

Shareholders Report

For the year ended 31 December 2014



AIB Description

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland. AIB's business has been restructured in recent years with the aim of becoming a customer focused, profitable and lower risk institution, well positioned to support economic recovery in Ireland while seeking to generate sustainable shareholder returns.



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Important Information and Forward Looking Statement

Important Information – Valuation

AIB has 523,438,445,437 (excluding 35,680,114 treasury shares) ordinary shares in issue, c. 99.8% of which are held by the Ireland Strategic Investment Fund (ISIF), mainly following the issue of 500 billion ordinary shares to the National Pension Reserve Fund Commission (the predecessor to the ISIF) at €0.01 per share in July 2011. Based on the number of ordinary shares currently in issue and the closing share price of 3 March 2015, AIB trades on a valuation multiple of c. 6x (excluding the 2009 Preference Shares) the net asset value (NAV) of the Group as at 31 December 2014. The Group continues to note that the median for comparable European banks is c.1x NAV.

Forward-looking statement

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 Risk and Uncertainties on pages 51 to 56 in the 2014 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 51 to 56 of the 2014 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.



2014 Financial Summary

Operating performance

Profit before tax

€1,111m €2,798m ▲

Return to profitability from higher income, lower costs and reduced provisions. In addition to a strong underlying profitable performance, the impact of €437 million of income from balance sheet actions and realisations, together with the net charge of exceptional items of €233 million is included in the reported profit before tax.

Net interest margin⁽¹⁾

1.69% 32bps ▲

Continuing positive momentum in NIM mainly driven by lower interest earning assets and lower costs of funding those assets.

Total income⁽²⁾

€2,530m €606m ▲

Significant increase in net interest income of €342 million (lower funding costs and ELG charge) and other income of €264 million (gains on disposal of AFS securities and loans along with re-estimating cashflows on NAMA bonds).

Pre-provision operating profit⁽²⁾

€1,127m €673m ▲

Positive contribution from business segments through 2014 with €956 million from Irish operations and €171 million from the UK.

Operating expenses⁽²⁾

€1,403m 5% ▼

Cost reductions in line with expectation. €67 million reduction on 2013 and €345 million (20%) lower than 2012.

Credit provision writeback

€185m €2,101m ▼

2014 net writeback of €185 million compared to a net charge of €1,916 million in 2013 reflecting level of debt restructuring and economic improvement with a reduction in new impairments.

Balance Sheet / Capital

Common equity tier I ratio⁽³⁾

16.4% 1.4% ▲

Capital position remains robust with the improvement mainly due to retained profits in the year and lower risk weighted assets.

Monetary authority funding

€3.4bn €9.3bn ▼

Significant reduction in ECB funding which now accounts for 3% of AIB's total funding requirement, down from 12% in 2013.

Loan to deposit ratio⁽⁴⁾

99% 1% ▼

Loan to deposit ratio in line with 2013 as net loans reduced €2.3 billion, while customer accounts reduced €1.7 billion.

Provision coverage ratio⁽⁵⁾

51% 55% Dec 2013

Reduction driven by write-off of provisions within portfolios with higher provision cover and writebacks from restructuring.

Impaired loans

€22.2bn €6.7bn ▼

Reduction reflecting debt restructuring activity during the year which included structuring sustainable solutions for customers, write-offs and repayments partly offset by new impaired loans.

Liquidity coverage ratio

116% 105% Dec 2013

Improvement of 11% since 2013 mainly driven by increased high quality liquid assets and retail deposits.

⁽¹⁾Net interest margin excluding eligible liabilities guarantee ("ELG") charge.

⁽²⁾Before exceptional items. Exceptional items are detailed on page 29 of the Annual Financial Report 2014

⁽³⁾Common equity tier I ("CET I") transitional capital ratio.


⁽⁴⁾Customer accounts includes repos of €2.2 billion.

⁽⁵⁾Specific provisions as a percentage of impaired loans.

Consolidated Income Statement

for the year ended 31 December 2014

| | 2014 € m | 2013 € m | 2012 € m |
|---|----------------|----------------|----------------|
| Continuing operations | | | |
| Interest and similar income | 3,090 | 3,321 | 3,916 |
| Interest expense and similar charges | (1,403) | (1,973) | (2,810) |
| Net interest income | 1,687 | 1,348 | 1,106 |
| Dividend income | 25 | 4 | 1 |
| Fee and commission income | 430 | 414 | 396 |
| Fee and commission expense | (40) | (36) | (29) |
| Net trading (loss)/income | (1) | 102 | (100) |
| Profit/(loss) on disposal/transfer of loans and receivables | 52 | (226) | (803) |
| Other operating income | 379 | 104 | 50 |
| Other income | 845 | 362 | (485) |
| Total operating income | 2,532 | 1,710 | 621 |
| Administrative expenses | (1,527) | (1,359) | (1,716) |
| Impairment and amortisation of intangible assets | (65) | (73) | (60) |
| Impairment and depreciation of property, plant and equipment | (46) | (51) | (60) |
| Total operating expenses | (1,638) | (1,483) | (1,836) |
| Operating profit/(loss) before provisions | 894 | 227 | (1,215) |
| Writeback/(provisions) for impairment on loans and receivables | 185 | (1,916) | (2,434) |
| Writeback/(provisions) for liabilities and commitments | 4 | (17) | (9) |
| (Provisions)/writeback for impairment on financial investments available for sale | (1) | 9 | (86) |
| Operating profit/(loss) | 1,082 | (1,697) | (3,744) |
| Associated undertakings | 23 | 7 | 10 |
| Profit on disposal of property | 6 | 2 | 2 |
| Profit on disposal of businesses | – | 1 | 3 |
| Profit/(loss) before taxation from continuing operations | 1,111 | (1,687) | (3,729) |
| Income tax (charge)/credit from continuing operations | (230) | 90 | 172 |
| Profit/(loss) after taxation from continuing operations | 881 | (1,597) | (3,557) |
| Discontinued operations | | | |
| Profit after taxation from discontinued operations | 34 | – | – |
| Profit/(loss) for the year | 915 | (1,597) | (3,557) |
| Attributable to: | | | |
| Owners of the parent: | | | |
| Profit/(loss) from continuing operations | 881 | (1,597) | (3,557) |
| Profit from discontinued operations | 34 | – | – |
| | 915 | (1,597) | (3,557) |
| Basic earnings/(loss) per share | | | |
| Continuing operations | 0.2c | (0.3c) | (0.7c) |
| Discontinued operations | – | – | – |
| | 0.2c | (0.3c) | (0.7c) |
| Diluted earnings/(loss) per share | | | |
| Continuing operations | 0.2c | (0.3c) | (0.7c) |
| Discontinued operations | – | – | – |
| | 0.2c | (0.3c) | (0.7c) |



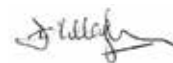
Richard Pym
Chairman



David Duffy
Chief Executive Officer



Catherine Woods
Director



David O'Callaghan
Company Secretary



Consolidated statement of comprehensive income

for the year ended 31 December 2014

| | 2014 € m | 2013 € m | 2012 € m |
|---|--------------|----------------|----------------|
| Profit/(loss) for the year | 915 | (1,597) | (3,557) |
| Other comprehensive income – continuing operations | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Net change in property revaluation reserves | (1) | (1) | (2) |
| Net actuarial (losses)/gains in retirement benefit schemes, net of tax | (939) | 251 | (716) |
| Total items that will not be reclassified to profit or loss | (940) | 250 | (718) |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Net change in foreign currency translation reserves | 27 | (9) | 34 |
| Net change in cash flow hedges, net of tax | 348 | (18) | (162) |
| Net change in fair value of available for sale securities, net of tax | 728 | 513 | 1,295 |
| Total items that may be reclassified subsequently to profit or loss | 1,103 | 486 | 1,167 |
| Other comprehensive income for the year, net of tax from continuing operations | 163 | 736 | 449 |
| Total comprehensive income for the year | 1,078 | (861) | (3,108) |
| Attributable to: | | | |
| Owners of the parent: | | | |
| Continuing operations | 1,044 | (861) | (3,108) |
| Discontinued operations | 34 | – | – |
| | 1,078 | (861) | (3,108) |

Richard Pym
Chairman

David Duffy
Chief Executive Officer

Catherine Woods
Director

David O'Callaghan
Company Secretary

4 March 2015

Consolidated statement of financial position

as at 31 December 2014

| | 2014 € m | 2013 € m |
|--|----------------|----------------|
| Assets | | |
| Cash and balances at central banks | 5,393 | 4,132 |
| Items in course of collection | 146 | 164 |
| Disposal groups and non-current assets held for sale | 14 | 2,782 |
| Trading portfolio financial assets | 1 | 2 |
| Derivative financial instruments | 2,038 | 1,629 |
| Loans and receivables to banks | 1,865 | 2,048 |
| Loans and receivables to customers | 63,362 | 65,713 |
| NAMA senior bonds | 9,423 | 15,598 |
| Financial investments available for sale | 20,185 | 20,368 |
| Interests in associated undertakings | 69 | 58 |
| Intangible assets | 171 | 176 |
| Property, plant and equipment | 290 | 301 |
| Other assets | 211 | 242 |
| Current taxation | 10 | 1 |
| Deferred taxation | 3,576 | 3,828 |
| Prepayments and accrued income | 526 | 609 |
| Retirement benefit assets | 175 | 83 |
| Total assets | 107,455 | 117,734 |
| Liabilities | | |
| Deposits by central banks and banks | 16,768 | 23,121 |
| Customer accounts | 64,018 | 65,667 |
| Disposal groups held for sale | – | 3,593 |
| Derivative financial instruments | 2,334 | 1,960 |
| Debt securities in issue | 7,861 | 8,759 |
| Current taxation | – | 48 |
| Other liabilities | 1,225 | 1,321 |
| Accruals and deferred income | 729 | 943 |
| Retirement benefit liabilities | 1,239 | 177 |
| Provisions for liabilities and commitments | 258 | 299 |
| Subordinated liabilities and other capital instruments | 1,451 | 1,352 |
| Total liabilities | 95,883 | 107,240 |
| Shareholders' equity | | |
| Share capital | 1,344 | 5,248 |
| Share premium | 1,752 | 2,848 |
| Reserves | 8,476 | 2,398 |
| Total shareholders' equity | 11,572 | 10,494 |
| Total liabilities and shareholders' equity | 107,455 | 117,734 |

Richard Pym
Chairman

David Duffy
Chief Executive Officer

Catherine Woods
Director

David O'Callaghan
Company Secretary

4 March 2015

"The 2014 results demonstrate the significant progress made in the recovery of AIB. Rebuilding public confidence and trust in the bank is paramount. Our focused leadership team, dedicated workforce, clear strategy and improved risk governance will continue to progress us to that goal."



Chairman's Statement

Richard Pym
Chairman

The 2014 results demonstrate the significant progress made in the recovery of AIB. They show a €1.1 billion profit before tax, a major improvement from a loss of €1.7 billion in 2013. In addition, during the year, the bank received approval for its Restructuring Plan from the EU Commission and also passed the Comprehensive Assessment of capital adequacy conducted by the ECB and the EBA.

As a newcomer to AIB, I have been very impressed by what I have seen since I arrived in October 2014. In my introductory visits around the bank, I have met dedicated and enthusiastic colleagues who prioritise the needs of our customers. I have also seen how our leading digital products provide customers with easy access to banking facilities.

Our customers have been very loyal to us during these last difficult years and we appreciate it. It is very encouraging to see how our measures of brand strength have improved during the year and there has also been a remarkable turnaround within the bank in colleague engagement.

Chairman's statement

2014 was a landmark year for AIB, testimony to the transformative work of our outgoing Chief Executive, David Duffy, and his team. It is to his credit that in three years he led the bank's turnaround and leaves behind a stable, profitable lender headed by a strong leadership team with a clear focus on customer experience, growth, and prudent risk management.

David's successor will be announced shortly and we look forward to continuing to drive ahead with AIB's strategy under new leadership.

I took over as Chairman when David Hodgkinson retired. David joined AIB in 2010 when the bank was in a very challenged position and he set about the task of rebuilding it. He was joined by David Duffy in 2011. Together they have made a huge contribution to AIB and we thank them both for their accomplishment.

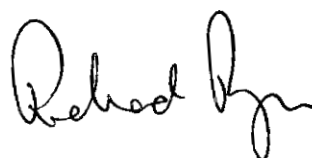
We also said goodbye to Tom Wacker and Dick Spring as non-Executive Directors of the Board of AIB. Tom left before I joined AIB and I enjoyed my brief time working with Dick Spring. He is a hugely experienced Irish public representative who brought the national interest into focus in Board discussions. We thank both Tom and Dick for their service on the Board over a number of years.

AIB is 99.8% owned by the State, and the Department of Finance has commissioned preparatory work on the capital structure which, when completed, will enable the Government to determine if and when it disposes of any of its capital instruments or equity shareholding. It is entirely a matter for the Government to decide and the role of AIB is to ensure that the business is delivering its strategic objectives and medium term targets in order to achieve value for shareholders.

The Irish nation has been badly damaged by the past failings of its financial system. After a period of significant restructuring, AIB's continued progress is supportive of economic recovery, and similarly the Group is benefiting from the improvement in Ireland's growth. Continued constructive collaboration between the Government and the bank will serve to strengthen the national economy and benefit society as a whole.

AIB remains deeply conscious of its debt to the Irish people and I want to reiterate our thanks for that immense support. Irish taxpayers have invested approximately €21 billion in AIB and we believe that investment will be returned over a period of time.

Rebuilding public confidence and trust in the bank is paramount. Our focused leadership team, dedicated workforce, clear strategy and improved governance will continue to progress us to that goal.



Richard Pym

Chairman

4 March 2015

"2014 saw AIB successfully execute its three year plan to deliver a bank that is sustainably profitable, adequately capitalised and appropriately funded. We have a strong momentum in our business and are committed to supporting our customers by understanding their needs, providing suitable solutions and serving them through our omni channel distribution model. We are focused on growing our lending to support the Irish economy and delivering sustainable returns for our shareholders."



Chief Executive's Review

David Duffy

Chief Executive

Delivering our Strategic Objectives

Introduction

Three years ago we embarked on a challenging journey to transform AIB into a stable, customer focused, profitable organisation. Having established a track record of delivery over that period, 2014 was a milestone year for the bank. We achieved significantly improved financial results, and a material de-risking of the balance sheet, all while constantly maintaining focus on rebuilding our customers' trust, improving customer service levels and strengthening our internal governance. Over a three year period we have delivered a c. €4.8 billion turnaround in the Group's profit before tax.

Returning to sustainable profitability in 2014 was a result of broad based improvements in all key areas and geographies of the business: growth in income, including improving Net Interest Margin (NIM); continued

Chief Executive's Review

organisational efficiency; reducing loan impairments; and increased levels of new customer lending. The Group is now profitable again and, for the first time in a number of years, is generating capital which supports our ability to further increase our lending volumes.

Approval of the Group's Restructuring Plan by the EU Commission, and the successful completion of the ECB/EBA's Comprehensive Assessment during 2014, were important external validations of the Group's long term strategy and the progress made to date in implementing an extensive change and restructuring programme.

Although much has been achieved over the past three years, we recognise that we have more to do. Overall, the Group is now in a much stronger position to support our customers and the Irish economy as we move on to the next phase of our journey. We will measure our future success not just on what we do for customers, but how we conduct ourselves through our business decisions. Our strategic direction over the next number of years will be driven by that customer focus while managing regulatory and financial priorities and starting the process of returning capital to the State.

Focused on Supporting our Customers

We continue to align our customer strategy and propositions across the Irish and UK businesses and to seek appropriate lending opportunities. Following significant restructuring, and as a profitable organisation, we are focused on sustainable and prudent growth and are well positioned in the personal, business and corporate banking market segments in which we operate. The operating environment in Ireland and the UK improved steadily during 2014 and this has translated into tangible progress in growing our new lending volumes, particularly in the SME and Corporate sectors. Improved growth levels are also evident in the mortgage and personal lending markets.

We approved over €13 billion in lending during 2014, c.37% higher than 2013, and customer drawdowns were c.50% higher year on year.

We maintained our strong mortgage market share with c.33% of mortgage drawdowns in the Republic of Ireland in 2014. Transaction volumes in the market continued to increase, albeit from historically low levels. We have introduced a number of improvements to our customer proposition, including online mortgage application, dedicated mortgage advisors and competitive lending rates for new and existing customers. In support of the increased demand for housing in Ireland, we launched a €350 million New Homes Development fund in 2014. This fund was one of a number of sector specific funds launched by the group in support of our business customers.

Overall lending drawdowns to SME and Corporate customers in Ireland and the UK were higher than 2013. Lending activity was higher across all the major sectors, in particular Agriculture, Wholesale/Retail Trade, Manufacturing and Tourism. This growth reflects the increased demand for credit as the economic environment improved, coupled with the successful implementation of our differentiated, sector specialist, customer engagement strategy.

We have continued to invest in our omni channel customer strategy, namely the branch network, online, mobile and direct offerings to provide more convenient and accessible banking services for our customers. This differentiated service model includes increased innovation, technology and digitisation across our multiple distribution channels. Large numbers of our customers are migrating to mobile, internet and tablet banking and we offer an expanding range of online deposit and lending products. We remain focused on simplifying our structure to achieve cost and income benefits in the future, but importantly also to improve our customers' experience.

Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining good working relationships over time. We have developed and implemented a comprehensive range of sustainable solutions for our customers in mortgage arrears. The total number of accounts in arrears in the Irish residential mortgage portfolio declined by 18% in 2014 and significant numbers of AIB customers have



been offered and accepted affordable and sustainable solutions. We have gained traction with our customer treatment strategies for SMEs as we seek to protect employment and viable businesses. We remain focused on reducing the substantial number of impaired loans that remain on the balance sheet.

“Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining good working relationships over time.”

Financial Performance

Return to Sustainable Profitability

Our financial performance in 2014 is the outcome of a significant number of measures undertaken since 2012, including improving our NIM and non interest income, reducing our cost base and resolving legacy asset quality issues. A number of these strategic objectives have been achieved ahead of plan.

For the full year 2014, we reported a profit before tax of € 1.1 billion, a c.€ 2.8 billion improvement on the loss before tax in 2013. Excluding Eligible Liabilities Guarantee (ELG) costs, NIM increased to 1.69% for 2014 as funding costs reduced and asset yields held broadly stable. There were a number of specific transactions during the year, including disposals in the Available for Sale portfolio and asset disposals, which have had a positive impact on our performance. However, even when these items are excluded, the bank has returned to sustainable profitability. Overall operating income increased 31% year on year.

Excluding exceptional items, we achieved our c.€0.35 billion operating cost reduction target in 2014, relative to 2012 levels. Cost discipline will remain an ongoing component of our strategy in 2015 and beyond as we implement the next phase of our transformation programme, and as we work towards achieving our medium term target of a cost income ratio of less than 50%.

2014 saw increasing stabilisation in the asset quality of our loan portfolios. Total impaired loans reduced by €6.7 billion or 23% during 2014 to €22.2 billion. This reduction reflects improving economic conditions, coupled with the significant restructuring activity completed for customers in difficulty. This has the dual benefit of reducing the legacy risk in the balance sheet and increasing the levels of performing loans.

The underlying credit impairment charge is trending towards more normalised levels driven by a reduction in new impaired loans. This, together with the amount of customer loan restructuring achieved by our Financial Solutions Group (FSG) in an improving economic environment, has resulted in a net writeback of provisions for 2014. The solutions and customer engagement processes developed in FSG have gathered momentum and we expect the level of impaired loans to continue to reduce in 2015, subject to market conditions. However we will continue to adopt an approach in concluding these case by case restructuring solutions that is mutually beneficial for the Group and our customers.

Our overall funding position continued to stabilise. Underlying customer accounts, excluding repos¹, increased during 2014. A decline in the volume of repos was offset, in part, by an increase in customer current account volumes. The loan to deposit ratio was 99% at 31 December 2014 from 100% a year earlier. This change was due, in part, to a reduction in net loans, as redemptions continue to outstrip new lending despite the significant improvement in new lending volumes. Continued growth in new lending across our loan portfolio is a key priority for 2015, in line with a prudent and conservative risk appetite. The Group also benefited from the continuing repayment of NAMA Senior Bonds, the volume of which reduced during the year by 40% to €9.4 billion.

Chief Executive's Review

Our successful and balanced return to the funding markets continued in 2014 with €1.0 billion in issuances and we have also broadened our funding base with €3 billion in additional sources of funds. We will continue to monitor market conditions and will access the funding markets when appropriate. We reduced our monetary authority funding to €3.4 billion at end 31 December 2014, from €12.7 billion a year earlier.

Capital

Our capital position strengthened over the year due to retained earnings and a 3% decline in risk weighted assets. Our transitional Common Equity Tier 1 (CET1) ratio increased to 16.4% and our fully loaded CET1 ratio, including the €3.5 billion 2009 Preference Shares, was 11.8%. The Group's increasing capital levels are supportive of our aims to grow lending volumes to support our customers and Irish economic recovery.

The Group expects to continue its discussions with the Department of Finance regarding the appropriate capital structure of the Group in the context of regulatory and market requirements. These discussions are currently focused on:

- Options in relation to the €3.5 billion 2009 Preference Shares, including the possible conversion into ordinary shares of part or all of the Preference Shares.
- Options in relation to the €1.6 billion Contingent Capital Notes which mature in July 2016.
- A possible significant consolidation in the number of ordinary shares in issue given AIB currently has in excess of 523 billion ordinary shares in issue.
 - Based on the closing share price on 3 March 2015, the bank trades on a valuation multiple of c. 6x (excluding the 2009 Preference Shares) the net asset value of the Group as at 31 December 2014. The Group continues to note that the median for comparable European banks is c. 1x NAV.

Any future actions in respect of the Group's capital structure will be subject to relevant regulatory and shareholder approvals where necessary. There is no definitive set of outcomes or completion date for these discussions.

Relationship with the State

The Group has received significant support from the State over the last number of years and is deeply cognisant of its responsibilities to generate value for the shareholder over time. The Group is now profitable and generating capital. AIB has paid c. €2.4 billion in fees and coupons since 2008 to the State. We remain focused on generating sustainable returns for our shareholders over time, subject to the financial performance of the Group and evolving regulatory and market capital requirements.

Following the injections of capital into the group since 2009, the State holds 99.8% of the ordinary shares in the Group and therefore the significant majority of the value of the Group rests with the State.

The day to day relationship between the Group and the State is governed by the March 2012 Relationship Framework document specified by the Minister for Finance.

Following the approval of the EU Restructuring Plan in May 2014, the Group is now in a monitoring phase until December 2017 in relation to its performance against the commitments outlined in the plan. These commitments are in line with the Group's existing operational plans and medium term targets. Further information on the EU Restructuring Plan is contained on page 317 of the Annual Financial Report 2014.



Outlook

Economic conditions in AIB's main markets of Ireland and the UK have continued to improve and this has positively impacted the performance of the Group. Having returned to profitability we are well placed to benefit from the expected increase in economic activity in the main markets in which we operate. However, we continue to face a number of challenges, including the requirement to reduce the size of our significant impaired loan portfolios, ensuring the Group's capital structure is appropriate in the context of evolving regulatory and market requirements, the continued decline in net loan volumes, and pension scheme volatility.

Additionally we have a challenging agenda which includes risk in execution of our strategy, including managing risks related to the recruitment and retention of key staff and expertise, while managing an industry wide challenge in ensuring robust IT systems. Global growth forecasts reflect a number of ongoing uncertainties, including the historically low interest rate environment, the uneven pace of economic output in the Eurozone and the outcome of geo-political events in Eastern Europe and the Middle East, which could impact on economic activity in AIB's main operating markets.

The Group will continue to focus on making steady progress towards reaching our medium term performance targets, while importantly improving service levels for our customers. We are seeking to prudently grow our business lending volumes while maintaining simplification of our operations and enhancing our customer proposition, both in the Irish and UK businesses. We believe we are well positioned from a capital and funding perspective to support our customers and the continued recovery in the Irish economy.

Staff

Over the past few years AIB has focused on building a culture that prioritises our customers in everything we do. Our progress to date and the implementation of the next phase of our strategy relies on the dedication of

our staff. I would like to take this opportunity to thank them again for their continued commitment and service to our customers. Our ambition of becoming a leading consumer brand in Ireland will not be possible without their dedication and hard work. AIB's staff have been central to our recovery and are key to our future.

Acknowledgement

Finally, I announced in January that I will be stepping down from my positions as CEO and Executive Director at the Group. My time at AIB has been immensely rewarding both professionally and personally. Having returned to profitability, received approval of the Group's EU Restructuring Plan and passed the recent ECB/EBA Comprehensive Assessment, I believe now is the right time for a new CEO to lead the Group through the next phase of its recovery and growth and a multi-year process of returning capital to the State. The Board, leadership team and all members of staff have worked tirelessly to bring the Group back to a position of stability and growth and I am thankful for the support I have received. While a number of challenges lie ahead, I am confident that the Board and management are well placed to continue delivering on the Group's strategic objectives.

A handwritten signature in black ink, appearing to read 'David Duffy'.

David Duffy

Chief Executive Officer

4 March 2015

Our Strategy

Performance Momentum and Delivery to Date

2014 represented the final year of a 3 year strategic plan to return the bank to sustainable profitability.

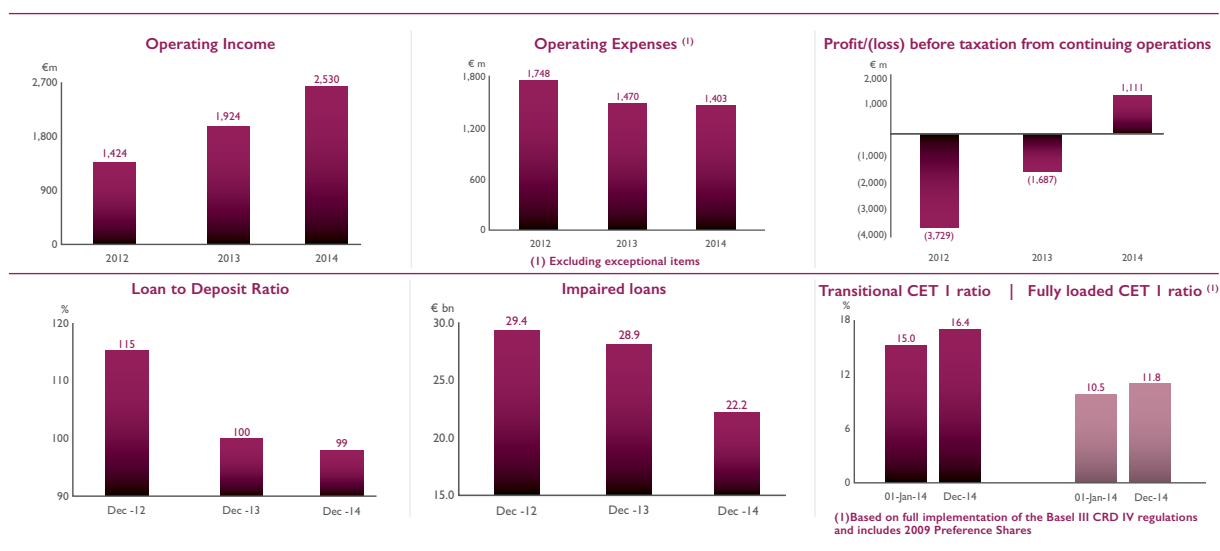


Customers and our People

- We are lending more and our customer satisfaction rates are increasing
- We have made significant improvements to our customer proposition
- Our staff engagement levels have increased dramatically

Our Business

- We have returned to profitability and are generating capital
- We have materially reduced provision charges and our total impaired loans have fallen significantly
- We received approval of our Restructuring Plan from the EU in May 2014
- We successfully passed the ECB/EBA Comprehensive Assessment in October 2014
- We have made continued progress towards delivering our medium term targets



Current performance against our medium term targets

| Description | Original Target | 2013 | 2014 | Status Update |
|--------------------------|-----------------|----------------------|---------|---------------|
| Fully loaded CET I Ratio | >10% | 10.5% ⁽¹⁾ | 11.8% | On track |
| Net Interest Margin | >2.00% | 1.37% | 1.69% | On track |
| Cost Income Ratio | <50% | 76% | 55% | On track |
| Credit Impairment Charge | <65bps | 224bps | (22bps) | On track |
| Loan to Deposit Ratio | 100-120% | 100% | 99% | On track |

⁽¹⁾ As of 1 Jan 2014

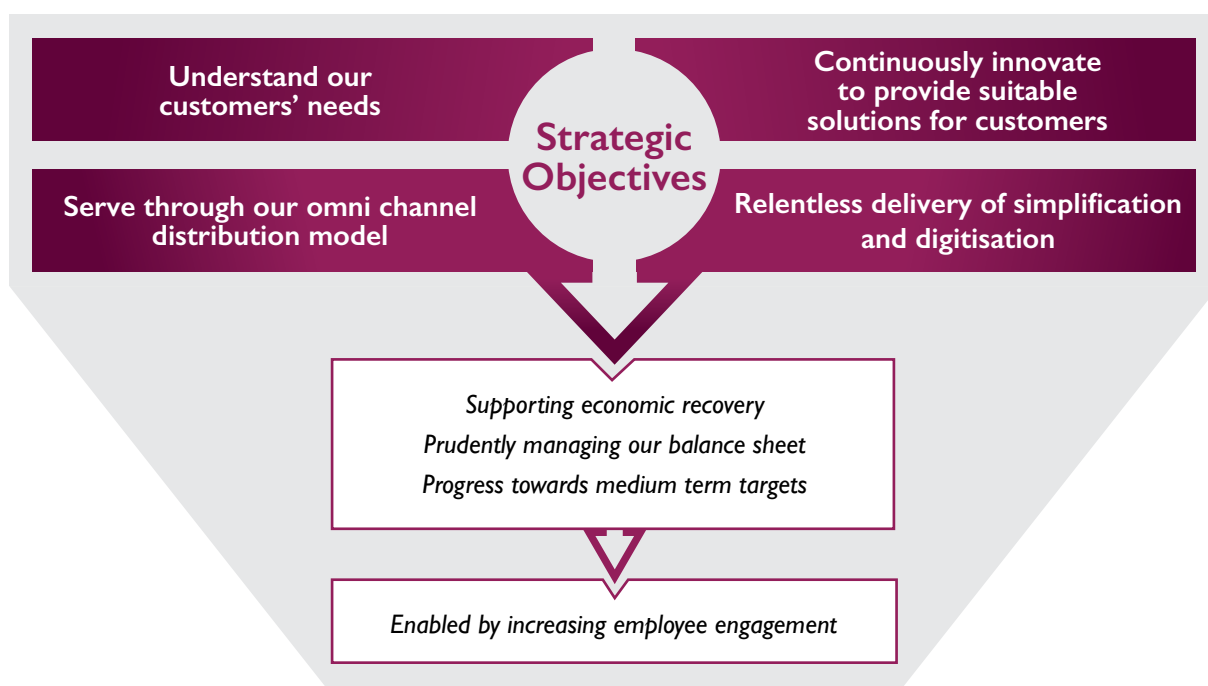


Our Vision

To be a customer driven bank, recognised as a leading consumer brand.

Our Strategic Objectives

Our three year strategy has delivered significant benefits to the bank and our customers. The next phase of our journey builds on the momentum we have achieved in our performance during those three years.



Understanding our customers' needs

Strategic ambitions:

- The right customer experience, first time and every time
- Industry leading Net Promoter Scores®¹

Our customers are central to our strategy. Using analytics we seek to identify their needs. We are listening to the feedback from 50,000 individuals who took part in our Customer Experience Programme. We are using these insights and analytics to deliver personalised and tailored offerings and we are measuring our progress through our Net Promoter Scores.

We are investing in our people and propositions, including a sector specialist approach to lending to our SME and Corporate customers and the availability of dedicated mortgage advisors. We are recognising and adapting to new consumer behaviours in mobile and online, social media and channel blending preferences. This is an ongoing journey we are taking with our customers.

¹ The Net Promoter Score, or NPS® is a measurement programme that tracks AIB customers' loyalty and advocacy.

Continuously innovate to provide suitable solutions for customers

Key strategic ambitions:

- To be the leading Retail, SME and Corporate Bank in Ireland
- To become the No.1 challenger bank in Northern Ireland
- To be the best bank for owner-managed businesses in Great Britain

By listening to our customers, we answer their needs by providing appropriate products and services, while seeking returns appropriate to the level of risk undertaken, on a sustainable basis. We aim to maintain our leading market shares in Ireland through propositions that differentiate in each of our personal, business and corporate banking customer segments. Our refreshed structure resulting in a simpler, lower risk bank, is intended to improve our customers' experience of us. We have also reshaped our Corporate & Institutional Banking segment in our Irish business to better serve the needs of these customers.

We believe we have a fair and equitable approach to resolving the issues experienced by our customers who are in financial difficulty, and offer them the most comprehensive set of resolution solutions in the market. Restructuring our impaired loan portfolio will focus on returning these customers to stability and integration into our core banking relationships portfolios.

Serve through our omni channel distribution model

Key strategic ambitions:

- Increase usage and integration of digital distribution channels
- Continue to build on our market leading mobile and online adoption rates
- Provide tailored advisory services in our branch network

We want our customers to have seamless access to our banking services in whatever way they want. Our omni channel approach combines our physical branch network with online, mobile and direct offerings. It gives customers the latest technology, supported by improving service levels. Our innovative digital banking location, the "LAB", allows us to test the latest digital technology in a live environment, learn lessons and implement them. In parallel, we are continuing to invest in our branch network, which remains central to our long term strategy. We are introducing new branch layouts, better designed to enhance our customers' experience through people, processes and technology.



*“Complete
Consistent
Connected”*

Relentless delivery of simplification and digitisation

Key strategic ambitions:

- Continuously improve our customer experience
- Deliver our medium term cost income ratio target of less than 50%

A simplified and more efficient AIB is better for our customers, our staff and ultimately our cost base. Our simplification and change agenda is broad based and continues to deliver an improved customer experience at a sustainable cost. Through our existing channels we offer a differentiated approach and are building on our market leading adoption rates as more customers engage with us online or through our mobile channel. The recent introduction of our innovative eMortgage application is one example of how we are enhancing and expanding our offerings.

Our change programme is being managed under the guidance and control of our Group Chief Operating Officer. Key initiatives will see us consolidate processing and servicing activities, promote greater resilience in our IT systems, and continued strategic sourcing. We want to constantly improve our customer experience, and these initiatives are designed to increase our speed to market on innovative customer propositions.

Summary

Today AIB is a profitable bank, generating capital to meet our customers' lending needs as they, in turn, help drive economic recovery. Looking ahead, we are well placed to support a growing economy, within the framework of a reformed governance structure and a prudent risk appetite.

We have worked hard to reduce the risk profile of the Group, and to find solutions for our customers in difficulty. This remains a key focus for 2015 and beyond.

Our staff are pivotal to our customer engagement strategy and are the foundation upon which the Group's recovery is based. We want to achieve employee engagement scores at world class levels, building on the tangible progress made in 2014. We will continue to invest in our people and focus on their professional development to motivate and retain the talent required to deliver our vision and strategic priorities.

While recognising that we have made significant progress in recent years, we have more to do. In 2015 and beyond, we will maintain a clear focus on those core priorities which underpin our ambition to be a leading consumer brand: innovating to meet our customers' needs; driving integration across all of our channels; and relentlessly simplifying our processes.





Our Customers

We are working hard to hold our customers at the heart of everything we do. An in-depth knowledge of the needs of our customers is a good starting place. It brings efficiency to how we drive and shape products and services that customers want. Acknowledging what our customers want focuses our activities and helps them experience a better bank. We are making good progress with this customer focus but recognise that we have more to do.



Customer centric brand values

In AIB, our principal Brand Value is **'we put our customers first.'** This has been developed by our people and our customers. We want our customers to have a superior experience in each and every interaction with us. This means that we are understanding our customers because we listen to them, recognise their financial needs and offer them solutions that meet those needs. We are embedding this in the culture of our organisation and making it visible in everything we do.

The Voice of the Customer

feedback from over 50,000 customers

We sought feedback from over 50,000 of our customers in Ireland and the UK through our Customer Experience Programme. We have listened to our customers and as a result we are enhancing our interaction with them, creating and improving initiatives for them and giving them more choice and greater accessibility.



This is a journey, and the good news is that we are making progress. The primary tool we use to measure the success of this programme is our Net Promoter Score®¹. We want to improve these scores and we have seen real progress in what our customers have experienced in 2014.

Tailored offerings for distinct customer segments and sectors

We have enhanced our offerings for our different markets. Throughout 2014, we have undertaken distinct segment and sector initiatives which we believe are innovative and which improve our customers' experience of us.

Personal customers

AIB's goal is to be at the heart of our personal customers' financial lives while delivering exceptional customer experience. We have strong market shares in products for our personal customers in Ireland and we provided 60,000 personal loans in 2014. These propositions combine suitable products with informed relationship management that reach them consistently through all our channels.



We increased our lending significantly to our personal customers in the second half of 2014 as consumer sentiment and general economic conditions improved. In the Republic of Ireland, we lent €0.4 billion to personal customers, an increase of 29% year on year. We focused on new initiatives to make the process seamless for customers, which included online fulfilment for personal loans with a decision within three hours.

Youth market

We are focused on having a leading presence in the student market. We updated and improved our proposition, including a larger presence on campus in 15 universities and colleges in Ireland and a new student loan facility to help with education expenses. 2014 was the 13th year of the AIB Build a Bank Challenge, a national competition for second level students to run their own school bank. The AIB Student Plus Account was awarded the best value student account by bonkers.ie, the price comparison website.

Mortgages

For most people, buying their home is the biggest financial transaction of their lives. AIB is proud to have a leading market share of mortgage drawdowns in the Republic of Ireland, which demonstrates our support to customers during this important time for them. We supported c. 16,000 customers in gaining mortgage approval in Ireland in 2014. We also reduced our standard variable interest rate and our fixed interest rate products for new and existing mortgage customers in Ireland in 2014.

We want our customers to have access to specialist advice when making this important decision. We introduced mortgage advisors to our Irish branch network, who support customers throughout the mortgage application and approval process. The EBS brand re-emerged in 2014 with increased locations for mortgage consultations, including flexible meeting times to suit customers' needs.

AIB eMortgage is the first online mortgage application-to-approval proposition on the Irish market and it is gaining traction with our customers.

¹ The Net Promoter Score, or NPS® is a measurement program that tracks AIB customers' loyalty and advocacy.

Our Customers

AIB had a 33% market share of mortgage drawdowns in 2014 in Ireland with €1.3 billion in total drawdowns, a 34% increase on 2013.

Mortgage drawdowns in First Trust Bank in Northern Ireland increased by 42% year on year following an expansion of our suite of mortgage products.

Business customers



No.1 Bank

for Start-ups

c. 15,500 SME customer start-ups supported in 2014



Joint No.1 Bank

for main current account



No.1 Bank

for main loans



No.1 Bank

for main leasing agreement



No.1 Bank

for credit cards

AIB is committed to actively supporting economic recovery and job creation. We are doing this by backing entrepreneurs, early start-ups and established SMEs.

AIB has embedded its sectoral led approach, providing customers with leading sector specialists who understand the challenges and opportunities of their

industry and business. In partnership with industry bodies we have continued to commission in-depth research reports. To support our customers, we have also hosted nationwide sector specific seminars.

We have launched sector specific funds, including a €200 million Export Fund, €300 million Long Term Care Fund and a €350 million New Homes Development Fund. In addition, we launched a €500 million Agriculture Fund, underpinning our commitment to this sector.

In response to feedback from our business customers, AIB has rolled out a series of other initiatives to support this customer segment, including our 'Backing Brave' programme. This programme includes credit decisions for SME loans up to €30,000 within 48 hours. We have also introduced a dedicated SME phone desk which operates extended business hours and to support new entrepreneurs we launched a Start-up Academy.

In 2014 AIB approved €6.4 billion in business credit to the SME sector in Ireland, a 50% increase year on year.

In the UK, AIB GB was awarded "Best Service from a Business Bank 2014" by Moneyfacts Awards. This is in recognition of its relationship management proposition together with a focus on its customer service. New and additional lending in AIB GB increased 63% year on year to circa £1 billion. This underlines our focus on lending to the business market and our target market of owner managed businesses. In direct response to listening to the 'voice of our SME customers' in Northern Ireland we introduced two business funds, the Business Support Fund and the Owner Managed Fund.





Corporate customers

We continue to develop and strengthen our relationships with corporate and institutional customers by providing sectoral expertise, tailored financial solutions and a premium customer service.

Our sector specialist corporate banking teams work closely with our Customer Treasury Service and specialist product teams to ensure that we continue to strongly support our customers as well as the Irish economy. We provide a range of financing solutions to our customers from senior debt and working capital solutions through to mezzanine and equity finance.

In 2014, including the UK, lending to Corporate customers increased by 57% year on year.

The reshaping of our Corporate & Institutional Banking segment at the beginning of 2015 will enhance our mid-market and corporate offering and allow the UK and Irish businesses to collaborate more closely on opportunities.



Leading position
in Irish banking market



No. 1 bank to the Foreign Direct Investment (FDI) market.



Awarded 'Deal of the Year'
for the second consecutive year in the Loans & Financing Category of the Finance Dublin Magazine awards.

Customers in financial difficulties

We work with our customers who are in financial difficulty and help them bring stability and certainty to their situation. This has been a key area of focus during 2014. The Financial Solutions Group (FSG) has approximately 1,600 skilled staff dedicated to resolving the issues of customers in difficulty, who are further supported by their colleagues in the wider AIB branch network.

AIB seeks to consensually resolve mortgage and SME arrears cases with customers who engage with the bank, based on an assessment of affordability. In support of our strategy the Group has developed what we believe is the most comprehensive suite of sustainable mortgage arrears solutions in the Irish market. We have further supported this agenda by establishing and funding a customer engagement channel in partnership with a consumer debt advocacy organisation that provides independent third party representation. This service is available free to customers in Ireland in mortgage difficulty. While we have much more to do to help our customers, this approach is working, with arrears in AIB's Republic of Ireland mortgage portfolio down 18% in 2014.

Significant progress is also evident in SME restructuring and we have developed and deployed a comprehensive customer treatment strategy for SME customers in difficulty with business and non-core connected debt. We have met or exceeded all of our restructuring targets in 2014.

The approach being taken in FSG to restructuring the debt of our customers in difficulty is fundamental to the AIB strategy of maintaining our relationship with our customers as they recover. Importantly the success of this strategy can be measured by the number of customers who have been offered and accepted affordable and sustainable solutions. Continuing to work with our customers in difficulty remains a key priority for the Group.

Our Customers



Omni channel delivery

AIB has an omni channel customer strategy which focuses on customer convenience and consistency. We are the leading Irish bank in driving mobile banking uptake and transaction automation. We are developing our capabilities across channels, putting technology to work for customers to interact with our banking services at a time and through a channel that works for them.

In 2014, customers continued to adopt our digital channels. Significant numbers of our customers in Ireland are active on AIB's online services, including c.520 000 active mobile users and c.100,000 active tablet users. Our customers completed 33 million transactions online in 2014 across internet, tablet, mobile and IBB. In our branch network, through ongoing adoption of technology, we have given customers a new way to bank with us through our 'quick banking' facilities.

The 'LAB' is an innovative digital banking location which allows us to test our digital concepts in a live environment with our customers. These have included concepts such as the eMortgage, SME online lending application, and more recently the Smartwatch, where feedback from customers helps shape product and services.

Adoption is not limited to transactional banking as customers embrace the omni channel sales experience. Currently, c.49% of key products¹ sold to personal and SME customers in the Republic of Ireland are conducted through AIB Direct Channels.

As a result of continuous investment in digital platforms, AIB received external recognition, winning the "Best Adoption of Social Media" at the CCMA awards, and the AIB Tablet banking app won the best financial services app at The Appys Awards and "Best Innovation in Financial Services" at the Digital Media Awards.

Our omni channel approach is also being adopted in the Northern Ireland and GB businesses as we move to a more consistent model across our markets.

In conjunction with our market leading digital channels, AIB continues to maintain the largest physical distribution network in Ireland with c.200 AIB branches, c. 70 EBS outlets and a joint venture with An Post with over 1,000 locations nationwide. In the UK, AIB has 16 business centres in Great Britain to service our SME and mid-corporate customers. We provide banking services through 30 branches and outlets under the trading name of First Trust Bank in Northern Ireland. The physical network coupled with AIB's robust offer of products and services in digital channels allow the bank to better serve our customers in a meaningful and effective way.

¹ Excludes current accounts

Governance at a glance

Our Governance Framework

AIB's Governance Framework reflects best practice standards, guidelines and statutory obligations and ensures our organisation and control arrangements provide appropriate governance of the Group's strategy, operations and mitigation of related material risks.



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.

The Board and its Committees

Supported by the Governance Framework, the Board oversees:

- Strategic and operational planning;
- Risk management and compliance;
- Financial management and external reporting; and
- Succession planning and culture.

The Board is supported in its endeavours by a number of Board Committees which consider, in greater depth than would be practicable at Board meetings, matters within the Board's responsibilities.



The Chief Executive Officer

The Board delegates to the Chief Executive Officer (CEO) responsibility for strategy formulation and execution, and the day to day running of the business ensuring an effective organisation structure, the appointment, motivation and direction of senior executive management and the operational management of the Group's businesses.

The Executive Leadership Team

The Leadership Team is the most senior executive committee of the Bank. The Leadership Team, under the stewardship of the CEO, has responsibility for the day-to-day management of the Group's operations. It assists and advises the CEO in reaching decisions on and delivery of the Group's strategy, governance, internal controls, performance and risk management.

Full details of AIB's corporate governance arrangements are included in the Governance and oversight section of the Annual Financial Report 2014 from page 157 to 187 available at group.aib.ie



AIB Board



Richard Pym Chairman – Non-Executive Director and Nomination and Corporate Governance Committee
Chairman

Mr Pym was co-opted to the Board on 13 October 2014 as Chairman Designate and Non-Executive Director and was appointed Chairman with effect from 1 December 2014. He is a Chartered Accountant with extensive experience in financial services having held a number of senior roles including Group Chief Executive Officer of Alliance & Leicester plc. He is Chairman of Nordax Bank AB (publ) and UK Asset Resolution Limited, the entity which manages, on behalf of the UK Government, the run off of the Government owned closed mortgage books of Bradford & Bingley plc and NRAM plc. Mr Pym is a former Chairman of The Co-operative Bank plc, BrightHouse Group plc, Halfords Group plc and a former Non-Executive Director of The British Land Company plc, Old Mutual plc and Selfridges plc. Mr Pym is a member of the Remuneration Committee and Chairman of the Nomination and Corporate Governance Committee. (Age 65)



Simon Ball BSc (Economics), FCA – Non-Executive Director

Mr Ball is currently the Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc, a Non-Executive Director of Commonwealth Games England, and Non-Executive Chairman of Anchura Group Limited. Prior to this, he served as Group Finance Director of 3i Group plc and the Robert Fleming Group, held a series of senior finance and operational roles at Dresdner Kleinwort Benson and was Director General, Finance, for HMG Department for Constitutional Affairs. Mr Ball, who joined the Board in October 2011, has been a member of the Board Risk Committee since November 2011 and a member of the Nomination and Corporate Governance Committee, since February 2013. He was appointed Chairman of the Nomination and Corporate Governance Committee in June 2013 to oversee the process to appoint a new Non-Executive Chairman and stood down from that role in December 2014 following the Chairman's appointment. (Age 54)



Mark Bourke* B.E., ACA, AITI – Chief Financial Officer

Mr Bourke joined AIB in April 2014 as Chief Financial Officer and member of the Leadership Team and was co-opted to the Board on 29 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. Mr Bourke began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute. (Age 48)



Bernard Byrne* FCA – Director of Retail and Business Banking

Mr Byrne joined AIB in May 2010 as Group Chief Financial Officer and member of the Leadership Team, was appointed Director of Personal, Business and Corporate Banking in 2011, and took up his current role in 2015. He began his career as a Chartered Accountant with PricewaterhouseCoopers (PwC) in 1988 and joined ESB International in 1994, where he was the Commercial Director for International Investments. In 1998, he took up the post of Finance Director with IVP International plc. He moved to ESB in 2004 where he held the post of Group Finance and Commercial Director until he left to join AIB. Mr Byrne joined the Board in June 2011 and was appointed Non-Executive Director of EBS Limited in July 2011. (Age 46)

* Executive Directors

AIB Board (Continued)



David Duffy* B.B.S., MA – Chief Executive Officer

Mr Duffy joined AIB in December 2011 as Chief Executive Officer and Chair of the Leadership Team. He has held a number of senior roles in the international banking industry including, most recently, the position of Chief Executive Officer at Standard Bank International covering Asia, Latin America, the UK and Europe. He was previously Head of Global Wholesale Banking Network of ING Group and President and Chief Executive Officer of the ING franchises in the US and Latin America. He worked with Goldman Sachs International in various senior positions including Head of Human Resources Europe. Mr Duffy joined the Board in December 2011. (Age 53)

On 19 January 2015, AIB advised that Mr Duffy had informed the Board of his decision to step down as CEO and Executive Director to pursue a career opportunity overseas. Mr Duffy will remain in position to support the Board in identifying his successor with his final departure date to be agreed. The Board has commenced a process to appoint a permanent successor to the role, subject to all relevant approvals.



Tom Foley BComm, FCA – Non-Executive Director

Mr Foley is a former Executive Director of KBC Bank Ireland and has held a variety of senior management and board positions with KBC in Corporate, Treasury and Personal Banking in Ireland and the UK. He was a member of the Nyberg Commission of Investigation into the Banking Sector during 2010 and 2011 and the Department of Finance (Cooney) Expert Group on Mortgage Arrears and Personal Debt during 2010. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank and is a Non-Executive Director of BPV Finance (International) plc, and IntesaSanPaolo Life Limited. Mr Foley joined the Board in September 2012 and is a member of the Audit Committee and Remuneration Committee. He was appointed Non-Executive Director of EBS Limited in November 2012. (Age 61)



Peter Hagan BSc, Dip BA – Non-Executive Director

Mr Hagan is former Chairman and CEO of Merrill Lynch's US commercial banking subsidiaries, he was also a director of Merrill Lynch International Bank (London), Merrill Lynch Bank (Swiss), ML Business Financial Services and FDS Inc. Over a period of 35 years he has held senior positions in the international banking industry, including as Vice Chairman and Representative Director of the Aozora Bank (Tokyo, Japan). During 2011 and until September 2012, he was a director of each of the US subsidiaries of IBRC. He is at present a consultant in the fields of financial service litigation and regulatory change. He is currently a director and treasurer of 170 East 70th Corp. and a director of the Thomas Edison State College Foundation. Mr Hagan joined the Board in July 2012 and is a member of the Board Risk Committee, the Nomination and Corporate Governance Committee, the Remuneration Committee and the Audit Committee. (Age 66)



Jim O'Hara – Non-Executive Director and Remuneration Committee Chairman

Mr O'Hara 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 Non-Executive Director of Fyffes plc and Chairman of a number of indigenous technology start up companies. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland. Mr O'Hara joined the Board in October 2010 and has been a member of the Audit Committee, Remuneration Committee and Nomination and Corporate Governance Committee since January 2011, and was appointed Chairman of the Remuneration Committee in July 2012. He was appointed Non-Executive Director of EBS Limited in June 2012. (Age 64)

* Executive Directors



Dr. Michael Somers BComm, M.Econ.Sc, Ph.D – Non-Executive Director, Deputy Chairman and Board Risk Committee Chairman

Dr Somers is former Chief Executive of the National Treasury Management Agency. He is Chairman of Goodbody Stockbrokers, a Non-Executive Director of Fexco Holdings Limited, Willis Group Holdings plc, Hewlett-Packard International Bank plc, the Institute of Directors, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management, in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the Audit Committee of the European Investment Bank and Director of the European Investment Bank and former Member of the EC Monetary Committee. Dr Somers was Chairman of the group that drafted the National Development Plan 1989-1993 and of the European Community group that established the European Bank for Reconstruction and Development. He was formerly a member of the Council of the Dublin Chamber of Commerce and a Non-Executive Director of St. Vincent's Healthcare Group Ltd. He joined the Board in January 2010 as a nominee of the Minister for Finance under the Government's National Pensions Reserve Fund Act 2000 (as amended), has been Chairman of the Board Risk Committee since November 2010 and a member of the Nomination and Corporate Governance Committee since 2013. (Age 72)



Catherine Woods BA, Mod (Econ) – Senior Independent Non-Executive Director and Audit Committee Chairman

Ms Woods is a Non-Executive Director of AIB Mortgage Bank, and Chairman of EBS Limited (from 12 February 2013). She is the Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband scheme and is a former Vice President and Head of the European Banks Equity Research Team, JP Morgan, where her mandates included the recapitalisation of Lloyds of London and the re-privatisation of Scandinavian banks. Ms Woods is a former director of An Post, and a former member of the Electronic Communications Appeals Panel. She joined the Board in October 2010, has been a member of the Audit Committee and Board Risk Committee since January 2011 and was appointed Chairman of the Audit Committee in July 2011. She was appointed as Senior Independent Non-Executive Director for the AIB Board in January 2015. (Age 52)

Governance at a Glance

Directors' Remuneration

The following tables detail the total remuneration of the Directors in office during 2014 and 2013:

| | | | | | | 2014 | 2013 |
|--|--|---|--------|--|-------------------------------------|--------------|--------------|
| | Directors' Fees - Parent & Irish Subsidiary Companies ⁽¹⁾ | Directors' Fees – AIB Group (UK) plc ⁽²⁾ | Salary | Annual Taxable Benefits ⁽³⁾ | Pension Contribution ⁽⁴⁾ | Total | Total |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Executive Directors | | | | | | | |
| Mark Bourke (appointed 29 May 2014) | | | 266 | 18 | 53 | 337 | N/A |
| Bernard Byrne | | | 450 | 30 | 90 | 570 | 490 |
| David Duffy | | | 425 | - | 64 | 489 | 489 |
| | | | 1,141 | 48 | 207 | 1,396 | 979 |
| Non-Executive Directors | | | | | | | |
| Simon Ball | 85 | | | | | 85 | 85 |
| Tom Foley | 90 | | | | | 90 | 104 |
| Peter Hagan | 88 | | | | | 88 | 87 |
| David Hodgkinson ^{(1(b))} (Chairman to 30 November 2014, retired on 18 December 2014) | 265 | | | | | 265 | 275 |
| Jim O'Hara | 100 | | | | | 100 | 127 |
| Richard Pym ^{(1(a))} (appointed 13 October 2014, Chairman from 1 December 2014) | 80 | | | | | 80 | N/A |
| Dr Michael Somers (Deputy Chairman) | 120 | | | | | 120 | 150 |
| Dick Spring (retired on 18 December 2014) | 77 | | | | | 77 | 77 |
| Tom Wacker ⁽²⁾ (retired on 12 October 2014) | 59 | 44 | | | | 103 | 98 |
| Catherine Woods | 115 | | | | | 115 | 159 |
| | 1,079 | 44 | | | | 1,123 | 1,162 |
| Former Directors | | | | | | | |
| Declan Collier ⁽²⁾ | | 56 | | | | 56 | 35 |
| Kieran Crowley ⁽²⁾ | | 50 | | | | 50 | 47 |
| Stephen L. Kingon ⁽²⁾ | | 64 | | | | 64 | 58 |
| Anne Maher ⁽⁵⁾ | 41 | | | | | 41 | 31 |
| David Pritchard ⁽²⁾ | | 108 | | | | 108 | 94 |
| Other ⁽⁶⁾ | | | | | | 26 | 41 |
| Total | | | | | | 2,864 | 2,447 |

(1) Fees paid to Non-Executive Directors during 2014 were based on the following computations:

(a) Mr. Richard Pym was appointed a Non-Executive Director on 13 October 2014 and Chairman with effect from 1 December 2014. Mr Pym is paid an annual non-pensionable flat fee of €365,000 which includes remuneration for all services as a director of Allied Irish Banks, p.l.c.; the fee above is the proportion earned between 13 October and 31 December 2014;

(b) Mr. David Hodgkinson, who retired as Non-Executive Chairman on 30 November 2014 and as a Director on 18 December, was paid an annual non-pensionable flat fee of €275,000 during his tenure; the fee above is the proportion earned between 1 January and 18 December 2014;

(c) All other Non-Executive Directors are paid a basic, non-pensionable fee of €65,000 in respect of service as a Director and additional non-pensionable remuneration in respect of other responsibilities, such



as through the chairmanship or membership of Board Committees or the board of a subsidiary company, or performing the roles of Deputy Chairman or Senior Independent Non-Executive Director;

(2) Current or former Non-Executive Directors of Allied Irish Banks, p.l.c. who also serve as Directors of AIB Group (UK) p.l.c. ("AIB UK") are separately paid a non-pensionable flat fee, which is agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Messrs. Wacker, Collier, Crowley, Kingon and Pritchard earned fees as quoted during 2014;

(3) 'Annual Taxable Benefits' represents a reduced non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits following an internal review of pay and benefits in 2012;

(4) 'Pension Contribution' represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Non-Executive Directors are non-pensionable;

(5) 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;

(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;

(7) All Directors fees are subject to (i) Irish tax and other statutory deductions including Pay Related Social Insurance, from which non-Irish resident directors can be exempt, and Universal Social Charge, and (ii) the consent / consultation procedure outlined in the Relationship Framework specified by the Irish Minister for Finance in respect of the relationship between the Irish Minister for Finance and Allied Irish Banks, p.l.c.

Interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2014, and of their spouses and minor children, in the Company's ordinary shares are as follows:

| Ordinary shares | 31 December 2014 | 1 January 2014* |
|-------------------|------------------|-----------------|
| Directors: | | |
| Simon Ball | - | - |
| Mark Bourke | - | - |
| Bernard Byrne | - | - |
| David Duffy | - | - |
| Tom Foley | 100 | 100 |
| Peter Hagan | - | - |
| Jim O'Hara | - | - |
| Richard Pym | - | - |
| Dr Michael Somers | 13,437 | 13,437 |
| Catherine Woods | - | - |
| Secretary: | | |
| David O'Callaghan | 7,490 | 7,490 |

* or date of appointment, if later

Throughout 2014, the Directors were prohibited from trading in the Company's shares due to significant ongoing corporate activity and close periods in advance of public disclosures.

BRENDAN CUMMINS...

2 ALL IRELANDS
5 ALL STARS
0 AIB CLUB ALL IRELANDS



#THETOUGHEST FINALS
ST. PATRICK'S DAY, CROKE PARK



Corporate Social Responsibility

At AIB we aim to make a positive contribution to the communities in which we operate. This is part of our strategy to contribute to economic recovery in Ireland over time.

In this section we outline some of our activity to support these goals under three pillars of Corporate Social Responsibility.

AIB in the Community

Beyond our immediate commercial activity, we see a responsibility to involve ourselves in our local communities.

We have had a fruitful association with the Gaelic Athletic Association (GAA) for over 30 years. We consolidated this association 24 years ago when we became official sponsor of the GAA Football and Hurling All-Ireland Club Championships. Today that sponsorship covers Junior, Intermediate and Senior levels. In 2014 we added Camogie to the list. During 2014 our marketing campaign for the GAA sponsorship - 'The Toughest' - celebrated the commitment of players in the AIB GAA Club Championships. In addition we won "Best Sports Sponsorship Award" at the 2014 Irish Sponsorship Awards as well as "Best Use of Social Media" in a sponsorship.

In the Agricultural sector, we run agri seminars around the country each being well attended by large numbers of farmers. We sponsor the National Ploughing Championships, the Tullamore Show and AIB National Livestock Show, the Irish Grassland Association Dairy Summer Tour and the AIB Macra na Feirme Club of the Year.



Our programme of financial education initiatives in communities and schools continues through organisations such as the National Consumer Agency and Junior Achievement.

The Group has taken a leading role in promoting the Women in Business agenda in partnership with Network Ireland.

In the technology sector we were once again one of the main sponsors of the annual Web Summit, attended by over 10,000 international delegates.

For the past four years AIB has partnered with GIY (Grow It Yourself), which helps people and communities to grow their own food, through our Get Ireland Growing Fund. GIY added 110 grants to community food projects in 2014 including 46 school gardens and 20 community gardens.

In 2014, we continued our support of the Press Photographers Association of Ireland. This was our twelfth year sponsoring the Photojournalism Awards which celebrate the best of Irish photojournalism. The exhibition which followed the awards, featuring 118 prints, went on tour to selected AIB branches as well as forming master classes for schools, camera clubs and photography students around the country.

Our staff are involved in driving initiatives to raise money for local and national causes in the Republic of Ireland, Northern Ireland and the UK. At a corporate level we invited charities into AIB Bankcentre to take part in a Christmas market. Also during 2014 we started to support Change for Charity in the majority of our branches, where we collect from members of the public for the benefit of major charities.

In 2014, EBS also continued its charity support with an ongoing partnership with Temple Street Children's Hospital in Dublin.

AIB and the Environment

AIB made good progress on energy and environmental initiatives in 2014.

We published a new Group Energy Policy and we were awarded ISO 50001 accreditation for the management of gas and electrical energy usage in our Bankcentre head office. Here we reduced energy consumption by 27%. We plan to extend this energy management system to other office locations in the Republic of Ireland and the UK in 2015.

Under a revised Group Environmental Policy we were awarded the ISO 14001 accreditation for the management of our environment in late 2014. In our submission to the Carbon Disclosure Project we disclosed a score of 75% and a Grade C performance for reducing Carbon emissions.

In partnership with GoCar.ie we give our people the choice of a more sustainable approach to transport. Three GoCars are on site at Bankcentre and our people can book and hire them as an alternative to using their own cars for work and to hiring taxis.

Working in tandem with one of our business customers, we have started a unique biodiversity project with four beehives housing 60,000 honey bees on the roof of Bankcentre. The project, which is believed to be the first rooftop apiary in Dublin, has had higher than expected honey yields.

We redeveloped the AIB branch in University College Dublin (Belfield Branch), installing a renewable power system of 50 square meters of solar panels to generate a significant amount of the branch's energy needs.

An Energy Efficiency Awareness day was held in Bankcentre introducing employees to AIB business customers active in energy efficiency.

A sustainability working group was set up in 2014 to increase awareness inside and outside the bank about AIB's sustainability. Our main achievement has been a sponsorship agreement with Sustainable Energy Authority of Ireland called the One Good Idea

Corporate Social Responsibility

programme. It aims to increase students' understanding of climate change and energy efficiency, encouraging them to take individual responsibility for tackling these important issues. In 2014, 204 projects were submitted from 68 schools representing approximately 2,000 students, with the One Good Idea now an annual feature in many teachers' calendars.



AIB and our people

Employee engagement is a critical aspect of any company's performance. Our metrics show that, following a period of radical restructuring and rebuilding the Group, the measure of our employee engagement has tripled on this time last year. The increase is equivalent to five years' worth of significant progress in just over a year, according to our engagement partners, Gallup. We made dramatic increases in all business areas.

Our efforts here are far from over. We will continue to invest in our people, focus on their professional development and wellbeing and encourage maximum collaboration, partnership and teamwork to build the pride and confidence of AIB.

In early 2014 we developed a new set of brand values, which our people and our customers helped to develop. We launched the brand values in early 2014 at our second Leadership Summit to 1,200 of our people

leaders. The values act as our guiding compass in all we do – the 'how' of what we do. Following the launch of the brand values, we then held Brand Value Activation sessions across the bank, before bringing them alive in our work to make a difference to customers' experience of AIB.

We made enhancements to our learning and development platform to offer classroom and web-based learning on a range of topics under the banner iLearn. Over 6,000 employees have attended classroom training and completed over 180,000 web-based training modules since iLearn launched in February 2014.

Recognising the level of change we experience as an organisation, we have also run workshops to support people through transition. These workshops encourage those running change programmes to consider the people aspect of change. We also support our people leaders with training through the AIB Leadership Framework and a new Leadership Curriculum.

Development is not just about learning, it is about people having the energy and mindset to grow. This year we launched The Well, an online resource with information and resources designed to help everyone to be at their best. It includes tips and activities to maximise energy, increase wellbeing, build resilience and promote physical, mental, emotional and spiritual health.





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