



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”). Allied Irish Banks, p.l.c. (“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 CRD, which relate primarily to Governance, Remuneration, and Reporting which are dealt with in dedicated sections below.

This document sets out how AIB complies with these Regulations.

1. Governance

Corporate Governance Arrangements 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 (deemed to be between 10 and 14 Directors) and expertise, the majority of whom are independent Non- Executive Directors, to oversee the operations of the Group, led by a Chairman who has the relevant qualifications, expertise and background to effectively conduct that role;
- 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 selection, motivation and direction of Senior Executive Management, and for the operational management, compliance and performance of all the Group’s businesses;
- C. a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- D. 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;
- E. effective structures and processes to identify, manage, monitor and report the risks to which the Group is or might be exposed, including a three lines of defence risk governance model; and
- F. adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, people policies and practices, including remuneration, that are consistent with and promote sound and effective risk management.

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 some of those 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 Group's strategic objectives and policies, and to ensure that the necessary financial and human resources are in place for the Group to meet its objectives and support a sustainable business model;
- C. to approve the annual financial plan, operating and capital budgets, major acquisitions and disposals, including dealing in own securities and treasury shares, considering and setting 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, to appoint the Company Secretary, and to approve, the removal of Heads of Control Functions;
- E. to endorse the appointment of people who may have a material impact on the risk profile of the Group and monitor on an ongoing basis their appropriateness for the role;
- F. to convene a general meeting to allow shareholders to vote on any matter reserved specifically for shareholder approval, as determined under relevant legislation and/or LR;
- G. to approve dividend policy and declare/recommend dividends to shareholders;
- H. to render an account of the Company's activities to its shareholders;
- I. to ensure that (i) the views of shareholders are communicated to the Board, (ii) governance and strategy is discussed with major shareholders, (iii) Non-Executive Directors are offered the opportunity to attend scheduled meetings with major shareholders, and (iv) that the Senior Independent Non-Executive Director attends sufficient meetings with a range of major shareholders to garner their views;
- J. to protect the assets of the Group taking into account the interests of the shareholders and the employees in general with appropriate regard for the interests of other stakeholders; and
- K. to put in place and monitor procedures designed to ensure that the Group complies with the law and good corporate citizenship.

The Board is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that 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 which 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 assessing and discussing the performance of individual directors. The CEO is responsible for

the day-to-day running of the Group, ensuring an effective organisation structure, the selection for 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, the Leadership Team and representatives of Senior Management Teams of various business areas 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.

Code of Conduct and Conflicts of Interest Policy for Directors

Directors are required to operate to the highest ethical standards in compliance with all relevant laws, regulations and codes relevant to the conduct of AIB business.

The AIB Group Code of Conduct and Conflicts of Interests Policy for employees apply to Executive Directors and Group Non-Executive Directors as employees of AIB Group. The independent Non-Executive Directors are required to adhere to the AIB Code of Conduct and Conflicts of Interest Policy for Directors.

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 governance compliance and related policies.. 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://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 (assessed according to the AIB Group Policy for the Assessment of the Suitability of Members of the Board) 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 Group 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 has approved and published a Board Diversity Policy 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, and it

is intended that, henceforth, the percentage of females on the Board will remain at or exceed 25 per cent.

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.

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://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 Group aims to reward employees fairly and competitively in order to attract, motivate and retain the right calibre of individuals to support the Group's future success and growth. The Group's remuneration policies and practices are designed to foster a truly customer focussed culture; to create long term sustainable value for our customers and stakeholders; to attract, develop and retain the best people and to safeguard the Group's capital, liquidity and risk positions. The Group Remuneration Policy is the governing framework which underpins all remuneration policies, practices and procedures. The scope of the Remuneration Policy includes all financial benefits available to employees and applies to all employees of the Group, including Executive Directors, senior executives and material risk takers.

The Remuneration Policy sets out the Group's key remuneration principles which shape the Group's policies and practices. These include simplicity, transparency, fairness, performance alignment, external market positioning and strong risk management. The Remuneration Policy also sets out the key components of the Group's current remuneration structure together with the functional responsibilities for governance and the remuneration approach for key groups of individuals, including non-executive directors, senior executives, material risk takers, employees in control functions and all other employees. While the Remuneration Policy is designed to fully comply with the provisions of EU and national regulatory requirements, the application of market aligned remuneration policies and practices is constrained by the additional remuneration restrictions introduced by the Irish Government which, in turn, preclude the Group from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic priorities.

The Group undertakes an annual review of the Remuneration Policy to ensure that remuneration policies and practices are operating as intended, are consistently applied and are compliant with regulatory requirements. The annual review is informed by appropriate input from the Group's risk, compliance and internal audit functions. At the request of the Remuneration Committee, the Remuneration Policy was comprehensively revised during 2016 in order to align it to the Group's customer first values, longer term strategy and current remuneration practices. Following review in 2017, there were no significant changes made to the Remuneration Policy.

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Remuneration Committee advises and makes recommendations to the Board on the design and ongoing implementation of the Remuneration Policy, including the process for the

identification of material risk takers (Identified Staff). The Remuneration Committee's governance role in this respect is outlined in the Committee's Terms of Reference.

During 2017, the Remuneration Committee used the services of Willis Towers Watson for advice on market based remuneration and practices for senior executives.

The Group maintains a list of those staff whose professional activities are considered to have a material impact on the Group's risk profile ("Identified Staff"). The Group's process, including relevant criteria, for determining Identified Staff forms an addendum to the Group Remuneration Policy. The list of Identified Staff is reviewed annually by the Remuneration Committee. Further details in relation to the composition and remuneration of Identified Staff are set out in the remuneration disclosures of the Group's Pillar 3 Report.

A key principle of the Remuneration Policy is the promotion of a strong risk management culture and risk-taking which is aligned to the Group Risk Appetite Statement. The Remuneration Committee is supported by the Group Chief Risk Officer in its assessment of the key risks that should be considered in the context of the Group's remuneration structure and attends a meeting of the Remuneration Committee annually for this purpose. The Chief Risk Officer reviews the list of Identified Staff while the Risk and Compliance functions provide input to the annual review of the Remuneration Policy. The focus on risk is further strengthened by requiring all employees to have a specific risk objective in their performance management plan.

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further details in relation to the Group's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those employees whose professional activities are considered to have a material impact on the Group's risk profile and the key components of the Group's remuneration structure. The Group 2017 Pillar 3 Report is available on the Group website.

Remuneration Committee

The Group 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, consider the design of any performance- related and share-based incentive schemes when appropriate for approval by the Board and shareholders. 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 EBA's Remuneration Guidelines.. 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://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 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 2016 can be found in the Results Centre under Financial Information on AIB's website <https://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 56. Financial and other information (see page 367) of the 2017 Annual Financial Report, which is available on AIB's website <https://aib.ie/investorrelations>.