



# Shareholders Report 2016

For the financial year ended  
31 December 2016



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## AIB Description

AIB is a financial services group operating mainly in the Republic of Ireland and the UK. We provide a broad 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. Our business has been restructured in recent years and is now a customer focused, profitable and lower risk institution. We are well positioned to continue to support the Irish economy while generating sustainable shareholder returns.



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## 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 50 to 58 in the 2016 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 50 to 58 of the 2016 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.

# 2016 Financial Highlights

## 2015 Financial Highlights

### Profitable and Efficient

Net interest margin<sup>(1)</sup>

**2.25%**  
1.97%

Continued positive NIM expansion as the spread widens between yields on assets and liabilities, in particular redemption of legacy instruments.

Cost income ratio<sup>(2)</sup>

**52%**  
49%

In line with the Group's expectation to achieve a cost income ratio of below 50% in the medium term.

Profit before tax

**€ 1,682m**  
€ 1,914m

Sustainable underlying profit before tax in the year enhanced by net credit provision writebacks of € 294 million and exceptional items of € 207 million.

Return on equity<sup>(3)</sup>

**11.1%**  
12.4%

Reduction due to increase in ordinary shareholders' equity following the partial conversion of the 2009 preference shares in December 2015.

### Franchise Growth

New lending<sup>(4)</sup>

**€ 8.7bn**  
€ 8.5bn

Growth from strong momentum in all key sectors in Ireland and through syndicated lending in Europe and the US. UK new lending negatively impacted by uncertainty around a UK exit from the EU.

Mortgage market share

**36%**  
34%

No 1 position in Mortgage Market Share for new lending in Ireland.

Net promoter score<sup>(5)</sup>

**45**  
36

Transactional NPS has increased reflecting the continued enhancement of the customer experience.

### Strong Balance Sheet

CET1  
transitional **19.0%** fully loaded **15.3%**  
15.9% 13.0%

Robust capital position, post proposed ordinary dividend of € 250 million, with organic capital accretion through positive effect of profits generated in the year and reduced risk weighted assets.

Earning loans

**€ 56.1bn**  
€ 57.0bn

Increase in earning loans € 0.6 billion, excluding FX impact, with new lending and loans upgraded to earning higher than redemptions and new to impaired over the year.

Impaired loans

**€ 9.1bn**  
€ 13.1bn

Reduction in impaired loans reflects the continued implementation of sustainable restructure solutions for customers and improved economic conditions.

Customer accounts

**€ 63.5bn**  
€ 63.4bn

Robust funding structure underpinned by low cost deposit base. Further reduction in term deposits as current accounts continued to increase in 2016.

<sup>(1)</sup>Net interest margin ("NIM") excluding eligible liabilities guarantee ("ELG") charge. NIM including ELG 2.23% in 2016 (2015: 1.94%).

<sup>(2)</sup>Before bank levies, regulatory fees and exceptional items. Cost income ratio including these items was 54% in 2016 (2015: 64%).

<sup>(3)</sup>Return on average ordinary shareholders' equity.

<sup>(4)</sup>New lending for 2015 has been restated by € 0.2 billion to exclude revolving credit.

<sup>(5)</sup>The Net Promoter Score or NPS is a measurement program that tracks customers' loyalty and advocacy and ranges from -100 to 100 (Q4 2016 v Q4 2015).

# Consolidated income statement

for the financial year ended 31 December 2016

	2016 € m	2015 € m
<b>Continuing operations</b>		
Interest and similar income	2,611	2,821
Interest expense and similar charges	(598)	(894)
<b>Net interest income</b>	<b>2,013</b>	<b>1,927</b>
Dividend income	26	26
Fee and commission income	430	449
Fee and commission expense	(35)	(44)
Net trading income	71	95
Profit/(loss) on disposal/transfer of loans and receivables	11	(22)
Other operating income	403	197
<b>Other income</b>	<b>906</b>	<b>701</b>
<b>Total operating income</b>	<b>2,919</b>	<b>2,628</b>
Administrative expenses	(1,462)	(1,604)
Impairment and amortisation of intangible assets	(70)	(39)
Depreciation of property, plant and equipment	(39)	(35)
<b>Total operating expenses</b>	<b>(1,571)</b>	<b>(1,678)</b>
<b>Operating profit before provisions</b>	<b>1,348</b>	<b>950</b>
Writeback of provisions for impairment on loans and receivables	294	925
Writeback of provisions for impairment on financial investments available for sale	2	–
Writeback of provisions for liabilities and commitments	2	11
<b>Operating profit</b>	<b>1,646</b>	<b>1,886</b>
Associated undertakings	35	25
Profit on disposal of property	–	3
Profit on disposal of business	1	–
<b>Profit before taxation from continuing operations</b>	<b>1,682</b>	<b>1,914</b>
Income tax charge from continuing operations	(326)	(534)
<b>Profit after taxation from continuing operations attributable to owners of the parent</b>	<b>1,356</b>	<b>1,380</b>
<b>Basic earnings per share</b>		
Continuing operations	48.6c	44.0c
<b>Diluted earnings per share - adjusted</b>		
Continuing operations	47.9c	43.0c

# Consolidated statement of comprehensive income

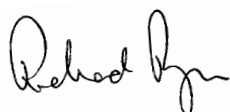
for the financial year ended 31 December 2016

	2016 € m	2015 € m
<b>Profit for the year</b>	<b>1,356</b>	<b>1,380</b>
<b>Other comprehensive income – continuing operations</b>		
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	103	743
<b>Total items that will not be reclassified subsequently to profit or loss</b>	<b>102</b>	<b>743</b>
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Net change in foreign currency translation reserves	(168)	31
Net change in cash flow hedges, net of tax	106	(29)
Net change in fair value of available for sale securities, net of tax	(359)	103
<b>Total items that will be reclassified subsequently to profit or loss when specific conditions are met</b>	<b>(421)</b>	<b>105</b>
<b>Other comprehensive income for the year, net of tax from continuing operations</b>	<b>(319)</b>	<b>848</b>
<b>Total comprehensive income for the year from continuing operations attributable to owners of the parent</b>	<b>1,037</b>	<b>2,228</b>

# Consolidated statement of financial position

as at 31 December 2016

	2016 € m	2015 € m
<b>Assets</b>		
Cash and balances at central banks	6,519	4,950
Items in course of collection	134	153
Disposal groups and non-current assets held for sale	11	8
Trading portfolio financial assets	1	1
Derivative financial instruments	1,814	1,698
Loans and receivables to banks	1,399	2,339
Loans and receivables to customers	60,639	63,240
NAMA senior bonds	1,799	5,616
Financial investments available for sale	15,437	16,489
Financial investments held to maturity	3,356	3,483
Interests in associated undertakings	65	70
Intangible assets	392	289
Property, plant and equipment	357	344
Other assets	248	785
Current taxation	13	35
Deferred tax assets	2,828	2,897
Prepayments and accrued income	444	503
Retirement benefit assets	166	222
<b>Total assets</b>	<b>95,622</b>	<b>103,122</b>
<b>Liabilities</b>		
Deposits by central banks and banks	7,732	13,863
Customer accounts	63,502	63,383
Trading portfolio financial liabilities	–	86
Derivative financial instruments	1,609	1,781
Debt securities in issue	6,880	7,001
Current taxation	18	31
Deferred tax liabilities	81	–
Other liabilities	973	1,108
Accruals and deferred income	484	653
Retirement benefit liabilities	158	368
Provisions for liabilities and commitments	246	382
Subordinated liabilities and other capital instruments	791	2,318
<b>Total liabilities</b>	<b>82,474</b>	<b>90,974</b>
<b>Equity</b>		
Share capital	1,696	1,696
Share premium	1,386	1,386
Reserves	9,572	8,572
<b>Total shareholders' equity</b>	<b>12,654</b>	<b>11,654</b>
Other equity interests	494	494
<b>Total equity</b>	<b>13,148</b>	<b>12,148</b>
<b>Total liabilities and equity</b>	<b>95,622</b>	<b>103,122</b>



**Richard Pym**  
Chairman



**Bernard Byrne**  
Chief Executive Officer



**Mark Bourke**  
Chief Financial Officer



**Sarah McLaughlin**  
Company Secretary

1 March 2017



“It is with great pleasure that the Board can now propose to declare a modest dividend. This is the clearest possible demonstration of the financial recovery of the bank. The dividend has been set at a level which the Board feels is sustainable and offers prospects for growth.”



## Chairman's Statement

**Richard Pym**

Chairman

Chairing a banking institution is a challenging role, however, introducing an annual report which shows as much progress as this report does is one of the better moments. I don't want to hide from what went before, but the recovery story is a good one.

It is thus with great pleasure that the Board can now propose to declare a modest dividend for the financial year ending December 2016. Once the accounts are received at the AGM in April and subject to shareholder approval, a dividend of €250 million will be paid on 9 May to shareholders on the register on the record date of 24 March. This is the clearest possible demonstration of the financial recovery of the bank. The dividend has been set at a level which the Board feels is sustainable and offers prospects for growth. However, the Board will be very prudent and recognises the inherent financial risks in the business, particularly the continued high level of impaired loan balances.

These have fallen from €29 billion in 2013 to €9 billion today, but are still high compared to other major European banks. Addressing this disparity is an objective for the next few years and there are no easy solutions given the depth of the previous financial crisis and the challenges of navigating through the legal system when we need to exercise security.

The results for 2016 show a profit before tax of €1.7 billion, compared to €1.9 billion the previous year reflecting strong business performance and reduced loan loss provision writebacks. Common equity tier one capital on a 'fully loaded' basis is 15.3%, up from 13.0% the previous year and it is this improvement which provided the opportunity for the Board to consider the dividend.

The bank has undertaken a major remediation review of tracker mortgage customers for which provision was made in the accounts in 2015. The remediation process, which has made significant progress, is putting customers back on trackers and compensating them for the associated loss. We are adhering fully to the resolution framework put in place by the Central Bank of Ireland, identifying and resolving all instances of incorrect charges. I would like to apologise to those customers we have failed. We are putting it right, and if other failures come to light we will put those right too.

## Chairman's statement

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The principal risks which the bank considers are shown in our Annual Financial Report and I would encourage current and prospective investors to consider these carefully. In this section I have already highlighted the continued high level of impaired loan balances, the legal complexities of resolving them and also the complexities of historically sold products, but banking is an inherently very risky business and there are lots more risks to consider.

In terms of economic risk, Ireland is exposed to the United Kingdom, its major trading partner, leaving the European Union. This introduces short term economic risk but it also opens up long term opportunities if firms currently located in the UK wish to retain an operational base in the EU, particularly in an English speaking one with similarities in the legal system. There are indications of such firms wanting to move and we welcome them joining us here. Ireland is a great place for international businesses to locate. However, on the downside, they will inevitably look to the local financial firms in Ireland to hire staff from and this increases the risk of loss of key staff from across the bank.

We are delighted to have assembled a very high quality leadership and senior management team and they have shown huge commitment and loyalty to the bank. I would like to thank colleagues throughout the bank who have worked so hard to make these results happen and cope with all the projects and change we have thrown at them. Developing and nurturing the talent in the bank is a key board objective again for 2017.

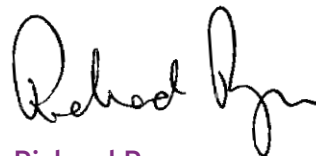
We were delighted to welcome Carolan Lennon and Brendan McDonagh who joined the Board team in 2016. They bring additional skills and experience of technology and banking to the board table. I would like to thank all the directors for their efforts on behalf of the bank.

Later this year we will be publishing for the first time a sustainability report, which is commonly called a social impact report. It is not sufficient for a bank to produce good financial results if it is not also making a positive contribution to society as a whole and we have started thinking about how we can report on these issues in this new publication. I would like to thank our non-executive director Helen Normoyle who is supervising our work in this area in her role of chairing our new sustainability committee.

There are two really tough postings on a bank board, that is in chairing the audit and the risk committees, and I appreciate the very hard work that Catherine Woods and Peter Hagan have put into these roles. The remuneration committee is chaired very effectively by Jim O'Hara even though the role of the committee is restricted in the things it can do.

I would also like to thank our two executive directors Bernard Byrne, CEO, and Mark Bourke, CFO, for their efforts and success during the year. They are hugely dedicated and professional, and excellent colleagues to work with.

Looking forward, we note that the Minister for Finance has appointed a syndicate of banks to prepare for the potential sale of some of the State's shareholding in AIB which might occur in 2017. This will be dependent on the state of the financial markets and the Minister will want to ensure good value for taxpayers. Following the proposed payment of the ordinary share dividend of €250 million, we will have returned €6.8 billion to the government by way of dividend, capital, fees and coupons. The Board has an objective to enable taxpayers to recover in full their investment of €20.8 billion over time and a share listing and sale would be another step in that direction. The decision is in the hands of the Minister, but the bank will be ready when he decides and a successful conclusion would be another important step in the full rehabilitation of AIB.



**Richard Pym**

Chairman

1 March 2017

“ The Group’s financial performance and current market shares demonstrate that AIB is the leading banking franchise in a growing Irish economy. ”

“ AIB is now in a position to pay an ordinary dividend and I am pleased that the bank is proposing a dividend payment for the full year 2016 of €250 million. Including this dividend, AIB will have paid c. €6.8 billion in capital, fees, dividends, coupons and levies to the State. ”



## Chief Executive’s Review

**Bernard Byrne**

Chief Executive Officer

### Introduction

I am delighted to present the 2016 results which show another year of significant progress. The Group’s financial performance and current market shares demonstrate that AIB is the leading banking franchise in a growing Irish economy. We run our business with the objective of achieving significant progress, every year, on each of our four strategic priorities:

- Customer First
- Simple and Efficient
- Risk and Capital Management
- Talent and Culture

Our 2016 performance confirms that this has occurred.

- Our customers are more satisfied and choose us more frequently to help them achieve their financial ambitions;
- Our continued progress on digital enablement has made the bank simpler and easier to operate for customers and colleagues;
- Our strong profitability, with profit before tax at c. €1.7 billion in the year, has strengthened our capital base and the reduction of c. €4 billion in impaired loans has improved our risk profile; and
- Our employees are more engaged and positive about the bank they work in as is clearly demonstrated by the continuing improvement in our employee engagement scores.

All of this progress is driving a better outcome for our key stakeholders; our shareholders, our customers, our staff and our regulators. The highlights outlined on the following pages demonstrate the progress made in 2016 in becoming the bank we can all believe in. A further significant step on that journey has been achieved with the announcement of the intention to pay a full year dividend, for 2016, of €250 million.

### Financial performance

In the year, our profit before tax was c. €1.7 billion. Our results continue to show strong underlying sustainable profitability of c. €1 billion. There are also some significant one-off credits, arising in the main from provision write backs as we continue to resolve the legacy impaired loan portfolios and a one-off credit from the disposal of our equity interest in Visa Europe. Our net interest margin (NIM) at 2.25% (exit Quarter 4 NIM of 2.42%) is 28bps favourable to the prior 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 15.3% (transitional 19.0%).

This sound capital base, comfortably above minimum regulatory requirements, gives us the ability to support our customers, to grow our business and to reward our shareholders. We have a stable funding model and an improving credit profile. This enabled us, in 2016, to deliver good financial returns and capital repayments to our shareholder. In July, on the maturity of our Contingent Capital Notes, we made a further significant capital repayment of €1.6 billion, together with a coupon payment of €160 million, to the State.

AIB is now in a position to pay an ordinary dividend and I am pleased that the bank is proposing a dividend payment for the full year 2016 of €250 million. Including this dividend, AIB will have paid c. €6.8 billion in capital, fees, dividends, coupons and levies to the State.

Impaired loan balances reduced by €4 billion year on year to €9.1 billion and by c. €20 billion since 2013. The impaired loan balances are €5 billion net of specific provision cover of 44%. We have made significant progress but need to move these balances to more normalised European peer levels and this remains an area of continued focus. We maintain good momentum in the resolution of these difficult cases and our restructuring activity supports the adequacy of our provision levels. We continue to work hard to achieve satisfactory outcomes for our customers and the bank.

Total costs for the year, at €1.377 billion, represent an €85 million increase on 2015 levels but a c. €360 million reduction on 2012 levels. We are focused on maintaining cost discipline as we continue to invest in the business through our three year, €870 million investment program which is delivering resilience, agility and a simple and efficient operating model focused on improving customer experience.

In 2016 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 the ongoing recovery of the Irish economy. We approved €12.9 billion in new lending during 2016, with actual customer drawdowns at €8.7 billion. In Ireland, mortgages were up 22%, personal lending was up 36%, business lending was up 9% and corporate lending was up 8%. Group and International (includes syndicate and international lending in the US and Europe) was up 16%. In our UK business, we saw new lending negatively impacted around the time of the UK referendum and, while lending has now returned to more normalised levels, overall drawdowns were down 20% (excluding the impact of currency movements).

In summary, we have a business that is well capitalised, growing its profitability within agreed risk appetite parameters, managing its costs efficiently, investing in its future and successfully addressing significant legacy issues. All of this is being achieved by putting the customer at the heart of what we do whilst managing financial, operational and regulatory requirements.

### Strategic Priorities

There are four strategic priorities that determine how we run our business and drive our investment programme. These priorities and the progress made on each in 2016 are set out below.

#### 1. Customer First

We put the needs of our customers at the heart of what we do. Our purpose is to help our customers achieve their financial ambition and we do that by earning their trust over time by our actions. We know that we cannot be all things to all people and thus we focus on improving the things that matter to our core customers. Here we set out our achievements on these items.

#### Personal Customers

##### Servicing our customers' needs

How our customers interact with us on a daily basis has changed significantly over recent years and we continue to adapt our services and how we organise ourselves to meet this change. Customers expect banking to be easy. This is mainly driven

by technology because it is transforming the way banks and customers engage and now, more than ever, customers connect with us when they are 'on the go' – through smartphones, laptops and other mobile devices. We see this as an opportunity and we are continuing to invest heavily in technology, delivering resilience, agility and a simple and efficient operating model focused, ultimately, on delivering for our customers.

It's not all about digital interaction. We know that when it comes to making major financial decisions, either personally or for their business, customers want to discuss their needs with a professional and understand what options are available. So we continue to invest in the improvement of our branch infrastructure, with a total of 134 branches refurbished by the end of 2016, covering c. 75% of our customer base.

We have the number one physical distribution network in Ireland with over 270 branches between AIB and EBS, 20 business centres and a partnership with An Post which sees banking facilities available at c. 1,100 An Post locations. We are continually adapting our distribution model to ensure it is meeting our customers' needs. In 2016, we announced a new Local Markets structure, reorganising into 19 Local Markets to provide singular accountability and focus to achieve the goal of being 'best bank in the community'. More and more, people need to bank outside of normal working hours so we have extended opening hours in many of our branch locations and also provide out of hour services through our banking lobbies. In 2016 we launched a partnership with Musgrave Group to offer Ireland's only in-store banking outlet in the SuperValu flagship store in Lucan, Co. Dublin.

### **Propositions that meet our customers' needs**

It's not just about better service. Through understanding customer needs, we know it's also about being fair and delivering value. In 2016, we continued to share the reduction in our funding costs, demonstrating our commitment to keeping mortgage rates under review as we announced further reductions in our Standard Variable Rates (SVRs) for AIB and Haven mortgage customers. This has resulted in an overall cut of 1% in SVRs for those customers in an 18 month period. To make it easier for non-AIB customers to switch to AIB, we have introduced a proposition whereby mortgage holders can avail of up to €2,000 towards the cost of fees incurred when switching mortgage provider.

We know that customers want choice and that different propositions appeal to different customers

and this is driving our multi brand mortgage strategy. For our EBS customers, we introduced our 'anytime anywhere' mortgage proposition in 2015 and in 2016 we launched a 2% back in cash offer. We did this because we know that some customers have a strong appetite for cash offers and this strategy enables them to avail of this type of offer through our EBS brand.

In 2016, we also took on board customer feedback in relation to personal loan pricing. Our offering is now more competitive and our pricing more easily understood. We implemented a reduction in our personal loan pricing, including a reduction of 4% APR on personal loans up to €10,000. In making these changes we have again demonstrated our commitment to putting our customers first.

When it comes to the provision of non-core banking products, for example, general insurance and bancassurance, we typically partner with market leaders. Specifically on bancassurance, AIB partners with Irish Life. In 2016, AIB became the leading bancassurance provider in Ireland, with a combined AIB/ EBS bancassurance income market share of c.44% and a new business market share of c.37%.

The benefits of focusing on the real needs of customers are clear. In 2016, AIB was the leading mortgage provider in Ireland by market share in volume and value. We saw a total increase of 27% in mortgage applications, with strong increases across all three brands. Our personal lending drawdowns increased by 36% on 2015 levels.

### **Business and corporate customers**

We continue to support our business customers by providing a large range of business products and a sector specialist approach. Our 48 hour decision for SME loans less than €30,000 and extended opening hours, in addition to our partnering with the Strategic Banking Corporation of Ireland (SBCI) continue to benefit our customers. Through this SBCI partnership we have launched a total of €400 million in funds to SMEs at a market leading rate of 4.5%, representing a 2% reduction on the standard business loan rate, the cost of the reduction being shared between AIB and the SBCI. AIB is also committed to supporting and nurturing small businesses that are at the critical start-up phase. In 2016 we launched an enhanced start-up proposition and programme of supports including offering free access to internet banking to all our business customers. We also broadened the reach of the AIB Start-up Academy to offer access to training and mentoring.



## Chief Executive's Review

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In light of the challenging cashflow difficulties experienced by the dairy sector in the earlier part of 2016, AIB partnered with a number of Co-Ops to provide a financial support package for their milk supplier members. The package was designed to address short term working capital needs, term solutions for farm investment needs and ongoing support and flexibility. In more recent weeks, through a risk sharing and interest subsidy agreement with the SBCI, we launched a €60 million Agri cash flow support loan fund, offering eligible customers loan facilities at a low rate of 2.95%.

In 2016, we launched a next generation portable card payments terminal that allows businesses to accept card payments in a more convenient manner, ultimately benefitting our business customers in running their business and improving the experience of their customers.



This year we also launched our award winning partnership with Business Centric Services Group Limited (BCSG), offering eligible SME customers the 'mybusiness toolkit' solution. This solution allows business customers to use a package of five apps, enabling the creation of business plans, building of a business website, efficient management of business accounts and payroll, easy recording of expenses and protection of business information. All of these tools are available 'on the go' from smart phone, tablet or a computer terminal.

Our Corporate Banking team, structured along specialist sector lines, provides premium relationship focused service supporting large SMEs, mid-sized and institutional corporates in Ireland. A strong performance in 2016, with new lending up 8% on prior year, is reflective of increased business activity in an improving Irish economy. We remain the No. 1 bank for Foreign Direct Investment (FDI) in Ireland with a 49% market share of Irish-banked new projects announced by the IDA in 2016.

### AIB UK customers

The decision by the UK to vote in favour of exiting the EU and the increasing likelihood of a 'hard' Brexit have had an impact on customer sentiment in the short term and has created some instability. The practical implications for Ireland, the UK and AIB in the longer term, as yet, are not fully known.

In terms of our business, we are prepared for this period of uncertainty and we are well positioned to deal with those matters that may arise. Most importantly, we are supporting our customers whose businesses may be affected and we continue to monitor events in the UK and the international markets as they unfold from the perspective of our business and our customers.

Our UK business is a separately regulated subsidiary. We continue to provide specialist industry and sectoral expertise to business banking customers, including Owner Managed Businesses (OMBs) and the corporate sector. In First Trust Bank (FTB), we service our customers through our focused challenger bank strategy, lending to niche SME sectors, providing sectoral expertise and offering a full banking service, in branch, online and through mobile. We are continuing to work to improve the operating efficiency of both businesses by investing in new capability but also reducing the cost base of the distribution network. As this work concludes this year we will have a stronger, more efficient base to grow from.

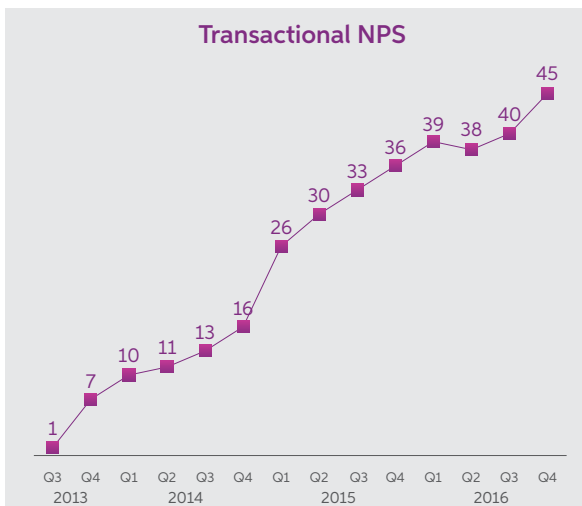
### Tracking our progress

We want to know how our customers feel about the services we provide, so we ask them, on an ongoing basis, for their feedback. Through regular and rigorous review of this feedback, we are identifying what we do well, where we need to improve and how we must invest to make customers' interactions simpler, more intuitive and more personalised.

While we don't always get it right, the good news is that we are making real progress and we are delivering better and more convenient services to our customers all the time. Our Transactional Net Promoter Score (NPS)\* has increased by 29 points, to +45, since Quarter 4 2014.

Within this overall NPS score, we track, on an ongoing basis, specific customer engagement journeys. Examples of great performance are Personal Loan Successful (+75 NPS) across branch, phone and online channels, SME Loan Successful (+60 NPS), Personal New Current Account (+58

NPS) and Card Replacement (+58 NPS). We are encouraged by the results for these engagement journeys because we can see a correlation between them and specific initiatives we are working on. Our NPS scores also tell us where we need to do better for our customers, such as handling complaints, and this is something we are focused on.



### Legacy challenges

Challenges may continue to arise as a result of legacy issues. We are committed to dealing with and resolving these as and when they emerge in a fair and equitable way for our customers.

In December 2015, the Central Bank of Ireland (CBI) launched an industry wide tracker mortgage examination. As we had already mobilised a project to start to address this legacy issue, our internal review was subsumed into the wider examination and the internal work already undertaken was leveraged where appropriate. Completing this review is a key priority for AIB and we want to be sure that we deliver a fair outcome for all affected customers who were incorrectly treated.

We have completed a significant amount of work and made material progress throughout 2016 on this program. Our review has found that, in some instances, we were not sufficiently clear with customers or we failed to honour contractual commitments. On behalf of the bank I apologise to customers for these failures which should not have happened and which we are now putting right. We have engaged with and paid redress and compensation, where applicable, to c. 2,600 customer accounts identified to date.

The overall process, as defined under the CBI framework, which includes a full independent third party review and an appeals process, will take some time to conclude. We continue to engage with our affected customers and work through this process as set out in the CBI framework. The total provision recognised in respect of this matter in the 2015 year end accounts is still considered to be adequate to address this issue.

## 2. Simple and Efficient

At the start of 2015, we commenced a three year €870 million investment program, to improve our system resilience and to deliver better experiences for our customers. Two years on, we have spent over €600 million on investment in our operating platform, customer engagement channels, data and analytics. Post 2017, our focus will be on harvesting the on-going benefits from this program.

Our market leading digital offerings enable our customers to bank with us how and when they wish. We now have over 1.2 million active digital customers, with 650,000 customers active on mobile banking, an increase of 23% on prior year. 72% of our personal loans are now applied for online and 53% of key products are now purchased via online channels. Customers can now apply for personal loans, mortgages and credit cards online.

As mobile is our busiest channel, we regularly seek feedback from our customers as to how we can improve our market leading mobile banking app. We use this feedback to enhance this proposition – some examples of enhancements made during 2016 were credit card applications, eStatements, push notifications and open payments. Customer responses to these initiatives have exceeded our expectations. Average monthly customer interactions on mobile have risen from 23 to almost 30 in 2016, with the app being accessed almost 20 million times in the month of December.

In Quarter 4 2016, we launched Android pay, offering personal and business customers the latest technology in payments. Android Pay is part of our digital enablement strategy and is another way we're making banking more convenient and secure for our customers. It is a simple and quicker way to pay using just your mobile phone. Innovative digital offerings supporting our core customer propositions will be an area of continued focus and investment into the future.

We also continue to simplify and automate our processes. Another good example of this is in relation to AIB's new car finance process. We have reinvented our proposition for car finance intermediaries and brought it into the digital age. Dealerships now have a system to enable customers to apply, get a decision and get the funds to purchase new and used cars – all through an AIB digital process which is quick and highly automated. These key fundamentals underpin the AIB car finance digital proposition across 300 dealerships in Ireland.

### 3. Risk and Capital Management

Our strong risk management framework and credit underwriting standards are delivering improved asset quality, further reductions in impaired loans and progress in relation to legacy customer challenges.

The capital reorganisation and share consolidation in December 2015 resulted in the normalisation of our capital structure. Over the last couple of years, we have made significant capital repayments to the State and, including the proposed dividend, we will have paid a total of €6.8 billion in capital, fees, dividends, coupons and levies to the State.

Positioning the bank to allow the repayment, in full, of the funds invested by the State in AIB continues to be a priority. Maintaining appropriately strong capital ratios is also a priority and we have achieved this while still delivering a strong financial performance, value for our customers and returning material amounts of capital. I am pleased that we continue to move forward with today's announcement of a 2016 full year dividend payment.

The bank's liquidity position has continued to normalise throughout 2016. All of our liquidity metrics are comfortably above regulatory minimums through our focus on growing customer deposits as well as rebuilding our wholesale presence in secured, unsecured and hybrid markets. Five years ago, AIB had limited access to international markets and was borrowing €31 billion from the ECB to fund its balance sheet. As at December 2016, this borrowing was normalised at €1.9 billion.

One area of volatility over the past few years has been the movement in the accounting estimate of the deficit on our defined benefit (DB) pension schemes. While movements in long term discount rates and inflation assumptions are important in this regard, so too is the assumption around long term increases in pensions in payment. In 2012 the Board instigated a five year moratorium on any increases to pensions arising under the DB scheme.

As this arrangement expires, the Board has now put in place a formal annual process that allows it to consider, every year, what discretionary increase in pensions in payment it should fund for that year. For 2017 this remains at zero and this will be reviewed again by the Board in 2018 and then again every year thereafter.

Our Risk Weighted Assets ("RWAs") are primarily driven by volume and quality of credit exposures. In 2016, gross impaired loans fell by €4 billion (net of provisions €1.9 billion), and overall net customer loan balances reduced by €2.6 billion (partly impacted by the sterling foreign exchange rate). In addition, the continued improvement in the economy was reflected in the improvement in credit quality of the customer loan portfolio. The combined impact was a reduction in credit RWAs of €4.8 billion.

The Group uses Risk Adjusted Return on Capital ("RAROC") for capital allocation purposes and as a behavioural driver of sound risk management. The methodology and models continue to be improved. The usage of RAROC for portfolio management and in lending decisions has increased in the last year and is a key consideration for pricing of all lending products, both at portfolio level and individually for large transactions.

### 4. Talent and Culture

We are a services business and our people are our most important asset because through their daily interactions with customers, they determine how our customers feel about our brand. Our people, coupled with our values, are the cornerstones on which our culture and continued success are built. Having the right culture throughout the entire organisation is critical, and together, we are working to achieve that.

At a Leadership Team level, we have a diversified 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 breadth 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.

Since the crisis of 2008 and its aftermath, the banking sector has, at times, been a challenging environment to work in and has demanded personal and professional investment, by our people, of significant time, effort and emotional resilience. Over the last four years, we have seen a material change in our workforce – a net decrease of c. 3,000 employees with 7,400 colleagues leaving the organisation and 4,400 new colleagues joining. That's a significant amount of change.



Against this backdrop, AIB has transformed for the better and that is down to our people. Their dedication and resolve has been central to our transformation and I take pride in leading this bank and by extension the people who work within it. I was pleased to see our employee engagement scores, through our iConnect employee survey, continue on a positive trajectory this year. A key measure of our progress is how we rank against other organisations. For this, we track our average score on the questions that measure employee engagement. That score rose to 4.08 (out of a maximum of 5) in 2016. This is up from 3.96 in 2015, putting us on the 52nd percentile of organisations. When we started our engagement journey in 2013, we were on the 5th percentile of the Gallup database, which meant that 95% of companies were doing better than us. Today we are in the top half of companies and the results confirm the real progress we are making on our people agenda despite the challenges and change we have faced.

In 2016, it was good to see a continued return to more normalised reward through agreement with the Financial Services Union (FSU) on improving pay arrangements for employees. This outcome takes account of our profitability and the outstanding debt we owe to the State, as well as wider reward trends in the industry.

It's great to see all of the hard work continuing to pay off as is evidenced in these strong financial results and our improving customer satisfaction levels. I would like to acknowledge and thank my colleagues for their ongoing dedication and commitment as we continue to respond to our customers' needs and in so doing, evolve this business.

## Our market position

When we think about how strong our market position is, we consider a significant number of factors. For example, how clearly defined is the market, how many customers do we have in that market and how active are these customers? When it comes to considering credit we think about 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 balance sheet and the size of the overall commitment.

Thus when it comes to personal, business and corporate markets in Ireland we are satisfied that 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.

We hold key leading market shares across personal and business lines as follows:

### Strong market share positions in retail and business banking - stock



**#1 Mortgages**



**#1 Personal Main Current Accounts**



**#1 Personal Loans**



**#1 Personal Credit Cards<sup>(1)</sup>**



**#1 Business Main Current Accounts**



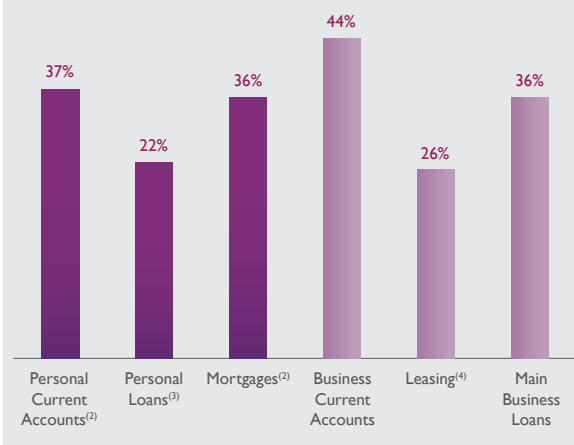
**#2 Business Main Loans**



**#1 Business Main Leasing**



**#2 Business Credit Cards**



Source: Ipsos MRBI AIB Personal Tracker 2016; AIB SME Financial Monitor 2016, BPFI - 2016

(1) Joint number 1 position

(2) New lending flow 2016

(3) Amongst banks; excludes car finance

(4) Main business leasing agreement

## Outlook and priorities for 2017

On the domestic front, Ireland is a growing economy with continuing attractive banking market dynamics. GDP growth in Ireland, taking into consideration the possible implications of Brexit, is currently forecast to be between 3% and 4%, per annum over the next three years. This is above the growth forecast for the Eurozone of c. 1.5% per annum. In terms of national employment, total employment levels continue to rise, with unemployment below 7%, back to pre-crisis levels. All of this continues to provide a positive domestic environment for the bank to operate in and the strength of our franchise affords opportunities to grow profitability as the economy develops.

Whilst housing completions in Ireland continue to be well below the required demand level, we are seeing an increase in activity, albeit at a slow pace and off a low base. The Government has recently introduced some initiatives in this regard and AIB is supporting these initiatives whilst also focusing on what more we can do to meet customer and larger infrastructure needs within this area.

SMEs are the backbone on which this economy is built and the SME credit market is forecast to return to growth in the coming years. We are well positioned to continue to support SMEs as this happens.

Against these positives there are plenty of challenges. There are macro uncertainties which we face. The aftermath and implications of a UK exit from the EU has led to economic uncertainty. Globally there is significant political change and uncertainty. In recent weeks, there has also been increased political instability in Ireland. The impact of the evolving regulatory framework on the operating model of banks is continuing. In general it does and will continue to increase the cost of operating, the cost of lending and the levels of capital required. And there are new nimble competitors emerging all the time.

The return of AIB to private ownership over time is something we believe will benefit the business as we face into these challenges. It will, of course, also aid in ensuring further significant repayments to the State. There has been increased commentary on the topic of an Initial Public Offering (IPO) in recent months and we view the recent State appointment

of Global Coordinators as a positive development. Clearly, the timing of any IPO is a matter for the Government. We are ready to play our part in the execution of any transaction and, in the normal course of business, we continue to actively engage with the market and potential investors.

Our ambition is to be at the heart of our customers' financial lives by always being useful, always informing and always providing an exceptional customer experience. We will deliver a bank with compelling, sustainable capital returns and a considered, transparent and controlled risk profile. To help us achieve this we have worked hard to enhance our strategy and prioritise the key areas of focus where we will differentiate ourselves. It's all about the customer, keeping things simple, managing risk well, having great people working in the bank and maintaining focus on the areas that we believe will deliver real growth. These items are determining the initiatives we commit to.

2016 has been another good year for AIB. Our business has performed well and we have started 2017 in a positive manner. I am proud of what we continue to deliver and the significant progress we are making. I want to thank my many colleagues, our Chairman and fellow Board members and the Leadership Team for the ongoing support that I receive in fulfilling my role as CEO. Together, we are confident that we are delivering a better bank. A bank that our employees, customers and stakeholders can really believe in.



**Bernard Byrne**

Chief Executive Officer

1 March 2017

# 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.



During 2016, the Board set up a Sustainable Business Advisory Committee, comprised of non-executive directors and senior executive management members, to support the bank with its sustainable business strategy. This includes the development and safeguarding of the bank's 'social license to operate', such that AIB plays its part in helping its customers prosper.

## 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 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.

# The Board

## Board of Directors

### Non-Executive Chairman

**Richard Pym, CBE**



Age: 67

Appointed: 13/10/2014 (Chairman Designate)

01/12/2014 (Chairman)

#### Background and experience:

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

#### Committee memberships:

Chairman of the Nomination and Corporate Governance Committee  
Remuneration Committee

### Non-Executive Directors

**Dr Michael Somers, B.Comm, M.Econ.Sc, Ph.D – Deputy Chairman**



Age: 74

Appointed: 14/10/2010 as a Nominee of the Minister for Finance under the Government's National Pensions Reserve Fund Act 2000 (as amended)  
14/06/2010 (Deputy Chairman)

#### Background and experience:

Dr Somers is former Chief Executive Officer of the National Treasury Management Agency. He is Chairman of Goodbody Stockbrokers, a Non-Executive Director of Fexco Holdings Limited, 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 Limited and Willis Group Holdings plc.

#### Committee memberships:

Board Risk Committee  
Nomination and Corporate Governance Committee

### Non-Executive Directors

#### Catherine Woods, BA, Mod (Econ) – Senior Independent Non-Executive Director



Age: 54

Appointed: 13/10/2010

##### Background and experience:

Ms Woods is a Non-Executive Director of AIB Mortgage Bank and EBS d.a.c. She was appointed Senior Independent Non-Executive Director in January 2015. She has been a Director of Beazley Re DAC since July 2015 and became a Director of Beazley plc in January 2016. 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. Ms Woods is a former Chairman of EBS d.a.c., former Director of An Post, a former member of the Electronic Communications Appeals Panel and a former Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband Scheme.

##### Committee memberships:

Chairman of the Board Audit Committee

Board Risk Committee

Nomination and Corporate Governance Committee

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#### Simon Ball, B.Sc (Econ), FCA



Age: 56

Appointed: 13/10/2011

##### Background and experience:

Mr Ball 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. 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. He is currently a member of the Board of Commonwealth Games England.

##### Committee memberships:

Board Risk Committee

Remuneration Committee

Nomination and Corporate Governance Committee

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#### Tom Foley, B.Comm, FCA



Age: 63

Appointed: 13/09/2012

##### Background and experience:

Mr Foley is a Non-Executive Director of EBS d.a.c. since November 2012 and AIB Group (UK) p.l.c. since April 2015. He is a Non-Executive Director of Intesa SanPaolo Life d.a.c. Mr Foley 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 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 Expert Group on Mortgage Arrears and Personal Debt during 2010. Mr Foley is a former Non-Executive Director of BPV Finance (International) plc. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank.

##### Committee memberships:

Board Audit Committee

Remuneration Committee



## Non-Executive Directors

### Peter Hagan, B.Sc, Dip BA



Age: 68

Appointed: 26/07/2012

#### Background and experience:

Mr Hagan 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. 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). 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 of 179 East 70th Corp.

#### Committee memberships:

Chairman of the Board Risk Committee  
Board Audit Committee

### Carolann Lennon, B.Sc, MBA



Age: 50

Appointed: 27/10/2016

#### Background and experience:

Ms Lennon is the Managing Director of Open Eir, Eir's Networks and Wholesale Division. She has held a number of senior roles in Eir, including Acting Managing Director and Consumer and Chief Commercial Officer. Prior to joining Eir, she held a number of senior roles in Vodafone Ireland. Ms. Lennon is a former Non-Executive Director of the DIT Foundation and the Irish Management Institute and currently sits on the Council of Patrons for Special Olympics Ireland.

#### Committee memberships:

None

### Helen Normoyle, BBS



Age: 49

Appointed: 17/12/2015

#### Background and experience:

Ms Normoyle is currently the Chief Marketing Officer of Countrywide, the UK's largest estate agency group, however, she is taking up a new role as Marketing Director Boots UK and Ireland in April 2017. She previously held the role of Chief Marketing Officer at DFS, Britain's leading upholstered furniture retailer, responsible for all aspects of the company's marketing communications and PR. Prior to joining DFS, she was Director of Marketing & Audiences at the BBC, responsible for the corporation's marketing, research, planning and audience services. In 2003, she joined Ofcom, the UK's telecoms and communications regulator as Director of Market Research where she established and led Ofcom's market research and intelligence team and, latterly, the Media Literacy team. Before joining Ofcom, she held a range of posts over an eight year period at Motorola, including Director of Marketing and Director of Global Consumer Insights and Product Marketing. She started her career working for one of Europe's leading market research agencies, Infratest+GfK, based in Germany.

#### Committee memberships:

Chairman of the Board Sustainable Business Advisory Committee

### Non-Executive Directors

#### Jim O'Hara



Age: 66

Appointed: 13/10/2010

#### Background and experience:

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 currently Chairman of a number of indigenous technology start-up companies. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland and Fyffes plc. 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 d.a.c. in June 2012.

#### Committee memberships:

Chairman of the Remuneration Committee

Board Audit Committee

Nomination and Corporate Governance Committee

Board Sustainable Business Advisory Committee

#### Brendan McDonagh, BBS, MA, FCIM



Age: 58

Appointed: 27/10/2016

#### Background and experience:

Mr McDonagh is a Non-Executive Director of UK Asset Resolution Limited, where he is the Chairman of the Audit Committee and a Member of the Risk Committee and Nominations Committee. He currently serves on the advisory board of the business school of Trinity College Dublin. He started his banking career with HSBC in 1979 and worked in Asia, the Middle East, Europe and North America. Mr McDonagh is a former member of the board of Ireland's National Treasury Management Agency and other previous roles include Executive Chairman of the Bank of N.T. Butterfield & Son Limited, Hamilton, Bermuda, and a former CEO of HSBC North America Holdings Inc with responsibility for the group's banking and consumer finance operations in the US and Canada. He was also Group Managing Director for HSBC Holdings Inc and a member of the HSBC Group Management Board.

#### Committee memberships:

Board Risk Committee



## Executive Directors

### Bernard Byrne, FCA – Chief Executive Officer



Age: 48

Appointed: 24/06/2011

#### Background and experience:

Mr Byrne was appointed Chief Executive Officer in May 2015. He joined AIB in May 2010 as Group Chief Financial Officer and member of the Leadership Team and was co-opted to the Board on 24 June 2011. Since then he has held a number of leading Director roles including Director of Personal, Business & Corporate Banking. Mr Byrne was appointed to the Board of EBS d.a.c. in July 2011. In January 2015, he was appointed President of Banking & Payments Federation Ireland (BPFI) and remained in this position until December 2016. Mr Byrne is the Deputy President of the Institute of Banking. A Chartered Accountant by profession, Mr Byrne joined PricewaterhouseCoopers (PwC) in 1988 and moved to ESB International, a leading international energy engineering and investment firm, in 1994, where he worked as Commercial Director for International Investments. In 1998, he became the Finance Director and later Deputy CEO of IWP International plc. In 2003, he joined ESB, an electricity utility, as Group Finance Director (and later Commercial Director), until he left to join AIB.

#### Committee memberships:

None

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



Age: 50

Appointed: 29/05/2014

#### Background and experience:

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.

#### Committee memberships:

None

## Directors' remuneration

The following tables detail the total remuneration of the Directors in office during 2016 and 2015:

	2016				
Remuneration	Directors' Fees Parent & Irish Subsidiary Companies <sup>(1)</sup>	Directors' Fees AIB Group (UK) plc <sup>(2)</sup>	Salary	Annual Taxable Benefits <sup>(3)</sup>	Pension Contribution <sup>(4)</sup>
	€000	€000	€000	€000	€000
<b>Executive Directors</b>					
Mark Bourke			467	30	93
Bernard Byrne			500	-	100
			967	30	193
<b>Non-Executive Directors</b>					
Simon Ball	85				
Tom Foley <sup>(2)</sup>	90	40			
Peter Hagan	95				
Carolan Lennon (Appointed 27 October 2016)	13				
Brendan McDonagh (Appointed 27 October 2016)	15				
Helen Normoyle	73				
Jim O'Hara	103				
Richard Pym <sup>(1(a))</sup> (Chairman)	365				
Dr Michael Somers (Deputy Chairman)	111				
Catherine Woods	146				
	1,096	40			
<b>Former Directors</b>					
Declan Collier <sup>(2)</sup>		56			
Stephen L. Kingon <sup>(2)</sup> (Resigned 31 October 2016)		47			
Anne Maher <sup>(5)</sup>	39				
David Pritchard <sup>(2)</sup> (Resigned 29 February 2016)		16			
Other <sup>(6)</sup>					
<b>Total</b>					

(1) Fees paid to Non-Executive Directors in 2016 were as follows:

- Mr. Richard Pym, Chairman, was paid a non-pensionable flat fee of € 365,000, which includes remuneration for all services as a Director of Allied Irish Banks, p.l.c.;
- All other Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of € 65,000 and additional nonpensionable 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 Allied Irish Banks, p.l.c. 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, Collier, Kingon and Pritchard earned fees as quoted during 2016.

(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)

	2015				
Remuneration	Directors' Fees Parent & Irish Subsidiary Companies <sup>(1)</sup> €000	Directors' Fees AIB Group (UK) plc <sup>(2)</sup> €000	Salary €000	Annual Taxable Benefits <sup>(3)</sup> €000	Pension Contribution <sup>(4)</sup> €000
<b>Executive Directors</b>					
Mark Bourke			450	30	90
Bernard Byrne			479	12	96
David Duffy (resigned 29 May 2015)			177	3	27
			1,106	45	213
<b>Non-Executive Directors</b>					
Simon Ball	80				
Tom Foley	90	31			
Peter Hagan	95				
Helen Normoyle (appointed 17 December 2015)	3				
Jim O'Hara	100				
Richard Pym (Chairman)	365				
Dr Michael Somers (Deputy Chairman)	120				
Catherine Woods	143				
	996	31			
<b>Former Directors</b>					
Declan Collier		61			
Stephen L. Kingon		63			
Anne Maher	39				
David Pritchard		110			
Other					
Total					2,674

## Interests in shares

The beneficial interests of the Directors and the Joint Company Secretaries in office at 31 December 2016 and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2016	1 January 2016*
<b>Directors:</b>		
Simon Ball	-	-
Mark Bourke	-	-
Bernard Byrne	-	-
Tom Foley	1	1
Peter Hagan	-	-
Carolan Lennon	-	-
Brendan McDonagh	-	-
Helen Normoyle	-	-
Jim O'Hara	-	-
Richard Pym	-	-
Dr Michael Somers	-	55
Catherine Woods	-	-
<b>Secretary:</b>		
Sarah McLaughlin (from 27 October 2016)	2	2
Robert Bergin (from 27 October 2016)	-	-
David O'Callaghan (to 27 October 2016)	31	31
* or date of appointment, if later		

# Sustainable Banking

Our aim from the start of AIB's transformation programme has been to build a bank that everyone can believe in; a bank that is useful to our customers, focusing on meeting their needs and delivering services as simply and efficiently as possible. This, we believe, will result in a sustainable bank, one where all stakeholders can have enduring confidence in our operations, our practices and our strategy. Central to it is our reputation and the issue of trust.

For too long there were instances where banks, including AIB, have fallen short of the standards that should be expected of them. In the immediate years following the financial crash AIB focused on bringing the bank's finances to a stable position once again. The announcement of a full-year dividend this year – our first since 2008 – confirms this accomplishment. In recent years we have also focused on our services, investing €870 million in our business services, including our digital services, in order to make banking with AIB a simple and convenient experience.

Now, to rebuild trust with all our stakeholders, we firmly commit to incorporating social and environmental considerations into our everyday decision-making. Our aim is to make AIB a recognised leader in sustainability, understanding the responsibility we hold as a financial institution operating at the heart of communities around Ireland and in our other markets. We are purposefully aiming high, and there are many areas we will address.

2016 was the 50th anniversary of the formation of AIB – an amalgamation of three constituent banks, the oldest of which was founded in 1825. Such a landmark event offered us the opportunity to reflect on our history while considering our role in the current rapidly changing, and at times volatile, economic and social environment. The pace of change – climate, politics, technology, and more – is both swift and unpredictable, and at AIB we will adapt intelligently in order to best serve our customers in the years ahead.

We believe we are now well positioned to accept the challenges that lie ahead, and it is time to create the right platform from which we can rebuild trust in AIB.

## 2016: A Foundation Year

As part of the Annual Financial Report 2015, AIB committed to progressing our sustainability strategy; one that is an integral part of our bank-wide commitment to put our customers first. As such, 2016 was a foundation year in the creation of a more sustainable approach to banking.

Through the establishment of both AIB's first Sustainable Business Advisory Committee (SBAC) and corresponding Office of Sustainable Business (OSB), we reached out to our stakeholders in order to identify the sustainability issues of most importance to them. This materiality exercise was undertaken in line with the most recognised standard of sustainability reporting: the Global Reporting Initiative. This exercise identified 32 material issues – the issues most pertinent to AIB's stakeholders, and therefore to AIB itself – and it is these issues that the bank will investigate, improve, and report on in the coming years.

## Sustainability at the Heart of Governance

### Sustainable Business Advisory Committee

In order to give our sustainability efforts a proper focus, the Board approved the establishment of the Sustainable Business Advisory Committee (SBAC). The SBAC is chaired by Helen Normoyle, an independent non-executive AIB Board member.

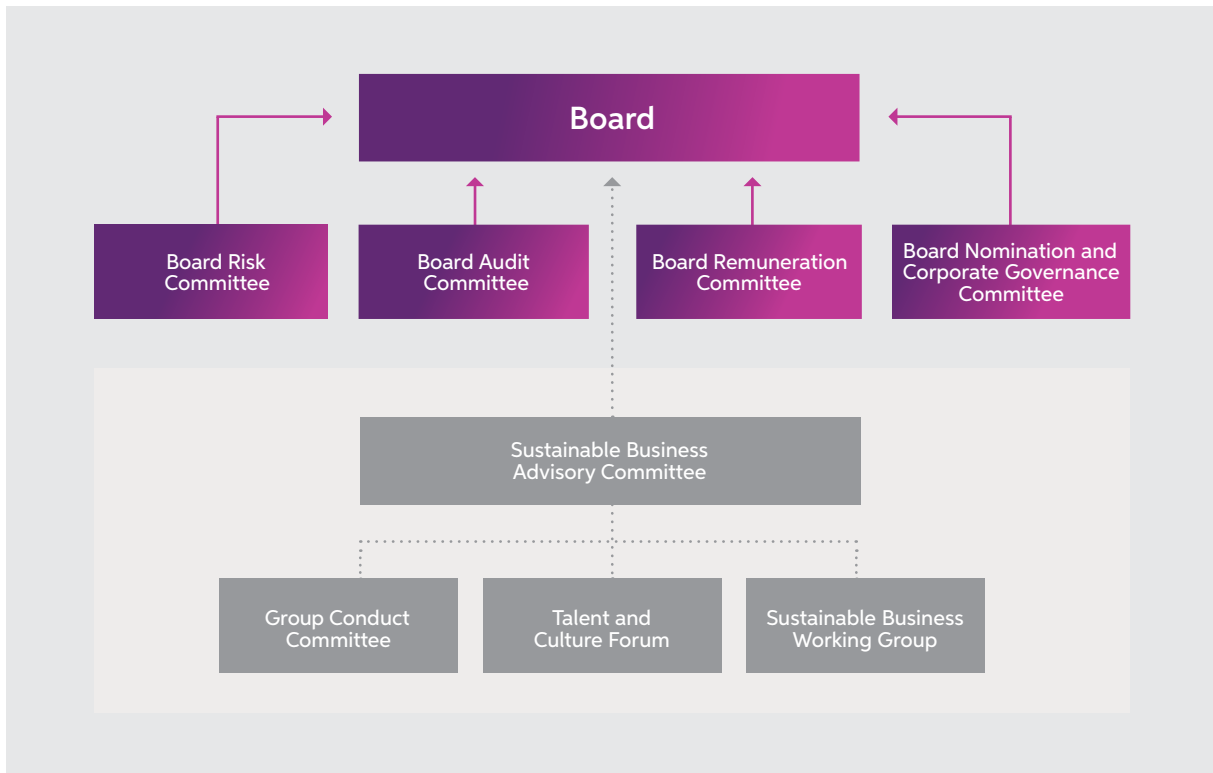
The SBAC advises the Board of Directors on sustainability issues, supervising the execution of the bank's sustainable business strategy in accordance with the approved Group Strategic and Financial Plan. The strategy includes the development and safeguarding of the bank's 'social licence to operate' to help our customers prosper. In particular, the SBAC considers and advises on: Customers and Conduct; Communities/Local Markets; Employees; Environment; Reputation and Trust; and External Reporting.

With a commitment to meet at least four times a year, the SBAC has met formally three times since its formation in April 2016. In addition, there have been many informal meetings along with a number of site visits to companies that are recognised leaders in sustainability.

### Office of Sustainable Business

The Office of Sustainable Business (OSB) was established in January 2016 to advise and support AIB's Leadership Team and the SBAC on sustainability issues. It provides guidance to policy

and framework owners on aligning to sustainability standards and in 2016 it developed the bank's first materiality evaluation of key sustainability issues.



### Our materiality index

To devise and implement a successful sustainability strategy, we sought to understand the environmental, social and governmental issues of most concern to our stakeholders.

In 2016 we developed our first materiality evaluation of key sustainability issues. We identified 32 material issues, and prioritised and validated them with a representative group of 1,100 individuals, including consumers, AIB employees, not-for-profit organisations, and environmental, investor and industry groups.

We conducted this materiality exercise in accordance with independent advisors KPMG and the core approach of the Global Reporting Initiative (GRI), an international leader in sustainability reporting. GRI provides the world's most widely used standards

on sustainability reporting and disclosure, helping organisations communicate the impact of their business on critical sustainability issues ranging from climate change to corruption.

We chose to conduct the exercise to the standards of GRI, with the ultimate aim in mind of producing a first sustainability report. We aim to join other large organisations worldwide that report on their sustainability efforts, as part of our intention to operate fairly and transparently with the best interests of our customers at heart.

Group	Most material issues	
 <b>Customer First</b>	<ul style="list-style-type: none"> <li>• Tailored and flexible products</li> <li>• Pricing of products and services</li> <li>• Responsible products and services</li> </ul>	<ul style="list-style-type: none"> <li>• Regaining trust</li> <li>• Customer led innovation</li> <li>• Product and service transparency</li> </ul>
 <b>Employees</b>	<ul style="list-style-type: none"> <li>• Diversity and equality</li> <li>• Health and safety</li> <li>• Employee pay</li> </ul>	<ul style="list-style-type: none"> <li>• Talent retention</li> <li>• Employee engagement</li> <li>• Executive pay</li> </ul>
 <b>Governance &amp; Stability</b>	<ul style="list-style-type: none"> <li>• Service and product accessibility</li> <li>• Sustainable supply chain</li> <li>• Tax policy and fair tax payments</li> <li>• Business ethics</li> <li>• Environment, society and governance (ESG) integration into lending</li> <li>• Financial literacy</li> </ul>	<ul style="list-style-type: none"> <li>• Financial inclusion</li> <li>• Profitability and financial stability</li> <li>• Organisational governance</li> <li>• Effective risk management</li> <li>• Stable IT systems and platforms</li> <li>• Customer privacy, data security</li> <li>• Compliance with law</li> </ul>
 <b>Business Leadership</b>	<ul style="list-style-type: none"> <li>• Influence on communities</li> <li>• Environmental footprint</li> <li>• Climate risk analysis</li> <li>• Stimulating economic growth</li> </ul>	<ul style="list-style-type: none"> <li>• Investment in climate resilient solutions</li> <li>• Leadership and vision</li> <li>• Lending to SMEs</li> </ul>

Drawing on the 32 issues above that were identified through our materiality exercise, the below sample of figures offers further insight into the topics of

most concern to consumers – both sustainability factors important to them and business practices they consider critical for banks.

### Sustainability Factors Important to Consumers

<b>85%</b>	Customer privacy and data security
<b>76%</b>	Transparency of services and products
<b>69%</b>	Transparency of banking operations and governance
<b>65%</b>	Pricing of products and services
<b>61%</b>	Providing responsible services and products
<b>56%</b>	Accessibility of services

### Business Practices Consumers Consider Critical for Banks

<b>76%</b>	Regaining trust
<b>75%</b>	Compliance with regulation and developing regulation
<b>73%</b>	Business ethics
<b>61%</b>	Communicating with their customers, suppliers etc
<b>60%</b>	Stability of their IT systems and platforms
<b>51%</b>	Risk management

### Setting Goals and Operating Transparently

The establishment of the SBAC and OSB has allowed us to bring more focus to sustainability. A key objective of our work is to bring a greater degree of transparency to what we do as a bank. We are now developing a set of leading measures around the key issues of concern identified through the materiality exercise, which we will track and report publicly over the long-term.

As such, the next step in our sustainability journey is to produce a full sustainability report later this year, published in accordance with the GRI standard. Going one step further, we will then use our key performance indicators (KPIs) to measure our progress, benchmarking our goals against ISO 26000, the international standard developed to help organisations effectively assess their social responsibilities.

Below is a snapshot of activities across different areas of sustainability that we are proud to have progressed in 2016.

### Customers

#### Backing homes

AIB is the largest provider of mortgages in the Irish market, with a 36% share of the market by drawdowns. Having implemented four mortgage rate cuts in 2016, our standard variable rate (SVR) is now a market-leading 3.4% and loan to value rates start as low as 3.1%. In keeping with our customer first agenda these rate cuts were applied to both new and existing mortgage customers, impacting 156,000 customers in 2016.

We are also active in the national mission to address the housing crisis. Firstly, we are committed to financing social housing schemes in partnerships with developers, local authorities and housing authorities. And, secondly, we finance residential developments with a 10% mandatory social housing component to them.

#### Backing brave: SMEs and start-ups

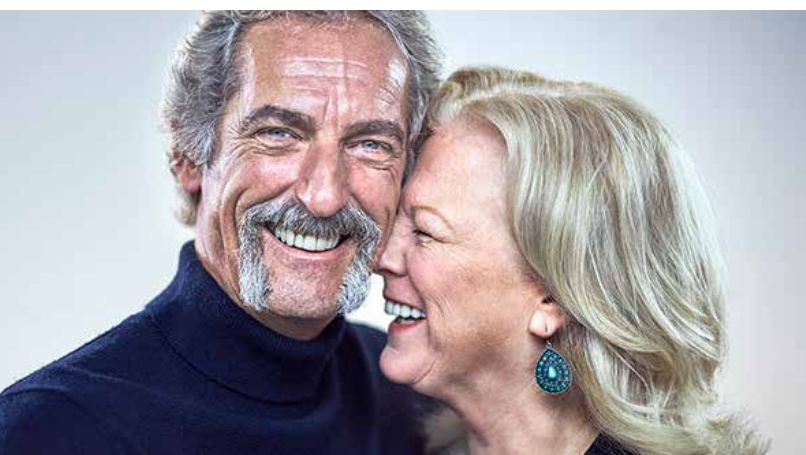
We believe in the quest to encourage enterprise and entrepreneurship, realising the success of our small to medium business customers across Ireland. In so doing, we are helping to create the industries and jobs of the future.

Farming is central to Irish rural society, and in 2016 our team of AIB Agri Advisors visited the main agricultural educational centres throughout the country, delivering presentations on farm finance, applying for finance and maintaining a good banking relationship. We sponsored the AIB/Teagasc All-Ireland Best Farm Business Plan Awards as well as agricultural education initiatives in University College Dublin and Waterford Institute of Technology. We also launched Young Farmer Bytes (YFB), an online information service for young farmers.

#### Backing job creation

In 2016, by way of encouraging entrepreneurship, we supported the development of two dedicated working spaces for accelerator programmes, high potential start-ups and entrepreneurs in both Skibbereen and Galway city – the Ludgate Digital Hub and Portershed respectively. These innovation centres will help embed a culture of entrepreneurship in their local communities – and across the country generally – ultimately creating industries and jobs of the future.

More broadly, AIB is a significant provider of seed, venture and growth capital funding with commitments totalling €130m to 10 funds with a combined fund size of €728m. The funds have invested €177m in 166 companies, attracting matched international investment and helping create an estimated 3,600 high-quality jobs, approximately 2,200 of which are Irish jobs.





## Employees

### iConnect

In our efforts to make AIB an attractive and effective workplace, we have been collaborating with international employee engagement experts Gallup since 2013. In partnership with Gallup, we have created iConnect, an annual survey and programme that seeks to assess levels of engagement generally and, more specifically, identify and address engagement issues among our colleagues.

We have made very strong progress to date. After the first wave of iConnect, AIB's engagement levels were in the 5th percentile; in 2016, our levels reached the 52nd percentile. This is one of the highest jumps that Gallup has witnessed. Engaged employees in AIB now significantly outnumber the actively disengaged at a ratio of 6.3:1.

### Towards a more diverse workplace

We value the contribution that all our employees can make and we embrace that within iMatter, our Diversity & Inclusion programme. In 2016 we continued our focus on four key themes: raising awareness on the value of inclusive leadership; improving our female talent pipeline for senior roles; improving our workplace to reflect a more agile environment; and ensuring our HR policies help us 'mind the gap' between family leave and careers.

In 2016 we delivered on our Board target of 25% female representation and became signatories to the Diversity Ireland and HM Treasury UK Women in Finance charters.

## Governance & Stability

### Profitability

With the strong financial results reported in this document, we are now confident that the bank is on firm footing. We have strengthened our capital base, producing a profit before tax of €1.7 billion in 2016 allowing us to propose a dividend of €250 million.

### Inclusive finance

AIB is committed to leading in the area of digital banking, and currently 95% of customer transactions are automated. Our €870 million investment in services included major work on our digital channels, which has resulted in more easeful and convenient interactions with our customers across the range of products.

In the area of inclusive finance, AIB opened over 7,600 Basic Bank Accounts in 2016 as part of an EU-wide initiative to bring unbanked customers into the financial system and to provide access to basic payment services for financially vulnerable customers.

### IT stability

In order to continually offer the best and most secure service to our customers, AIB is enhancing the resilience of our core systems by way of our €870 million strategic investment plan. Projects developed during the course of 2016 include: our Payments Platform Infrastructure, the replacement of the Internet Business Banking Platform, and the installation of a new Treasury platform.

### Our supplier impact

AIB has over 2,700 active suppliers, 60% of which are based in our domestic market in the Republic of Ireland.

We understand that our purchasing activity provides a cascade effect throughout an extended secondary supply chain, supporting multiple suppliers and communities located in our operating jurisdictions. Our total supplier spend in 2016 reached almost €880 million, 71% of which was in our domestic market.

Number of suppliers per region (2016)

Ireland  
**1,673**

UK  
**867**

Rest of the world  
**257**

Value of supplier contracts

Ireland  
**€625m**

UK  
**€175m**

Rest of the world  
**€80m**

### Business Leadership

#### Our local markets

In 2016, AIB reorganised our business around our communities, creating 19 Local Markets across Ireland. This approach is designed to give our business and retail banking a local community focus. Each of our 19 Local Market teams have a local “owner” and are tasked with delivering exceptional customer experience in their communities.

#### Backing our communities

Time and again, staff across our 19 Local Markets put their heads together to come up with a whole host of events and initiatives to raise much-needed funds for charities close to their hearts – and the response from our customers never ceases to amaze us. From a breakfast in aid of Dogs for the Disabled in Blarney to taking part in a mini-marathon for the Gavin Glynn Foundation in Greystones, we are happy to report that the spirit of community is alive and well in AIB.



Dogs for the Disabled in Blarney



Mini-marathon runners in Greystones

AIB has a long-standing relationship with the GAA. This is not just about our official sponsorship. In a recent AIB staff survey, 65% of the respondents either played or had children playing at club level, while over 50% had been active in their club as coaches, managers or selectors. In 2016, our sponsorship campaign, The Toughest, gave us the opportunity to engage with over 1,600 GAA clubs.

### Social and educational responsibility

AIB also supports initiatives at a national level. For example, in 2016 we funded ‘Way of the Warrior’, a programme run by Soar, which tackles mental health in young men aged 13-17. We hope that by the end of 2018, this programme will have reached 7,500 young people across the country.

We are particularly conscious of our role in education. The Build a Bank Challenge asks transition and fifth year students to set up and run a bank in their school, culminating in competitions at regional and national levels. We have a long-standing relationship with Junior Achievement Ireland (JAI), which helps children of all ages understand the benefits of staying in education. And we enjoy successful partnerships with a variety of third-level institutions. In 2016 we supported Dublin City University, University College Dublin, and Queen’s University Belfast enabling research and learning in areas of behavioural economics, data analytics and corporate leadership.

#### Working with the environment

In 2016, AIB achieved an A- rating for the first time for our efforts to tackle carbon emissions as measured by the CDP (formerly Carbon Disclosure Project). We rank fourth in the country for emissions reporting, and have experienced significant monetary savings through the adoption of our energy saving programme. This plan includes investing in a combined heat and power plant, procuring 100% green electricity wherever feasible and engaging a single supplier of gas and electricity. We have also achieved a reduction in energy by using thin-client technology to replace the traditional PC workstation.

Having achieved ISO50001 (energy management) and ISO14001 (environmental management) certifications, we developed an online and interactive energy awareness course to make staff more aware of their environmental impact. This course was so successful that we have partnered with Skillnet who will provide the course to other organisations. AIB will be acknowledged on Skillnet’s sustainability website.

## Our footprint per employee

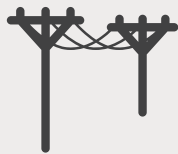
### Water Consumption



**20.5**

Cubic metres

### Energy Consumption



**5861**

kWh

### Waste Production



**.315**

tonnes

### Greenhouse Gas Emissions (Scope 1, 2 & 3)



**2.27**

tCO<sub>2</sub>eq\*

\*1 tCO<sub>2</sub>eq is equal to one tonne of carbon dioxide

By the end of 2016 AIB's electricity purchase was 100% from renewables in both the UK and Ireland.

In 2020, AIB will use 33% less energy per employee compared with 2009.

### Promoting renewable energy

Finance sanctioned for green projects in 2016 will benefit our national renewable energy targets and AIB will continue to work with companies from across the value chain, big and small, to transition Ireland away from fossil fuels.

In a similar vein, AIB sponsors the Sustainable Energy Authority of Ireland (SEAI) 'One Good Idea' competition for primary and secondary schools, which aims to increase students' understanding of energy efficiency and climate change by encouraging them to take individual and collective responsibility for tackling these important issues. Contestants must come up with creative ideas for an energy awareness campaign to change behaviour and improve energy efficiency in their homes, schools and communities.

### Our Next Steps to Sustainable Banking

During 2016 we put in place the building blocks necessary to embed sustainability within AIB's strategy, our culture and our business. We have identified 32 of the most pertinent issues to our stakeholders and the international standard by which we will benchmark our progress in the relevant areas. Our next step will be to define the leading measures and goals towards which we will progress, and we look forward to producing our first sustainability report later this year. The foundations have been laid for 2017 – and beyond.





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