange
Trading portfolio financial liabilities	30	30	–	Interest rate, credit spreads
Derivative financial instruments	1,170	663	507	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	4,590	–	4,590	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	793	–	793	Interest rate, credit spreads

2016

	Carrying amount € m	Market risk measures: Trading portfolios € m	Market risk measures: Non-trading portfolios € m	Risk factors
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

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Risk management – 3. Individual risk types

3.6 Financial risks*: (a) Market risk *(continued)*

Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2017 and 2016 is illustrated in the following table. The table sets 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.

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3.6 Financial risks*: (a) Market risk – Interest rate sensitivity *(continued)*

											2017
	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets											
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	33	33
Loans and receivables to banks	938	2	1	–	–	–	–	–	372	–	1,313
Loans and receivables to customers	50,302	6,631	2,156	1,134	1,191	687	540	772	(3,420)	–	59,993
Financial investments available for sale	307	692	1,479	3,584	2,488	1,412	1,571	4,109	679	–	16,321
Other assets	5,731	–	–	–	–	–	–	–	6,058	613	12,402
Total assets	57,278	7,325	3,636	4,718	3,679	2,099	2,111	4,881	3,689	646	90,062
Liabilities											
Deposits by central banks and banks	1,030	543	2,067	–	–	–	–	–	–	–	3,640
Customer accounts	26,771	2,440	4,892	819	445	205	7	16	28,977	–	64,572
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	30	30
Debt securities in issue	–	–	500	565	1,250	500	750	1,025	–	–	4,590
Subordinated liabilities and other capital instruments	–	–	–	–	750	–	–	43	–	–	793
Other liabilities	–	–	–	–	–	–	–	–	2,162	663	2,825
Equity	–	–	–	–	–	–	–	–	13,612	–	13,612
Total liabilities and equity	27,801	2,983	7,459	1,384	2,445	705	757	1,084	44,751	693	90,062
Derivatives affecting interest rate sensitivity	10,069	1,544	(2,834)	2,240	(1,889)	(2,161)	(1,896)	(5,073)	–	–	
Interest sensitivity gap	19,408	2,798	(989)	1,094	3,123	3,555	3,250	8,870	(41,062)	(47)	
Cumulative interest sensitivity gap	19,408	22,206	21,217	22,311	25,434	28,989	32,239	41,109	47	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	16,341	1,210	(1,572)	722	2,811	3,402	3,065	8,267	(32,745)	(32)	
Cumulative interest sensitivity gap	16,341	17,551	15,979	16,701	19,512	22,914	25,979	34,246	1,501	1,469	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	339	214	(78)	28	55	(89)	(57)	57	(1,665)	(2)	
Cumulative interest sensitivity gap	339	553	475	503	558	469	412	469	(1,196)	(1,198)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	2,756	1,354	664	344	257	242	242	546	(7,222)	(13)	
Cumulative interest sensitivity gap	2,756	4,110	4,774	5,118	5,375	5,617	5,859	6,405	(817)	(830)	
(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	(28)	20	(3)	–	–	–	–	–	570	–	
Cumulative interest sensitivity gap	(28)	(8)	(11)	(11)	(11)	(11)	(11)	(11)	559	559	

*Forms an integral part of the audited financial statements

3.6 Financial risks*: (a) Market risk – Interest rate sensitivity *(continued)*

2016	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
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 liabilities 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	

*Forms an integral part of the audited financial statements

3.6 Financial risks*: (a) Market risk *(continued)*

Market risk profile

The table below shows the sensitivity of the Group'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 twelve month period:

Sensitivity of projected net interest income to interest rate movements	2017 € m	2016 € m
+ 100 basis point parallel move in all interest rates	**129**	62
– 100 basis point parallel move in all interest rates	**(165)**	(110)

The above sensitivity table is computed under the assumption that all market rates (Euribors/Swaps) move upwards in parallel, however, for upward rates only, the ECB refinancing rate increases by 50% of the market rates. In 2016, the equivalent sensitivity numbers were produced under the assumption that all rates, including the ECB refinancing rate, moved up and down by 100bps. The reported income sensitivity to a +100bp interest rate move under this assumption was +€ 110m. If an assumption of the full +100 basis points was applied to the ECB refinancing rate for 2017, the sensitivity figure would increase from +€ 129 million to +€ 174 million.

The interest rate sensitivity of the Group has increased during the year as a result of balance sheet change and reductions in strategic interest rate hedges being made throughout 2017.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises Treasury's interest rate VaR profile to a 95% confidence level with a one day holding period. AIB recognises the limitations of VaR models, and 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	
	2017 € m	2016 € m	2017 € m	2016 € m	2017 € m	2016 € m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.1	**4.3**	3.2	**4.4**	3.2
High	**0.5**	1.1	**5.4**	4.3	**5.4**	5.2
Low	**0.1**	–	**3.4**	2.5	**3.5**	2.5
At 31 December	**0.2**	0.1	**4.7**	4.1	**4.7**	5.2

The following table sets out the VaR for foreign exchange rate and equity risk for the years to 31 December 2017 and 2016:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2017 € m	2016 € m	2017 € m	2016 € m
1 day holding period:				
Average	**0.04**	0.04	**0.03**	0.05
High	**0.33**	0.13	**0.16**	0.35
Low	**0.01**	0.01	**–**	0.01
At 31 December	**0.09**	0.03	**0.01**	0.04

The low level of VaR in the trading book throughout 2017 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 risk existing in the Group's banking book.

*Forms an integral part of the audited financial statements

3.6 Financial risks*: (a) Market risk *(continued)*

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of the Group'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. The Group is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in 'other comprehensive income' in the financial statements. 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 the Group.

The table below shows the sensitivity of the Group's fully loaded CET1 ratio to a hypothetical and sustained 100 basis point ("100bp") movement in GBP/EUR and USD/EUR foreign exchange rates.

	31 December	
Sensitivity of CET 1 fully loaded capital to foreign exchange movements	**2017**	2016
+ 10% move in GBP and USD FX rates	**(0.18%)**	(0.17%)
– 10% move in GBP and USD FX rates	**0.17%**	0.16%

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange rates moving in the same direction and at the same time.

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3.6 Financial risks*: (b) Pension risk

Pension risk is the risk that:

- The funding position of the Group'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 the Group is negatively affected. Deficits recorded under International Financial Reporting Standards ("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.

The Group maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 33 to the consolidated financial statements. These defined benefit schemes were closed to future accrual from the 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 Group Irish Pension Scheme. In the United Kingdom, the Group has established an asset backed funding vehicle to provide the required regulatory funding to the UK Scheme.

While the Group 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.

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.

Risk management – 3. Individual risk types

3.7 Operational risk

Operational risk is the risk of loss resulting 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 described below is embedded and executed robustly across the Group. 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 Assessment ("RCA") is a core process in the identification and assessment of operational risk across the Group. The process serves to ensure that key 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 which is the Group's Governance, Risk and Compliance ("GRC") System. SHIELD, was introduced during 2017 and it provides the customer facing business areas, Risk, Compliance and Internal Audit with one consistent view of the Risks, Controls, Actions and Events across the Group. AIB received a global award for 'Excellence in Implementation' of the SHIELD system in October 2017. SHIELD underpins an enhanced risk culture focused on ensuring better customer outcomes while helping to safeguard, protect and support the Group. 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 provide mitigants for the more significant risks. Monitoring processes are in place at business unit 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; continuity and resilience; operational risk event reporting policies) to ensure an effective and consistent approach to operational risk management across the Group.

An important element of the Group's operational risk management framework is the on-going monitoring of risks, control deficiencies and weaknesses, including tracking of operational risk events. AIB also requires all 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 the Group 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.

The Group's Operational Risk management framework establishes the approach to be taken by a business area when proposing new customer products and propositions. This ensures that risks arising from the implementation of new customer products are considered and appropriately mitigated, as required.

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 the Group is to provide timely and pertinent operational risk information to management so as to enable 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 operational risk event data for the Group. The reporting of operational risk events and trend data, as required, at the Executive Risk and Board Risk Committees supports these two objectives. In addition, the Board, Group Audit Committee and the Executive Risk Committee receive summary information on significant operational risk events on a regular basis.

3.7 Operational risk *(continued)*

Business units are required to review and update their assessment of operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, assurance teams which are independent of the business, undertake reviews of the operational controls as part of a combined regulatory/compliance/operational risk programme.

3.8 Regulatory compliance risk including conduct risk

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which the Group 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 the Group's operating markets. Regulatory Compliance work closely with management in assessing compliance risks and provide 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 Group cause poor and unfair outcomes for its customers or market instability. A Conduct Risk Framework, aligned with the Group 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 first culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

The Group's regulators have defined consumer protection principles in conduct of business regulations. These principles are embedded in the Group'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 RCAs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Board Risk Committee, approves the Group's compliance policy and its mandate for the Regulatory Compliance function.

The Board is responsible for ensuring that the Group 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 ensure 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 the Group's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover certain consequences of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

3.8 Regulatory compliance risk including conduct risk *(continued)*

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 dates are agreed. The implementation of these action plans is monitored by Regulatory Compliance.

Regulatory Compliance report to the Chief Risk Officer 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.

3.9 People and culture risk

People and culture are essential components in realising an organisation's strategic ambitions. An effective culture is built around a general principle of people "doing the right thing" for all stakeholders, including customers, employees and regulators.

People and culture risk is the risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop resources, or as a result of behaviours associated with low levels of employee engagement. It also includes the risk that the business, financial condition and prospects of the Group are materially adversely affected as a result of inadvertent or intentional behaviours or actions taken or not taken by employees that are contrary to the overall strategy, culture and values of the Group.

Risk identification and assessment

The Group identifies and reviews employee satisfaction and engagement, indicators of culture, through the AIB staff engagement programme, iConnect, which is facilitated by Gallup on an annual basis. In 2017, the survey was updated to reflect measures on our culture ambition of Accountability, Collaboration, Trust, Diversity and Inclusion and Safe to Speak. Initiatives are undertaken at team level to continuously identify opportunities for further employee engagement. Engagement scores have continued to improve on an annual basis since the staff engagement programme inception in 2013.

In 2016, the Group launched the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions with staff that contribute to delivering the Group's strategic ambitions. Aspire is designed to allow employees identify "What" personal and business objectives are to be achieved and "How" they will behave in the delivery of those objectives. The Board assesses the Aspire outputs on a half year and year end basis. Aspire allows the Group embrace the right behaviours and outcomes with equal weighting, to achieve the Group's strategic ambition.

Risk management and mitigation

In 2017 the Group launched its 'Purpose', which is supported and embedded by a clear set of 'customer first' values. These values drive and influence activities of all employees, guiding the Group's dealings with customers, each other and all stakeholders.

The Group's Code of Conduct, incorporating the Risk Culture Principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The Code sets out how employees are expected to behave in terms of the business, customer and employee. The Code is supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'.
The Group has a Disciplinary Policy which clearly lays out the consequences of inappropriate behaviours.

The Group's 'Speak Up' Policy and process also provides those working for the Group with a protected channel for raising concerns, which is at the heart of fostering an open and transparent working culture.

The Group's iLearn training portal, provides employees with dedicated and bespoke curricula that allow teams and individuals to invest in themselves and, therefore, the organisation.

*Forms an integral part of the audited financial statements

3.9 People and culture risk *(continued)*

Risk monitoring and reporting

The Group has made significant steps in increasing engagement and awareness of the Group's Risk management activities by embedding the Risk Appetite Statement in Policies and Frameworks of the Group. The Risk Appetite Statement contains clear statements of intent as to the Group's appetite for taking and managing risk, including people and culture risk. It ensures that the Group monitors and reports against key people and culture metrics when tracking people and culture risk and change.

Internal Audit include people and culture risk on their annual plan of activities, the outputs of which are reviewed by the Board.

The Group, through the Board Audit Committee, reports and monitors issues raised through a number of channels including Conflicts of Interest, Disciplinary Policy and Speak Up Policy. The Board monitors and reviews progress and oversight of senior management in relation to our people and culture ambitions through a number of datasets including iConnect, the Strategy Scorecard and a new prototype Culture Dashboard.

3.10 Business model risk

Business model risk is defined as the risk of not achieving the agreed strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment, or due to factors in the economic, political or competitive environment. Business model risk also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

Risk identification and assessment

AIB identifies and assesses business model 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 the Group's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long-term strategy of the Group.

The Group reviews underlying 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 annually.

The Group's business and financial planning process supports the Group's strategy. Every year, the Group 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 income statement, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The Group plan is supported by detailed business unit plans. Each business unit plan is aligned to the Group 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.

Risk management and mitigation

At a strategic level, the Group manages business model 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 Group and to facilitate formulation and review of Leadership Team performance scorecards.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.10 Business model risk *(continued)*

Risk monitoring and reporting

Performance against plan 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 plan 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 reference performance against plan, is monitored by the CRO and reported on a monthly basis to the Executive Risk Committee, Leadership Team and Board.

3.11 Model risk

Model Risk is defined as the risk of adverse consequences from risk-based business and strategic decisions founded on incorrect or misused model assumptions, outputs and reports. Model risk is comprised of two elements, firstly, operational risk - the risk of losses relating to the development, implementation or improper use of models for decision making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits) and secondly, capital impact which is the risk relating to the underestimation of own funds requirements by models used within the Group for those purposes.

Risk identification and assessment

The Board has ultimate accountability for ensuring that the models used by the Group are fit for purpose and meet all jurisdictional regulatory and accounting standards and, within that, for the facilitation of organisational structures to implement and manage the IRB framework. It is also responsible for ensuring that there are appropriate policies in place relating to capital assessment, measurement and allocation. Operating to the principles outlined in the Model Risk Framework (the Framework) supports the Group's strategic objectives and provides comfort to the AIB Board on the integrity and completeness of the model risk governance.

Risk management and mitigation

The Group mitigates model risk by having a framework, policies and standards in place in relation to model development, operation, and validation together with suitable resources. The Model Risk Management Framework is designed to ensure that model risk in the Group is properly identified and managed across each step of the model lifecycle within an appropriate control framework. The Framework, which is aligned to the Group Risk Appetite Framework and the Risk Management Framework, describes the key processes undertaken and reports produced in support of the Framework.

Models are built and validated by suitably qualified analytical personnel, informed by relevant business and finance functions. Models are built using the best available data, both internal and external, using international industry standard techniques.

All models are validated by an appropriately qualified team, which is independent of the model build process.

Group Internal Audit act as the "third line of defence" providing independent assurance to the Audit Committee and the Board 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.

Risk monitoring and reporting

The Model Risk Committee acts as a sub-committee of the Group Asset and Liability Committee and reviews and approves the use, or recommends to a higher governance authority, the use of AIB credit, operational and financial risk models. It also monitors and maintains oversight of the performance of these models.

During 2017, the Group constructed its suite of expected credit loss models to meet the requirements of IFRS 9 'Financial Instruments'.

As a material risk, the status of model risk is reported on a monthly basis in the CRO report.

Governance and oversight

Governance and oversight – Group Directors' report *for the financial year ended 31 December 2017*

The Directors of AIB Group plc ('the Company') present their first report and the audited financial statements for the financial year ended 31 December 2017. The Directors' Responsibility Statement is shown on page 229.

During 2017, the Company became the new holding company of AIB Group. This change was approved by the shareholders of Allied Irish Banks, p.l.c. at an Extraordinary General Meeting on 3 November 2017 and sanctioned by the High Court on 8 December 2017. Allied Irish Banks, p.l.c. continues to be the principal operating and regulated financial services company in AIB Group.

For the purpose of this report 'AIB Group' or 'the Group' comprises Allied Irish Banks, p.l.c. and its subsidiaries up to 8 December 2017 and from 8 December 2017 onwards, AIB Group plc and its subsidiaries (including Allied Irish Banks, p.l.c.)

Results

The Group's profit attributable to the ordinary shareholders of the Company amounted to € 1,114 million and was arrived at as shown in the consolidated income statement on page 239.

Dividend

The Board is recommending a dividend of EUR 0.12 per share payable on 4 May 2018 to shareholders on the Company's register of members at the close of business on 23 March 2018.

During 2017, Allied Irish Banks, p.l.c. paid a final dividend of € 0.0921 per share on 9 May 2017 to its ordinary shareholders who were on the register of members at the close of business on 24 March 2017. Following the establishment of the Company, the shares previously held by shareholders in Allied Irish Banks, p.l.c. were exchanged, on a one-for-one basis, for new shares in the Company.

Going concern

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

In making their assessment, the Directors considered a wide range of information relating to present and future conditions. These included financial plans covering the period 2018 to 2020 approved by the Board in December 2017, liquidity and funding forecasts, and capital resources projections, all of which were prepared under base and stress scenarios.

In addition, the Directors considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 58 to 68 in the 'Risk management' section of this report.

Directors Compliance Statement

As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The Directors confirm that:

(a) a compliance policy statement (as defined in section 225(3)(a)) has been drawn up that sets out the Company's policies and, in the directors' opinion, is appropriate to ensure compliance with the company's relevant obligations;

(b) appropriate arrangements or structures that are, in the directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and

(c) a review of those arrangements or structures has been conducted in the financial year to which this report relates.

Capital

Information on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in the Schedule on pages 323 to 325 and in note 41 to the consolidated financial statements.

Accounting policies

The principal accounting policies, together with the basis on which the financial statements have been prepared, are set out in note 1 to the consolidated financial statements.

Review of principal activities

The statement by the Chairman on pages 4 to 5, the review by the Chief Executive Officer on pages 6 to 9, and the operating and financial review on pages 35 to 52 contain an overview of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

On incorporation, Garreth O'Brien and David Joseph Lydon of McCann Fitzgerald Solicitors were appointed to the Company, and resigned on 21 September 2017.

Following due process and consideration, including in relation to the independence criteria under the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and the UK Corporate Governance Code, the following Board change to the Company occurred with effect from the dates shown:

– Richard Pym, Dr Michael Somers, Simon Ball, Mark Bourke, Bernard Byrne, Thomas (Tom) Foley, Peter Hagan, Carolan Lennon, Brendan McDonagh, Helen Normoyle, James (Jim) O'Hara, Catherine Woods were each appointed on 21 September 2017, and
– Dr Michael Somers resigned as an Independent Non-Executive Director of the Company on 31 December 2017.

From 21 September 2017 onwards, the composition of the Boards of the Company and Allied Irish Banks, p.l.c were, and shall continue to be, mirrored.

The names of the Directors, together with a short biographical note on each Director, are provided on pages 28 to 29

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company, and information on these is set out on page 184.

Directors' and Secretaries' Interests in the Share Capital

The interests of the Directors and the Group Company Secretary in the share capital of the Company are shown in the Directors' Remuneration report on pages 220 to 222.

Directors' Remuneration

The Group's policy with respect to Directors' remuneration is included in the Directors' Remuneration report on pages 210 to 211. Details of the total remuneration of the Directors in office during 2017 and 2016 are shown in the Remuneration report on pages 220 to 222.

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital were notified to the Company on 12 December 2017:

- Ireland Strategic Investment Fund 71.12% (registered in the name of BNY Custodial Nominees (Ireland) Limited, a professional nominee for the benefit of the Minister for Finance).

Corporate Governance

The Directors' Corporate Governance report is set out on pages 186 to 194 and forms part of this report. Additional information, disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Report of the Directors on pages 183 to 185.

In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on pages 195 to 199.

Political Donations

The Directors have satisfied themselves that there were no political contributions since incorporation that require disclosure under the Electoral Act 1997.

Accounting Records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records include the use of appropriate systems and procedures, incorporating those set out within 'Internal controls' in the Corporate Governance report on page 223, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at AIB Bankcentre, Ballsbridge, Dublin 4, Ireland, and at the principal addresses outlined on page 385.

Principal Risks and Uncertainties

Information concerning the principal risks and uncertainties facing the Group, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), is set out in the Risk Management section on pages 58 to 68.

Branches outside the State

The Company has not established any branches since incorporation. However, the Company's prinicipal operating subsidiary, Allied Irish Banks, p.l.c., established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulations 1993), in the United Kingdom, the Grand Cayman Islands and the United States of America.

Disclosure Notice under Section 33AK of the Central Bank Act 1942

During 2017, the Group did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942.

Auditors

The Auditors, Deloitte, were appointed to the Group on 20 June 2013 following Shareholder approval at the 2013 Annual General Meeting on that date. Furthermore, Deloitte were appointed as auditors of the Company on 21 September 2017 and shall hold office until the conclusion of the first annual general meeting of the Company pursuant to section 382 of the Companies Act 2014 at which time their continued appointment will be proposed to the shareholders for approval. Deloitte have indictated willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Statement of relevant audit information

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

(a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

Other information

Other information relevant to the Director's Report may be found in the following pages of the Report:

The Directors' Report for the year ended 31 December 2017 comprises these pages and the sections of the Report referred to under 'Other information' above, which are incorporated into the Directors' Report by reference.

Richard Pym
Chairman
28 February 2018

Bernard Byrne
Chief Executive Officer

Governance and oversight – Schedule to the Group Directors' report

for the financial year ended 31 December 2017

Additional information required to be contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position of the Company as of 31 December 2017.

Capital Structure

The authorised share capital of the Company is €2,500,025,000 divided into 4,000,000,000 Ordinary Shares of € 0.625 each ('Ordinary Shares') and 40,000 Subscriber Shares of € 0.625 each. The issued share capital of the company is 2,714,381,237 Ordinary Shares and 40,000 Subscriber Shares of € 0.625 each.

Rights and Obligations of Each Class of Share

The following rights attach to Ordinary Shares:

- 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 twenty-one days before the Annual General Meeting, a copy of the Directors' and Auditors' reports accompanied by 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 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.

There is attached to the Ordinary Shares an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing within not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and, if such shareholder holds any share other than as beneficial owner, to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person, and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice), fails to furnish the Company with the information required within the time period specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares, and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

Restrictions on the Transfer of Shares

Save as set out below, there are no limitations in Irish law or in the Company's Constitution on the holding of Ordinary Shares, and there is no requirement to obtain the approval of the Company, or of other holders of Ordinary Shares, for a transfer of Ordinary Shares.

The Ordinary Shares are, in general, freely transferable, but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgment of a transfer with the Company, in the following cases:

(i) a lien held by the Company on the shares;

(ii) a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or

(iii) a single transfer of shares which is in favour of more than four persons jointly.

Ordinary Shares held in certificated form are transferable upon production to the Company's Registrars of the Original Share certificate and the usual form of stock transfer duly executed by the holder of the shares.

Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system that enables title to the Ordinary Shares to be evidenced and transferred without a written instrument, and in accordance with the Companies Act 2014.

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.

Exercise of Rights of Shares in Employee Share Schemes

The AIB Approved Employee Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme. Following the establishment of the Company, the shares previously held in trust in Allied Irish Banks, p.l.c. were exchanged, on a one-for-one basis, for new shares in the Company.

Governance and oversight – Schedule to the Group Directors' report

for the financial year ended 31 December 2017

Deadlines for exercising Voting Rights

Voting rights at general meetings of the Company are exercised when the Chairman puts the resolution at issue to a vote of the meeting. A vote decided by a show of hands is taken forthwith. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith, and a poll on any other question is taken either immediately or at such time (not being more than thirty days from the date of the meeting at which the poll was demanded or directed) as the Chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than forty-eight hours before the time appointed for taking the poll.

Rules Concerning Amendment of the Company's Constitution

As provided in the Companies Act 2014, the Company may, by special resolution, alter or add to its Constitution. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than twenty-one clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than twenty-one clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety per cent in nominal value of the shares giving that right.

Rules Concerning the Appointment and Replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than forty-two days before the date of the general meeting, written notice by a shareholder duly qualified to be present and vote at the meeting of the intention to propose the person for appointment, and notice in writing signed by the person to be proposed of willingness to act, if so appointed, have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have the power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in a general meeting), and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One-third of the Directors for the time being (or if their number is not three or a multiple of three, not less than one-third) are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  - if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his or her creditors generally;
  - if found to be mentally disordered in accordance with law;
  - if the person be prohibited or restricted by law from being a Director;
  - if, without prior leave of the Directors, he or she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his or her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he or she be convicted of an indictable offence;
  - if he or she be requested, by resolution of the Directors, to resign his or her office as Director on foot of a unanimous resolution (excluding the vote of the Director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefor has been given to the Director; or
  - if he or she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches the specified age continues in office until the last day of the year in which he or she reaches that age.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Company's Constitution, if:
  - not being a Director holding for a fixed term an executive office in his or her capacity as a Director, he or she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
  - the Director tenders his or her resignation to the Directors and the Directors resolve to accept it; or
  - the Director ceases to be a Director pursuant to any provision of the Company's Constitution.
- Notwithstanding anything in the Company's Constitution or in any agreement between the Company and a Director, the Company may, by Ordinary Resolution of which extended notice has been given in accordance with the Companies Act, remove any Director before the expiry of his or her period of office.

- The Minister for Finance has the power to nominate two Non-Executive Directors in accordance with the Relationship Framework between the Group and the State and certain provisions as outlined therein. The Relationship Framework is available on the Group's website at http://aib.ie/investorrelations.

The powers of the Directors

Under the Company's Constitution, the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company subject to the provisions of the Companies Act, the Constitution of the Company, and to any directions given by special resolution of a general meeting. The Company's Constitution further provides that the Directors may make such arrangement as may be thought fit for the management, organisation and administration of the Company's affairs, including the appointment of such executive and administrative officers, managers and other agents as they consider appropriate, and may delegate to such persons (with such powers of sub-delegation as the Directors shall deem fit) such functions, powers and duties as the Directors may deem requisite or expedient.

Governance and oversight – Corporate Governance report

Corporate Governance arrangements and practices

During 2017, the Company became the new holding company of AIB Group. This change was approved by the shareholders of Allied Irish Banks, p.l.c. at an Extraordinary General Meeting on 3 November 2017 and sanctioned by the High Court on 8 December 2017. Allied Irish Banks, p.l.c. continues to be the principal operating and regulated financial services company in AIB Group.

For the purpose of this report, which discusses corporate governance arrangements, 'AIB Group' or 'the Group' comprises Allied Irish Banks, p.l.c. and its subsidiaries up to 8 December 2017 and, from 8 December 2017 onwards, AIB Group plc and its subsidiaries (including Allied Irish Banks, p.l.c.)

AIB Group's Governance Framework (the "Framework") underpins effective decision-making and accountability, and is the basis on which the Group conducts its business and engages with customers and stakeholders. It ensures that organisation and control arrangements are appropriate to the governance of the Group's strategy and operations, and to the mitigation of related material risks.

The Framework reflects the statutory and regulatory obligations that apply to the Group, best practice corporate governance standards and guidelines, Irish company law, various corporate governance codes and regulations, the listing rules for listed securities on the main markets of the Irish Stock Exchange and the London Stock Exchange, European Banking Authority ("EBA") Guidelines, and, in relation to the UK businesses, UK company law. Further details on the Group's governance practices are available on http://aib.ie/investorrelations.

AIB Group's governance arrangements include:

- a Board of Directors of sufficient size and expertise, the majority of whom are independent non-Executive Directors, to oversee the operations of the Group;
- a Chief Executive Officer to whom the Board has delegated responsibility for the day-to-day running of the Group, ensuring an effective organisational structure, the appointment, motivation and direction of Senior Executive Management and, for operational management, the compliance and performance of all the Group's businesses;
- a Leadership Team comprising strong and diverse management capabilities;
- a clear organisational structure with well-defined, transparent and consistent lines of responsibility;
- a well-documented and executed framework for the delegation of authority;
- a framework and policy architecture which comprises a comprehensive,a coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
- effective structures and processes to identify, manage, monitor and report the risks to which the Group is or might be exposed;
- adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, and remuneration policies and practices which are consistent with and promote sound and effective risk management; and
- a strong and functionally independent internal audit.

Statements of Compliance

Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and European Union (Capital Requirements) Regulations 2014

Allied Irish Banks, p.l.c. is subject to the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the '2015 Requirements' which is publically available on www.centralbank.ie), which impose minimum core standards upon all credit institutions licensed or authorised by the Central Bank of Ireland (the 'Central Bank'), including compliance with those requirements specifically relating to 'high impact institutions' and additional corporate governance obligations on credit institutions deemed significant for the purposes of the European Union (Capital Requirements) Regulations 2014 ('CRD') (S.I. 158/2014 which is publically available on www.irishstatutebook.ie). While the Company is not strictly required to comply with the 2015 Requirements on a standalone basis, due to the fact that the governance structures of the Company and Allied Irish Banks, p.l.c. are mirrored, compliance with the 2015 Requirements is assured across the Group as a whole.

During 2017, the Group was compliant with the 2015 Requirements and CRD, save for the requirement that "there shall be a person appointed the Chief Risk Officer ('CRO') with distinct responsibility for the risk management function and for maintaining and monitoring the effectiveness of the credit institution's risk management system". During the period from 8 January to 23 April 2017, the search for a preferred candidate for appointment to the role of Chief Risk Officer of the Group was underway following the departure of the former incumbent. Ms Deirdre Hannigan was appointed to the role of Chief Risk Officer on 24 April 2017. During the interim period, while no formal appointment was made, appropriate arrangements were in place to manage and oversee the risk function, with such arrangements clearly reported to the Board and the Regulator. The Chairman of the Board Risk Committee, and indeed other senior individuals in the Group. committed additional time to overseeing the risk function during that time.

UK Corporate Governance Code 2016 and Irish Corporate Governance Annex

The Group is subject to the provisions of the UK Corporate Governance Code 2016 (the '2016 UK Code' which is publically available on www.frc.org.uk). During 2017, the Group applied the main principles and complied with all provisions of the 2016 UK Code other than in instances related to remuneration, and particularly regarding certain provisions contained in Section D.1 of the 2016 UK Code where, due to the Agreements in place with the Irish State, the Remuneration Committee and the Board are restricted in their ability to set remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments, or to design Executive Directors remuneration packages to promote the long-term success of the

Group. The Group has continued to apply the 2016 UK Code since its financial year end. The lack of autonomy with regard to remuneration is of ongoing concern to the Board.

As you will see from the Corporate Governance Remuneration Report, the Group has been working on designing a short term retention tool to somewhat mitigate the heightened retention risk which currently exists arising from these restrictions until such time as the Group is able to return to normalised remuneration practices. In designing this tool, the Group has ensured that the performance elements underpinning the plan reflect the strategic objectives of the Group, are consistent with the medium term targets and commitments previously communicated to the market, and are appropriately stretching to reflect the quantum of remuneration potential, in line with the UK Code requirements.

Additional obligations apply to the Group under the Irish Corporate Governance Annex (publically available on www.ise.ie), which applies to relevant Irish companies with a primary listing on the Main Securities Market of the Irish Stock Exchange. The Group is fully complaint with the Irish Corporate Governance Annex.

This report, along with the Directors' Responsibility Statement, the Corporate Governance Remuneration Statement, the Risk Governance section of the Risk Management Framework report and the statement on Internal Control, which can be found on pages 70, 220, 223 and 229, respectively, sets out the approach to governance in practice, to the work of the Board and its Committees, and explains how the Group applied the principles of the 2016 UK Code during 2017.

Leadership

The Group is headed by an effective Board which is collectively responsible for the long-term success of the Group and is supported by the Leadership Team, the most senior executive committee of the Group.

The Board

Since 21 September 2017, the composition of the Boards of the Company and Allied Irish Banks, p.l.c. have been, and will continue to be, mirrored, and together they are responsible for the corporate governance of the Group as a whole. References herein to 'the Board' are made in respect of both the Board of the Company and Allied Irish Banks, p.l.c. simultaneously, unless otherwise indicated.

From incorporation to 21 September 2017, the Directors of the Company were Garreth O'Brien and David Joseph Lydon, representing McCann Fitzgerald Solicitors, who were responsible for the incorporation of the entity. From 21 September 2017, the Directors of the Company were Richard Pym, Dr Michael Somers, Simon Ball, Mark Bourke, Bernard Byrne, Tom Foley, Peter Hagan, Carolan Lennon, Brendan McDonagh, Helen Normoyle, Jim O'Hara and Catherine Woods.

The Company subsequently became the holding company of the Group on 8 December 2017.

The Board is responsible for corporate governance, encompassing leadership, direction and control of the AIB Group, and is accountable to shareholders for financial performance. During 2017, the Board comprised a Chairman (who was independent on appointment), 10 Non-Executive Directors, (reduced to 9 Non-Executive Directors on the retirement of Dr Somers), and 2 Executive Directors. The Board deems the appropriate number of Directors to meet the requirements of the business to be between 10 and 14. The names of the Directors, with brief biographical notes, are provided on pages 28 to 29.

The role of the Chairman is separate from the role of the Chief Executive Officer, with clearly-defined responsibilities attaching to each; these are set out in writing and agreed by the Board. The Chairman has overall responsibility for the leadership of the Board and for ensuring its effectiveness, while the Chief Executive Officer manages and leads the business.

While arrangements have been made by the Directors for delegating the management, organisation and administration of the Group's affairs, the following matters are included in a schedule of matters specifically reserved for decision by the Board:

- to retain primary responsibility for corporate governance within the Group at all times and oversee the efficacy of governance arrangements;
- to determine the Group's strategic objectives and policies, and to ensure that the necessary financial and human resources and operational capabilities are in place for the Group to meet its objectives;
- to approve the annual financial plan, interim and annual financial statements, operating and capital budgets, major acquisitions and disposals, risk appetite limits, designated frameworks and relevant policies;
- to approve expenditure in excess of certain limits in accordance with the Board-approved delegated authority framework;
- to review and approve related party transactions under the applicable Listing Rules;
- to approve Class 1 transactions under the applicable Listing Rules and to recommend Class 2 transactions to shareholders;
- to convene a general meeting to allow shareholders to vote on any matter reserved specifically for shareholder approval, as determined under relevant legislation and / or Listing Rules;
- to approve dividend policy and declare/recommend dividends to shareholders;
- to appoint the Chairman of the Board, Board Directors, Chief Executive Officer and Members of the Leadership Team, to address related succession planning, and to approve, where appropriate, the removal of persons in charge of Control Functions;
- to endorse the appointment of people who may have a material impact on the risk profile of the Group, and to monitor on an ongoing basis their appropriateness for the role;
- to render an account of the Group's activities to its shareholders;

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– to protect the assets of the Group, taking into account the interests of the shareholders and the employees in general, with appropriate regard for the interests of other stakeholders;
– to put in place and monitor procedures designed to ensure that the Group complies with the law and good corporate citizenship.

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

Specifically, the Board:
– sets the Group's Risk Appetite, incorporating risk limits;
– approves designated Risk Frameworks, incorporating risk strategies, policies, and principles;
– approves stress testing and capital plans under the Group's Internal Capital Adequacy Assessment Process ("ICAAP"); and
– approves other high-level risk limits as required by the Credit, Capital, Liquidity and Market Risk policies.

The Board receives regular updates on the Group's risk profile through the Chief Risk Officer's monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Board Risk Committee's activities is detailed on pages 200 to 203.

The Group has received significant support from the State in the context of the financial crisis because of its systemic importance to the Irish financial system. Following reduction in its shareholding during 2017, the State holds 71.12% of the issued ordinary shares of the Company. The relationship between the Group and the State as shareholder is governed by a Relationship Framework. Within the Relationship Framework, with the exception of a number of important items requiring advance consultation with or approval by the State, the Board retains responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group.

Key Roles and Responsibilities

Chairman

Mr Richard Pym leads the Board ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new Directors, the on-going training and development of all Directors, and reviewing the performance of individual Directors. Mr Pym was appointed as Chairman of the Group in October 2014. Mr Pym currently has no other external directorship commitments. His biographical details are available on page 28.

Senior Independent Director

As Senior Independent Director, Ms Catherine Woods is available to shareholders, if they have concerns, which contact through the normal channels of Chairman or Chief Executive Officer have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate. She acts as a conduit for the views of other Non-Executive Directors, where required, and conducts the Chairman's annual performance appraisal. Ms Woods was appointed to the role of Senior Independent Non-Executive Director of the Group with effect from 30 January 2015. Ms Woods' biographical details are available on page 28.

Deputy Chairman

Ms Catherine Woods replaced Dr Michael Somers as Deputy Chairman of the Group on 1 January 2018. Dr Somers held the role of Deputy Chairman since June 2010. Ms Woods will ensure continuity of Chairmanship during any change of chairmanship. She will support the Chairman in representing and acting as a spokesperson for the Board. She deputises for the Chairman and is available to the Board for consultation and advice.

Independent Non-Executive Directors

As an integral component of the Board, Independent Non-Executive Directors represent a key layer of oversight of the activities of the Group. It is essential for Independent Non-Executive Directors to scrutinise the performance of management in meeting agreed objectives and to monitor reporting on performance. They should bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the management and of the Group. Biographical details for each of the Independent Non-Executive Directors are available on pages 28 to 29.

Chief Executive Officer (CEO)

Mr Bernard Byrne manages the Group on a day-to-day basis and makes decisions on matters affecting the operation, performance and strategy of the Group's business. He has established a Leadership Team which, under his stewardship, has responsibility for the day-to-day management of the Group's operations and assists and advises the CEO in reaching decisions on the Group's strategy, governance and internal controls, and performance and risk management. Mr Byrne was appointed Chief Executive Officer of the Group with effect from 29 May 2015. His biographical details are available on page 29.

Executive Directors

Executive Directors have executive functions in the Group in addition to their Board duties. The role of Executive Directors, led by the Chief Executive Officer, is to propose strategies to the Board and, following a challenging Board scrutiny, to execute the agreed strategies to the highest possible standards. The Board currently has two Executive Directors: the CEO, who is referenced above; and the Chief Financial Officer, Mr Mark Bourke. Mr Bourke's biographical details are available on page 29.

Leadership Team

The Leadership Team is the most senior executive committee of the Group, and is accountable to the Chief Executive Officer. Subject to the financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the

Board, the Leadership Team under the stewardship of the Chief Executive Officer has responsibility for the day-to-day management of the Group's operations. It assists and advises the Chief Executive Officer in reaching decisions on the Group's strategy, governance and internal controls, and performance and risk management. Biographical details of each of the Leadership Team Members are available on pages 30 to 31.

Group Company Secretary

The Directors have access to the advice and services of the Group Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Group Company Secretary facilitates information flows within the Board and its Committees, and among Senior Executive Management. The Group Company Secretary communicates with shareholders as appropriate and ensures due regard is paid to their interests. Both the appointment and removal of the Group Company Secretary is a matter for the Board as a whole.

Mr Robert Bergin and Ms Sarah McLaughlin were appointed as joint Group Company Secretaries of Allied Irish Banks, p.l.c. in October 2016. Mr Robert Bergin stepped down on 21 September 2017 and Ms Sarah McLaughlin became the sole Group Company Secretary with immediate effect.

Board Meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided with relevant papers in advance of the meetings to enable them to consider the agenda items, and are encouraged to participate fully in the Board's deliberations. The Chairman ensures Board agendas, and the meetings themselves are structured to facilitate open discussion, debate and challenge. Through his opening remarks, the Chairman sets the focus of each meeting. In the rare event of a Director being unable to attend a meeting, the Chairman discusses the matters proposed with the Director concerned, seeking their support and/or feedback accordingly. The Chairman subsequently represents those views at the meeting.

In total, three meetings of the Board of the Company were held from from 8 December 2016, the date of the Company's incorporation, to 21 September 2017.

During that time, the Directors of the Company were Garreth O'Brien and David Joseph Lydon, representing McCann Fitzgerald Solicitors, and the meetings related to non-material post incorporation events which included changing the name of the Company and an application to the Irish Stock Exchange for a legal entity identifier number.

The Directors of Allied Irish Banks, p.l.c. were appointed to the Company on 21 September 2017. From 21 September 2017 to 8 December 2017, two Board meetings were held at which the business of the meetings related to the terms of the corporate reorganisation, pursuant to which the Company would be introduced as the holding company of the Group. All directors were in attendance at those meetings.

Thereafter, the Board of the Company held one scheduled meeting, concurrent with the Board meeting of Allied Irish Banks, p.l.c. in December 2017, during which the business of AIB Group was considered, with all Directors in attendance.

Prior to 8 December 2017, attendance at the meetings of Allied Irish Banks, p.l.c. are counted as attendance for the purposes of the table below. Thereafter, concurrent meetings of the Company and Allied Irish Banks, p.l.c. are counted as a single attendance. In total, fourteen scheduled meetings and six additional out of course meetings were held during 2017. Attendance at Board Committees is reported in the respective Committee reports, which appear later in this report.

Name	Board (scheduled)		Board (out of course)	
Directors	**A**	**B**	**A**	**B**
Richard Pym	14	14	6	6
Simon Ball	14	14	6	6
Mark Bourke	14	14	6	6
Bernard Byrne	14	14	6	6
Tom Foley	14	14	6	6
Peter Hagan	14	14	6	6
Carolan Lennon	14	14	6	5
Brendan McDonagh	14	13	6	6
Helen Normoyle	14	13	6	6
Jim O'Hara	14	13	6	4
Dr Michael Somers	14	14	6	6
Catherine Woods	14	14	6	6

Column A indicates the number of scheduled meetings held during 2017 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2017.

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Two additional meetings were held during 2017, attended by the Chairman, the Chief Executive Officer and the Chief Financial Officer under delegated authority from the Group Board. The business of these meetings related to the Initial Public Offering and the corporate reorganisation, respectively.

During 2017, the Non-Executive Directors met on occasion in the absence of the Executive Directors, in accordance with good governance standards. A number of Non-Executive Directors are also Non-Executive Directors of the Group's other material regulated subsidiary companies, namely AIB Group (UK) p.l.c., AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance.

Non-Executive Directors see attendance at Board and Committee meetings as only one part of their role. In addition to the annual schedule of Board and Committee meetings, the Non-Executive Directors undertake a full programme of activities each year, including regularly meeting with senior management and spending time increasing their understanding of the business through site visits, formal briefing sessions or attendance at events, including those relating to staff or customers, and meetings with the Regulator.

Generally, a Board training session and a Board dinner are held prior to each scheduled Board meeting. This allows the Directors greater time to discuss their views, ensuring that there is sufficient time for the Board to discuss matters of a material nature at Board meetings. Some of these pre meetings are for Non-Executive Directors only, while some include the full Board and, on occasion, members of the Leadership Team and external guests.

Board Focus in 2017

Below is a high level overview of a number of matters considered by the Board during 2017:

Financial
- 2018 Budget
- Strategic/Financial Plan 2018 – 2020
- 2016 results and analyst presentations
- Approval of dividend
- Funding and Liquidity Policy
- ICAAP / ILAAP
- IFRS 9 Programme

Strategy
- Progress implementing Group's 2017-2019 strategy
- UK EU referendum outcome
- Future environment and business model and 2018-2020 strategy and integrated financial planning
- Property strategy

Culture and Values
- Updates on talent and culture
- Sustainability Report
- Staff engagement
- Customer First activities

Regular Agenda Items
- Business performance update and outlook
- Balanced scorecard performance
- Financial performance update and outlook
- Risk Management
- Tracker Mortgage Review Programme
- Non-Performing Loans
- Chairman's activities
- Board Committee activities

Additional Items
- Initial public offering and related activities, including Prospectus, the Group's risk factors and the Group's Financial Position and Prospects procedures review
- Introduction of the Company as the new holding company of the Group

Governance and Shareholders
- Board effectiveness
- Chairman's performance review
- Board Diversity Policy
- Corporate Governance Frameworks
- Investor Relations activities
- AGM briefing
- Subsidiary Governance

Regulatory
- Regulatory Updates
- Regulatory inspections
- AML and CTF updates
- Market Abuse Regulation policies and practices
- Related Party Lending

Risk Management
- Group risk appetite statement
- Risk Policies and Frameworks
- Senior Management retention risk
- IRB Model Programme
- Group Recovery Plan

Effectiveness

Board Appointments

The review of the appropriateness of the composition of the Board and Board Committees is a continuous process, and recommendations are made based on merit and objective criteria, having regard to the collective skills, experience and diversity requirements of the Board.

In addressing appointments to the Board, a role profile for the proposed new directors is prepared by the Group Company Secretary on the basis of the criteria laid down by the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required. Often, as required, the services of experienced third-party professional search firms are retained for Non-Executive Director appointments. The retention of such search firms is at the discretion of and approved by the Nomination and Corporate Governance Committee.

Prior to all recommendations for appointment of a given candidate, a comprehensive due diligence process is undertaken which includes candidates' self-certification of probity and financial soundness and external checks involving a review of various publicly available sources. The due diligence process facilitates the Committee in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Nomination and Corporate Governance Committee.

The Relationship Framework specified by the Minister for Finance, which governs the relationship between AIB Group and the State as shareholder, requires the Board to obtain the written consent of the Minister in accordance with a pre-determined consent/consultation procedure before appointing, reappointing or removing the Chairman or Chief Executive Office, and to consult with the Minister in accordance with the procedure in respect of all other Board appointments proposed.

A Board-approved Policy for the Assessment of the Suitability of Members of the Board, which outlines the Board appointment process, is in place, and is in accordance with applicable European Banking Authority Guidelines.

Diversity

Employee diversity and inclusion in AIB Group is addressed through policy, practices and values which recognise that a productive workforce comprises different work styles, cultures, generations, genders and ethnic backgrounds, and which oppose all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of the Group's values is overseen by the Board.

The Board recognises and embraces the benefits of diversity among its own Members, including the diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time. In October 2016, the Board met its initial target to ensure the percentage of females on the Board reached or exceeded 25 per cent by the end of 2016. Thereafter, the Board's aim was to ensure that the percentage of females on the Board remained at or exceeded 25 per cent. At 1 January 2018, the percentage of females on the Board stood at 27 per cent.

The Board Diversity Policy and monitoring of performance relative to targets set out therein is a matter for the Nomination and Corporate Governance Committee, which discusses progress relative to the agreed targets in its Committee report on page 204. A copy of the Board Diversity Policy which applies to the Group is available on the Group's website at: https://aib.ie/investorrelations/about-aib/corporate-governance.

The Board Sustainable Business Advisory Committee, which is described on page 21, is tasked with considering and advising on AIB Group's policies relating to employee diversity.

Induction and professional development

There is an induction process in place for new Directors, the contents of which vary for Executive and Non-Executive Directors. In respect of the latter, the induction is designed to provide familiarity with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group's strategic, business and financial plans, and a programme of meetings with the Chief Executive Officer and the Senior Management of businesses and support and control functions. A programme of targeted, continuous professional development is in place for Non-Executive Directors.

Terms of appointment and time commitment

Non-Executive Directors are generally appointed for a three-year term, with the possibility of renewal for a further three years on the recommendation of the Nomination and Corporate Governance Committee. Any additional term beyond six years will be subject to annual review and approval by the Board. Appointments to the Boards of AIB Group plc and Allied Irish Banks, p.l.c. are co-terminous.

Following appointment, in accordance with the requirements of the Company's Constitution, Directors are required to retire at the next Annual General Meeting ('AGM'), may go forward for reappointment, and are subsequently required to make themselves available for reappointment at intervals of not more than three years. The Company's first AGM is scheduled for 25 April 2018. All Directors of Allied Irish Banks, p.l.c. retired from office at the AGM held in 2017 and offered themselves for reappointment. This practice will continue from 2018 onwards for AIB Group plc.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. A copy of the Directors' letters of appointment are available on request to members of the Company for inspection during business hours from the Group Company Secretary.

Non-Executive Directors are required to devote such time as is necessary for the effective discharge of their duties. The estimated minimum time commitment set out in the terms of appointment is 30 to 60 days per annum, including attendance at Committee meetings. The time devoted to the Group's business by the Non-Executive Directors is, in reality, considerably more than the minimum requirements.

Before being appointed, Directors disclose details of their other significant commitments and give a broad indication of the time absorbed by such commitments. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chairman and the Group Company Secretary, and, in certain cases, the Central Bank of Ireland, must be sought.

Balance and Independence

Responsibility has been delegated by the Board to the Nomination and Corporate Governance Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong, effective leadership and appropriate challenge to executive management.

The independence of each Director is considered by the Nomination and Corporate Governance Committee prior to appointment, and is reviewed annually thereafter. It has been determined that all Non-Executive Directors in office during 2017, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Ms Carolan Lennon, Mr Brendan McDonagh, Ms Helen Normoyle, Mr Jim O'Hara, Mr Richard Pym, Dr Michael Somers (who has since retired) and Ms Catherine Woods, are independent in character and judgement and free from any business or other relationship with the Group that could affect their judgement.

Conflicts of Interest

The Board approved Code of Conduct and Conflicts of Interest Policy sets out how actual, potential or perceived conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Group and its stakeholders.

Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Access to Advice

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

Board Effectiveness

The Chairman of the Board leads the annual review of the Board's effectiveness and that of its Committees and individual Directors with the support of the Nomination and Governance Committee, which he also chairs. The annual evaluation is facilitated externally at least once every three years.

The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board and its Committees are as a whole effective in discharging their responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

2017 External Evaluation

An external effectiveness evaluation of the Group Board was conducted during 2017, and an overview of that evaluation is outlined below.

During 2018, an external firm, Lintstock, facilitated the external effectiveness review of the Board's performance and provided opinion on the performance of the Board against peers. Lintstock is an independent external consultancy agency with no other connection to AIB Group. In order to ensure that high quality feedback was received, in addition to an online questionnaire, the review was based on face-to-face interviews with the Directors, the Group Company Secretary, as well as meetings with key members of senior management who attended Board Committees and were responsible for key finance, risk and/or control functions.

The review sought the Directors' views on a range of topics including Board composition and expertise, Board culture and dynamics, the Board's calendar and agenda, the quality and timeliness of information, strategy and operational matters, risk management and internal control, succession planning, human resource management, and priorities.

As part of the process, the Chairman met with each Director to review their individual performance. These reviews included a discussion of the Director's individual contributions and performance at the Board and relevant Board Committees, the conduct of Board meetings, the performance of the Board as a whole and its Committees, compliance with Director-specific provisions of the relevant Central Bank Code, the requirements of the Central Bank's Fitness and Probity Regulations, and other specific matters which the Chairman and/or Directors wished to raise. The performance of the Chairman was also assessed during the review, with the Board meeting to discuss the outcome of the review of the Chairman's performance held in his absence.

2017 External Evaluation *(continued)*

A report on the findings of the full review was presented to the Board and the Committees, and the outcome of the review was positive. In addition, Lintstock representatives met with the Board informally to discuss the review in more detail, and the Directors sought further insights as to how the Board compared to international peers on numerous matters.

The review Report and the subsequent discussions between Lintstock and the Board concluded that the performance of the Board, its Committees, the Chairman and each of the Directors continues to be effective, with all Directors demonstrating commitment to their roles. The Chairman was commended for his leadership and effectiveness as a public ambassador for the Group. The time committed by the Directors to the Group was in fact noted as significant relative to peers.

During the evaluation, many Directors commented favourably on the performance of the Board as a whole, describing it as hardworking, appropriately challenging, and highly engaged. Recommendations from the 2017 review, each of which is being acted upon, included:

– Volume of Board/Committee papers: The most common observation by Directors concerned the volume of documentation and information which they received. Directors would like to receive more concise reports with clearer signposting of the key issues;
– Conduct of Board/Committees: Several Directors said that they would value more time in agendas for discussion, while recognising the pressures on meeting time and the significant body of work that Committees, in particular the Risk and Audit Committees, are expected to undertake;
– Culture: Directors are keen to take a more leading role in the continued enhancement of the organisation's culture – which is deeply customer-focused, with a clear emphasis on setting the 'tone from the top'; and
– Strategy: Potential alternative approaches to the time the Board sets aside each year to focus solely on strategy, including consideration of the longer-term horizon and the impact of changing technology and the competitive landscape.

A summary of the Board's progress against the actions arising from the 2016 internal effectiveness review are set out below:

Development of people, talent and culture:

A higher level of focus was applied to people, talent and culture during 2017, with a significant portion of the Leadership Team's time spent on people and talent, following which updates in respect of related initiatives were presented to the Nomination and Corporate Governance Committee. Culture is considered by the Board and Committees in many guises, and continued and increased focus is expected during 2018.

The appropriateness of the current Board skillset and experience, including in the context of succession planning:

The Nomination and Corporate Governance Committee developed a longer-term succession plan during 2017, having regard for existing Directors' tenures, key roles requiring advance planning to ensure appropriate and timely appointments and related induction, and the experience, diversity and skills profile that befits the Board of a Group of this nature.

Continuing to improve the quality of documentation and clarity of information provided to the Board:

The Directors have acknowledged the improvement in the quality of reporting to the Board during 2017 in terms of the clarity of documentation and information contained therein, and continue to actively encourage and challenge Management to deliver more succinct reports with focus on key messages.

A more forward looking approach in the development of the Group's strategy:

The materials presented at and the approach taken to the Board's consideration of strategy during 2017, culminating in a very successful Board and Leadership Team offsite in November 2017, were highly commended by the Board. The Leadership Team along with the dedicated Group Strategy function continue to work to enhance this engagement.

Enhancing the professional development and training provided to Directors:

A significant amount of training and development opportunities were provided to the Board during 2017, with the topics covered including Anti-Money Laundering and Counter Terrorist Financing, Sustainability, Cyber Risk, IFRS 9, Regulatory Reporting and the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). A robust and professional approach to the programme of training and development for Directors is currently being developed for roll-out during 2018 and beyond.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually. Each Committee operates under terms of reference approved by the Board. The terms of reference of the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are available on the Group's website at http://aib.ie/investorrelations.

The minutes of all meetings of Board Committees are circulated to all Directors for information and are formally noted by the Board. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level.

The Board has established a Sustainable Business Advisory Committee, comprising Non-Executive Directors and Leadership Team Members, to support the execution of the Group's sustainable business strategy, which includes the development and safeguarding of the Group's 'social license to operate' such that the Group plays its part in helping its customers prosper as an integral component of the Group's business and operations. Further details in relation to related activities are available on pages 20 to 24.

In carrying out their duties, Board Committees are entitled to take independent professional advice, at the Group's expense, where deemed necessary or desirable by the Committee Members.

Reports from the Board Audit Committee, Board Risk Committee, Nomination and Corporate Governance Committee and the Remuneration Committee are presented later in this Report.

The Committee reports reflect the activities of the Committees of Allied Irish Banks, p.l.c. during the year to 8 December 2017, and the Company's Committees held after that date, when it was part of the AIB Group, at which the business of the Group was discussed.

Shareholder interaction

The Board recognises and values greatly the need to deliver a programme of engagement that offers all shareholders the opportunity to receive Group communications and to share their views with the Board.

The Group's website enables access to documents and communications as soon as they are published, including in relation to shareholder meetings.

With support from the Board and Leadership Team Members, Investor Relations has primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors and analysts. In addition to this direct shareholder engagement, Investor Relations provides regular reports to the Leadership Team and Board on key market issues and shareholder concerns.

The Group Company Secretary engages with retail shareholders and, with support from the Company's Registrar, Computershare Investor Services, deliver the Group's shareholder services, including in relation to shareholder meetings. Group Secretariat provides feedback to the Board and appropriate Committees to ensure the views of retail shareholders are received and considered, where applicable.

The Annual General Meeting ("AGM") is an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction, and importantly, to ask questions. Details in relation to the 2018 AGM along with other shareholder-related information can be found on page 225.

Governance and oversight – Report of the Board Audit Committee

Letter from Catherine Woods, Chairman of the Board Audit Committee

Dear Shareholder,

On behalf of the Board Audit Committee (the "Committee"), I am pleased to introduce the Board Audit Committee Report (the "Report") on the Committee's activities for the financial year ended 31 December 2017.

The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in relation to:

- the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practices;
- the effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems;
- the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- the independence and performance of the Internal and External Auditors.

During 2017, the Committee continued to focus on oversight of financial reporting, including the 2016 Annual and 2017 Half-Year financial reports, and related policies and practices. Overseeing financial reporting requires an assessment of key accounting judgements and related risks and disclosures, each of which are discussed in detail with management and the external Auditor (the "Auditor"). The Committee ensures a robust review and challenge to enable it to recommend to the Board that the financial reports are a fair, balanced and understandable assessment of the Group's position and prospects.

Another area of primary attention is overseeing the effectiveness of internal controls, including those related to the financial reporting process. In undertaking its assessment, the Committee considers regular reports and presentations throughout the year from the Auditor, Group Internal Audit, Finance, and Risk Management, together with business management reports and updates on specific actions being undertaken to further strengthen the control environment.

The Committee recognises and acknowledges the vital role that it has in ensuring the Group operates a strong control environment. In the 2016 Committee Report, I reported that the Committee had decided to make an effort on proactively discussing control issues on a thematic and holistic basis rather than only dealing with individual control issues reactively. To that end, in conjunction with the Group Head of Internal Audit, we identified seven key themes for focused attention, responsibility for each of which was assigned to a specific member of the executive leadership team. Building on the significant progress made in 2016, I am pleased to report that management continued to make progress in 2017 across each of the themes: Compliance Risk Management, including Anti Money Laundering, Key person/Succession/Handover, IT Governance Change and Third Party Management, Oversight of subsidiaries and branches, including emphasis on AIB Group (UK) p.l.c. and the New York Branch, Assurance Framework for Prudential Regulatory Reporting, and Credit. The Committee accepted the Group Head of Internal Audit's recommendation during the year to transfer the Conduct theme to business as usual in light of the significant progress made.

Recognising the substantial improvement made across a number of the themes during the course of 2017, the Committee will endeavour to focus on new relevant themes during the course of 2018.

During 2017, the Committee focused substantial time on overseeing the Group's preparedness for and assessing the impact of the implementation of International Financial Reporting Standard 9 (IFRS 9). The Committee considered and approved the necessary policies and key decisions to ensure implementation of IFRS 9 by the effective date of 1 January 2018, and will continue to receive updates on IFRS 9 and its implications for the Group's financial reporting requirements during 2018.

Another important programme of particular area of emphasis during 2017 was the programme responsible for the development and implementation of Internal Ratings Based Models ("IRB"), which was managed concurrently with and was interdependent to a large degree on the IFRS 9 programme. The Committee recognises its role in ensuring adequate support and resources are in place to ensure effective delivery of the requirements and to appropriately challenge Management and receive assurances as to progress being made. Significant attention will continue to be applied to model development during 2018.

The Committee is tasked with overseeing the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, and receive regular updates from Management on the adequacy and effectiveness of internal policies and practices in that regard. The Committee and the Board ensure Management continually seek to enhance, and promote employee awareness, of these policies. As we look towards 2018, having regard for the importance of staff having access to appropriate facilities to 'speak up' and being encouraged to do so, the Committee intends to concentrate in greater detail on oversight of these policies and how they are implemented and communicated across the Group.

The Group remains committed to addressing legacy issues and control failings of the past, and on returning the Group to a more normalised control environment. I am happy to report that the Head of Group Internal Audit has reported on the continued improvement in Management's awareness and addressing of any issues identified with regard to the control environment during 2017. In over 90% of audits carried out in the year, Management were able to demonstrate satisfactory knowledge of risks and the strength of controls in their respective business areas. One of the key drivers in the continued progress with respect to management awareness has been the introduction of the Shield system, which has enabled better evidence of first and second line risk assessment and measurement. The control environment ratings applied to audit reviews conducted by Group Internal Audit are within the normal industry range, and Group Internal Audit are of the view that the control environment was adequately robust during 2017.

The Members of the Committee, and a record of their meeting attendance during 2017 and details of the Committee's other considerations during 2017, are outlined in the full Report below.

I and a number of my fellow Committee Members met with representatives of the Group's Regulator on a one-to-one basis during the year. The Committee remains focused on regulatory matters, along with our colleagues on the Board Risk Committee and, of course, the wider Board.

The Committee held private Member only meetings both before and after the Committee meetings from time to time and also met privately with each of the Group Head of Internal Audit, the External Auditor and members of management including the Chief Risk Officer and Chief Financial Officer ("CFO") during 2017.

I also continued my practice of meeting with the External Auditor, the Group Head of Internal Audit and other members of the Leadership Team, as appropriate, on a regular basis throughout the year.

I would like to welcome Mr. Roger Perkins, who was appointed Chairman to the AIB Group (UK) p.l.c. Board Audit Committee in April 2017. He has already attended the Group's Audit Committee during 2018 to report on his positive observations of the control environment to date.

As Committee Chairman, I reported after each Committee meeting to the Board on the principal matters discussed to ensure all Directors were fully informed of the Committee's work, and copies of the Committees minutes were shared with the full Board.

I would like to personally thank each of my fellow Committee Members for their unwavering support and for the personal dedication and commitment which they demonstrated throughout 2017.

Catherine Woods

Catherine Woods
Committee Chairman

Report of the Board Audit Committee

Membership and meetings

The Board Audit Committee comprises of four independent Non-Executive Directors. The Board is satisfied that the Committee is appropriately constituted in the context of the UK Corporate Governance Code and other requirements, in particular, those regarding the need for recent and relevant financial experience and competence. Mr Peter Hagan and Ms Catherine Woods are also members of the Board Risk Committee, the common membership of which is considered important in facilitating effective governance across all finance, risk and internal control matters. Biographical details of each of the Members are outlined on pages 28 to 29.

A total of eight scheduled meetings of the Committee were held during 2017. Meetings are attended by the Chief Financial Officer and relevant Internal Audit, Finance, Legal and Compliance executives along with the External Auditor. At least twice during the year, the Committee meets in private session with the Auditor, and separately with the Head of Group Internal Audit.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below:

Members: Ms Catherine Woods (Chairman), Mr Tom Foley, Mr Peter Hagan, Mr Jim O'Hara

Member attendance during 2017:

	A	B
Catherine Woods	8	8
Jim O'Hara	8	7
Peter Hagan	8	8
Tom Foley	8	8

Column A indicates the number of Committee meetings held during 2017 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2017.

Performance Evaluation

An external performance evaluation of the Committee was conducted during 2017, in line with the corporate governance requirements of every three years. This was a comprehensive exercise, with all of the Committee members interviewed after submitting written responses to a survey. The evaluation concluded that the Committee continued to operate effectively, with minor enhancements recommended. These are currently being considered with regard to the Committee's training and ongoing development on matters of relevance to its remit and enhanced focus on the Group's 'speak up' policy. The outcome of the evaluation was shared with the Board.

Roles and Responsibilities

The Committee's primary responsibilities are set out in the terms of reference, which are reviewed annually by the Committee and approved by the Board. The terms of reference are available on the website at http://aib.ie/investorrelations.

Activities

The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the past year in the discharge of its responsibilities:

The Committee:

- reviewed the Group's 2016 annual and 2017 interim financial statements for 31 March 2017 and 30 June 2017 prior to approval by the Board; details of the significant considerations in relation to the 2016 annual accounts were outlined in the 2016 Annual Financial Report;
- reviewed the Group's accounting policies and practices; the minutes of the Group Disclosure Committee (an Executive Committee whose role is to ensure the compliance of AIB Group financial information with the legal and regulatory requirements prior to external publication); the effectiveness of internal controls; the findings, conclusions and recommendations of the Auditors and Group Internal Auditor;
- in the context of reviewing the financial statements, engaged with Management in respect of accounting matters, and considered matters where management judgement was important to the results and financial position of the Group, the most significant of which related to:
  - the level of provisions for impairment on loans and receivables and other liabilities and commitments as at 31 December 2017;
  - the level of IAS 37 provisions including onerous leases and customer redress as at 31 December 2017;
  - disclosures required with regard to the adoption of International Financial Reporting Standard 9 (IFRS 9);
  - the accounting considerations and treatments relating to engagement with customers in financial difficulty and associated loan restructuring activity;
  - recognition policy of deferred tax assets in Ireland and the UK;
  - considered key judgements regarding potential discretionary increases to pensions in payment in the Group's main Irish schemes; and
  - retirement benefit obligations and related accounting treatment and disclosure requirements.

In addressing these issues, the Committee considered and challenged the appropriateness of Management's judgements and estimates, and sought additional information if required. The Auditors were present during such discussions and, where appropriate, the views of the Auditors on the Management's approach were sought. The Committee satisfied itself that Management's estimates, judgements and disclosures were appropriate and in compliance with the financial reporting standards. A detailed analysis of significant accounting judgments and estimates is provided in note 2 to the consolidated financial statements. The Committee:

- provided advice to the Board in respect of the Annual Financial Report, confirming that the Committee is satisfied that the Annual Financial Report for the financial year ended 31 December 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for

shareholders to assess the Group's performance, business model and strategy;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendation of the Auditors;
- satisfied itself through regular reports from the Group Head of Internal Audit, the Chief Financial Officer the Chief Risk Officer and the Auditors, that the system of internal controls over financial reporting was effective;
- received regular updates from Group Internal Audit, including reports detailing Internal Audit reports issued during the previous period, control issues identified, and related remediating actions;
- received reports from human resources senior management regarding the operation of the Code of Conduct/Speak up Policy process, through which staff of the company may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters;
- received updates from Management on progress on key programmes, including IFRS 9 implementation and IRB model development;
- reviewed the minutes of all meetings, receiving further clarification on issues when required, and met with and received annual reports from the AIB UK Audit Committee Chairman; and
- held informal confidential consultations during the year separately with the External Auditor, the Chief Risk Officer and the Group Head of Internal Audit, in each case with only Non-Executive Directors present.

Internal Audit

The Committee provided assurance to the Board regarding the independence and performance of the Group Internal Audit function. The Committee considered and approved the annual audit plan, with reference to the principal risks of the business and the adequacy of resources allocated to the function. Throughout the year, the Chairman of the Committee met with Group Internal Audit management between scheduled meetings of the Committee to discuss forthcoming agendas for Committee meetings and material issues arising, and the Committee met with the Group Head of Internal Audit in a confidential session during 2017, in the absence of Management. The Group Head of Internal Audit has unrestricted access to the Chairman of the Board Audit Committee.

The Committee is responsible for making recommendations in relation to the Group Head of Internal Audit, including on appointment, replacement and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Head of Internal Audit's independence.

During 2017, an external quality assessment of the Group Internal Audit Function was conducted by a qualified independent reviewer from outside the organisation, in accordance with the Professional Standards 1312 of the Chartered Institute of Internal Auditors ("CIA") International Standards for the Professional Practice of Internal Auditing. The reviewer reported that the Function had an appropriate vision, strong leadership, an effective delivery capability, with a diverse and skilled team which is consistently achieving its audit plan. Furthermore, Group Internal Audit clearly demonstrates its independence and is recognised as a robust value-adding third line of defence. Group Internal Audit will continue to focus on self-identified improvements during the course of 2018.

External Auditor

In 2013, we tendered for a new statutory auditor, and this resulted in the appointment of Deloitte as the Group's Auditor. The next tendering process for a new Group's Auditor will be no later than in 2023. The current lead Audit Partner, Gerard Fitzpatrick, will step down in early 2018, in accordance with the rotation requirements under the EU Directive. A new Lead Audit Partner has been identified for the 2018 Audit.

The Committee provided oversight in relation to the Auditor's effectiveness and relationship with the Group, including agreeing the Auditor's terms of engagement, remuneration and monitoring the independence and objectivity of the Auditors. To help ensure the objectivity and independence of the Auditors, the Committee has established a policy on the engagement of the Auditors to supply non-audit services, which outlines the types of non-audit fees for which the use of Auditors is pre-approved and for which specific approval from the Committee is required before they are contracted, and those from which the Auditor is excluded. That policy was updated to ensure compliance with the EU Audit Reform during 2016 (see note 16 to the consolidated financial statements). Further details can be found on the company's website at http://aib.ie/investorrelations

In addition, the Committee provided oversight in monitoring the effectiveness of the policy, for the employment of individuals previously employed by the Auditor. The Committee received updates on the application of the policy including the number of former employees of the external auditor currently employed in senior management positions in the Group, and facilitated its considerations as to the Auditor's independence and objectivity in respect of the audit. The policy was established in 2016 in accordance with the EU Audit Regulations 537/2014 and Directive 2014/56/EU, and no changes were made to the policy during 2017.

The Committee considered the detailed audit plan in respect of the annual and interim financial statements and the Auditor's findings and the conclusions and recommendations arising from the half yearly review and annual audit. The Committee, through consideration of the work undertaken, confidential discussions with the Auditor, feedback received from Management in respect to the audit process and through its annual evaluation of the Committee's effectiveness, which incorporated questions regarding the external audit process, satisfied itself with regards to the Auditor's effectiveness, independence and objectivity.

The Committee met with the Auditor in confidential session twice during 2017 in the absence of Management, and the

Committee Chairman met with the Auditor between scheduled meetings of the Committee to discuss material matters.

On the basis of all the above, and the Committee's determination of the Auditor's effectiveness, independence and objectivity, the Committee recommends that Deloitte should be reappointed as the Auditors at the Annual General Meeting on 25 April 2018.

Governance and oversight – Report of the Board Risk Committee

Letter from Peter Hagan, Chairman of the Board Risk Committee

Dear Shareholder,

On behalf of the Board Risk Committee ('the Committee'), I am pleased to report on the Committee's activities during the financial year ended 31 December 2017.

I would like to start by acknowledging the continued valuable contribution made by Dr Michael Somers to the Committee this year, following his previous five year tenure as Chairman of the Committee. Dr Somers resigned from the Board of Directors and the Committee on 31 December 2017, and I would like to thank him for his contribution and wish him well in his future endeavors.

This year, we were pleased to welcome Ms Carolan Lennon to the Committee. Ms Lennon's management experience and commercial acumen has enabled her to fully contribute to quality deliberation and discussion from the outset of her appointment. In addition, her skill set complements well the expertise of Ms Catherine Woods, Mr Simon Ball and Mr Brendan McDonagh, who remain members of the Committee.

While the Committee has a wide remit, its primary roles and responsibilities are:

– providing assistance and advice to the Board in relation to current and potential future risks facing the Group and risk strategy in that regard, including the Group's risk appetite and tolerance, with a view to ensuring that the Board is equipped to fulfil its oversight responsibilities in relation to these;
– assessing the effectiveness of the Group's risk management infrastructure;
– monitoring compliance with relevant laws, regulation obligations and relevant codes of conduct;
– reviewing the Group's risk profile, risk trends, risk concentrations and risk policies; and
– considering and acting upon the implications of reviews of risk management undertaken by Group Internal Audit and/or external third parties.

The responsibilities of the Committee are discharged through its meetings, and through commissioning, receiving and considering reports from the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer and the Group Head of Internal Audit, all of whom attend meetings of the Committee. Other individuals, including the Chairman of AIB Group (UK) p.l.c and members of management, including the Group Chief Compliance Officer, also attend meetings by invitation, when appropriate.

The principal focus of the Committee continues to evolve year on year. Whilst Credit Risk, Compliance, Conduct Risk and Market Risk continue to occupy a significant portion of the Committee's agenda, this year, Model Risk, as well as the Execution Risk associated with major change programmes across the organisation, came to the fore as a key consideration for the Committee. The effective implementation of a new Internal Ratings Based model and the IFRS 9 accounting standard were areas of focus and concern for both the Board Risk Committee and the Board Audit Committee. The pace of change which is required to ensure readiness for such requirements has been a considerable challenge for Management, however, the clear commitment and dedication of the Leadership Team and Management across the organisation has enabled considerable progress to be made in a risk conscious fashion, and led to the achievement of a number of significant milestones, in line with the established, demanding regulatory timelines.

The Committee also spent a substantial amount of time this year tracking the continuing regulatory agenda; a number of constructive regulatory engagements and inspections took place throughout the year, and the resultant actions from the Single Supervisory Mechanism Risk Mitigation Programme were brought before the Committee for review and approval. It is hoped that this positive engagement with the Group's Regulators will continue throughout 2018, with ongoing enhancements to the risk and control environment in the Group as a result.

Continuous embedding of a strong risk culture across the Group is a key priority for the organisation. To this end, the process of setting an accurate and appropriate Risk Appetite has continued to be a Groupwide objective, and is an iterative process into which input is provided from all business segments and key Group Subsidiary entities, in line with the Risk Appetite Framework.

Key areas of focus for the Committee during 2017 included consideration of:

– the risk appetite statement and the ongoing monitoring of performance against agreed risk metrics;
– the review of risk-related policies and frameworks;
– the Group's readiness for the implementation of IFRS 9;
– the Group's recovery and resolution planning;
– the Group's capital and liquidity position, with particular reference to the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP"); and
– updates received on significant credit activity across the organisation.

Throughout the reporting period, through discussion with, and challenge to, Management, the Committee satisfied itself that the key risks facing the organisation were being appropriately managed, with relevant mitigants in place and appropriate actions taken, where necessary.

Further details on the Committee’s activities, Members of the Committee and their record of attendance at meetings during 2017 are outlined in the full report below.

To ensure that all Directors are aware of the Committee’s work, I provided an update to the Board following each meeting on the key topics considered by the Committee. I am satisfied that the skills and experience of the Committee Members enable the Committee to provide the independent risk oversight it is tasked with, while maintaining a constructive relationship with Management.

The Committee's focus in 2018 will be to ensure that the Group's risk culture, risk appetite, policies, procedures and management controls are sufficiently robust to support its ongoing financial progress.

I wish to express my gratitude to my fellow Members for their contribution to the effective working of the Committee during the year.

Peter Hagan,
Committee Chairman

Governance and oversight – Report of the Board Risk Committee

Report of the Board Risk Committee

Membership and meetings

In 2017, the Board Risk Committee comprised six independent Non-Executive Directors whom the Board determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Board Risk Committee with the risk related considerations of the Board Audit Committee, Mr Peter Hagan and Ms Catherine Woods are also members of the Board Audit Committee. This common membership provides effective oversight of relevant risk and finance issues. In addition, to ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Board Risk Committee and the Remuneration Committee is maintained. To this end, Mr Simon Ball was appointed to the Remuneration Committee on 28 January 2017, following the departure of Mr Peter Hagan from the Remuneration Committee. Biographical details of each of the Members are outlined on pages 28 to 29.

The Committee met on nine occasions during 2017. All meetings were attended by the Chief Financial Officer, the Chief Risk Officer, the Group Head of Internal Audit, the Lead Audit Patner from our External Auditor, Deloitte, and on occasion by the Chief Executive Officer. Other senior executives also attended by invitation, where appropriate. Following the resignation of Mr Dominic Clarke in January 2017, Ms Deirdre Hannigan was appointed as Chief Risk Officer on 24 April 2017. In the interim period, the appropriate necessary arrangements were made to ensure adequate cover of the responsibilities of the role. Since her appointment, the Chief Risk Officer has attended all meetings of the Committee, has had unrestricted access to the Chairman of the Board Risk Committee, and has met once in confidential session with the Committee, in the absence of other management. Additionally, the Committee also met with the Group Chief Compliance Officer, the Group Head of Internal Audit, the Chief Financial Officer and the Chief Credit Officer on one occasion each, in the absence of Management, during the year.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Peter Hagan, Chairman, Mr Simon Ball, Dr Michael Somers (Resigned 31 December 2017), Ms Catherine Woods, Mr Brendan McDonagh and Ms Carolan Lennon (appointed 26 April 2017).

Member attendance during 2017:

	A	B
Simon Ball	9	9
Peter Hagan	9	9
Carolan Lennon	6	6
Brendan McDonagh	9	9
Dr Michael Somers	9	9
Catherine Woods	9	9

Column A indicates the number of Committee meetings held during 2017 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2017.

Performance evaluation

An external evaluation of the Committee's performance was conducted in 2017. While identifying some areas for potential enhancement, the overall results concluded that the Committee continued to operate in an effective manner and had made improvements in a number of areas, as identified in the 2016 evaluation process. Areas for improvement which were identified through the review are under consideration, and targeted plans for improvement will be rolled out in 2018.

Role and responsibilities

The Board Risk Committee assists the Board in proactively fostering sound risk governance within the Group through ensuring that risks are appropriately identified and managed, and that the Group's strategy is informed by, and aligned with, the Board approved risk appetite. The Committee's Terms of Reference are available on the Group's website at http://aib.ie/investorrelations.

Activities

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

- the Group's risk management infrastructure, including actions taken to strengthen the Group's risk management governance, people skills, operational and system capabilities, and business continuity planning;
- regular reports from the Chief Risk Officer which provide an overview of key risks, including funding and liquidity, capital adequacy, credit risk, market risk, regulatory risk, business risk, conduct risk, cyber risk and related mitigants;
- periodic reports and presentations from Management and the Chief Credit Officer regarding the credit quality, performance, provision levels and outlook of key credit portfolios within the Group;
- items of a risk and compliance-related nature, including:
  - (a) governance and organisational frameworks;
  - (b) the risk appetite framework and risk appetite statement;
  - (c) the funding and liquidity policy, strategy and related stress tests;
  - (d) risk frameworks and policies, including those relating to
    - (i) credit and credit risk,
    - (ii) capital management,
    - (iii) financial risk, including market risk, and
    - (iv) conduct risk;
  - (e) capital planning, including consideration of the Group ICAAP and ILAAP reports and related firm wide stress test scenarios; and
  - (f) macro-economic scenarios for financial planning;
- reports from Management on a number of specific areas in order to ensure that appropriate Management oversight and control was evident, including:

(a) Anti-Money Laundering/Financial Sanctions policies and frameworks;
(b) significant operational risk events and potential risks;
(c) credit risk performance and trends, including regular updates on significant credit transactions;
(d) the structure and operation of the Compliance function; and

- regulatory developments, including business preparedness, Recovery and Resolution planning and Management's proposed plans to address actions required under the Single Supervisory Mechanism Risk Mitigation Programme, and progress against these.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Letter from Richard Pym, Chairman of the Nomination and Corporate Governance Committee

Dear Shareholder,

On behalf of the Nomination and Corporate Governance Committee ('the Committee'), I am pleased to introduce the Report of the Committee's activities for the financial year ended 31 December 2017.

A key priority for the Committee is to keep the composition of the Board and its Committees under review and to make appropriate recommendations to the Board. Along with considering the appropriateness of the skills, experience and diversity profile of the Board, the Committee considers the future needs of the Board having regard for the Group's strategy and the tenure of existing Directors to ensure that an appropriate succession plan is in place.

Another important role for the Committee is to ensure the adequacy of succession planning, including contingency arrangements, for the Leadership Team, which was an area of significant focus during the year under review. 2017 was a very successful year for the Group, which achieved a primary listing on the Irish Stock Exchange and a premium listing in London. This success is due in no small part to the strength of the Leadership Team, whose continued commitment is acknowledged by the Committee and the Board, particularly in light of the Group's compensation levels, which compare adversely to local corporate and international banking peers.

As I have previously highlighted, the legislative compensation restrictions that apply to the Group are a matter of concern to the Committee and the Board in the context of the Group's ability to continue to retain and attract key staff.

Diversity in its broadest sense is pivotal when considering Board and Leadership Team composition and related succession plans. Under certain EU regulations, we are required to focus on addressing the under-represented gender on the Board. During 2016, we achieved our initial aim of reaching a minimum of 25% female representation on the Board, with representation at 27% in January 2018. The search for Board candidates will continue to be conducted, and nominations/appointments made, with due regard to the benefits of diversity on the Board. However, all appointments to the Board are ultimately based on merit, measured against objective criteria, and on the skills and experience the individual can bring to the Board.

The Board also places strong emphasis on ensuring the development of a diverse and inclusive culture across the Group, with particular focus on better gender diversity across senior management roles. This is evidenced in a 25% gender target for the Leadership Team, which has been met, and a 40% gender target at manager level which has been set for achievement during 2018. This is underpinned by a range of policies and initiatives within the Group focusing on four key levers for change: raising awareness; improving the talent pipeline; creating a more agile work environment; and minding the gap between career and family absences. Progress on this objective is monitored by the Board.

The Members of the Committee and a record of their meeting attendance during 2017 are outlined in the full report below.

Richard Pym,
Committee Chairman

Report of the Nomination and Corporate Governance Committee

Membership and meetings

The Nomination and Corporate Governance Committee comprised five Independent Non-Executive Directors during 2017, reduced to four when Dr Somers retired on 31 December 2017.

The Board has determined that the Members of the Committee have the collective skills and experience to enable the Committee to discharge its responsibilities.

Biographical details of each of the Members are outlined on pages 28 to 29.

The Committee met on seven occasions during 2017. The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Richard Pym (Chairman), Mr Simon Ball, Dr Michael Somers (Member to 31 December 2017), Mr Jim O'Hara and Ms Catherine Woods.

Member attendance during 2017:

	A	B
Richard Pym	6*	6*
Simon Ball	7	7
Jim O'Hara	7	7
Dr Michael Somers	7	7
Ms Catherine Woods	7	7

Column A indicates the number of Committee meetings held during 2017 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2017.

**During 2017, the Committee met to consider the re-appointment of Mr. Richard Pym as Chairman for a further three years. Mr Pym was not in attendance and the meeting was chaired by the Senior Independent Director.*

Committee role and responsibilities

The principal purpose of the Committee is:

- to review the size, structure and composition of the Board, including its numerical strength, the ratio of Executive to Non-Executive Directors, the balance of skills, knowledge and experience of individual Members of the Board and of the Board collectively, and the diversity and service profiles of the Directors, and to make recommendations to the Board with regard to any changes considered appropriate;
- to identify persons who, having regard to the criteria laid down by the Board, and in accordance with the Policy for the Assessment of the Suitability of Members of the Board, appear suitable for appointment to the Board; the Committee evaluates the suitability of such persons and makes appropriate recommendations to the Board;
- to review Board and Senior Executive succession planning to include reviewing the policy on Board selection and the appointment of senior management and making recommendations to the Board in that regard; and
- to review and assess the adequacy of the Company's corporate governance policies and practices.

The Committees's terms of reference can be found on the Group's website at: https://aib.ie/investorrelations

Activities

During the year the Committee considered a number of issues relating to the Group's governance arrangements. It assisted the Chairman in keeping the composition of the Board and its Committees under review and leading the appointment process for nominations to the Board. The Committee's activities are summarised below.

Board and Board Committee Composition and Succession Planning

- consideration of and recommendations with regard to Board and Board Committee composition in anticipation of the conclusion of Dr Somers' term of appointment and, in particular, his successor as Deputy Chairman;
- engagement of Merc Partners to facilitate the search for a new Non-Executive Director to join the Board during 2018 and commence preparation to succeed the current Board Audit Committee ("BAC") Chair upon conclusion of her nine-year term in 2019; Merc Partners have been engaged by the Group for a number of executive and Director searches in recent years but have no other relationship with the Group;
- development of a longer-term succession plan, taking into account current and future skillset and experience profile requirements, to ensure future Directors are identified and inducted in a timely manner to allow appropriate succession and ensure a continued high-calibre Board composition appropriate to the business of the Group;
- assessment of the independence of Directors of the Board against certain criteria, including whether Directors were demonstrably independent and free of relationships and other circumstances that could affect their judgement, and whether they met criteria set out in applicable UK and Irish regulations; and
- review of the continued appropriateness of the Board Diversity Policy and monitoring of progress against agreed targets.

Board Appointments

Whilst no appointments occurred during the year, the Board reviewed the Policy for Assessment of the Suitability of Members of the Board, which outlines the board appointment process and is developed in accordance with European Banking Authority (EBA) Guidelines, including by ensuring that the Policy was appropriate in the context of new EBA and European Securities and Markets Authority (ESMA) guidelines on the matter, which become effective from June 2018.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Leadership Team Succession Planning

– consideration of appointments to the Leadership Team, particularly the Chief People Officer and the Chief Risk Officer, in conjunction with the Board Risk Committee; and
– Leadership Team succession planning generally, to ensure that appropriate short-term contingency plans, longer-term succession plans and any interim development plans for identified talent were in place.

Re-appointment of the Chairman

Having regard for the positive outcome of the effectiveness evaluation of the Chairman, conducted as part of the broader external Board effectiveness evaluation, and having consulted with the Minister for Finance under the terms of the Relationship Framework, the Committee met without Mr. Pym present to consider his re-appointment as Chairman of the Board for a further three year period to October 2020, which was recommended to and approved by the Board in October 2017.

Corporate Governance

On the subject of Corporate Governance, the Committee considered and, where appropriate, approved or recommended to the Board:

– the development of a Group Subsidiary Governance Framework;
– regular corporate governance updates from the Company Secretary;
– the corporate governance arrangements and related policies and practices of AIB Group, on relisting to the main London and Irish Stock Exchanges and on the introduction of the new Holding Company; and
– the Group's compliance with corporate governance requirements and related policies and practices.

Performance Evaluation

An external performance evaluation of the Board was conducted during 2017, and included a review of the Committee. The review concluded that the Committee continued to operate in an efficient manner, with the Committee Members emphasising the importance of continued focus during 2018 on Leadership Team and Board succession planning and on disclosure requirements of the Group arising from its listing on the main Exchanges.

Governance and oversight – Report of the Remuneration Committee

Letter from Jim O'Hara, Chairman of the Remuneration Committee

Dear Shareholder,

As Chairman of the Remuneration Committee, I am pleased to introduce this report on the Committee's activities during 2017.

The Members of the Committee, and their record of attendance at meetings during 2017, are outlined in the full report below.

On behalf of the Board, the Remuneration Committee has responsibility for:

– recommending Group remuneration policies and practices to the Board;
– ensuring that the remuneration policy and practices are subject to an annual central and independent internal review;
– the remuneration of the Chairman of the Board (which matter is considered in his absence);
– determining the remuneration of the Chief Executive Officer, other Executive Directors, and the other members of the Leadership Team, under advice to the Board; including the Heads of Risk, Compliance, Group Internal Audit and the Group Company Secretary;
– reviewing the remuneration of Identified Staff, who are individuals classified as 'material risk takers' in accordance with the EU Capital Requirements Directive (CRD IV) Remuneration Guidelines of the European Banking Authority ('EBA Guidelines');
– performance-related and share-based incentive schemes, when appropriate.

The Group's Remuneration Policy continues to be governed by restrictions contained in certain agreements in place with the Irish State connected to the State's recapitalisation of the Group in 2010 and 2011 ('Agreements'). In light of these restrictions, as reported in previous years, the Group is unable to implement a competitive market driven compensation and benefit structure to retain and incentivise key executives. This remains a key risk for the future stability and performance of the Group and is of utmost concern to the Committee and the Board as a whole.

The Board's concerns were outlined in the IPO Prospectus which highlighted the impact of the absence of market based pay and short and long term variable incentive schemes on the Group's ability to align the remuneration of key executives with the achievement of Group strategic objectives. This will likely result in the loss of key members of the senior management team which, in turn, may lead to a change in the strategic ambition and direction of the Group.

During 2017, the Committee spent a significant amount of time, in formal and informal meetings with management and external remuneration consultants, seeking to address this risk.

Arising from these discussions, the Committee is proposing to introduce an appropriate incentive plan with the key objective of creating long term sustainable value for customers and shareholders while also facilitating the retention of key executives and safeguarding the Group's capital, liquidity and risk positions. The plan will be designed to enable the State to recover the value of its investment in the Group.

The proposed construct of the plan will be a simple and transparent Deferred Annual Share Plan ('the Plan') to retain, incentivise and align senior executives with the creation of long term sustainable value and the achievement of other financial and strategic objectives. It is intended that awards will be 100% deferred into shares with no cash element and that awards will vest over a three to five year timeframe. The State's opportunity to recover the value of its investment in the Group will act as a final condition prior to any vesting or payout of awards under the Plan.

It is envisaged that awards will be based on prior year performance using a balanced scorecard of financial, non-financial and personal measures designed to achieve the strategic priorities of the Group. Eligible participants will include the CEO, Leadership Team Members and other key executives who are considered critical to the delivery of the Group's strategic objectives. Awards will not exceed 100% of fixed pay. All aspects of the Plan will be designed in full compliance with CRD IV and associated EBA Guidelines on sound remuneration policies.

The Committee recognises that the construct of the Plan is non-standard in nature with significant focus on current strategic priorities while maximising value for all shareholders. It is further acknowledged that remuneration outcomes for senior executives will not deliver market competitive remuneration and, in light of current levels of fixed pay, will likely be positioned well below market peers. Whilst not a long term retention tool, the Committee considers that the design of the Deferred Annual Share Plan should somewhat mitigate the heightened retention risk which currently exists until such time as the Group is able to return to normalised remuneration practices.

Information on the proposed Plan is contained on page 214, which is being put to the Shareholders for a non-binding advisory vote at the forthcoming AGM. The Plan and its implementation is subject to formal approval by the State's Minister for Finance which will be sought over the coming months.

Governance and oversight –
Report of the Remuneration Committee

The Committee's responsibilities are discharged through regular meetings which consider relevant submissions and reports from Senior Management and ongoing interaction and consultation with the Chief People Officer.

During 2017, the Remuneration Committee used the services of Willis Towers Watson ("WTW") for advice on market based remuneration and practices for senior executives. WTW are solely focused on Human Resources and remuneration consultancy and have no other relationship with the Group.

Key areas of focus for the Committee in 2017 included:

- Review of future variable incentive plan designs with the primary objective of safeguarding the retention of key executives and the delivery of the Group's strategic objectives;
- Assessment of the key risks impacting the Group's current remuneration structure and practices;
- Review of the composition and remuneration components of Identified Staff;
- Ongoing compliance with relevant statutory disclosures, regulatory requirements and guidelines;
- Review of the quantum and structure of remuneration of Executive Directors and members of the Leadership Team against comparative peer groups in the external market;
- Consideration of the continued risk and adverse impact of remuneration restrictions on the Group arising from the State Agreements, including the cap on pay which specifically relates to the CEO.
- Review of the Group's Remuneration Policy, including the process for the identification of Material Risk Takers;
- Review of the duties and responsibilities of the Committee in accordance with the requirements of CRD IV and EBA Guidelines on sound remuneration practices.

Further detail on the Committee's activities during 2017 is included in the Committee's full report.

As Chairman, I have ensured that all Directors are kept up to date on the work of the Committee through the provision of periodic updates at Board meetings. I would like to acknowledge the valuable input of my colleagues on the Committee to its effective operation and thank them for their endeavors during 2017.

Jim O'Hara
Chairman of the Remuneration Committee

Report of the Remuneration Committee

Membership and Meetings

The Remuneration Committee comprises 4 Independent Non-Executive Directors whom the Board is satisfied possess the required knowledge and experience to enable the Committee to operate effectively. To ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Remuneration Committee and the Board Risk Committee is maintained, with Mr Simon Ball being a member on both committees.

Biographical details of each of the Members are outlined on pages 28 to 29.

The Committee met on seven occasions during 2017. Meetings are attended by the Chief People Officer, the Head of Pensions and Reward, the Chief Executive Officer and, where relevant, by other Senior Management on the invitation of the Chairman. The Chief Risk Officer previously received an annual invitation to attend the Remuneration Committee but the Committee has agreed that she will be a permanent attendee at all future meetings.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Jim O'Hara (Chairman), Mr Simon Ball, Mr Tom Foley, Mr Richard Pym.

Member attendance during 2017:	A	B
Simon Ball	7	7
Tom Foley	7	7
Jim O'Hara	7	6*
Richard Pym	7	7

Column A indicates the number of Committee meetings held during 2017 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member.
**In the absence of Mr O'Hara, who was absent due to illness, the meeting was chaired by Mr Foley.*

Performance Evaluation

An external performance evaluation of the Board was conducted during 2017 which included a review of the Committee. While identifying some areas for potential enhancement, the overall results concluded that the Committee continued to operate in an effective manner, with greater engagement with the external remuneration consultants desired and ensured during the latter half of 2017.

Roles and Responsibilities

The Committee's primary responsibilities are described in its terms of reference which are reviewed annually with any proposed amendments submitted to the Board for approval. A copy of the terms of reference is available on the Group's website at http://aib.ie/investorrelations.

Director's remuneration

Details of the total remuneration of the Directors in office during 2017 and 2016 are shown in the Directors' Remuneration report on pages 220 and 221. It should be noted that where an Executive Director holds a Non-Executive Directorship at an External Company, they do not receive a fee. Limitations on such external directorships are outlined in CRD IV and both of the Group's Executive Directors are fully compliant with those limitations.

Governance and oversight – Corporate Governance Remuneration statement

Remuneration Constraints

The Group has been required to comply with certain executive pay and compensation restrictions following the Group's recapitalisation by the Irish Government in 2010 and 2011. These restrictions include a cap on salaries and allowances in the amount of € 500,000 per annum and a ban on the introduction of any new bonus or incentive schemes, allowances or other fringe benefits. They apply to all directors, senior management, employees and service providers across the Group. Additionally, Irish taxation legislation applies an excess tax charge on certain remuneration, such as bonus payments, paid to employees of financial institutions in Ireland that have received financial support from the State.

The application of these constraints has made attracting and retaining high calibre and specialist staff a significant challenge for the Group. Accordingly, the Group now seeks to introduce variable pay, in the form of a Deferred Annual Share Plan, details of which are outlined in detail on pages 214 to 217.

Remuneration Policy and Governance

The Group aims to reward employees fairly and competitively in order to attract, motivate and retain the right calibre of individuals to support the Group's future success and growth. The Group's remuneration policies and practices are designed to foster a truly customer focussed culture, to create long term sustainable value for our customers and stakeholders, to attract, develop and retain the best people and to safeguard the Group's capital, liquidity and risk positions. The Group Remuneration Policy is the governing framework which underpins all remuneration policies, practices and procedures. The scope of the Remuneration Policy includes all financial benefits available to employees and applies to all employees of the Group, including Executive Directors, senior executives and material risk takers.

The Remuneration Policy sets out the Group's key remuneration principles which shape the Group's policies and practices. These include simplicity, transparency, fairness, performance alignment, external market positioning and strong risk management. The Remuneration Policy also sets out the key components of the Group's current remuneration structure together with the functional responsibilities for governance and the remuneration approach for key groups of individuals, including non-executive directors, senior executives, material risk takers, employees in control functions and all other employees. While the Remuneration Policy is designed to fully comply with the provisions of EU and national regulatory requirements, the application of market aligned remuneration policies and practices is constrained by the additional remuneration restrictions introduced by the Irish Government which, in turn, preclude the Group from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic priorities.

The Group undertakes an annual review of the Remuneration Policy to ensure that remuneration policies and practices are operating as intended, are consistently applied and are compliant with regulatory requirements. The annual review is informed by appropriate input from the Group's risk, compliance and internal audit functions. At the request of the Remuneration Committee, the Remuneration Policy was comprehensively revised during 2016 in order to align it to the Group's customer first values, longer term strategy and current remuneration practices. Following review in 2017, there were no significant changes made to the Remuneration Policy.

In light of the Group's intention to introduce a new Deferred Annual Share Plan, as outlined in the following pages, the Directors now believe that it is an appropriate time to put a revised Remuneration Policy to a non-binding vote of shareholders at the forthcoming AGM.

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Remuneration Committee advises and makes recommendations to the Board on the design and ongoing implementation of the Remuneration Policy, including the process for the identification of material risk takers. The Remuneration Committee's governance role in this respect is outlined in the Committee's Terms of Reference.

European Banking Authority (EBA) Guidelines

The EBA Guidelines on sound remuneration policies came into effect on 1 January 2017. The key objectives of the guidelines are to ensure that remuneration policies promote sound and effective risk management, do not provide incentives for excessive risk taking and are aligned with the long-term interests of the Group.

The Remuneration Policy reflects the relevant provisions of the EBA Guidelines as they apply to the Group's current remuneration practices and the requirements of the Senior Managers Regime in respect of the Group's UK activities. In the absence of variable incentive schemes, there was little scope in practice to apply the provisions of the EBA Guidelines pertaining to variable remuneration. The Remuneration Policy incorporates the provisions of the EBA Guidelines in relation to the ongoing design, implementation and governance of remuneration.

Pillar 3 and Other Remuneration Disclosures

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further details in relation to the Group's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those employees whose professional activities are considered to have a material impact on the Group's risk profile and the key components of the Group's remuneration structure. The Group Pillar 3 Report 2017 will be available on the Group website.

EBA remuneration benchmarking requirements require the Group to disclose remuneration data in respect of material risk takers and high earners (those earning above € 1 million) to the Central Bank of Ireland. The Group continued to comply with these reporting requirements during 2017. There were no employees whose total remuneration exceeded € 1 million during 2017.

Identified Staff and Risk Oversight

The Group maintains a list of those staff whose professional activities are considered to have a material impact on the Group's risk profile ("Identified Staff"). The Group's process, including relevant criteria, for determining Identified Staff forms an addendum to the Group Remuneration Policy. The list of Identified Staff is reviewed annually by the Remuneration Committee. Further details in relation to the composition and remuneration of Identified Staff are set out in the remuneration disclosures in the Group's Pillar 3 Report.

A key principle of the Remuneration Policy is the promotion of a strong risk management culture and risk-taking which is aligned to the Group Risk Appetite Statement. The Remuneration Committee is supported by the Group Chief Risk Officer in its assessment of the key risks that should be considered in the context of the Group's remuneration structure. The Chief Risk Officer reviews the list of Identified Staff while the Risk and Compliance functions provide input to the annual review of the Remuneration Policy. The focus on risk is further strengthened by requiring all employees to have a specific risk objective in their performance management plan.

Performance Management

In line with the Group's Talent and Culture strategic priority, the Board continued to focus on building a strong culture which aligned with the Group's brand values. The Board set out in 2017 to ensure that employees who exhibit the Group's brand values, resulting in positive risk and conduct outcomes, were rewarded accordingly. The Group's brand values provide the behavioural framework for how employees work, interact with each other and serve the customer.

The Group's performance management system plays a critical role in aligning individual objectives with the Group's overall strategy, financial and non-financial goals and brand values. During 2017, each employee's behavioural rating informed a pay matrix which directly impacted the level of base pay increase awarded under the annual pay review. Consequently, performance outcomes, based on a combined assessment of 'What' objectives and 'How' behaviours, determine individual increases in remuneration and provide a transparent link between performance and remuneration.

Reward Structure and Operation in 2017

During 2017, the Group continued to operate within the parameters of existing remuneration constraints. Individual remuneration across the Group was principally comprised of fixed pay elements, encompassing base salary, allowances and employer pension contributions. The Group endeavoured to apply base salary fairly and competitively according to the size and level of responsibilities attaching to individual roles. Allowances principally consisted of non-pensionable cash allowances that are designed to reflect benefits and allowances generally available in the external market. The Group operates defined contribution pension schemes which followed the closure of all Group defined benefit schemes to future accrual on 31 December 2013. Further details in respect of the Group's fixed pay elements are provided in the table below.

Increases in base salary were performance based, determined by performance against each individual's objectives which, in turn, reflect the Group's strategy, goals and values. Such increases were awarded following the annual pay review process, through promotion and, in exceptional cases, through out-of-course increases to retain business critical staff and key skills.

Performance based salary increases of between 0% and 3.25% were awarded to employees (excluding Leadership Team members) in April 2017 under the annual pay review process. This followed the conclusion of a two year agreement with employee representatives arising from the recommendation of the Workplace Relations Commission. Accordingly, similar increases will be applied in April 2018.

No increases were awarded to Executive Directors or Leadership Team members under the annual pay review. All remuneration decisions were predicated on supporting the Group's strategy, financial performance and within budgetary parameters.

The remuneration of Executive Directors and members of the Leadership Team is determined and approved by the Remuneration Committee on behalf of the Board but is heavily constrained by the remuneration limits set by the State Agreements.

There were no general short or long term variable incentive schemes or share incentive schemes in operation during 2017. The Group operates two local business variable commission schemes. These schemes are designed to protect the rights and interests of customers via customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer. The maximum amount payable to any individual per year is € 20,000.

Fixed Pay Elements

The principal fixed pay design elements are outlined below:

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Base Salary	To attract, motivate and retain the right calibre of individuals to support the Group's future success and growth.	Base salary is designed to reflect individual experience, contribution and the size and level of responsibilities attached to each role. Base salaries are typically reviewed annually as part of the annual pay review process with increases taking effect from 1st April.	Increases in base salary are performance based, following an assessment of each individual's achievements against their objectives. Increases in base salary will generally reflect increases awarded to all employees under the annual performance based pay review.
		Base salaries of Executive Directors and members of the Leadership Team are reviewed annually by the Remuneration Committee on behalf of the Board.	Increases may occasionally arise based on an assessment of an individual's contribution to role, market competitiveness and level of responsibilities. Base salaries of all employees, including Executive Directors, are managed in accordance with existing remuneration restrictions. The annual base salary for each Executive Director is set out in the Directors Remuneration Report.
Allowances	To provide a contribution to market aligned benefits and allowances generally available in the market.	Non-pensionable cash allowances are provided to eligible managers and executives according to their respective grades. Additional allowances include location allowances, payable in the UK to employees below management level.	Cash allowances for managers and executives range from €7,000 to €20,000 per annum. Allowances of up to €30,000 are payable to Executive Directors and members of the Leadership Team.
Pension	To enable employees plan for an appropriate standard of living in retirement.	Employees are entitled to participate in the Group's Defined Contribution Scheme with a monthly contribution based on a percentage of base salary. Executive Directors and members of the Leadership Team are also entitled to participate in the Defined Contribution Scheme. In the UK, employees may elect to receive cash in lieu of their pension contribution.	A standard contribution of 10% of base salary plus an additional matching contribution of up to 8%, depending on the age of the employee. Executive Directors and members of the Leadership Team are entitled to an employer pension contribution of up to 20% of base salary.

Fixed Pay Elements *(continued)*

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Other Benefits	To provide affordable benefits in accordance with general market practice.	Benefits include medical insurance (UK employees only), income protection, death-in-service cover and free banking services. Additional benefits including, but not limited to, relocation costs, (tax advice, accommodation and flight allowances) may be provided in line with market practice. The Remuneration Committee retains the right to provide additional benefits subject to current remuneration restrictions.	The Group does not operate a company car scheme. Executive Directors and members of the Leadership Team may occasionally avail of the use of a pool car and driver.

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Governance and oversight – Corporate Governance Remuneration statement

Remuneration of Executive Directors

The remuneration of Executive Directors in 2017 comprised of base salary, taxable benefits and pension contributions. Taxable benefits represent a non-pensionable cash allowance in lieu of company car and other contractual benefits. Pension contributions represent agreed payments to a defined contribution scheme. The remuneration of Executive Directors is reviewed annually by the Remuneration Committee on behalf of the Board.

There were no changes to the remuneration of the Chief Executive Officer or Chief Financial Officer during 2017. In line with the cap on salaries and allowances imposed by existing remuneration restrictions, the Chief Executive Officer was paid a base salary of € 500,000 per annum. An additional pension contribution amounting to € 100,000 (20%) was made to a defined contribution scheme. The Remuneration of the Chief Financial Officer comprised of base salary of € 470,000 and a non-pensionable cash allowance of € 30,000. Pension contribution of € 94,000 (20%) was also made to a defined contribution scheme.

There were no bonuses, shares or other incentive schemes paid or awarded to Executive Directors in 2017.

Proposed Introduction of a Deferred Annual Share Plan for 2018

Following the Group's successful return to the equity markets in 2017, the Group proposes to take the first step in its journey to more normalised remuneration practices. As outlined in the IPO Prospectus, the Group now seeks to follow up on its commitment to better align the reward of the senior executive team with the objectives of creating long-term sustainable value for customers and shareholders while simultaneously safeguarding the Group's capital, liquidity and risk positions. As an initial step in aligning investor risk with executive remuneration, the Remuneration Committee proposes the introduction of a regulatory compliant Deferred Annual Share Plan (the 'Plan'). The performance elements underpinning the Plan reflect the strategic objectives of the Group, are consistent with the medium term targets and commitments previously communicated to the market, and are appropriately stretching to reflect the quantum of remuneration potential. The proposed changes to the Remuneration Policy will be subject to a non-binding advisory vote at the Group's AGM in April and will be subject to formal approval of the State's Minister for Finance which will be sought in the coming months. More background, context and details of the Plan are provided below.

The performance metrics which underpin the Plan will reflect the current strategic priorities of the Group, and include material reductions in non-performing loans; creating operating efficiencies evidenced by a lower cost-to-income ratio; delivering a minimum return on tangible equity; an individual executive specific performance metric; and a composite risk metric taken directly from the Group's Risk Scorecard. Particular focus will be placed on developing a strong, customer centric culture and on driving positive customer and conduct outcomes. The State's opportunity to recover the value of its investment in the Group will act as a final condition prior to any vesting or payout of awards under the Plan. The Plan also provides for a downward risk adjustment at the discretion of the Remuneration Committee. All aspects of the Plan will be designed in full compliance with the EU Capital Requirements Directive and associated EBA Guidelines on sound remuneration policies and the relevant national regulations in each of the Group's operating jurisdictions. The Group sought third-party advice on regulatory compliance matters related to the Plan.

It is envisaged that the Plan will contribute to the retention of key executives by providing them with a degree of visibility over awards and future payouts. Incentive awards will be 100% deferred into shares over a 5 year period (7 for UK executives) with no cash element. There will be no upfront payment with vesting of 33% per year occurring on a pro-rata basis between years 3 and 5. Additional holding periods of one year will apply to all vested awards. Awards will be made annually based on the prior year performance using the performance elements set out above.

The design of the Plan incorporates the remuneration principles, which apply to all employees of the Group, and which are included in the Group's Remuneration Policy. In particular, these include simplicity, transparency, fairness, performance alignment, external market positioning and strong risk management.

The Plan will apply to all Executive Directors, members of the Leadership Team and, at the discretion of the Remuneration Committee, other senior executives who are considered critical to the delivery of the Group's strategic objectives. It is intended that the first awards under the Plan will be awarded in 2019 for the performance year 2018. The principal design elements are outlined in the following table.

Deferred Annual Share Plan Elements

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Deferred Annual Share Plan	**Strategy** To align the remuneration of senior executives with the creation of long term sustainable value for customers and shareholders while also safeguarding the Group's capital, liquidity and risk positions. To facilitate the retention of key executives. To enable the State to recover the value of its investment in the Group. Any vesting and payouts of awards will be contingent upon this. **Alignment** Full malus and clawback provisions will apply, in accordance with regulatory requirements, to further support long term alignment with shareholders' interests. Design criteria will ensure that voluntary leavers are disadvantaged to non-leavers to encourage retention and alignment. All outstanding awards will immediately lapse in full if further State aid is required.	**Overview** A simple and transparent Deferred Annual Share Plan with awards and payouts delivered in shares with no cash element. **Deferral Arrangements** Awards will be fully deferred into shares over a 5 year period (UK based participants - 7 years) with no upfront component. **Participants** Eligible participants will include Executive Directors, members of the Leadership Team and other senior executives, at the discretion of the Remuneration Committee, who are considered critical to the delivery of the Group's strategic objectives. **Performance Period** Awards will be based on performance in a single financial year with the addition of long-term restrictions on vesting and payout. **Performance Measures Principles** Performance measures, selected from the Group's Balanced Scorecard, will consist of both financial and non-financial measures (including risk related measures), in line with the Group's strategic business plan and enabling the State to recover its investment in full.	**Maximum Award** The maximum annual share awards for all participants, including Executive Directors, is 100% of fixed pay. The achievement of challenging and appropriately stretching performance targets will result in an annual award of up to 100% of fixed pay. **Performance Period** Awards will be made based on an assessment of the prior year performance. **Performance Measures** Performance measures will incorporate a balanced scorecard of financial and non-financial measures, including specific risk and personal performance measures. Financial measures will be in line with published financial targets with particular focus on reducing non-performing loan exposures, increasing cost efficiencies and maximising shareholder return. Risk related measures will be selected from the Group's Risk Scorecard while personal measures will form part of each individuals' performance management plan and include a mix of "what" objectives and "how" behavioural measures.

Deferred Annual Share Plan Elements *(continued)*

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Deferred Annual Share Plan *(cont'd)*		Vesting of Awards Vesting of deferred awards will occur on a pro-rata, annual basis between years 3 and 5 post-award (33% of the award vesting in years 3, 4 and 5). An additional 1 year holding period will apply to all awards post-vesting in accordance with regulatory requirements. There will be no vesting or payout of awards unless the State has been in a position to recover the value of its investment in the Group. Forfeiture Provisions Awards will be subject to malus provisions prior to vesting and clawback post-vesting, applied in accordance with regulatory provisions. Leavers Bad Leavers, dismissed for reasons of cause or conduct, will automatically forfeit all unvested awards. Good Leavers, including voluntary leavers, retirement, redundancy, or any dismissal not for cause, will retain unvested awards which will continue to vest under the 5 year profile and will remain subject to full malus and clawback provisions. Voluntary leavers will be treated as "Good Leavers" to recognise the necessity to retain key executives and skills in the short to medium term. Voluntary leavers who leave within two years from the end of the performance year will be subject to a reduction in the retained unvested award(s) on a monthly pro-rata basis over the 3 years from the start of the performance year.	Performance measures will be fixed for the performance years 2018 and 2019 and will be reassessed for the year 2020 and beyond. Targets will be set annually by the Remuneration Committee. Risk and Control Underpins Overall performance will be subject to Risk and Control underpins which may lead to downward adjustments. Performance Weightings Weightings for 2018 will be applied to each measure as determined by the Remuneration Committee. The weightings will be fixed for the year 2018 and may be amended in 2019 and beyond to ensure ongoing strategic alignment. Any changes to performance measures or weightings, as outlined above, will be at the discretion of the Remuneration Committee. Further details on metrics are provided in Table 1. Pre-Grant and Pre-Vest Assessment Pre-grant and pre-vest tests, subject to Risk and Control underpins, to consider performance in the round against what would reasonably have been expected, will be applied. Further detail is provided below.

Deferred Annual Share Plan Elements *(continued)*

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Deferred Annual Share Plan *(cont'd)*		Dividends and Distributions Participants will have no entitlement to dividends, dividend equivalents or other distributions which precede the date of vesting of an award. Plan Vehicle The Plan will be managed through an appropriate vehicle which will purchase and hold the shares prior to vesting. Regulatory Compliance The Plan is designed in full compliance with EU and national regulatory requirements.	Performance Thresholds Minimum performance thresholds must be achieved before a participant is eligible for an award. Awards will vary between 0% and 100%, proportionate to the level of achievement. Disclosure The specific performance measures, targets and their assessment will be disclosed in the annual remuneration report for the relevant performance year. Remuneration Committee Discretion The Remuneration Committee will assess performance annually against the targets set to determine the level of achievement. The Remuneration Committee will have discretion to vary performance measures to reflect significant once-off items that occur during the performance period. Full disclosure of these adjustments will be made in the annual remuneration report for the relevant year, subject to commercial sensitivity.

Performance Metrics Detail

The financial performance measures underpinning the Plan reflect the strategic objectives of the Group, are consistent with the medium term targets and commitments previously communicated to the market, and are appropriately stretching to reflect the quantum of remuneration potential. They reflect the short to medium term strategic priorities for the Group and include the following:

- The reduction of non-performing loans to market and regulatory acceptable levels;
- Delivering appropriate top line growth and operating efficiencies evidenced by reducing the Group's cost-to-income ratio; and,
- Demonstrating market acceptable returns on shareholder tangible equity.

The non-financial measures include a risk scorecard which is designed to ensure the achievement of the Group's financial targets are sustainable and executed in a risk appropriate manner. The individual performance measure will appropriately capture the contribution of individual executives to the performance of the Group based on a combined assessment of "what" objectives and "how" behaviours.

Table 1 below summarises the weightings of these financial and non-financial measures:

Table 1
Performance Metrics and Initial Weightings

Financial Measures:	Total 60%:
– Non-Performing Exposures (NPE)	20%
– Cost Income Ratio	20%
– Return on Tangible Equity (RoTE)	20%
Non-Financial Measures:	Total 40%:
– Risk Scorecard	25%
– Individual Performance	15%

- The Performance Metrics are proposed for awards with respect to performance years 2018 and 2019 and will be re-assessed for years 2020 and beyond;
- The Weightings for each Performance Metric are proposed for the 2018 Performance Year only and so may be amended for future periods to ensure appropriate alignment;
- The specific performance measures, targets and their assessment will be disclosed retrospectively in the annual remuneration report for the relevant performance year; and,
- The Non-Financial measures including the Risk Scorecard and Individual Performance assessment will include a focus on compliance with risk practices, compliance practices, and governance procedures.

Ex-Ante Award Adjustment Process

- There will be an ongoing assessment of the Group's risk profile both at the overall Group level, as well as for material business units, so as to inform the Remuneration Committee in making an objective decision on any requirement for downward adjustments to incentive awards prior to grant ("Ex-Ante");
- This will be informed by an assessment of the Risk Scorecard and also an assessment of specific risks not captured in the Scorecard analysis, including key emerging issues likely to present themselves over the next year; and,
- Awards may be adjusted from 100% to Nil in response to specific risk and conduct events which include, but are not limited to, significant lapses of risk management, significant deterioration in the risk position of the Group, and/or individual misconduct.

Ex-Post Award Adjustment Process (Malus and Clawback):

- In the event that Ex-Ante adjustments are not sufficient in terms of amount and/or timing of an identified failure in risk management and/or conduct, the Remuneration Committee also retains the discretion to reduce or fully cancel outstanding unvested awards (through the use of Malus provision) and if necessary, to recoup awards which have already vested (through use of Clawback provision);
- Examples of situations in which the Malus and/or Clawback provisions may be exercised include but are not limited to:
  - Evidence of misconduct or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks);
  - Significant downturn in the financial performance of the individual's business unit and/or of the Group;
  - Significant failure in risk management in the individual's business unit and/or the Group;
  - Significant increases in the Group's or business unit's economic or regulatory capital base;
  - Any regulatory sanctions where the conduct of the identified staff member contributed to the sanction;
- Note that an additional Malus provision applicable under the Deferred Annual Share Plan design requires that Group achieve its objective of enabling the State to recover its investment in the Group. Non-satisfaction of this provision will result in the cancellation of the award tranches prior to vesting;
- The State investment may be repaid in a variety of ways including, for example, direct repayment, ordinary dividends, share buybacks, sale of shares by the State, or the increased net asset value of the Group[1] to support the future share price and potential future sale of shares by the State. The Remuneration Committee must be satisfied that the State investment is/or was repayable in full before any awards under the Plan will be available for vesting for any participant;
- The Malus and Clawback provisions will apply through to the end of the deferral and holding periods.

[1]Based on current legislation and accounting convention.

Ex-Ante and Ex-Post Adjustments in Case of Risk Management or Conduct issue:

Ex-Ante Adjustment:		Ex-Post Adjustment: Malus		Ex-Post Adjustment: Clawback
Reduction of Current Year Incentive (incl. to Nil)	→	Reduction (incl. to Nil) of Outstanding Unvested Award(s)	→	Recoupment of Vested (Already paid) Awards

Shareholding Requirements

In order to further align the interests of executives and shareholders, it is the intention of the Group to introduce meaningful executive shareholding guidelines as soon as commercially practical. This will be reviewed in light of the continuation of the Excess Bank Remuneration Charge which results in an effective tax rate of 89%.

Governance and oversight –
Corporate Governance Remuneration statement

Directors' remuneration*

The following tables detail the total remuneration of the Directors in office during 2017 and 2016:

Remuneration	Directors' fees Parent and Irish subsidiary companies[1] € 000	Directors' fees AIB Group (UK) p.l.c.[2] € 000	Salary € 000	Annual taxable benefits[3] € 000	Pension contribution[4] € 000	2017 Total € 000
Executive Directors						
Mark Bourke			470	30	94	594
Bernard Byrne			500	–	100	600
			970	30	194	1,194
Non-Executive Directors						
Simon Ball	93					93
Tom Foley[2]	90	38				128
Peter Hagan	95					95
Carolan Lennon	74					74
Brendan McDonagh	76					76
Helen Normoyle	75					75
Jim O'Hara	106					106
Richard Pym[1(a)] *(Chairman)*	365					365
Dr Michael Somers *(Deputy Chairman resigned 31 December 2017)*	110					110
Catherine Woods	150					150
	1,234	38				1,272
Former Directors						
Declan Collier[2]		49				49
Anne Maher[5]	45					45
Other[6]						11
Total						1,377

[1]Fees paid to Non-Executive Directors in 2017 were as follows:

(a) Mr. Richard Pym, Chairman, was paid a non-pensionable flat fee of € 365,000, which includes remuneration for all services as a Director.;

(b) All other Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of € 65,000 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, Senior Independent Non-Executive Director;

[2]Current or former Non-Executive Directors of AIB Group plc and Allied Irish Banks, p.l.c., as applicable, who also serve as Directors of AIB Group (UK) plc ("AIB UK") are separately paid a non-pensionable flat fee, which is independently agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Messrs Foley and Collier earned fees as quoted during 2017;

[3]'Annual Taxable Benefits' represents a 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 Chairman, Deputy Chairman and Non-Executive Directors are non-pensionable;

[5]Ms. Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted; and

[6]'Other' represents the payment of pensions to former Directors or their dependants granted on an ex-gratia basis and are fully provided for in the Statement of Financial Position.

Directors' remuneration* *(continued)*

Remuneration	Directors' fees Parent and Irish subsidiary companies € 000	Directors' fees AIB Group (UK) p.l.c. € 000	Salary € 000	Annual taxable benefits € 000	Pension contribution € 000	2016 Total € 000
Executive Directors						
Mark Bourke			467	30	93	590
Bernard Byrne			500	–	100	600
			967	30	193	1,190
Non-Executive Directors						
Simon Ball	85					85
Tom Foley	90	40				130
Peter Hagan	95					95
Carolan Lennon	13					13
(Appointed 27 October 2016)						
Brendan McDonagh	15					15
(Appointed 27 October 2016)						
Helen Normoyle	73					73
Jim O'Hara	103					103
Richard Pym	365					365
(Chairman)						
Dr Michael Somers	111					111
(Deputy Chairman)						
Catherine Woods	146					146
	1,096	40				1,136
Former Directors						
Declan Collier		56				56
Stephen L Kingon		47				47
(Resigned 31 October 2016)						
Anne Maher	39					39
David Pritchard		16				16
(Resigned 29 February 2016)						
Other						13
Total						2,497

Directors' remuneration* *(continued)*

Interests in shares

The beneficial interests of the Directors and the Joint Company Secretaries in office at 31 December 2017, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2017	1 January 2017**
Directors:		
Simon Ball	5,000	–
Mark Bourke	2,000	–
Bernard Byrne	2,000	–
Tom Foley	2,501	1
Peter Hagan	8,000	–
Carolan Lennon	2,000	–
Brendan McDonagh	10,000	–
Helen Normoyle	2,000	–
Jim O'Hara	–	–
Richard Pym	2,000	–
Dr Michael Somers *(Resigned 31 December 2017)*	–	–
Catherine Woods	24,000	–
Group Company Secretaries:		
Sarah McLaughlin	2	2
Robert Bergin *(to 8 December 2017)*	–	–

**or date of appointment, if later

The following table sets out the beneficial interests of the Directors and Leadership Team (Senior Executive Officers, excluding the Group Company Secretary) members of AIB as a group (including their spouses and minor children) at 31 December 2017:

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Leadership Team members of AIB as a group	59,584	***

***The total ordinary shares in issue at 31 December 2017, was 2,714,381,237.

Share options

No share options were granted or exercised during 2017, and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Group Company Secretary at 31 December 2017.

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Group Company Secretary at 31 December 2017.

Apart from the interests set out above, the Directors and Group Company Secretary in office at 31 December 2017, and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the interests of the Directors and the Group Company Secretary shown above between 31 December 2017 and 28 February 2018.

The year end closing price of the Company's ordinary shares on the Main Market of the Irish Stock Exchange was € 5.50 per share.

From 1 January 2017 to the date of the the IPO, the share price range for Allied Irish Banks, p.l.c. was € 4.90 to € 9.20. Following the IPO, the share price range for Allied Irish Banks, p.l.c./AIB Group plc, as appropriate, was € 4.65 to € 5.75.

Service contracts

There are no service contracts in force for any Director with the Company or any of its subsidiaries.

Governance and oversight – Viability statement / Internal controls

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code published in April 2016, the Directors have assessed the viability of the Group, taking into account its current position and the principal risks facing the Group over the next three years to 31 December 2020. The Directors concluded that a three-year time span was an appropriate period for the annual assessment, given that this is the key period of focus within the Group's strategic planning process. The strategic plan is considered annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing the Group.

The assessment considered the current financial performance, funding and liquidity management and capital management of the Group as set out in the Business review section on pages 35 to 56, and the governance and organisation framework through which the Group manages and seeks, where possible, to mitigate risk, as described on pages 69 to 71. A robust assessment of the principal risks facing the Group, including those that would threaten the business operations, governance and internal control systems, was also undertaken and considered, the details of which are included on pages 58 to 68.

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

Internal controls

Directors' Statement on Risk Management and Internal Controls

The Board of Directors is responsible for the effective management of risks and opportunities and for the system of internal controls in the Group. The Group operates a continuous risk management process which identifies and evaluates the key risks facing the Group and its subsidiaries. The system of internal controls is designed to ensure that there is thorough and regular evaluation of the nature and extent of risks and the ability of the Group to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting, which provides reasonable, but not absolute, assurance against material misstatement, error, loss or fraud. This process includes an assessment of the effectiveness of internal controls, which was in place for the full year under review up to the date of approval of the accounts, and which accords with the Central Bank of Ireland's 2015 Corporate Governance requirements for Credit Institutions and the UK Corporate Governance Code. Supporting this process, the Group's system of internal controls is based on the following:

Board governance and oversight

– The Board reviews the effectiveness of the system of internal controls on a continuous basis supported by a number of sub-committees, including a Board Risk Committee ("BRC"), a Board Audit Committee ("BAC"), a Remuneration Committee, and a Nomination and Corporate Governance Committee.

– The BRC is responsible for fostering sound risk governance within the Group, ensures risks within the Group are appropriately identified, managed and controlled, and ensures that the Group's strategy is informed by, and aligned with, the Group's Risk Appetite Statement.

– The BAC reviews various aspects of internal control, including the design and operating effectiveness of the financial reporting framework, the Group's statutory accounts and other published financial statements and information. It also ensures that no restrictions are placed on the scope of the statutory audit or the independence of the Internal Audit and Regulatory Compliance functions.

– The BAC's review of the Business Governance Assurance process at regular intervals throughout the year forms an integral part of its assessment of the internal control environment.

– The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the BAC and BRC.

– AIB's remuneration policies are set and governed by the Remuneration Committee, whose purpose, duties and membership are to ensure that remuneration policies and practices are consistent with and promote effective risk management.

– The Nomination and Corporate Governance Committee's responsibilities include, amongst others, recommending candidates to the Board for appointment as Directors, and reviewing the size, structure and composition of the Board and the Board Committees.

Executive risk management and controls

– At the executive level, a Leadership Team is in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.

– The Group operates a 'three lines of defence' framework in the delineation of accountabilities for risk governance.

– The Executive Risk Committee ("ERC"), which is a sub-committee of the Leadership Team, reviews the effectiveness and application of the Group's risk frameworks and policies, risk profile, risk concentrations and adherence to Board approved risk appetite and limits.

– The Group Asset and Liability Committee is a sub-committee of the Leadership Team, and acts as the Group's strategic balance sheet management forum that combines a business decision-making and risk governance mandate.

– There is a centralised risk control function headed by the CRO, who is responsible for ensuring that risks are identified, measured, monitored and reported on, and for reporting on risk mitigation actions.

– The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.

Governance and oversight – Viability statement / Internal controls

Executive risk management and controls (continued)

- The Group's risk profile is measured against its risk appetite on a monthly basis, and exceptions are reported to the ERC and BRC through the monthly CRO report. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/SSM.
- The centralised Credit function is headed by a Chief Credit Officer, who reports to the CRO.
- There is an independent Compliance function which provides advisory services to the Group and monitors and reports on conduct of business and financial crime compliance, on forthcoming regulations across the Group, and on Management's focus on compliance matters.
- There is an independent Group Internal Audit function, which is responsible for independently assessing the effectiveness of the Group's corporate governance, risk management and internal controls, and which reports directly to the Chairman of the BAC.
- AIB employees who perform Pre-Approved Controlled functions/Controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.

For further information on the Risk management framework of the Group, see pages 69 to 71 of this report.

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, the relevant Leadership Team member is required to attend the relevant Board forum to provide an explanation of the issue and to present a proposed remediation plan. Agreed remediation plans are tracked to conclusion, with regular status updates provided to the relevant Board forum.

Given the work of the Board, BRC, BAC and representations made by the Leadership Team during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the Group's risk management and internal control framework have been taken, or are currently underway.

Taking this and all other information as outlined above into consideration, the Board is satisfied that there has been an effective system of control in place throughout the year.

Governance and oversight – Other governance information

Relations with shareholders

The Group has a number of procedures in place to allow its shareholders and other stakeholders to stay informed about matters affecting their interests. In addition to this and the Annual Financial Report, which is available on the Group's website at http://aib.ie/investorrelations and sent in hard copy to those shareholders who request it, the following communication tools are used by the Group:

Shareholders' Report

The Shareholders' Report ('the Report') is a summary version of AIB's Annual Financial Report. This Report, which covers AIB's performance in the previous year, is sent to shareholders who have opted to receive it instead of the full Annual Financial Report. This summary report does not form part of the Annual Financial Report and is referred to for reference purposes only.

Website

The Group's website, http://aib.ie/investorrelations, contains, for the years since 2000, the Annual Financial Report, the Interim Report/Half-yearly Financial Report, and the Annual Report on Form 20-F for the relevant years. In accordance with the Transarency (Directive 2004/109/EC)(Amendment)(No.2) Regulations 2015, this and all future Annual and Half-Yearly Financial Reports will remain available to the public for at least ten years. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F were combined. The Group's presentation to fund managers and analysts of annual and interim financial results are also available on the Group's website. None of the information on the Group's website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

All shareholders are invited to attend the AGM and to participate in the proceedings. At the AGM, it is practice to give a brief update on the Group's performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against, and withheld, on each resolution, including proxies lodged, are subsequently published on the Group's website. Proxy forms provide the option for shareholders to direct their proxies to withhold their vote. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairman of the Board Committees are available to answer questions about the Committee's activities. A help desk facility is available to shareholders attending. The Company's 2018 AGM is scheduled to be held on 25 April 2018, at the RDS Concert Hall, Merrion Road, Ballsbridge, Dublin 4, and it is intended that Notice of the Meeting will be posted to shareholders at least 20 working days before the meeting, in accordance with UK code requirements.

Governance and oversight – Supervision and Regulation

Throughout 2017, the Group continued to work with its regulators, which include the European Central Bank ("ECB"); the Central Bank of Ireland ("CBI"), the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"); and the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve Bank of New York in the United States of America ("USA"), to focus on ensuring compliance with existing regulatory requirements together with the management of regulatory change.

In 2017, AIB Group plc became the holding company of Allied Irish Banks, p.l.c. (the principal operating company of AIB Group) and as such AIB Group plc is now subject to consolidated supervision with respect to Allied Irish Banks, p.l.c. and other credit institutions and investment firms in the Group.

Current climate of regulatory change

The level of regulatory change remained high in 2017 as the regulatory landscape for the banking sector continued to evolve.

The Group is committed to proactively identifying regulatory obligations arising in each of the Group's operating markets in Ireland, the UK and the USA and ensuring the timely implementation of regulatory change.

Throughout 2017, cross-functional programmes were put in place to ensure that the Group met its new regulatory requirements. In particular, the Group focused on the EU directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (the "4th AML Directive"), the recast EU directive on payment services in the internal market (known as PSD2), the EU directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (known as the Payment Account Directive), and the Markets in Financial Instruments Directive ("MIFID II").

The level of regulatory change is expected to remain high in 2018. In particular, the Group will focus on the implementation of PSD2, the EU directive on security of network and information systems, the EU General Data Protection Regulation ("GDPR"), the 4th and 5th AML Directive, the ECB Regulation on the collection of granular credit and credit risk data (known as the AnaCredit Regulation), and the Credit Reporting Act 2013 with regard to the central credit register.

United Kingdom

During 2017, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland, and will remain focused on this throughout 2018.

Regulatory change horizon – UK

AIB Group (UK) p.l.c. is subject to the European Regulation described under "Current climate of regulatory change" above, and works closely with Group to ensure the requirements are implemented compliantly, taking into consideration UK regulatory guidance. The approach to implementation of European Regulation will be reviewed in light of Brexit and any impact Brexit might have on the applicability of such regulations to AIB Group (UK) p.l.c.

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

In addition, AIB Group (UK) p.l.c will focus on the implementation of the retail banking market investigation order (2017) (the "Order"). The Order will provide for remedies to market-wide issues identified as part of the Competition and Markets Authority's Retail Banking Market Investigation into the Personal Current Accounts and SME Banking markets in the UK.

United States

Compliance with federal and state banking laws and regulations

During 2017, AIB's state-licensed branch in New York continued to prioritise compliance with its regulatory obligations in the USA, and will remain focused on this throughout 2018. In particular, it will continue to monitor ongoing business activities with regard to the Dodd Frank Act 2010. In addition, particular focus will be given to the new Transaction Monitoring and Filtering Programme Regulation and the new Cybersecurity Regulation from the NYSDFS.

Financial statements

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Directors' Responsibility Statement

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

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014.

In preparing both the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law and corporate governance requirements, the Directors are also responsible for preparing the Directors' Report and the reports relating to the Directors' remuneration and corporate governance that comply with that law and the relevant listing rules of the Irish Stock Exchange and the UK Listing Authorities.

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

Each of the Directors confirm whose names and functions are listed on pages 28 to 29 confirm, to the best of their knowledge and belief, that:
- they have complied with the above requirements in preparing the financial statements;
- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of its profit for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2017;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board

Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

28 February 2018

Independent Auditors' Report

Independent auditors' report to the members of AIB Group plc

Report on the audit of the financial statements

Opinion on the financial statements of AIB Group plc (the 'Company')

In our opinion the Group and Company financial statements:
- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2017 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014 and as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:
- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Cash Flows;
- the Consolidated Statement of Changes in Equity; and
- the related notes 1 to 60, including a summary of significant accounting policies as set out in note 1.

The Company financial statements:
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes a to f, including a summary of significant accounting policies as set out in note a.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

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

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Loan impairment and restructuring; – Deferred tax asset; – Defined benefit obligations; and – Provisions for customer redress and related matters. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year are identified with .
Materiality	We determined materiality for the Group to be € 66 million which is approximately 5% of Profit Before Tax ("PBT").

Scoping	We focused our Group audit scope primarily on the audit work in five legal entities all of which were subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 93% of the Group's net assets and 96% of the Group's total operating income.
Significant changes in our approach	There were no significant changes in our approach which we feel require disclosure.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which ISAs (Ireland) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures on pages 58 to 68 to the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report on page 180 that they have carried out a robust assessment of the principal risks facing the Group and the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement on page 180 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 6.8.3(3) is materially inconsistent with our knowledge obtained in the audit; or
- the director's explanation on page 223 in the annual report as to how they have assessed the prospects of the Group and the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group and the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan impairment and loan restructuring

Key audit matter description	There is a risk that provisions for impairment of loans and receivables of € 3,345 million (2016: € 4,589 million) do not represent an appropriate estimate of the losses incurred. This includes the risk that the estimate of cashflows on restructuring cases is not appropriately measured. The determination of appropriate provisions requires a significant amount of management judgment over key assumptions and relies on available data. The Group has disclosed in note 1 (ae), as required by IAS 8, estimated information regarding the possible transition effect of the adoption of IFRS 9 from 1 January 2018. Please also refer to page 197 (Audit Committee Report), page 261(Accounting Policy – Impairment of financial assets), Note 1 (ae) – Prospective accounting changes, Note 2 – Critical accounting judgements and estimates and Note 25 – Provisions for impairment on loans and receivables.

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

We undertook an assessment of the provisioning practices to compare them with the requirements of IFRS.

We evaluated the design and tested the operating effectiveness of controls over:

– impairment identification and calculation;
– credit management processes;
– new lending;
– restructuring transactions;
– front line credit monitoring and assessment;
– collective and latent impairment models, including source data controls and calculations; and
– the work of the credit review function.

Our testing of controls included an evaluation of IT system controls, management review controls and governance controls.

In examining both sample loan cases and models, we challenged management on the judgments made regarding the application of triggers, status of restructures, collateral valuation and realisation time frames; and examined the credit risk functions analysis of data at a portfolio level.

We tested samples of the data used in the models, management adjustments, together with the calculations involved and the output from the models.

Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines derived from benchmark data, external expert reports on borrowers' business plans and enterprise valuations. This allowed us to determine whether appropriate valuation methodologies were employed and assess the objectivity of the external experts used.

We evaluated the disclosures made in the financial statements. In particular, we focused on challenging management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of loan impairment provisioning and the sensitivity of the provisions to changes in the underlying assumptions.

We have examined the disclosure required under IAS 8 of the estimated transition effect of IFRS 9.

Based on the evidence obtained, we found that the data and assumptions used by management in loan impairment provisioning are within a range we consider to be reasonable.

Deferred tax asset

Key audit matter description

The risk relates to the incorrect recognition or measurement of deferred tax assets. Deferred tax assets of € 2,907 million (2016: € 3,050 million) are recognised for unutilised tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used.

The assessment of the conditions for the recognition of a deferred tax asset is a critical judgment, given the inherent uncertainties associated with projecting profitability over a long time period.

Please refer to page 197 (Audit Committee Report), page 254 (Accounting Policy – Deferred taxation), Note 2 – Critical accounting judgements and estimates and Note 32 - Deferred taxation.

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

We have evaluated the design of controls over the preparation of financial plans and budgets.

We assessed whether the level of forecasted profits were appropriate by challenging both the growth, profitability and economic assumptions. We reviewed the model used by management to assess the likelihood of future profitability and challenged management's assessment of a range of positive and negative evidence for the projection of long-term future profitability.

We compared management's assumptions to industry norms and other economic metrics where possible. We reviewed management's analysis of their consideration of the "more likely than not" test and reviewed the sensitivity analysis disclosed.

Based on the evidence obtained, we found that the assumptions used by management in the recognition of deferred tax assets are within a range we consider to be reasonable.

Defined benefit obligations

Key audit matter description

The risk is that the recognition and measurement of defined benefit obligations of € 5,694 million (2016: € 6,153 million) is inappropriate.

There is a high degree of estimation and judgement in the calculation of retirement benefit liabilities. Material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates.

Please refer to page 197 (Audit Committee Report), page 253 (Accounting Policy – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 33 – Retirement benefits.

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

We evaluated the design of controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used in the valuation of the Group's defined benefit obligations. We also evaluated the design of the controls for determining the actuarial assumptions and the approval of those assumptions by Management.

We have utilised Deloitte actuarial specialists as part of our team to assist us in evaluating the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates.

Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating retirement benefit liabilities. We benchmarked ecomonic and demographic assumptions against market data and assessed management adjustments to market assumptions for company and scheme specific information. For scheme specific assumptions we considered the scheme rules, historic practice and other information relevant to the selection of the assumption.

We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions.

Based on the evidence obtained, we concluded that the data and assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Provisions for customer redress and related matters

Key audit matter description

The risk that the recognition, measurement and disclosure of provisions for customer redress and related matters (included within Note 39 – Provisions for liabilities and commitments of € 103 million (2016: € 153 million)) are inappropriate for allegations of mis-selling of financial products, allegations of overcharging and breach ofcontract and/or regulation including provisions for Tracker Mortgage Examinations.

The measurement of provisions for these issues is highly judgemental and involves the use of several management assumptions including the identification of relevant impacted customers and related redress costs. There is also a risk that these known and emerging issues may not be appropriately disclosed in the financial statements.

Please refer to page 197 (Audit Committee Report), page 266 (Accounting Policy – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates and Note 39 - Provisions for liabilities and commitments.

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

We have evaluated the design and tested the operating effectiveness of the Group's controls over the identification and measurement of the provision and the disclosure of exposures.

We challenged the assumptions, regarding the interpretation of contract terms, the numbers of customers affected and the costs arising from the issue, used in the provisioning models. We reviewed the correspondence with regulators and legal advice obtained. We also considered regulatory developments and management's interactions with regulators.

Given the inherent uncertainty in the calculation of conduct provisions and their judgemental nature, we evaluated the disclosures made in the financial statements. We challenged management on these disclosures, in particular that they are sufficiently clear in highlighting the exposures that remain, significant uncertainties that exist in respect of the provisions and the sensitivity of the provisions to changes in the underlying assumptions.

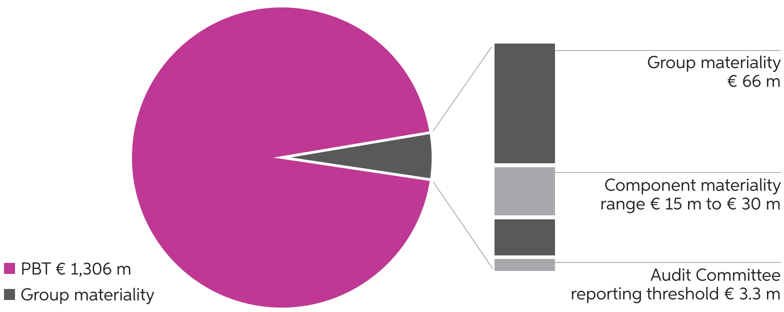
Based on the evidence obtained, we found that the assumptions used by management in measurement of provisions for customer redress and related matters are within a range we consider to be reasonable.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

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

We determined materiality for the Group to be € 66 million which is approximately 5% of Profit Before Tax ("PBT"). We have considered PBT to be the critical component for determining materiality given the continued profitability within the Group, PBT is recognised as one of the critical components within the financial statements relevant to members of the Group in assessing financial performance. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of mistatetements, complexity of the company and the reliability of control environment.



We agreed with the Board Audit Committee that we would report to them any audit differences in excess of € 3.3 million, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on material disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or by auditors within Deloitte network firms operating under our instruction ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

An overview of the scope of our audit *(continued)*

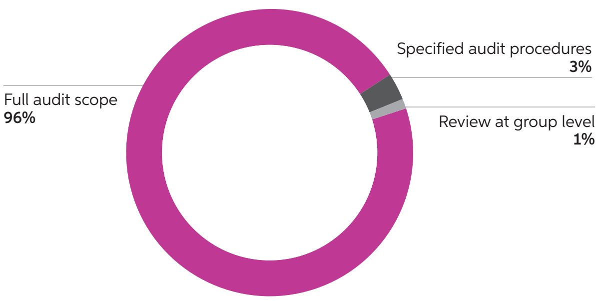
Based on that assessment, we focused our Group audit scope primarily on the audit work in AIB Group plc and the four legal entities as disclosed in Note 47 to the consolidated financial statements all of which were subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 93% of the Groups' net assets and 96% of the Group's total operating income. In addition, audits will be performed for statutory purposes for all legal entities.

We also tested the consolidation process and carried out analytical procedures to assess there were no additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

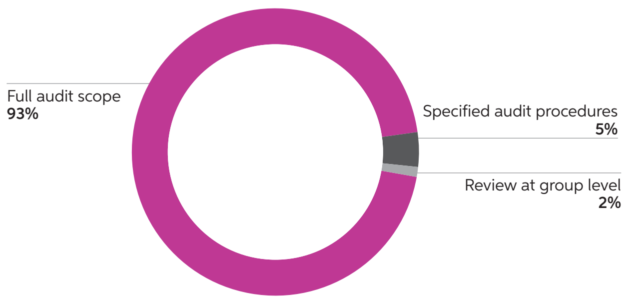
The Group audit team sent component auditors detailed instructions on audit procedures to be undertaken and the information to be reported back to the Group audit team. Regular contact was maintained throughout the course of the audit with component auditors which included holding Group planning meetings, maintaining communications on the status of the audits and continuing with a programme of planned visits designed so that the Group audit team met each significant component audit team during the year.

The levels of coverage of key financial aspects of the Group by type of audit procedures as set out below:

Total Operating Income



Net assets



Other information

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

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

We have nothing to report in this regard.

Other information *(continued)*

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

– Fair, balanced and understandable- the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s and the Company’s performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

– Audit Committee reporting- the section describing the work of the Board Audit Committee does not appropriately address matters communicated by us to the Board Audit Committee; or

– Directors’ statement of compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex- the parts of the directors’ statement required under the Listing Rules relating to the company’s compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex containing provisions specified for review by the auditor in accordance with Listing Rule 6.8.3(7) and Listing Rule 6.8.3(9) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code or the Irish Corporate Governance Annex.

Responsibilities of Directors

As explained more fully in the Directors’ Responsibility Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company’s internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's responsibilities for the audit of the financial statements *(continued)*

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the (consolidated) financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

– We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
– In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
– The Company Statement of Financial Position is in agreement with the accounting records.
– In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages 186 to 194 that, in our opinion the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 Companies Act 2014 is consistent with the company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with section 1373 of the Companies Act 2014.

Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Independent Auditors' Report

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

The Listing Rules of the Irish Stock Exchange require us to review six specified elements of disclosures in the report to shareholders by the Board of Directors' Remuneration Committee. We have nothing to report in this regard.

Other matters which we are required to address

Following the recommendation of the Board Audit Committee of Allied Irish Banks, p.l.c., we were appointed at the Annual General Meeting on 20 June 2013 to audit the financial statements for the financial year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 2013 to 2017.

Following the corporate restructure, as disclosed in Note 3 to the financial statements, we were appointed on 21 September 2017 to audit the financials statements of AIB Group plc for the financial year ended 31 December 2017 and subsequent financials periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the year ending 2017.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the company in conducting the audit.

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Gerard Fitzpatrick
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Dublin

28 February 2018

Deloitte.

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

for the financial year ended 31 December 2017

	Notes	2017 € m	2016* € m
Continuing operations			
Interest and similar income	5	**2,481**	2,611
Interest expense and similar charges	6	**(305)**	(598)
Net interest income		**2,176**	2,013
Dividend income	7	**28**	26
Fee and commission income	8	**436**	430
Fee and commission expense	8	**(45)**	(35)
Net trading income	9	**97**	71
Profit on disposal of loans and receivables	10	**32**	11
Other operating income	11	**277**	403
Other income		**825**	906
Total operating income		**3,001**	2,919
Administrative expenses	12	**(1,694)**	(1,462)
Impairment and amortisation of intangible assets	30	**(83)**	(70)
Impairment and depreciation of property, plant and equipment	31	**(58)**	(39)
Total operating expenses		**(1,835)**	(1,571)
Operating profit before provisions		**1,166**	1,348
Writeback of provisions for impairment on loans and receivables	25	**113**	294
Writeback of provisions for impairment on financial investments available for sale	14	**–**	2
Writeback of provisions for liabilities and commitments	39	**8**	2
Operating profit		**1,287**	1,646
Associated undertakings and joint venture	29	**19**	35
Profit on disposal of business	15	**–**	1
Profit before taxation from continuing operations		**1,306**	1,682
Income tax charge from continuing operations	17	**(192)**	(326)
Profit after taxation from continuing operations attributable to owners of the parent		**1,114**	1,356
Basic earnings per share			
Continuing operations	18(a)	**39.7c**	48.6c
Diluted earnings per share			
Continuing operations	18(b)	**39.7c**	47.9c

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Consolidated statement of comprehensive income

for the financial year ended 31 December 2017

	Notes	2017 € m	2016* € m
Profit for the year		**1,114**	1,356
Other comprehensive income – continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net change in property revaluation reserves		**–**	(1)
Net actuarial gains in retirement benefit schemes, net of tax	17	**24**	103
Total items that will not be reclassified subsequently to profit or loss		**24**	102
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	17	**(53)**	(168)
Net change in cash flow hedges, net of tax	17	**(203)**	106
Net change in fair value of available for sale securities, net of tax	17	**(132)**	(359)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(388)**	(421)
Other comprehensive income for the year, net of tax from continuing operations		**(364)**	(319)
Total comprehensive income for the year from continuing operations attributable to owners of the parent		**750**	1,037

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Consolidated statement of financial position

as at 31 December 2017

	Notes	2017 € m	2016* € m
Assets			
Cash and balances at central banks		**6,364**	6,519
Items in course of collection		**103**	134
Disposal groups and non-current assets held for sale	20	**8**	11
Trading portfolio financial assets	21	**33**	1
Derivative financial instruments	22	**1,156**	1,814
Loans and receivables to banks	23	**1,313**	1,399
Loans and receivables to customers	24	**59,993**	60,639
NAMA senior bonds	26	**–**	1,799
Financial investments available for sale	27	**16,321**	15,437
Financial investments held to maturity	28	**–**	3,356
Interests in associated undertakings	29	**80**	65
Intangible assets	30	**569**	392
Property, plant and equipment	31	**321**	357
Other assets		**418**	248
Current taxation		**5**	13
Deferred tax assets	32	**2,736**	2,828
Prepayments and accrued income		**459**	444
Retirement benefit assets	33	**183**	166
Total assets		**90,062**	95,622
Liabilities			
Deposits by central banks and banks	34	**3,640**	7,732
Customer accounts	35	**64,572**	63,502
Trading portfolio financial liabilities	36	**30**	–
Derivative financial instruments	22	**1,170**	1,609
Debt securities in issue	37	**4,590**	6,880
Current taxation		**68**	18
Deferred tax liabilities	32	**97**	81
Retirement benefit liabilities	33	**87**	158
Other liabilities	38	**824**	973
Accruals and deferred income		**348**	484
Provisions for liabilities and commitments	39	**231**	246
Subordinated liabilities and other capital instruments	40	**793**	791
Total liabilities		**76,450**	82,474
Equity			
Share capital	41	**1,697**	1,696
Share premium	41	**–**	1,386
Reserves		**11,421**	9,572
Total shareholders' equity		**13,118**	12,654
Other equity interests	43	**494**	494
Total equity		**13,612**	13,148
Total liabilities and equity		**90,062**	95,622

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Richard Pym	**Bernard Byrne**	**Mark Bourke**	**Sarah McLaughlin**
Chairman	Chief Executive Officer	Chief Financial Officer	Group Company Secretary

28 February 2018

Consolidated statement of cash flows

for the financial year ended 31 December 2017

	Notes	2017 € m	2016* € m
Cash flows from operating activities			
Profit before taxation for the year from continuing operations		**1,306**	1,682
Adjustments for:			
– Non-cash and other items	51	**(5)**	(266)
– Change in operating assets	51	**1,963**	6,507
– Change in operating liabilities	51	**(4,693)**	(4,588)
– Taxation refund/(paid)		**19**	(106)
Net cash (outflow)/inflow from operating activities		**(1,410)**	3,229
Cash flows from investing activities			
Purchase of financial investments available for sale	27	**(1,419)**	(2,477)[1]
Proceeds from sales and maturity of financial investments available for sale		**3,499**	3,386[2]
Additions to property, plant and equipment	31	**(26)**	(55)
Disposal of business	15	**–**	1
Disposal of property, plant and equipment		**9**	1
Additions to intangible assets	30	**(261)**	(173)
Investments in associated undertakings and joint venture		**(81)**	–
Disposal of joint venture		**76**	–
Dividends/distribution received from associated undertakings and joint venture	29	**9**	40
Net cash inflow from investing activities		**1,806**	723
Cash flows from financing activities			
Redemption of Contingent Capital Notes		**–**	(1,600)
Dividends paid on ordinary shares	19	**(250)**	–
Distribution paid on other equity interests	19	**(37)**	(37)
Interest paid on subordinated liabilities and other capital instruments		**(31)**	(191)
Net cash outflow from financing activities		**(318)**	(1,828)
Change in cash and cash equivalents		**78**	2,124
Opening cash and cash equivalents		**7,164**	5,672
Effect of exchange translation adjustments		**(184)**	(632)
Closing cash and cash equivalents	51	**7,058**	7,164

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

[1] Excludes non-cash acquisition of € 65 million.

[2] Excludes non-cash disposal consideration of € 84 million

Consolidated statement of changes in equity

for the financial year ended 31 December 2017

	Attributable to equity holders of parent											
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Merger reserve € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € 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 year												
Profit for the year	–	–	–	–	–	–	–	–	–	1,114	–	1,114
Other comprehensive income (note 17)	–	–	–	–	–	–	–	(132)	(203)	24	(53)	(364)
Total comprehensive income for year	–	–	–	–	–	–	–	(132)	(203)	1,138	(53)	750
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 44)*	–	–	–	(66)	–	–	–	–	–	66	–	–
Dividends paid on ordinary shares *(note 58)*	–	–	–	–	–	–	–	–	–	(250)	–	(250)
Distribution on other equity interests *(note 19)*	–	–	–	–	–	–	–	–	–	(37)	–	(37)
Other movements	–	–	–	–	–	–	(1)	–	–	1	–	–
Impact of corporate restructuring (note 3)												
Cancellation of share capital and share premium (note 41)	(1,696)	(1,386)	–	–	–	–	–	–	–	–	–	(3,082)
Issue of share capital by AIB Group plc	6,705	–	–	–	–	–	–	–	–	–	–	6,705
Capital reduction *(note 3)*	(5,008)	–	–	–	–	–	–	–	–	5,008	–	–
Merger reserve *(note 44)*	–	–	–	–	(3,622)	–	–	–	–	–	–	(3,622)
At 31 December 2017	1,697	–	494	1,133	(3,622)	14	14	981	257	13,249	(605)	13,612

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Consolidated statement of changes in equity

*for the financial year ended 31 December 2016**

	Attributable to equity holders of parent										
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € 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 *(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 the Group											
Capital contributions *(note 44)*	–	–	–	(361)	–	–	–	–	361	–	–
Distribution on other equity interests	–	–	–	–	–	–	–	–	(37)	–	(37)
Total contributions by and distributions to owners of the Group	–	–	–	(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]As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1 Accounting policies

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1 Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

AIB Group plc ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The consolidated financial statements for the year ended 31 December 2017 include the financial statements of AIB Group plc and its subsidiary undertakings, collectively referred to as the 'Group', where appropriate, including certain special purpose entities and the Group's interest in associates using the equity method of accounting and are prepared to the end of the financial period. The Group is and has been primarily involved in retail and corporate banking.

AIB Group plc was incorporated on 8 December 2016. At 31 December 2016, the Company had no subsidiaries and was not the parent company of the Group. On 8 December 2017, Allied Irish Banks, p.l.c. was acquired by AIB Group plc and as a result, Allied Irish Banks, p.l.c. is now a 100% subsidiary of AIB Group plc. The consolidated financial statements incorporate the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflect both entities full year's results. See basis of consolidation below. Further details are disclosed in note 3 'Corporate restructuring'.

The corresponding amounts for 2016 reflect the combined results of both entities, even though the transaction did not occur until the current year. Given that the net assets of AIB Group plc were € 1 at 31 December 2016, the comparative numbers disclosed are therefore, the 2016 consolidated financial statements of Allied Irish Banks, p.l.c. which was the parent company of the Group at that date.

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2017. The consolidated financial statements also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and the Asset Covered Securities Acts 2001 and 2007. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described.

(c) Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

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

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and the holding company's separate statements of financial position, the consolidated and the holding company's separate statements of cash flows, and the consolidated and the holding company's separate statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the 'Financial review' and the 'Risk management' sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of judgements and estimates

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

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

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 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 'Critical accounting judgements and estimates' on pages 275 to 278.

Going concern

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

Adoption of new accounting standards

During the financial year to 31 December 2017, the Group adopted amendments to standards and interpretations which had an insignificant impact on these annual financial statements.

(d) Basis of consolidation

Subsidiary undertakings

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

The Group 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 the Group loses control of a subsidiary, the Group:

(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.

The Group 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. The Group 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.

1 Accounting policies *(continued)*

(d) Basis of consolidation

Business combinations

The Group 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 the Group;
– liabilities incurred by the Group to the former owners of the acquiree; and
– the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

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.

The Group 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 statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group 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 the Group's interest in a subsidiary that do not result in a loss of control, the Group 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

The Group accounts for the acquisition of businesses or investments in subsidiary undertakings between members of the Group 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 the Group 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 (accounting policy (ab) 'Equity' - capital contributions). On impairment of the subsidiary in the parent 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 a Group level on this date.

A business combination involving entities under common control is excluded from the scope of IFRS 3 *Business Combinations* where the combining entities or businesses are controlled by the same party both before and after the combination. In accounting for common control business combinations, the Group, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making this judgement, the Group considers the requirements in IFRSs dealing with similar and related issues. In addition, the Group reviews the

1 Accounting policies *(continued)*

(d) Basis of consolidation

Common control transactions *(continued)*

most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards in so far as these do not conflict with the IFRS framework. In this regard, the Group takes into account FRS 102 *'The Financial Reporting Standard applicable in the UK and Republic of Ireland'* on group reconstructions and merger accounting as issued by the Financial Reporting Council. Accordingly, the consolidated financial statements incorporate the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflect both entities full year's results.

Details of the acquisition of Allied Irish Banks, p.l.c. by AIB Group plc and the accounting as a common control transaction are set out in note 3 'Corporate restructuring'.

Associated undertakings

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group 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 the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

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

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

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

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

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 the Group's interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

1 Accounting policies *(continued)*

(e) Foreign currency translation

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

Transactions and balances

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

Foreign operations

The results and financial position of all Group 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, the Group'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.

(f) Interest income and expense recognition

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

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

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

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

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

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

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(g) 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.

(h) 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 the Group 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.

(i) 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)*

(j) Employee benefits

Retirement benefit obligations

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

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

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. 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 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 and external legal advice obtained.

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

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

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

Short-term employee benefits

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

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(j) Employee benefits *(continued)*

Termination benefits

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

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

(k) 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.

(l) 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 the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

(m) Financial assets

The Group 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 the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

1 Accounting policies *(continued)*

(m) Financial assets *(continued)*

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 the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Available for sale

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

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. If the Group 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.

Any held to maturity investments reclassified as available for sale are transferred at the carrying value on the date of transfer and are subsequently measured at fair value and accounted for as available for sale.

Parent Company financial statements: Investment in subsidiary and associated undertakings

The Company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

Dividends from a subsidiary or an associated undertaking are recognised in the income statement when the Company's right to receive the dividend is established.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(n) Financial liabilities and equity

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

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

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

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.

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

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

(o) 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.

(p) Determination of fair value of financial instruments

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

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

1 Accounting policies *(continued)*

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

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

Quoted prices in active markets

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

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

Valuation techniques

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

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

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

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

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

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

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

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

Transfers between levels of the fair value hierarchy

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

(q) 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 the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell (‘reverse repos’), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

(r) NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA. In addition, on the acquisition of EBS and the Anglo deposit business in 2011, NAMA bonds were part of the acquired assets. These bonds were 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 (m), (f) and (t)).

These bonds were fully repaid during 2017.

1 Accounting policies *(continued)*

(s) 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.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

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

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

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

Embedded derivatives

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

Hedging

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

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

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

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

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

1 Accounting policies *(continued)*

(s) Derivatives and hedge accounting *(continued)*

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

Fair value hedge accounting

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

Cash flow hedge accounting

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

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

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 Accounting policies *(continued)*

(t) Impairment of financial assets

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

Impairment

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

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

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i adverse changes in the payment status of borrowers in the portfolio; and
    ii national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

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

Collective evaluation for impairment

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

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

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

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

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

Past due loans

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. ‘Past due days’ is a term used to describe the cumulative numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower:
- has breached an advised limit;
- has been advised of a limit lower than the then current 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, the Group will modify the original terms of a customer’s loan either as part of the on-going relationship with the customer or arising from changes in the customer’s circumstances such as when that customer is unable to make the agreed original contractual repayments.

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk sections 3.1 and 3.2.

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

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

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

Non-forbearance renegotiation

Occasionally, the Group 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 Accounting policies *(continued)*

(u) Collateral and netting

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

Collateral

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

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

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

Netting

Financial assets and financial liabilities are offset and the net amount reported 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.

(v) 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, Allied Irish Banks, p.l.c. (the principal operating company) issues financial guarantees to other Group entities. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the year-end reporting date. Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

1 Accounting policies *(continued)*

(w) 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.

The Group uses the following useful lives when calculating depreciation:

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

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

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

(x) 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 the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

(y) 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(z) 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.

(aa) 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, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

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

Legal claims and other contingencies

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

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

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

1 Accounting policies *(continued)*

(ab) 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 the Group.

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

Share capital

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

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 they become irrevocable having already been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

Dividends declared after the end of the reporting date are disclosed in note 58.

Other equity interests

Other equity interests include 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 43). Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

Warrants to acquire a fixed number of the company shares for a fixed amount of currency are classified as equity instruments and are recognised on initial recognition at the fair value of consideration received.

Other capital reserves

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

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 44). 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 (d) non-refundable receipts from the Irish Government and the NPRFC.

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 repaid these bonds, the proceeds received were deemed to be distributable and the relevant amount was transferred from the capital contribution account to revenue reserves. All NAMA senior bonds were fully repaid at 31 December 2017.

The Group issued contingent convertible capital notes to the Irish Government (note 40) 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 are distributable. These are included in revenue reserves.

1 Accounting policies *(continued)*

(ab) Equity *(continued)*

Capital redemption reserves

The capital redemption reserves arose in 2015 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.

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.

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.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from issued share capital, share premium and capital redemption reserves following Irish High Court approval. They also include amounts arising from the capital reduction which followed the ‘Scheme of Arrangement’ undertaken by the Group in December 2017 (note 3).

The cumulative surplus/deficit within the defined benefit pension schemes and other appropriate adjustments are included in/offset against revenue reserves.

Foreign currency translation reserves

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

Merger reserve

Under the Scheme of Arrangement (“the Scheme”) approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc (‘the Company’), was introduced as the holding company of AIB Group. AIB Group plc is a recently incorporated public limited company registered in Ireland. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme was accounted for as a merger reserve (note 44). Impairment losses arising from AIB Group plc’s investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

In the consolidated financial statements of AIB Group plc, the transaction was accounted for under merger accounting. Accordingly, the carrying value of the investment in Allied Irish Banks, p.l.c. by AIB Group plc is eliminated against the share capital and share premium account in Allied Irish Banks, p.l.c. and the merger reserve in AIB Group plc resulting in a negative merger reserve.

1 Accounting policies *(continued)*

(ac) 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.

(ad) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group 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 the Group, the head of each being a member of the 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.

(ae) Prospective accounting changes

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

Annual improvements cycles/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 and 2015-2017 cycle. Whilst certain of these have yet to be endorsed by the EU, they are expected to be effective from either 1 January 2018 or 1 January 2019, depending on the amendment.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Effective date: Annual periods beginning on or after 1 January 2018.

IFRIC 23 Uncertainty over Income Tax Treatments

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

The Interpretation specifically addresses the following:

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

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

IFRIC 22 and IFRIC 23 are expected to have an insignificant effect on the financial statements.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 9 *Financial Instruments*

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

Classification and measurement

- Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income and fair value through profit and loss;
- A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI");
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision;
- There is no separation of an embedded derivative where the instrument is a financial asset;
- Equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however, dividends from such investments will continue to be recognised in profit or loss;
- The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

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.

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.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 9 *Financial Instruments*

Assessment of IFRS 9 impacts for AIB Group

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

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

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

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

The Group will apply IFRS 9 as issued at 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

Based on assessments undertaken to date, the total estimate of the possible impact net of tax on transition is € 295 million representing a reduction in revenue reserves and other comprehensive income, principally due to the impairment requirements. The estimated possible impact on capital is discussed in the 'Capital' section of this report on page 55.

The Group will continue to refine this estimate during the transition period as new processes and systems are deployed and embedded. The Group will report formally on its IFRS 9 implementation in the first half year 2018.

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

Classification and measurement

Classification and measurement of financial assets will not result in any significant changes for the Group.
In general:

- loans and advances 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 ("FVOCI"); and
- equity securities will continue to be measured at fair value, however, for one equity instrument held for strategic purposes, the Group has elected to present changes in fair value in other comprehensive income. All other equity securities held at 31 December 2017 will be measured under IFRS 9 at fair value through profit or loss. Under IAS 39, all equity securities, apart from a small number held in the trading book, were classified as available for sale with fair value movements reported in 'other comprehensive income'.

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

In relation to SPPI testing which was carried out on the financial instruments portfolio, a small number of instruments, mainly loans and receivables to customers, failed 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 immaterial.

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

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

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

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 9 *Financial Instruments*

Assessment of IFRS 9 impacts for AIB Group

Impairment

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

The key policy principles are summarised below.

Significant increase in credit risk

The Group's assessment of significant increase in credit risk is determined based on both quantitative and qualitative criteria.

The quantitative criteria measure the change in credit risk arising from changes in the probability of default since origination. The Group has determined thresholds for significant increase in credit risk on both a percentage and absolute change in lifetime probability of default ("PD") relative to the PD at initial recognition. The Group will periodically review the quantitative criteria to ensure that they remain valid.

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

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

Definition of Default

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

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

Inputs to measurement of Expected Credit Losses

The key inputs to the models in the measurement of expected credit losses ('ECLs') are:

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

Models have been developed for the following key portfolios:

– Mortgages;
– Retail (e.g. Loans, Overdrafts, Credit Cards, Asset Finance);
– Non-Retail (e.g. CRE, SME, Corporate); and
– Bank and Sovereign

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

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

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 9 *Financial Instruments*

Assessment of IFRS 9 impacts for AIB Group

Forward looking macroeconomic scenarios

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

Low credit risk portfolios

Financial assets held within the bank and sovereign portfolios are practically all investment grade. The standard contains a practical expedient that, if a financial instrument has low credit risk, then an entity is allowed to assume at the reporting date that no significant increase in credit risk has occurred. Accordingly, the Group has recognised an impairment allowance based on 12-month ECLs for such low risk instruments.

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

Disclosures/other

A significant suite of reporting requirements have been developed for statutory, regulatory and management reporting in line with the requirements of IFRS 9 and the various regulatory bodies. In so far as possible, definitions of data items within reports have been aligned so as to assist comparability. In addition, a suite of transitional disclosure templates have been prepared and will be populated and published as relevant during 2018.

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

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

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

In October 2017, the IASB issued an amendment to IFRS 9 titled 'Prepayment Features with Negative Compensation'. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow an entity to measure certain prepayable financial assets with so-called negative compensation (also known as two way break clauses) at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Prior to this amendment, financial assets with this negative compensation feature would have failed the SPPI test and be mandatorily measured at fair value through profit or loss. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

The amendment will be effective for annual periods beginning 1 January 2019, with early adoption permitted. The Group expects to early adopt this amendment on 1 January 2018 which is the date of transition to IFRS 9. The amendment will not have a material impact on the Group's consolidated financial statements.

The amendments have yet to be endorsed by the EU.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, which was issued in May 2014 including amendments/clarifications to IFRS 15 issued in September 2015 and April 2016 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.

A Group-wide project was rolled out where the various types of revenue streams were identified and analysed. However, due to the nature of these revenue streams, no significant change to the currently reported amounts in the Group's financial statements were highlighted as a result of the analysis. Accordingly, it is expected that any impact will be minimal on retained earnings on transition at 1 January 2018.

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

Effective date: Annual periods beginning on or after 1 January 2018.

IFRS 16 *Leases*

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

IFRS 16 will impact the Group as it is the lessee of a number of properties which are classified under IAS 17 as operating leases. The Group is currently assessing its impact, and it is estimated that assets and liabilities in the statement of financial position will increase by approximately € 0.5 billion to € 0.6 billion on implementation. Whilst the overall impact of IFRS 16 will be neutral on the income statement over the life a lease, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years.

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

On transition, the Group will apply this standard retrospectively for leases previously classified as operating leases and will recognise the cumulative effect of applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application. Lease liabilities will be measured at the present value of the remaining lease payments discounted at the Group's incremental borrowing rate at the date of initial application. The right-of-use assets will be measured at an amount equal to the lease liabilities. For right-of-use assets that are impaired on transition, the Group will avail of the practical expedient allowed by the standard and rely on its assessment of whether leases are onerous as an alternative to performing an impairment review. Accordingly, it will adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

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

2 Critical accounting judgements and estimates

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

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

Loan impairment

The Group's accounting policy for impairment of financial assets is set out in accounting policy (t) in note 1. The provisions for impairment on loans and receivables at 31 December 2017 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 the Group is exposed and other external factors such as legal and regulatory requirements.

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and 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 the Group's segments assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the Group Credit Committee on a quarterly basis with final Group levels being approved by the Audit Committee and the Board.

Key assumptions underpinning the Group'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, the Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

Specific provisions

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in the financial statements is intended to cover the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the 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 the Group'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 please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 90 and 91 of the Risk management section of this report.

The property and construction loan portfolio continues to have a high level of provisions following the downturn in both the Irish and UK economies during the financial crisis. 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.

2 Critical accounting judgements and estimates *(continued)*

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 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 the Group's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to a greater element of estimation due to the speed of change in the economies in which the Group operates. For further details of the potential impact of an increase in the emergence period, please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 90 and 91 of the Risk management section of this report.

Forbearance

The Group's accounting policy for forbearance is set out in accounting policy (t) 'Impairment of financial assets' in note 1 which incorporates forbearance.

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

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (l) in note 1. Details of the Group'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 the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:
– AIB as a Pillar Bank, with a strong Irish franchise;
– the absence of any expiry dates for Irish and UK tax losses;
– turnaround evident in the financial performance over the past four years and the continuing growth in the Irish economy since 2014;
– external forecasts for Ireland, and the UK economies which indicate continued economic growth through the period of the medium–term financial plans;
– the success of the IPO in June 2017, reflecting market confidence in the strategy of the Group and its long term financial prospects;
– introduction of the bank resolution framework under the BRRD and the establishment of AIB Group plc as the new holding company of the Group provides greater confidence in relation to the future viability of Allied Irish Banks, p.l.c. (as the principal operating bank subsidiary) as there are now effective tools in place that should facilitate its recapitalisation in a future crisis; and
– the non-enduring nature of the loan impairments at levels which resulted in the losses in prior years (2009-2013).

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(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 the Group's equity;
– 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
– 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.

The Group's strategy in 2012 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 2018 to 2020 undertaken by the Group in the second half of 2017. 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, the Group 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 Group companies against which to use the tax losses. In this regard, the Group 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 2018 to 2020. Assuming a sustainable market return on equity (c.8.5%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take less than 20 years for the deferred tax asset (€ 2.8 billion) to be utilised. Furthermore, under this scenario, it is expected that 51% of the deferred tax asset will be utilised within 10 years and 89% utilised within 15 years (2016: 52%). In 2016, it was estimated that 83% would be utilised within 20 years.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further 4 years. The Group'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, the Group 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 the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not. The deferred tax asset for unutilised tax losses in the UK amounts to £ 111 million at 31 December 2017.

However, for certain other subsidiaries and branches, the Group has also concluded that it is more likely than not that there will be insufficient profits to support the recognition of deferred tax assets. The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,907 million of which € 2,781 million relates to Irish tax losses and € 126 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. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Determination of fair value of financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy (p) in note 1. The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

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

2 Critical accounting judgements and estimates *(continued)*

Retirement benefit obligations

The Group's accounting policy for retirement benefit schemes is set out in accounting policy (j) in note 1.

The Group 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 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, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group's Actuary which include price inflation, pensions in payment increases and the longevity of scheme members. The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used.

In early 2017 the Group, 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 for the Group's main Irish schemes. 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; the Bank's financial circumstances and ability to pay; the views of the Trustees; the Bank'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 the Group's defined benefit schemes are set out in note 33 to the financial statements, together with a sensitivity analysis of the schemes' liabilities to changes in those assumptions.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number (aa) 'Non-credit risk provisions' in note 1.

The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the Group's liabilities and commitments are shown in note 39 to the financial statements.

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.

Basis of consolidation

For third party acquisitions, assets acquired and liabilities assumed are measured at their acquisition date fair values.

In accounting for common control business combinations, the Group, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making this judgement, the Group considers the requirements in IFRSs dealing with similar and related issues.

This approach was applied in relation to AIB Group plc becoming the holding company of the Group. The Group has concluded that the consolidated financial statements should incorporate the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflect both entities full year's results.

3 Corporate restructuring

The Single Resolution Board's preferred resolution strategy for the AIB Group consists of a single point of entry via a holding company. Implementation of this preferred resolution strategy would require the introduction of a new AIB Group holding company.

In order to comply with this requirement, Allied Irish Banks, p.l.c. undertook a corporate restructuring which comprised three principal elements:

(a) Scheme of Arrangement;

(b) Admission to Listing; and

(c) AIB Group plc capital reduction.

(a) Scheme of Arrangement

The Scheme of Arrangement ('the Scheme') involved the establishment of a new group holding company, AIB Group plc ('the Company'), directly above Allied Irish Banks, p.l.c.

The Company was incorporated on 8 December 2016 as a public limited company under the Companies Act 2014 under the name RPML 1966 Holdings plc. It changed its name to AIB Group plc on 5 September 2017. At 31 December 2016, the Company had no subsidiaries.

Acquisition of Allied Irish Banks, p.l.c. by AIB Group plc

On 8 December 2017, Allied Irish Banks, p.l.c. was acquired by AIB Group plc.

Under a Scheme of Arrangement, approved by the shareholders of Allied Irish Banks, p.l.c. at an Extraordinary General Meeting held on 3 November 2017 and sanctioned by the High Court on 8 December 2017, 2,714,381,237 Allied Irish Banks, p.l.c. ordinary shares of nominal value € 0.625 per share were cancelled and AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the shareholders of Allied Irish Banks, p.l.c. for the shares cancelled. On the same date, Allied Irish Banks, p.l.c.. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc. Allied Irish Banks p.l.c. is now a 100% subsidiary of AIB Group plc.

The Scheme of Arrangement was accounted for as follows in respect of AIB Group plc:

Company financial statements

The ordinary shares in Allied Irish Banks, p.l.c. that were acquired by AIB Group plc are reflected in the standalone statement of financial position of AIB Group plc at the book value of those shares at 8 December 2017 based on the company statement of financial position of Allied Irish Banks, p.l.c. i.e. the net asset value ('NAV amount') having satisfied the conditions of IAS 27, paragraph 13.

In accordance with the Companies Act 2014, Section 72, the difference between the NAV amount and the aggregate nominal value of new ordinary shares issued by AIB Group plc is treated as an unrealised profit, a 'merger reserve'. As required by Section 72, no share premium is created.

The Company's financial statements are from the period of incorporation on 8 December 2016 to 31 December 2017.

Consolidated financial statements

AIB Group plc was set up for the purpose of meeting regulatory requirements designed to facilitate future bank resolutions. The introduction of AIB Group plc as the new holding company with exactly the same shareholders as the previous parent, Allied Irish Banks, p.l.c. is a common control transaction. This business combination has been presented similar to that for a reverse acquisition where the existing parent, Allied Irish Banks, p.l.c. is determined to be the accounting acquirer. The consolidated financial statements incorporate the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflect both entities full year's results.

Whilst the consolidated financial statements are issued under the name of the legal parent, AIB Group plc, these are, in effect, a continuation of the financial statements of the legal subsidiary, Allied Irish Banks, p.l.c. with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree, AIB Group plc. Although AIB Group plc was only incorporated on 8 December 2016 and did not become a Group company until 8 December, 2017, the comparative numbers for the year to 31 December 2016 disclosed in these consolidated financial statements are those of the accounting acquirer, Allied Irish Banks, p.l.c.

3 Corporate restructuring *(continued)*

Consolidated financial statements

In adopting this accounting approach, which is in accordance with IFRS as adopted by the EU, the Company has applied the exemption in Section 118(4) of the Companies Act 2014 to for the purpose of presenting pre-acquisition distributable reserves of the acquired legal subsidiary as revenue profits and losses in the consolidated financial statements. This exemption applies to shares in a subsidiary held by a holding company where the shares were acquired in a transaction to which Section 72 of the Companies Act 2014 applies.

(b) Admission to Listing

The ordinary shares of AIB Group plc were admitted to the main markets for listed securities on the Irish Stock Exchange and the London Stock Exchange on 11 December 2017 following the Scheme of Arrangement becoming effective (note 3). The listing by Allied Irish Banks, p.l.c. on the Irish and London Stock Exchanges which had followed the IPO in June 2017 was cancelled on this date. See note 52 'Related Party Transactions – Relationship with the Irish Government'.

(c) AIB Group plc capital reduction

AIB Group plc received High Court approval for a capital reduction. The capital reduction was necessary in order to create distributable reserves in AIB Group plc entity which are required for, amongst other things, to pay dividends to shareholders.

This involved the reduction of the nominal value of the ordinary shares from € 2.47 per share to € 0.625 per share. The capital reduction which created € 5,008 million in distributable reserves became effective on 14 December 2017.

Warrant agreement

A new warrant instrument (the "AIB Group plc Warrant Instrument") was issued pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. This became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 3). Allied Irish Banks, p.l.c. had issued warrants to the Minister on 4 July 2017 to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c. in accordance with the terms of the Warrant Agreement approved by shareholders in December 2015. These warrants issued by Allied Irish Banks, p.l.c. were cancelled on 8 December 2017 (note 52) 'Related party transactions'.

4 Segmental information

Segment overview

From 1 January 2017, following realignment of Leadership Team responsibilities, the Group is being managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. The performance for 2016 has been restated to reflect this revised structure.

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 the Group'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")

RCB is Ireland's leading provider of retail and commercial banking products and services based on its market shares across key products with approximately 2.4 million personal 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 physical distribution network of any bank in Ireland, comprising 297 locations as well as a partnership with An Post through which it offers certain banking services at approximately 1,000 locations in Ireland. Complementing its physical infrastructure, RCB is the number one digital channel distribution in Ireland with approximately 1.3 million active digital customers, with over 60% of key products sold via digital channels.

Wholesale, Institutional & Corporate Banking* ("WIB")

WIB provides wholesale, institutional and corporate banking services to the Group's largest customers and customers requiring specific sector or product expertise. WIB serves customers through a relationship driven model with a sector specialist focus comprising corporate banking, real estate finance, energy, climate action and infrastructure. 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 and international finance activities.

AIB UK*

AIB UK offers retail and business banking 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). AIB UK has over 322 thousand retail, corporate and business customers with over 119 thousand active digital customers.

First Trust Bank is a long established bank in Northern Ireland which now operates out of 15 branches including six co-located business centres. It provides full banking services, including mobile, online, post office and traditional banking, to business and personal customers.

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 in local geographies. Banking services include: lending; treasury; trade facilities; asset finance; invoice discounting and day-to-day transactional banking.

Group

The Group segment comprises wholesale treasury activities, Group control and support functions. Treasury manages the Group's liquidity and funding position and provides customer treasury services and economic research. The Group control and support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs.

*Within the above segments, the Group has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group ("FSG"), a 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. The Group is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

4 Segmental information *(continued)*

	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	Total
								31 December 2017
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment								
Net interest income	1,435	267	238	236	2,176	–	–	2,176
Other income	533	49	70	139	791	–	34[3]	825
Total operating income	1,968	316	308	375	2,967	–	34	3,001
Personnel expenses	(414)	(58)	(77)	(162)	(711)	–	(79)[4][5]	(790)
General and administrative expenses	(278)	(33)	(52)	(238)	(601)	(105)	(198)[5] - [9]	(904)
Depreciation, impairment and amortisation	(77)	–	(3)	(36)	(116)	–	(25)[5][9]	(141)
Total operating expenses	(769)	(91)	(132)	(436)	(1,428)	(105)	(302)	(1,835)
Operating profit/(loss) before provisions	1,199	225	176	(61)	1,539	(105)	(268)	1,166
Bank levies and regulatory fees	–	–	2	(107)	(105)	105	–	–
Writeback/(provisions) for impairment on loans and receivables	133	(2)	(18)	–	113	–	–	113
Writeback/(provisions) for liabilities and commitments	10	(2)	–	–	8	–	–	8
Total writeback/(provisions)	143	(4)	(18)	–	121	–	–	121
Operating profit/(loss)	1,342	221	160	(168)	1,555	–	(268)	1,287
Associated undertakings and joint venture	14	2	3	–	19	–	–	19
(Loss)/profit on disposal of property	(1)	–	1	–	–	–	–	–
Profit/(loss) before taxation from continuing operations	1,355	223	164	(168)	1,574	–	(268)	1,306

[1]In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 36.

[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 costs;

[6]IPO and capital related costs;

[7]Property strategy costs;

[8]Customer redress; and

[9]IFRS 9 costs.

For further information on these items see pages 36 to 52.

4 Segmental information *(continued)*

	RCB	WIB	AIB UK	Group	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	2016 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
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 of 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 business	–	–	1	–	1	–	–	1
Profit/(loss) before taxation from continuing operations	1,247	201	193	(166)	1,475	–	207	1,682

[1]In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial separately in the 'Operating and Financial Review' - see page 36.

[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 transfer of financial instruments and profit on disposal of Visa Europe;

[4]Termination benefits;

[5]Restitution and restructuring costs; and

[6]Capital related costs.

For further information on these items see pages 36 to 41.

4 Segmental information *(continued)*

Other amounts – statement of financial position

2017	RCB	WIB	AIB UK	Group	Total
		€ m	€ m	€ m	€ m
Loans and receivables to customers	**41,422**	**10,275**	**8,238**	**58**	**59,993**
Customer accounts	**46,552**	**5,654**	**10,182**	**2,184**	**64,572**

2016	RCB	WIB	AIB UK	Group	Total
		€ 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

Geographic information - continuing operations[1][2] (2017)	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Gross external revenue	**2,621**	**374**	**6**	**3,001**
Inter-geographical segment revenue	**27**	**(24)**	**(3)**	**–**
Total revenue	**2,648**	**350**	**3**	**3,001**

Geographic information - continuing operations[1][2] (2016)	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	2,399	509	11	2,919
Inter-geographical segment revenue	188	(185)	(3)	–
Total revenue	2,587	324	8	2,919

Revenue from external customers comprises interest and similar income and interest expense and similar charges (notes 5 and 6), and all other items of income (notes 7 to 11).

Geographic information (2017)	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Non-current assets[3]	**844**	**45**	**1**	**890**

Geographic information (2016)	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[3]	717	31	1	749

[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 the Risk management section.

[3]Non-current assets comprise intangible assets and property, plant and equipment.

5 Interest and similar income

	2017 € m	2016 € m
Interest on loans and receivables to customers	**2,166**	2,248
Interest on loans and receivables to banks	**16**	18
Interest on NAMA senior bonds	**2**	11
Interest on financial investments available for sale	**154**	182
Interest on financial investments held to maturity	**130**	131
	2,468	2,590
Negative interest on liabilities	**13**	21
Interest and similar income	**2,481**	2,611

Interest income includes a credit of € 191 million (2016: a credit of € 193 million) transferred from other comprehensive income in respect of cash flow hedges and is included within 'Interest on loans and receivables to customers'.

Interest income reported above, calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to € 100 million (2016: € 140 million). Further details are set out in page 137 'Additional credit risk information - Forbearance'.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income, rather than as offset against interest expense.

6 Interest expense and similar charges

	2017 € m	2016 € m
Interest on deposits by central banks and banks	**8**	8
Interest on customer accounts	**229**	341
Interest on debt securities in issue	**33**	50
Interest on subordinated liabilities and other capital instruments	**31**	199
	301	598
Negative interest on assets	**4**	–
Interest expense and similar charges	**305**	598

Interest expense includes a charge of € 72 million (2016: a charge of € 75 million) transferred from other comprehensive income in respect of cash flow hedges and is included within 'Interest on customer accounts'.

Included within interest expense is a charge of € 7 million (2016: a charge of € 17 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense, rather than as offset against interest income.

Notes to the consolidated financial statements

7 Dividend income

Dividend income amounting to € 28 million (2016: € 26 million) relates to income from equity shares held as financial investments available for sale of which € 25 million relates to NAMA subordinated bonds (2016: € 25 million).

8 Net fee and commission income

	2017 € m	2016 € m
Retail banking customer fees	**370**	364
Credit related fees	**41**	41
Insurance commissions	**25**	25
Fee and commission income	**436**	430
Fee and commission expense[1]	**(45)**	(35)
	391	395

[1]Fee and commission expense includes ATM expenses of € 5 million (2016: € 5 million) and credit card commissions of € 29 million (2016: € 18 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 5) or interest expense and similar charges (note 6).

9 Net trading income

	2017 € m	2016 € m
Foreign exchange contracts	**56**	55
Interest rate contracts and debt securities[1]	**48**	13
Credit derivative contracts	**(4)**	–
Equity securities, index contracts and warrants[2]	**(3)**	3
	97	71

[1]Includes a gain of € 21 million (2016: gain of € 1 million) in relation to XVA adjustments.

[2]Includes € 2 million mark to market loss on equity warrants (2016: gain of € 3 million).

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2016: Nil).

10 Profit on disposal of loans and receivables

The following table sets out details of the profit on disposal of loans and receivables:

	2017 € m	2016 € m
Profit/(loss) on disposal of loans and receivables to customers	**31**	(6)
Provision writeback on NAMA loan transfers	**1**	17
Total	**32**	11

11 Other operating income

	2017 € m	2016 € m
Profit on disposal of available for sale debt securities	18	90
Loss on termination of hedging swaps[1]	(11)	(59)
Profit on disposal of available for sale equity securities[2]	48	272
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds (note 26)	4	10
Net gains on buy back of debt securities in issue	–	1
Realisation/re-estimation of cash flows on restructured loans[3]	213	85
Miscellaneous operating income[4]	5	4
	277	403

[1]The majority of the loss on termination of hedging swaps relates to the disposal of available for sale debt securities. In addition, it includes a € 1 million charge transferred from other comprehensive income in respect of cash flow hedges (2016: € 2 million).

[2] Includes € 32 million gain on part disposal of NAMA subordinated bonds (2016: € 272 million relates to the disposal of the equity interest in Visa Europe).

[3]See page 150 in the 'Risk management' section for information on realisation/re-estimation of cash flows on restructured loans.

[4]Miscellaneous operating income includes:

- Foreign exchange gains € 1 million (2016: a gain of € 1 million).

12 Administrative expenses

	2017 € m	2016 € m
Personnel expenses:		
Wages and salaries	567	563
Termination benefits[1]	70	24
Retirement benefits[2]	79	79
Social security costs	62	59
Other personnel expenses[3]	12	17
Total personnel expenses	790	742
General and administrative expenses:		
Bank levies and regulatory fees	105	112
Other general and administrative expenses	799	608
Total general and administrative expenses	904	720
	1,694	1,462

[1]In 2017, a charge of € 70 million (2016: € 24 million) was made to the consolidated income statement in respect of termination benefits arising from the voluntary severance programme in operation in the Group.

[2]Comprises a defined contribution charge of € 72 million (2016: € 71 million); a credit of € 1 million relating to defined benefit expense (2016: charge of € 2 million); and a long term disability payments charge of € 8 million (2016: € 6 million). For details of retirement benefits, see note 33.

[3]Other personnel expenses include staff training, recruitment and various other staff costs.

Personnel expenses of € 33 million (2016: € 22 million) were capitalised as part of the cost of intangible assets.

The average number of employees for 2017 and 2016 is set out in note 54 'Employees'.

13 Share-based compensation schemes

Employees' Profit Sharing Scheme

The Group operates 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 the Company and certain subsidiaries are 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% of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008.

Income statement expense

The expense arising from share-based payment transactions amounted to Nil for the financial year ended 31 December 2017 (2016: Nil).

14 Writeback of provisions for impairment on financial investments available for sale

	2017 € m	2016 € m
Debt securities *(note 27)*	**–**	2
	–	2

15 Profit on disposal of business

Profit on disposal of business amounted to Nil (2016: € 1 million).

16 Auditors' fees

The disclosure of Auditors' fees is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of fees paid/payable to the Group Auditors only (Deloitte Ireland) for services relating to the audit of the Group financial statements in the categories set out below. Both years presented are on that basis.

	2017 € m	2016 € m
Auditors' fees *(excluding VAT)*:		
Audit of Group financial statements	**2.2**	2.0
Other assurance services	**5.6**[(1)]	0.7
Other non-audit services	**0.9**	1.9
Taxation advisory services	**–**	–
	8.7	4.6

[(1)]Deloitte were appointed as Reporting Accountant for the Group with regard to the applications of listing to the Main Securities Market of the Irish Stock Exchange. All work was completed in 2017 and fees paid are included as part of 'Other assurance services'.

All the above amounts were paid to the Group Auditors for services provided to subsidiaries of the Group including Allied Irish Banks, p.l.c.

Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. These fees include assignments where the Auditors, in Ireland, provides assurance to third parties.

The Group policy on the provision of non-audit services to the parent and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Board Audit Committee of the engagement of the Auditors for non-audit work.

The Board Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows fees paid to overseas auditors (excluding Deloitte Ireland):

	2017 € m	2016 € m
Auditors' fees excluding Deloitte Ireland *(excluding VAT)*	**0.41**	0.54

17 Taxation

	2017 € m	2016 € m
AIB Group plc and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the year	(10)	(98)
Adjustments in respect of prior years	–	–
	(10)	(98)
Foreign tax		
Current tax on income for the year	(26)	(32)
Adjustments in respect of prior years	(4)	16
	(30)	(16)
	(40)	(114)
Deferred taxation		
Origination and reversal of temporary differences	(13)	(28)
Adjustments in respect of prior years	(2)	5
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(137)	(97)
Impact of change in tax legislation on deferred tax asset[1]	–	(92)
	(152)	(212)
Total tax charge for the year	**(192)**	(326)
Effective tax rate	**14.7%**	19.4%

Factors affecting the effective tax rate

The following table explains the difference 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:

	2017		2016	
	€ m	%	€ m	%
Profit before tax from continuing operations	1,306		1,682	
Tax charge at standard corporation tax rate in Ireland of 12.5%	(163)	12.5	(210)	12.5
Effects of:				
Foreign profits taxed at other rates	(10)	0.8	(15)	0.9
Expenses not deductible for tax purposes	(25)	1.8	(23)	1.4
Exempted income, income at reduced rates and tax credits	3	(0.2)	1	(0.1)
Share of results of associates shown post tax in the income statement	3	(0.2)	3	(0.2)
Income taxed at higher rates	(12)	0.9	(63)	3.7
(Deferred tax assets not recognised)/reversal of amounts previously not recognised	18	(1.4)	60	(3.6)
Other differences	–	–	2	(0.1)
Change in tax rates[1]	–	–	(10)	0.6
Adjustments to tax charge in respect of prior years	(6)	0.5	21	(1.2)
Impact of change in tax legislation on deferred tax asset[1]	–	–	(92)	5.5
Tax charge	**(192)**	**14.7**	(326)	19.4

[1]See note 32 ‘Deferred taxation’.

17 Taxation *(continued)*

Analysis of selected other comprehensive income

Continuing operations	2017 Gross €m	2017 Tax €m	2017 Net €m	2016 Gross €m	2016 Tax €m	2016 Net €m
Property revaluation reserves						
Net change in property revaluation reserves	**–**	**–**	**–**	–	(1)	(1)
Total	**–**	**–**	**–**	–	(1)	(1)
Retirement benefit schemes						
Actuarial gains in retirement benefit schemes	**25**	**(1)**	**24**	127	(24)	103
Total	**25**	**(1)**	**24**	127	(24)	103
Foreign currency translation reserves						
Change in foreign currency translation reserves	**(53)**	**–**	**(53)**	(168)	–	(168)
Total	**(53)**	**–**	**(53)**	(168)	–	(168)
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	**(118)**	**16**	**(102)**	(116)	15	(101)
Fair value (losses)/gains taken to other comprehensive income	**(116)**	**15**	**(101)**	235	(28)	207
Total	**(234)**	**31**	**(203)**	119	(13)	106
Available for sale securities reserves						
Fair value (gains) transferred to income statement	**(66)**	**7**	**(59)**	(362)	99	(263)
Fair value (losses) taken to other comprehensive income	**(82)**	**9**	**(73)**	(116)	20	(96)
Total	**(148)**	**16**	**(132)**	(478)	119	(359)

Notes to the consolidated financial statements

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 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.

(a) Basic	2017 € m	2016 € m
Profit attributable to equity holders of the parent from continuing operations	1,114	1,356
Distribution on other equity interests	(37)	(37)
Profit attributable to ordinary shareholders of the parent from continuing operations	1,077	1,319
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	2,714.4	2,714.4
Earnings per share from continuing operations – basic	EUR 39.7c	EUR 48.6c

(b) Diluted	2017 € m	2016 € m
Profit attributable to ordinary shareholders of the parent from continuing operations (note 18 (a))	1,077	1,319
Dilutive effect of CCN's interest charge	–	157
Profit attributable to ordinary shareholders of the parent from continuing operations	1,077	1,476
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	2,714.4	2,714.4
Dilutive effect of CCNs	–	365.5
Potential weighted average number of shares	2,714.4	3,079.9
Earnings per share from continuing operations - diluted	EUR 39.7c	EUR 47.9c

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

Warrants

Following the Initial Public Offering ("IPO") and the Group's admission on 27 June 2017 to the main markets for listed securities on the Irish Stock Exchange and the London Stock Exchange, the Group issued warrants on 4 July 2017 to the Minister for Finance to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c.

This warrant agreement was replaced by a new warrant instrument (the "AIB Group plc Warrant Instrument") pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant agreement with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 3). Allied Irish Banks, p.l.c. warrants were cancelled on this date.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see note 41 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

Contingent capital notes

In July 2011, Allied Irish Banks, p.l.c. issued € 1.6 billion in contingent capital notes ("CCNs"). These notes were mandatorily redeemable and convertible into 640 million 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 for 2016. On 28 July 2016, Allied Irish Banks, p.l.c. redeemed the CCNs at their nominal amount.

19 Distributions on equity shares and other equity interests

	2017 € m	2016 € m
Ordinary shares – dividends paid	250	–
Other equity interests – distribution	37	37

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of the interim dividend, when they become irrevocable having already been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

On 27 April 2017, a final dividend of € 0.0921 per ordinary share, amounting in total to € 250 million for 2016, was approved at the Annual General Meeting of Allied Irish Banks, p.l.c. and subsequently paid on 9 May 2017. No dividends were paid on the ordinary shares in 2016.

During 2017, a distribution amounting to € 37 million was paid on the Additional Tier 1 securities (2016: € 37 million) (note 43).

20 Disposal groups and non-current assets held for sale

	2017 € m	2016 € m
Property[1]	8	11
Total disposal groups and non-current assets held for sale	8	11

[1]Includes property surplus to requirements and repossessed assets.

21 Trading portfolio financial assets

	2017 € m	2016 € m
Debt securities	32	–
Equity shares	1	1
	33	1
Of which listed:		
Debt securities	32	–
Of which unlisted:		
Equity shares	1	1
	33	1

22 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group'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 the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group 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 the Group 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 at 31 December 2017 and 2016:

	2017 € m	2016 € m
Interest rate contracts[(1)]		
Notional principal amount	53,465	64,882
Positive fair value	1,094	1,692
Negative fair value	(1,092)	(1,485)
Exchange rate contracts[(1)]		
Notional principal amount	4,882	4,968
Positive fair value	29	73
Negative fair value	(34)	(79)
Equity contracts[(1)]		
Notional principal amount	715	1,036
Positive fair value	33	49
Negative fair value	(35)	(45)
Credit derivatives[(1)]		
Notional principal amount	130	–
Positive fair value	–	–
Negative fair value	(9)	–
Total notional principal amount	59,192	70,886
Total positive fair value[(2)]	1,156	1,814
Total negative fair value	(1,170)	(1,609)

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

[(2)]At 31 December 2017, 55% of fair value relates to exposures to banks (2016: 64%).

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

22 Derivative financial instruments *(continued)*

The following table analyses 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:

	2017				2016			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**18,742**	**21,862**	**18,588**	**59,192**	21,833	27,243	21,810	70,886
Positive fair value	**141**	**326**	**689**	**1,156**	350	470	994	1,814

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

	Notional principal amount		Positive fair value	
	2017 € m	2016 € m	2017 € m	2016 € m
Republic of Ireland	**57,005**	68,605	**743**	1,334
United Kingdom	**1,938**	2,007	**398**	460
United States of America	**249**	274	**15**	20
	59,192	70,886	**1,156**	1,814

22 Derivative financial instruments *(continued)*

Trading activities

The Group 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 the Group'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, any changes in market value directly affect reported income for a given period.

Risk management activities

In addition to meeting customer needs, the Group'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 the Group as outlined below. Market risk within the banking book is also controlled through limits approved by the Board and monitored by an independent second line risk function.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve interest rate risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group'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 financial 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, the Group 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 the Group at 31 December 2017 and 2016, 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 2017 and 2016. A description of how the fair values of derivatives are determined is set out in note 50.

	2017			2016		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	6,180	507	(544)	10,387	614	(668)
Cross-currency interest rate swaps	373	27	(27)	455	52	(50)
Interest rate options bought and sold	391	–	–	613	1	(4)
Total interest rate derivatives – OTC	6,944	534	(571)	11,455	667	(722)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	1,855	17	(16)	1,470	10	(15)
Total interest rate derivatives – OTC – central clearing	1,855	17	(16)	1,470	10	(15)
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	7,474	–	–	2,182	1	–
Total interest rate derivatives – exchange traded	7,474	–	–	2,182	1	–
Total interest rate derivatives	16,273	551	(587)	15,107	678	(737)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	4,852	29	(34)	4,961	73	(79)
Currency options bought and sold	30	–	–	7	–	–
Total foreign exchange derivatives	4,882	29	(34)	4,968	73	(79)
Equity derivatives – OTC						
Equity warrants	–	–	–	2	2	–
Equity index options bought and sold	623	33	(33)	1,034	47	(45)
Total equity derivatives	623	33	(33)	1,036	49	(45)
Credit derivatives – OTC						
Credit derivatives	130	–	(9)	–	–	–
Total credit derivatives	130	–	(9)	–	–	–
Total derivatives held for trading	21,908	613	(663)	21,111	800	(861)

22 Derivative financial instruments *(continued)*

	2017			2016		
	Notional principal amount	Fair values Assets	Fair values Liabilities	Notional principal amount	Fair values Assets	Fair values Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	11,740	92	(253)	14,523	227	(387)
Total derivatives designated as fair value hedges – OTC	11,740	92	(253)	14,523	227	(387)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	1,670	33	(2)	1,218	23	(2)
Total interest rate fair value hedges – OTC – central clearing	1,670	33	(2)	1,218	23	(2)
Equity derivatives – OTC						
Equity total return swaps	92	–	(2)			
Total equity derivatives – OTC	92	–	(2)			
Total derivatives designated as fair value hedges	13,502	125	(257)	15,741	250	(389)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	14,540	341	(183)	24,704	619	(254)
Cross currency interest rate swaps	1,192	62	(2)	2,589	130	(61)
Total interest rate cash flow hedges – OTC	15,732	403	(185)	27,293	749	(315)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	8,050	15	(65)	6,741	15	(44)
Total interest rate cash flow hedges – OTC – central clearing	8,050	15	(65)	6,741	15	(44)
Total derivatives designated as cash flow hedges	23,782	418	(250)	34,034	764	(359)
Total derivatives held for hedging	37,284	543	(507)	49,775	1,014	(748)
Total derivative financial instruments	59,192	1,156	(1,170)	70,886	1,814	(1,609)

22 Derivative financial instruments *(continued)*

Cash flow hedges

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

2017	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**40**	**22**	**179**	**215**	**456**
Forecast payable cash flows	**57**	**34**	**44**	**38**	**173**

2016	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	35	19	65	169	288
Forecast payable cash flows	66	51	72	52	241

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

2017	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**40**	**22**	**179**	**215**	**456**
Forecast payable cash flows	**98**	**51**	**64**	**47**	**260**

2016	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	35	19	65	169	288
Forecast payable cash flows	85	68	94	64	311

Ineffectiveness reflected in the income statement that arose from cash flow hedges at 31 December 2017 amounted to Nil (31 December 2016: Nil).

Pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and 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 2017 was a charge € 203 million (2016: a gain of € 106 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 50. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 31 December 2017 is negative € 133 million (2016: negative € 179 million) and the net mark to market on the related hedged items at 31 December 2017 is positive € 151 million (2016: positive € 176 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 45.

23 Loans and receivables to banks

	2017 € m	2016 € m
Funds placed with central banks	**536**	587
Funds placed with other banks	**777**	812
	1,313	1,399
Amounts include:		
Reverse repurchase agreements	**3**	–

Loans and receivables to banks by geographical area[(1)]	2017 € m	2016 € m
Republic of Ireland	**713**	269
United Kingdom	**598**	1,127
United States of America	**2**	3
	1,313	1,399

[(1)]The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and receivables to banks include cash collateral of € 527 million (2016: € 494 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties (note 45).

Under reverse repurchase agreements, the Group 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 € 3 million (2016: Nil). The fair value of collateral sold or repledged amounted to Nil (2016: Nil). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

24 Loans and receivables to customers

	2017 € m	2016 € m
Loans and receivables to customers	**62,024**	63,975
Reverse repurchase agreements	**19**	–
Amounts receivable under finance leases and hire purchase contracts *(see below)*	**1,287**	1,173
Unquoted debt securities	**8**	80
Provisions for impairment *(note 25)*	**(3,345)**	(4,589)
	59,993	60,639
Of which repayable on demand or at short notice	**8,126**	11,112
Amounts include:		
Due from associated undertakings	**5**	–

The unwind of the discount on the carrying amount of impaired loans amounted to € 100 million (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, the Group has accepted collateral with a fair value of € 19 million (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 include cash collateral amounting to Nil (2016: € 11 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, refer to 'Risk management – 3.1 and 3.2'.

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements and hire purchase agreements involving vehicles, plant, machinery and equipment:

	2017 € m	2016 € m
Gross receivables		
Not later than 1 year	**520**	472
Later than one year and not later than 5 years	**833**	757
Later than 5 years	**17**	21
	1,370	1,250
Unearned future finance income	**(91)**	(81)
Deferred costs incurred on origination	**8**	4
Total	**1,287**	1,173
Present value of minimum payments		
Not later than 1 year	**504**	457
Later than one year and not later than 5 years	**769**	698
Later than 5 years	**14**	18
Present value of minimum payments	**1,287**	1,173
Provision for uncollectible minimum payments receivable[(1)]	**23**	27
Net investment in new business	**674**	668

[(1)]Included in provisions for impairment on loans and receivables (note 25).

Notes to the consolidated financial statements

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 disclosed in the 'Risk management' section of this report.

	2017 € m	2016 € m
At 1 January	**4,589**	6,832
Exchange translation adjustments	**(26)**	(130)
Credit to income statement – customers	**(113)**	(294)
Amounts written off	**(716)**	(1,829)
Disposals	**(404)**	–
Recoveries of amounts written off in previous years	**15**	10
At 31 December	**3,345**	4,589
Total provisions are split as follows:		
Specific	**2,722**	4,047
IBNR	**623**	542
	3,345	4,589
Amounts include:		
Loans and receivables to customers *(note 24)*	**3,345**	4,589
	3,345	4,589

26 NAMA senior bonds

During 2010 and 2011, the Group received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The following table provides a movement analysis of the NAMA senior bonds:

	2017 € m	2016 € m
At 1 January	**1,799**	5,616
Amortisation of discount	**2**	11
Repayments	**(1,805)**	(3,838)
Acceleration/re-estimation of the timing of cash flows	**4**	10
At 31 December	**–**	1,799

On initial recognition of the NAMA senior bonds, the Group made certain assumptions as to the timing of expected repayments. These assumptions underpinning the repayments and their timing were subject to continuing review. Accordingly, in 2017, a gain of € 4 million was recognised following the acceleration of repayments by NAMA (2016: a gain of € 10 million). 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 was € 1,807 million. The bonds were fully repaid during 2017.

At 31 December 2016, € 729 million of NAMA senior bonds were pledged to central banks and banks (note 34).

27 Financial investments available for sale

The following table sets out the carrying value (fair value) of financial investments available for sale at 31 December 2017 and 2016 by major classifications together with the unrealised gains and losses.

						2017
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	7,021	646	(6)	640	(80)	560
Euro government securities	2,406	124	–	124	(15)	109
Non Euro government securities	161	5	(1)	4	(1)	3
Supranational banks and government agencies	1,368	40	(4)	36	(3)	33
Collateralised mortgage obligations	278	–	(8)	(8)	4	(4)
Other asset backed securities	16	–	–	–	–	–
Euro bank securities	4,336	79	(1)	78	(10)	68
Euro corporate securities	56	–	–	–	–	–
Total debt securities	15,642	894	(20)	874	(105)	769
Equity securities						
Equity securities – NAMA subordinated bonds	466	423	–	423	(53)	370
Equity securities – other	213	44	(3)	41	(11)	30
Total equity securities	679	467	(3)	464	(64)	400
Total financial investments available for sale	16,321	1,361	(23)	1,338	(169)	1,169

						2016
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
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)*

The following table sets out an analysis of movements in financial investments available for sale:

	2017			2016		
	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	14,832	605	15,437	15,708	781	16,489
Exchange translation adjustments	(77)	–	(77)	(1)	–	(1)
Purchases/acquisitions	1,347	72	1,419	2,463	79	2,542
Sales/disposals	(1,991)	(51)	(2,042)	(3,100)	(277)	(3,377)
Maturities	(1,457)	–	(1,457)	(93)	–	(93)
IAS 39 reclassification in[1] *(note 28)*	3,234	–	3,234	–	–	–
Writeback of provisions for impairment	–	–	–	2	–	2
Amortisation of discounts net of premiums	(93)	–	(93)	(110)	–	(110)
Movement in unrealised (losses)/gains	(153)	53	(100)	(37)	22	(15)
At 31 December	15,642	679	16,321	14,832	605	15,437
Of which:						
Listed	15,642	16	15,658	14,832	–	14,832
Unlisted	–	663	663	–	605	605
	15,642	679	16,321	14,832	605	15,437

[1]Financial investments held to maturity with a carrying value of € 3,234 million were reclassified at 31 December 2017 to financial investments available for sale (Irish Government securities). The fair value on reclassification was € 3,301 million.

27 Financial investments available for sale *(continued)*

The following table sets out at 31 December 2017 and 2016, 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:

						2017
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Irish Government securities	–	150	150	–	(6)	(6)
Non Euro government securities	–	26	26	–	(1)	(1)
Supranational banks and government agencies	187	56	243	(3)	(1)	(4)
Collateralised mortgage obligations	–	252	252	–	(8)	(8)
Euro bank securities	–	88	88	–	(1)	(1)
Total debt securities	187	572	759	(3)	(17)	(20)
Equity securities						
Equity securities – other	1	19	20	–	(3)	(3)
Total	188	591	779	(3)	(20)	(23)

						2016
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Irish Government securities	286	–	286	(13)	–	(13)
Euro government securities	294	–	294	(6)	–	(6)
Non Euro government securities	30	–	30	(1)	–	(1)
Supranational banks and government agencies	75	–	75	(1)	–	(1)
Collateralised mortgage obligations	182	229	411	(4)	(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)

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. There was no impairment charge recognised in 2017 (2016: a writeback of € 2 million was recognised as set out in note 14).

Notes to the consolidated financial statements

28 Financial investments held to maturity

The following table sets out an analysis of movements in financial investments held to maturity:

	2017 € m	2016 € m
At 1 January	**3,356**	3,483
Amortisation of fair value gain	**(122)**	(127)
IAS 39 reclassification out *(note 27)*	**(3,234)**	–
At 31 December	**–**	3,356

In order to provide flexibility in managing the overall bond portfolio and to avail of opportunities through selling elements of this portfolio, the Group reclassified its held to maturity portfolio (government bonds) to financial investments available for sale at 31 December 2017.

29 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings and joint venture as follows:

Income statement	2017 € m	2016 € m
Share of results of associated undertakings and joint venture	**19**	27
Reversal of impairment of associated undertakings	**–**	8
	19[(1)]	35[(1)]

Share of net assets including goodwill	2017 € m	2016 € m
At 1 January	**65**	70
Income for the year	**19**	27
Dividends/distribution received from associated undertakings and joint venture[(2)]	**(9)**	(40)
Investments in associated undertakings/joint venture[(3)]	**81**	–
Disposal of joint venture[(4)]	**(76)**	–
Reversal of impairment of associated undertakings	**–**	8
At 31 December[(5)]	**80**	65
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**80**	65
Of which listed on a recognised stock exchange	**–**	–

[(1)]Includes AIB Merchant Services € 17 million and Greencoat Renewables plc € 2 million (2016: AIB Merchant Services € 22 million and Aviva Undershaft Five Limited € 5 million profit and an impairment reversal of € 8 million).

[(2)]Includes dividends/distribution received from AIB Merchant Services € 7 million (2016: € 16 million) Greencoat Renewables plc € 2 million and Aviva Undershaft Five Limited Nil (2016: € 24 million).

[(3)]Includes investment amounting to € 76 million in Greencoat Renewables plc and a capital contribution of € 5 million to Zolter Services d.a.c., the holding company of First Merchant Processing (Ireland) d.a.c., trading as AIB Merchant Services.

[(4)]The Group disposed of its interest in Greencoat Renewables plc in 2017 for € 76 million.

[(5)]Includes the Group's investments in AIB Merchant Services, Aviva Undershaft Five Limited. Aviva Undershaft Five Limited, with a carrying value of € 2 million, is in the process of being liquidated.

During 2017, the Group entered a joint arrangement whereby it invested € 76 million by way of loan notes (profit participating and fixed rate notes) in Greencoat Renewables plc. This investment was accounted for as a joint venture under IFRS 11. Following a subsequent IPO, the Group disposed of its interest and invested € 15 million in the ordinary share capital of the company which was accounted for as an available for sale equity investment.

29 Interests in associated undertakings *(continued)*

The following is the principal associate company of the Group at 31 December 2017 and 2016:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group at	
			2017 %	2016 %
Zolter Services 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

All of the associates are accounted for using the equity method in these consolidated financial statements.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, AIB Group plc will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates at 31 December 2017 or 2016.

Change in the Group's ownership interest in associates

During 2017, the Group invested € 76 million in Greencoat Renewables plc (a joint venture) and disposed of this investment following an IPO as outlined above. Other than this, 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 the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

30 Intangible assets

	Software externally purchased €m	Software internally generated €m	Software under construction €m	Other €m	2017 Total €m
Cost					
At 1 January	311	580	173	3	1,067
Additions	15	116	130	–	261
Transfers in/(out)	–	120	(120)	–	–
Amounts written-off[1]	(3)	(21)	–	–	(24)
Exchange translation adjustments	–	(1)	–	–	(1)
At 31 December	323	794	183	3	1,303
Amortisation/impairment					
At 1 January	287	381	4	3	675
Amortisation for the year	15	61	–	–	76
Impairment for the year	–	1	6	–	7
Amounts written-off[1]	(3)	(21)	–	–	(24)
Transfers in/out	(6)	6	–	–	–
At 31 December	293	428	10	3	734
Carrying value at 31 December	30	366	173	–	569

	Software externally purchased €m	Software internally generated €m	Software under construction €m	Other €m	2016 Total €m
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

[1]Relates to assets which are no longer in use with a Nil carrying value.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 53.

31 Property, plant and equipment

	Property			Equipment	Assets	2017 Total
	Freehold	Long leasehold	Leasehold under 50 years		under construction	
	€ m	€ m	€ m	€ m	€ m	€ m
Cost						
At 1 January	217	92	132	524	21	986
Transfers in/(out)	1	–	4	5	(10)	–
Additions	1	–	3	12	10	26
Held for sale	(3)	(3)	–	–	–	(6)
Amounts written off[1]	–	(1)	(1)	(1)	–	(3)
Exchange translation adjustments	(1)	–	(1)	(1)	–	(3)
At 31 December	215	88	137	539	21	1,000
Depreciation/impairment						
At 1 January	72	37	87	433	–	629
Depreciation charge for the year	5	2	8	25	–	40
Impairment charge for the year	–	15	1	2	–	18
Held for sale	(2)	(1)	–	–	–	(3)
Amounts written off[1]	–	(1)	(1)	(1)	–	(3)
Exchange translation adjustments	(1)	–	–	(1)	–	(2)
At 31 December	74	52	95	458	–	679
Carrying value at 31 December	141	36	42	81	21	321

[1]Relates to assets which are no longer in use with a NIL carrying value.

	Property			Equipment	Assets	2016 Total
	Freehold	Long leasehold	Leasehold under 50 years		under construction	
	€ m	€ m	€ m	€ m	€ m	€ m
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

The carrying value of property occupied by the Group for its own activities was € 217 million (2016: € 242 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by the Group had a carrying value of € 1 million (2016: € 3 million).

Future capital expenditure in relation to both property plant and equipment and intangible assets is set out in note 53.

32 Deferred taxation

	2017 € m	2016 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	–	–
Retirement benefits	17	27
Assets leased to customers	4	6
Unutilised tax losses	2,907	3,050
Other	18	22
Total gross deferred tax assets	**2,946**	3,105
Deferred tax liabilities:		
Cash flow hedges	(36)	(67)
Retirement benefits	(43)	(40)
Amortised income on loans	(4)	(12)
Assets used in business	(12)	(12)
Available for sale securities	(145)	(161)
Other	(67)	(66)
Total gross deferred tax liabilities	**(307)**	(358)
Net deferred tax assets	**2,639**	2,747
Represented on the statement of financial position as follows:		
Deferred tax assets	2,736	2,828
Deferred tax liabilities	(97)	(81)
	2,639	2,747

For each of the years ended 31 December 2017 and 2016, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2017 € m	2016 € m
At 1 January	2,747	2,897
Exchange translation and other adjustments	(2)	(19)
Deferred tax through other comprehensive income	46	81
Income statement – Continuing operations *(note 17)*	(152)	(212)
At 31 December	**2,639**	2,747

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 ‘Critical accounting judgements and estimates’ on pages 276 to 277. Information on the regulatory capital treatment of deferred tax assets is included in ‘Principal risks and uncertainties’ on page 68.

At 31 December 2017, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,639 million (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 provisions for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 31 December 2017 of € 2,535 million (2016: € 2,651 million) are expected to be recovered after more than 12 months.

32 Deferred taxation *(continued)*

For the Group's principal UK subsidiary, the Group 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 the Group believes that it can assess the likelihood of its profits arising as being more likely than not.

For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 31 December 2017 of € 122 million (2016: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,090 million (2016: € 3,315 million); and foreign tax credits for Irish tax purposes of € 3 million (2016: € 3 million). Of these tax losses totalling € 3,212 million for which no deferred tax is recognised: € 26 million expire in 2032; € 37 million expire in 2033; € 24 million expire in 2034; and € 5 million expire 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 (2016: Nil).

Deferred tax recognised directly in equity amounted to Nil (2016: Nil).

Analysis of income tax relating to total comprehensive income

				2017
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
Profit for the year	1,306	(192)	1,114	1,114
Exchange translation adjustments	(53)	–	(53)	(53)
Net change in cash flow hedge reserves	(234)	31	(203)	(203)
Net change in fair value of available for sale securities	(148)	16	(132)	(132)
Net actuarial gains in retirement benefit schemes	25	(1)	24	24
Total comprehensive income for the year	896	(146)	750	750
Attributable to:				
Owners of the parent	896	(146)	750	750

				2016
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
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

33 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

On 1 January 2014, all Group staff transferred to defined contribution (“DC”) schemes with a standard employer contribution of 10%. An additional matched employer contribution, subject to limits based on age bands of 2%, 5% or 8% is also paid into the schemes.

The total cost in respect of the DC schemes for 2017 was € 72 million (2016: € 71 million). This cost is included in administrative expenses (note 12).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual with effect from 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme (‘the Irish scheme’) and the AIB Group UK Pension Scheme (‘the UK 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.

In the main Irish Scheme, there are 16,430 members comprising 3,974 pensioners and 12,456 deferred members as at 31 December 2017. Within the deferred members, there are over 1,569 members who are currently employed by the Group who had joined the Group prior to December 1997 and were not part of a hybrid pension arrangement.

A hybrid pension arrangement was introduced in December 2007 and staff who joined from December 1997 had the option at that time to switch to the hybrid arrangement. Staff joining after December 2007 automatically joined the hybrid arrangement up until the defined benefit schemes closed on 31 December 2013. Over 8,185 members have benefits accrued from 2007 to 2013 under the hybrid arrangements.

In addition, there are over 258 members of the EBS Defined Benefit Schemes who are currently employed by the Group.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Minimum Funding Standard (“MFS”) 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, together with the additional risk reserve requirements, 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 Irish Scheme, had contributions amounting to € 40 million remaining at 31 December 2017.

33 Retirement benefits *(continued)*

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the pension risk to which the Group is exposed are set out in the Risk section on page 173 of this report.

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme ('Irish scheme') and the AIB Group UK Pension Scheme ('UK scheme') are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes 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 Irish and UK schemes as at 30 June 2018 and 31 December 2017, will be completed by no later than 31 March 2019 and 31 December 2018, respectively.

Contributions

The total contributions to all the defined benefit pension schemes operated by the Group in the year ended 31 December 2018 are estimated to be € 64 million. Payments in the year to 31 December 2017 amounted to € 64 million, of which € 40 million related to the Irish scheme, 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 at 31 December 2017 and 2016. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2017 %	2016 %
Irish scheme		
Rate of increase of pensions in payment[(1)]	**0.00**	0.00
Discount rate	**2.07**	1.90
Inflation assumptions[(2)]	**1.35**	1.25
UK 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
Other schemes		
Rate of increase of pensions in payment	**0.00 – 2.10**	0.00 – 3.20
Discount rate	**2.10 – 3.55**	1.90 – 4.15
Inflation assumptions	**1.35 – 3.10**	1.70 – 3.20

[(1)]Having taken actuarial and external legal advice, the Board determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. Accordingly, the long term rate of increases of pensions in payment is Nil.

[(2)]The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

33 Retirement benefits *(continued)*

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; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State. The Group completed this process for 2018 and after carefully considering all the relevant interests and factors decided that funding of discretionary increases to pensions in payment was appropriate for 2018. Funding will be provided to enable the Trustee to grant an increase of 0.35% in 2018. The increase in the Irish schemes' liabilities is estimated to not exceed € 10 million.

In 2017, the Board decided that funding of discretionary increases 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 the Group's main Irish schemes for 2019, in early 2019.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2017 and 2016 are shown in the following table:

		Life expectancy - years			
		Irish scheme		UK scheme	
		2017	2016	**2017**	2016
Retiring today age 63					
	Males	**25.1**	24.9	**25.1**	25.7
	Females	**27.0**	27.0	**27.0**	27.9
Retiring in 10 years at age 63					
	Males	**26.0**	26.1	**26.0**	26.8
	Females	**28.0**	28.2	**28.0**	29.1

The mortality assumptions for the Irish and UK schemes were updated in 2017 to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2017 is assumed to live on average for 25.1 years for a male (25.1 years for the UK scheme) and 27.0 years for a female (27.0 years for the UK 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 2017 who will retire in ten years. Younger members 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.

33 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2017 and 2016:

	2017				2016			
	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets
	€ 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	(122)	129	(5)	2	(178)	177		(1)
Administration costs	–	(1)		(1)	–	(1)		(1)
	(122)	128	(5)	1	(178)	176		(2)
Included in other comprehensive income								
Remeasurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	(36)	–		(36)	79	–		79
– Changes in demographic assumptions	41	–		41	(10)	–		(10)
– Changes in financial assumptions	137	–		137	(160)	–		(160)
– Return on scheme assets excluding interest income	–	164		164	–	470		470
– Asset ceiling/minimum funding adjustments			(281)	(281)			(252)	(252)
				25[2]				127[2]
Translation adjustment on non-euro schemes	52	(54)		(2)	198	(228)		(30)
	194	110	(281)	23	107	242	(252)	97
Other								
Contributions by employer	–	64		64	–	59		59
Benefits paid	387	(387)		–	261	(261)		–
	387	(323)		64	261	(202)		59
At 31 December	(5,694)	6,328	(538)	96	(6,153)	6,413	(252)	8

	31 December 2017 € m	31 December 2016 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	174	159
– Other schemes	9	7
Total retirement benefit assets	183	166
Retirement benefit liabilities		
– Irish scheme	(40)	(80)
– EBS scheme	(26)	(56)
– Other schemes	(21)	(22)
Total retirement benefit liabilities	(87)	(158)
Net pension surplus/(deficit)	96	8

[1] In recognising the net surplus or deficit on 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 € 24 million (2016: € 103 million) see page 291.

Notes to the consolidated financial statements

33 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2017 € m	2016 € m
Cash and cash equivalents	**114**	344
Equity instruments		
Quoted equity instruments:		
Basic materials	**79**	73
Consumer goods	**169**	198
Consumer services	**129**	160
Energy	**143**	174
Financials	**297**	342
Healthcare	**153**	156
Industrials	**166**	190
Technology	**198**	178
Telecoms	**39**	53
Utilities	**40**	49
Total quoted equity instruments	**1,413**	1,573
Unquoted equity instruments	**12**	11
Total equity instruments	**1,425**	1,584
Debt instruments		
Quoted debt instruments		
Corporate bonds	**1,274**	1,055
Government bonds	**1,166**	1,078
Total quoted debt instruments	**2,440**	2,133
Unquoted debt instruments		
Corporate bonds	**–**	54
Total debt instruments	**2,440**	2,187
Real estate[(1)(2)]	**261**	304
Derivatives[(2)]	**(45)**	(26)
Investment funds		
Quoted investment funds		
Alternatives	**24**	24
Bonds	**494**	333
Cash	**1**	9
Equity	**242**	94
Fixed interest	**100**	95
Forestry	**37**	36
Liability driven	**626**	810
Multi-asset	**240**	222
Property	**1**	1
Total quoted investment funds	**1,765**	1,624
Total investment funds	**1,765**	1,624
Mortgage backed securities[(2)]	**365**	391
Structured debt	**3**	5
Fair value of scheme assets at 31 December	**6,328**	6,413

[(1)]Located in Europe.

[(2)]A quoted market price in an active market is not available.

33 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 Irish scheme and the UK scheme at 31 December 2017.

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.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase € m	Decrease € m	Increase € m	Decrease € m
Discount rate (0.25% movement)	**(180)**	**192**	**(52)**	**55**
Inflation (0.25% movement)	**52**	**(49)**	**52**	**(49)**
Future mortality (1 year movement)	**113**	**(113)**	**(34)**	**34**

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2017 is 17.4 years and of the UK scheme at 31 December 2017 is 19 years.

Asset-liability matching strategies

The Irish Scheme continues to review its investment strategies which includes 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. The UK 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 in 'Regulatory framework' on page 312, the Group executed a series of agreements in 2013 to give effect to an asset backed funding plan for the UK Scheme which replaced the previous funding plan. The asset backed funding plan grants the UK Scheme a regular income payable quarterly from 1 April 2016 to 31 December 2032. Based on the results of the December 2014 valuation, the asset backed funding plan will pay the UK Scheme £ 19.1 million in 2018 (2017: £ 19.1 million). In addition, if the 31 December 2032 actuarial valuation of the UK scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £ 60 million (note 48).

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 2017, the Group contributed € 8 million (2016: € 6 million) towards insuring this benefit. This amount is included in administrative expenses (note 12).

34 Deposits by central banks and banks

	2017 € m	2016 € m
Central banks		
Eurosystem refinancing operations[1]	1,900	1,900
Other borrowings	500	12
	2,400	1,912
Banks		
Securities sold under agreements to repurchase	901	4,973
Other borrowings – secured	–	150
– unsecured	339	697
	1,240	5,820
	3,640	7,732
Amounts include:		
Due to associated undertakings	–	–

[1]Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

Securities sold under agreements to repurchase (note 48) 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, 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.

Deposits by central banks and banks include cash collateral at 31 December 2017 of € 166 million (2016: € 268 million) received from derivative counterparties in relation to net derivative positions (note 45) 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:

	2017			2016		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	3,462	954	4,416	3,293	5,239	8,532
Of which:						
Government securities	–	696	696	498	3,891	4,389
Other securities[1]	3,462	258	3,720	2,795	1,348	4,143

[1]The Group 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 the Group.

35 Customer accounts

	2017 € m	2016 € m
Current accounts	**33,179**	29,721
Demand deposits	**14,007**	12,663
Time deposits	**17,305**	20,496
Securities sold under agreements to repurchase[1]	**81**	622
	64,572	63,502
Of which:		
Non-interest bearing current accounts	**28,977**	25,748
Interest bearing deposits, current accounts and short-term borrowings	**35,595**	37,754
	64,572	63,502
Amounts include:		
Due to associated undertakings	**191**	271

[1]At 31 December 2017, the Group had pledged government available for sale securities with a fair value of € 71 million (2016: € 220 million) and non-government available for sale securities with a fair value of € 12 million (2016: € 420 million) as collateral for these facilities (see note 45 for further information).

Customer accounts include cash collateral of € 34 million (2016: € 60 million) received from derivative counterparties in relation to net derivative positions (note 45).

At 31 December 2017, the Group's five largest customer deposits amounted to 1% (2016: 3%) of total customer accounts.

Notes to the consolidated financial statements

36 Trading portfolio financial liabilities	2017 € m	2016 € m
Debt securities:		
Government securities	30	–
	30	–

For contractual residual maturity see 'Risk management' – 3.4 Liquidity risk.

37 Debt securities in issue	2017 € m	2016 € m
Bonds and medium term notes:		
European medium term note programmes	1,000	1,000
Bonds and other medium term notes	3,590	5,733
	4,590	6,733
Other debt securities in issue:		
Commercial paper	–	147
	4,590	6,880

Analysis of movements in debt securities in issue

	2017 € m	2016 € m
At 1 January	6,880	7,001
Issued during the year	412	1,389
Repurchased	–	(9)
Matured	(2,686)	(1,500)
Amortisation of discounts net of premiums	–	1
Exchange translation adjustments	(16)	(2)
At 31 December	4,590	6,880

In 2017, the Group issued debt securities amounting to € 412 million under the short-term commercial paper programme. In 2016, issuances related to covered bonds € 1,000 million and € 389 million under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 2,686 million (2016: € 1,509 million) of which € 450 million related to the redemption of debt securities issued by the securitisation vehicles, Emerald Mortgages No. 4 Public Limited Company and Tenterden Funding p.l.c. (note 48).

38 Other liabilities	2017 € m	2016 € m
Notes in circulation	333	366
Items in transit	109	122
Creditors	19	10
Fair value of hedged liability positions	43	146
Other	320	329
	824	973

39 Provisions for liabilities and commitments

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous contracts € m	Legal claims € m	Other provisions € m	2017 Total € m
At 1 January	**47**	**2**	**12**	**32**	**153**	**246**
Transfers in	**–**	**–**	**–**	**4**	**(4)**	**–**
Exchange translation adjustments	**(3)**	**–**	**–**	**–**	**(1)**	**(4)**
Charged to income statement	**2**[2]	**–**	**52**[3]	**7**[3]	**60**[3]	**121**
Released to income statement	**(10)**[2]	**(1)**[1]	**(1)**[3]	**(4)**[3]	**(18)**[3]	**(34)**
Provisions utilised	**(5)**	**–**	**(4)**	**(2)**	**(87)**	**(98)**
At 31 December	**31**	**1**	**59**	**37**	**103**	**231**[4]

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous contracts € m	Legal claims € m	Other provisions € m	2016 Total € 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[2]	14[1]	4[3]	6[3]	56[3]	82
Released to income statement	(4)[2]	(31)[1]	(2)[3]	(4)[3]	(15)[3]	(56)
Provisions utilised	–	(8)	(2)	(1)	(131)	(142)
At 31 December	47	2	12	32	153	246[4]

(a) Other provisions

Includes the provisions for customer redress and related matters noted above, other restitution provisions, and miscellaneous provisions.

Provisions for customer redress and related matters

In 2015, the Group created a provision of € 105 million related to the expected outflow for customer redress and compensation 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 (Tracker Mortgage Examination). Over the past two years € 95 million of this provision was utilised as over 4,100 customers were redressed and compensated.

The Group announced on 20 December 2017 that following the completion of an ongoing review c. 900 additional accounts which were no longer on a tracker were deemed impacted and c.4,000 additional accounts which were never on a tracker rate would also be paid compensation.

The Group has determined that a further € 30 million provision is required bringing the amount of provisions for customer redress and compensation at 31 December 2017 to € 40 million to cover payments to these additional customers as well as the remaining customers that had yet to receive redress and compensation by 31 December 2017. The final redress and compensation is subject to independent third party assurance and is also subject to assessment and challenge by the Central Bank, notwithstanding the advanced stage of the examination process in the Group.

The Group also created a provision of € 85 million with regard to 'Other costs' in 2015, of which € 68 million has been utilised to date. A further € 10 million has also been provided at 31 December 2017, bringing the provision for 'Other costs' to € 27 million as of this date.

(b) Onerous contracts

Arising from a revised property strategy, the Group will exit certain office space. In this regard, the Group has made an onerous lease provision amounting to € 52 million for the unavoidable costs which are expected to arise. The provision takes into account the contractual outflows from minimum lease rentals payable, estimated outflows in connection with sub-letting these properties and estimates of other costs, offset by the estimated rental income expected to be received over the minimum lease contract period.

[1]NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA (note 10).

[2]Included in writeback of provisions for liabilities and commitments in income statement.

[3]Included in 'Other general and administrative expenses' (note 12).

[4]The total provisions for liabilities and commitments expected to be settled within one year amount to € 150 million (2016: € 141 million).

40 Subordinated liabilities and other capital instruments

	2017 € m	2016 € m
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)	**9**	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
	793	791
	793	791

Maturity of dated loan capital	2017 € m	2016 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**793**	791

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 the Group.

(a) € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, the Group 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 the Group 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.

The notes bear interest on the outstanding nominal amount at a fixed rate of 4.125%, 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 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 the Group. These instruments will amortise to their nominal value in the period to their maturity in 2035.

€ 1.6bn Contingent Capital Tier 2 Notes

The € 1.6bn Contingent Capital Tier 2 Notes matured on 28 July 2016 and were redeemed at their nominal value of € 1.6 billion.

41 Share capital

The following sets out the history of the share capital of AIB Group plc (previously RPML 1966 Holdings plc) from the date of incorporation to 31 December 2017.

On 8 December 2016, RPML 1966 Holdings plc was incorporated with an authorised share capital of € 25,000 divided into 40,000 ordinary shares of nominal value € 0.625 each and an issued share capital on this date of € 1.25 comprising two fully paid-up ordinary shares of € 0.625 each.

On 21 February 2017, a further 39,998 ordinary shares of € 0.625 each were issued to satisfy requirements for a public limited company. These share were fully paid-up and rank pari-passu with the existing ordinary shares in issue.

On 5 September 2017, RPML 1966 Holdings plc changed its name to AIB Group plc.

Following shareholder resolutions passed on 6 October 2017, the authorised share capital was increased to € 9,880,025,000 divided into 4,000,000,000 ordinary shares of € 2.47 each and 40,000 ordinary shares of € 0.625 each.

Pursuant to the Scheme of Arrangement described in note 3 'Corporate restructuring', on 8 December 2017, 2,714,381,237 ordinary shares in Allied Irish Banks, p.l.c. were cancelled and on the same date Allied Irish Banks, p.l.c. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc making AIB Group plc the parent company of Allied Irish Banks, p.l.c. On the same date, AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the former shareholders of Allied Irish Banks, p.l.c. The 40,000 ordinary shares of € 0.625 each were converted into Subscriber Shares with no voting or income rights and only limited rights on a return of capital on the Scheme of Arrangement becoming effective.

Subsequent to the issue by AIB Group plc of 2,714,381,237 ordinary shares of nominal value € 2.47 per share, AIB Group plc petitioned the High Court for a capital reduction in order to create distributable reserves in the accounts of AIB Group plc. This involved the reduction of the nominal value of the ordinary shares from € 2.47 per share to € 0.625 per share. The capital reduction which created € 5,008 million in distributable reserves became effective on 14 December 2017 (note 3).

Following the Scheme of Arrangement and the capital reduction becoming effective, the Company revised the authorised share capital to € 2,500,025,000 divided into 4,000,000,000 ordinary shares of € 0.625 each and 40,000 Subscriber Shares of € 0.625 each.

The Subscriber Shares will be redeemed at par and cancelled in 2018.

	AIB Group plc 31 December 2017	
	Number of shares	€
Authorised		
Ordinary share capital		
Subscriber Shares of € 0.625 each	40,000	25,000
Ordinary shares of € 0.625 each	4,000,000,000	2,500,000,000
Total	4,000,040,000	2,500,025,000
Issued and fully paid		
Ordinary share capital		
On incorporation	2[(1)]	1
Issued to satisfy requirements for a public limited company		
Ordinary shares of € 0.625 each	39,998[(1)]	24,999
Impact of corporate restructure		
Ordinary shares of € 2.47 each	2,714,381,237	6,704,521,655
Reduction in company capital from € 2.47 per share to € 0.625 per share		(5,008,033,382)
At 31 December		
Subscriber Shares of € 0.625 each	40,000	25,000
Ordinary shares of € 0.625 each	2,714,381,237	1,696,488,273
Total	2,714,421,237	1,696,513,273

[(1)]Converted into Subscriber Shares

41 Share capital *(continued)*

The table above is summarised as follows:

	AIB Group plc 31 December 2017	
	Number of shares m	€ m
Authorised		
Ordinary share capital	**4,000.0**	**2,500**
Issued		
Ordinary share capital	**2,714.4**	**1,697**

Information with regard to the share capital of Allied Irish Banks, p.l.c., the parent company of the Group at 31 December 2016 is given for comparative purposes (note 1(a)).

	Allied Irish Banks, p.l.c. 31 December 2016	
	Number of shares m	€ m
Authorised		
Ordinary share capital		
Ordinary shares of € 0.625 each	4,000.0	2,500
Issued		
Ordinary share capital		
Ordinary shares of € 0.625 each	2,714.4	1,696

Stock Exchange listing

Following the IPO in June 2017, Allied Irish Banks, p.l.c. ordinary shares were admitted to the main markets for listed securities on the Irish Stock Exchange and the London Stock Exchange on 27 June 2017 (Note 52 'Related Party Transactions – Relationship with the Irish Government'). This listing by Allied Irish Banks, p.l.c. on the Irish and London Stock Exchanges was cancelled on 11 December 2017 following the Scheme of Arrangement becoming effective. The ordinary shares of AIB Group plc were admitted to the main markets for listed securities on the Irish Stock Exchange and the London Stock Exchange on 11 December 2017 (note 3).

Other – Warrants

On 26 April 2017, the Minister for Finance ('the Minister') issued a Warrant Creation Notice requiring AIB to issue warrants to the Minister five business days after re-admission of AIB's ordinary shares to a regulated market. On 4 July 2017, AIB issued warrants to the Minister to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c. in accordance with the terms of the Warrant Agreement approved by shareholders in December 2015. The exercise price for the warrants is € 8.80 per ordinary share and the warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027.

This warrant instrument was replaced by a new warrant instrument (the "AIB Group plc Warrant Instrument") pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant instrument with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 3). Allied Irish Banks, p.l.c. warrants were cancelled on this date.

41 Share capital *(continued)*

Structure of the Company's share capital

The following table shows the structure of the Company's share capital as at 31 December 2017:

	Authorised share capital %	Issued share capital %
Class of share		
Ordinary share capital	**100**	**100**

Share premium

The following table shows the share premium in the consolidated financial statements at 31 December 2017 and 2016:

	2017 € m	2016 € m
At 31 December	**–**[1]	1,386[2]

[1]Relates to AIB Group plc. No share premium arose on the issuance of ordinary shares by AIB Group plc from the date of incorporation to 31 December 2017.

[2]Relates to Allied Irish Banks, p.l.c. The share premium in Allied Irish Banks, p.l.c. at 31 December 2016 is disclosed for comparative purposes.

Capital resources

The following table shows the Group's capital resources at 31 December 2017 and 2016:

	2017 € m	2016 € m
Equity	**13,612**	13,148
Dated capital notes *(note 40)*	**793**	791
Total capital resources	**14,405**	13,939

42 Own shares

Employee share schemes and trusts

In the past, the Group 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 2017, 5,820 shares (2016: 5,820 shares) were held by trustees with a carrying value of € 23 million (2016: € 23 million), and a market value of € 0.032 million (2016: € 0.029 million). The carrying value is deducted from revenue reserves while the shares continue to be held by the Group. There were no transactions with regard to 'Own shares' during the year.

43 Other equity interests

	2017 € m	2016 € m
At beginning and end of period	494	494

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

In 2015, Allied Irish Banks, p.l.c. 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 the Group'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 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%. 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 Single Supervisory Mechanism/Central Bank of Ireland 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 the Company'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 the Company but junior to the claims of senior creditors.

If the CET1 ratio of Allied Irish Banks, p.l.c. or the Group at any time falls below 7% (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% 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.

44 Capital reserves, merger reserve and capital redemption reserves

Capital reserves	2017 Capital contribution reserves € m	2017 Other capital reserves € m	2017 Total € m	2016 Capital contribution reserves € m	2016 Other capital reserves € m	2016 Total € m
At 1 January	**1,021**	**178**	**1,199**	1,382	178	1,560
Transfer to revenue reserves:						
Anglo business transfer	**(66)**	**–**	**(66)**	(285)	–	(285)
CCNs issuance *(note 40)*	**–**	**–**	**–**	(76)	–	(76)
	(66)	**–**	**(66)**	(361)	–	(361)
At 31 December	**955**[(1)]	**178**	**1,133**	1,021	178	1,199

[(1)]Relates to the acquisition of EBS d.a.c.

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of CCNs were non-distributable on initial recognition. The capital contribution reserves which arose on (a) the Anglo business transfer and (b) the CCNs issuance are now deemed to be distributable and have been transferred in full to revenue reserves as they have met the conditions for distribution outlined in accounting policy (ab) in note 1.

Merger reserve

Merger reserve	2017 € m	2016 € m
At end of year	**(3,622)**	N/A

Under the Scheme of Arrangement (“the Scheme”) approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc (‘the Company’), was introduced as the holding company of AIB Group. AIB Group plc is a recently incorporated public limited company registered in Ireland. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve (note 3).

In the consolidated financial statements of AIB Group plc, the transaction was accounted for under merger accounting. Accordingly, the carrying value of the investment in Allied Irish Banks, p.l.c. by AIB Group plc is eliminated against the share capital and share premium account in Allied Irish Banks, p.l.c. and the merger reserve in AIB Group plc resulting in a negative merger reserve of € 3,622 million.

Capital redemption reserves	2017 € m	2016 € m
At beginning and end of year	**14**	14

45 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in the Group's statement of financial position; or
– are subject to enforceable master netting arrangements or similar agreements that cover 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.

The Group 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 € 534 million at 31 December 2017 (2016: € 971 million).

The Group'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, the Group 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 the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group 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 the Group 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 2017, € 522 million (2016: € 487 million) of CSAs are included within financial assets and € 193 million (2016: € 322 million) of CSAs are included within financial liabilities.

45 Offsetting financial assets and financial liabilities *(continued)*

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2017 and 2016:

							2017
			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 assets	**Note**	**Gross amounts of recognised financial assets € m**	**€ m**	**€ m**	**Financial instruments € m**	**Financial collateral (including cash collateral) received € m**	**Net amount € m**
Derivative financial instruments	22	776	–	776	(534)	(193)	49
Loans and receivables to banks –							
Reverse repurchase agreements	23	1,703	(1,700)	3	(3)	–	–
Loans and receivables to customers –							
Reverse repurchase agreements	24	19	–	19	(19)	–	–
Total		2,498	(1,700)	798	(556)	(193)	49

							2017
			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 liabilities	**Note**	**Gross amounts of recognised financial liabilities € m**	**€ m**	**€ m**	**Financial instruments € m**	**Financial collateral (including cash collateral) pledged € m**	**Net amount € m**
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	34	2,601	(1,700)	901	(928)	1	(26)
Customer accounts –							
Securities sold under agreements to repurchase	35	81	–	81	(83)	–	(2)
Derivative financial instruments	22	1,098	–	1,098	(534)	(522)	42
Total		3,780	(1,700)	2,080	(1,545)	(521)	14

45 Offsetting financial assets and financial liabilities *(continued)*

							2016
			Gross amounts of recognised	Net amounts of financial	Related amounts not offset in the statement of financial position		
Financial assets	**Note**	Gross amounts of recognised financial assets € m	financial liabilities offset in the statement of financial position € m	assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
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

							2016
			Gross amounts of recognised	Net amounts of financial	Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	financial assets offset in the statement of financial position € m	liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	34	5,323	(350)	4,973	(4,999)	(12)	(38)
Customer accounts –							
Securities sold under agreements to repurchase	35	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)

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.

45 Offsetting financial assets and financial liabilities *(continued)*

The following table reconciles 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 2017 and 2016:

				2017
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	776	Derivative financial instruments	1,156	380
Loans and receivables to banks –				
Reverse repurchase agreements	3	Loans and receivables to banks	1,313	1,310
Loans and receivables to customers –				
Reverse repurchase agreements	19	Loans and receivables to customers	59,993	59,974

				2017
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	901	Deposits by central banks and banks	3,640	2,739
Customer accounts –				
Securities sold under agreements to repurchase	81	Customer accounts	64,572	64,491
Derivative financial instruments	1,098	Derivative financial instruments	1,170	72

				2016
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
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

				2016
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
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

Notes to the consolidated financial statements

46 Memorandum items: contingent liabilities and commitments, and contingent assets

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the 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.

The Group'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.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on balance sheet lending'.

The following tables give the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2017 € m	2016 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**612**	527
Other contingent liabilities	**268**	383
	880	910
Commitments[2]		
Documentary credits and short-term trade-related transactions	**63**	62
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**7,543**	7,760
1 year and over[4]	**2,625**	2,467
	10,231	10,289
	11,111	11,199

[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]An original maturity of more than 1 year.

	Contingent liabilities		Commitments	
	2017 € m	2016 € m	**2017 € m**	2016 € m
Concentration of exposure				
Republic of Ireland	**607**	661	**8,619**	8,540
United Kingdom	**184**	145	**1,612**	1,744
United States of America	**89**	104	**–**	5
Total	**880**	910	**10,231**	10,289

46 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

The credit ratings of contingent liabilities and commitments at 31 December 2017 and 2016 are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	2017 € m	2016 € m
Good upper	**4,228**	3,231
Good lower	**6,389**	7,145
Watch	**90**	383
Vulnerable	**250**	268
Impaired	**154**	172
Total	**11,111**	11,199

Legal proceedings

The Group, 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 the Group 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 cash flows of the Group.

Contingent liability/contingent asset - NAMA

The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

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 of Ireland ('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 European Central Bank, or any national central bank of a Member State that has adopted the euro.

46 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

Participation in TARGET 2 – Ireland *(continued)*

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.

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 Participation in TARGET 2 – Ireland). AIB does not currently hold a dedicated cash account in relation to its participation in TARGET 2 – Ireland.

47 Subsidiaries and consolidated structured entities

The following are the material subsidiary companies of the Group at 31 December 2017 and 2016:

Name of company	Principal activity	Place of incorporation	Registered Office
Allied Irish Banks, p.l.c.	A direct subsidiary of AIB Group plc and the principal operating company of the Group and holds the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank	Republic of Ireland	Bankcentre, Ballsbridge, Dublin 4, Ireland.
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Republic of Ireland	Bankcentre, Ballsbridge, Dublin 4, Ireland.
EBS d.a.c.	Mortgages and savings – a licensed bank	Republic of Ireland	The EBS Building, 2 Burlington Road, Dublin 4, Ireland.
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland	92 Ann Street, Belfast BT1 3AY

The proportion of ownership interest and voting power held by AIB Group plc in Allied Irish Banks, p.l.c. is 100%. All subsidiaries of Allied Irish Banks, p.l.c. being the immediate subsidiary of AIB Group plc, are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries in the Group 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 and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities ("SPEs") in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by the Group:
- Emerald Mortgages No. 4 Public Limited Company (liquidator appointed);
- Emerald Mortgages No. 5 d.a.c.;
- Mespil 1 RMBS d.a.c.;
- Tenterden Funding p.l.c. (funding transaction terminated in June 2017);
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 48.

There are no contractual arrangements that could require AIB Group plc or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the period, neither AIB Group plc nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

The Group has no interest in unconsolidated structured entities.

48 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 the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group 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 principal forms of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

The Group utilises securitisations primarily to support the following business objectives:

– as an investor, the Group 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 the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
– as an originator of securitisations to support the funding activities of the Group.

The Group controls certain special purpose entities which were set-up to support its funding activities. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. The Group controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Stock borrowing and lending

Securities borrowed are not recognised in the financial statements, 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 is included in trading income.

Employee compensation trusts

The Group and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of shares held by trustees are set out in note 42 'Own shares'.

Transfer of financial assets

The Group 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 the Group 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.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements/securities lending

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group 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. The Group's sale and repurchase agreements are with banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 34) and 'Customer accounts' (note 35). As the Group 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. The Group 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 34 and 35. 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.

The Group enters into securities lending in the form of collateral swap agreements with other parties. The Group 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. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transaction. A fee is generated for the Group under this transaction.

Issuance of covered bonds

Covered bonds, which the Group 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. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to

48 Off-balance sheet arrangements and transferred financial assets *(continued)*

Issuance of covered bonds *(continued)*

be recognised on the Group's statement of financial position with the related covered bonds included within 'Debt securities in issue' (note 37). As the Group 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 € 9.5 billion, internal Group companies hold € 5.9 billion which are eliminated on consolidation.

Special purpose entities

Securitisations are transactions in which the Group sells loans and receivables to customers (mainly mortgages) to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised in the Group's statement of financial position. The Group 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 37). 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 the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

In 2012, the Group securitised € 533 million of the AIB Group (UK) p.l.c. residential mortgage portfolio.These mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ('Tenterden'). Tenterden was consolidated into the Group's financial statements. The liability in respect of cash received by Tenterden from the external investors was included within 'Debt securities in issue' (note 37) in the statement of financial position. In June 2017, Tenterden redeemed all outstanding notes and this funding transaction was terminated.

Arising from the acquisition of EBS on 1 July 2011, the Group controls three special purpose entities 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 d.a.c. 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 the Group has recognised at 31 December 2017 is Nil (2016: € 615 million). The carrying amount of the bonds issued by Emerald 4 to third party investors amounted to Nil (2016: € 399 million). On 15 December 2016, Emerald 4 announced to the Irish Stock Exchange that it had received notice from its sponsoring entity (EBS d.a.c.) of its intention to refinance loan notes on 15 March 2017 which Emerald 4 held. Consequent upon this, Emerald 4 used the redemption proceeds from the EBS loan notes to fully redeem its bonds at par. A liquidator was appointed to Emerald 4 on 18 December 2017.

Emerald Mortgages No. 5 d.a.c.

The total carrying amount of original residential mortgages transferred by EBS d.a.c. 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 the Group has recognised at 31 December 2017 is € 1,084 million (2016: € 1,189 million). Bonds were issued by Emerald 5 to EBS d.a.c. but these are not shown in the Group's financial statements as they are eliminated on consolidation.

Mespil 1 RMBS d.a.c.

The total carrying amount of secured loans that the Group has recognised at 31 December 2017 is € 684 million (2016: € 734 million) in relation to the transfers from EBS d.a.c. and Haven Mortgages Limited to Mespil 1 RMBS d.a.c. The bonds issued by Mespil 1 RMBS d.a.c. to EBS d.a.c. are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

48 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises the carrying value and fair value of financial assets at 31 December 2017 and 2016 which did not qualify for derecognition together with their associated financial liabilities:

2017	**Carrying amount of transferred assets €m**	**Carrying amount of associated liabilities held by third parties €m**	**Carrying amount of associated liabilities held by Group companies €m**	**Fair value of transferred assets €m**	**Fair value of associated liabilities held by third parties €m**	**Fair value of associated liabilities held by Group companies €m**	**Net fair value position €m**
Sale and repurchase agreements/							
similar products	**2,718**(1)(2)	**982**(1)	**–**	**2,718**	**982**	**–**	**1,736**
Covered bond programmes							
Residential mortgage backed	**6,543**(3)	**3,590**	**–**	**6,245**	**3,728**	**–**	**2,517**

2016	Carrying amount of transferred assets €m	Carrying amount of associated liabilities held by third parties €m	Carrying amount of associated liabilities held by Group companies €m	Fair value of transferred assets €m	Fair value of associated liabilities held by third parties €m	Fair value of associated liabilities held by Group companies €m	Net fair value position €m
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)

(1)See notes 34 and 35.

(2)Includes € 1,681 million of assets pledged in relation to securities lending arrangements (2016: € 345 million).

(3)The asset pools € 18 billion (2016: € 19 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 the Group companies. The € 6,543 million (2016: € 9,521 million) above refers to those assets apportioned to external investors.

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme. The future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

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

Assets ring fenced for this purpose entitle the UK 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 current annual payments were set at £ 19.1 million per annum, commencing 1 April 2016, but 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 Allied Irish Banks, p.l.c., has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by the Group 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 the Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into the Group.

48 Off-balance sheet arrangements and transferred financial assets *(continued)*

(ii) Transferred financial assets derecognised in their entirety but the Group 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 Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee 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 Irish Scheme of interests in an SPE owning loans and receivables previously transferred at fair value from the Group. The loans and receivables were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and receivables transferred. Under the servicing agreement, the Group 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% of the principal balance outstanding of all transferred loans and receivables on the last day of each calendar month. The Group 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 Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In 2017, the Group recognised € 0.8 million (cumulative € 6.1 million) (2016: € 1 million (cumulative € 5.3 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, the Group 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 exposure to loss, if any, which may arise on the dissolution or restructuring of NAMA.

In addition, the Group was 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% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In 2017, the Group recognised € 2 million (cumulative € 88 million) (2016: € 4 million (cumulative € 86 million)) in the income statement for the servicing of financial assets transferred to NAMA.

Notes to the consolidated financial statements

49 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 for financial assets in note 1 (m) and financial liabilities in note 1 (n), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the 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 2017 and 2016:

	At fair value through profit and loss		At fair value through equity		At amortised cost		2017 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Other €m	€m
Financial assets							
Cash and balances at central banks	–	–	–	–	5,731	633[1]	6,364
Items in the course of collection	–	–	–	–	103	–	103
Trading portfolio financial assets	33	–	–	–	–	–	33
Derivative financial instruments	613	125	418	–	–	–	1,156
Loans and receivables to banks	–	–	–	–	1,313	–	1,313
Loans and receivables to customers	–	–	–	–	59,993	–	59,993
Financial investments available for sale	–	–	–	16,321	–	–	16,321
Other financial assets	–	–	–	–	–	736	736
	646	125	418	16,321	67,140	1,369	86,019
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	3,640	3,640
Customer accounts	–	–	–	–	–	64,572	64,572
Trading portfolio financial liabilities	30	–	–	–	–	–	30
Derivative financial instruments	663	257	250	–	–	–	1,170
Debt securities in issue	–	–	–	–	–	4,590	4,590
Subordinated liabilities and other capital instruments	–	–	–	–	–	793	793
Other financial liabilities	–	–	–	–	–	1,061	1,061
	693	257	250	–	–	74,656	75,856

[1]Comprises cash on hand.

49 Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit and loss		At fair value through equity		At amortised cost			2016 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Held to maturity €m	Other €m	€m
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

[(1)]Comprises cash on hand.

Notes to the consolidated financial statements

50 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 1 (p).

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. The Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted);

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market; and

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market inputs.

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 the Group and valuation methodologies are validated by the independent Risk function within the Group.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2017.

The methods used for calculation of fair value in 2017 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

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

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") are applied to all uncollateralised over-the-counter derivatives. CVA is calculated as: (Option replacement cost x probability of default ("PD") x loss given default ("LGD")). PDs are derived from market based Credit Default Swap ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security, where applicable. For unsecured counterparties, an LGD of 60% is applied (2016: 60%).

50 Fair value of financial instruments *(continued)*

The Group 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 the Group's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group'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 on page 349. For FVA, a favourable scenario is the use of the bond yields of the Group's most active derivative counterparties while an adverse scenario is a downgrade in the CDS of the reference entities used to derive the funding curve.

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 by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and 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

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. An adjustment is made for credit risk which at 31 December 2017 took account of the Group's expectations on credit losses over the life of the loans.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

50 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 the Group.

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 payable and other receivables (including amounts awaiting settlement on the dispoal of financial assets totalling € 142 million) 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 the Group are included in note 46. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table on the following pages sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2017 and 2016:

50 Fair value of financial instruments *(continued)*

					2017
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Trading portfolio financial assets					
Debt securities	33	32	1	–	33
Derivative financial instruments					
Interest rate derivatives	1,094	–	667	427	1,094
Exchange rate derivatives	29	–	29	–	29
Equity derivatives	33	–	33	–	33
Financial investments available for sale					
Government securities	9,588	9,588	–	–	9,588
Supranational banks and government agencies	1,368	1,368	–	–	1,368
Asset backed securities	294	278	16	–	294
Bank securities	4,336	4,336	–	–	4,336
Corporate securities	56	56	–	–	56
Equity securities	679	16	1	662	679
	17,510	15,674	747	1,089	17,510
Financial assets not measured at fair value					
Cash and balances at central banks	6,364	633[1]	5,731	–	6,364
Items in the course of collection	103	–	–	103	103
Loans and receivables to banks	1,313	–	536	777	1,313
Loans and receivables to customers					
Mortgages[2]	32,424	–	–	30,865	30,865
Non-mortgages	27,569	–	–	27,318	27,318
Total loans and receivables to customers	59,993	–	–	58,183	58,183
Other financial assets	736	–	–	736	736
	68,509	633	6,267	59,799	66,699
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	30	30	–	–	30
Derivative financial instruments					
Interest rate derivatives	1,092	–	973	119	1,092
Exchange rate derivatives	34	–	34	–	34
Equity derivatives	35	–	35	–	35
Credit derivatives	9	–	9	–	9
	1,200	30	1,051	119	1,200
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	839	–	500	339	839
Secured borrowings	2,801	–	1,905	901	2,806
Customer accounts					
Current accounts	33,179	–	–	33,179	33,179
Demand deposits	14,007	–	–	14,007	14,007
Time deposits	17,305	–	–	17,348	17,348
Securities sold under agreements to repurchase	81	–	–	81	81
Debt securities in issue					
Bonds and medium term notes	4,590	4,653	108	–	4,761
Subordinated liabilities and other capital instruments	793	819	78	–	897
Other financial liabilities	1,061	–	–	1,061	1,061
	74,656	5,472	2,591	66,916	74,979

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

Notes to the consolidated financial statements

50 Fair value of financial instruments *(continued)*

					2016
	Carrying amount	Fair value			
		Fair value hierarchy			
	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €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..

50 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2017 and 2016.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

					2017
	Financial assets			Financial liabilities	
	Derivatives € m	Available for sale equity securities € m	Total € m	Derivatives € m	Total € m
At 1 January	509	604	1,113	161	161
Transfers into Level 3[1]	2	–	2	–	–
Transfers out of level 3[1]	(7)	–	(7)	–	–
Total gains or (losses) in:					
Profit or loss					
– Net trading income	(74)	–	(74)	(30)	(30)
– Other operating income	–	48	48	–	–
	(74)	48	(26)	(30)	(30)
Other comprehensive income					
– Net change in fair value of financial investments available for sale	–	5	5	–	–
– Net change in fair value of cash flow hedges	(3)	–	(3)	(9)	(9)
	(3)	5	2	(9)	(9)
Purchases/additions	–	56	56	–	–
Sales/disposals	–	(51)	(51)	–	–
Settlements	–	–	–	(3)	(3)
At 31 December	427	662	1,089	119	119

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Net transfers out of Level 3 are a function of the observability of inputs into instrument valuations.

Transfers into level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobservable data.

50 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

						2016
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	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	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 unobservable 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 December 2017 and 2016:

	2017 **€ m**	2016 € m
Net trading income – gains	**46**	136
	46	136

50 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2017 and 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Financial instrument		Fair Value 31 December 2017 € m	Fair Value 31 December 2016 € m	Valuation technique	Significant unobservable input	Range of estimates 31 December 2017	Range of estimates 31 December 2016
Uncollateralised customer derivatives	Asset	**427**	509	CVA	LGD	**41% – 65% (Base 53%)**	47% – 67% (Base 54%)
	Liability	**119**	161		PD	**0.6% – 1.3% (Base 0.9% 1 year PD)**	0.8% – 1.6% (Base 1.2% 1 year PD)
				FVA	Funding spreads	**(0.3%) to 0.3%**	(0.6%) to 0.5%
NAMA subordinated bonds	Asset	**466**	466	Discounted cash flows	Discount rate	**2.79% – 6.0% (Base 3.98%)**	7.21% – 9% (Base 7.21%)
					Maturity date	No longer considered a significant unobservable input	March 2019 – March 2020 (Base March 2020)
Visa Inc. Series B Preferred Stock	Asset	**92**	70	Quoted market price (to which a discount has been applied)	Final conversion rate	**0% – 90%**	0% –100%

Uncollateralised customer derivatives

The fair value measurement sensitivity to unobservable inputs at 31 December 2017 ranges from (i) negative € 39 million to positive € 23 million for CVA (31 December 2016: negative € 37 million to positive € 23 million) and (ii) negative € 7 million to positive € 6 million for FVA (31 December 2016: negative € 12 million to positive € 15 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.

Nama subordinated bonds

The fair value measurement sensitivity to unobservable discount rate ranges from negative € 18 million to positive € 12 million at 31 December 2017 (31 December 2016: negative € 22 million to positive € 7 million).

Visa Inc. Series B Preferred Stock

In June 2016, the Group received Series B Preferred Stock in Visa Inc. with a fair value of € 65 million as part consideration for its holding of shares in Visa Europe. The 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.

– **Valuation technique**: Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illquidity and the conversion rate variability of the preferred stock of Visa Inc. i.e. a 45% haircut (2016: 50%). This was converted at the year end exchange rate.
– **Unobservable input**: Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.
– **Range of estimates**: Estimates range from (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.

50 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions e.g. a higher/lower discount relating to conversion rate variability in the valuation methodology at 31 December 2017 and 2016:

	2017			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	**28**	**(44)**	**–**	**–**
Financial investments available for sale – equity securities	**–**	**(59)**	**54**	**(49)**
Total	**28**	**(103)**	**54**	**(49)**
Classes of financial liabilities				
Derivative financial instruments	**1**	**(2)**	**–**	**–**
Total	**1**	**(2)**	**–**	**–**

	2016			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € 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.

51 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2017 € m	2016 € m
Profit on disposal of business	–	(1)
Profit on disposal of loans and receivables	(32)	(11)
Dividends received from equity securities	(28)	(26)
Dividends/distribution received from associated undertakings and joint venture	(9)	(40)
Associated undertakings and joint venture	(19)	(35)
Writeback of provisions for impairment on loans and receivables	(113)	(294)
Writeback of provisions for impairment on financial investments available for sale	–	(2)
Writeback of provisions for liabilities and commitments	(8)	(2)
Change in other provisions	95	28
Retirement benefits – defined benefit (income)/expense	(1)	2
Depreciation, amortisation and impairment	141	109
Interest on subordinated liabilities and other capital instruments	31	199
Net gains on buy back of debt securities in issue	–	(1)
Profit on disposal of financial investments available for sale	(66)	(362)
Loss on termination of hedging swaps	11	59
Remeasurement of NAMA senior bonds	(4)	(10)
Amortisation of premiums and discounts	213	227
Fair value gain on re-estimation of cash flows on restructured loans	(72)	(15)
Change in prepayments and accrued income	(17)	54
Change in accruals and deferred income	(137)	(94)
Effect of exchange translation and other adjustments[1]	46	(18)
Total non-cash items	**31**	(233)
Contributions to defined benefit pension schemes	(64)	(59)
Dividends received from equity securities	28	26
Total other items	**(36)**	(33)
Non-cash and other items for the year ended 31 December	**(5)**	(266)

[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.

51 Statement of cash flows *(continued)*

Change in operating assets[1]	2017 € m	2016 € m
Change in items in course of collection	28	7
Change in trading portfolio financial assets	(32)	–
Change in derivative financial instruments	43	125
Change in loans and receivables to banks	114	769
Change in loans and receivables to customers	10	1,286
Change in NAMA senior bonds	1,805	3,838
Change in other assets	(5)	482
	1,963	6,507

Change in operating liabilities[1]	2017 € m	2016 € m
Change in deposits by central banks and banks	(4,029)	(6,115)
Change in customer accounts	1,697	1,884
Change in trading portfolio financial liabilities	30	(86)
Change in debt securities in issue	(2,274)	(118)
Change in other liabilities	(84)	(94)
Change in notes in circulation	(33)	(59)
	(4,693)	(4,588)

[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:

	2017 € m	2016 € m
Cash and balances at central banks	6,364	6,519
Loans and receivables to banks[1]	694	645
	7,058	7,164

[1]Included in 'Loans and receivables to banks' total of € 1,313 million (2016: € 1,399 million) set out in note 23.

The Group is required by law to maintain balances with the Bank of England. At 31 December 2017, these amounted to € 536 million (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 the Group's ability to meet its cash obligations.

52 Related party transactions

Related parties in the Group include the parent company, AIB Group plc, subsidiary undertakings, associated undertakings, 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. The immediate holding company and controlling party is AIB Group plc with its registered office at Bankcentre, Ballsbridge, Dublin 4. AIB Group plc became the group holding company on 8 December 2017 following a Scheme of Arrangement approved by shareholders at an Extraordinary General Meeting of Allied Irish Banks, p.l.c. held on 3 November 2017 (note 3).

(a) Transactions with Group and subsidiary undertakings

(i) Transactions with AIB Group plc

Under the Scheme of Arrangement noted above, 2,714,381,237 Allied Irish Banks, p.l.c. ordinary shares of nominal value € 0.625 per share were cancelled on 8 December 2017 and AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the shareholders of Allied Irish Banks, p.l.c. for every Allied Irish Banks, p.l.c. share cancelled. On the same date, Allied Irish Banks, p.l.c. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc. Allied Irish Banks, p.l.c. is now a wholly owned subsidiary of AIB Group plc.

There were no other transactions between AIB Group plc and Allied Irish Banks, p.l.c. and its subsidiary and associated undertakings during 2017.

Initial Subscribers Deed of Release and Indemnity

AIB Group plc, Allied Irish Banks, p.l.c. and MFSD Holding Limited and MFSD Nominees Limited (the latter two entities being the "AIB Group plc Initial Subscribers") entered into a deed of release and indemnity dated 21 September 2017 whereby, amongst other things (a) AIB Group plc agreed to effect the redemption at par and cancellation of the AIB Group plc Subscriber Shares within 12 months of the date of the deed; (b) AIB Group plc and the Initial AIB Group plc Subscribers agreed that the proceeds payable to the Initial AIB Group plc Subscribers on redemption of certain of the AIB Group plc Subscriber Shares will be set-off against the amounts owing by the Initial AIB Group plc Subscribers in connection with their original subscription for the AIB Group plc Subscriber Shares by way of undertaking to pay, which shall represent satisfaction in full of their respective obligations in connection with such redemption and subscription; and (c) AIB Group plc and Allied Irish Banks, p.l.c. have agreed to release the AIB Group plc Initial Subscribers from, and indemnify (on a joint and several basis) the AIB Group plc Initial Subscribers against, any claims or liability arising out of, or in connection with, any action taken or omission made by an AIB Group plc Initial Subscriber in its capacity as a shareholder of AIB Group plc or the holding by the AIB Group plc Initial Subscriber of shares in AIB Group plc or any action taken or omission made on the part of any AIB Group plc Initial Subscriber connected to the Scheme (note 41 for further details on Subscriber Shares).

(ii) Transactions between subsidiary undertakings

Banking transactions between Group subsidiaries are entered into in the normal course of business. These include loans, deposits, provisions of derivative contracts, foreign currency contracts and the provision of guarantees on an 'arm's length basis'. In 2017, a review was completed of pricing arrangements between Allied Irish Banks, p.l.c. and certain Irish subsidiaries. Arising from this review, new pricing agreements were signed and implemented during 2017. The new agreements reflect OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. In accordance with IFRS 10, *'Consolidated Financial Statements',* transactions between subsidiaries have been eliminated on consolidation.

(b) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group 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, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of Allied Irish Banks, p.l.c. 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 48).

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 entity owning loans and receivables previously transferred at fair value from the Group. 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 48).

52 Related party transactions *(continued)*

(c) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures.* Under IAS 24, Key Management Personnel ("KMP") are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Leadership Team (see pages 28 to 31). As at 31 December 2017, the Group had 22 KMP (2016: 21 KMP).

(i) Compensation of Key Management Personnel

Details of compensation paid to KMP are provided below. The figures shown include the figures separately reported in respect of Directors' remuneration on pages 220 to 222.

	2017 € m	2016 € m
Short-term compensation[(1)]	6.7	6.7
Post-employment benefits[(2)]	0.8	0.8
Termination benefits[(3)]	–	0.3
Total	**7.5**	7.8

[(1)]Comprises (a) in the case of Executive Directors and Senior Executive Officers: 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 Group.

[(2)]Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The Group'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 the Group during 2016.

(ii) Transactions with Key Management Personnel

Loans to KMP and their close family members 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 the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Directors and Senior Executive Officers are made on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case by case basis.

The aggregrate amounts outstanding, in respest of all loans, quasi loans and credit transactions between the Group and KMP, as defined above, together with members of their close families and entities controlled by them are shown in the following table:

Loans outstanding	2017 € m	2016 € m
At 1 January	**5.23**	4.68
Loans issued during the year	0.13	1.90
Loan repayments during the year/change of KMP/other	(0.67)	(1.35)
At 31 December	**4.69**	5.23

Total commitments outstanding refers to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to KMP. Total commitments outstanding as at 31 December 2017 were € 0.28 million (2016: € 0.27 million).

Deposit and other credit balances held by KMP and their close family members as at 31 December 2017 amounted to € 6.89 million (2016: € 6.23 million).

52 Related party transactions *(continued)*

(d) Companies Act 2014 disclosures

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Act disclosures, Director means the Board of Directors and any past Directors who are Directors during the relevant period.

Two Directors, namely Garreth O'Brien and David Joseph Lydon, were appointed on incorporation of the company. These Directors subsequently resigned on 21 September 2017 when the current AIB Directors were appointed. Relevant information as required by the Companies Act 2014 in relation to these two Directors is provided in Note f 'Related party transactions' in AIB Group plc company financial statements on page 376.

Excluding the above two Directors, there were 12 Directors in office during the year, 9 of whom availed of credit facilities (2016: 8). 5 of the 9 Directors who availed of credit facilities had balances outstanding at 31 December 2017 (2016: 6).

Details of transactions with Directors for the year ended 31 December 2017 are as follows:

	Balance at 31 December 2016 € 000	Amounts advanced during 2017	Amounts repaid during 2017	Balance at 31 December 2017 € 000
Mark Bourke:				
Loans	515	–	49	466
Overdraft/credit card*	–	–	–	–
Total	515	–	49	466
Interest charged during the year				5
Maximum debit balance during the year**				515
Simon Ball:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	2	–	–	–
Total	2	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				2
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	2	2	–	3
Total	2	2	–	3
Interest charged during the year				–
Maximum debit balance during the year**				10
Dr Michael Somers:				
Loans	–	–	–	–
Overdraft/credit card*	2	–	–	2
Total	2	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				2

Notes to the consolidated financial statements

52 Related party transactions *(continued)*

(d) Companies Act 2014 disclosures

(i) Loans to Directors *(continued)*

	Balance at 31 December 2016 € 000	Amounts advanced during 2017	Amounts repaid during 2017	Balance at 31 December 2017 € 000
Catherine Woods:				
Loans	**59**	**–**	**10**	**50**
Overdraft/credit card*	**–**	**–**	**–**	**–**
Total	**59**	**–**	**10**	**50**
Interest charged during the year				**1**
Maximum debit balance during the year**				**59**

Richard Pym had a credit card facility which was not used during the year. Helen Normoyle and Jim O'Hara also held overdraft facilities which were not used during the year. Simon Ball had a credit card facility which held an opening and closing balance of under € 500 at the beginning and end of the reporting period. However, the maximum debit balance exceeded €1,000 during the year, and has been reported in the preceding table.

Bernard Byrne, Peter Hagan and Brendan McDonagh had no facilities with the Group during 2017.

As at 31 December 2017, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.024 million. No amounts were paid or liability incurred in fulfilling the guarantee.

No impairment charges or provisions have been recognised during 2017 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.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).
**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

Details of transactions with Directors for the year ended 31 December 2016 are as follows:

	Balance at 31 December 2015 € 000	Amounts advanced during 2016	Amounts repaid during 2016	Balance at 31 December 2016 € 000
Mark Bourke:				
Loans	563	–	48	515
Overdraft/credit card*	–	–	–	–
Total	563	–	48	515
Interest charged during the year				6
Maximum debit balance during the year**				563
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	2
Total	–	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				4

52 Related party transactions *(continued)*
(d) Companies Act 2014 disclosures
(i) Loans to Directors *(continued)*

	Balance at 31 December 2015 € 000	Amounts advanced during 2016	Amounts repaid during 2016	Balance at 31 December 2016 € 000
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	3	–	–	2
Total	3	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				12
Brendan McDonagh:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Jim O'Hara:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Dr Michael Somers:				
Loans	–	–	–	–
Overdraft/credit card*	3	–	–	2
Total	3	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				3
Catherine Woods:				
Loans	69	–	10	59
Overdraft/credit card*	–	–	–	–
Total	69	–	10	59
Interest charged during the year				1
Maximum debit balance during the year**				69

No impairment charges or provisions were recognised during the year in respect of any of the above loans or facilities and all interest that fell due on all of these loans or facilities was paid.

As at 31 December 2016, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.032 million. No amounts were paid or liability incurred in fulfilling the guarantee.

Mr Simon Ball had a credit card facility which had an opening, closing and maximum debit balance during 2016 of less than € 500 and no interest was incurred during the year. Mr Richard Pym had a credit card facility which was not used during the year and Helen Normoyle had an overdraft facility of less than € 2,000 which was not used during the year.

Bernard Byrne and Peter Hagan had no facilities with the Group during 2016.

52 Related party transactions *(continued)*
(d) Companies Act 2014 disclosures
(ii) Connected persons
The aggregate of loans to connected persons of Directors in office at 31 December 2017, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 26 persons; 2016: 26 persons):

	Balance at 31 December 2017 € 000	Balance at 31 December 2016 € 000
Loans	2,050	1,755
Overdraft/credit card*	79	70
Total	2,129	1,825
Interest charged during the year	58	
Maximum debit balance during the year**	2,361	

No impairment charges or provisions have been recognised during the year 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.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(iii) Aggregate balance of loans and guarantees held by Directors and their connected persons
The aggregate balance of loans and guarantees held by Directors and their connected persons as at 31 December 2017 represents less than 0.02% of the net assets of the Group (2016: 0.02%).

(e) 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 various share issues to NPRFC during 2010 and 2011, AIB is under the control of the Irish Government. However, following the Initial Public Offering ("IPO") in June 2017, the Government's shareholding reduced from 99.9% to 71.12% of the issued ordinary share capital (see below).

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 Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("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 the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group'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 the Risk management section of this report.

52 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support;
- Relationship Framework; and
- AIB Restructuring Plan

The significant changes since 31 December 2016 that affected AIB's relationship with the Irish Government are: Equity holdings; Issue of warrants to the Minister for Finance; and Relationship Framework.

- ***Capital investments***

  In the years since 2008, the Irish Government has implemented a number of recapitalisation measures to support the Irish banking system including AIB Group. Certain of this capital invested in AIB Group has since been repaid, restructured or reorganised. The relevant capital transactions and/or capital investments outstanding at 31 December 2017 and 2016 are as follows:

  Equity holdings

  At 31 December 2016, the Irish Government, through the Ireland Strategic Investment Fund ("ISIF"), held 2,710,821,149 ordinary shares in AIB with a nominal value of € 0.625 per share (99.9% of the total issued ordinary share capital). Following the Initial Public Offering ("IPO") to certain institutional and retail investors in June 2017, the Irish Government sold 780,384,606 of these ordinary shares (28.75% of the issued ordinary share capital). The Irish Government now holds 1,930,436,543 ordinary shares in AIB Group plc (71.12% of total).

  Shares in AIB Group plc are now traded on the Irish and London Stock Exchanges which followed the Scheme of Arrangement becoming effective (note 3).

  Under the 2011 Placing Agreement between AIB, the Minister, the NPRFC and the NTMA, AIB agreed to effect and/or facilitate, at its own expense, the placing or offer to the public or the admission to trading of the ordinary shares owned by the Minister. In this regard, AIB paid € 12 million in the financial year to 31 December 2017 on behalf of the Minister in respect of commissions payable to underwriters and intermediaries and € 4 million for transaction advisory fees and expenses incurred by the Minister and the underwriters in connection with the IPO.

  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% on the nominal value of the notes. 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 (note 40).

  Capital contributions

  On 28 July 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for nil consideration.

52 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Issue of warrants to the Minister for Finance

As part of the 2015 Capital Reorganisation, AIB entered into a Warrant Agreement with the Minister and granted the Minister the right to receive warrants to subscribe for additional ordinary shares.

On 26 April 2017, the Minister exercised his rights under the Warrant Agreement by issuing a Warrant Notice to AIB requiring it to issue warrants to the Minister to subscribe for such number of ordinary shares representing 9.99% in aggregate of the issued share capital of the company at admission of the ordinary shares to the Official Lists and to trading in accordance with the Listing Rules on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange.

Following the admission to listing on the Irish Stock Exchange and the London Stock Exchange, AIB issued warrants to the Minister on 4 July 2017 to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the IPO. This 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 27 June 2018 and ending on 27 June 2027.

In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

Under the corporate restructure outlined in note 3, this warrant instrument was replaced by a new warrant instrument (the "AIB Group plc Warrant Instrument") pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant agreement with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 3). Allied Irish Banks, p.l.c. warrants were cancelled on this date.

– ***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, AIB 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 2017 amounted to € 143 million (31 December 2016: € 1.1 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 the years to the 31 December 2017 and 31 December 2016, are set out in note 6. 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 10, 26 and 27. The NAMA senior bonds were fully repaid during 2017. In addition, the Group disposed of € 34 million in nominal value of the NAMA subordinated bonds during 2017.

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 46.

52 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

– ***NAMA (continued)***

Investment in National Asset Management Agency Investment d.a.c. ("NAMAIL")

In March 2010, a then subsidiary of Allied Irish Banks, p.l.c. 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 pension scheme (fair value at 31 December 2017: € 11.8 million; 31 December 2016: € 11 million), with the remainder invested on behalf of clients.

– ***Funding support***

The Group has availed of Targeted Long Term Refinancing Operation II ("TLTRO II") funding from the ECB, through the Central Bank. At 31 December 2017, the amounts outstanding, totalling € 1.9 billion (31 December 2016: € 1.9 billion for TLTRO) are included in 'Deposits by central banks and banks' in the table below. See note 34 for details of collateral.

The interest rate on the TLTRO II is the main ECB rate which is currently 0%. 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.

– ***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. The Relationship Framework was amended and restated on 12 June 2017. Furthermore, the AIB Group plc Relationship Framework was put in place on 8 December 2017 in subsitution for the Relationship Framework dated 12 June 2017.Under the relationship frameworks, 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.

– ***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 already 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.

AIB 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 were aligned to AIB's operational plans and were supportive of AIB's return to viability.

The plan covered the period from 2014 to 2017.

52 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held at 31 December 2017 and 2016 with Irish Government entities[1] together with the highest balances held at any point during the year.

		2017		2016	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	1,162	3,452	1,529	3,618
Trading portfolio financial assets		19	63	–	–
Derivative financial instruments		–	10	–	7
Loans and receivables to banks	b	–	32	21	965
Loans and receivables to customers		7	9	19	82
NAMA senior bonds	c	–	1,799	1,799	5,619
Financial investments available for sale/ held to maturity	d	7,487	8,936	8,936	9,337
Total assets		8,675		12,304	

		2017		2016	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	e	1,900	2,346	1,912	2,950
Customer accounts	f	499	1,172	806	1,020
Trading portfolio financial liabilities		19	48	–	86
Derivative financial instruments		–	14	18	55
Subordinated liabilities and other capital instruments	g	–	–	–	1,600
Total liabilities		2,418		2,736	

[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 period, 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.

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. The Group is required to maintain a monthly average Primary Liquidity balance which at 31 December 2017 was € 549 million (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 and were fully repaid during 2017.

d Financial investments available for sale/held to maturity comprise € 7,021 million (2016: € 8,470 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 December 2017 of € 466 million (2016: € 466 million) detailed above under 'NAMA'.

e This relates to funding received from the ECB through the Central Bank which is detailed under 'Funding Support' above.

f Includes € 360 million (2016: € 325 million) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance.

g Redeemed on 28 July 2016 (note 40).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

52 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

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.

[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.

The following balances were outstanding in total to these financial institutions at 31 December 2017 and 2016:

	2017 € m	2016 € m
Assets		
Derivative financial instruments	**1**	1
Loans and receivables to banks[1]	**2**	3
Financial investments available for sale	**423**	471
Liabilities		
Deposits by central banks and banks[2]	**1**	89
Derivative financial instruments	**1**	4
Customer deposits[3]	**–**	–

[1]The highest balance in loans and receivables to banks amounted to € 17 million in respect of funds placed during the year (2016: € 501 million).

[2]The highest balance in deposits by central banks and banks to these financial institutions amounted to € 302 million in respect of funds received during the year (2016: € 369 million).

[3]There were no customer deposits held with these financial institutions during 2017. The highest balance in customer deposits held with these financial institutions in 2016 amounted to € 17 million.

In connection with the acquisition by AIB Group 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 Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB Group 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 Group 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.

52 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Investment in Greencoat Renewables plc

The Group and ISIF jointly invested in Greencoat Renewables plc ("Greencoat") during 2017 to fund the purchase of windfarms in Ireland. The Group and ISIF each invested € 76 million in loan notes (note 29) which were accounted for as a joint venture by the Group. Following the initial public offering by Greencoat in July 2017, the Group was repaid the loan notes at their carrying value together with accrued interest amounting to € 2 million which was accounted for as a distribution. In addition, the Group received € 0.6 million in fee income from Greencoat. The Group then invested € 15 million in the ordinary share capital of the company (5.56% of the total) which is accounted for as an available for sale equity.

Irish bank levy

The bank levy, introduced on certain financial institutions in 2014, was extended to 2021 in Finance Act 2016. The levy is calculated based on each financial institution's Deposit Interest Retention Tax ("DIRT") payment in a base year. This base year changes every two years with 2015 being the base year for 2017 and 2018. The current levy rate is 59% of the DIRT payment for 2015 and is chargeable on this basis for each of the years 2017 and 2018 inclusive. The rate of the levy will be reviewed by Revenue with every change in the base year in order to maintain the annual yield at approximately € 150 million. The annual levy paid by the Group for 2017 and reflected in administrative expenses (Note 12) in the income statement amounted to € 49 million (2016: € 60 million).

(f) Indemnities

The Group has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit pension scheme and defined 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.

53 Commitments

Capital expenditure	2017 € m	2016 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**5**	9
Capital expenditure authorised but not yet contracted for	**50**	38

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases is set out in the following table:

	2017 € m	2016 € m
One year	**69**	62
One to two years	**72**	58
Two to three years	**71**	55
Three to four years	**68**	53
Four to five years	**62**	51
Over five years	**331**	268
Total	**673**	547

The Group holds a number of significant operating lease arrangements in respect of branches and the headquarter locations. The Group 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 18 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 7 years with the final contractual remaining terms ranging from 1 year to 21 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 the reporting date were € 6 million (2016: € 2 million).

Operating lease payments recognised as an expense for the year were € 68 million (2016: € 65 million). Sublease income amounted to Nil (2016 : Nil).

During 2017, the Group entered into two lease agreements for which gross rentals payable over the minimum lease terms of 12 years and 15 years respectively, amounted to € 151 million.

Included in the € 673 million in the table above are minimum lease payments amounting to € 114 million for which an onerous lease provision has been created.

54 Employees

The following table shows the geographical analysis of average employees for 2017 and 2016:

Average number of staff (Full time equivalents)	2017	2016
Republic of Ireland	**8,840**	8,797
United Kingdom	**1,244**	1,376
United States of America	**53**	53
Total	**10,137**	10,226

A new operating structure was implemented in 2017, with staff numbers reported under the new segments. Prior period numbers have not been restated under the new segment structure.

	2017		2016
RCB	**5,403**		
WIB	**278**	AIB Ireland	5,436
AIB UK	**941**	AIB UK	1,064
Group[1]	**3,515**	Group & International[2]	3,726
Total	**10,137**		10,226

[1]Group 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.

[2]Group & International includes the businesses outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, heman resources and corporate affairs).

The average number of employees for 2017 and 2016 set out above excludes employees on career breaks and other unpaid long term leaves.

Actual full time equivalent numbers at 31 December 2017 were 9,720 (2016: 10,376).

55 Regulatory compliance

During the years ended 31 December 2017 and 2016, the Group, and Allied Irish Banks, p.l.c. and its regulated subsidiaries complied with their externally imposed capital ratios.

56 Financial and other information

	2017 %	2016 %
Operating ratios		
Operating expenses/operating income	**61.1**	53.8
Other income/operating income	**27.5**	31.0
Net interest margin[(1)]	**2.58**	2.23
Performance measures		
Return on average total assets	**1.2**	1.4
Return on average ordinary shareholders' equity[(2)]	**8.4**	11.1

[(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 (2016: € 494 million).

Rates of exchange	2017	2016
€ /$*		
Closing	**1.1993**	1.0541
Average	**1.1299**	1.1069
€ /£*		
Closing	**0.8872**	0.8562
Average	**0.8767**	0.8196

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		Liabilities and equity	
Currency information	2017 € m	2016 € m	2017 € m	2016 € m
Euro	**71,801**	76,885	**71,543**	77,392
Other	**18,261**	18,737	**18,519**	18,230
	90,062	95,622	**90,062**	95,622

57 Average balance sheets and interest rates[1]

The following table shows interest rates prevailing at 31 December 2017 and 2016 together with average prevailing interest rates, gross yields, spreads and margins for the years ended 31 December 2017 and 2016:

	Interest rates at 31 December		Average interest rates for years ended 31 December	
	2017 %	2016 %	**2017 %**	2016 %
Ireland				
AIB Group's prime lending rate	**0.13**	0.13	**0.13**	0.16
European inter-bank offered rate				
One month euro	**(0.37)**	(0.37)	**(0.37)**	(0.34)
Three month euro	**(0.33)**	(0.32)	**(0.33)**	(0.26)
United Kingdom				
AIB Group's base lending rate	**0.50**	0.25	**0.29**	0.40
London inter-bank offered rate				
One month sterling	**0.50**	0.26	**0.30**	0.41
Three month sterling	**0.52**	0.37	**0.36**	0.50
ECB refinancing rate	**–**	0.00	**–**	0.01
Gross yields, spreads and margins[2]				
Gross yields[3]			**2.92**	2.87
Interest rate spread[4]			**2.32**	1.87
Net interest margin[5]			**2.58**	2.23

[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.

57 Average balance sheets and interest rates *(continued)*

In the income statement, the Group presents interest resulting from negative effective interest rates on financial assets as interest expense. Similarly, interest resulting from negative effective interest rates on financial liabilities is presented as interest income. In the table below, negative interest expense on liabilities amounting to € 13 million (2016: € 21 million) is offset against interest expense and negative interest income on assets amounting to € 4 million (2016: Nil) is offset against interest income.

The following table shows the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2017 and 2016.

	Year ended 31 December 2017			Year ended 31 December 2016		
Assets	**Average balance[1] € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %
Trading portfolio financial assets less liabilities	**–**	**–**	**–**	–	–	–
Loans and receivables to banks	**6,396**	**12**	**0.2**	6,077	18	0.3
Loans and receivables to customers	**60,619**	**2,166**	**3.6**	62,116	2,248	3.6
NAMA senior bonds	**531**	**2**	**0.4**	3,644	11	0.3
Financial investments available for sale	**13,635**	**154**	**1.1**	14,925	182	1.2
Financial investments held to maturity	**3,273**	**130**	**4.0**	3,419	131	3.8
Total average interest earning assets	**84,454**	**2,464**	**2.9**	90,181	2,590	2.9
Non-interest earning assets	**7,165**			8,005		
Total average assets	**91,619**	**2,464**	**2.7**	98,186	2,590	2.6
Liabilities and equity						
Trading portfolio financial liabilities less assets	**8**	**–**	**–**	–	–	–
Deposits by central banks and banks	**5,071**	**(4)**	**(0.1)**	9,728	(13)	(0.1)
Customers accounts	**36,608**	**228**	**0.6**	38,894	341	0.9
Other debt issued	**5,659**	**33**	**0.6**	7,474	50	0.7
Subordinated liabilities	**792**	**31**	**3.9**	1,629	199	12.2
Average interest earning liabilities	**48,138**	**288**	**0.6**	57,725	577	1.0
Non-interest earning liabilities	**30,141**			28,056		
Total average liabilities	**78,279**	**288**	**0.4**	85,781	577	0.7
Equity	**13,340**			12,405		
Total average liabilities and equity	**91,619**	**288**	**0.3**	98,186	577	0.6

[1]Average interest earning assets are based on daily balances for all categories with the exception of loans and receivables to banks, which are based on a combination of daily / monthly balances. Average interest earning liabilities are based on daily balances for customer accounts while other categories are based on a combination of daily / monthly balances. The balance sheets included in the averages were: at 31 December 2017, 2016 and 2015 - as audited; and at 31 March 2017, 30 June 2016 and 30 June 2017 - as reviewed by the independent auditor.

Notes to the consolidated financial statements

58 Dividends

On 9 May 2017, following approval by the shareholders at the Annual General Meeting held on 27 April 2017, Allied Irish Banks, p.l.c. paid a final dividend of € 0.0921 per ordinary share amounting in total to € 250 million. The financial statements for the year ended 31 December 2017 reflect this in shareholders' equity as an appropriation of distributable reserves.

The Board is recommending that a final dividend of € 0.12 per ordinary share amounting in total to € 326 million be paid on 4 May 2018. The financial statements for the financial year ended 31 December 2017 do not reflect this which will be accounted for in shareholders' equity as an appropriation of distributable reserves in 2018.

No dividends were paid on ordinary shares during the financial year ended 31 December 2016.

59 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 31 December 2017.

60 Approval of financial statements

The financial statements were approved by the Board of Directors on 28 February 2018.

AIB Group plc company statement of financial position

as at 31 December 2017

	Notes	2017 € m
Assets		
Investment in subsidiary undertaking	b	**12,940**
Total assets		**12,940**
Equity		
Share capital	c	**1,697**
Merger reserve	d	**6,235**
Revenue reserves	e	**5,008**
Total equity		**12,940**

Richard Pym	**Bernard Byrne**	**Mark Bourke**	**Sarah McLaughlin**
Chairman	Chief Executive Officer	Chief Financial Officer	Group Company Secretary

28 February 2018

AIB Group plc company statement of cash flows

for the financial period from incorporation 8 December 2016 to 31 December 2017

	2017 € m
Cash flows from operating activities	
Profit before taxation for the period	–
Net cash inflow from operating activities	–
Cash flows from investing activities	
Net cash outflow from investing activities	–
Cash flows from financing activities	
Net cash inflow from financing activities	–
Change in cash and cash equivalents	
Closing cash and cash equivalents	–

AIB Group plc company statement of changes in equity

for the financial period from incorporation 8 December 2016 to 31 December 2017

	Share capital € m	Merger reserve € m	Revenue reserves € m	Total € m
At 8 December 2016	–	–	–	–
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Ordinary shares issued to satisfy requirements for a public limited company[(1)]	–	–	–	–
Impact of corporate restructuring				
Investment in Allied Irish Banks, p.l.c.[(2)] *(note b)*	6,705	6,235	–	12,940
Reduction in company capital *(note e)*	(5,008)	–	5,008	–
Total contributions by and distribution to owners	1,697	6,235	5,008	12,940
Total comprehensive income for the period	–	–	–	–
Profit/(loss)	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	–	–	–	–
At 31 December 2017	1,697	6,235	5,008	12,940

[(1)]Issue of 39,998 ordinary shares of € 0.625 each.

[(2)]Issue of shares in return for the investment in Allied Irish Banks, p.l.c. on 8 December 2017. The investment of € 12,940 million represents the net book value of Allied Irish Banks, p.l.c. as at 8 December 2017.

Notes to AIB Group plc company financial statements

Background
AIB Group plc is a company domiciled in Ireland. AIB Group plc's registered office address is Bankcentre, Ballsbridge, Dublin 4, Ireland. AIB Group plc was incorporated as RPML 1966 Holdings plc on 8 December 2016. On 5 September 2017, RPML 1966 Holdings plc changed its name to AIB Group plc. Further details on AIB Group plc's 'Corporate restructuring' are set out in note 3 to the consolidated financial statements.

a Accounting policies
Where applicable, the accounting policies adopted by AIB Group plc ('the parent company' or 'the Company') are the same as those of the Group as set out in note 1 to the consolidated financial statements on pages 247 to 274.

The parent company financial statements and related notes set out on pages 371 to 376 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial period from incorporation on 8 December 2016 to 31 December 2017. They also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations 2015.

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.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 275 to 278.

Parent Company Income statement
In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting: and from filing them with the Registrar of Companies. AIB Group plc did not trade during the period from incorporation, being 8 December 2016 to 31 December 2017, and received no income and incurred no expenditure. Consequently, for the period from incorporation on 8 December 2016 to 31 December 2017 AIB Group plc made neither a profit nor loss.

b Investment in subsidiary undertaking

	2017 € m
At 8 December 2016	**–**
Additions	**12,940**
At 31 December 2017	**12,940**

On 8 December 2017, AIB Group plc acquired the entire ordinary share capital of Allied Irish Banks, p.l.c. other than a single share already owned by AIB Group plc. Under a Scheme of Arrangement, approved by the shareholders of Allied Irish Banks, p.l.c. at an Extraordinary General Meeting held on 3 November and sanctioned by the High Court on 8 December 2017, 2,714,381,237 Allied Irish Banks, p.l.c. ordinary shares of nominal value € 0.625 per share were cancelled and AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the shareholders of Allied Irish Banks, p.l.c. for every Allied Irish Banks, p.l.c. share cancelled. On the same date, Allied Irish Banks, p.l.c. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc.

The ordinary shares in Allied Irish Banks, p.l.c. that were acquired by AIB Group plc are reflected in AIB Group plc company's statement of financial position at the book value of those shares at the date of acquisition (€ 12,940 million). This book value was based on Allied Irish Banks, p.l.c. company's statement of financial position at the date of acquisition on 8 December 2017, i.e. the net asset value, having satisfied the conditions of IAS 27, paragraph 13.

Allied Irish Banks, p.l.c. is now a 100% subsidiary of AIB Group plc. Its issued share capital is denominated in ordinary shares.

Further details on the ‘Corporate restructuring’ are set out in note 3 to the consolidated financial statements.

Allied Irish Banks, p.l.c. is a financial services company incorporated and registered in Ireland. It is the parent company of a number of subsidiaries, both credit institutions and others, all of which are 100% owned. It operates predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. Allied Irish Banks, p.l.c. and its subsidiaries offer 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 tor 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.

Allied Irish Banks, p.l.c. together with its principal subsidiaries in the Republic of Ireland, AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance, are regulated by the Central Bank of Ireland/Single Supervisory Mechanism. Its principal subsidiary outside the Republic of Ireland, AIB Group (UK) p.l.c., is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

c Share capital

The share capital of AIB Group plc is detailed in note 41 to the consolidated financial statements, all of which relates to AIB Group plc.

d Merger reserve

	2017 € m
At 31 December	**6,235**

Under the Scheme of Arrangement ("the Scheme") approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group. AIB Group plc is a recently incorporated public limited company registered in Ireland. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve (note 3 to the consolidated financial statements).

e Reduction in company capital

Subsequent to the issue by AIB Group plc of 2,714,381,237 ordinary shares of nominal value € 2.47 per share, AIB Group plc petitioned the High Court for a capital reduction in order to create distributable reserves in the accounts of AIB Group plc. This involved the reduction of the nominal value of the ordinary shares from € 2.47 per share to € 0.625 per share. The capital reduction which created € 5,008 million in distributable reserves became effective on 14 December 2017 (note 3 to the consolidated financial statements).

Notes to AIB Group plc company financial statements

f Related party transactions

Related parties of AIB Group plc include subsidiary undertakings, associated undertakings, joint undertakings, post-employment benefit schemes, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB Group plc.

Related party transactions are detailed in note 52 to the consolidated financial statements.

In addition, two Directors, namely Garreth O'Brien and David Joseph Lydon were appointed on incorporation of the company. These Directors subsequently resigned on 21 September 2017 when the current AIB Directors were appointed. In relation to these two Directors, they received no compensation, had no equity interest in and had no facilities from either the Company or AIB Group during the relevant period.

General information

Shareholder information

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- view any outstanding payments, change your address and view your shareholding by signing into Investor Centre on http://www.computershare.com/ie/InvestorCentre. You will need your unique user ID and password which you created during registration. Or register at http://www.computershare.com/ie/investor/register to become an Investor Centre member.
  To register you will be required to enter the name of the company in which you hold shares, your Shareholder Reference Number (SRN), your family or company name and security code (provided on screen).
- download standard forms required to initiate changes in details held by the Registrar, by accessing AIB's website at www.aibgroup.com, clicking on the Investor Relations, Shareholder Information and Personal Shareholder Details option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder's share certificate, dividend counterfoil and personalised circulars) should be entered. These services may also be accessed via the Registrar's website at www.computershare.com.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

AIB Group plc is an Irish-registered company. Its ordinary shares are traded on the primary listing segment of the official list of the Irish Stock Exchange and the premium listing segment of the Official List of the London Stock Exchange.

Registrar

The Company's Registrar is:

Computershare Investor Services (Ireland) Ltd.,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Shareholding analysis

The Ireland Strategic Investment Fund holds 1,930,436,543 ordinary shares of € 0.625 each in the share capital of AIB Group plc (71.12% of total issued ordinary shares).

Financial calendar

Annual General Meeting: 25 April 2018, at the RDS, Ballsbridge, Dublin 4.

Interim results

The unaudited Half-Yearly Financial Report 2018 will be announced towards the end of July/early August 2018 and will be available on the Company's website – **www.aibgroup.com**.

Shareholder's enquires regarding Ordinary Shares should be addressed to:

Computershare Investor Services (Ireland) Ltd.,
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18, Ireland.
Telephone: +353 1 247 5411
Facsimile: +353 1 216 3151
Website: **www.computershare.com**
www.investorcentre.com/ie/contactus
or
www.aibgroup.com

General information

Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. 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 the Group’s future financial position, capital structure, Government shareholding in the Group, 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 the Principal risks and uncertainties on pages 58 to 68 in the 2017 Annual Financial Report. In addition to matters relating to the Group’s business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 58 to 68 of the 2017 Annual Financial Report 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.

Glossary of terms

Additional Tier 1 Capital	Additional Tier 1 Capital ("AT1") are securities issued by AIB and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.
Arrears	Arrears relates to 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.
Available for sale securities	Available for sale ("AFS") financial assets are non-derivative financial investments that are designated as available for sale and are not classified as a) loans and receivables b) held-to-maturity investments or c) financial assets at fair value through profit or loss The following debt securities are included in AIB's AFS portfolio: **Irish Government securities** – Securities issued by the Irish Government in euro. **Euro government securities** – Securities issued by European governments in euro. **Non-euro government securities** – Securities issued by governments in currencies other than the euro. **Supranational banks and government agencies** – Supranational banks and government agencies are international organisations or unions in which member states transcend national boundaries or interests. These include such institutions as the European Investment Bank and the European Financial Stability Fund. **Asset backed securities ("ABS")** – 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. Within this report, ABS which are backed by an underlying pool of residential mortgage loans are referred to as "RMBS" – see below. **Euro bank securities** – Securities issued by financial institutions denominated in euro. **Euro corporate securities** – Securities issued by corporates denominated in euro. **Non-euro corporate securities** – Securities issued by corporates denominated in currencies other than the euro.
Bank Recovery and Resolution Directive	The Bank Recovery and Resolution Directive ("BRRD") is a European legislative package issued by the European Commission and adopted by EU Member States. The BRRD introduces a common EU framework for how authorities should intervene to address banks which are failing or are likely to fail. The framework includes early intervention and measures designed to prevent failure and in the event of bank failure for authorities to ensure an orderly resolution.
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 (e.g. AFS or HTM securities portfolios).
Basis point	One hundredth of a per cent (0.01%), so 100 basis points is 1%. 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 arising in the Group's portfolio of financial instruments.
Buy-to-let mortgage	A residential mortgage loan approved for the purpose of purchasing a residential investment property.
Capital Requirements Directive	Capital Requirements Directive ("CRD"): Capital adequacy legislation implemented by the European Union and adopted by Member States designed to ensure the financial soundness of credit institutions and certain investment firms and give effect in the EU to the Basel II proposals which came into force on 20 July 2006.
Capital Requirements Directive IV	Capital Requirements Directive IV ("CRD IV"), which came into force on 1 January 2014, comprises a Capital Requirements Directive and a Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. The Regulation contains the detailed prudential requirements for credit institutions and investment firms. Requirements Regulation (No. 575/2013) ("CRR") and the Capital Requirements Directive (2013/36/EU).
Collateralised bond obligation/ collateralised debt obligation	A collateralised bond obligation ("CBO")/collateralised debt obligation ("CDO") is an investment vehicle (generally an SPE) which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. In the case of synthetic CBOs/CDOs, the risk is backed by credit derivatives instead of the sale of assets (cash CBOs/CDOs).
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).

Glossary of terms

Commercial paper Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets and issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.

Commercial property Commercial property lending focuses primarily on the following property segments:
a) Apartment complexes;
b) Develop to sell;
c) Office projects;
d) Retail projects;
e) Hotels; and
f) Selective mixed-use projects and special purpose properties.

Common equity tier 1 capital ("CET 1") The highest quality form of regulatory capital under Basel III that comprises ordinary shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.

Common equity tier 1 ratio Common equity tier 1 ratio – A measurement of a bank's common equity tier 1 capital expressed as a percentage of its total risk-weighted assets.

Concentration risk Concentration risk is the risk of loss from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.

Contractual maturity The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.

Contractual residual maturity The time remaining until the expiration or repayment of a financial instrument in accordance with its contractual terms.

Credit default swaps An agreement 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 inherent in a financial asset such as a loan or might be a 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 used by lenders to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.

Credit spread Credit 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.

Credit support annex Credit support annex ("CSA") provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association ("ISDA"). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.

Credit valuation adjustment Credit valuation adjustment ("CVA ") is an adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of derivative counterparties.

Criticised loans Loans requiring additional management attention over and above that normally required for the loan type.

Customer accounts A liability of the Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.

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 an equity stake in the counterparty.
Debt securities	Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.
Debt securities in issue	Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group 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 CRD IV context when a loan is greater than 90 days past due and/or the borrower is unlikely to pay his credit obligations. This may require additional capital to be set aside.
Derecognition	The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.
ECB refinancing rate	The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow from the ECB under its main refinancing operations.
Economic capital	The amount of capital which the Group needs to run the business given the risks it is exposed to and remain solvent. 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 Regulator.
Eurozone	The eurozone consists of the following nineteen European Union 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.
Exposure at default	The expected or actual amount of exposure to the borrower at the time of default.
Exposure value	For on balance sheet exposures, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off balance sheet exposures, including commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors
First/second 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. Second lien holders are subordinate to the rights of first lien holders to a property security.
Forbearance	Forbearance is the term used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.
Funded/ unfunded exposures	Funded: 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. Unfunded: 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.
Funding value adjustment	Funding value adjustment ("FVA") is an adjustment to the valuation of OTC derivative contracts due to a bank's funding rate exceeding the risk-free rate.
Guarantee	An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.
Held to maturity	Held to maturity ("HTM") investments as those which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than: (a) Those that the entity upon initial recognition designates as at fair value through profit or loss; (b) Those that the entity designates as available for sale; and (c) Those that meet the definition of loans and receivables.

Glossary of terms

Home loan	A loan secured by a mortgage on the primary residence or second home of a borrower.
Impaired loans	Loans are typically reported as impaired when interest thereon is more than 90 days past due or where a provision exists in anticipation of loss, except (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from 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 present value of impaired loans due to the passage of time is reported as interest income.
Internal Capital Adequacy Assessment Process	Internal Capital Adequacy Assessment Process ("ICAAP"): The Group'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.
Internal liquidity adequacy assessment process	The internal liquidity adequacy assessment processes ("ILAAP") is a key element of the risk management framework for credit institutions. ILAAP is defined in the EBA's SREP Guidelines as "the processes for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU". It thus contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage liquidity and funding risks.
Internal Ratings Based Approach	The Internal Ratings Based Approach ("IRBA") allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ("PD"); Loss Given Default ("LGD"); and Exposure at Default ("EAD").
ISDA Master Agreements	Standardised contracts, developed by the International Swaps and Derivatives Association ("ISDA"), used as an umbrella under which bilateral derivatives contracts are entered into.
Leverage ratio	To prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduces 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.
Liquidity Coverage Ratio	Liquidity Coverage Ratio ("LCR"): 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 exceeds 100% on 1 January 2018.
Liquidity risk	The risk that Group 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 expressed as a percentage of customer accounts, as presented in the statement of financial position.
Loan to Value	Loan to value ("LTV") is 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.
Loan workout	Loan workout is the process whereby once a loan is deemed to be criticised (i.e. 'Watch', 'Vulnerable' or 'Impaired'), the Group 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 optimise the level of recovery by the Group.
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.
Loss Given Default	The expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.

Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Notes ("EMTN") Programme.
National Asset Management Agency	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") 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.
Net Stable Funding Ratio	Net Stable Funding Ratio ("NSFR"): The ratio of available stable funding to required stable funding over a 1 year time horizon.
Off balance sheet items	Off balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.
Offsetting	Offsetting, or 'netting', is the presentation of the net amounts of financial assets and financial liabilities in the statement of financial position as a result of Group's rights of set-off.
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, people risk and legal risk.
Optionality risk	A type of market risk associated with option features that are embedded within assets and liabilities on the Group's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, effect 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 the Group's portfolio.
Principal components analysis	Principal components analysis ("PCA") 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 "demeaned"; 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%) of yield curve movements can be explained using just three principal components (i.e. a parallel shift, twist and bow). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.
Prime loan	A loan in which both the criteria used to grant the loan (loan-to-value, 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.
Private equity investments	Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies.
Probability of Default	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Regulatory capital	Regulatory capital is determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.
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 the Group's portfolio of financial instruments.
Repurchase agreement	Repurchase agreement ("Repo") is 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 security 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.

Glossary of terms

Residential mortgage-backed securities Residential mortgage-backed securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

Risk weighted assets Risk weighted assets ("RWAs") are a measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.

Securitisation Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flows into securities that can be issued and traded in the capital markets.

Single Supervisory Mechanism The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries. 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.

Special purpose entity Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).

Stress testing Stress testing is a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.

Structured securities This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.

Syndicated and international lending Syndicated and international 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. Syndicated and international lending is extended typically to non-investment grade borrowers and carries commensurate rates of return.

Tier 1 capital A measure of a bank's financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.

Tier 2 capital Broadly includes qualifying subordinated debt and other tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provisions on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tracker mortgage A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.

Value at Risk The Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, 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% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% 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.

Wholesale funding Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.

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 the Group's portfolio of interest rate instruments.

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