



Compliance with the European Union (Capital Requirements) Regulations 2014

The legal basis for implementing Basel III is the European Union (“EU”) adopted legislative package, known as CRD IV, which came into force on 1 January 2014.

CRD IV consists of a Capital Requirements Regulation (“CRR”) which is directly applicable across all firms in the EU, and Capital Requirements Directive (2013/36/EU), which required implementation by member states of the European Economic Area through national law.

Ireland transposed the Capital Requirements Directive (2013/36/EU) into domestic law on 31 March 2014 by means of The European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014) (“CRD”). AIB has been designated as a ‘significant’ institution under Regulation 64(5) of CRD.

Regulation 84 of CRD requires institutions to explain, on their website, how they comply with the requirements of Regulations 76 to 83 of the CRD, which relate primarily to Governance, Remuneration, and Reporting.

This document sets out how AIB complies with these Regulations.

1. Governance

Corporate Governance Arrangement and Practices

AIB’s Governance Framework encompasses the leadership, direction and control of AIB and its subsidiaries (collectively referred to as ‘AIB’, the ‘Group’ or the ‘Company’), reflects best practice standards, guidelines and statutory obligations and ensures that the organisation and control arrangements are appropriate to 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 Group’s governance arrangements include:

- A. a Board of Directors of sufficient size and expertise, the majority of whom are independent Non- Executive Directors, to oversee the operations of the Group;
- B. a Chief Executive Officer (“CEO”) to whom the Board has delegated responsibility for the day-to- day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of Senior Executive Management, and for the operational management, compliance and performance of all the Group’s businesses;
- C. an Executive Leadership Team comprising strong and diverse management capabilities;
- D. a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- E. a well-documented and executed delegation of authority framework;
- F. a framework and policy architecture which comprises a comprehensive and coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
- G. effective structures and processes to identify, manage, monitor and report the risks to which the Group is or might be exposed;
- H. adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, and remuneration policies and practices which are consistent with and promote sound and effective risk management; and
- I. strong and functionally independent internal and external audit functions.

The Board

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group, and is accountable to shareholders for financial performance. While arrangements have been made by the Directors for delegation of the management, organisation and administration of the Company's affairs, the following matters are specifically reserved for decision by the Board:

- A. to retain primary responsibility for corporate governance within the Company at all times and oversee the efficacy of governance arrangements;
- B. to determine the Company's strategic objectives and policies, and to ensure that the necessary financial and human resources and operational capabilities are in place for the Company to meet its objectives;
- C. to approve the annual financial plan, interim and annual financial statements, operating and capital budgets, major acquisitions and disposals, and risk appetite limits, designated frameworks and relevant policies;
- D. to appoint the Chairman of the Board, Board Directors, CEO and Members of the Leadership Team, to address related succession planning, and to approve, where appropriate, the removal of persons in charge of Control Functions
- E. to endorse the appointment of people who may have a material impact on the risk profile of the Company and monitor on an ongoing basis their appropriateness for the role;
- F. to render an account of the Company's activities to its shareholders;
- G. to protect the assets of the Company taking into account the interests of the shareholders and the employees in general with appropriate regard for the interests of other stakeholders; and
- H. to put in place and monitor procedures designed to ensure that the Company complies with the law and good corporate citizenship.

The Board is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that AIB is prepared to assume in order to achieve its strategic objectives. The Board ensures that an appropriate system of internal controls is maintained and reviews its effectiveness. Specifically the Board:

- A. sets the Group's Risk Appetite, incorporating risk limits;
- B. approves Risk Frameworks, incorporating risk strategies, policies, and principles;
- C. approves stress testing and capital plans under the Group's Internal Capital Adequacy Assessment Process ("ICAAP"); and
- D. approves other high-level risk limits as required by Credit, Capital, Liquidity and Market policies.

The Board receives regular updates on the Group's risk profile through the Chief Risk Officer's monthly report, and relevant updates from the Chairman of the Board Risk Committee.

Role of the Chairman and Chief Executive Officer

The role of the Chairman is separate from the role of the CEO, with clearly-defined responsibilities attaching to each these are set out in writing and agreed by the Board. The Chairman's responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new directors, the on-going training and development of all directors, and reviewing the performance of individual directors. The CEO is responsible for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation

and direction of senior executive management, and for the operational management of all the Group's businesses.

Directors Induction, Professional Development, and Other Directorships

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments before appointment. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chairman and the Company Secretary, and in certain cases the Central Bank, must be sought.

AIB has a comprehensive induction process for new directors, the contents of which varies for Executive and Non-Executive Directors. In respect of the latter, the induction is designed to provide familiarity with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group's strategic, business and financial plans, and a programme of meetings with the Chief Executive Officer and the Senior Management of businesses and support and control functions. A programme of targeted and continuous professional development is in place for Non-Executive Directors.

AIB conducts a regular review of the number of other directorships held by members of the Board, taking into account the exemptions for Directors representing the State, directorships held within the same group, and for organisations that do not pursue predominantly commercial objectives. Directors have been notified of the limitations on the number of directorships permitted to be held by them under CRD and the need to ensure ongoing compliance in that regard.

Fitness & Probity

AIB complies with the continuing obligations under the Central Bank of Ireland's Fitness & Probity regime, where we carry out an audit of Directors on an annual basis by asking directors to confirm whether they are aware of any material developments in relation to their compliance with the Fitness & Probity Standards of which the Bank ought to be aware. We also comply with the EBA guidelines on the assessment of the suitability of members of the management body and key function holders, and the Board has in place an approved Policy for the Assessment of the Suitability of Members of the Board.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee is comprised of Non-Executive Directors and the Chairman and operates as a committee of the Board. The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board for appointment as Directors, reviewing the size, structure, composition, diversity and skills of the Board, the Board Committees and subsidiary company Boards and the independence of Non-Executive Directors, reviewing Board and Senior Executive succession planning, and monitoring the Group's corporate social responsibilities and activities concerning customers, staff, the marketplace, the environment and the community. The terms of reference of the Nomination and Corporate Governance Committee are reviewed annually by the Committee and approved by the Board, and are available on AIB's website <https://www.aib.ie/investorrelations>

Board appointments

The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having

regard for the skills, experience and diversity requirements of the Board. In addressing appointments to the Board, a role profile for the proposed new Board Member is prepared by the Chief People Officer and the Company Secretary on the basis of the criteria laid down by the Board or the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required.

The services of experienced third party professional search firms are retained for Non-Executive Director appointments at the discretion of the Nomination and Corporate Governance Committee. The typical process involves a series of meetings and interviews with potential candidates, at different stages in the process by the Chairman and Members of the Committee.

A comprehensive due diligence process is undertaken which includes candidates' self-certification of probity and financial soundness and external checks involving a review of various publicly available sources. The due diligence process facilitates the Committee in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Committee, having (a) regard for the suitability of the candidate for the role and (b) consideration for any known potential conflicts of interest. Recommendations shall not proceed where possible conflicts of interest emerge which are significant to the overall work of the Board.

The Nomination and Corporate Governance Committee is authorised to call on whatever resources (including external professional or legal services) and information it considers necessary to so do, and the Board directs that all Directors and all employees co-operate with any requests made by the Committee.

The Relationship Framework specified by the Minister for Finance, which governs the relationship between the Company and the State as shareholder, requires the Board to obtain the written consent of the Minister in accordance with a pre-determined consent/consultation procedure ("the procedure") before appointing, reappointing or removing the Chairman or Chief Executive Officer, and to consult with the Minister in accordance with the procedure in respect of all other Board appointments proposed.

Diversity

Employee diversity and inclusion in AIB is addressed through policy, practices and values which recognise that a productive workforce comprises different work styles, cultures, generations, genders and ethnic backgrounds and oppose all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of Company values is overseen by the Board. The Board recognises and embraces the benefits of diversity among its own Members, including diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time. To this end, and in response to CRD Regulation 76(4)(iv), the Board approved a Board Diversity Policy during February 2015 which states that the Board's aim, with regard to gender diversity, is to ensure that the percentage of females on the Board reaches or exceeds 25 per cent by the end of 2016 and thereafter. The Board achieved this target in October 2016. The search for Board candidates will continue to be conducted, and nominations/appointments made, with due regard to the benefits of diversity on the Board. However, all appointments to the Board are ultimately based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board. It is intended that, henceforth, the percentage of females on the Board will remain at or exceed 25 per cent.

The Nomination and Corporate Governance Committee is responsible for developing measurable objectives to effect the implementation of this policy and for monitoring progress towards achievement of the objectives. The policy and performance relative to the target will be reviewed annually by the Committee in conjunction with Board succession and skills planning. The Board Diversity Policy is available on AIB's website <https://www.aib.ie/investorrelations>

2. Remuneration

Remuneration policy and governance

AIB operates under a number of remuneration constraints arising from State ownership, in particular, arising under the terms of Placing and Subscription Agreements entered between AIB and the State and commitments provided to the Minister for Finance in respect of remuneration practices ("State Agreements"). These constraints apply to all directors, senior management, employees and service providers across the Group.

The Remuneration Policy provides the overall framework under which all remuneration policies and practices are applied across the Group. The Board recognises the need to embed the right skill-sets and customer centric employee behaviours which drive the achievement of sustainable growth for all stakeholders. The Remuneration Policy is therefore designed to foster a truly customer focused culture; to create long term sustainable value for our customers and stakeholders; to attract, develop and retain the best people and to safeguard the bank's capital, liquidity and risk positions. The Policy sets out the key components of AIB's current remuneration together with the approach to remuneration for key groups of individuals, including non-executive directors, senior executives, material risk takers, employees in control functions and all other employees. The scope of the Remuneration Policy includes all financial benefits available to employees and extends to all areas of the Group.

The Remuneration Policy was comprehensively revised during 2016 with the principal objectives of aligning it more closely to AIB's customer first values, longer term strategy and within current remuneration constraints arising from State ownership. The revised policy reflects the key principles of simplicity, transparency, fairness, performance based, external market alignment and strong risk management. The policy sets out the key components of AIB's current remuneration together with the approach to remuneration for key groups of individuals, including non-executive directors, senior executives, material risk takers, employees in control functions and all other employees. Further details in respect of AIB's remuneration policies and practices are outlined in the Annual Financial Report.

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Remuneration Committee's governance role in this respect is outlined in the Committee's Terms of Reference which were reviewed by the Committee in 2016. . The purpose, duties and membership of the Committee are determined by its Terms of Reference which may be viewed on the Group's website www.aibgroup.com.

The Committee takes account of appropriate input from AIB's support and control functions to ensure that its decision making process is aligned with the bank's financial performance, regulatory guidelines and stakeholder interests.

Remuneration Committee

The Remuneration Committee is comprised of Non-Executive Directors and the Chairman and operates as a committee of the Board. The Remuneration Committee's responsibilities include recommending to the Board: Group remuneration policies and practices; the remuneration of

the Chairman of the Board (which matter is considered in his absence); and, performance-related and share-based incentive schemes when appropriate. The Remuneration Committee also determines the remuneration of the CEO, and, in consultation with the CEO, the remuneration of other Executive Directors, when in office, and the other members of the Leadership Team, under advice to the Board. No director is involved in decisions regarding his or her own remuneration. The Committee is also required to review the remuneration components of Identified Staff who are individuals classified by AIB as 'material risk takers' in accordance with the Remuneration Guidelines of the EBA. Remuneration matters of a significant nature are also considered by the Board. The terms of reference of the Remuneration Committee are reviewed annually by the Committee and approved by the Board, and are available on AIB's website <https://www.aib.ie/investorrelations>.

When taking decisions in relation to remuneration, including those which have implications for the risk, and risk management, of the Group, the Remuneration Committee takes into account the long-term interests of shareholders, investors and other stakeholders in the Group and the public interest.

AIB recognises that cross membership between key committees can enhance Board's consideration of risk related issues. In that regard, the Board has agreed that the Board Risk Committee and the Remuneration Committee shall have at least one shared member. Cross committee membership by shall be managed by the Board to ensure that no one individual exercises excessive influence or control.

3. Reporting

Regulation 77: Country-by-country reporting

AIB will meet its reporting obligations in accordance with this Regulation. Details of AIB's country-by-country report for 2015 can be found in the Results Centre under Financial Information on AIB's website <https://www.aib.ie/investorrelations>.

Regulation 78: Public disclosure of return on assets

AIB will meet its reporting obligations in accordance with this Regulation. Details of the return on average total assets can be found in Note 55. Financial and other information (see page 351) of the 2016 Annual Financial Report, which is available on AIB's website <https://www.aib.ie/investorrelations>.