

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Prospectus, or as to what action you should take, you are recommended to immediately consult, if you are resident in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended) or the Investment Intermediaries Act 1995 (as amended) and, if you are resident in the United Kingdom, a person authorised under the Financial Services and Markets Act 2000 (the “FSMA”) of the United Kingdom, or another appropriately authorised professional adviser if you are resident in a territory outside Ireland or the United Kingdom.

This prospectus (“Prospectus”) constitutes a prospectus for the purposes of Article 3 of the European Parliament and Council Directive 2003/71/EC of 4 November 2003, as amended (the “Prospectus Directive”), relating to AIB Group plc (“AIB HoldCo”) and has been prepared in accordance with Chapter 1 of Part 23 of the Companies Act 2014, as amended (the “Companies Act”), Part 5 of the Prospectus (Directive 2003/71 EC) Regulations 2005 of Ireland, as amended (the “Irish Prospectus Regulations”), and Commission Regulation (EC) No. 809/2004, as amended. This Prospectus has been approved by the Central Bank of Ireland (the “Central Bank”), as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to AIB HoldCo Shares (as defined herein) which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC. Application will be made to the Irish Stock Exchange plc (the “Irish Stock Exchange”) for AIB HoldCo Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange (the “Irish Official List”) and to trading on its main market for listed securities. AIB HoldCo has requested that the Central Bank provides a certificate of approval and a copy of this Prospectus to the Financial Conduct Authority (the “FCA”) in the United Kingdom in connection with the application that AIB HoldCo will make to the FCA for all AIB HoldCo Shares to be admitted to listing on the premium listing segment of the Official List of the FCA (the “UK Official List” and, together with the Irish Official List, the “Official Lists”) and to the London Stock Exchange plc (the “London Stock Exchange”) for all of the AIB HoldCo Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. Admission to the Official Lists, together with admission to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange constitutes admission to official listing on a stock exchange (“Admission”). No application is currently intended to be made for the AIB HoldCo Shares to be admitted to listing or trading on any other exchange. If the Scheme proceeds as currently envisaged, it is expected that dealings in the ordinary shares of €0.625 in the issued share capital of Allied Irish Banks, p.l.c. (the “AIB Bank Shares” and “AIB Bank” respectively) will continue until 8:00 a.m. on 11 December 2017 and that Admission will become effective and that dealings in the AIB HoldCo Shares will commence on the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 11 December 2017. This Prospectus has been made available to the public in Ireland and the United Kingdom in accordance with Part 8 of the Irish Prospectus Regulations and the UK Prospectus Rules by the same being made available, free of charge, in electronic form on AIB’s website at www.aib.ie/investorrelations. You should read this Prospectus and the documents incorporated by reference herein in their entirety and, in particular, the risk factors set out in the section of this Prospectus entitled “*Part II: Risk Factors*”.

AIB HoldCo, AIB Bank and the Directors of AIB HoldCo whose names appear on page 71 of this Prospectus accept responsibility for the information contained in this Prospectus. To the best of the knowledge of AIB HoldCo, AIB Bank and the Directors of AIB HoldCo (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.



AIB Group plc

(incorporated in Ireland and registered in Ireland under the Companies Act 2014 with registered number 594283)

Proposed admission to the Official Lists of the Irish Stock Exchange and the FCA of 2,714,381,237 ordinary shares of nominal value of €2.47 each¹, and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange

Morgan Stanley

*Joint Broker, Joint Financial Advisor,
Joint Irish Sponsor and Joint UK Sponsor*

Goodbody

*Joint Broker, Joint Financial Advisor,
Joint Irish Sponsor and Joint UK Sponsor*

¹ Following the AIB HoldCo Reduction of Capital (if approved), the nominal value of the AIB HoldCo Shares will be reduced to €0.625.

The distribution of this Prospectus in certain jurisdictions other than Ireland and the United Kingdom may be restricted by law. Accordingly, neither this Prospectus nor any advertisement may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus does not constitute or form any part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities to any person in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful.

This Prospectus is intended solely for prospective AIB HoldCo Shareholders (including holders of AIB Bank Shares) and for the purposes only of the Admission.

No AIB HoldCo Shares have been marketed to, nor are available for purchase by, the public in Ireland, the United Kingdom or elsewhere in connection with the introduction of the AIB HoldCo Shares to the primary listing segment of the Irish Official List or to the premium listing segment of the UK Official List or the Restructuring Proposals. This Prospectus has been prepared as a requirement of admission to trading on (i) the Irish Stock Exchange's main market for listed securities (as required by Regulation 13 of the Irish Prospectus Regulations) and (ii) the London Stock Exchange's main market for listed securities (as required by Section 85(2) of FSMA), of the AIB HoldCo Shares to be issued and allotted pursuant to the Scheme. For the avoidance of doubt, the allotment of the AIB HoldCo Shares will, if the Scheme becomes effective, occur as a consequence of an order of the High Court and not in pursuance of any offer to sell or exchange or invitation to purchase, or the solicitation of an offer or invitation to purchase or subscribe for any securities or to become a member of AIB HoldCo or any other company.

AIB Bank issued a circular to AIB Bank Shareholders on the date of this Prospectus in connection with (i) a meeting of AIB Bank convened by the High Court of Ireland (the "Court Meeting" and the "Court", respectively) to be held for the purpose of considering and, if thought fit approving, the Scheme and (ii) the convening of the Extraordinary General Meeting of AIB Bank Shareholders to be held for the purposes of considering and, if thought fit, approving, inter alia, certain matters relating to the Scheme (the "Extraordinary General Meeting")(the "Scheme Circular"). The Court Meeting is to be held at 10:00 a.m. at the Ballsbridge Hotel, Pembroke Road, Dublin 4, Ireland on 3 November 2017 and the Extraordinary General Meeting is to be held at 10:15 a.m at the Ballsbridge Hotel, Pembroke Road, Dublin 4, Ireland on 3 November 2017 or as soon thereafter as the Court Meeting shall have concluded or been adjourned.

Notice of the Court Meeting and the Extraordinary General Meeting was given to AIB Bank Shareholders by way of publication of a notice of meeting for each meeting in the Scheme Circular (the "Notices of Meetings").

AIB Bank Shareholders who do not plan to personally attend the Court Meeting or the Extraordinary General Meeting, are requested to return a completed form of proxy (enclosed with the Scheme Circular) (a "Form of Proxy") to Computershare Investor Services (Ireland) Limited at the address indicated therein, to be received by 10:00 a.m. on 1 November 2017 in respect of the Court Meeting and by 10:15 a.m. on 1 November 2017 in respect of the Extraordinary General Meeting. If the Court Meeting or the Extraordinary General Meeting are adjourned, the Form of Proxy must be received not later than 48 hours prior to the time set for the adjourned Court Meeting or the Extraordinary General Meeting as appropriate, or in the case of a poll taken otherwise than at or on the same day as the Court Meeting or the Extraordinary General Meeting, no later than 48 hours before the taking of the poll at which it is to be used. However, if the Form of Proxy for the Court Meeting is not so returned, it may be handed to Computershare Investor Services (Ireland) Limited at the venue of the Court Meeting or to the Chairman at the Court Meeting before the taking of the poll. The Form of Proxy is also separately available on AIB's website at www.aib.ie/investorrelations. AIB Bank Shareholders who have any difficulties accessing the Form of Proxy should contact the shareholder helpline on +353 1 247 5411.

The Scheme is subject to certain conditions, which are set out in the "Part VI: Scheme Summary" of this Prospectus, being (i) the Scheme being approved by a majority in number of the Scheme Shareholders, representing at least 75 per cent. in value of the Scheme Shares held by such holders at the Scheme Voting Record Time, present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment thereof); (ii) the Scheme Resolution being duly passed by at least 75 per cent. of the votes cast by AIB Bank Shareholders (in person or by proxy) at the Extraordinary General Meeting (or at any adjournment of such meeting); (iii) the sanction by the Court (with or without modification) of the Scheme pursuant to section 453 of the Companies Act and the confirmation by the Court of the related AIB Bank reduction of capital; (iv) copies of the Court Order and the minute required by section 86 of the Companies Act in respect of the AIB Bank reduction of capital being delivered for registration to the Registrar of Companies and being registered by the Registrar; (v) all regulatory approvals necessary to implement the Scheme having been obtained; and (vi) the Irish Stock Exchange, the UK Listing Authority and the London Stock Exchange having acknowledged to AIB HoldCo or its agent (and such acknowledgements not having been withdrawn) that the applications for Admission have been approved and (after satisfaction of any conditions to which such approvals are expressed to be subject) will become effective as soon as dealing notices have been issued by the Irish Stock Exchange, the UK Listing Authority and the London Stock Exchange acknowledging to AIB HoldCo or its agent (and such acknowledgements not having been withdrawn) that the

AIB HoldCo Shares will be admitted to (a) listing on the Official Lists; and (b) trading on the Irish Stock Exchange's and the London Stock Exchange's main market, for listed securities.

Morgan Stanley & Co. International plc ("Morgan Stanley") has been appointed as Joint Irish Sponsor, Joint UK Sponsor, Joint Broker and Joint Financial Advisor and Goodbody Stockbrokers UC ("Goodbody") has been appointed as Joint Irish Sponsor, Joint UK Sponsor, Joint Broker and Joint Financial Advisor. Morgan Stanley and Goodbody (in their respective capacities as Joint Irish Sponsor and Joint UK Sponsor) are each acting exclusively for AIB HoldCo and AIB Bank and no one else in connection with Admission. They will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to Admission and will not be responsible to anyone other than AIB HoldCo and AIB Bank for providing the protections afforded to their respective clients, nor for giving advice in relation to Admission or any transaction or arrangement referred to in this Prospectus.

Goodbody is authorised and regulated in Ireland by the Central Bank and is authorised and subject to limited regulation in the UK by the FCA.

Morgan Stanley is authorised in the United Kingdom by the PRA and regulated in the United Kingdom by the Prudential Regulatory Authority ("PRA") and FCA.

Neither Morgan Stanley nor Goodbody makes any representation or warranty, express or implied, in respect of the contents of this Prospectus, including its accuracy, completeness or verification, or for any other statement made or purported to be made by any of them, or on behalf of them, in connection with AIB HoldCo and AIB Bank and nothing in this Prospectus is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. In addition, neither Morgan Stanley nor Goodbody or persons affiliated with them accept responsibility for, or authorise the contents of, this Prospectus or its issue, including without limitation, under section 1349 of the Companies Act or Regulation 31 of the Irish Prospectus Regulations. Each of Morgan Stanley and Goodbody Stockbrokers UC and persons affiliated with them accordingly disclaim all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which they might otherwise have to any person in respect of this Prospectus or any such statement.

The Joint Sponsors and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, AIB HoldCo, AIB Bank and/or AIB for which they would have received customary fees. Neither of the Joint Sponsors intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Prospectus are authorised solely to use it for the purpose of considering the Restructuring Proposals, including Admission, and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering the Restructuring Proposals, including Admission. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

This Prospectus does not constitute an offer or form part of an offer to sell or issue or an invitation to purchase or subscribe for, or the solicitation of an offer to buy or subscribe for, any AIB HoldCo Shares or AIB Bank Shares.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Sponsors by the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), the Investment Intermediaries Act 1995, the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, neither of the Joint Sponsors accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with AIB HoldCo, the AIB HoldCo Shares, AIB Bank, the AIB Bank Shares, Admission or the Restructuring Proposals and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Joint Sponsors, accordingly, disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

AIB Bank Shareholders and prospective AIB HoldCo Shareholders should read this Prospectus and documents incorporated by reference herein in their entirety and, in particular, the risk factors set out in the section of this Prospectus entitled "*Part II: Risk Factors*". In making a decision in respect of the Scheme, AIB Bank Shareholders and prospective AIB HoldCo Shareholders must rely upon his or her own examination, analysis and enquiries of AIB HoldCo, AIB Bank, the Restructuring Proposals and the terms of this Prospectus, including the merits and risks involved.

This Prospectus does not constitute an invitation or offer or form part of an offer to sell or exchange, or the solicitation of an invitation or offer to buy or subscribe for or exchange, any security or to become a member of AIB HoldCo or AIB Bank in any jurisdiction in which such an action is unlawful.

None of the Minister for Finance, the Irish Department of Finance, the Irish Government, the National Treasury Management Agency (the "NTMA") or any person controlled by or controlling any such person, or any entity or agency of or related to the Irish State, or any director, officer, official, employee or adviser (including, without limitation, legal

and financial advisers) of any such person (each such person, a “relevant person” for the purposes of this paragraph) accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the accuracy, completeness or fairness of any information in, this Prospectus or any document referred to in this Prospectus or any supplement or amendment thereto (each a “transaction document” for the purposes of this paragraph) or for any other statement made or purported to be made by it, or on its behalf, in connection with AIB HoldCo, the AIB HoldCo Shares, AIB Bank, AIB Bank Shares, Admission or the Restructuring Proposals and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. To the fullest extent permitted by law, each relevant person expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of any transaction document or any such statement. No relevant person has authorised or will authorise the contents of any transaction document, or has recommended or endorsed the merits of any course of action contemplated by any transaction document.

The distribution of this Prospectus in certain jurisdictions outside Ireland and the United Kingdom may be restricted by law. No action has been or will be taken by AIB HoldCo to permit a public offering of the AIB HoldCo Shares or to permit the possession, issue or distribution of this Prospectus in any jurisdiction where action for that purpose may be required. Accordingly, neither this Prospectus nor any advertisement nor any other offering or publicity material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

It is the responsibility of any person into whose possession this Prospectus comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the Restructuring Proposals and the distribution of this Prospectus, including the obtaining of any governmental, exchange control, regulatory or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

Overseas Shareholders should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Restructuring Proposals in their particular circumstances.

NOTICE TO US INVESTORS

The Scheme relates to the shares of an Irish company (a “foreign private issuer” as defined under Rule 3b-4 under the US Securities Exchange Act of 1934 (the “**Exchange Act**”)) and is proposed to be made by means of a scheme of arrangement provided for under, and governed by, Irish law. Neither the proxy solicitation rules nor the tender offer rules under the Exchange Act will apply to the Scheme. Accordingly, the AIB HoldCo Shares to be issued pursuant to the Scheme have not been and will not be registered under the US Securities Act of 1933 (the “**Securities Act**”) or under the relevant securities laws of any State or territory or other jurisdiction of the United States, and are expected to be offered in the United States in reliance upon the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof and exemptions provided under the laws of the States of the United States in which eligible AIB HoldCo Shareholders may reside.

For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof with respect to the AIB HoldCo Shares issued pursuant to the Scheme, AIB Bank will advise the Court that its sanctioning of the Scheme will be relied upon by AIB HoldCo as an approval of the Scheme, following a hearing on its fairness to Scheme Shareholders at which hearing all Scheme Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such Scheme Shareholders.

The Scheme is subject to the disclosure requirements and practices applicable in Ireland to schemes of arrangement, which differ from the disclosure and other requirements of US securities laws.

The AIB HoldCo Shares to be issued under or in connection with the Scheme to an AIB Bank Shareholder who is neither an affiliate, for the purpose of the Securities Act, of AIB Bank or AIB HoldCo on or prior to the time at which the Scheme becomes effective on the Scheme Effective Date, expected to be 8 December 2017, in accordance with the Scheme (the “Scheme Effective Time”) nor an affiliate of AIB HoldCo at the Scheme Effective Time would not be “restricted securities” under the Securities Act. AIB Bank Shareholders who are affiliates of AIB Bank or AIB HoldCo on or prior to the Scheme Effective Time or affiliates of AIB HoldCo after the Scheme Effective Time may, under Rule 145(d) under the Securities Act, be subject to timing, manner of sale and volume restrictions on the sale of AIB HoldCo Shares received in connection with the Scheme. For the purpose of the Securities Act, an affiliate of either AIB Bank or AIB HoldCo is any person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with AIB Bank or AIB HoldCo. Whether a person is an affiliate of either AIB Bank or AIB HoldCo for the purpose of the Securities Act depends on the circumstances. Persons who believe that they may be affiliates of either AIB Bank or, after the Scheme Effective Time, AIB HoldCo should consult their own legal advisers prior to any sale of the AIB HoldCo Shares received upon the implementation of the Scheme.

AIB Bank and AIB HoldCo are both incorporated under the laws of Ireland. Some or all of the officers and Directors of AIB Bank and AIB HoldCo may be residents of countries other than the United States. It may not be possible to sue AIB Bank or AIB HoldCo in a non-US court for violations of US securities laws. It may be difficult to compel AIB Bank, AIB HoldCo and their respective affiliates to subject themselves to the jurisdiction and judgment of a US court. It may not be possible to enforce in the Irish courts a judgment of a US court against AIB Bank, AIB HoldCo or their respective officers and Directors which is based on a violation of US securities laws.

None of the securities referred to in this Prospectus have been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This Prospectus is dated 10 October 2017.

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PART I SUMMARY

Summaries are made up of disclosure requirements known as ‘Elements’. These Elements are numbered in Sections A to E (A.1 to E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “not applicable”.

Section A—Introduction and Warnings		
A.1	Introduction:	<p>THIS SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THIS PROSPECTUS. ANY DECISION TO INVEST IN THE ORDINARY SHARES OF THE COMPANY OR THE BANK (AS RELEVANT) SHOULD BE BASED ON CONSIDERATION OF THE PROSPECTUS AS A WHOLE BY THE INVESTOR.</p> <p>Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Union (“Member States”), have to bear the costs of translating this Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.</p>
A.2	Subsequent resale of securities or final placement of securities by financial intermediaries:	Not applicable. No consent has been given by AIB Group plc (“AIB HoldCo”) to the use of this Prospectus for subsequent resale of securities by financial intermediaries or final placement of securities. AIB HoldCo is not engaging any financial intermediaries for any resale of securities or final placement of securities in connection with this Prospectus.

Section B—Issuer		
B.1	Legal and commercial name of the issuer:	The legal and commercial name of AIB HoldCo is AIB Group plc.
B.2	Domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation:	<p>AIB HoldCo was incorporated in Ireland on 8 December 2016 as a public limited company under the Companies Act 2014, as amended (the “Companies Act”), under the name RPML 1966 Holdings plc. On 5 September 2017, AIB HoldCo changed its name to its present name, AIB Group plc. AIB HoldCo is registered under company number 594283 under the Companies Act, the principal legislation under which it operates, and under which the AIB HoldCo Shares will be issued.</p> <p>AIB HoldCo is domiciled in Ireland. Its head office and registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland (telephone number +353 1 660 0311).</p> <p>On 3 February 2017, Allied Irish Banks, p.l.c. (“AIB Bank”) announced that it had been notified by the Single Resolution Board (the “SRB”) that the preferred resolution strategy for AIB Group consists of a single point of entry via a holding company. Implementation of the preferred resolution strategy would require the introduction of a new AIB Group holding company. AIB Bank proposes that AIB HoldCo will be the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group). AIB currently expects, by the end of 2017 and subject to the receipt of necessary regulatory, shareholder and court approvals, to establish AIB HoldCo as the holding company of AIB Bank by way of a court approved scheme of arrangement which, if approved, will result in the holders of ordinary shares of AIB Bank (the “AIB Bank Shareholders”) receiving, in exchange for their ordinary shares in AIB Bank (“AIB Bank Shares”), new ordinary shares with a nominal value of €2.47 each in AIB HoldCo (“AIB HoldCo Shares”). As part of the establishment of AIB</p>

Section B—Issuer

		<p>HoldCo as the holding company of AIB Bank, it is envisaged that AIB HoldCo will undertake a capital reduction in order to create distributable reserves (the “AIB HoldCo Reduction of Capital”). Following the AIB HoldCo Reduction of Capital (if approved), the AIB HoldCo Shares will have a nominal value of €0.625 each.</p>
<p>B.3</p>	<p>A description of, and key factors relating to, the nature of the issuer’s current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes:</p>	<p>AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB had leading market shares in its core retail banking products within Ireland in 2016 and in the six months to June 2017, including a 37 per cent. share of mortgages across all three of its mortgage brands (in the five months to May 2017), according to BPFJ published figures for mortgage lending flows, as well as a 37 per cent. share of personal main current accounts, a 20 per cent. share of personal loans and a 35 per cent. share of personal credit cards, according to the Ipsos MRBI Personal Tracker Q2 2017. AIB also retains strong market shares in products for small-and-medium sized enterprises (“SMEs”), including a 43 per cent. share of business current accounts, a 45 per cent share of business credit cards a 34 per cent. share of main business loans and a 20 per cent share of business leasing for 2017 according to the Ipsos MRBI SME Financial Services Monitor 2017. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB).</p> <p>AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.</p> <p>AIB is managed through the following segments:</p> <ul style="list-style-type: none"> • Retail & Commercial Banking (“RCB”): RCB is Ireland’s leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 296 locations, including 205 AIB branches, 71 EBS offices, 19 business centres and 1 digital banking location, 989 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at approximately 1,100 locations in Ireland. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS (net promoter score, a measurement tool that tracks customers’ loyalty and advocacy) and underpins a broader efficiency agenda. • Wholesale, Institutional & Corporate Banking (“WIB”): WIB provides wholesale, institutional and corporate banking services to AIB’s larger customers or customers requiring specific sector or product expertise. WIB serves customers through a relationship-driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB’s activities in New York comprise Syndicated & International Finance activities. • AIB UK: AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 28,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and is in the process of migrating to a more integrated business model, with the closure of 15 of its 30 branches completed by August 2017. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank supporting businesses in Great Britain for over

Section B—Issuer		
		<p>40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK's overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.</p> <ul style="list-style-type: none"> • Group: The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment. <p>Within the above segments, AIB has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group (the "FSG"), AIB's standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. AIB is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.</p>
B.4a	Most significant recent trends affecting the issuer and the industries in which it operates:	<p>Significant Trends</p> <p>AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB). Significant recent trends affecting AIB include:</p> <p><i>Economic Recovery</i></p> <p>AIB's activities in Ireland and the United Kingdom account for the majority of its business. As a result, the performance of the Irish economy is extremely important to it. Its operations in the United Kingdom also mean that it is influenced directly by political, economic and financial developments there, as well as indirectly through the impact of such developments in the United Kingdom on the Irish economy.</p> <p>Ireland's improved economic environment has had a very favourable impact on AIB's performance in the periods under review. Growing GDP, falling unemployment and increased consumer spending have all contributed to Ireland being one of the fastest growing Eurozone economies in each of the past three years, according to data from Business Monitor International ("BMI") and Central Statistics Office ("CSO") Statbank. According to CSO National Accounts data, GDP in Ireland rose by 5.1 per cent. in 2016, following growth of 25.6 per cent. (which was skewed by certain one off factors including companies relocating assets to Ireland from abroad, which is evidenced by contribution to GDP from industry increasing by 110.2 per cent. in 2015 in comparison to 2014) and 8.5 per cent. during 2015 and 2014 respectively. CSO Statbank data shows that GDP continued to grow strongly in the first quarter of 2017, rising by 6.1 per cent. on a year-on-year basis.</p> <p>Despite uncertainties as to the potential impact of the United Kingdom's decision to withdraw from the European Union, the Irish economy is expected to continue to grow at attractive rates over the next several years, with the Irish Department of Finance forecasting GDP growth of 4.3 per cent. in 2017, 3.7 per cent. in 2018 and 3.1 per cent. in 2019.</p> <p>Conditions in the Irish labour markets have also improved steadily since 2012 with growth in total employment each year. The unemployment rate according to CSO data had dropped to below 6.1 per cent. by September 2017 from a peak of over 15 per cent. in 2012. In addition, the Irish housing market has continued to show signs of recovery, albeit at low activity levels and from a very low base, with increases in mortgage approvals from 17,786 in 2012 to 35,003 in 2016, increases in housing transactions from 31,802 in 2012 to 55,153 in 2016 and increases in average new house prices from €220,224 in 2012 to €309,653 for the first three quarters of 2016 (Source: Banking and Payments Federation Ireland ("BPMFI") Mortgage Approvals data, CSO Statbank Average House Prices and Housing Transactions).</p> <p>After having deteriorated sharply during the recession, Irish public finances continued</p>

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to show improvement over the course of 2016. Irish Department of Finance data shows that the budget deficit declined to 0.6 per cent. of GDP in 2016. This compares to a high of 11.6 per cent. in 2010. The Irish Department of Finance is targeting a decrease in the budget deficit to 0.4 per cent. of GDP in 2017.

Ireland's debt to gross domestic product ("GDP") ratio is estimated by the Irish Department of Finance to have been 75.4 per cent. in 2016 and is forecasted to be 72.7 per cent. for 2017. The Irish Department of Finance is forecasting that the debt ratio will fall to 65.2 per cent. by 2020.

Similarly, GDP in the United Kingdom increased between 2014 and 2016, with growth of 1.8 per cent., 2.2 per cent. and 3.1 per cent. in 2016, 2015 and 2014, respectively (Source: ONS, Second estimate of GDP: April to June 2017). However, GDP growth slowed in the first half of 2017 and the International Monetary Fund ("IMF") is forecasting GDP growth of 1.7 per cent. in the United Kingdom for 2017 and 1.5 per cent. in 2018.

As a result of improving macro-economic conditions in Ireland and the United Kingdom, AIB's new lending volumes have been improving and its impaired loan book has been decreasing. In 2016, AIB had €8.7 billion in new lending across all segments, compared to €5.7 billion in 2014. New lending increased from €3.8 billion for the six months ended 30 June 2016 to €4.3 billion from the first six months ended 30 June 2017. The asset quality of AIB's loan portfolio has also been improving, with gross impaired loans decreasing from €22.2 billion as at 31 December 2014 to €7.8 billion as at 30 June 2017, while maintaining a stable asset yield. AIB expects that further improvement in economic conditions will help it to continue to achieve growth in new lending volumes and further stabilise asset quality.

Brexit

Improved economic conditions in Ireland and the United Kingdom and trade, business and other connections between those countries are in jeopardy as a result of Brexit. Although the overall impact of the United Kingdom's withdrawal from the European Union remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. Legal, fiscal and regulatory impediments to trade and services (including banking) may be introduced between the remaining Member States (including Ireland) and the United Kingdom. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB. In Ireland, any negative impact on the economy may be disproportionate on sectors which have significant linkages to the United Kingdom, such as agriculture, tourism and the border area generally. Exports from Ireland to the United Kingdom have been and may continue to be adversely affected by weakness of the exchange rate of the pound sterling against the euro and that weakness may increase over the course of the Brexit process.

Loan Restructuring

Mortgage delinquencies increased in 2008 as interest rates continued to increase up to mid-2008 and housing oversupply persisted. This was heightened by the start of the decline of the Irish economy following the onset of the global financial crisis in 2008. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property, and residential mortgage sectors, to which AIB was heavily exposed, increased substantially.

In recent years, AIB has been focused on restructuring its loan portfolio through the implementation of sustainable solutions for customers in difficulty. AIB's plan to reduce impaired loans includes restructuring as well as sales and redemptions, cures, portfolio sales and other strategic initiatives. As at 30 June 2017, AIB had €16.6 billion in criticised loans on its balance sheet, representing 26 per cent. of total loans, compared to €34.0 billion, representing 45 per cent. of total loans, as at 31 December 2014. Specific provisions and incurred but not reported ("IBNR") provisions for impairment on loans and receivables have decreased from €12.4 billion as at 31 December 2014 to

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€4.1 billion as at 30 June 2017 primarily due to the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty combined with improved economic conditions in Ireland and the United Kingdom.

AIB recognised net writeback of provisions for impairment on loans and receivables on its income statement of €294 million, €925 million and €185 million in 2016, 2015 and 2014, respectively. AIB recognised a net credit provision writeback of €19 million for the six months ended 30 June 2017 compared to a writeback of €211 million for the six months ended 30 June 2016. This reduction was due to a higher level of new impairments (including impairments in respect of loans that have previously been restructured) and an increase in the IBNR charge reflecting an increase in the assumed emergence period on the non-mortgage portfolio. Key drivers of the writebacks include increased security values and improved business cash flows due to the stronger economic environment, cases cured from impairment and additional security gained as part of the restructuring process.

During 2016, AIB began to experience an expected slowdown in restructuring momentum as the primary restructuring period concludes and it is now primarily dealing with those cases which are of lower monetary value, more complex, more specific to an individual's circumstances and more protracted in nature. In addition, a larger proportion of the remaining loans being resolved are subject to enforcement and the legal process associated with these takes more time than a consensual process. Going forward, AIB expects that the level of impaired loans will continue to decrease but at a lower rate than has been the case to date.

Capital Reorganisation

The impact of the global financial crisis and the deterioration of Ireland's property market commencing in 2008 presented funding and liquidity issues for AIB and led to a rapid deterioration of its capital base. This necessitated several capital investments by the Irish Government in AIB Bank and EBS d.a.c. ("EBS") amounting to a total of €20.8 billion. These included, in the case of AIB Bank, the issuance of €3.5 billion of 2009 preference shares ("2009 Preference Shares") to the National Pensions Reserve Fund Commission (the "NPRFC") in May 2009, the issuance of €3.8 billion of new ordinary shares to the NPRFC in December 2010 (net proceeds of €3.7 billion), a placing of a further €5.0 billion of new ordinary shares to the NPRFC in July 2011, capital contributions totalling €6.1 billion from the Minister for Finance and the NPRFC also in July 2011 and the issuance of €1.6 billion of contingent capital tier 2 notes ("CCNs") at par to the Minister for Finance in July 2011 and, in the case of EBS, the issuance to the Minister for Finance of an aggregate of €625 million of special investment shares in May and December 2010 and a promissory note with an initial principal amount of €250 million provided by the Minister for Finance to EBS on 17 June 2010 (the "EBS Promissory Note"). Those ordinary shares in the capital of AIB Bank and the 2009 Preference Shares held by the NPRFC became assets of the Ireland Strategic Investment Fund (the "ISIF"), which is controlled and managed by the NTMA, in 2014. Ownership of the ISIF vests in the Minister for Finance.

AIB completed the 2015 Capital Reorganisation in December 2015. The 2015 Capital Reorganisation was designed to enable AIB to return capital to the Irish Government in line with its obligations under AIB's restructuring plan approved by the European Commission ("EC") in May 2014 (the "Restructuring Plan"), contribute to growth in AIB's business, meet minimum capital requirements as set out in the Capital Requirements Regulation (EU) No 575/2013 ("CRR") and the Capital Requirements Directive (2013/36/EU) ("CRD"), and together with the CRR, ("CRD IV"), allow for future dividend payments, align AIB's capital structure with market norms and investor expectations, and position AIB for a return to private ownership over time, a process which commenced with the sale of 780,384,606 ordinary shares by the Minister for Finance as part of the AIB Bank IPO (defined below).

In conjunction with the 2015 Capital Reorganisation, AIB Bank issued €750 million of subordinated Tier 2 notes and €500 million AT1 Notes, both in the fourth quarter of 2015.

The capital reorganisation approved by AIB Bank Shareholders at an EGM held on 16 December 2015 ("2015 Capital Reorganisation") included the partial redemption of the

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2009 Preference Shares (1.36 billion of the 3.5 billion 2009 Preference Shares were redeemed for cash at 125 per cent. of the subscription price resulting in a repayment of €1.7 billion), with the remainder being converted into ordinary shares in the capital of AIB Bank at 125 per cent. of the subscription price. Furthermore, an accrued dividend on the 2009 Preference Shares of €166 million was paid to the NTMA (as manager and controller of the ISIF). In addition, the 2015 Capital Reorganisation involved the redemption by the Minister for Finance of the EBS Promissory Note. The 2015 Capital Reorganisation received regulatory approval from the Single Supervisory Mechanism (“SSM”) and was approved by AIB Bank Shareholders at an extraordinary general meeting (“EGM”) of AIB Bank held on 16 December 2015.

On conversion of part of the 2009 Preference Shares, AIB Bank had 678.6 billion ordinary shares of €0.0025 in issue. The 2015 Capital Reorganisation included a share consolidation of AIB Bank’s ordinary shares at the time that resulted in AIB Bank Shareholders receiving one new ordinary share of €0.625 for every 250 existing ordinary shares of €0.0025 (with a rounding up of any fractional shareholdings of less than 250 ordinary shares in the capital of AIB Bank). AIB Bank now has approximately 2.7 billion AIB Bank Shares of nominal value €0.625 each in issue.

As part of the 2015 Capital Reorganisation, AIB Bank entered into an agreement with the Minister for Finance on 20 November 2015 in respect of the AIB Bank Warrants (“AIB Bank Warrant Agreement”) with the Minister for Finance and granted the Minister for Finance the right to receive warrants to subscribe for additional AIB Bank Shares. On 26 April 2017, the Minister for Finance exercised his rights under the AIB Bank Warrant Agreement by issuing a Warrant Notice to AIB Bank requiring AIB Bank to issue AIB Bank Warrants to the Minister for Finance to subscribe for such number of ordinary shares in the capital of AIB Bank representing 9.99 per cent. in aggregate of the issued share capital of AIB Bank at AIB Bank Admission (defined below). On 4 July 2017, AIB Bank issued 271,166,685 warrants to the Minister for Finance to subscribe for AIB Bank Shares, representing 9.99 per cent. of the issued share capital of AIB Bank at AIB Bank Admission (the “AIB Bank Warrants”). In accordance with the terms of the AIB Bank Warrant Agreement, no cash consideration was paid by the Minister for Finance to AIB Bank in respect of the issue of the AIB Bank Warrants. The exercise price for the AIB Bank Warrants is €8.80 per ordinary share, being 200 per cent. of the price at which the AIB Bank IPO Shares were offered and sold under the AIB Bank IPO, being €4.40 (“AIB Bank IPO Price”), which exercise price may be adjusted in accordance with the terms of the warrant instrument entered into by AIB Bank on 4 July 2017 constituting the AIB Bank Warrants and providing for the terms of the AIB Bank Warrants (“AIB Bank Warrant Instrument”, and the exercise price, as adjusted, the “Warrant Exercise Price”) and the AIB Bank Warrants are capable of exercise by the holder of the AIB Bank Warrants during the period commencing on the first anniversary of the AIB Bank Admission and ending on the tenth anniversary of the AIB Bank Admission. A condition to the exercise of the AIB Bank Warrants is that, on each of the thirty most recent consecutive trading days, the share price of the AIB Bank Shares has reached or exceeded the Warrant Exercise Price, as adjusted. Subject to, and conditional on, the new corporate structure to be implemented by means of a scheme of arrangement under Chapter 1 of Part 9 of the Companies Act and a related reduction of capital of AIB Bank (the “Scheme”) becoming effective, the AIB Bank Warrant Instrument entered into by AIB Bank will be replaced by a new warrant instrument to be entered into by AIB HoldCo (the “AIB HoldCo Warrant Instrument”), pursuant to which the Minister for Finance will be issued 271,166,685 warrants to subscribe for AIB HoldCo Shares (the “AIB HoldCo Warrants”). The replacement of the AIB Bank Warrants with the AIB HoldCo Warrants is reflected in a substitution deed entered into on 10 October 2017 between AIB Bank, the Minister for Finance and AIB HoldCo. Conditional upon the Scheme becoming effective, the AIB HoldCo Warrants are to be issued on the same terms and conditions as the existing AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled.

Upon the maturity and redemption of the CCNs in July 2016, AIB Bank made a further capital repayment to the Minister for Finance of €1.6 billion, as well as a coupon

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payment of €160 million to the Minister for Finance. A final dividend in the amount of €250 million in respect of AIB Bank Shares for the financial year ended 31 December 2016 was approved by AIB Bank Shareholders at the annual general meeting of AIB Bank held on 27 April 2017 (the “2017 AIB Bank AGM”) and paid on 9 May 2017. The dividend equated to €0.0921 per AIB Bank Share based on the number of AIB Bank Shares for 2016, which was 2.714 billion.

The simplification of AIB’s capital structure, in particular the maturity of the CCNs, has contributed to a reduction in the cost of its liabilities and therefore an increase in its net interest margin². AIB reported a net interest margin of 2.54 per cent. for the six months ended 30 June 2017. This compared to 2.06 per cent. for the six months ended 30 June 2016.

AIB’s return to profitability in 2014, 2015, 2016 and the six months ended 30 June 2017 has also resulted in strong organic capital generation. During 2015 and 2016 and for the first six months of 2017, AIB’s capital ratios have been robust, with all capital ratios being in excess of AIB’s regulatory requirements, as communicated by the SSM as part of its supervisory review and evaluation process.

ELG Scheme, bank levies and other regulatory costs

ELG Scheme. As part of new regulations introduced in response to the global financial crisis, there has generally been an increase in levies and other regulatory costs for certain Irish banks, including AIB. In December 2009, in order to stabilise the Irish banking sector after the establishment of the credit institutions financial support scheme (“CIFS Scheme”), the Irish Department of Finance established the credit institutions eligible liabilities scheme (“ELG Scheme”), which facilitated participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of five years. AIB joined the ELG Scheme on 21 January 2010. With effect from 28 March 2013, the ELG Scheme was closed for all new liabilities, reflecting improved and more stabilised funding conditions. As the maximum duration of liabilities under the ELG Scheme is five years, all liabilities will roll off by no later than 29 March 2018. AIB’s total liabilities guaranteed under the ELG Scheme as at 30 June 2017 amounted to €0.6 billion, compared with €1.1 billion as at 31 December 2016.

Participating institutions must pay a fee to the Minister for Finance in respect of each liability guaranteed under the ELG Scheme. For the years ended 31 December 2016, 2015 and 2014, AIB paid €17 million, €30 million and €59 million, respectively, in fees in connection with the ELG Scheme. These charges are included within interest expense. The ELG Scheme charge had a negative impact of 2, 3 and 6 basis points on AIB’s net interest margin for the years ended 31 December 2016, 2015 and 2014, respectively. The impact of the ELG Scheme charge on the net interest margin for the six months ended 30 June 2017 is not considered material and has not been disclosed separately. The ELG Scheme charge for the six months to 30 June 2017 was €5 million.

Bank levies and other regulatory costs.

The Irish bank levy fee, payable annually in October, is a form of stamp duty that applies through to 2021. The Deposit Guarantee Scheme, established in 2016, is a statutory deposit protection scheme requiring credit institutions to pay an annual contribution based on their covered deposits and degree of risk. The Single Resolution Fund fee, introduced in 2016, is a fee imposed pursuant to the Single Resolution Mechanism (“SRM”) as part of the new regulations designed to protect the European banking system.

In the year ended 31 December 2016, AIB paid bank levies and regulatory fees of €112 million, including the Irish bank levy in the amount of €60 million, the Deposit Guarantee Scheme (including its legacy fund) contribution in the amount of €35 million and the Single Resolution Fund fee in the amount of €18 million, partially offset by a €1 million credit on other regulatory fees. For the six months ended 30 June 2017, AIB reported bank levies and regulatory fees of €45 million, compared to €48 million for the six months ended 30 June 2016.

² Net interest margin i.e. includes ELG Scheme charge.

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		<p><i>AIB Bank IPO</i></p> <p>On 30 May 2017, the Minister for Finance and AIB Bank announced an intention to seek admission of the AIB Bank Shares to the Official Lists of each of the Irish Stock Exchange and the FCA and to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange and to proceed with a secondary offering of ordinary shares in AIB Bank by the Minister for Finance. Pursuant to this secondary offering, on 23 June 2017, the Minister for Finance sold 780,384,606 ordinary shares in AIB Bank to certain institutional and retail investors (including on the exercise of an over-allotment option) (the “AIB Bank IPO”), comprising in aggregate 28.75 per cent. of the issued ordinary share capital of AIB Bank. AIB Bank did not receive any of the proceeds of the AIB Bank IPO, all of which were received by the Minister for Finance. In connection with the AIB Bank IPO, on 27 June 2017, the AIB Bank Shares were admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and on the premium listing segment of the Official List of the FCA and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange (the “AIB Bank Admission”). Immediately before the AIB Bank Admission, the admission of the AIB Bank Shares to trading on the Enterprise Securities Market of the Irish Stock Exchange was cancelled. The AIB Bank IPO reduced the Minister for Finance’s shareholding in AIB Bank to 1,930,436,543 AIB Banks Shares, representing 71.1188 per cent. of the issued share capital of AIB Bank.</p> <p><i>Current Trading</i></p> <p>AIB’s performance since 30 June 2017 has been consistent with the improved outturn evidenced in the six months ended 30 June 2017, with continued strong performance in net interest income, other income and costs.</p> <p>Net interest margin continues to benefit from stable asset yields and lower funding costs.</p> <p>AIB’s operating costs remain consistent with the expectations of the Directors of AIB Bank with continued focus on disciplined cost management and continued management of the factors expected to impact costs in 2017 including wage inflation, continued investment in loan restructuring and increased cost of regulatory compliance. AIB’s three year €870 million investment programme is on track and will conclude by the end of 2017.</p> <p>AIB has maintained momentum in its loan book with new lending contributing to growth in earning loans and the reduction in impaired loans continuing as planned since 30 June 2017.</p>
<p>B.5</p>	<p>A description of the group and the issuer’s position within the group:</p>	<p>AIB Bank is currently the principal operating company and holding company of the AIB Group. AIB Bank, which engages in banking and financial services activities predominantly in Ireland and the United Kingdom, has a number of direct and indirect subsidiaries, including AIB Mortgage Bank, which engages in residential lending in Ireland and issues mortgage covered securities; EBS, which offers mortgage and savings products in Ireland; and AIB Group (UK) p.l.c., which provides banking and financial services to customers in Great Britain and Northern Ireland through the trading names Allied Irish Bank (GB) and First Trust Bank, respectively. It is proposed that, with effect from the Scheme Effective Time, AIB HoldCo will be the holding company of AIB Bank and the rest of the AIB Group.</p>
<p>B.6</p>	<p>The name of any person who, directly or indirectly, has an interest in the issuer’s capital or voting rights, together with the amount of each such person’s interest:</p>	<p>As at the latest practicable date prior to the publication of this Prospectus, being 6 October 2017 (the “Latest Practicable Date”), two companies, MFSD Holdings Limited and MFSD Nominees Limited, each owned and controlled by McCann FitzGerald, AIB Bank’s and AIB HoldCo’s legal advisors for the Scheme, each held 20,000 ordinary shares of €0.625 each in AIB HoldCo (being the entire issued share capital of AIB HoldCo at such date).</p> <p>As at the Latest Practicable Date, AIB Bank had been notified of or was otherwise aware of the following AIB Bank Shareholder who was directly or indirectly interested in 3 per cent. or more of AIB Bank Shares:</p>

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		AIB Bank		AIB Holdco	
		As at the Latest Practicable Date		Following Admission	
		Number of AIB Bank Ordinary Shares	Percentage of AIB Bank Ordinary Shares	Number of AIB HoldCo Ordinary Shares	Percentage of AIB HoldCo Ordinary Shares
		Minister for Finance ⁽¹⁾	1,930,436,543	71.1188%	1,930,436,543 71.1188%
	Whether the issuer’s major shareholders have different voting rights if any:	<p>Notes:</p> <p>(1) The AIB Bank Shares owned by the Minister for Finance comprise assets of the ISIF. Under the NTMA 2014 Act, these AIB Bank Shares are controlled and managed by the NTMA pursuant to directions in writing given to it by the Minister for Finance from time to time. Ownership of the ISIF vests in the Minister for Finance under the NTMA 2014 Act. The AIB Bank Shares owned by the Minister for Finance are registered in the name of a professional nominee for the benefit of the Minister for Finance.</p> <p>(2) In addition, the Minister for Finance holds 271,166,685 AIB Bank Warrants to subscribe for AIB Bank Shares, representing 9.99 per cent. of the issued share capital of AIB Bank at AIB Bank Admission, subject to adjustment in accordance with the terms of the AIB Bank Warrant Instrument. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument entered into by AIB Bank will be replaced by a new warrant instrument to be entered into by AIB HoldCo, pursuant to which the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants entitling the Minister for Finance to subscribe for AIB HoldCo Shares. The AIB HoldCo Warrants will be issued on the same terms and conditions as the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled.</p> <p>On and from Admission, there will be no differentiation in the voting rights attributable to AIB HoldCo’s voting share capital, the AIB HoldCo Shares. Each AIB HoldCo Share will carry one vote at shareholder meetings of AIB HoldCo and AIB HoldCo Shares issued pursuant to the Scheme will carry the same voting rights as the existing issued AIB Bank Shares.</p>			
	Whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control	<p>Apart from the Minister for Finance, the Directors are not aware of any person who, directly or indirectly, exercises or could exercise control over AIB HoldCo as at, or immediately following, Admission.</p> <p>The Minister for Finance has specified a relationship framework in relation to AIB HoldCo and AIB Bank effective from the Scheme Effective Time (“AIB HoldCo Relationship Framework”), in substitution for the AIB Bank Relationship Framework (defined below at summary element D1). The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate.</p>			
B.7	Selected historical key financial information regarding the issuer:	<p>Not applicable for AIB HoldCo.</p> <p>AIB HoldCo has not traded since its date of incorporation (other than its acquisition of one AIB Bank Share) and, as such, there is no historical key financial information available in relation to AIB HoldCo.</p> <p>The tables below set out summary historical financial information of AIB Group for the six months ended 30 June 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014. The summary historical financial information presented below as at and for the years ended 31 December 2016, 2015 and 2014 to the extent it has been extracted from AIB’s consolidated historical financial information in the prospectus published by AIB Bank on 12 June 2017 in connection with the AIB Bank IPO (“AIB Bank IPO Prospectus”) for 2016, 2015 and 2014 has been audited by Deloitte as set out in the Accountant’s Report in Section A of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus. The summary historical financial information presented below as at and for the six months ended 30 June 2017 (and comparative figures for the six months ended 30 June 2016) to the extent it has been extracted from the AIB Bank 2017 Half Yearly Accounts for the six months ended 30 June 2017 has been reviewed by Deloitte as set out in the Independent Review Report in the AIB Bank 2017 Half Yearly Accounts. Upon the Scheme becoming effective, AIB HoldCo will become the new holding company of AIB Bank and AIB HoldCo’s assets,</p>			

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liabilities and earnings on a consolidated basis will be those of the existing AIB Group.

As the information set out below is only a summary, prospective holders of AIB HoldCo shares (“AIB HoldCo Shareholders”) are advised to read the whole of this Prospectus and not to rely on only the summarised information set out below.

Selected Consolidated Income Statement Data

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		(audited)		
	(€ millions)				
Net interest income	1,077	945	2,013	1,927	1,687
Total operating income.....	1,536	1,528	2,919	2,628	2,532
Total operating expenses.....	(807)	(749)	(1,571)	(1,678)	(1,638)
Operating profit before provisions	729	779	1,348	950	894
Total writeback of provisions.....	23	214	298	936	188
Operating profit.....	752	993	1,646	1,886	1,082
Profit after taxation from continuing operations.....	652	823	1,356	1,380	881

In addition to the selected consolidated income statement data appearing above, AIB has presented below selected consolidated income statement data with exceptional items broken out separately, which reflects how AIB’s performance is reported by management and the AIB Bank Board. Exceptional items include items that management believe obscure the underlying performance trends in the business.

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		(audited)		
	(€ millions)				
Net interest income	1,077	945	2,013	1,927	1,687
Total operating income.....	1,529	1,240	2,630	2,623	2,530
Total operating expenses.....	(693)	(677)	(1,377)	(1,292)	(1,397)
Operating profit before bank levies, regulatory fees and provisions	836	563	1,253	1,331	1,133
Total writeback of provisions.....	23	214	298	923	188
Operating profit.....	814	729	1,439	2,183	1,248
Profit from continuing operations before exceptional items.....	823	753	1,475	2,211	1,277
Total exceptional items	(62)	264	207	(297)	(166)
Profit before taxation from continuing operations.....	761	1,017	1,682	1,914	1,111

Selected Consolidated Balance Sheet Data

	As at 30 June	As at 31 December		
	2017	2016	2015	2014
	(unaudited)		(audited)	
	(€ millions)			
Assets				
Loans and receivables to customers	59,822	60,639	63,240	63,362
NAMA senior bonds	360	1,799	5,616	9,423
Financial investments available for sale	14,333	15,437	16,489	20,185
Total assets.....	90,462	95,622	103,122	107,455
Liabilities				
Deposits by central banks and banks	4,955	7,732	13,863	16,768
Customer accounts	63,723	63,502	63,383	64,018
Total liabilities	77,253	82,474	90,974	95,883
Equity				
Total equity.....	13,209	13,148	12,148	11,572

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Key Financial Ratios

	Six months ended		Year ended 31 December		
	30 June		2016	2015	2014
	2017	2016	(unaudited)		
	(% , unless otherwise indicated)				
CET1 fully loaded capital ratio ⁽¹⁾	16.6%	N/A	15.3%	13.0%	11.8% ⁽²⁾
CET1 transitional capital ratio ⁽³⁾	19.9%	N/A	19.0%	15.9%	16.4% ⁽²⁾
Net interest margin ⁽⁴⁾	2.54%	2.06%	2.23%	1.94%	1.63%
Net interest margin excluding ELG Scheme charges	N/A ⁽⁵⁾	N/A	2.25%	1.97%	1.69%
Cost/income ratio ⁽⁶⁾	45%	55%	52%	49%	55%
Credit impairment charge (bps) ⁽⁷⁾	6	62	(44)	(126)	(22)
Loan to deposit ratio ⁽⁸⁾	94%	N/A	95%	100%	99%

Notes:

- (1) Based on full implementation of Basel III and CRD IV.
- (2) Includes 2009 Preference Shares.
- (3) Capital calculated in accordance with ‘Part Ten—Transitional Provisions, Reports, Review and Amendments’ of the CRR.
- (4) Calculated as net interest income divided by average interest-earning assets.
- (5) The impact of the ELG Scheme charge on the net interest margin for the six months ended 30 June 2017 is not considered material and has not been disclosed separately.
- (6) Calculated as total operating expenses before exceptional items divided by total operating income before exceptional items, as set forth above.
- (7) Calculated as writeback/(provision) for impairment on loans and receivables divided by average loans and receivables to customers.
- (8) Calculated as loans and receivables to customers divided by customer accounts

Results of Operations

Six months ended 30 June 2017 and 2016

Net interest income increased by €132 million, or 14 per cent., to €1,077 million for the six months ended 30 June 2017 from €945 million for the six months ended 30 June 2016. This reflected a significant reduction in the cost of funds and marginal growth in the average asset yield. The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields on interest-bearing liabilities, including the impact of the redemption of the CCNs in July 2016.

Total operating expenses before exceptional items increased by €16 million, or 2 per cent., to €693 million for the six months ended 30 June 2017, compared to €677 million for the six months ended 30 June 2016. Excluding the impact of currency movements, underlying operating expenses increased by €23 million during the period. This primarily reflected salary inflation, higher staff numbers and the impact of the €870 million investment programme as depreciation increases as assets come into use.

The income statement writeback of provisions for the six months ended 30 June 2017 was €23 million, compared to a writeback of €214 million for the six months ended 30 June 2016.

Years ended 31 December 2016 and 2015

Net interest income increased by €86 million, or 4 per cent., to €2,013 million for the year ended 31 December 2016 from €1,927 million for the year ended 31 December 2015. This reflected a significant reduction in the cost of funds and marginal growth in the average asset yield. The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields on interest-bearing liabilities, including the impact of the redemption of the CCNs in July 2016. The growth in the average asset yield reflected the mix of assets changing to a higher percentage in loans and receivables to customers, with a reduction in lower yielding National Asset Management Agency (“NAMA”) senior bonds.

Total operating expenses before exceptional items increased by €85 million, or 7 per cent., to €1,377 million for the year ended 31 December 2016, compared to €1,292

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million for the year ended 31 December 2015. Excluding the impact of currency movements, total operating expenses increased by €105 million. This increase primarily reflected selective outsourcing and the impact of the €870 million investment programme.

The income statement net writeback of provisions for the year ended 31 December 2016 was €298 million, compared to a net writeback of €923 million for the year ended 31 December 2015.

Years ended 31 December 2015 and 2014

Net interest income increased by €240 million, or 14 per cent., to €1,927 million for the year ended 31 December 2015 from €1,687 million for the year ended 31 December 2014. The increase was mainly due to significant reductions in funding costs, growth in new lending volumes to €8.5 billion in 2015 from €5.7 billion in 2014, and a lower ELG Scheme charge. This was partly offset by the impact of customer loan redemptions, lower income from NAMA senior bonds and available for sale securities and lower yield on the variable rate mortgage portfolio following two significant rate reductions in the year. The impact of currency movements increased net interest income by €26 million in 2015. The European Central Bank (“ECB”) maintained low official rates and short-term EURIBOR rates moved slightly into negative territory during 2015, positively impacting short-term funding costs.

Total operating expenses before exceptional items decreased by €105 million, or 8 per cent., to €1,292 million for the year ended 31 December 2015, compared to €1,397 million for the year ended 31 December 2014. The reduction in operating expenses mainly related to ongoing cost control and management, supported by progress on AIB’s transformation strategy, which facilitated staff exits as part of AIB’s severance scheme. These factors were partially offset by €23 million attributable to currency movements in 2015.

The income statement provision was a net writeback of €923 million for the year ended 31 December 2015, compared to a net writeback of €188 million for the year ended 31 December 2014.

Balance sheet

As at 30 June 2017 and 31 December 2016

Net loans and receivables to customers decreased by €0.8 billion, or 1 per cent., to €59.8 billion as at 30 June 2017, compared to €60.6 billion as at 31 December 2016. Gross loans and receivables to customers decreased by €1.3 billion, or 2 per cent., to €63.9 billion as at 30 June 2017, compared to €65.2 billion as at 31 December 2016.

Financial investments available for sale decreased to €14.3 billion as at 30 June 2017 (including €13.7 billion of debt securities and €0.6 billion of equity securities), compared to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities). This reduction is consistent with plans to reduce overall available for sale holdings towards liquidity requirements.

Customer accounts increased by €0.2 billion to €63.7 billion as at 30 June 2017, compared to €63.5 billion as at 31 December 2016. The increase in customer accounts included an increase of €1.7 billion in current accounts partly offset by €1.5 billion reduction in corporate and treasury deposits (including repos).

Equity increased from €13.1 billion as at 31 December 2016 to €13.2 billion as at 30 June 2017. The increase was mainly due to profit for the period of €0.7 billion partially offset by negative other comprehensive income of €0.3 billion and dividends paid of €0.3 billion.

As at 31 December 2016 and 2015

Net loans and receivables to customers decreased by €2.6 billion, or 4 per cent., to €60.6 billion as at 31 December 2016, compared to €63.2 billion as at 31 December 2015. Gross loans and receivables to customers decreased by €4.9 billion, or 7 per cent., to €65.2 billion as at 31 December 2016, compared to €70.1 billion as at 31 December 2015. Excluding currency movements, gross loans and receivables to customers decreased by €3.2 billion, or 4 per cent. The reduction in gross loans was due to the impact of loan restructuring of €1.8 billion and loan redemptions of €10.0 billion,

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partially offset by new lending of €8.7 billion.

Financial investments available for sale decreased to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities), compared to €16.5 billion as at 31 December 2015 (including €15.7 billion of debt securities and €0.8 billion of equity securities).

Customer accounts increased by €0.1 billion to €63.5 billion as at 31 December 2016, compared to €63.4 billion as at 31 December 2015. Excluding currency movements, customer accounts increased by €1.9 billion, or 3 per cent. The mix profile continued to change in 2016 with an increase of €4.7 billion in current accounts partially offset by a reduction of €2.5 billion in corporate and treasury deposits (including repos) and a reduction of €0.3 billion in retail deposits.

Equity increased by €1.0 billion, from €12.1 billion as at 31 December 2015 to €13.1 billion as at 31 December 2016. The increase was mainly due to profit for the year of €1.4 billion, partially offset by negative other comprehensive income of €0.3 billion and a distribution paid on AIB's Additional Tier 1 ("AT1") Notes of €37 million.

As at 31 December 2015 and 2014

Net loans and receivables to customers decreased to €63.2 billion as at 31 December 2015 from €63.4 billion as at 31 December 2014. Gross loans and receivables to customers decreased by €5.7 billion, or 8 per cent., to €70.1 billion as at 31 December 2015, compared to €75.8 billion as at 31 December 2014. Excluding currency movements, gross loans and receivables to customers decreased by €6.8 billion, or 9 per cent. The decrease in gross loans and receivables to customers was due to the impact of loan restructuring in the amount of €4.7 billion, the disposal of a portfolio of loans in the UK amounting to €0.7 billion and loan redemptions of €9.9 billion, partially offset by new lending in the amount of €8.5 billion.

Financial investments available for sale decreased to €16.5 billion as at 31 December 2015 (including €15.7 billion of debt securities and €0.8 billion of equity securities), compared to €20.2 billion as at 31 December 2014 (including €19.8 billion of debt securities and €0.4 billion of equity securities). The decrease was mainly due to a reclassification of available for sale assets of €3.5 billion in 2015 to financial investments held to maturity.

Customer accounts decreased by €0.6 billion, or 1 per cent., to €63.4 billion as at 31 December 2015, compared to €64.0 billion as at 31 December 2014. Excluding currency movements, customer accounts decreased by €1.5 billion, or 2 per cent. The reduction included a decrease in repo balances of €1.2 billion. Overall customer deposits remained broadly stable with strong growth in current accounts offset by a reduction in term deposits.

Equity increased by €0.5 billion from €11.6 billion as at 31 December 2014 to €12.1 billion as at 31 December 2015. This increase was due to profit for the year of €1.4 billion, a €0.8 billion reduction in the net pension reserve deficit and the €0.5 billion issuance of AT1 Notes, partially offset by the partial redemption of the 2009 Preference Shares, which involved the payment of €1.7 billion, and preference share dividend payments of €446 million.

Non-performing exposures

For regulatory reporting, European Banking Authority ("EBA") stress testing and capital planning purposes, AIB considers non-performing exposures, which includes both loans and receivables to customers and off balance sheet commitments such as loan commitments and financial guarantee contracts. Non-performing exposures are defined by the EBA to include material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due. AIB's categorisation of criticised loans encompasses but is broader than that of non-performing loans as defined by the EBA.

As at 31 December 2016, AIB had €14.2 billion of non-performing loans, accounting for 22 per cent. of total gross loans and as at 30 June 2017, €12.1 billion accounting for 19 per cent. of total gross loans. AIB is focused on reducing the level of its

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		<p>non-performing exposures as defined by the EBA to a normalised level in line with its European peers over the medium term. As at 31 December 2016, non-performing loans of European banks accounted for 5.1 per cent. of total loans on a weighted average basis, based on the EBA Risk Dashboard Q4 2016. Based on that figure, this would imply a reduction of non-performing loans by AIB to €3 - €4 billion over the medium term. This is, however, subject to change in line with the evolution of European banks' balance sheets over that period and the evolution and implementation of AIB's strategies to address its non-performing exposures. AIB has maintained momentum in its restructuring activity and may consider options such as further loan portfolio disposals and other strategic initiatives.</p>																				
<p>B.8</p>	<p>Selected key pro forma financial information:</p>	<p>The unaudited pro forma financial information has been prepared to illustrate the effect of the Scheme as if it had become effective on 30 June 2017. In the case of the regulatory capital measures, the unaudited pro forma financial information has been prepared by applying the adjustments described in the notes set out below on a transitional and fully loaded basis and in accordance with Annexes I and II of the commission regulation (EC) no. 809/2004 ("EU Prospectus Regulation"). Reference to "transitional basis" in the context of regulatory capital measures refers to the application of the transitional provisions set out in Part Ten of the CRR in the calculation of regulatory capital and regulatory capital ratios. Reference to "fully loaded basis" refers to the calculation of regulatory capital and regulatory capital ratios without applying the transitional requirements set out in Part Ten of the CRR.</p> <p>The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, the pro forma financial information addresses a hypothetical situation and does not, therefore, represent AIB's actual financial position or results.</p> <p>The unaudited pro forma financial information below illustrates the effect of the Scheme (as if it had become effective on 30 June 2017) in terms of:</p> <ul style="list-style-type: none"> a) the impact on certain reported values in AIB's consolidated balance sheet; b) the estimated impact on AIB's consolidated regulatory capital measures: <ul style="list-style-type: none"> i. on a transitional basis; and ii. on a fully loaded basis. <p>a) Unaudited pro forma balance sheet as at 30 June 2017</p> <p>The unaudited pro forma financial information is based on the unaudited condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference in this Prospectus. These unaudited condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and should be read in conjunction with Section B of "<i>Part XVI: Consolidated Historical Financial Information</i>" of the AIB Bank IPO Prospectus which was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU"). There have been no significant changes to the accounting policies described in note 1 of Section B of "<i>Part XVI: Consolidated Historical Financial Information</i>" of the AIB Bank IPO Prospectus.</p> <table border="1" data-bbox="507 1697 1433 2033"> <thead> <tr> <th></th> <th align="center">Reported position as at 30 June 2017¹ €m</th> <th align="center">Effect of the Scheme² €m</th> <th align="center">Pro forma adjusted position as at 30 June 2017³ €m</th> </tr> </thead> <tbody> <tr> <td>Total assets</td> <td align="center">90,462</td> <td align="center">—</td> <td align="center">90,462</td> </tr> <tr> <td>Total liabilities</td> <td align="center">77,253</td> <td align="center">—</td> <td align="center">77,253</td> </tr> <tr> <td>Total equity</td> <td align="center">13,209</td> <td align="center">—</td> <td align="center">13,209</td> </tr> <tr> <td>Total equity and liabilities</td> <td align="center">90,462</td> <td align="center">—</td> <td align="center">90,462</td> </tr> </tbody> </table>		Reported position as at 30 June 2017 ¹ €m	Effect of the Scheme ² €m	Pro forma adjusted position as at 30 June 2017 ³ €m	Total assets	90,462	—	90,462	Total liabilities	77,253	—	77,253	Total equity	13,209	—	13,209	Total equity and liabilities	90,462	—	90,462
	Reported position as at 30 June 2017 ¹ €m	Effect of the Scheme ² €m	Pro forma adjusted position as at 30 June 2017 ³ €m																			
Total assets	90,462	—	90,462																			
Total liabilities	77,253	—	77,253																			
Total equity	13,209	—	13,209																			
Total equity and liabilities	90,462	—	90,462																			

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Notes:

- (1) Information on the balance sheet of AIB Group as at 30 June 2017 has been extracted without material adjustment from the unaudited condensed consolidated interim financial statements included in the AIB Bank 2017 Half Yearly Accounts.
- (2) This column represents the effect of the Scheme on AIB Group's balance sheet, which is nil in relation to the reported values in the AIB Bank 2017 Half Yearly Accounts. At a granular level, the Scheme does result in an increase of €25,000 in issued share capital in respect of the Subscriber Shares, which shares will be redeemed and cancelled at an appropriate time after the Scheme Effective Date.
- (3) No account has been taken of AIB Group's trading performance, changes in AIB Group's liquidity or funding positions or any other transactions (actual or proposed) of AIB Group since 30 June 2017.

b) Unaudited pro forma regulatory capital ratios as at 30 June 2017

The SSM has advised AIB that following the establishment of AIB HoldCo as the new holding company of AIB Group, pursuant to Articles 85 and 87 of the CRR, a proportion of the capital reserves represented by the AT1 and regulatory capital which qualifies as tier 2 capital for the purposes of and as determined with the CRR ("Tier 2 Capital") instruments issued by AIB Bank and its subsidiaries to third party investors will not be reflected in the consolidated Tier 1 and Total Capital positions of AIB. Whilst a certain amount of the consolidated capital reserves represented by these capital instruments will not count towards AIB's consolidated regulatory capital position after AIB HoldCo becomes the new holding company of the Group, those instruments remain available to absorb losses and are expected to count as minimum requirement for own funds and eligible liabilities for the purposes of the BRRD ("MREL") (at least for a transitional period). The impact of this change on a pro forma basis as at 30 June 2017 is estimated to be a reduction of 0.4 per cent in AIB's consolidated regulatory capital which qualifies as tier 1 capital for the purposes of and as determined with the CRR ("Tier 1 Capital") Ratio from 20.9 per cent to 20.5 per cent (on a transitional basis) and a reduction of 0.9 per cent. in AIB's consolidated Total Capital Ratio from 22.7 per cent. to 21.8 per cent. (on a transitional basis). The actual impact will depend on the timing of the establishment of AIB HoldCo as the new holding company of AIB Group, the absolute capital levels and capital structure at the time of such establishment and any mitigating actions AIB may take. The scale of this reduction in the consolidated capital position of AIB would be reduced as and when the outstanding AIB Bank AT1 and Tier 2 Capital instruments are redeemed. This change in regulatory capital recognition has no impact on AIB's financial statements. The Scheme is not expected to give rise to changes in AIB's reported consolidated common equity tier 1 ("CET1") Capital ratios as, following the implementation of the Scheme, all of AIB Bank's ordinary shares will be held by AIB HoldCo.

The estimated impact on AIB Group's capital position of the exclusion of a portion of the consolidated capital reserves represented by AT1 and Tier 2 capital instruments issued by AIB Bank to third party investors is set out below on (i) a transitional basis, and (ii) a fully loaded basis.

(i) Unaudited pro forma impact as at 30 June 2017 (transitional basis)

	As at 30 June 2017 ⁽¹⁾	Effect of the Scheme ⁽²⁾⁽³⁾	Pro forma as at 30 June 2017 ⁽⁵⁾
Key Capital Adequacy Metrics (Unaudited)			
Total Risk Weighted Assets (€ million)....	53,532	0	53,532
CET1 Capital (€ million)	10,678	0	10,678
Total Tier 1 Capital (€ million).....	11,172	(194)	10,978
Total Capital (€ million)	12,139	(451)	11,688
Common Equity Tier 1 (ratio)	19.9%	0.0%	19.9%
Total Tier 1 Capital (ratio).....	20.9%	(0.4)%	20.5%
Total Capital (ratio)	22.7%	(0.9)%	21.8%

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(ii) Unaudited pro forma impact as at 30 June 2017 (fully loaded basis)

	As at 30 June 2017⁽¹⁾	Effect of the Scheme ⁽²⁾⁽⁴⁾	Pro forma as at 30 June 2017⁽⁵⁾
Key Capital Adequacy Metrics (Unaudited)			
Total Risk Weighted Assets (€ million)	53,639	0	53,639
Total Leverage Ratio exposure (€ million)	90,708	0	90,708
CET1 Capital (€ million)	8,922	0	8,922
Total Tier 1 Capital (€ million)	9,416	(150)	9,266
Total Capital (€ million)	10,212	(320)	9,892
Common Equity Tier 1 (ratio)	16.6%	0.0%	16.6%
Total Tier 1 Capital (ratio)	17.6%	(0.3)%	17.3%
Total Capital (ratio)	19.0%	(0.6)%	18.4%
Leverage Ratio	10.4%	(0.2)%	10.2%

Notes:

- (1) Information on the risk weighted assets, capital resources and capital ratios of AIB Group as at 30 June 2017 has been extracted without material adjustment from the AIB Bank 2017 Half Yearly Accounts.
- (2) This column ('Effect of the Scheme') represents the adjustments for the Scheme which reduce AIB Group's regulatory capital following the application of Articles 85 and 87 of the CRR. In the context of AIB, Article 85 requires that where capital instruments are issued to third party investors at a level below AIB HoldCo, a proportion of the surplus Tier 1 Capital (at the level of the AIB Bank regulatory consolidation) in excess of the applicable regulatory capital requirements be excluded from AIB's consolidated Tier 1 Capital. The proportion of the surplus Tier 1 Capital that is excluded is calculated as the amount of Tier 1 Capital represented by instruments issued at the level of AIB Bank or its subsidiaries that is held by third party investors as a percentage of the total amount of qualifying Tier 1 Capital for the purposes of Article 85 of the CRR. Article 87 CRR requires a similar adjustment in respect of surplus Total Capital taking account of surplus Total Capital. Further information in respect of the calculation of the surplus capital is provided in note 3 (transitional basis) and note 4 (fully loaded basis).
- (3) The surplus capital used for the purposes of estimating the impact on a transitional basis has been calculated using the amount of regulatory capital (Tier 1 Capital or Total Capital, as the case may be) in excess of AIB's current regulatory requirements (comprising Pillar 1 requirements as prescribed by Article 92 of the CRR and Pillar 2 requirements applied by the ECB) and the relevant proportions of the applicable capital buffers.
- (4) The surplus capital used for the purposes of estimating the impact on a fully loaded basis has been calculated using the amount of regulatory capital (Tier 1 Capital or Total Capital, as the case may be) in excess of AIB's current regulatory requirements (comprising Pillar 1 requirements as prescribed by Article 92 of the CRR and Pillar 2 requirements applied by the ECB) and the full application of known buffers (but excluding the "other systematically important institution" buffer which is applied at a consolidated level and is scheduled to be phased in from 2019 at 0.5 per cent, rising to 1.5 per cent by 2021 ("O-SII buffer")), regardless of their scheduled implementation timetable.
- (5) This column represents the estimated the pro forma total Risk Weighted Assets, Total Leverage Ratio exposure (disclosed on a fully loaded basis only), CET1 Capital, Total Tier 1 Capital, Total Capital, Common Equity Tier 1 Ratio, Total Tier 1 Capital Ratio, Total Capital Ratio and Leverage Ratio (disclosed on fully loaded basis only) on the basis that the Scheme became effective on 30 June 2017.

B.9	Profit forecast and estimate:	Not applicable. No profit forecast or estimate has been included in the Prospectus.
B.10	A description of the nature of any qualifications in the audit report on the historical financial information:	Not applicable. There are no qualifications to the audit report on the historical financial information of the AIB Group set out at " <i>Part XVI: Consolidated Historical Financial Information</i> " of the AIB Bank IPO Prospectus which is incorporated by reference herein, or the Accountant's Report on the historical financial information of AIB HoldCo set out in Section D of " <i>Part XII: Selected Consolidated Historical Financial And Operating Information</i> " of this Prospectus.
B.11	Qualified working capital:	Not applicable. In the opinion of AIB HoldCo, the working capital available to AIB is sufficient for AIB's present requirements, that is, for at least the next 12 months following the date of this Prospectus.

Section C—Securities		
C.1	A description of the type and class of securities being admitted to trading:	<p>The securities in respect of which Admission is being sought are ordinary shares in the capital of AIB HoldCo having a nominal value of €2.47 each. Following the AIB HoldCo Reduction of Capital (if approved), the nominal value of the AIB HoldCo Shares will be reduced to €0.625. There will be no application for any other class of share of AIB HoldCo to be admitted to trading in connection with this Prospectus and/or the Restructuring Proposals (being collectively the Scheme, Admission and the AIB HoldCo Reduction of Capital).</p> <p>Following Admission to the Official Lists, the ISIN for the AIB HoldCo Shares for both the Irish Stock Exchange and the London Stock Exchange will be ISIN IE00BFOL3536. The SEDOL for the Irish Stock Exchange will be BFOL353. The SEDOL for the London Stock Exchange will be BF4KR65.</p>
C.2	Currency of the securities issue:	The AIB HoldCo Shares to be issued pursuant to the Scheme will be denominated in euro.
C.3	The number of shares issued and fully paid and issued and not fully paid and the par value per share:	<p>On Admission, assuming that no new AIB Bank Shares are issued after the date of this Prospectus, there will be in issue 2,714,381,237 fully paid AIB HoldCo Shares having a nominal value of €2.47 each. Following the AIB HoldCo Reduction of Capital (if approved), the nominal value of the AIB HoldCo Shares will be reduced to €0.625.</p> <p>The 40,000 authorised and issued ordinary shares of €0.625 in the capital of AIB HoldCo in issue as at the date of this Prospectus will be converted into 40,000 Subscriber Shares (which shares will carry no voting or income rights and will have only limited rights on a return of capital) on the Scheme Effective Date. Those 40,000 Subscriber Shares will then be redeemed at par and cancelled at an appropriate time (as determined by the Directors of AIB HoldCo) following the Scheme Effective Time.</p>
C.4	A description of the rights attached to the securities:	<p>The AIB HoldCo Shares issued pursuant to the Scheme will rank equally in all respects and have the following rights attaching to them:</p> <ul style="list-style-type: none"> • the right to receive duly declared dividends, in cash or, where offered by the Directors of AIB HoldCo, by allotment of additional AIB HoldCo Shares; • the right to attend and speak, in person or by proxy, at general meetings of AIB HoldCo; • the right to vote, in person or by proxy, at general meetings of AIB HoldCo having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each AIB HoldCo Share held; • the right to appoint a proxy, in the required form, to attend and/or vote at general meetings of AIB HoldCo; • the right to receive (by post or electronically), at least 21 days before the annual general meeting of AIB HoldCo (the “AGM”), a copy of the Directors’ and Auditors’ reports accompanied by (i) copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or (ii) such summary financial statements as may be permitted by the Companies Act; • the right to receive notice of general meetings of AIB HoldCo; and • in a winding-up of AIB HoldCo, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the AIB HoldCo Shares, repayment of the capital paid up on the AIB HoldCo Shares and a proportionate part of any surplus from the realisation of the assets of AIB HoldCo. <p>The AIB HoldCo Shares issued pursuant to the Scheme will rank in full for dividends or other distributions declared, made or paid in respect of the AIB HoldCo Shares after Admission.</p> <p>Subject to the provisions of the Companies Act, any equity securities issued by AIB HoldCo for cash on and from Admission must first be offered to AIB HoldCo Shareholders in proportion to their holdings of AIB HoldCo Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be</p>

Section C—Securities

		<p>waived by a special resolution of the AIB HoldCo Shareholders, either generally or specifically, for a maximum period not exceeding five years. The shareholders of AIB HoldCo as at the date of this Prospectus have passed special resolutions that effectively replicate the terms of the resolutions disapplying pre-emption rights that were passed by AIB Bank Shareholders at the annual general meeting of AIB Bank in 2017, such resolutions being effective subject to, and conditional on, the Scheme becoming effective and expiring on the conclusion of the annual general meeting of AIB HoldCo in 2018.</p>
C.5	<p>A description of any restrictions on the free transferability of the securities:</p>	<p>Save as set out below, there will be no restrictions on the free transferability of the AIB HoldCo Shares set out in the constitutional documents of AIB HoldCo and in effect as from Admission.</p> <p>Subject, in the case of AIB HoldCo Shares held in uncertificated form, to the CREST Regulations, the Directors of AIB HoldCo may decline to register a transfer of AIB HoldCo Shares in the following cases:</p> <ul style="list-style-type: none"> • a lien is held by AIB HoldCo on the AIB HoldCo Shares and in the case of partly paid up AIB HoldCo Shares; • a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or • a single transfer of AIB HoldCo Shares which is in favour of more than four persons jointly. <p>AIB HoldCo Shares held in certificated form will be transferable by instrument in writing in any usual form or any other form which the Directors of AIB HoldCo may approve. The instrument of transfer of any certificated share shall be executed by or on behalf of the transferor and, in cases where the AIB HoldCo Share is not fully paid, by or on behalf of the transferee.</p> <p>AIB HoldCo Shares held in uncertificated form will be transferable in accordance with the rules or conditions imposed by the operator of the relevant system which enables title to the AIB HoldCo Shares to be evidenced and transferred without a written instrument and in accordance with CREST Regulations.</p> <p>If the Directors of AIB HoldCo decline to register a transfer of any AIB HoldCo Shares, they will be required to send to the transferee notice of refusal within two months of the date on which the transfer was lodged (in the case of AIB HoldCo Shares held in certificated form), or of the date on which the instruction by the operator of the relevant system was received by AIB HoldCo (in the case of AIB HoldCo Shares held in uncertificated form).</p> <p>The rights attaching to AIB HoldCo Shares will remain with the transferor until the name of the transferee has been entered on the register of members of AIB HoldCo.</p> <p>Certain restrictions apply to the distribution of this Prospectus in certain jurisdictions under the securities laws of those jurisdictions.</p>
C.6	<p>An indication as to whether the securities are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded:</p>	<p>Application will be made to the Irish Stock Exchange for the AIB HoldCo Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and to trading on its main market for listed securities. Applications will be made to the FCA for the AIB HoldCo Shares to be admitted to listing on the premium listing segment of the UK Official List and to the London Stock Exchange for the AIB HoldCo Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the AIB HoldCo Shares will commence on the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 11 December 2017.</p>

Section C—Securities

C.7	A description of dividend policy:	<p>AIB Bank’s dividend approach is, and with effect from the Scheme Effective Date, AIB HoldCo’s dividend approach will be to work towards an annual pay out ratio in line with normalised European banks, with capacity for excess capital levels to be returned to AIB Bank Shareholders and, with effect from the Scheme Effective Date, AIB HoldCo Shareholders through special dividends and/or share buy backs, subject to receipt of all regulatory and other approvals.</p> <p>A final dividend in the amount of €250 million in respect of AIB Bank Shares for the financial year ended 31 December 2016 was approved by AIB Bank Shareholders at the annual general meeting of AIB Bank held on 27 April 2017 (the “2017 AIB Bank AGM”) and paid on 9 May 2017. The dividend equated to €0.0921 per AIB Bank Share based on the number of AIB Bank Shares for 2016, which was 2.714 billion. AIB Bank did not pay any dividends in respect of AIB Bank Shares for the years ended 31 December 2015 and 2014.</p> <p>In accordance with the “Joint Decision of the European Central Bank and Prudential Regulation Authority of 25 November 2016” AIB Bank is, and, with effect from the Scheme Effective Date, it is expected that AIB HoldCo will be required to obtain prior approval from the SSM in order to pay dividends to shareholders. Conditional on the Scheme becoming effective, AIB HoldCo expects to seek approval in 2018 for the payment of a final dividend for the year ended 31 December 2017.</p> <p>The 2009 Preference Shares of AIB Bank carried a fixed non-cumulative dividend at a rate of 8 per cent. per annum, payable annually in arrears at the discretion of AIB Bank. Dividend payments were made in respect of the 2009 Preference Shares in accordance with their terms as follows during the period 2014 to 2015: (i) in lieu of payment of the annual dividend on the 2009 Preference Shares during the financial year ended 31 December 2014, and in accordance with the terms of the 2009 Preference Shares, 2,177,293,934 new ordinary shares of AIB Bank were issued to the NPRFC by way of bonus issue on 13 May 2014; and (ii) €446 million was paid to the NTMA during the financial year ended 31 December 2015 (comprising a full year dividend from 14 May 2014 to 13 May 2015 of €280 million and a further accrued dividend from 14 May 2015 to 17 December 2015 of €166 million).</p> <p>AIB Bank is and, with effect from the Scheme Effective Date, AIB HoldCo will be subject to the following potential restrictions on the payment of dividends on the AIB Bank Shares and the AIB HoldCo Shares, respectively:</p> <ul style="list-style-type: none"> (i) the Central Bank or, as applicable, the ECB (to the extent only in respect of functions conferred on the ECB by the Single Supervisory Mechanism (“the Relevant Banking Regulator”) may require AIB to observe a restriction on dividend distributions in order to improve the quality and quantity of capital in advance of full implementation of CRD IV on 1 January 2019; (ii) dividends and other distributions on AIB Bank Shares and AIB HoldCo Shares (as relevant) as CET1 instruments under the CRR can only be paid out of distributable items within the meaning of that term in article 4(128) of CRR; (iii) in the case of AIB Bank, in February 2017, the Minister for Finance made rules under the terms of the Government Guarantee Schemes on the declaration and payment of dividends (the “Dividend Rules”) (for additional details, see “<i>Part X: Relationship with Government and State Aid—Governance Restrictions—Governance Restrictions— Statutory—CIFS Scheme and ELG Scheme</i>”). AIB Bank is required, pursuant to the terms of the Dividend Rules and the AIB Bank Relationship Framework (and will continue to be required from the Scheme Effective Time pursuant to the AIB HoldCo Relationship Framework), to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends or distributions; and (iv) in the case of AIB HoldCo, with effect from the Scheme Effective Time, pursuant to the terms of the AIB HoldCo Relationship Framework, AIB HoldCo will be required to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends or distributions. <p>Since AIB HoldCo is a recently incorporated company, it will not initially have</p>
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Section C—Securities

distributable reserves. It is proposed that following implementation of the Scheme, AIB HoldCo will create distributable reserves by way of a High Court approved capital reduction of AIB HoldCo. Although AIB is not aware of any reason why the High Court would not approve the creation by AIB HoldCo of distributable reserves, the issuance of the required order is ultimately a matter for the discretion of the High Court. In the event distributable reserves of AIB HoldCo are not created by way of the AIB HoldCo Reduction of Capital, AIB HoldCo would have to generate distributable reserves from realised profits earned by it after the Scheme Effective Date before making distributions by way of dividends, share repurchases or otherwise. Subject to the availability of sufficient distributable reserves, which is a prerequisite to paying a dividend under Irish company law, and to the aforementioned restrictions, the Directors will review, on an ongoing basis, the expected timing and quantum of any possible future dividend payments (subject to any regulatory restrictions under CRD IV and the above or other restrictions that may apply). Any decision to declare and pay dividends in the future will be, subject to the receipt of regulatory approvals, made at the discretion of the Directors and will depend on AIB HoldCo's or, as applicable, AIB Bank's financial position, general economic conditions and other factors the Directors deem significant from time to time. See "*Part XX: Additional Information—Constitution—Articles—Dividends*" and "*Part II: Risk Factors—Risks Relating to the AIB HoldCo Shares—There can be no assurance that AIB HoldCo will pay dividends in the future and AIB HoldCo Shareholders may earn a negative or no return on their investment in AIB.*".

Section D—Risks

D.1

Key information on the key risks that are specific to the issuer or its industry:

Prior to making any decision in relation to the AIB HoldCo Shares or the Restructuring Proposals, prospective AIB HoldCo Shareholders should consider, together with the other information contained in this Prospectus, the factors and risks attaching to an investment in AIB HoldCo, including the following risks:

Risks Relating to the Macro-economic Environment in which AIB Operates

- Deterioration in the performance of the Irish or UK economy has the potential to adversely affect AIB's overall financial condition, financial performance and/or prospects. Furthermore, given the Irish economy's linkages to the global economy, any deterioration in global and/or relevant regional economic conditions could have an adverse effect on AIB.
- Geopolitical developments in recent years have given rise to significant market volatility and in certain instances have had an adverse impact on economic growth and performance globally. Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term.
- Although the overall impact of the United Kingdom's withdrawal from the European Union and the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, remains uncertain, and may remain uncertain for some time, these events are expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB.
- Interest rates, which are impacted by factors outside of AIB's control, including the fiscal and monetary policies of governments and central banks, as well as Irish and international political and economic conditions, affect AIB in several ways. Interest rates affect the cost and availability of AIB's principal sources of funding, including customer accounts. A sustained low interest rate environment keeps AIB's cost of funding low by reducing the interest payable on its customer accounts, but also reduces incentives for customers to save.
- Changes in the shape and level of interest rate curves impact the economic value of AIB's assets and liabilities. AIB's earnings are exposed to basis risk (i.e., an

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imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar re-pricing characteristics).

- The persistence of exceptionally low interest rates for an extended period, or negative interest rates, could adversely impact AIB's earnings through the compression of its net interest margin. Furthermore, in the event of a sudden large increase or frequent increases in interest rates, AIB may not be able to respond to the market or re-price its assets and liabilities at the same time, giving rise to re-pricing gaps in the short term which can adversely affect its net interest margin. Interest rates also affect the affordability of AIB's products to customers. A rise in interest rates, without sufficient improvements in customers' earnings levels, could lead to an increase in default or re-default rates. This could in turn lead to increased impairment provisions and lower profitability for AIB.
- The current and future budgetary and taxation policy of Ireland and the United Kingdom and other measures adopted by the Irish and UK Governments, or by governments in other jurisdictions in which AIB operates or has business may have an adverse impact on AIB's business. In addition, multinational corporations' recognition of resources for taxation purposes has come under considerable political scrutiny recently. If these types of arrangements continue to be challenged by the EC, this could result in companies relocating from Ireland, or deciding to invest in other jurisdictions, which could have an adverse impact on the Irish economy. The introduction of more favourable corporate taxation policies in other jurisdictions may also attract capital away from Ireland.

Risks Relating to AIB's Business

- Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of AIB's businesses. In particular, AIB remains heavily exposed to the Irish property market, including the Irish residential property market both because of its mortgage lending activities and its property and construction loan book. Accordingly, any development that adversely affects the Irish property market will, including the Irish residential property market, have a disproportionate impact on AIB in comparison to other banks with less significant exposures to this market.
- AIB has a high level of criticised loans on its statement of financial position and there can be no assurance that it will continue to be successful in reducing the level of its criticised loans. The management of criticised loans, including the enforcement and restructuring activities that AIB undertakes, may be vulnerable to challenge by its customers and/or by third parties and AIB is unable to predict the timing or outcome of any such challenges. AIB is also subject to the risk of re-default by customers even after a resolution has been achieved for a particular loan.
- As a result of the capital requirements applicable in the European Union, banks have been, and will continue to be, required to increase the quantity and the quality of their regulatory capital. No assurances can be given that AIB will be able to maintain its capital ratios or that the minimum requirements will not increase.
- While AIB is currently in a position of surplus liquidity, conditions may arise which would constrain funding or liquidity opportunities for AIB over the long term. In particular, a loss of confidence by depositors in AIB, the Irish banking industry or the Irish economy could ultimately lead to a reduction in the availability and/or increase in the cost of funding or liquidity resources.
- AIB operates in competitive markets in Ireland and the United Kingdom, with market share and associated profits depending on a combination of factors including product range, quality and pricing, reputation, brand performance, and relative sales and distribution strength, among others.
- Following the recapitalisation of AIB by the Irish Government, AIB is required to comply with certain executive pay and compensation restrictions. These restrictions have made, and will continue to make, attracting and retaining skilled personnel of

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high calibre or in specialist areas difficult.

- The proper functioning of information technology (“IT”) and communications systems and its related operational processes are critical to AIB’s success and these may not operate as expected, including as a result of technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events.
- AIB is exposed to the risk that personal customer data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations including as a result of human error.
- AIB’s credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of Internal Ratings-Based (“IRB”) for standardised approach or reputational risk for AIB.
- Changes to IFRS or interpretations thereof may cause AIB’s future reported results of operations and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis.

Risks Relating to Supervision and Regulation

- A significant number of new regulations have been issued by the various authorities that regulate AIB’s business in the recent past. The challenge of meeting this degree of regulatory change may place a strain on AIB’s resources, particularly during a period of significant organisational transformation.
- Pursuant to the SRM Regulation (EU) No. 806/2014 (“SRM Regulation”), on 1 January 2016, the SRB became responsible for drawing up AIB’s resolution plan providing for resolution actions that may be taken if AIB were to fail or be likely to fail. In drawing up AIB’s resolution plan, the SRB identifies any material impediments to AIB’s resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments. On 3 February 2017, AIB Bank announced that it had been notified by the SRB that the preferred resolution strategy for AIB Group consists of a single point of entry via a holding company. Implementation of the preferred resolution would require the introduction of a new AIB Group holding company. AIB Bank proposes that AIB HoldCo will be the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group). The changes and requirements to be implemented in respect of the SRM Regulation and Banking Recovery and Single Resolution Directive may have an effect on AIB’s business, financial condition or prospects. Failure by AIB to implement those changes and requirements may result in regulatory action such as increased regulatory capital levels, monetary fines or other sanctions and penalties.
- AIB’s borrowing costs and capital requirements could be affected by prudential regulatory developments, including CRD IV and potentially certain proposals for amendments to the CRD IV. CRD IV requirements adopted in Ireland or the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators (including but not limited to such proposals or as a result of any reforms adopted by the Basel Committee as part of Basel IV) binding regulatory technical standards (“RTS”) to be developed by the EBA, changes to the way in which the Relevant Banking Regulator or, as applicable, the UK Prudential Regulatory Authority (“PRA”) or the FCA, interprets and applies these requirements to AIB or, in the case of the United Kingdom, as a result of its withdrawal from the European Union.
- AIB is exposed to conduct risk, which AIB defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of AIB’s business may be determined by the Central Bank of Ireland (the “Central Bank”) or other relevant regulators in various jurisdictions or by courts not to have been conducted in accordance with applicable local or, potentially, overseas laws and regulations, or in a fair and reasonable manner as determined by the local ombudsman. In particular, AIB may face scrutiny in

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relation to its treatment of customers in difficulty. If AIB fails to comply with any relevant laws or regulations, it may suffer reputational damage and may become subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. AIB's past practices may also be challenged under current regulations and standards.

For example, in September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on a broader examination of tracker mortgage-related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including AIB and certain of its subsidiaries located in Ireland) (the "Tracker Mortgage Examination"). In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank's 'Principles for Redress'. In 2015, AIB provisioned €190 million relating to the Tracker Mortgage Examination. While the Directors believe that this figure is appropriate, there can be no assurance that the final cost to AIB will not be in excess of this amount, including as a result of challenge by the Central Bank to AIB's redress and compensation package, sanction by the Central Bank, rulings by the Financial Services Ombudsman (the "FSO") or customer litigation. Other Irish banks have been or are being made subject to regulatory sanctions by the Central Bank in connection with the Tracker Mortgage Examination or related exercises by the Central Bank and AIB cannot rule out the possibility of such sanctions being taken against AIB in connection with the Tracker Mortgage Examination.

- Legislation and regulations introduced in 2012 and 2013 may affect AIB's customers' attitudes towards their debt obligations, and hence their interactions with AIB in relation to their mortgages. Given the required waiting periods that apply to lenders seeking to enforce security over mortgages under the Central Bank's Code of Conduct on Mortgage Arrears 2013 and the possibility of including secured debt in insolvency arrangements under the Personal Insolvency Act 2012 without the agreement of secured creditors, customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. As a result, AIB cannot be certain of the progress or outcome of its security enforcement proceedings.
- The Irish Government and members of the Oireachtas (the Irish legislature) have expressed concern as to the high level of standard variable interest rates ("SVRs") charged by lenders in Ireland as compared to those charged by lenders in other EU Member States, in particular with respect to certain residential mortgage loans. In 2015, the Irish Government requested that Ireland's largest banks, including AIB, review the level of their SVR and provide options to reduce monthly repayments to new and existing principal dwelling home borrowers, such as lower SVR products, competitive fixed rate products and lower variable rates (taking into account loan-to-value ("LTV")), and indicated that if they failed to address these concerns, the Irish Government could significantly increase the bank levy then applied to these banks or could seek to give the Competition and Consumer Protection Commission of Ireland (the "CCPC") additional regulatory powers. As a result, under the Finance Act 2016, the bank levy was rebased and extended from 2016 to 2021. However, there is a risk that the Irish Government could adopt further measures to address its concerns with respect to SVR levels or the Oireachtas could pass a bill which has been initiated before it to authorise the Central Bank to impose maximum SVRs on certain residential mortgage loans in certain circumstances, which could result in a reduction in AIB's net interest income and net interest margin.

On 20 February 2017, the CCPC published a public consultation to gather views about the future of the Irish mortgage market in order to set out options available to the Irish Government on how to reduce the cost of secured mortgage lending and to improve competition and consumer protection. The CCPC has indicated that it will examine the

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market structure, legislation and regulation of the mortgage market in Ireland and that following the consultation period it intends to produce a final report of its findings. Actions taken by the Irish Government, the CCPC or the Central Bank on foot of any such report and any other actions taken by the Irish Government with respect to SVRs could have a material adverse effect on AIB's business. On 15 June 2017 following the aforementioned consultation period the CCPC published a report entitled "Options for Ireland's Mortgage Market" setting out its suggested options for short, medium and longer term consideration by the Irish Government to allow for greater competition for new entrants in the Irish mortgage lending market and on price, quality and innovation, and to equip consumers to make better choices when taking out mortgage loans.

Risks Relating to AIB's Relationship with the Irish Government

- The Minister for Finance specified an amended and restated relationship framework in relation to AIB (the "AIB Bank Relationship Framework") which took effect on the AIB Bank Admission on 27 June 2017. The Minister for Finance has specified the AIB HoldCo Relationship Framework, which is the same in terms of the duties it imposes as the AIB Bank Relationship Framework other than changes to reflect that duties are to be applied both at AIB HoldCo and AIB Bank levels. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate at the Scheme Effective Time. Under the AIB HoldCo Relationship Framework, while the authority and responsibility for strategy and commercial policies (including business plans and budgets) and the conduct of AIB's day-to-day operations rests in all cases with the Board of AIB HoldCo and its management team, they are required, in connection with certain specified aspects of AIB's activities, to consult with the Minister for Finance.

AIB is also subject to various obligations under the placing agreement dated 23 December 2010 between AIB Bank, the Minister for Finance, the NPRFC and the NTMA (the "2010 Placing Agreement") and the placing agreement dated 1 July 2011 between AIB Bank, the Minister for Finance, the NPRFC and the NTMA (the "2011 Placing Agreement") pursuant to which AIB Bank issued ordinary shares to the NPRFC (which shares were transferred to the ISIF, itself owned by the Minister for Finance, in 2014), together with the letter from the Minister for Finance to the Board of AIB Bank dated 25 July 2011 (the "Minister's Letter"). Pursuant to a deed of covenant entered into on 10 October 2017 between AIB HoldCo, AIB Bank and the Minister for Finance (the "Deed of Covenant"), AIB HoldCo has undertaken, with effect from the date of the Deed of Covenant, to comply with contractual governance obligations currently applicable to AIB Bank under the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister's Letter. The obligations repeat existing obligations in respect of AIB Bank contained in the 2010 Placing Agreement, 2011 Placing Agreement and the Minister's Letter and relate to: (a) restrictions on reduction of reserves; (b) restrictions on director and senior executive/employee remuneration and termination payments; (c) assisting in the placing, offer to the public or admission to trading of AIB HoldCo Shares owned by the Minister for Finance; and (d) rights to obtain information. The Deed of Covenant also requires AIB HoldCo and AIB Bank to comply with the AIB HoldCo Relationship Framework and for AIB HoldCo to enter into a registration rights agreement with the Minister for Finance on terms not inconsistent with the AIB Bank Registration Rights Agreement in circumstances where the AIB HoldCo Shares are listed on a stock exchange that has registered with the US Securities and Exchange Commission. The Deed of Covenant requires AIB to obtain the consent of the Minister for Finance to amend the terms of the Scheme or the Resolutions (save for technical amendments which are required for the proper implementation of the Scheme and which do not have a substantive consequence on the terms or implementation of the Scheme). The Deed of Covenant will terminate if the Scheme has not become effective by 30 March 2018 (or such later date, if any, as AIB Bank and AIB HoldCo may agree and the Court may allow).

If AIB HoldCo becomes the new holding company of AIB under the Scheme, AIB HoldCo will not be a participating institution under the National Asset Management

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		<p>Agency Act 2009 (the “NAMA Act”) (“NAMA Participating Institution”), an AIB CIFS Covered Institution or an AIB ELG Participating Institution, meaning that AIB HoldCo will not itself be subject to the NAMA Programme, the CIFS Scheme or the ELG Scheme. However, AIB Bank will continue to be a NAMA Participating Institution and a member of the AIB Group which participates in the CIFS Scheme (an “AIB CIFS Covered Institution”) and a member of the AIB Group which participates in the ELG Scheme (an “AIB ELG Participating Institution”). As such, the NAMA programme (the “NAMA Programme”) will continue to apply to AIB Bank and its subsidiaries, and the CIFS Scheme and the ELG Scheme will continue to apply to the AIB CIFS Covered Institutions and the AIB ELG Participating Institutions, and their respective subsidiaries. For this reason, following AIB HoldCo becoming the holding company of AIB, the NAMA Programme, the CIFS Scheme and the ELG Scheme will, in all material respects, continue to apply to AIB in the same way that they do currently. The NAMA Act, the CIFS Scheme and the ELG Scheme place certain restrictions on, and require AIB to submit to a degree of governmental regulation in relation to, the operation of its business.</p> <p>Changes in the composition of the Oireachtas or the Irish Government may result in changes to the laws or the programme, policies or actions of the Irish Government, which may have a material adverse effect on AIB’s business, results of operations, financial condition, ownership and prospects.</p> <ul style="list-style-type: none"> On 7 May 2014, the EC approved under state aid rules (the “State Aid Decision”), the Restructuring Plan. The EC also set out certain commitments in relation to AIB, including a repayment commitment under which the State has committed, subject to receipt of all regulatory and other approvals, that prior to 31 December 2017, AIB Bank will repay the state aid by “dividends or other means” in an amount equal to the surplus regulatory capital above the minimum CET1 ratio as set by the Central Bank (plus a buffer of 2 per cent.) on 31 December 2016. The Directors believe that AIB Bank has met its state aid repayment commitments for 2017 for the purposes of the Commitments under the State Aid Decision, although, given their nature, the precise effect of such commitments is uncertain in some respects. AIB Bank has paid a final dividend for the year ended 31 December 2016 of €250 million for which it received approval from the SSM. Repayment of further state aid through a further dividend or other payment by AIB Bank or AIB HoldCo in 2017 would require SSM approval for the payment.
<p>D.2</p>	<p>Key information on the key risks that are specific to the securities:</p>	<p>Prospective shareholders should also note that there are risks associated with having a shareholding in a listed entity such as AIB HoldCo. The majority of these risks already exist with reference to a current holding of AIB Bank Shares and are not materially impacted by the proposed Scheme. The risks relating to the AIB HoldCo Shares include the following:</p> <ul style="list-style-type: none"> Following Admission, the value of the AIB HoldCo Shares may fluctuate significantly as a result of a large number of factors, as well as period-to-period variations in operating results or changes in revenue or profit estimates by AIB, industry participants or financial analysts. Any investment in (or upon any sale, disposal, or other transfer of) the AIB HoldCo Shares by an investor whose principal currency is not the euro exposes such investor to foreign currency exchange risk. AIB HoldCo will be subject to certain restrictions on the payment of dividends on the AIB HoldCo Shares and any decision to declare and pay dividends in the future will subject to receipt of any required regulatory approvals and High Court approval of the AIB HoldCo Reduction of Capital and company law requirements as to the availability of sufficient distributable reserves, be made at the discretion of the Directors of AIB HoldCo and will depend on AIB HoldCo’s financial position, general economic conditions and other factors the Directors of AIB HoldCo deem significant from time to time. If the AIB HoldCo Reduction of Capital is not approved by the Court, AIB HoldCo will not have any distributable reserves following the implementation of the other Restructuring Proposals and in that event, AIB HoldCo would need to generate

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		distributable reserves from realised profits earned by it after the Scheme Effective Date before it would be in a position to make distributions to AIB HoldCo Shareholders.

Section E—Offer		
E.1	The total net proceeds and an estimate of the total expenses of the issue including estimated expenses charged to the investor by the issuer:	<p>There is no offer of AIB HoldCo Shares. This Prospectus and the Restructuring Proposals do not constitute an offer or invitation to any person to subscribe for or purchase any shares in AIB HoldCo. AIB HoldCo will not receive any proceeds as a result of the implementation of the Restructuring Proposals.</p> <p>The aggregate expenses of, or incidental to, Admission and the Restructuring Proposals incurred and to be borne by AIB are estimated to be approximately €10 million (inclusive of amounts in respect of VAT), which AIB intends to pay out of existing cash resources (to the extent they have not already been paid). No expenses will be directly charged to AIB Bank Shareholders or prospective AIB HoldCo Shareholders in connection with Admission or the Restructuring Proposals.</p>
E.2a	Reasons for the issue, use of proceeds and estimated net amount of the proceeds:	<p>Not applicable. There is no offer of AIB HoldCo Shares. This Prospectus and the Restructuring Proposals do not constitute an offer or invitation to any person to subscribe for or purchase any shares in AIB HoldCo.</p> <p>The purpose of the Restructuring Proposals is to implement the SRB’s preferred resolution strategy for AIB by introducing a new Irish incorporated company, being AIB HoldCo, as the listed holding company of the AIB Group. Pursuant to the SRB’s preferred resolution strategy, in the event of a resolution of the AIB Group, AIB HoldCo would become the entity at which any bail-in would primarily be carried out, while AIB Bank, would, if the resolution strategy is successful, retain its current role as the principal banking entity in the AIB Group.</p> <p>AIB HoldCo will not receive any proceeds as a result of the implementation of the Restructuring Proposals.</p>
E.3	A description of the terms and conditions of the issue:	<p>Upon the Scheme becoming effective, Scheme Shareholders on the AIB Bank Register of Members at the Scheme Record Time will receive AIB HoldCo Shares in consideration for the cancellation or (as the case may be) transfer to AIB HoldCo of the Scheme Shares held by them on the basis of one AIB HoldCo Share for each Scheme Share held by them at the Scheme Record Time.</p> <p>The implementation of the Scheme is conditional upon the following:</p> <ol style="list-style-type: none"> 1. the Scheme being approved by a majority in number of the Scheme Shareholders, representing at least 75 per cent. in value of the Scheme Shares held by such holders at the Scheme Voting Record Time, present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment of such Meeting); 2. the Scheme Resolution being duly passed at least 75 per cent. of the votes cast by AIB Bank Shareholders (in person or by proxy) at the Extraordinary General Meeting (or at any adjournment of such Meeting); 3. the sanction by the Court (with or without modification) of the Scheme pursuant to section 453 of the Companies Act and the confirmation by the Court of the related AIB Bank reduction of capital; 4. copies of the Court Order and the minute required by section 86 of the Companies Act in respect of AIB Bank reduction of capital being delivered for registration to the Registrar of Companies and being registered by the Registrar; 5. all regulatory approvals necessary to implement the Scheme having been obtained; and 6. the Irish Stock Exchange, the UK Listing Authority and the London Stock

Section E—Offer

		<p>Exchange having acknowledged to AIB Bank or its agent (and such acknowledgements not having been withdrawn) that the applications for Admission of AIB HoldCo Shares have been approved and (after satisfaction of any conditions to which such approvals are expressed to be subject) will become effective as soon as dealing notices have been issued by the Irish Stock Exchange, the UK Listing Authority and the London Stock Exchange acknowledging to AIB HoldCo or its agent (and such acknowledgements not having been withdrawn) that the AIB HoldCo Shares will be admitted to (i) listing on the Official Lists; and (ii) trading on the Irish Stock Exchange's and the London Stock Exchange's main markets for listed securities.</p> <p>If the Scheme is sanctioned by the High Court and the other conditions to the Scheme are satisfied (or waived), the Scheme is expected to become effective on 8 December 2017 and dealings in AIB HoldCo Shares to be issued pursuant to the Scheme are expected to commence on 11 December 2017.</p> <p>If the Scheme has not become effective by 30 March 2018 (or such later date as AIB Bank and AIB HoldCo agree and the High Court may allow), it will lapse, in which event the Scheme will not proceed. If the Scheme does not proceed, there will not be a new holding company of AIB Bank, the Scheme Shareholders will remain AIB Bank Shareholders and AIB Bank Shares will continue to be admitted to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange.</p>
E.4	A description of any interest that is material to the issue, including conflicting interests:	Neither AIB HoldCo nor AIB Bank is aware of any interest, including any conflicting interest, that is material to AIB HoldCo or, as applicable, AIB Bank or the Restructuring Proposals.
E.5	Name of the person or entity offering to sell the securities and details of any lock-up arrangements, the parties involved and indication of the period of the lock up:	Not applicable. There are no persons offering to sell AIB HoldCo Shares and there are no lock-up arrangements.
E.6	The amount and percentage of immediate dilution resulting from the issue:	Not applicable. AIB Bank Shareholders' ownership in the AIB Group will effectively remain the same as a result of the implementation of the Restructuring Proposals.
E.7	Estimated expenses charged to the investor by the issuer:	No expenses will be charged to AIB Bank Shareholders or AIB HoldCo Shareholders in connection with the Restructuring Proposals. The total costs, charges and expenses payable by AIB in connection with the Restructuring Proposals are estimated to be approximately €10 million (inclusive of amounts in respect of VAT).

PART II RISK FACTORS

Any investment in the AIB HoldCo Shares is subject to a number of risks. Prior to making any decision in relation to the AIB HoldCo Shares or the Scheme, prospective AIB HoldCo Shareholders should consider carefully the factors and risks associated with any investment in the AIB HoldCo Shares, AIB's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below and should consult their professional advisors before making any investment or other decision in respect of the AIB HoldCo Shares. Prospective AIB HoldCo Shareholders should note that the risks relating to AIB, its industry and the AIB HoldCo Shares summarised in "Part I: Summary" are the risks that the Directors believe to be the most essential to an assessment of the Restructuring Proposals and/or whether to consider an investment in the AIB HoldCo Shares. However, as the risks which AIB faces relate to events and depend on circumstances that may or may not occur in the future, prospective AIB HoldCo Shareholders should consider not only the information on the key risks summarised in "Part I: Summary" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks which prospective AIB HoldCo Shareholders may face when making an investment in the AIB HoldCo Shares and/or in making any decision in relation to the Scheme and should be used only as guidance. Additional risks and uncertainties relating to AIB that are not currently known to it, or that it currently deems immaterial, may, individually or cumulatively, also have a material adverse effect on AIB's business, financial condition, results of operations and prospects, and, if any such risk should occur, the price of the AIB HoldCo Shares may decline and prospective AIB HoldCo Shareholders could lose all or part of their investment. Prospective AIB HoldCo Shareholders should consider carefully whether an investment in the AIB HoldCo Shares is suitable for them in the light of the information contained in this Prospectus and their personal circumstances.

None of the statements made in the risk factors that follow in any way qualify AIB HoldCo's working capital statement contained in "Part XX: Additional Information—Working Capital".

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential impact on AIB's business, financial condition, results of operations and prospects, or the market price of the AIB HoldCo Shares.

The risk factors set out below for the most part relate to AIB Bank and AIB as at the date of this Prospectus. If the Scheme becomes effective, AIB HoldCo will become the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group) on the Scheme Effective Date from which point the risk factors will relate to AIB HoldCo and AIB.

Risks Relating to the Macro-economic Environment in which AIB Operates

1 *AIB's business may be adversely affected by any deterioration in the Irish or UK economy or in global or relevant regional economic conditions.*

AIB's business activities are concentrated in the Irish and UK markets. Deterioration in the performance of the Irish or UK economy has the potential to adversely affect AIB's overall financial condition, financial performance and/or prospects. Furthermore, given the Irish economy's linkages to the global economy, any deterioration in global and/or relevant regional economic conditions could have an adverse effect on AIB. In particular, the United Kingdom, the European Union and the United States are Ireland's most important trading partners and accordingly the emergence of adverse economic conditions in any or all of those regions may in turn have an adverse impact on the Irish economy and therefore AIB. Any deterioration in global and/or relevant regional economic conditions could result in reductions in business activity, lower demand for AIB's products and services, reduced availability of credit, increased funding costs and/or decreased asset values.

The global financial crisis which commenced in 2008 had a severe impact on the Irish economy, with gross domestic product ("GDP") contracting significantly between 2008 and 2013. The impact of the crisis on the Irish economy was particularly pronounced given Ireland's dependence on the property and construction sectors. Declining residential and commercial property prices led to a significant slowdown in the construction sector in Ireland. As a result of the contraction in GDP, loan impairments in the Irish property and construction and residential mortgage sectors increased substantially. This had, and continues to have, a material adverse effect on AIB's as well as other Irish banks' financial condition and results of operations, as a result of credit impairment charges.

Following a contraction of global GDP in 2009 and lower levels of growth in the immediately following years compared to pre-crisis levels, the global economy has been growing steadily in recent years. After a period of spending cuts and tax increases implemented by the Irish Government, the Irish economy has been improving along with the global economy. Ireland was one of the fastest growing economies in the Eurozone in 2014, 2015 and 2016, according to data from Business Monitor International (the "BMI") and the Central Statistics Office of Ireland (the "CSO") Statbank. However, there can be no guarantee that favourable economic conditions will continue. Geopolitical developments could lead to market disruption and could compromise the global recovery (see "*—Geopolitical developments, particularly in Europe and the United States, may have repercussions that could have a negative impact on global economic growth, disrupt*

markets and adversely affect AIB”). Any renewed stress on or deterioration of the Irish or global economy could reduce demand for credit, and increase levels of arrears and decrease collateral values across AIB’s loan book, which would have a negative impact on AIB’s business, financial condition, results of operations and prospects.

Irish unemployment has also decreased recently, from a peak of 15.1 per cent. in February 2012 to 6.1 per cent. in September 2017, according to the CSO. If employment levels do not continue to increase as currently expected, or if there are reductions in borrowers’ disposable income, the ability of AIB’s customers to repay existing loans may be adversely affected, which could result in additional writedowns and impairment charges for AIB and demand for new lending could decrease, any of which could negatively impact its financial condition and results of operations. The annual increase in the residential property price index for 2015 and 2016 was 8.9 per cent. and 6.3 per cent., respectively, according to the CSO. If house prices continue to increase without sufficient improvements in customers’ earnings levels, this could lead to a reduction in demand for mortgages as fewer customers would be able to afford to buy property.

Economic conditions in the United Kingdom have also been improving. GDP grew by 1.8 per cent. year on year in 2016, albeit the rate of growth slowed in the first two quarters of 2017 to 0.3 per cent. and unemployment in the second quarter of 2017 was 4.3 per cent., compared to 7.7 per cent. in the second quarter of 2013, according to the United Kingdom’s Office for National Statistics (“ONS”). Any deterioration in the UK economy, whether caused by the United Kingdom’s exit from the European Union or otherwise, could have a similar impact on AIB’s business in the United Kingdom. See “—*The United Kingdom’s exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB’s business, financial condition, results of operations and prospects*”.

As a result of the dynamics discussed above, any deterioration in economic conditions in Ireland, the United Kingdom or the global economy could have a material adverse effect on AIB’s business, financial condition, results of operations and prospects.

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

Geopolitical developments in recent years have given rise to significant market volatility and in certain instances have had an adverse impact on economic growth and performance globally. Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term.

The European sovereign debt crisis which commenced in 2011 and the emergence of significant anti-austerity sentiment in certain Eurozone countries, including, for example, Greece and Italy, has contributed to, and may continue to contribute to, instability in the European sovereign debt markets and in the Eurozone economy generally. If one or more members of the Eurozone were to default on their debt obligations or decide to leave the common currency, this could result in the reintroduction of one or more national currencies. Should a Eurozone country exit the common currency, the resulting need to reintroduce a national currency and restate existing contractual obligations could have unpredictable financial, legal, political and social consequences. Furthermore, if a country were to exit the Eurozone, it may lead to that country subsequently leaving the European Union, which could contribute to the potential break-up of the European Union, and otherwise give rise to further uncertainty and adversely impact the overall economic climate.

Conflicts in the Middle East and more recently tensions in North Korea relating to its potential nuclear weapon capability have also led to geopolitical uncertainty. The conflict in Syria has resulted in an influx of refugees into the European Union, which has contributed to political instability in certain member states of the European Union (the “Member States”) which could affect the cohesiveness and integrity of open borders within the European Union. If hostilities in Syria, political and military tensions in relation to North Korea or similar events elsewhere in the world were to escalate, this could result in further instability. Terrorist activities within Europe or in other countries may also result in instability.

The United Kingdom’s vote to withdraw from the European Union has resulted in significant volatility within the European political environment, as described in further detail under “—*The United Kingdom’s exit from the European Union or the outcome of the general elections in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB’s business, financial condition, results of operations and prospects*”.

In addition, in Northern Ireland political instability and deadlock have resulted from the resignation of the Deputy First Minister on 9 January 2017 and the collapse of negotiations to form a power-sharing government following assembly elections held on 2 March 2017. If an arrangement cannot be agreed, there is the possibility of further elections being called, or the current political structures in Northern Ireland becoming subject to significant change, including by the reinstatement of direct rule from London. The outcome of the general election in the United Kingdom held on 8 June 2017 has resulted in the two main political parties in Northern Ireland, the Democratic Unionist Party and Sinn Féin, increasing the number of their respective seats in the United Kingdom Parliament and overall, no political party having an overall majority in that Parliament. On 26 June 2017, a supply and confidence arrangement was announced by the Conservative Party and the Democratic Unionist Party whereby the latter would support in certain respects the

maintenance of a minority government by the former. See also *“The United Kingdom’s exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which would adversely affect AIB’s business, financial condition, results of operation and prospects”*. Since January 2017, several attempts have been made to negotiate a power-sharing agreement between the Democratic Unionist Party and Sinn Féin but without success. These political developments are occurring at the point when the United Kingdom is in the process of negotiating its withdrawal from the European Union and challenges have arisen for the Northern Irish economy (as to which see further below in this risk factor). The uncertainty resulting from these developments may have an adverse effect on economic conditions in Northern Ireland, which could in turn have an adverse effect on AIB, given its operations there.

The December 2016 referendum in respect of certain proposed changes to the Italian constitution led to the resignation of the Italian Prime Minister and caused instability and uncertainty in Italy. The emergence of anti-EU and anti-establishment political parties and a rise in protectionist sentiment across the European Union may also give rise to further political instability and uncertainty, particularly in light of the upcoming election in Austria in 2017 and the results of the German election held on 24 September 2017. In the German election, the current government led Christian Democrat Union (and its ally, the Christian Social Union) received their lowest share of the national vote since 1949, and the other current coalition government party, the Social Democratic Party, suffered its worst ever election result. The right wing Alternative for Germany party took third place in the German election (after the Christian Democrat Union/Christian Social Union and the Social Democratic Party) and will take seats for the first time in the German parliament. The Social Democratic Party has indicated that it will not join the next government and instead go into opposition. On that basis, it is likely that a new coalition government, involving a larger group of political parties which espouse a wider range of political objectives and policies, will replace the current coalition government. Furthermore, the growth of regional pressures for independence in some Member States may also give rise to further political and economic instability and uncertainty, particularly as a result of the attempted vote on Catalan independence from Spain on 1 October 2017, and the potential declaration of independence by the Catalan authorities which may follow that attempted vote, the legality of which is contested by the Spanish state.

In the United States, the election of the new president in November 2016 and his subsequent inauguration in January 2017 have contributed to an uncertain geopolitical atmosphere. While financial markets have not experienced significant disruption in the immediate aftermath of the election or inauguration, the implementation of the new administration’s policies, such as trade protectionism and travel restrictions, may in the future have an adverse effect on relations between the United States and the European Union and may have an impact on economic conditions generally. For example, protectionist measures may make it uneconomical for Irish companies to export their products to the United States, which could have a negative impact on the Irish economy. On 27 September 2017, the US President and Congress announced a proposed framework to reform the US tax code including in the case of business taxes, to reduce the general federal corporate tax rate from 35 per cent. to 20 per cent., to scale back the taxation of non-US corporate earnings and to impose a once-off levy on the repatriation to the United States of non-US corporate earnings. If these proposals or similar measures are implemented, they could adversely affect inward investment into Ireland, which is currently incentivised in part by Ireland’s relatively low corporate tax rate. See *“—AIB may be adversely affected by the budgetary and taxation policies of the Irish and UK Governments and by changes in taxation law and policy globally”*. In addition, on 26 September 2017 and 6 October 2017, the US Commerce Department and US International Trade Commission announced interim decisions on its investigation (following a complaint lodged by Boeing) concerning price dumping and alleged state subsidies from Canada and the UK received by Bombardier (which is based in Canada but is Northern Ireland’s largest private sector employer). These decisions to impose duties in the United States of up to 300 per cent on relevant aircraft made by Bombardier could have significant negative impacts on economic conditions, employment levels and hence, social stability and conditions, in Northern Ireland should Bombardier be subject to the duties referred to above or further negative findings and duties or other sanctions.

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

3 *The United Kingdom’s exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB’s business, financial condition, results of operations and prospects.*

In a referendum on the United Kingdom’s membership of the European Union held on 23 June 2016, a majority voted in favour of the United Kingdom’s withdrawal from the European Union (“Brexit”). Following a vote in parliament in February 2017 approving such a measure, in March 2017, the UK Government triggered the official process for withdrawing from the European Union under Article 50 of the Treaty of the European Union, leading to a process of negotiation that will determine the future terms of the United Kingdom’s relationship with the European Union. Formal Brexit negotiations have commenced between the UK and the EU in the initial stage focussing on three issues, compensation to be paid by the UK to the EU, the border on the island of Ireland and the position of EU citizens resident

in the UK / UK citizens resident in the EU. The EU Council will decide late in October 2017 whether there has been sufficient progress in the negotiations for the EU to proceed to the next stage of negotiations involving trade between the UK and EU after Brexit and there is a concern that the EU will decide there has not been sufficient progress at that point to so proceed. On 3 October 2017, the European Parliament voted to call on the EU Council to delay making a decision on progressing to the next stage of negotiations, unless, there is a major breakthrough in the negotiations on the three issues referred to above.

The outcome of the general election held in the United Kingdom on 8 June 2017 has resulted in the Conservative Party obtaining the largest number of seats but losing its overall majority in the United Kingdom Parliament. On 26 June 2017, a supply and confidence arrangement was announced by the Conservative Party and the Democratic Unionist Party whereby the latter would support in certain respects the maintenance of a minority government by the former. This may result in political instability in the United Kingdom or its constituent parts. These developments could adversely affect AIB because of Ireland's strong economic and other linkages with the United Kingdom, as well as AIB's operations in the United Kingdom, which accounted for 12 per cent. of its total operating income in the year ended 31 December 2016. Although the overall impact of the United Kingdom's withdrawal from the European Union remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB.

The significant decline in the pound sterling/euro exchange rate resulting from the Brexit vote has had, and is expected to continue to have, an adverse effect on exports to the United Kingdom. The United Kingdom is a significant trading partner for Ireland, with goods exports to the United Kingdom totalling €15.0 billion in the year to December 2016, representing 12.8 per cent. of total goods exports from Ireland, according to CSO Statbank. The impact may be disproportionate in relation to sectors of the Irish economy with significant linkages to the United Kingdom, including agriculture and tourism, and the impact will be exacerbated by any further weakening of the pound sterling. Furthermore, the imposition of any tariffs or customs controls as a result of the United Kingdom's withdrawal from the European Union could have an adverse effect on the export of goods or services from Ireland to the United Kingdom and, under current EU rules, Ireland would not be able to negotiate a bilateral trade agreement with the United Kingdom. Persistent uncertainty may also cause companies to delay capital expenditure, which would have an adverse impact on GDP growth. Regions of Ireland in proximity to the border with Northern Ireland may be particularly subject to negative risks from a withdrawal of the United Kingdom from the European Union due to the close day-to-day interactions between the two countries. Furthermore, the results of the referendum have caused, and the withdrawal of the United Kingdom from the European Union may in the future cause, dislocation and volatility in financial markets, including volatility in exchange rates and interest rates. Such volatility may adversely affect AIB's operations and business volumes.

The United Kingdom's withdrawal from the European Union may also have an impact on labour market conditions in Ireland. In particular, financial institutions and other financial operations currently based in the United Kingdom that rely on the EEA "passport" to access the single EEA market for financial services may seek an alternative base for their operations and relocate such operations to other jurisdictions, including Ireland. This may result in heightened competition for suitably qualified employees, which could adversely affect AIB's ability to attract and retain employees. See "*—Risks Relating to AIB's Business—Restrictions on executive fixed and variable pay, the existence of an additional tax on bonuses paid to employees of Irish banks who have received financial support from the Irish Government, the UK's withdrawal from the EU, macro-economic and other factors may adversely affect AIB's ability to recruit, retain and develop appropriate senior management, skilled and specialist personnel, and may lead to employee dissatisfaction generally*".

In addition to the macro-economic impact of Brexit discussed above, there may be legal and regulatory implications for AIB's operations in the United Kingdom. As a significant proportion of the regulatory regime applicable to AIB UK in the United Kingdom is derived from EU directives and regulations, Brexit could materially change the regulatory framework applicable to AIB UK's operations, including with respect to prudential, bank resolution, consumer regulation, data protection and employment/migration requirements. For example, AIB may be required to transfer certain of its intra-group operations currently performed by AIB Bank in Ireland for AIB UK so that AIB UK operates on a stand-alone basis as a result of possible changes to AIB's regulatory position in the United Kingdom. If UK regulatory capital rules diverge from those of the European Union, as a result of future changes in EU law which are not mirrored by the United Kingdom or vice versa, AIB's regulatory burden may increase, which likely would increase compliance costs. Depending on the nature of the agreement reached between the United Kingdom and the European Union on migration and immigration (if any), the United Kingdom's exit from the European Union could also result in restrictions on mobility of personnel and could create difficulties for AIB in recruiting and retaining qualified employees, both in the United Kingdom and Ireland. In addition, AIB Bank has exercised its EU "passport" rights to establish the London branch of AIB Bank in the United Kingdom. The regulatory position of that branch in the United Kingdom may become uncertain and be subject to change as a result of the United Kingdom's withdrawal from the European Union.

Any of the foregoing could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

4 *AIB faces risks associated with the level of, and changes in, interest rates, as well as certain other market risks.*

Interest rates, which are impacted by factors outside of AIB's control, including the fiscal and monetary policies of governments and central banks, as well as Irish and international political and economic conditions, affect AIB in several ways.

Interest rates affect the cost and availability of AIB's principal sources of funding, including customer accounts, which accounted for 73 per cent. of AIB's total funding as at 30 June 2017. A sustained low interest rate environment keeps AIB's cost of funding low by reducing the interest payable on its customer accounts, but also reduces incentives for customers to save. In addition, a negative interest rate environment erodes net interest margin due to, inter alia, the zero interest rate floor on retail customer deposits.

Changes in the shape and level of interest rate curves impact the economic value of AIB's assets and liabilities. AIB's earnings are exposed to basis risk (i.e., an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar re-pricing characteristics). The persistence of exceptionally low interest rates for an extended period, or negative interest rates, could adversely impact AIB's earnings through the compression of its net interest margin. Commencing in 2009, governments and monetary authorities around the world took action to stabilise financial markets, including by implementing highly accommodative monetary policies. Despite what appeared to be an improving growth background at the time, the European Central Bank ("ECB") cut the deposit rate to -0.30 per cent. in December 2015 and in December 2016 announced an extension of its asset purchase programme until at least December 2017. The asset purchase programme is now intended to be carried out until the end of 2017 if inflation and inflation expectations do not materially improve. In March 2016, the ECB delivered a package of measures to boost Europe's economy, including cutting its main refinancing rate to 0.0 per cent. and its deposit rate to -0.4 per cent. In recent months there has been increased signals from central banks, such as the ECB, Bank of England, and the US Federal Reserve, that they may recalibrate or taper their asset purchase programmes and in the case of the ECB and the Bank of England, begin to raise interest rates from historic lows. The ECB is scheduled to discuss the future of its quantitative easing programme later in October 2017 and that meeting or the next scheduled ECB meeting in December 2017 could result in that programme being recalibrated, including by its being tapered. However, it remains unclear when central banks will return to more conventional monetary policies. To the extent interest rates remain low for an extended period of time, this could put pressure on AIB's net interest income and margin, and could reduce the incentives for its customers to deposit money in savings accounts, reducing funding from deposits. The accommodative monetary policies pursued by central banks may also lead to excessive inflationary pressures on relevant economies. Furthermore, in the event of a sudden large increase or frequent increases in interest rates, AIB may not be able to respond to the market or re-price its assets and liabilities at the same time, giving rise to re-pricing gaps in the short term which can adversely affect its net interest margin.

Interest rates also affect the affordability of AIB's products to customers. A rise in interest rates, without sufficient improvements in customers' earnings levels, could lead to an increase in default or re-default rates among customers with variable rate obligations (e.g., customers with variable rate mortgages or tracker mortgages, which accounted for 55 per cent. and 35 per cent., respectively, of AIB's residential mortgages in Ireland as at 31 December 2016). This could in turn lead to increased impairment provisions and lower profitability for AIB. An increase in interest rates would also result in a higher rate being used for purposes of discounting future cash flows from AIB's loan book, which would have the effect of increasing impairment provisions. A high interest rate environment may also reduce demand for mortgages and other loan products generally, as customers are less likely or less able to borrow at the same levels when interest rates are high as when interest rates are low.

In addition to interest rate risk, AIB is exposed to other market risks, such as credit spread risk. As at 30 June 2017, AIB had €14.3 billion of available for sale debt securities on its statement of financial position, which primarily included debt securities issued by Eurozone governments. As at 30 June 2017, AIB's available for sale debt securities included €4.9 billion of Irish Government securities, €2.5 billion of other European government securities, €0.2 billion of non-European government securities, €1.5 billion of securities issued by supra-national banks and government agencies, €0.3 billion of asset backed securities and €4.2 billion of securities issued by European banks. Widening credit spreads could adversely impact the fair value of these assets. Additionally, on 30 June 2017, AIB had €0.6 billion of available for sale equity securities, the value of which is sensitive to changes in equity prices.

AIB also has exposure to market risk in relation to its trading book, which encompasses positions in financial instruments (principally derivatives) that are held with trading intent or to hedge positions held with trading intent. This risk arises primarily from AIB's support of customer businesses with small residual discretionary trading positions remaining. Credit value adjustments and funding value adjustments to derivative valuations arising from customer activity can have an impact on AIB's results of operations.

Changes in foreign exchange rates, particularly the euro/sterling and euro/US dollar rates, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of AIB Bank's non-Irish subsidiaries. Any failure to manage interest rate risk or the other market risks to which AIB is exposed could have a material adverse effect on its business, financial condition, results of operations and prospects.

5 *AIB may be adversely affected by the budgetary and taxation policies of the Irish and UK Governments and by changes in taxation law and policy elsewhere or globally.*

The current and future budgetary and taxation policy of Ireland and the United Kingdom and other measures adopted by the Irish and UK Governments, or by governments in other jurisdictions in which AIB operates or has business, may have an adverse impact on AIB's business.

For instance, the bank tax levy introduced by the Irish Government in Budget 2014 imposed an additional taxation liability on AIB that was originally intended to apply for 2014, 2015 and 2016 only. The Finance Act 2016 rebased the bank levy and extended it beyond 2016 to 2021. The annual bank tax levy paid by AIB in 2016 amounted to €60 million. In addition, in the UK Finance Act 2015, the UK Government restricted the proportion of a bank's taxable profit that can be offset by certain carried forward losses to 50 per cent., effective from 1 April 2015, resulting in a €242 million decrease in AIB's deferred tax asset for the year ended 31 December 2015. This was subsequently further reduced in the UK Finance Act 2016 to 25 per cent., effective 1 April 2016, resulting in a €92 million decrease in AIB's deferred tax asset for the year ended 31 December 2016. These changes will also result in the current tax charge being a higher portion of the income tax charge in the future. The costs associated with these and any future changes in budgetary and taxation policies globally could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

In addition, multinational corporations' recognition of resources for taxation purposes has come under considerable political scrutiny recently. The OECD, with the support of the G-20, has embarked on a project to address base erosion and profits shifting by multi-national companies, which is focused on combatting base erosion using arrangements to generate income that is not subject to meaningful taxation in any jurisdiction as well as profit shifting from high tax jurisdictions to low tax jurisdictions. In August 2016, the European Commission (the "EC") ruled that Apple Inc. had received €13 billion of illegal state aid because of its taxation arrangements with Ireland, which permitted it to pay substantially less tax than it would have been required to pay had its profits been booked in another jurisdiction. Ireland and Apple are appealing that ruling in the European Court of Justice. If these types of arrangements continue to be challenged by the EC, this could result in companies relocating from Ireland, or deciding to invest in other jurisdictions, which could have an adverse impact on the Irish economy. The introduction of more favourable corporate taxation policies in other jurisdictions may also attract capital away from Ireland. See "*—Geopolitical developments, particularly in Europe and the United States, may have repercussions that could have a negative impact on global economic growth, disrupt markets and adversely affect AIB*". Any of the foregoing could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

Risks Relating to AIB's Business

6 *AIB is subject to credit risks in respect of customers and counterparties, including risks arising due to concentration of exposures across its loan book, and any failure to manage these risks effectively could have a material adverse effect on its business, financial condition, results of operations and prospects.*

Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of AIB's businesses. In particular, AIB remains heavily exposed to the Irish property market, including the Irish residential property market, both because of its mortgage lending activities and its property and construction loan book. See "*Part XIII: Operating and Financial Review—Statement of Financial Position—As at 30 June 2017 and 31 December 2016—Gross Loans and Receivables to Customers—Loans and Receivables to Customers by Type of Loan—Residential mortgage loan portfolio*" and "*—Property and construction*" for details of AIB's exposure to residential mortgages and property and construction loans. Accordingly, any development that adversely affects the Irish property market will have a disproportionate impact on AIB in comparison to other banks with less significant exposures to this market.

In addition to the credit exposures arising from loans to individuals, small- and medium-sized enterprises ("SMEs") and corporates, AIB has exposure to credit risk arising from its exposure to other financial institutions (for further details, see "*—AIB could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties*"), its trading portfolio, available for sale and held to maturity portfolios, derivatives and off-balance sheet guarantees and commitments. AIB may be exposed to customers or counterparties through any or all of these assets and when assessing credit risk against a particular customer or counterparty, all of these exposures are taken into account. Positions in the trading book and available for sale positions are marked to market on a daily basis and the majority of interbank derivative positions are subject to daily collateralisation.

If AIB is unable to manage its credit risk effectively, its business, results of operations, financial condition and prospects could be materially adversely affected.

7 AIB has a high level of criticised loans on its statement of financial position and there can be no assurance that it will continue to be successful in reducing the level of these loans. The management of criticised loans also gives rise to risks, including the vulnerability to challenge by customers and/or third parties, re-default, changes in the regulatory regime, further losses, costs and the diversion of management attention and other resources from AIB's business.

AIB has a high level of criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. Criticised loans include “watch”, “vulnerable” and “impaired” loans, as described in further detail in “—Credit risk—Credit profile of the loan portfolio” in note 58 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus, and the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, each of which is incorporated by reference herein. The percentage of AIB’s loan portfolio which is impaired is higher than the average of other European financial institutions and remains a key concern for the joint supervisory team for AIB at the ECB and the Central Bank (the “JST”) in light of the implications for AIB’s profitability, capital and senior management agenda.

As at 30 June 2017, AIB had €16.6 billion in criticised loans on its balance sheet, representing 26 per cent. of total loans, of which €2.6 billion were “watch” loans, representing 4 per cent. of total loans; €6.3 billion were vulnerable loans, representing 10 per cent. of total loans; and €7.8 billion were “impaired” loans, representing 12 per cent. of total loans. As at that date, AIB had €12.1 billion in non-performing exposures, which are defined by the European Banking Authority (“EBA”) to include material exposures which are more than 90 days past due and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due. For further detail on non-performing exposures and how they differ from criticised loans, see “Part XIII: Operating and Financial Review—Non-performing Exposures”.

AIB has been proactive in managing its criticised loans, in particular through restructuring activities and the development of a Mortgage Arrears Resolution Strategy (“MARS”), which built on and formalised the Mortgage Arrears Resolution Process (“MARP”) it was required to introduce in order to comply with the Code of Conduct on Mortgage Arrears (2013) issued by the Central Bank (the “CCMA”), as well as the development of strategies for the restructuring of all asset classes of loans. See “—Credit risk—Additional Credit Risk Information—Forbearance” in note 58 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and “Additional credit risk information – Forbearance” of the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, each of which is incorporated by reference herein. AIB has reduced the level of criticised loans on its statement of financial position, with criticised loans having decreased by €15.2 billion, or 44.8 per cent., from 2014 to 2016. There can be no assurance, however, that AIB will continue to be successful in reducing the level of its criticised loans, particularly since there are a number of elements outside of AIB’s control, such as property values, interest rate levels and taxation policies, that will impact its criticised loan book. For example, AIB has been unable to finalise certain restructuring strategies and solutions, in line with AIB’s standard customer treatment strategies, to employees, former employees and their associates due to uncertainty in relation to the application of legislation governing the tax treatment of any write-off of loans to such employees, former employees and their associates, as the restructuring of those loans that may include elements of write-off may give rise to an additional cost, even where the restructuring solution is consistent with those offered to non-employees. The management of criticised loans, including the enforcement and restructuring activities that AIB undertakes, may be vulnerable to challenge by its customers and/or by third parties and AIB is unable to predict the timing or outcome of any such challenges. AIB is also subject to the risk of re-default by customers even after a resolution has been achieved for a particular loan. As the majority of restructuring activity has taken place relatively recently, AIB has a limited empirical basis for assessing the risk of re-default and re-defaults could exceed the level anticipated by AIB. Furthermore, AIB’s ability to manage non-performing loans and non-performing exposures may be adversely affected by new or additional requirements regarding the management of such loans and exposures, such as the ECB’s March 2017 guidance in relation to the management of non-performing loans and non-performing exposures, the draft addendum to the ECB’s March 2017 guidance published by the ECB on 4 October 2017 in relation to the minimum levels of prudential provisions expected for NPLs, other regulatory requirements, or changes in government policy. See “—Risks Relating to Supervision and Regulation”.

The monitoring of criticised loans can also be time consuming and can require case-by-case resolution. Furthermore, even after a particular loan has been restructured, monitoring and attention will continue to be required. AIB’s management has devoted significant resources (both in terms of cost and management time) to the monitoring of criticised loans and will continue to be required to do so in the future. This may divert management attention and resources from other areas of AIB’s business.

Finally, AIB has begun to experience an expected slowdown in restructuring momentum and it is now primarily dealing with those cases which are of lower monetary value, more complex, more specific to an individual’s circumstances and more protracted in nature. In addition, a larger proportion of the remaining loans being resolved are subject to enforcement and the legal process associated with these takes more time than a consensual process. AIB has elected and may in the future elect to adopt alternative strategies for certain cohorts of its criticised loans, such as loan disposals. For example, AIB, the Irish Mortgage Holders Organisation (IMHO), and iCare Housing announced on 27 September 2017

an enhanced mortgage solution aimed at keeping customers who are in difficulty with their mortgage, and who qualify for social housing, in their own homes, and which would effectively involve a sale of the property with ownership of the property transferring to iCare Housing and the write-off of any residual mortgage debt.

In addition, in the half year to June 2017 AIB sold a portfolio of impaired buy-to-let loans, the vast majority of which were in deep long-term arrears to a wholly owned subsidiary of Goldman Sachs. Overall, the transaction, with an approximate €0.2 billion net value, was capital accretive. The implementation of such strategies may represent a reputational risk to AIB and may result in customer dissatisfaction and/or customer litigation. The significant resource investment which such strategies entail may also lead to a loss of management focus in other areas of AIB's business. Failure to adequately implement such strategies would also pose significant financial, reputational and other risks to AIB. Loan disposals may occur on terms where the value realised on the disposal is less than the carrying value (net of applicable impairment provisions) in respect of the relevant loans.

If AIB is unsuccessful in reducing the level of criticised loans on its statement of financial position, if it is required to continue to devote significant resources and attention to the monitoring and management of criticised loans or if its reputation is damaged by the alternative treatment strategies it pursues, its business, results of operations, financial condition and prospects could be materially adversely affected.

8 *AIB's monitoring of its loan portfolio is dependent on the effectiveness, and efficient operation, of its processes including credit grading and scoring systems and there is a risk that these systems and processes may not be effective in evaluating credit quality.*

AIB uses processes including credit grading and scoring systems in evaluating the credit quality of its customers and to facilitate the early identification and management of any deterioration in loan quality. Changes in objective information are reflected in the credit grade of the relevant borrower with the resultant grade influencing the management of that borrower's loans. AIB pays special attention to criticised loans which include "watch", "vulnerable" and "impaired" loans. However, there is a risk that AIB's credit grading and scoring systems and processes may not be effective in evaluating the credit quality of customers or in identifying changes in loan quality in a timely manner. Any such failure in the timely identification of loan impairment could materially adversely affect AIB's business, results of operations, financial condition and prospects.

9 *AIB could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties.*

Given the high level of interdependence between financial institutions, AIB is and will continue to be subject to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions. One institution defaulting, failing a stress test or requiring bail-in by its shareholders and/or creditors and/or bail-out by a government could lead to significant liquidity problems, losses or defaults by other institutions. For example, the bankruptcy of Lehman Brothers in 2008 led to this situation, as the commercial and financial soundness of many financial institutions at the time were closely related due to their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty or major Irish financial institution may lead to market-wide liquidity problems and losses or defaults by AIB or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, industry payment systems, clearing houses, banks, securities firms and exchanges with whom AIB interacts on a daily basis. Systemic risk, particularly within the European Union or otherwise affecting Ireland, could have a material adverse effect on AIB's ability to raise new funding and on its business, financial condition, results of operations and prospects.

10 *AIB may have insufficient capital to meet increased minimum regulatory requirements.*

AIB is subject to minimum capital requirements as set out in the Capital Requirements Regulation (No. 575/2013) (the "CRR") and the Capital Requirements Directive (2013/36/EU) ("CRD" and, together with the CRR, "CRD IV") and implemented under the Single Supervisory Mechanism (the "SSM"), which granted the ECB a supervisory role to monitor the financial stability of banks based in participating states, starting from 4 November 2014. CRD IV represents the adoption in the EU of reforms by the Basel Committee commonly referred to as Basel III. CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with effect from 1 January 2014, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and (iv) the introduction of a minimum leverage ratio of tier 1 capital (for CRD IV purposes) ("Tier 1 Capital") to total exposures (for CRR purposes) ("Leverage Ratio") with effect from 1 January 2018.

As a result of these requirements, banks in the European Union have been, and will continue to be, required to increase the quantity and the quality of their regulatory capital. Furthermore, the capital requirements to which AIB is subject may become more stringent because of the proposals published by the EC on 23 November 2016 for amendments to the CRR, the CRD IV, the Banking Recovery and Resolution Directive (2014/59/EU) ("BRRD"), the Single Resolution Mechanism Regulation (EU) No.806/2014 (the "SRM Regulation") and the proposed new directive to facilitate the creation of a new asset class of "non-preferred" senior debt ("CRD V/BRRD2 Proposals") and/or further reforms by the Basel Committee on Banking Supervision, including the finalisation of Basel III (commonly referred to as Basel IV).

AIB evaluates the adequacy of its capital under both forecast and stress conditions as part of the Internal Capital Adequacy Assessment Process (“ICAAP”), which includes the identification and evaluation of potential capital mitigants. Nevertheless, given the evolution of minimum capital requirements and the levels of uncertainty in the current economic environment, there is a possibility that the economic performance over AIB’s capital planning period may be materially worse than expected and/or that losses on AIB’s credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, or capital requirements for other material risks such as operational risk or interest rate risk to increase significantly, there is a risk over the longer term that AIB’s capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements, as communicated by the SSM as part of its supervisory review and evaluation process (“SREP”) which is undertaken annually. Following the SREP by the ECB in December 2016, the minimum requirements for 2017 were set at 9.0 per cent. for the common equity tier 1 for CRR purposes (“CET1”) ratio and 12.5 per cent. for the total capital ratio. This excludes Pillar 2 guidance that is not publicly disclosed. AIB’s transitional CET1 and total capital ratios as at 30 June 2017 were 19.9 per cent. and 22.7 per cent. respectively. Based on full implementation of CRD IV, AIB’s Leverage Ratio was 10.4 per cent. as at 30 June 2017. Based on these ratios, AIB has a significant buffer above maximum distributable amount trigger levels, but no assurances can be given that AIB will be able to maintain these ratios or that the minimum requirements will not increase. In addition, capital levels may be negatively affected by volatility arising from AIB’s pension schemes and its available for sale portfolio values. The SSM’s assessment of AIB’s capital position may also change as a result of any assessment and supervisory review of its capital models. The outcome of the 2017 SREP is expected to be confirmed by the ECB in Q4 2017.

AIB is also subject to stress tests carried out by Irish and EU regulators, as described in “*Part XVII: Risk Management—Funding and Liquidity Risk—Liquidity Regulation*”, with the next round of EU-wide stress tests scheduled to take place in the first half of 2018. Future assessments carried out by relevant regulatory authorities may result in AIB being required over the longer term to increase its capital or to take other appropriate actions to address matters raised in those assessments. The publication of the results of such stress tests could also lead to reputational damage or a diminution in the market valuation of AIB to the extent such results are negative or perceived to be negative. If AIB’s capital position were to deteriorate, this could also impact its ability to pay dividends. See “*—Risks Relating to the AIB HoldCo Shares—There can be no assurance that AIB HoldCo will pay dividends in the future and AIB HoldCo Shareholders may earn a negative or no return on their investment in AIB*”. Any of the foregoing could have a material adverse effect on AIB’s business, results of operations, financial condition or prospects.

11 *Constraints on AIB’s access to funding, including a loss of confidence by depositors or curtailed access to wholesale funding markets, may result in AIB being required to seek alternative funding sources.*

While AIB is currently in a position of surplus liquidity, conditions may arise which would constrain funding or liquidity opportunities for AIB over the longer term. Currently, AIB funds its lending activities primarily from customer accounts, which comprised 73 per cent. of AIB’s total funding as at 30 June 2017. Consequently, a loss of confidence by depositors in AIB, the Irish banking industry or the Irish economy could ultimately lead to a reduction in the availability and/or increase in the cost of funding or liquidity resources. Other funding represented 27 per cent. of AIB’s total funding as at 30 June 2017. This was made up of 9 per cent. wholesale funding, while funding from monetary authorities represented 2 per cent. and the remaining 16 per cent. was made up of equity funding. Concerns around debt sustainability and sovereign downgrades in the Eurozone could impede access to wholesale funding markets, adversely impacting the ability of AIB to issue debt securities or regulatory capital instruments to the market. Future wholesale funding will be subject to minimum requirement for own funds and eligible liabilities (“MREL”) requirements. Meeting these requirements may cause AIB to incur higher than expected wholesale funding costs. AIB expects that AIB HoldCo will issue €3 billion to €5 billion of securities eligible for MREL purposes over the medium to long term. See “*—Risks Relating to Supervision and Regulation—AIB is subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources (including MREL) and liquidity and to satisfy specified capital, liquidity and Leverage Ratios, as well as changes in accounting standards that impact AIB’s capital position, and any perceived or actual shortage of capital or liquidity could result in actions by regulatory authorities, including public censure and the imposition of sanctions*”.

A stable customer deposit base and non-core deleveraging has allowed AIB to reduce its funding from the ECB materially. This, in turn, has facilitated an increase in AIB’s unencumbered high quality liquid assets (“HQLA”). However, if AIB were to exhaust these sources of liquidity, which, based on AIB’s current liquidity position and its current financial condition, is not believed to be the case for at least the next 12 months, it would be necessary to seek alternative sources of funding from the monetary authorities.

CRD IV requires banks such as AIB to meet targets set for the Basel III liquidity related ratios: the liquidity coverage ratio (“LCR”), which will require banks to have sufficient HQLA to withstand a 30-day stressed funding scenario, and the net stable funding ratio (“NSFR”), which is a long-term structural ratio designed to address liquidity mismatches. The LCR is being phased in over several years, with credit institutions obliged to hold 80 per cent. of their full LCR in 2017 and 100 per cent. in 2018. The NSFR is proposed to come into effect at the level of 100 per cent. from 1 January 2018 and the CRD V/BRRD2 Proposals include legislative proposals regarding the NSFR. AIB’s LCR was 134 per cent. and its NSFR was 122 per cent. as at 30 June 2017, both of which are within the CRD IV requirements that will apply from

1 January 2018. Nevertheless, meeting the phased implementation deadlines of these requirements could impose additional costs on AIB and the failure to demonstrate appropriate progress towards or to meet such phased requirements may lead to regulatory sanctions. Wholesale funding may also prove difficult if AIB does not achieve LCR and NSFR margins comparable to peers.

If AIB faces difficulties in accessing funding or in meeting the aforementioned liquidity ratios, its business, results of operations, financial condition and prospects could be materially adversely affected.

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

AIB Bank's long-term senior unsecured debt (which is not covered by the Credit Institutions (Eligible Liabilities Guarantees) Scheme (the "ELG Scheme")) is rated BBB- (with a stable outlook) by Standard & Poor's Credit Market Services Europe Limited ("S&P") (from January 2017), Baa2 (with a stable outlook) by Moody's Investor Service Limited ("Moody's") (from June 2017) and BB+ (with a positive outlook) by Fitch Ratings Limited ("Fitch") (from December 2015). Each of S&P, Moody's and Fitch is registered in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. Based on AIB's current financial condition and the state of the Irish economy, AIB does not believe it will experience a credit downgrade over the next 12 months. However, the credit ratings which may be given to AIB HoldCo may be lower than the current corresponding credit ratings of AIB Bank. While AIB has not yet engaged with any rating agencies in relation to the possible credit rating of AIB HoldCo following the date at which the Scheme becomes effective in accordance with clause 6 of the Scheme, expected to be 8 December 2017 (the "Scheme Effective Date"), it is possible that AIB HoldCo may have a lower senior unsecured credit rating than the current corresponding rating of AIB Bank from at least one credit rating agency. A lower credit rating may arise from the structural subordination of AIB HoldCo creditors with the result that senior unsecured debt investors at AIB HoldCo level may rank behind senior creditors of AIB Bank. However, there can be no certainty as to the approach credit rating agencies may take with respect to AIB HoldCo following the implementation of the Corporate Reorganisation. See also "*The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure, or take other actions which could have a significant impact on AIB's operations, structure, costs and/or capital requirements.*" In addition, over the longer term, downgrades in the credit ratings of AIB could have an adverse impact on the volume and pricing of its wholesale funding and its financial position, restrict its access to the debt capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken AIB's competitive position in certain markets. Furthermore, the availability of deposits is often dependent on credit ratings, and downgrades of AIB's debt could lead to withdrawals of deposits, which could result in deterioration in AIB's funding and liquidity position. Furthermore, there can be no assurance that Ireland's sovereign credit rating will not be downgraded in the future. As a consequence of AIB's operations being focused on the Irish market and the very substantial shareholding of the Irish Government in AIB, any such downgrade would be likely to impair AIB's access to private sector funding and weaken its financial position. Given the concentration of the Irish banking market in a relatively small number of banks and the relative inter-connectivity of the Irish banks, a downgrade of one or more other Irish banks with large shares in that market could also impair AIB's access to private sector funding and weaken its financial position. Any of the foregoing could have a material adverse effect on AIB's business, results of operations, financial condition or prospects.

13 *Deferred tax assets that are recognised by AIB may be affected by changes in tax legislation, the interpretation of such legislation or relevant practices. AIB is also required under capital adequacy rules to deduct from its CET1 the value of most of its deferred tax assets, which may result in it being required to hold more capital.*

As at 30 June 2017, AIB had €2.8 billion of deferred tax assets on its statement of financial position, substantially all of which related to unused tax losses. Changes in tax legislation or the interpretation of such legislation, regulatory requirements, accounting standards or practices of relevant authorities, could adversely affect the basis for recognition of the value of these losses. In the United Kingdom, for instance, legislation has been introduced to restrict the proportion of a bank's taxable profit that can be offset by certain carried forward losses to 50 per cent. effective from 1 April 2015, resulting in a €242 million decrease in AIB's deferred tax asset for the year ended 31 December 2015. This was subsequently further reduced to 25 per cent. effective from 1 April 2016, resulting in a €92 million decrease in AIB's deferred tax asset for the year ended 31 December 2016. This will likely continue to have a negative impact on AIB's profit after taxation in future periods. This legislation has adversely affected the value of AIB's deferred tax assets in relation to its UK operations. If similar legislation were to be introduced in Ireland, this could have a further adverse impact on the value of AIB's deferred tax assets, which could adversely affect AIB's business, results of operations, financial condition and prospects. There is also a risk that AIB may not generate the necessary future taxable profit in Ireland or the United Kingdom to support the current level of deferred tax assets. Additionally, if the time period in which the profits may be generated is too distant, then AIB may not be able to assess the likelihood of profits arising as more likely than not, which could have a negative impact on its deferred tax assets.

The capital adequacy rules under CRD IV, also require AIB, among other things, to deduct from its CET1 the value of most of its deferred tax assets, including all deferred tax assets arising from unused tax losses. This deduction from CET1

commenced in 2015 and is to be phased in evenly over ten years, although this phasing may be subject to change. If the phasing does change, AIB may be required to hold more capital in the transitional period.

14 *AIB faces risks from the competitive environment in which it operates and its performance may vary depending on changes in the intensity and source of this competition.*

AIB operates in competitive markets in Ireland and the United Kingdom, with market share and associated profits depending on a combination of factors including product range, quality and pricing, reputation, brand performance, and relative sales and distribution strength, among others.

In the Irish market, AIB competes primarily with The Governor and Company of the Bank of Ireland (“Bank of Ireland”) and Ulster Bank, which is owned by the Royal Bank of Scotland. It also competes with smaller universal service providers such as KBC and permanent tsb, with single service providers, such as Pepper Group, which only offers residential mortgages, and with credit unions. The use of intermediaries in the Irish mortgage market is relatively limited, with the sophistication and scale of operators lower than in the United Kingdom.

The Central Bank is focused on the promotion of higher levels of competitive intensity in the banking market, in common with regulators in other European jurisdictions. Mortgage interest rates in Ireland are higher than Eurozone norms and this, together with the low incidence of switching mortgage providers, is an area of focus for the Central Bank. The Irish Government is also focused on competition in the banking market and on 20 February 2017, the Competition and Consumer Protection Commission of Ireland (the “CCPC”) published a public consultation to gather views about the future of the Irish mortgage market in order to set out options available to the Irish Government on how to reduce the cost of secured mortgage lending and to improve competition and consumer protection. As the output of that consultation, on 15 June 2017, the CCPC published a report entitled “Options for Ireland’s Mortgage Market” setting out suggested options, including those which are aimed at enhancing competition in the Irish residential lending market. See “—*Risks Relating to Supervision and Regulation—AIB’s loan book (in particular, its residential mortgage book) may become subject to further supervision and scrutiny by the Irish Government, the Central Bank and the CCPC, which could result in regulation and control of AIB’s loan book and therefore result in a reduction in AIB’s level of lending, interest income and net interest margin and/or increased operational costs.*”

In the near term, the intensity of the competitive landscape is likely to be influenced primarily by potential new market entrants as well as more substantial engagement by credit unions in the mortgage market, particularly should the credit markets return to sustainable growth, which would make the market more attractive, as well as by the commercial pressures facing incumbent providers to maintain or grow their current market shares.

Medium-term competitive risks include:

- more intense price-based competition from incumbent providers, committed to delivering on their strategic objective of playing a primary market role and/or returning to a normal dividend relationship with their shareholders through market share gains;
- an increase in the use of intermediaries in the mortgage market, leading to margin pressures as a result of greater price transparency and/or the promotion of mortgage provider switching;
- the emergence of new, lower-cost, competitors in the Irish mortgage market with particular vulnerabilities for incumbents in low loan-to-value (“LTV”) mortgages;
- sustained disintermediation of traditional banks, including AIB, from specialist and generalist product lines, including but not limited to merchant acquiring services, residential and commercial mortgage lending, foreign exchange transactions, personal credit and SME lending;
- the internationalisation of supply and demand for low-complexity products such as deposits, reducing the scope for intra-EU differences in pricing;
- the successful establishment of virtual banks (such as N26 in Germany), which may adversely affect traditional banks both in terms of income and customer insights, which can provide an important competitive advantage in credit markets; and
- the introduction of Payment Services Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (“PSD2”), which may enable the emergence of payment aggregators, which could in turn significantly reduce the relevance of traditional bank platforms and weaken brand relationships.

The competitive threats facing AIB in Ireland stem from both traditional banks seeking to increase their market share and/or market reach, as well as from financial technology (“Fintech”) companies, which provide services such as online transaction and payments, currency trading, mobile banking, crowdfunding and peer-to-peer lending. Examples of Fintech companies operating in the Irish market include CurrencyFair, LinkedFinance, Fundit, Realex, Kickstarter, PayPal and Apple Pay. Fintech companies often have cost bases and regulatory burdens that are lower than those of

financial institutions operating under the traditional banking model, and may not have the same legacy issues such as IT systems issues and non-performing loans as such institutions.

In Northern Ireland, AIB faces direct competition from the established UK high street banks, non-bank providers (such as Tesco and credit unions) and Bank of Ireland. Additionally, the Northern Irish mortgage market is heavily intermediated. New competitive threats stem primarily from incumbent providers seeking to improve financial performance in what is a challenging market, as well as from Fintech disintermediation.

In Great Britain, where AIB operates as a niche SME bank, it faces competition from larger banks, such as Lloyds, RBS and Barclays, and established and emerging challenger banks, such as CYBG, Aldermore and Shawbrook. Fintech competition in the payments and credit markets is more established in Great Britain than in the Irish market, with PSD2 likely a material enabler of greater competition in the provision of specialist financial services to SMEs.

Any failure by AIB to manage the competitive dynamics to which it is exposed in Ireland and the United Kingdom could have a material adverse effect on its business, results of operations, financial condition and prospects.

15 *Damage to AIB's brand or reputation could adversely affect its relationships with customers, staff and regulators.*

Management aims to ensure that AIB's brands, which include the AIB, EBS and Haven brands in Ireland, the Allied Irish Bank (GB) brand in Great Britain and the First Trust Bank brand in Northern Ireland, are at the heart of its customers' financial lives by being useful, informative and easy to use and providing an exceptional customer experience. AIB's relationships with its stakeholders, including its customers, staff and regulators, could be adversely affected by any circumstance that causes real or perceived damage to its brands or reputation. In particular, any regulatory investigation or inquiry, sanction, fine, litigation or actual or perceived misconduct or poor market practice in relation to customer related issues could damage AIB's brands and/or reputation. Any damage to AIB's brands and/or reputation could have a material adverse effect on AIB's business, results of operations, financial condition or prospects.

16 *AIB's strategy may not be optimal and/or not successfully implemented.*

AIB has identified several strategic objectives for its business, as described in "Part IX: Information on AIB—Strategy". There can be no assurance that AIB's strategy is the optimal strategy for delivering returns to AIB HoldCo Shareholders. The various elements of AIB's strategy may be individually unnecessary or collectively incomplete. AIB's strategy may also prove to be based on flawed assumptions regarding the pace and direction of future change across the banking sector. In addition, any aspect of AIB's strategy that is dependent upon the value and competitive advantage conveyed by intellectual property rights (including trademarks) may not be adequately protected or deemed to be enforceable. Finally, AIB may not be successful in implementing its strategy in a cost effective manner. AIB's business, results of operations, financial condition and prospects could be materially adversely affected if any or all of these strategy-related risks were to materialise.

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

AIB must continuously develop and promote an appropriate culture that drives and influences the activities of its business and staff and its dealings with customers in relation to managing and taking risks and ensuring risk considerations continue to play a key role in business decisions. It is senior management's responsibility to ensure that the appropriate culture is embedded throughout the organisation. As was demonstrated by many banks during the global financial crisis, if an inappropriate culture develops, then a strategy or course of action could be adopted that results in poor customer outcomes. If AIB is unable to maintain an appropriate culture, this could have a negative impact on AIB's business, results of operations, financial condition and prospects.

18 *Restrictions on executive fixed and variable pay, the existence of an additional tax on bonuses paid to employees of Irish banks who have received financial support from the Irish Government, the UK's withdrawal from the EU, macro-economic and other factors may adversely affect AIB's ability to recruit, retain and develop appropriate senior management, skilled and specialist personnel, and may lead to employee dissatisfaction generally.*

AIB's success depends on the continued service and performance of its key employees, particularly certain skilled and specialist personnel and senior management, some of whom joined AIB relatively recently, and its ability to attract, retain and develop high calibre talent. Following the recapitalisation of AIB by the Irish Government, AIB is required to comply with certain executive pay and compensation restrictions, including a cap on salaries in the amount of €500,000, as well as a ban on bonuses and similar incentive-based compensation applicable to employees of Irish banks who have received financial support from the Irish Government. These restrictions have made, and will continue to make, attracting and retaining skilled personnel of high calibre or in specialist areas difficult.

In addition, in 2011, the Irish Government introduced a special universal social charge ("USC") rate which results in an aggregate tax rate of 89 per cent. applicable to performance-related bonus payments in excess of €20,000 received by employees of financial institutions that received financial support from the Irish State, including AIB. If AIB is in the

future permitted to pay bonuses to its employees, the special USC rate would apply, if still in existence at the relevant time. In the meantime, the absence of market-aligned short- and long-term variable incentive schemes restricts AIB's ability to align the remuneration of key executives with the achievement of strategic plans and prevents it from creating a lock-in to ensure achievement of those deliverables. This may have the effect of a loss in senior management and may lead to a change in the strategic ambition of AIB.

External factors such as macro-economic and geopolitical conditions, the developing and increasingly rigorous regulatory environment and/or negative media attention on the financial services industry may also adversely affect employees' retention, sentiment and engagement. The United Kingdom's withdrawal from the European Union could result in financial institutions and other financial operations currently based in the United Kingdom that rely on the EEA "passport" to access the single market for financial services to seek an alternative base for their operations and relocate such operations to other jurisdictions, including Ireland, which could in turn further increase competition in Ireland for suitably qualified employees. Such companies also would not be subject to the aforementioned restrictions on pay to which AIB is subject, which may provide them with a competitive advantage in hiring suitably qualified staff vis a vis AIB. See "*—The United Kingdom's exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB's business, financial condition, results of operations and prospects*". Failure by AIB to attract and appropriately develop, motivate and retain highly skilled, specialist and qualified personnel, as well as senior management, could have an adverse effect on AIB's business, results of operations, financial condition and prospects.

19 *AIB's employees have been affected by a number of developments in recent years, including significant headcount reductions, reductions in compensation and a significant level of change across the organisation, and these developments may give rise to employee dissatisfaction and/or tensions with trade unions.*

AIB's employees have been affected by a number of developments in recent years, including significant headcount reductions, restrictions in compensation and a significant level of change across the organisation, including changes in employees' roles. AIB's employees are expected to continue to be affected by change across the organisation, as AIB's business model evolves to meet customer demand and react to competitive pressures. In particular, AIB's operations in Northern Ireland are undergoing organisational changes that will affect employees in these regions, in particular its branch closures in Northern Ireland. In February 2017, AIB announced the closure of 15 of its 30 First Trust Bank branches. All 15 branch closures were completed by August 2017. As was the case with similar changes that have taken place in the past, these changes may lead to employee dissatisfaction, which could in turn lead to high staff attrition. This risk is more prevalent in key specialist roles and particularly given the improvements in the Dublin and London labour markets during the past few years and the ability of AIB's staff to seek employment opportunities elsewhere.

Furthermore, while AIB has a constructive relationship with all of its employee representative unions (including the Financial Services Union (the "FSU"), which represents more than one-third of its employees across Ireland and the United Kingdom; SIPTU; and Unite), the aforementioned developments may give rise to tensions with trade unions and may result in them seeking to renegotiate the contractual terms of employment of represented employees. From 2009 to 2015, there were no pay increases across AIB. In 2015, a general pay increase of 2 per cent. (capped) was awarded. In 2016, following a joint working party between AIB and the FSU, performance-related pay was agreed and implemented, with pay increases being granted according to individual performance only. In January 2017, following discussions between AIB and the FSU at the Workplace Relations Commission (the "WRC"), it was agreed to implement performance-related salary increases ranging from 0 per cent. to 3.25 per cent. with effect from 1 April 2017 and 1 April 2018, which will result in higher labour costs in the short term. In addition, AIB may incur higher labour costs in the future by entering into further such agreements.

In addition, consultations with trade unions may not always be successful and may result in industrial action. Such consultations in the private sector may also be influenced by the outcome of similar consultations in the public sector in Ireland, as these recent or prevailing negotiations potentially influence the conclusions of the WRC and the Labour Court.

There can be no assurances that AIB will not need to reach other settlements with trade unions that result in higher labour costs in the future. If AIB were to experience a work stoppage or if it is required to significantly increase its labour costs, its business, results of operations, financial condition and prospects could be materially adversely affected.

20 *The proper functioning of information technology ("IT") and communications systems and its related operational processes are critical to AIB's success and these may not operate as expected, including as a result of technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events.*

AIB's operational processes and its IT and related communication systems are critical to its success. These systems are fundamental to AIB's business, including in the areas of product pricing and product sales, assessing acceptable levels of risk exposure, determining product approvals, setting required levels of provisions and capital, providing and maintaining customer service and meeting regulatory requirements, for example through accurate record keeping. These processes and systems may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive

events. Any failure of AIB’s operational processes or IT systems or failure to integrate new platforms, including in relation to the transfer of data and customer information, or failure of third-party processes, infrastructure and services on which AIB relies, could lead to significant costs, including regulatory fines, and could have an adverse effect on AIB’s ability to deliver appropriate customer outcomes during the affected period and in turn, adversely affect AIB’s brand and reputation.

AIB is investing significantly in technology as a part of its three-year €870 million investment programme. The IT transformation programmes are aimed at delivering resilience, agility and a simple efficient operating model focused on improving the customer experience. See “*Part IX: Information on AIB—Information Technology—IT Transformation Programmes*” for further detail of these programmes. There can be no assurance, however, that this will be completed successfully or in a timely manner, or that it will not result in unforeseen costs or disruptions to AIB’s business, including as a result of expected efficiencies not being achieved on schedule, disruptions to the business while upgrades are taking place, and the continuing use of older systems and platforms for longer than intended.

AIB, in operating within the multiple financial service zones of Ireland, the United Kingdom and New York, may be subject to failure of processes and systems across other institutions or financial market infrastructures. These other institutions or financial market infrastructures may not operate as expected, may not fulfil their intended purpose or may be damaged or interrupted by technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters or similarly disruptive events. Any failure of these institutions’ or instruments’ operational processes or IT systems or failure to integrate new platforms, including in relation to the transfer of data and customer information, or failure of third-party processes, infrastructure and services on which the financial service market relies, could lead to significant costs, systemic outlook and could have an adverse effect on the financial services markets’ ability to deliver appropriate customer outcomes during the affected period and in turn, adversely affect the financial services markets’ sentiment and reputation.

Any disruptions to AIB’s, or any other institution’s or financial market infrastructure’s, operational processes or IT systems could adversely affect the overall operational or financial performance of its business, as well as harm AIB’s reputation and/or attract increased regulatory scrutiny and intervention (including sanctions), any of which could have a material adverse effect on its business, results of operations, financial condition and prospects.

21 *AIB is dependent on the performance of third-party service providers, including providers that have licensed certain IT systems to it, and if these providers do not perform their services or fail to provide services to AIB or renew their licences with AIB, AIB’s business could be disrupted and it could incur unforeseen costs.*

AIB is dependent on the performance of third-party service providers for critical aspects of its business, including its outsourcing agreements with Total Systems Services, Inc. (“TSYS”), a third-party payments processor that acts as AIB’s acquirer for all debit and credit card transactions; Wipro Limited in relation to the supply of IT operational capability and IT application development and maintenance; Infosys Limited, which provides IT application development and maintenance; Integrity Communications Limited, which supplies IT security software and hardware and security operations centre; HCL Technologies Limited for the provision of IT service desk and desktop support services; Eir for the provision of IT telecommunications and related support services; Sentenial Limited (“Sentenial”) which provides a service to upload multi-formatted payment files into the Single European Payments Area (“SEPA”) format for processing by AIB; Banctec to provide domestic and international cheque and drafts clearing operations; Bottomline for the provision of a SWIFT access service to EBS; G4S Cash Solutions Ireland Limited (“G4S”) for the supply of ATM replenishment and maintenance and cash-in-transit services; and First Data for the provision of card acceptance services. See “*Part XX: Additional Information—Material Contracts—Outsourcing/Service Agreements*” for further details of these arrangements. AIB also relies on certain IT systems which have been licensed or developed for it under licence and development agreements with suppliers. If any of its third-party service providers fail to provide the agreed level of service, or if AIB is unable to renew its licences, maintenance agreements, outsourcing agreements or any other material third-party service agreements on acceptable terms, it could face a number of adverse outcomes, such as monetary damages, customer redress and/or litigation, which could have a material adverse impact on AIB’s business, results of operations, financial condition and prospects.

Furthermore, AIB is exposed to a number of risks as a result of its dependence on third-party service providers, including:

- failure by such third parties to perform their contractual obligations;
- inadequate business continuity management on the part of the third-party service provider;
- inability of such third parties to retain key members of staff or large scale industrial action affecting third-party service providers;
- cost overruns in relation to the services provided by third parties;
- fraud (including financial fraud and/or theft) or misconduct by an officer, employee or agent of a third party, which could result in losses to AIB;
- disputes between AIB and the third-party service providers;

- that the conduct of third party service providers and/or AIB's business may infringe the intellectual property of third parties;
- insolvency of third parties;
- liability of AIB for the actions or omissions of such third parties;
- withdrawal of the relevant third-party service provider from the market;
- a requirement that AIB terminate contractual arrangements with third-party service providers to address any regulatory or other issues arising from the United Kingdom's withdrawal from the European Union;
- other geopolitical events that may lead to government instability or restrictions on movement in their place of establishment or operation; and
- regulatory requirements that require it to insource processes currently carried out by third parties over which it previously had no oversight.

These risks could be heightened in situations where there is a chain of outsourcing, which would result in AIB having even more limited oversight over actions by third parties.

AIB, in operating within the multiple financial service zones of Ireland, the United Kingdom and New York, may be subject to the failure of third party suppliers that other institutions or financial market infrastructures rely on. The third party suppliers of these other institutions or financial market infrastructures may not operate as expected, may not fulfil their intended purpose or may not fulfil their contractual obligations, may be insolvent, may result in fraud, or terminate the contract or similarly disruptive events. Any failure of these institutions or instruments as a result of third-party suppliers, infrastructure and services on which the financial service market relies, could lead to significant costs, systemic outlook and could have an adverse effect on the financial services markets' ability to deliver appropriate customer outcomes during the affected period and in turn, adversely affect the financial services markets' sentiment and reputation.

If AIB is unsuccessful in managing any of the foregoing risks, its business, results of operations, financial condition and prospects could be materially adversely affected.

22 *AIB may be subject to privacy or data protection failures, cybercrime and fraudulent activity in relation to personal customer data, which could result in investigations by regulators, liability to customers and/or reputational damage.*

AIB is subject to regulation regarding the processing (including disclosure and use) of personal data. AIB processes significant volumes of personal data relating to customers (including name, address and bank details) as part of its business, some of which may also be classified under legislation as sensitive personal data. AIB therefore must comply with strict data protection and privacy laws and regulations, including the Data Protection Acts 1988 and 2003 (the "DPA") and the European Communities (Electronic Communications Networks and Services) (Privacy and Electronic Communications) Regulations 2011 (the "ePrivacy Regulations"). Such laws govern AIB's collection and use of personal information of existing and potential customers, including the use of that information for marketing purposes. The ePrivacy Regulations also govern marketing to corporate customers.

Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "GDPR") will take effect from 25 May 2018, and will replace the DPA as the primary legislation governing AIB's use of customer personal data. The GDPR introduces substantial changes to data protection law, including an increased emphasis on businesses being able to demonstrate compliance with their data protection obligations, which will require significant investment by AIB in its compliance strategies. In addition, relevant supervisory authorities are given the power to issue fines of up to 4 per cent. of an undertaking's annual global group turnover or €20 million (whichever is the greater) for failure to comply with certain provisions of the GDPR. The EC recently released its proposal for a new European ePrivacy Regulation.

Apart from the GDPR, there remains significant legal uncertainty over the means by which personal data can be lawfully transferred outside the EEA; with continuing doubt over the efficacy of the EU-US Privacy Shield arrangement between the EEA and the United States, and a potential reference by the Irish High Court to the Court of Justice of the European Union over the legality of the use of model clauses as a means of cross-border transfer. In addition, the effect of the United Kingdom's withdrawal from the European Union on the legal basis for data flows between the United Kingdom and the European Union remains unclear. This uncertainty, and any potential restriction of data flows outside the European Union, may adversely affect AIB's ability to leverage technological solutions such as cloud computing or, in the case of the United Kingdom, its ability to transfer information between group companies. AIB also faces the risk of a breach in security of its systems, for example, from increasingly sophisticated attacks by cybercrime groups.

AIB seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third-party service providers, and also implements security measures to help prevent cybercrime. Notwithstanding such efforts, AIB is exposed to the risk that personal customer data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations including as a result of

human error. The introduction of PSD2, which requires AIB to share customer data with account information service providers upon the request of the customer, may further increase the risk of such a privacy or data breach. If AIB or any of the third-party service providers on which it relies fails to store or transmit personal customer data in a secure manner, or if any loss of personal customer data were otherwise to occur, AIB could be subject to investigative or enforcement action by relevant regulatory authorities such as the Office of the Data Protection Commissioner and the Central Bank, and could face liability under data protection and privacy laws and regulations and/or reputational damage or damage to its brands. AIB could also be targeted by other forms of fraudulent activity. Any of these events could also result in the loss of the goodwill of its customers and deter new customers, which could have a material adverse effect on AIB's business, financial condition, results of operation and prospects.

AIB relies on remote access services through the internet, or otherwise, by customers, employees and third party service providers. Failure of any of the foregoing parties to access AIB's systems on a systemic or large scale basis could have a material adverse effect on AIB's business, financial condition, results of operation, reputation and prospects. Remote access also increases inherent exposure to cybercrime, systems compromises or information leaks, in spite of any information security technology, protocols, policies or other controls which may be in place.

23 *AIB may be subject to losses that are completely or partially uninsured.*

AIB maintains insurance policies to cover a number of risk events. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; and directors' and officers' liability) and a suite of general insurance policies to cover such matters as property and business interruption, terrorism, combined liability and personal accident. There can be no assurance, however, that the level of insurance AIB maintains is appropriate for the risks to its business or adequate to cover all potential claims. Certain types of losses (such as losses associated with credit risk, market risk, reputational risk, non-operational risk and standard policy exclusions) are not covered by AIB's insurance policies and may be either completely or partially uninsurable or not insurable on commercially reasonable terms. If AIB were to suffer a completely or partially uninsured loss, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

24 *AIB's risk management systems, processes, guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to AIB's business.*

Risk management requires, among other things, robust systems, processes, guidelines and policies which must be forward-looking, clearly articulated, documented and communicated throughout the business for the accurate identification and control of many transactions and events. Such systems, processes, guidelines and policies must also be continually reviewed and updated and effectively communicated to all personnel to ensure that resources, governance and infrastructure are appropriate for the increasing size and complexity of the business.

Risk management also requires complex judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that AIB is willing to accept in order to achieve its business objectives, the maximum level of risk AIB can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective. Furthermore, AIB is subject to differing regulatory regimes both within and across the jurisdictions in which it operates, requiring AIB to design and implement policies that ensure compliance with regulations that may be inconsistent and address the varying priorities of different regulators. See "*Risk Relating to Supervision and Regulation—Differing regulatory regimes across the jurisdictions in which AIB operates, including Ireland, the United Kingdom and the United States, may result in non-compliance and/or may entail additional compliance costs.*" Given these complexities and the dynamic environment in which AIB operates, there is a risk that the decisions made may not be appropriate or yield the results expected or that management may be unable to recognise emerging risks for AIB quickly enough to take appropriate action in a timely manner.

As described in further detail in "*Part XVII: Risk Management*", AIB is exposed to a number of material risks that it manages through its risk management framework, including:

- Business risk, which encompasses the external and internal factors that can impact AIB's performance and strategy delivery;
- Capital adequacy risk, which is the risk that AIB breaches or may breach regulatory capital ratios and internal targets;
- Liquidity and funding risk, which is the risk that AIB will not be able to fund its assets and meet its payment obligations as they become due, without incurring unacceptable costs or losses;
- Credit risk, which is the risk that AIB will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment that it has entered into;
- Market risk, which is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and

capital position of AIB. AIB is primarily exposed to market risk through the interest rate and credit spread risk factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors;

- Pension risk, which is the risk that the funding position of AIB’s defined benefit schemes deteriorate to such an extent that it would be required to make additional contributions, above what is already planned, to cover its pension obligations pertaining to current and former employees, particularly in a low interest rate environment (for more information, see “—*AIB faces the risk that the funding position of its defined benefit pension schemes will deteriorate, requiring it to make additional contributions, adversely affecting its capital position*”);
- Regulatory and compliance risk, which is the risk of legal or regulatory sanctions, material financial loss or loss to reputation which AIB may suffer as a result of a failure to comply with the laws, regulations and self-regulatory codes which relate to its regulated banking and financial services activities;
- Operational risk, which is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, which is the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk;
- People risk, which is the risk resulting from (i) AIB’s inability to recruit, retain or develop resources to support its strategic objectives, (ii) inadvertent or intentional behaviours or actions taken by employees that are not conducive to the overall delivery of objectives and AIB’s targets and (iii) risks associated with levels of employee engagement;
- Culture risk, which is the risk that staff may take actions or set strategy, which are contrary to the risk culture and may result in the business, results of operations, financial condition and prospects being materially adversely affected;
- Restructure execution risk, which is the risk of not having the right structures, processes, people and controls in place to consistently deliver solutions that are fair to customers in difficulty, whilst optimising returns to AIB and meeting regulatory targets;
- Conduct risk, which is the risk that inappropriate actions or inactions by AIB may cause poor and unfair customer outcomes or market instability;
- Model risk, which is the risk of adverse consequences from decisions based on incorrect or misused model outputs and reports; and
- Competition risk, which is the risk that actions of competitors or new entrants to the market impair AIB’s competitive advantage, threaten the viability of the business model or even its ability to survive.

Although AIB has developed a comprehensive risk management framework to manage such risks (as described in further detail in “*Part XVII: Risk Management*”), this may not prove to be adequate in practice. If AIB is unable to implement its business strategy or effectively manage the risks it faces, its reputation, business, financial condition, results of operations and prospects could be materially adversely affected.

25 *AIB uses models across many, though not all, of its activities and if these models prove to be inaccurate, its management of risk may be ineffective or compromised and/or the value of its financial assets and liabilities may be overestimated or underestimated.*

AIB uses models across many, though not all, of its activities including, but not limited to, capital management, credit grading, provisioning, valuations, liquidity, pricing and stress testing. AIB also uses financial models to determine the fair value of derivative financial instruments, financial instruments through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available for sale in accordance with International Financial Reporting Standards, as adopted by the European Union (“IFRS”). Since AIB uses risk measurement models based on historical observations, there is a risk that they underestimate or overestimate exposure to various risks to the extent that future market conditions deviate from historical experience. Furthermore, as a result of evolving regulatory requirements, the importance of models across AIB’s business has been heightened and their importance may continue to increase, in particular because of reforms introduced by the Basel Committee on Banking Supervision, including Basel IV. Certain of AIB’s models are subject to ongoing regulatory review.

Should AIB’s models not accurately estimate its exposure to various risks, it may experience unexpected losses. AIB may also incur losses as a result of decisions made based on inaccuracies in these models, including the data used to build them or an incomplete understanding of these models. If AIB’s models are not effective in estimating its exposure to various risks or determining the fair value of its financial assets and liabilities or if its models prove to be inaccurate, its business, financial condition, results of operations and prospects could be materially adversely affected.

26 *AIB’s credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of IRB for standardised approach or reputational risk for AIB.*

CRD IV provides for the use of an Internal Ratings-Based (“IRB”) approach to credit risk. Subject to certain minimum conditions and disclosure requirements, banks that have received regulatory approval to use the IRB approach may rely on their own internal estimates or risk components in determining the capital requirement for a given exposure.

AIB uses a combination of standardised and IRB approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the foundation IRB approach for certain sovereign, bank and corporate exposures and to use the retail (advanced) IRB approach for certain residential mortgage exposures. As at 31 December 2016, AIB applied the IRB approach to the portfolios and exposure classes listed in the table below, having received regulatory approval to do so.

AIB portfolio:	Exposure class:
Bank	Institutions
Corporates	Corporates
Not-for-profit.....	Corporates
Project Finance.....	Corporates
Commercial/large SME.....	Corporates
Sovereign.....	Central governments and central banks
Residential mortgages (AIB in Ireland, not including EBS)	Retail

AIB has a multiyear IRB roll-out plan to continue to transition standardised portfolios to the IRB approach and thus significantly increase IRB coverage. The implementation of the transition of new portfolios to the IRB approach is dependent on regulatory approval. AIB has a formalised governance framework in relation to its internal risk rating systems.

AIB requires approval from the ECB in order to implement new models or to change existing approved models. It is also subject to reviews and inspections from the ECB and other regulatory bodies in relation to the models, such as the Targeted Review of Internal Models (“TRIM”), a process being undertaken by the ECB in systemically important banks subject to its supervision from 2017. TRIM is being undertaken to increase harmonisation in approaches to internal models used by banks across the European Union.

Ongoing model development may potentially impact on AIB’s expectation of normalising its risk-weighted asset density over time and could affect in the short term the risk-weighted asset density which is currently high relative to peer banks. In addition, AIB has agreed with the ECB to defer a planned TRIM process until the fourth quarter of 2017.

Regulatory reviews and inspections may require changes to the activities impacted by the models used by AIB, such as capital management, credit management and stress testing. It may also give rise to potential adverse capital consequences, including the application of additional capital scalars, replacement of the IRB approach with the standardised approach, delay in the normalisation of risk-weighted asset density and reputational risk for AIB.

27 AIB’s financial results may be negatively affected by changes to, or application of, accounting standards.

AIB reports its results of operations and financial position in accordance with IFRS. The preparation of AIB’s financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the level of impairment provisions for loans and advances, retirement benefit obligations and deferred tax assets. If the judgements, estimates and assumptions used by AIB in preparing its consolidated financial statements differ from the actual results, there could be a significant loss beyond that anticipated or provided for, which could have a material adverse effect on AIB’s business, results of operations, financial condition and/or prospects. For more information, see “Critical accounting judgements and estimates” in note 2 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and note 1 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

Changes to IFRS or interpretations thereof may cause its future reported results of operations and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect AIB’s regulatory capital position and regulatory ratios by requiring the recognition of additional provisions for loss on certain assets. AIB monitors potential accounting changes and when these are finalised, it determines the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact AIB’s reported results of operations, financial position and regulatory capital in the future. Where the application of IFRS requires a large element of judgement, the risk of incorrect judgements being made may be heightened where the IFRS standard concerned is recently introduced as there is an absence of a developed practice in its application.

International Financial Reporting Standards 9 Financial Instruments (“IFRS 9”), which will replace International Accounting Standard 39 (“IAS 39”), when fully adopted, will require AIB to move from an incurred loss model to an

expected loss model, requiring it to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. In general, loans and receivables to banks and customers that are currently classified as ‘loans and receivables’ under IAS 39 will be measured at amortised cost under IFRS 9; debt securities classified as available for sale under IAS 39 will be measured at fair value through other comprehensive income; debt securities classified as held to maturity under IAS 39 will be measured at amortised cost; and all equity securities will continue to be measured at fair value. However, for individual securities, it is yet to be decided if the fair value movements will be presented in profit or loss or in other comprehensive income. It is considered premature at this stage to quantify the precise financial effects of impairment under this new standard on AIB’s results of operations with any degree of certainty, although it is expected that IFRS 9 will have a significant impact for AIB (including in terms of increased provisions), as is the case for the banking industry as a whole. The estimated impact used by management in particular for capital planning and forecasting purposes is 90 to 100 basis points on AIB’s fully loaded CET1 ratio on implementation of IFRS 9. This will be subject to change as the situation evolves. The precise impact of IFRS 9 will be based on detailed financial models which are currently under development across AIB. These models are subject to ongoing regulatory review. Regulatory review and inspections on models already in use (see “—AIB’s credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, replacement of IRB for standardised approach or reputational risk for AIB”) have the potential to impact the implementation of IFRS 9. For more information, see “—Prospective accounting changes—” in note 1 to the condensed consolidated interim financial statements of the AIB Bank 2017 Half Yearly Accounts for the six months ended 30 June 2017 and “—Prospective accounting changes—Assessment of IFRS 9 impacts” in accounting policy 1.31 in note 1 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus, each of which are incorporated by reference herein, and “—Risks Relating to Supervision and Regulation—AIB is subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources (including MREL) and liquidity and to satisfy specified capital, liquidity and Leverage Ratios, as well as changes in accounting standards that impact AIB’s capital position, and any perceived or actual shortage of capital or liquidity could result in actions by regulatory authorities, including public censure and the imposition of sanctions.”

28 AIB faces the risk that the funding position of its defined benefit pension schemes will deteriorate, requiring it to make additional contributions, adversely affecting its capital position.

AIB maintains a number of defined benefit pension schemes for certain current and former employees. These defined benefit schemes were closed to future accruals from 31 December 2013. The most significant defined benefit schemes operated by AIB are the AIB Group Irish Pension Scheme (the “AIB Irish Pension Scheme”) and, to a lesser extent, the AIB Group UK Pension Scheme (the “AIB UK Pension Scheme”). In relation to these schemes, AIB faces the risk that the funding position of the schemes will deteriorate. Over the longer term, this may require it to make additional contributions above what is already planned to cover its pension obligations towards current and former employees. Furthermore, pension deficits as reported are a deduction from capital under CRD IV. Accordingly, any increase in AIB’s pension deficit may adversely affect its capital position.

AIB received approval from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to the regulatory minimum funding standard (the “Minimum Funding Standard” or “MFS”) requirements of the AIB Irish Pension Scheme. For its defined benefit schemes in the United Kingdom, AIB established an asset backed funding vehicle to meet its statutory funding objective as per the UK Pensions Act 2004. Nonetheless, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk. Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may decrease due to market movements. Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions. Any failure by AIB to manage its pension deficit could have a material adverse effect on its business, results of operations, financial condition and prospects.

The AIB Irish Pension Scheme and related trust deed and rules provide that the trustee has discretion to grant increases to pensions in payment under the scheme but also that the decision on whether to fund increases to pensions in payment is a matter for AIB. In 2012, the Board introduced a five-year moratorium on its funding of any increases under the AIB Irish Pension Scheme which will expire by the end of 2017. As this arrangement expires, the Board has now put in place a formal annual process under which it will consider, every year, what discretionary increases it should fund for that year. As part of this process, the Board considers the advice of the actuary, the interests of the members of the AIB Irish Pension Scheme, the interests of the employees, AIB’s financial circumstances and ability to pay, the views of the trustees, AIB’s commercial interests and any competing obligations to the Irish State. Any increases to pensions in payment granted could increase costs to AIB and could, therefore, have a material adverse effect on its business, its operations, financial condition and prospects. Costs to AIB may also increase under the AIB UK Pension Scheme.

For the 2016 financial results, AIB made a change to the actuarial assumption regarding the nature and extent of AIB’s obligations to fund discretionary increases to pensions in payment in the AIB Irish Pension Scheme, as reflected in note 12 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus, which is incorporated by reference herein. This was completed following a review by the Board, having considered actuarial and external legal advice. The trustees or a member of the AIB Irish Pension Scheme may seek to challenge

AIB's position by asserting that AIB is obligated to fund increases to pensions in payment linked to the consumer price index every year. For further detail regarding AIB's pensions and the changes to the actuarial assumptions, see "*Retirement benefit obligations*" in note 2 of Section B and note 12 of Section B of "*Part XVI: Consolidated Historical Financial Information*" of the AIB Bank IPO Prospectus, and note 11 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

29 *AIB is required to comply with a wide range of laws and regulations. If AIB fails to comply with these laws and regulations, it could become subject to regulatory actions, including monetary damages, fines or other penalties, regulatory restrictions, civil litigation, criminal prosecution and/or reputational damage.*

As a financial institution, AIB must comply with numerous laws and regulations across the jurisdictions in which it operates. The level of scrutiny to which it is subject is generally increasing, particularly in the treatment of its customers. If AIB fails to comply with the laws and regulations to which it is subject, it could become subject to legal or regulatory actions. Regulatory actions pose a number of risks to AIB, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. The Central Bank, the ECB or other regulators may impose other remedies as well, including injunctive measures and regulatory restrictions on AIB's business. AIB may also be liable for damages to third parties harmed by the conduct of its business in the event it does not comply with laws and regulations. It may also face criminal prosecution in certain circumstances due to non-compliance. Furthermore, even if AIB has already taken steps to remedy its past practices to comply with regulatory standards, it could be held liable for these past practices. Actions by courts, regulators or other authorities against AIB involve the risk that current standards and requirements may be applied to past practices, even if those standards were not previously applicable. Actions by courts, regulators or other authorities against AIB may also involve the application of requirements, standards, customs or practices that are not applicable in other jurisdictions. These issues could have a negative effect on AIB's reputation and the confidence of its customers in AIB, as well as taking a significant amount of management time and resources away from the implementation of AIB's strategy.

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

There is also a risk that pressures from the media, consumer groups and/or politicians could influence the agenda of the ECB, the Central Bank, the FCA or the PRA. For instance, a wide-ranging review of competition within the Irish banking sector has been commenced by the CCPC as part of the current programme for the Irish Government (a similar review having been completed on the UK banking sector in 2016). As a part of such a review, AIB may be required to modify its business and the pricing of its products to satisfy the regulatory requirements arising from the review. Any failure to manage the foregoing risks adequately could result in AIB's business, results of operations, financial condition and prospects being materially adversely affected.

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

The legal and regulatory landscape in which AIB operates is constantly evolving and the burden of compliance with laws and regulations is increasing. As new laws or regulatory schemes are introduced, AIB may be required to invest significant resources in order to comply with the new legislation or regulations. For example, the introduction of PSD2 will result in AIB being required to introduce significant changes to its systems and processes in order to ensure compliance, while the implementation of IFRS 9 will require investment in developing an IFRS 9 compliant accounting system and models, as well as increased ongoing compliance costs. Furthermore, the laws and regulations to which AIB is already subject could change as a result of changes in interpretation or practice by courts, regulators or other authorities.

The investments made and resources committed by AIB in order to comply with evolving laws and regulations may divert funds and resources from other areas of AIB's business and may distract management. AIB may also be required to spend more than anticipated and/or may not achieve compliance by the specified deadline, which could result in fines or other regulatory sanctions with possible reputational consequences. Any of the foregoing could have a material adverse effect on AIB's business, results of operations, financial condition and prospects.

31 *AIB could face additional liabilities in relation to the assets it has transferred to NAMA under the NAMA Programme, including the risk that if NAMA's accounts show an aggregate loss in respect of the transferred assets, a surcharge on participating institutions, including AIB, may be imposed.*

In December 2009, the Irish Government established NAMA, which acquired certain performing and non-performing land and development and associated loans from participating banks, including AIB. If AIB HoldCo becomes the new holding company of AIB under the Scheme, AIB HoldCo will not be a NAMA Participating Institution, meaning that

AIB HoldCo will not itself be subject to the NAMA Programme. However, AIB Bank will continue to be a participating institution under the National Asset Management Agency Act 2009 (“NAMA Act”) (“NAMA Participating Institution”) and, as such, the NAMA Programme will continue to apply to AIB Bank and its subsidiaries. For this reason, following AIB HoldCo becoming the holding company of AIB, the NAMA Programme will, in all material respects, continue to apply to AIB in the same way that it does currently. Under the NAMA Act, AIB transferred approximately €20 billion of assets to NAMA during 2010 and 2011. NAMA’s initial stated objective was to obtain the best achievable financial return for the Irish State over the course of a projected ten-year wind-down of the portfolio from 2009. NAMA’s disposal expectations have, however, accelerated, with most sales activity envisaged to take place by the end of 2017. The NAMA Act provides for certain circumstances in which AIB could face additional liabilities in relation to assets transferred. In particular, the NAMA Act requires participating institutions to repay overpayments on NAMA Assets. AIB was also required to provide NAMA with a series of indemnities relating to the transferred assets. AIB has made provisions for transfer adjustments and potential indemnity claims in relation to NAMA, but if the adjustments or claims are higher than the provisions, this would negatively affect AIB’s results of operations and financial condition. See note 38 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and note 32 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein, for details of these provisions. In addition, upon a dissolution or restructuring of NAMA, if NAMA’s accounts show that an aggregate loss has been incurred during the period since its establishment, the Minister for Finance may impose a surcharge on participating institutions, including AIB. In its annual report and financial statements for 2016, published on 1 June 2017, NAMA indicated that it expected to make a profit of €3 billion over the course of its life.

Risks Relating to Supervision and Regulation

32 *AIB is subject to increasing regulation, supervision and regulatory costs, including following the introduction of the SSM and the Single Resolution Mechanism, which may strain its resources and may have a significant impact on AIB’s capital requirements and business and consequently, its reported results and financing requirements.*

A significant number of new regulations have been issued by the various authorities that regulate AIB’s business in the recent past. Systemically important banks located in the Eurozone, including AIB, came under the direct supervision of, and are deemed to be authorised by, the ECB since the introduction on 4 November 2014 of the SSM. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

AIB is subject to prudential supervision by the SSM at the ECB and in the case of AIB UK, by the PRA, including through reviews and on-site inspections. Such supervision may involve assessments of whether AIB is in compliance with prudential requirements including under CRD IV and the BRRD. In the event that the ECB or PRA determines that AIB is not compliant with requirements within the scope of the relevant regulator’s supervisory functions, the relevant regulator may direct AIB to ensure such compliance with those requirements and such failure may result in other regulatory actions, including monetary penalties, sanctions, public censure, or increased capital requirements as well as increased costs and management resources required to implement any corrective measures and reputational damage.

In addition, in March 2017, the ECB published guidance to banks subject to its supervision on non-performing loans. The ECB’s objective in issuing the guidance is to drive strategic and operational focus on the reduction of non-performing loans, together with further harmonisation and common definitions of non-performing loans and forbearance measures. Non-compliance with the guidance may trigger supervisory measures that are not further specified in the guidance.

A Single Resolution Mechanism (“SRM”) has been introduced by the ECB, including the SRB and a single fund for the resolution of banks, which is funded by bank levies raised at the national level. The Central Bank introduced the bank resolution fund levy for Irish banks such as AIB in 2015. The requirements of the SRM are set out in the SRM Regulation and the BRRD, which came into effect in 2015. The BRRD also sets out the functions of the SSM (as the consolidated supervisor of AIB) in conjunction with the PRA (as the competent authority for AIB UK) with respect to the drawing up and maintenance by AIB on a group basis of a recovery plan. The SRM became fully operational on 1 January 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The measures referred to above are subject to change in the future, including under the CRD V/BRRD2 Proposals. See “—The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure or take other actions which could have a significant impact on AIB’s operations, structure, costs and/or capital requirements”.

AIB must meet the cost of all levies that are imposed on it in relation to funding the bank resolution fund established under the SRM or that are imposed on it under any other applicable compensation scheme relating to banks or other financial institutions in financial difficulty. In addition, the challenge of meeting the degree of regulatory change described above (including the drawing up of resolution plans and being under the direct supervision of a new regulatory body) may place a strain on AIB’s resources, particularly during a period of significant organisational transformation.

Furthermore, at the board level, the increasing regulatory requirements that impose additional obligations and time commitments on directors, may challenge AIB’s ability to retain existing, or identify and recruit new, directors. If AIB

were unable to maintain an effective and balanced board membership, particularly with regard to non-executive directors, then its corporate governance and business could be negatively affected.

The challenge of balancing competing resource priorities and demands adds to the regulatory risk faced by AIB. These may also have a significant impact on the range of AIB's future product offering, distribution channels, funding sources, capital requirements, business, strategy and consequently, reported results and financing requirements.

33 *The BRRD contains resolution tools and other measures that may have a material adverse effect on AIB HoldCo Shareholders.*

The bank recovery and resolution framework introduced in the BRRD has as its objective to enable the resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. The BRRD provides the resolution authority with explicit resolution tools that may have a material adverse effect on AIB HoldCo Shareholders. In particular, the BRRD gives the resolution authority the power to write down the share capital of a credit institution or its parent holding company (which will include AIB HoldCo if the Scheme becomes effective) and to write down or to convert into equity its relevant capital instruments (i.e., the own funds (as such term is defined in CRD IV) instruments of the credit institution) if certain conditions are met (the "Write-Down Tool"). The Write-Down Tool would be applicable, in particular, if the resolution authority determines that unless the Write-Down Tool is applied, the credit institution or its group will no longer be viable or if a decision has been made to provide that credit institution with extraordinary public support without which the credit institution or its group will no longer be viable. The BRRD further provides for certain resolution powers in circumstances where the credit institution or its group is failing or likely to fail, including the power to (i) transfer to an investor, shares, other instruments of ownership and/or all specified assets, rights or liabilities of the failing institution; (ii) transfer all or specified assets, rights or liabilities of the failing institution and its group to a bridge institution which is wholly or partially owned by public authorities; (iii) transfer assets, rights or liabilities to a legal entity which is wholly owned by public authorities for the purpose of sale or otherwise ensuring that the business is wound down in an orderly manner, to be applied in conjunction with another resolution tool; or (iv) write down the claims of unsecured creditors of an institution and its group and convert debt to equity, with, in broad terms, the first losses being taken by shareholders and thereafter by subordinated creditors and then senior creditors, with the objective of recapitalising an institution and its group ((iv) being referred to as the "General Bail-In Tool" and (i) to (iv) being referred to as the "Resolution Tools").

The Write-Down Tool came into effect in Ireland on 15 July 2015 and the General Bail-In Tool was implemented in Ireland on 1 January 2016. See "*Part XVIII: Supervision and Regulation—Regulation of Banks and Parent Financial Holding Companies in Ireland - The Bank Resolution Act, BRRD and SRM Regulation*" for further information on the BRRD.

In addition to the Resolution Tools, under the BRRD, resolution authorities may take early intervention measures to prevent a credit institution's (including its group's) financial position from deteriorating, including by the replacement of management or installing a temporary administrator in place of existing management. Furthermore, in the case of a failing credit institution or its group the resolution authorities can appoint a special manager with management authority over the credit institution in place of its existing management and in order to implement resolution actions by the resolution authority.

If AIB were to experience financial difficulty, AIB HoldCo Shareholders could be materially adversely affected in the event the resolution authority elected to apply the Write-Down Tool, the General Bail-In Tool or the other Resolution Tools. AIB HoldCo Shareholders then existing may experience a severe dilution, involuntary transfer or the complete loss in value of their shareholdings and may be unlikely to receive any compensation for such act or event despite the BRRD containing safeguards for shareholders and certain creditors in specific circumstances which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings. Furthermore, the ECB, the Central Bank, the FCA or the PRA, may require AIB to make changes to its legal structure and/or business model pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation.

34 *The SRB or SSM may take actions which require AIB to change, or otherwise result in AIB changing, its legal structure, or take other actions which could have a significant impact on AIB's operations, structure, costs and/or capital requirements.*

SRB role in resolution planning

Pursuant to the SRM Regulation, on 1 January 2016, the SRB became responsible for drawing up AIB's resolution plan providing for resolution actions that may be taken if AIB were to fail or be likely to fail. In drawing up AIB's resolution plan, the SRB identifies any material impediments to AIB's resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments.

These actions may include (but are not limited to):

- legal restructuring of AIB, which could lead to high transaction costs, or could make AIB's business operations or its funding mix less optimally composed or more expensive;

- issuing additional liabilities at various levels within AIB. This may result in higher capital and funding costs for AIB, and thus adversely affect AIB's profits and its ability to pay dividends;
- reviewing and amending AIB's contracts for the purposes of ensuring (i) continuity of business operations and (ii) that such contracts do not cause any impediments to the resolvability of AIB. This may result in additional costs and operational complexity for AIB; and
- requiring AIB to enhance its data infrastructure and management information systems to facilitate an expeditious valuation of its assets and liabilities over the course of the resolution event.

If the SRB is of the view that the measures proposed by AIB would not effectively address the impediments to resolvability, the SRB may direct AIB to take alternative measures as outlined in the SRM Regulation.

On 3 February 2017, AIB Bank announced that it had been notified by the SRB that the preferred resolution strategy ("PRS") for AIB Group consists of a single point of entry via a holding company. Implementation of the PRS would require the introduction of a new AIB Group holding company. AIB Bank proposes that AIB HoldCo will be the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group). AIB currently expects, by the end of 2017 and subject to the receipt of necessary consent of the Minister for Finance as well as regulatory, shareholder and court approvals, to establish AIB HoldCo as the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group) by way of a court approved scheme of arrangement and related capital reduction by AIB Bank which, if approved, will result in AIB Bank Shareholders receiving, in exchange for each one of their AIB Bank Shares, one AIB HoldCo Share.

SSM role in Recovery planning

The BRRD sets out functions of the SSM (as consolidated supervisor of AIB) in conjunction with the PRA (as competent authority for AIB UK) with respect to the drawing up and maintenance by AIB on an AIB Group basis of a recovery plan which must set out measures to be taken by AIB to restore its financial position following a significant deterioration of that position. An assessment by the SSM in conjunction with the PRA of such recovery plan proposed by AIB may result in AIB being required, and failing satisfaction by AIB of which, directed by the SSM, to address any material deficiencies in the recovery plan or any material impediments to its implementation. Failure by AIB to satisfy such direction may result in the SSM directing AIB to do one or more of the following:

- reduce its risk profile;
- enable timely recapitalisation measures;
- review its strategy and structure;
- make changes to its funding strategy so as to improve the resilience of its business lines and critical functions;
- make changes to its governance structure.

The changes and requirements to be implemented in respect of the SRM Regulation and the BRRD may have an effect on AIB's business, financial condition or prospects. Failure by AIB to implement those changes and requirements may result in regulatory action such as, increased regulatory capital levels, monetary fines or other sanctions and penalties. Depending on the specific nature of the changes and requirements and how they are enforced, such changes and requirements could have a significant impact on AIB's operations, structure, costs and/or capital requirements.

35 *Differing regulatory regimes across the jurisdictions in which AIB operates, including Ireland, the United Kingdom and the United States may result in non-compliance and/or may entail additional compliance costs.*

In addition to being regulated by the Central Bank and, following the introduction of the SSM, the ECB, AIB is subject to separate regulatory regimes in relation to its operations in the United Kingdom and the United States. In the United Kingdom, AIB Bank has exercised its EU right of establishment in the case of its UK-incorporated subsidiary, AIB Group (UK) p.l.c. AIB Group (UK) p.l.c. is authorised by the PRA and regulated by the FCA and the PRA under the FSMA to carry on a wide range of regulated activities (including accepting deposits). AIB Group (UK) p.l.c. is also subject to regulation by the PRA with respect to its requirement to draw up and maintain appropriate recovery arrangements under the BRRD. AIB Bank is incorporated and has its head office in Ireland, and is authorised as a credit institution in Ireland by the ECB. AIB Bank has exercised its EU "passport" rights to provide banking, treasury and corporate treasury services in the United Kingdom through the London branch of AIB Bank. AIB must comply with FCA Conduct of Business rules in so far as they apply to its business carried out in the United Kingdom.

While the Central Bank continues to regulate AIB certain areas, including consumer protection in Ireland, it is the ECB (together with support from the Central Bank) that has primary responsibility for the prudential supervision of AIB. However, the Central Bank and the ECB must work in cooperation with the PRA in ensuring that the UK branch of AIB Bank and UK incorporated credit institutions and investment firms which are subsidiaries of AIB HoldCo in the United Kingdom maintain adequate liquidity and take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom, and with respect to a range of other regulatory matters, including the drawing up and

maintenance by AIB of a recovery plan for AIB under the BRRD. See “*Part XVIII: Supervision and Regulation—Regulation of Banks in the United Kingdom*”.

In the United States, AIB is subject to federal and state banking and securities law supervision and regulation as a result of the banking activities conducted by AIB Bank’s branch in New York. In particular, it is subject to anti-money laundering, anti-terrorism and economic sanctions legislation and regulations, including the Foreign Corrupt Practices Act of 1977 as well as the Office of Foreign Assets Control (“OFAC”) regulations. See “*Part XVIII: Supervision and Regulation—United States*”.

Thus, AIB is required to design and implement policies that ensure compliance with legislation promulgated by the FCA and the PRA in the United Kingdom and the relevant regulatory authorities in the United States. This may result in additional compliance costs as well as requiring increased management attention, which may divert focus from other areas of its business. In addition, the regulatory position of AIB’s operations in the United Kingdom may become uncertain as a result of the United Kingdom’s withdrawal from the European Union. See “*—Risks Relating to the Macro-economic Environment in which AIB Operates—The United Kingdom’s exit from the European Union or the outcome of the general election in the United Kingdom held on 8 June 2017, in which the governing Conservative Party failed to achieve a majority, could lead to a deterioration in market and economic conditions in the United Kingdom and Ireland, which could adversely affect AIB’s business, financial condition, results of operations and prospects*”. If AIB is unable to manage the risks associated with complying with differential regulatory regimes, its business, financial condition, results of operations and prospects could be materially adversely affected.

36 *AIB is subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources (including MREL) and liquidity and to satisfy specified capital, liquidity and Leverage Ratios, as well as changes in accounting standards that impact AIB’s capital position, and any perceived or actual shortage of capital or liquidity could result in actions by regulatory authorities, including public censure and the imposition of sanctions.*

AIB faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. AIB’s borrowing costs and capital requirements could be affected by prudential regulatory developments, including CRD IV and potentially the CRD V/BRRD2 Proposals, which include legislative proposals for amendments to the CRR and CRD IV.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 (“Irish CRD IV Regulations”) gave effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 gave effect to a number of technical requirements in order to ensure that the CRR can operate effectively in Irish law. CRD IV includes, among other measures, enhanced requirements for quality and quantity of capital and the introduction of the LCR, the NSFR and the Leverage Ratio. The LCR will require banks to have sufficient HQLA to withstand a 30-day stressed funding scenario that is specified by supervisors. The NSFR is a longer-term structural ratio designed to address liquidity mismatches. The Leverage Ratio is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system.

The BRRD also makes provision for the meeting by a credit institution of its MREL requirements, over time periods, as set by its resolution authority on the basis of Delegated Regulation (EU) 2016/1450 set out by the EBA. On the basis of the Delegated Regulation (EU) 2016/1450, it is possible that AIB may have to issue a significant amount of additional MREL eligible liabilities in order to meet the requirements within the required timeframes. In its final report on MREL published on 14 December 2016, the EBA recommended that MREL should be calculated by reference to an institution’s risk-weighted assets and its Leverage Ratio exposure amount, with a Leverage Ratio exposure backstop requirement, rather than as a percentage of an institution’s total liabilities and own funds as previously intended. It is not yet clear whether the EBA’s recommendation will be implemented. If AIB were to experience difficulties in raising MREL (including within required timeframes), then it may have to reduce its lending or investments in other operations, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, on 23 November 2016, the EC published the CRD V/BRRD2 Proposals, which cover multiple areas, including the Pillar 2 framework, the introduction of a minimum Leverage Ratio, the MREL framework and the integration of the Financial Stability Board’s standard on Total Loss-absorbing Capacity (“TLAC”) into EU legislation. See “*Part XVIII: Supervision and Regulation*” for further information on CRD IV and the capital requirements to which AIB is subject and the CRD V/BRRD2 Proposals. The CRD V/BRRD2 Proposals cover, among other areas, mandatory restrictions on distributions, the NSFR, permission for reducing own funds and eligible liabilities, macro-prudential tools, the MREL framework and the integration of the TLAC standard into EU legislation.

The CRD V/BRRD2 Proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final new package of legislation may not include all elements of the CRD V/BRRD2 Proposals and new or amended elements may be introduced throughout the course of the legislative process. Until the CRD V/BRRD2 Proposals are in final form, it is uncertain how the CRD V/BRRD2 Proposals will affect AIB

and the minimum capital requirements to which AIB is subject. Furthermore, if the CRD V/BRRD2 Proposals are adopted in their current form, AIB could become subject to restrictions on its ability to make payments in respect of the AIB HoldCo Shares following any failure by AIB to comply with its MREL requirement or its combined buffer requirement. See “—Risks Relating to the AIB HoldCo Shares—There can be no assurance that AIB HoldCo will pay dividends in the future and AIB HoldCo Shareholders may earn a negative or no return on their investment in AIB”.

CRD IV requirements adopted in Ireland or the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators (including but not limited to the CRD V/BRRD2 Proposals or as a result of any reforms adopted by the Basel Committee as part of Basel IV), binding regulatory technical standards (“RTS”) to be developed by the EBA, changes to the way in which the Central Bank or, as applicable the ECB (to the extent only in respect of functions conferred on the ECB by the Single Supervisory Mechanism) (“Relevant Banking Regulator”) or, as applicable, the PRA or the FCA in the United Kingdom, interprets and applies these requirements to AIB or, in the case of the United Kingdom, as a result of its withdrawal from the European Union. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to AIB’s capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

In addition, the calculation of AIB’s capital ratios may be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the relevant regulator could require AIB to reflect such changes in any calculation of its capital ratios. In particular, the Directors of AIB HoldCo expect that AIB will be impacted by IFRS 9 due for implementation on 1 January 2018. IFRS 9 will require AIB to move from an incurred loss model to an expected loss model requiring it to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. IFRS 9 may lead to a one-off increase in impairment allowances for financial assets on AIB’s balance sheet at the time of adoption and will lead to a negative regulatory capital impact. This is likely to be partially offset by a transitional arrangement yet to be fully decided upon by the regulators. In addition, following adoption, impairment under IFRS 9 is expected to increase the complexity of AIB’s impairment modelling and result in earlier recognition of credit losses than under IAS 39, which is likely to lead to an increase in total provisions.

A perceived or actual shortage of capital held by AIB could result in actions by regulatory authorities, including public censure and the imposition of sanctions. This may also affect AIB’s capacity to continue its business operations, generate a sufficient return on capital, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. Such changes could have a material adverse effect on AIB’s business, results of operations, financial condition and prospects.

In addition, if, in response to any such shortage, AIB raises additional capital through the issuance of share capital or capital instruments which are convertible to AIB’s shares, AIB HoldCo Shareholders existing then may experience a dilution of their share holdings.

37 *AIB is subject to conduct risk, including changes in laws, regulations and practices of relevant authorities and the risk that its practices are challenged under current regulations or standards, and if it is deemed to have breached any of these laws or regulations, it could suffer reputational damage or become subject to challenges by customers or competitors, or sanctions, fines or other actions.*

AIB is exposed to conduct risk, which AIB defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of AIB’s business may be determined by the Central Bank or other relevant regulators in various jurisdictions or by courts not to have been conducted in accordance with applicable local or, potentially, overseas laws and regulations, or in a fair and reasonable manner as determined by the local ombudsman. In particular, AIB may face scrutiny in relation to its treatment of customers in difficulty. If AIB fails to comply with any relevant laws or regulations, it may suffer reputational damage and may become subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. See “Part XX: Additional Information—Litigation”. AIB’s past practices may also be challenged under current regulations and standards.

For example, in September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on a broader examination of tracker mortgage-related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including AIB Bank and certain of its subsidiaries located in Ireland) (the “Tracker Mortgage Examination”). In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination was to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank’s ‘Principles for Redress’. In 2015, AIB provisioned €190 million relating to the Tracker Mortgage Examination. While the Directors believe that this figure is appropriate, there can be no assurance that the final cost to AIB will not be in excess of this amount, including as a result of:

- challenge by the Central Bank, rulings by the Financial Services Ombudsman (the “FSO”) or customer litigation, in particular, in relation to the entitlement of particular cohorts of customers to revert to a tracker mortgage and associated redress and compensation;

- sanction by the Central Bank; and
- challenge by the Central Bank to AIB's redress and compensation package.

Other Irish banks have been or are being made subject to regulatory sanctions by the Central Bank in connection with the Tracker Mortgage Examination or related exercises by the Central Bank and AIB cannot rule out the possibility of such sanctions being taken against AIB in connection with the Tracker Mortgage Examination.

In addition, AIB may be subject to allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are subsequently determined to have been inappropriate. This may result in customer litigation against AIB which litigation could be protracted in nature. In addition, this may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements and could adversely impact future revenues from affected products.

Changes in laws or regulations may vastly change the requirements applicable to AIB in a short period of time and/or without transitional arrangements. In addition, contractual obligations of AIB's customers and counterparties may either not be enforceable as intended or may be enforced in an adverse way to AIB's interests. AIB may also face litigation arising from the contractual obligations to which it is party. If AIB is unable to manage these risks, its business, results of operations, financial condition and prospects could be materially adversely affected.

38 *Irish legislation and regulations in relation to mortgages, as well as judicial procedures for the enforcement of mortgages and custom, practice and interpretation of such legislation, regulations and procedures, may result in higher levels of default by AIB's customers, delays in AIB's recoveries in its mortgage portfolio and increased impairments.*

As at 30 June 2017, AIB had €34.4 billion in total gross residential mortgages on its statement of financial position, accounting for 54 per cent. of its loans and receivables to customers. As at that date, €3.9 billion of the ROI residential mortgages portfolio were in arrears (over 90 days past due), accounting for approximately 12 per cent. of total gross residential mortgages.

Legislation and regulations introduced in 2013 may affect AIB's customers' attitudes towards their debt obligations, and hence their interactions with AIB in relation to their mortgages. On 1 July 2013, a revised CCMA came into force. The CCMA requires mortgage lenders to develop a MARP with specific procedures when dealing with borrowers experiencing arrears and financial difficulties. It applies only to mortgages on primary residences. The CCMA requires a lender to wait at least eight months from the date the arrears arose before commencing legal action against a co-operating borrower. Separately, a lender is required to give three months' notice to the borrower before it may commence legal proceedings where the lender is unwilling to offer an alternative repayment arrangement or the borrower is unwilling to accept an alternative repayment arrangement offered by the lender. Accordingly, under the CCMA, a lender is not permitted to commence legal proceedings until three months have passed from the date that such notice is issued (where the lender declines to offer an arrangement or where the borrower does not accept an arrangement offered) or eight months from the date the arrears arose, whichever date is later. See "*Part XVIII: Supervision and Regulation—Regulation of Banks and Parent Financial Holding Companies in Ireland—Consumer-related Regulation—CCMA*" for further details regarding the CCMA.

In addition, the Personal Insolvency Act 2012 (the "Personal Insolvency Act") introduced a personal insolvency arrangement ("PIA") for the agreed settlement of secured debt up to an amount of €3 million (subject to extension by agreement of all of the debtor's secured creditors) and for unsecured debt, with no limit. The Bankruptcy (Amendment) Act 2015 introduced an automatic discharge from bankruptcy, subject to certain conditions, after one year instead of 3 years, as had previously been the case since 2012. The inclusion of secured debt in the personal insolvency process under the Personal Insolvency Act was a new provision in Ireland's personal insolvency regime. The Personal Insolvency Act has been amended with effect from 28 July 2015 to give the courts power to review and, where appropriate, approve personal insolvency arrangements in respect of secured debt which have been rejected by a bank or other secured creditors. See "*Part XVIII: Supervision and Regulation—Regulation of Banks and Parent Financial Holding Companies in Ireland—Personal Insolvency Act*" for further details regarding the Personal Insolvency Act. As at 31 December 2016, AIB had 917 accounts in the aggregate amount of €142 million in PIA under the Personal Insolvency Act, as reported through the Sustainable Mortgage Resolution Process.

AIB has been proactive in developing forbearance solutions for borrowers experiencing arrears and financial difficulties. In accordance with Central Bank requirements, it has developed a MARS, which builds on and formalises the MARP it was required to introduce in order to comply with the CCMA. As at 31 December 2016, AIB had 7,443 accounts in the aggregate amount of €1.1 billion in the MARP framework in Ireland, as reported for its Annual Conduct of Business Return. There is a risk that legislation and regulations such as the Personal Insolvency Act and the CCMA will result in changes in customers' attitudes towards their debt obligations. Given the required waiting periods that apply to lenders seeking to enforce security over mortgages under the CCMA and the possibility of including secured debt in insolvency arrangements, customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. As a result, AIB cannot be certain of the progress or outcome of enforcement proceedings.

Furthermore, in instances where AIB seeks to enforce security on commercial or residential property (in particular over principal dwelling homes (“PDH”)), AIB may encounter significant delays arising from judicial procedures, which often entail significant legal and other costs. Custom, practice and interpretation of Irish legislation, regulations and procedures may also contribute to delays or restrictions on the enforcement of security. The courts in Ireland may have particular regard to the interests and circumstances of the borrower in disputes relating to the enforcement of security above the custom and practice of courts in other jurisdictions. As a result of these factors, enforcement of security in Ireland may be more difficult, take longer and involve higher costs for lenders as compared to other jurisdictions, or it may not be feasible for AIB to enforce security. Changes in legislation, regulations or judicial procedure or their interpretation could also have an adverse effect on AIB’s ability to enforce security. As a result of all of these factors, AIB cannot be certain of the progress or outcome of enforcement proceedings.

On 23 February 2017, a bill was initiated in Dáil Éireann, entitled the ‘Keeping People in their Homes Bill 2017’. The bill is a private members’ bill and not sponsored by the Irish Government and is subject to change through the legislative process and may not be adopted as law. However, the bill, if passed into law in its current form (or if other similar laws or regulations are introduced), would provide Irish courts with a statutory basis to effectively conduct proportionality assessments in relation to possession orders arising from mortgage arrears on people’s homes. The bill seeks to facilitate Irish courts in effectively examining the proportionality of granting, adjourning, varying, postponing, suspending or executing possession orders, and to take account of certain factors when deciding whether to grant any such order, for example, whether the order pursues a legitimate aim, is justifiable by reference to a pressing social need, and the lender’s compliance with regulatory requirements including the CCMA, the European Union (Consumer Mortgage Credit Agreements) Regulations 2016 (the “Mortgage Credit Regulations”) and the Consumer Protection Code 2012 (“CPC”).

In addition, on 28 June 2017, a bill was initiated in Dáil Éireann, entitled the ‘Mortgage Arrears Resolution (Family Home) Bill 2017’. The bill is a private members bill sponsored by Fianna Fáil, but is not supported by the Irish Government and is subject to change through the legislative process and may not be adopted as law. However, the bill if passed into law in its current form (or if other similar laws or regulations are introduced), would provide for the establishment of a mortgage resolution office within the aegis of the Insolvency Service of Ireland (“Insolvency Service”) which would be authorised in certain circumstances to issue non-judicial mortgage resolution orders relating to mortgages over family homes which were in arrears on 1 January 2017. A mortgage resolution order could include amongst other measures; an order varying in material respects mortgage loan terms between the mortgagor and a financial institution lender without the direct oversight of a court and an order implementing a mortgage to rent scheme allowing a mortgagor to surrender their family home to the financial institution lender and to subsequently rent that property from an approved housing body. A mortgage resolution order would be binding on the mortgagor and the financial institution lender, although the lender can object to the imposition of that order and apply for an investigation by the mortgage resolution office. The bill also proposes to introduce an independent appeals process to permit an appeal against decisions of the mortgage resolution office to an appeals officer rather than a court. An appeal to a court can only be made on a question of law. The bill is currently before Dáil Éireann at committee stage.

The aforementioned factors could result in delays and reductions in AIB’s recoveries in respect of its mortgage portfolio and increased costs and impairments. Furthermore, adverse public opinion regarding mortgage enforcement could negatively impact AIB’s reputation. Any of the foregoing could have a material adverse effect on its business, results of operations, financial condition and prospects.

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

In common with other residential mortgage lenders, AIB faces increased scrutiny and focus by the Irish Government, the Oireachtas (the Irish legislature) and customer or consumer protection regulators, such as the Central Bank and the CCPC, on its loan book, in particular its residential mortgage book, with respect to such matters as the interest rates it charges on loans.

The Irish Government has expressed concern as to the high level of standard variable interest rates (“SVR”) charged by lenders in Ireland as compared to those charged by lenders in other EU Member States, in particular with respect to certain residential mortgage loans. SVR mortgages include mortgages where the lender has the ability unilaterally to vary the rate, unlike a fixed rate or a rate which tracks changes to an ECB official rate. In 2015, the Irish Government requested that Ireland’s largest banks, including AIB, review the level of their SVR and provide options to reduce monthly repayments to new and existing PDH borrowers, such as lower SVR products, competitive fixed rate products and lower variable rates (taking into account LTV) and indicated that if they failed to address these concerns, the Irish Government could significantly increase the bank levy then applied to these banks or could seek to give the CCPC additional regulatory powers. As a result, under the Finance Act 2016, the bank levy was rebased and extended from 2016 to 2021. Since late 2014 and, in part, in response to a fall in funding costs, AIB has reduced SVRs for all mortgage customers across AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven by up to 100 basis points, with a further cut of 25 basis points announced in September 2017 for AIB Bank and AIB Mortgage Bank customers and in October 2017 for Haven customers. However, there is a risk that the Irish Government could adopt further measures to address its

concerns with respect to SVR levels, which could result in a reduction in AIB's net interest income and net interest margin.

AIB, along with other Irish banks, is subject to the risk of a review or investigation by regulators such as the Central Bank and the CCPC, and may incur potentially serious sanctions or penalties in respect of any perceived or actual failure to act appropriately when setting interest rates on its mortgage or other loan products. On 20 February 2017, the CCPC published a public consultation to gather views about the future of the Irish mortgage market in order to set out options available to the Irish Government on how to reduce the cost of secured mortgage lending and to improve competition and consumer protection. The CCPC has indicated that it would examine the market structure, legislation and regulation of the mortgage market in Ireland and that following the consultation period it intended to produce a final report of its findings. On 15 June 2017, on foot of that consultation exercise the CCPC published a report entitled "Options for Ireland's Mortgage Market" setting out its suggested options for short, medium and longer term consideration by the Irish Government to allow for greater competition for new entrants in the Irish mortgage lending market and on price, quality and innovation, and to equip consumers to make better choices when taking out mortgage loans. In terms of short term (1 to 2 years) options, the CCPC identified the following:

- the introduction of new entrant/new product friendly initiatives by the Central Bank and a comparison exercise with other jurisdictions as to the authorisation period and regulatory burdens for lenders;
- enhanced switching to unlock greater competition in the Irish mortgage lending market, to be facilitated by measures such as the introduction of e-conveyancing and automated switching processes; and
- the rebuilding of reputation and trust in the Irish mortgage lending market, including by further consideration of the impact of cashback payments and loyalty discounts used by lenders and an encouragement to consumers to use mortgage brokers.

In terms of medium term (3 to 5 years) options, the CCPC identified the following:

- a need for predictable and consistent practices and systems when dealing with loans in arrears so as to increase certainty for both consumers in arrears and lenders;
- greater use of suspended possession orders by the courts in repossession cases;
- introduction of further regulatory measures restricting the ability of consumers to use their family homes as security for property investments; and
- regular reviews of section 149 of the Consumer Credit Act, 1995 ("CCA"), which imposes restrictions on non-ordinary interest and other charges in the case of lending by credit institutions.

In terms of longer term (5 years and over) options, the CCPC identified the following:

- a move to longer term fixed rate mortgage loans and the use by lenders of longer term funding sources for mortgage lending; and
- the piloting of alternative funding models away from deposit funding, including the Danish covered bond matched loan and funding model.

The CCPC's report and any further review or investigation by the CCPC or the Central Bank, and any related litigation or regulatory action, or related change of law or regulation or measures introduced by the Irish Government to address its concerns regarding SVRs, could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

On 16 May 2016, a bill entitled the Central Bank (Variable Rate Mortgages) Bill 2016 was initiated in Dáil Éireann (the lower house of the Irish legislature) which, if passed into law by the Oireachtas, would specifically authorise the Central Bank in prescribed circumstances to impose a maximum SVR on PDH mortgage loans made by AIB. The bill passed through the First stage and the Second stage of Dáil Éireann in May 2016 and has progressed to committee stage.

The bill proposes to permit the Central Bank to carry out assessments on the state of competition in the market for PDH mortgage loans and upon completion of an assessment, the bill will permit the Central Bank to form a conclusion as to whether the state of competition in the market for PDH mortgage loans is such that a "market failure" exists. A "market failure" exists where a lender is, or lenders are, charging a variable interest rate or variable interest rates for PDH mortgage loans which are higher than what the Central Bank considers can be reasonably and objectively justified. The ECB has identified a number of concerns it has with the bill in an "Opinion of the European Central Bank of 17 November 2016 on the conferral of powers on the Central Bank of Ireland to assess competition in the market for mortgage loans and to issue lenders with directions on variable interest rates (CON/2016/54)". The Central Bank has also expressed concerns about the bill to a meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach held on 8 December 2016. (Source: Oireachtas website, Committee Debates, Joint Committee on Finance, Public Expenditure and Reform, held on 8 December 2016). In a paper entitled 'Central Bank (Variable Rate Mortgages) Bill 2016—[Private Members Bill]—Observations of the Competition and Consumer Protection Commission to the Joint

Committee on Finance, Public Expenditure and Reform, and Taoiseach' (dated 29 March 2017 on the CCPC's website), the CCPC has stated that it has serious concerns about the bill's proposals and that the CCPC believes that, if enacted, the bill would likely limit competition in the market for PDH mortgage loans.

If the bill is passed into law in its current form (or if other similar rules or regulations are introduced), AIB's SVR PDH mortgages, which form a significant portion of its mortgage portfolio, may become subject to further supervision and scrutiny by the Central Bank. An increasing regulatory focus on AIB's SVR mortgages to customers or an alignment of the SVR with those charged by lenders in other Eurozone markets may also result in a reduction in AIB's interest income from SVR mortgages.

Any further supervision and scrutiny in relation to AIB's loan book could result in a reduction in AIB's level of lending, net interest income and net interest margin and/or increased operational costs, any of which in turn could have a material adverse effect on AIB's business, financial condition, results of operations and prospects.

40 *LTV/Loan-to-income ("LTI") related regulatory restrictions on residential mortgage lending may restrict AIB's mortgage lending activities and balance sheet growth generally.*

The Central Bank has, under the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015, as amended by the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2016, imposed restrictions on Irish residential mortgage lending by lenders which are regulated by the Central Bank (such as AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven in the case of AIB). The restrictions impose limits on residential mortgage lending by reference to LTV and LTI ceilings.

The regulations impose different LTV limits for different categories of buyers. See "*Part XVIII: Supervision and Regulation—Regulation of Banks and Parent Financial Holding Companies in Ireland—LTV/LTI related Regulatory Restrictions on Residential Mortgage Lending*".

AIB is required to restrict lending above 3.5 times LTI to no more than 20 per cent. of the aggregate value of the PDH loans AIB makes in the relevant period. Mortgages for non-PDH loans are exempt from the LTI limit. AIB needs to ensure that it dedicates sufficient resources to, and has the necessary procedures and controls in place to, ensure that the exception levels permitted under the regulations are monitored and not breached. These restrictions may adversely affect the level of new mortgage lending AIB can undertake and the costs of administering its residential mortgage lending, and hence may have a material adverse effect on its business, results of operations, financial condition and prospects.

41 *AIB is subject to anti-money laundering, anti-corruption and sanctions regulations and if it fails to comply with these regulations, it may face administrative sanctions, criminal penalties and/or reputational damage.*

AIB is subject to laws aimed at preventing money laundering, anti-corruption and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-corruption and sanctions rules can impose a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more stringent, resulting in several landmark fines against financial institutions. For example, the fourth anti-money laundering ("AML") directive (Directive (EU) 2015/849) ("MLD4"), partly transposed into Irish law in 2016 (and Member States were required to transpose the balance of that directive by 26 June 2017), emphasises a "risk-based approach" to AML and counter-terrorist financing ("CTF") and imposes obligations on Irish incorporated bodies (such as AIB Bank and its Irish incorporated subsidiaries) to take measures to compile information on beneficial ownership. In addition to this, the AML/CTF regulatory landscape is constantly changing with a series of proposed further amendments to MLD4 arising from events such as terrorist attacks in Europe and the release of the Panama papers as well as a desire to align European AML/CTF laws with recommendations from the Financial Action Task Force ("FATF"). The combined impact of these proposed amendments on the current text of MLD4 is commonly referred to as the "Fifth EU AML Directive" ("MLD5"). AIB will need to continue to monitor and reflect the changes under MLD4 and any subsequent changes under MLD5 in its own policies, procedure and practices, as well as updating its framework to take account of the risk-based approach and the specific manner in which these requirements are transposed into national laws by the transposing legislation in Ireland and the United Kingdom. See "*Part XVIII: Supervision and Regulation—Regulation of Banks and Parent Financial Holding Companies in Ireland—Anti-Money Laundering, Counter Terrorist Financing and Financing Sanctions*" for more information. In addition, AIB cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the way existing laws might be administered or interpreted.

Although AIB has policies and procedures that it believes are sufficient to comply with currently applicable AML, anti-corruption and sanctions rules and regulations, it cannot guarantee that such policies and procedures completely prevent situations of money laundering or corruption, including actions by AIB's employees, agents, customers, third-party suppliers or other related persons for which AIB might be held responsible. AIB Bank was subject to an investigation by the Central Bank as part of an administrative sanctions procedure for breaches of AML laws and regulations, which commenced in April 2015 and concluded in April 2017. The inspection of AIB Bank which led to the administrative sanctions procedure was one of a number of AML related inspections carried out by the Central Bank into the banking industry's level of compliance with Criminal Justice Act 2010 in the period from 2013 to 2014. AIB Bank

was reprimanded and a monetary penalty of €2,275,000 was imposed in connection with the investigation. All “prescribed contraventions” identified by the Central Bank which led to the penalty were the subject of a comprehensive risk mitigation plan on which AIB reported progress to the Central Bank on a regular basis throughout 2014. The Central Bank accepted that all of these issues were remediated by July 2014. Other potential such events may have severe consequences, including litigation, sanctions, fines and reputational consequences, which could have a material adverse effect on AIB’s business, financial condition, results of operations and prospects.

Risks Relating to AIB’s Relationship with the Irish Government

42 *Pursuant to the AIB HoldCo Relationship Framework, certain other agreements entered into between AIB and the Irish Government and certain general legislative powers, the Irish Government has, and will from Admission have, the right to exercise a degree of influence over certain specified aspects of AIB’s activities.*

The Minister for Finance specified an amended and restated relationship framework in relation to AIB (the “AIB Bank Relationship Framework”) which took effect on AIB Bank Admission (27 June 2017). The AIB Bank Relationship Framework amended and restated the relationship framework specified by the Minister for Finance in relation to AIB on 29 March 2012 (the “2012 Relationship Framework”). The Minister for Finance has specified a relationship framework on 10 October 2017 in relation to AIB HoldCo and AIB Bank which will take effect at the Scheme Effective Time, in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate at the Scheme Effective Time. Under the AIB HoldCo Relationship Framework, while the authority and responsibility for strategy and commercial policies (including business plans and budgets) and the conduct of AIB’s day-to-day operations rests in all cases with the AIB HoldCo Board and its management team, AIB HoldCo, and, where relevant, AIB Bank are required, in connection with certain specified aspects of AIB’s activities, to consult with the Minister for Finance. In particular, AIB must, subject to certain exceptions, provide the Minister for Finance with all Board and committee papers concurrently with the distribution to the Board of AIB HoldCo or the Board of AIB Bank, as relevant, copies of its financial, accounting and taxation information and records, copies of relevant audit documents and any other relevant information reasonably required by the Minister for Finance (among other things) to comply with applicable law and regulations or to respond to requests from the Oireachtas (the Irish legislature). The AIB HoldCo Relationship Framework also grants the Minister for Finance the right, at all times, to nominate up to two non-executive directors for appointment to the Board of AIB HoldCo and to the Board of AIB Bank.

AIB is also subject to various obligations under the placing agreement dated 23 December 2010 between AIB Bank, the Minister for Finance, the National Pension Reserve Fund Commission (the “NPRFC”) and the NTMA (the “2010 Placing Agreement”) and the placing agreement dated 1 July 2011 between AIB Bank, the Minister for Finance, the NPRFC and the NTMA (the “2011 Placing Agreement”) pursuant to which AIB Bank issued ordinary shares to the NPRFC (which shares were transferred to the Ireland Strategic Investment Fund (the “ISIF”), itself owned by the Minister for Finance, in 2014), together with the letter from the Minister for Finance to the Board of AIB Bank dated 25 July 2011 (the “Minister’s Letter”). Pursuant to a deed of covenant entered into on 10 October 2017 between AIB HoldCo, AIB Bank and the Minister for Finance (the “Deed of Covenant”), AIB HoldCo has undertaken, with effect from the date of the Deed of Covenant, to comply with contractual governance obligations currently applicable to AIB Bank under the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister’s Letter. The obligations repeat existing obligations in respect of AIB Bank contained in the 2010 Placing Agreement, 2011 Placing Agreement and the Minister’s Letter and relate to: (a) restrictions on reduction of reserves; (b) restrictions on director and senior executive/employee remuneration and termination payments; (c) assisting in the placing, offer to the public or admission to trading of AIB HoldCo Shares owned by the Minister for Finance; and (d) rights to obtain information. The Deed of Covenant also requires AIB HoldCo and AIB Bank to comply with the AIB HoldCo Relationship Framework and for AIB HoldCo to enter into a registration rights agreement with the Minister for Finance on terms not inconsistent with the AIB Bank Registration Rights Agreement in circumstances where the AIB HoldCo Shares are listed on a stock exchange that has registered with the US Securities and Exchange Commission. The Deed of Covenant requires AIB to obtain the consent of the Minister for Finance to amend the terms of the Scheme or the Resolutions (save for technical amendments which are required for the proper implementation of the Scheme and which do not have a substantive consequence on the terms or implementation of the Scheme). The Deed of Covenant will terminate if the Scheme has not become effective by 30 March 2018 (or such later date, if any, as AIB Bank and AIB HoldCo agree and the Court may allow). In connection with the 2009 Preference Shares, Dr Michael Somers was appointed as a Non-Executive Director of AIB Bank (see “Part XI: Directors, Senior Executives and Corporate Governance—Board Appointments”). These agreements and letter impose certain requirements on AIB in relation to its lending activities and remuneration policies, among other areas, including the requirement to continue to provide the Irish Government with certain information and consultation/consent rights, as described in further detail under “Part X: Relationship with Government and State Aid—Governance Restrictions”.

In addition to these contractual rights, the Irish Government also has certain statutory powers under the NAMA Act, the credit institutions financial support scheme (the “CIFS Scheme”) and the ELG Scheme. These powers are described in detail in “Part X: Relationship with Government and State Aid—Governance Restrictions—Statutory”. If AIB HoldCo becomes the new holding company of AIB under the Scheme, AIB HoldCo will not be a NAMA Participating Institution, or a member of the AIB Group which participates in the CIFS Scheme (“AIB CIFS Covered Institution”) or a member of

the AIB Group which participates in the ELG Scheme (“AIB ELG Participating Institution”), meaning that AIB HoldCo will not itself be subject to the NAMA Programme, the CIFS Scheme or the ELG Scheme. However, AIB Bank will continue to be a NAMA Participating Institution, an AIB CIFS Covered Institution and an AIB ELG Participating Institution for the purposes of the NAMA Programme, the CIFS Scheme and the ELG Scheme, respectively. As such, the NAMA Programme will continue to apply to AIB Bank and its subsidiaries, and the CIFS Scheme and the ELG Scheme will continue to apply to the AIB CIFS Covered Institutions and the AIB ELG Participating Institutions, and their respective subsidiaries. For this reason, following AIB HoldCo becoming the holding company of AIB, the NAMA Programme, the CIFS Scheme and the ELG Scheme will, in all material respects, continue to apply to AIB in the same way that they do currently. In addition to the powers under the NAMA Act described above under “—*Risks Relating to AIB’s Business—AIB could face additional liabilities in relation to the assets it has transferred to NAMA under the NAMA Programme, including the risk that if NAMA’s accounts show an aggregate loss in respect of the transferred assets, a surcharge on participating institutions, including AIB, may be imposed*”, the NAMA Act also obliges AIB to take reasonable steps to address any impediment it identifies to the achievement of the NAMA Act, and to follow directions which may be given by NAMA to perform management, administrative and enforcement services (or any service included in a direction by NAMA) in respect of a bank asset (as defined in the NAMA Act) which has been acquired, to facilitate the provision of those services by a third-party service provider, and, for the furtherance of the achievement of its purposes under the NAMA Act, to deal in a specified way with a bank asset which was not acquired. Also, the Minister for Finance is required to be consulted in connection with the exercise of certain rights and powers which the Relevant Banking Regulator has under the NAMA Act.

The terms and conditions of the CIFS Scheme and the ELG Scheme place certain restrictions on, and require AIB to submit to a degree of governmental regulation in relation to, the operation of AIB’s business. The ELG Scheme (where the Minister for Finance’s guarantee is still in effect in respect to certain liabilities) facilitated participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of five years. Under the terms of the ELG Scheme, the Minister for Finance, in consultation with the Relevant Banking Regulator, may issue directions to a participating institution that are necessary to ensure that the objectives of the ELG Scheme are met. Directions were issued on behalf of the Minister for Finance on 12 November 2012 to each participating institution under the ELG Scheme, including the AIB ELG Participating Institutions, (the “ELG Directions”). The rights conferred on the Minister for Finance under the CIFS Scheme and the ELG Scheme (as modified by the ELG Directions) include (i) the power to make rules, following consultation with the Relevant Banking Regulator, concerning the declaration and payment of dividends (and such rules were made in February 2017); (ii) the right to make directions to appoint up to two non-executive directors to the AIB Bank Board in order to promote the public interest, and to take steps to restructure its executive management responsibilities and improve corporate governance; (iii) the right to direct, following consultation with the Relevant Banking Regulator, AIB to draw up and comply with a restructuring plan to ensure compliance with the objectives of the CIFS Scheme; and (iv) the right to direct the Relevant Banking Regulator to require such reports from AIB as the Minister for Finance considers necessary. It is possible that the Minister for Finance may give further directions under the ELG Scheme in due course. Also, the Minister for Finance is required to be consulted in connection with the exercise of certain rights and powers which the Relevant Banking Regulator has under the CIFS Scheme and the ELG Scheme.

In the event the Irish Government elects to exercise the powers or invoke the rights described above, this may serve to limit AIB’s operations and place significant demands on the reporting systems and resources of AIB.

AIB also has obligations to the Irish Government to comply with AIB’s restructuring plan approved by the EC on May 2014 (the “Restructuring Plan”), described below under “—*If AIB fails to comply with the conditions and restrictions set out in its Restructuring Plan, this could lead to action by the EC.*” Some of these commitments have expired, whilst others will expire on 31 December 2017.

The composition of the Irish Government is subject to change depending on the ability of the Irish Government to arrive at and maintain an agreed position on its programme, policies and actions, the outcome of elections for the Oireachtas and support by the Oireachtas of that programme and those policies and actions. The current Irish Government is not in a position to rely on a majority of members of the Oireachtas to support it in all circumstances. Changes in the composition of the Oireachtas or the Irish Government may result in changes to the laws or the programme, policies or actions of the Irish Government, which may have a material adverse effect on AIB’s business, results of operations, financial condition, ownership and prospects.

On 23 June 2017, the Minister for Finance disposed of in aggregate 780,384,606 ordinary shares in AIB Bank, comprising in aggregate 28.75 per cent. of the issued ordinary share capital of AIB Bank. Certain political parties and groups which have members in the Oireachtas may not support the further sale by the Minister for Finance of shares in AIB (including in AIB HoldCo if it becomes the holding company of AIB Bank).

43 *If AIB fails to comply with the conditions and restrictions set out in its Restructuring Plan, this could lead to action by the EC.*

On 7 May 2014, the EC approved, under state aid rules, the Restructuring Plan (the “State Aid Decision”). In arriving at its final decision, the EC acknowledged the significant number of restructuring measures previously implemented by

AIB, comprising business divestments, asset deleveraging, liability management exercises and significant cost reduction actions and concluded that the Restructuring Plan set out the path to restoring long-term viability.

AIB committed to a range of measures, including measures relating to customers in difficulty; cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. In the State Aid Decision, the EC considered the remuneration payable to the State in respect of the €1.6 billion of contingent capital tier 2 notes issued by AIB Bank to the Minister for Finance on 27 July 2011 and which were redeemed on maturity on 28 July 2016 (the “CCNs”) and the 2009 Preference Shares as appropriate, albeit at a low level, in light of AIB’s distressed situation at the time. The EC also set out a repayment commitment under which the State has committed, subject to receipt of all regulatory and other approvals, that, prior to the end of the Restructuring Period on 31 December 2017, AIB Bank will repay the state aid through the payment of “dividends or other means”, in such amount equal to the surplus regulatory capital above the minimum CET1 ratio (on a Basel III fully implemented basis) as set by the Central Bank (plus a buffer of 2 per cent.) on 31 December 2016. This requirement to repay state aid was a condition for state aid approval and non-compliance could lead to withdrawal of approval by the EC. The Directors believe that AIB Bank has met its state aid repayment commitments for 2017 under the State Aid Decision, although, given their nature, the precise effect of such commitments is uncertain in some respects. AIB Bank has paid a final dividend for the year ended 31 December 2016 of €250 million for which it received approval from the SSM. Repayment of further state aid through a further dividend or other payment by AIB Bank or AIB HoldCo in 2017 would require SSM approval for the payment. Certain of the other commitments have expired while others will expire during the course of 2017 or on 31 December 2017. All of the commitments are aligned to AIB’s operational plans and are supportive of AIB’s return to viability. A trustee (the “monitoring trustee”) has been appointed to monitor compliance with these commitments. See “Part X: Relationship with Government and State Aid—State Aid—Commitments in the Restructuring Plan”.

The Restructuring Plan commitments impose certain restrictions which restrict AIB’s ability to operate its business as it would otherwise have done so, which may have a negative impact on AIB’s business, results of operations, financial condition and competitive position. In particular, AIB committed to introducing competition measures by 1 July 2017 to enhance competition in the Irish banking market, including a “Services Package” (permitting certain of AIB’s competitors to have access to certain of AIB’s services and market information) and a “Customer Mobility Package” (permitting certain of AIB’s competitors to advertise their services to AIB’s customers). For additional details on AIB’s Services Package and a Customer Mobility Package, see “Part X: Relationship with Government and State Aid—State Aid”. While no competitors have made a successful application under the Services Package, KBC has made a successful application under the Customer Mobility Package. AIB’s commitments in connection with the Restructuring Plan may result in the emergence of one or more new competitors and/or a material strengthening of one or more of AIB’s existing competitors in the Irish banking market, which may impact AIB’s competitive position.

A failure to comply with the conditions and restrictions set out in the Restructuring Plan Term Sheet could lead to the need for action by the EC, which in turn could lead to material and significant adverse outcomes for AIB. Failure to comply with the conditions imposed by the EC in the State Aid Decision (including failing to implement the Restructuring Plan in full and/or implementing unapproved changes to the Restructuring Plan) may constitute a misuse of aid. If the EC doubts that AIB is complying with the terms of the State Aid Decision, it may reopen the State Aid Decision. A reopening of the State Aid Decision would, at a minimum, create uncertainty as to AIB’s business, financial condition and results of operations. The EC’s investigation would form the basis for a new decision which could result in the EC (i) re-approving the aid on the same terms; (ii) re-approving the aid but imposing more onerous conditions on AIB; (iii) reducing the level of aid that AIB is permitted to receive; or (iv) declaring the aid measure incompatible (i.e., taking a negative decision). A negative decision would give the EC the power to order Ireland to recover from AIB the amount of the aid that has been received by AIB at the relevant time (together with interest). A negative outcome could have a material adverse impact on AIB’s business, financial condition, results of operations and prospects.

44 *The Minister for Finance’s interests may conflict with the interests of other AIB HoldCo Shareholders and the Minister for Finance may exercise its voting rights in a manner that has the effect of delaying, deferring or preventing AIB from undertaking certain transactions.*

The Irish Government at the date of this Prospectus owns, through the Minister for Finance, circa 71 per cent. of the issued AIB Bank Share capital and assuming that shareholding does not change and that the Scheme becomes effective, the Minister for Finance would have the same level of shareholding in AIB HoldCo. In that event, the interests of the Irish Government could conflict with those of AIB HoldCo’s other AIB HoldCo Shareholders.

While it remains a significant AIB HoldCo Shareholder, the Minister for Finance would, subject to the terms of the AIB HoldCo Relationship Framework, which will provide that the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB’s day-to-day operations rest with the Board of AIB HoldCo and its management team, continue to have the power to influence certain matters. As the Minister for Finance would remain the beneficial owner of more than 50 per cent. of the AIB HoldCo Shares following implementation of the Restructuring Proposals, it will have the power to block ordinary resolutions and special resolutions of AIB HoldCo. In practice, following implementation of the Restructuring Proposals, the Minister for Finance may be able to block special resolutions of AIB HoldCo in circumstances where it is the beneficial owner of less than 25 per cent. of the issued AIB HoldCo Shares and other AIB HoldCo Shareholders do not exercise their votes in respect of the relevant special

resolutions. The ability of the Irish Government to exercise voting rights as an AIB HoldCo Shareholder may have the effect of delaying, deferring or preventing AIB from effecting certain actions, including certain types of transactions that require approval by special resolution. For additional details, see “*Part XX: Additional Information—Material Contracts—Relationship Framework*”.

Furthermore, for so long as the Minister for Finance remains the beneficial owner of 50 per cent. or more of the AIB HoldCo Shares following implementation of the Restructuring Proposals, the provisions of the Takeover Panel Act, Takeover Rules, 2013 (the “Takeover Rules”) which protect the position of minority shareholders will not apply. For additional details on the provisions of the Takeover Rules, see “*Part XX: Additional Information—Mandatory takeover bids, squeeze-out and sell-out rules, Irish merger control legislation and the Irish CRD IV Regulations —Mandatory takeover bids*”.

45 *The Minister for Finance may divest the remainder of its interest in AIB, and the manner and timing of any divestment is uncertain.*

Following the expiry of the AIB Bank IPO lock-up period, the Minister for Finance will be able to sell its remaining interest in AIB. Any future sales of larger blocks of shares by the Minister for Finance, or rumours relating to such sales, could cause the price of the AIB HoldCo Shares to fall.

Except where bound by contract, the Irish Government is at liberty to change its policies, plans, views, expectations or intentions (as the case may be) in relation to AIB and its business and there can be no assurance that such changes will not occur in the future. Any such changes by the current or a future Irish Government as to the level of shareholding in AIB they wish to maintain and the timing of any divestment of AIB HoldCo Shares held by the Minister for Finance could cause the price of the AIB HoldCo Shares to fall.

46 *AIB HoldCo Shareholders may experience dilution as a result of the issue of additional AIB HoldCo Shares by AIB HoldCo or the issue of AIB HoldCo Warrants to the Minister for Finance.*

AIB HoldCo may issue additional equity or convertible equity securities, as a result of which the existing AIB HoldCo Shareholders would suffer dilution (in their percentage ownership, and accordingly voting and economic rights), if such issues were not carried out on a pre-emptive basis. Historically, AIB has also utilised sources of funding, such as the CCNs, that have included provisions that had potential dilutive effects on AIB HoldCo Shareholders. In addition, in accordance with the terms of the AIB Bank Warrant Agreement and the Warrant Notice issued on 26 April 2017 by the Minister for Finance, AIB Bank on 4 July 2017 entered into the AIB Bank Warrant Instrument and issued AIB Bank Warrants to the Minister for Finance to subscribe for such number of AIB Bank Shares representing 9.99 per cent. in aggregate of the issued ordinary share capital of AIB Bank at AIB Bank Admission (calculated on the basis that none of the AIB Bank Warrants have been exercised). In accordance with the terms of the AIB Bank Warrant Agreement, no cash consideration was paid by the Minister for Finance to AIB Bank in respect of the issue of the AIB Bank Warrants. The exercise price for the AIB Bank Warrants is €8.80 per ordinary share of AIB Bank, being 200 per cent. of the AIB Bank IPO Price which price may be adjusted in accordance with the terms of the AIB Bank Warrant Instrument (the “Warrant Exercise Price”) and the AIB Bank Warrants will be capable of exercise by the holder of the AIB Bank Warrants during the period commencing on the first anniversary of AIB Bank Admission and ending on the its tenth anniversary. A condition to the exercise of the AIB Bank Warrants is that, on each of the thirty most recent consecutive trading days, the share price of the AIB Bank Shares has reached or exceeded the Warrant Exercise Price, as adjusted. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument entered into by AIB Bank will be replaced by the AIB HoldCo Warrant Instrument, pursuant to which the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled. AIB may, in the future, issue additional financial instruments that may also contain features that have a potential dilutive effect on AIB HoldCo Shareholders.

Risks Relating to the AIB HoldCo Shares

47 *The value of the AIB HoldCo Shares may fluctuate significantly.*

The value of the AIB HoldCo Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this “*Part II: Risk Factors*”, as well as period-to-period variations in operating results or changes in revenue or profit estimates by AIB, industry participants or financial analysts. The value of the AIB HoldCo Shares could also be affected by developments unrelated to AIB’s operating performance, such as the operating and share price performance of other companies that investors may consider comparable to AIB HoldCo, speculation about AIB in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not AIB derives significant revenue therefrom.

The market price of the AIB HoldCo Shares could be negatively affected by sales of substantial amounts of AIB HoldCo Shares in the public markets, including following the expiry of the lock-up restrictions applicable to the Minister for Finance and AIB HoldCo, or the perception that these sales could occur.

Sales of a substantial number of AIB HoldCo Shares by the Minister for Finance in the public market after these restrictions expire, or the knowledge that they will, or perception that these sales may occur, could depress the market price of the AIB HoldCo Shares and could impair AIB HoldCo's ability to raise capital through the sale of additional equity securities.

48 *Exchange rate fluctuations may expose an investor whose principal currency is not the euro to foreign exchange rate risk.*

The AIB HoldCo Shares will be priced in euro. To the extent that any dividends are or may be paid in respect of the AIB HoldCo Shares, these will also be denominated and paid in euro. Any investment in (or upon any sale, disposal, or other transfer of) the AIB HoldCo Shares by an investor whose principal currency is not the euro exposes the investor to foreign currency exchange risk. Any depreciation of the euro in relation to such foreign currency will reduce the value of the investment in the AIB HoldCo Shares or any dividends in foreign currency terms.

49 *There can be no assurance that AIB HoldCo will pay dividends in the future and AIB HoldCo Shareholders may earn a negative or no return on their investment in AIB.*

AIB HoldCo's dividend approach is to work towards an annual pay-out ratio in line with normalised European banks, with capacity for excess capital levels to be returned to AIB HoldCo Shareholders through special dividends and/or share buy backs, subject to receipt of all regulatory and other approvals. AIB HoldCo's ability to pay dividends on the AIB HoldCo Shares if the Restructuring Proposals (other than the proposed reduction of capital of AIB HoldCo in order to create distributable reserves (the "AIB HoldCo Reduction of Capital")) take effect is dependent for the most part on the receipt of dividends from AIB Bank on AIB Bank Shares which will be held by AIB HoldCo.

AIB Bank is, and with effect from the Scheme Effective Date, AIB HoldCo will be subject to the following potential restrictions on the payment of dividends on AIB Bank Shares: (i) the Relevant Banking Regulator may require AIB to observe a restriction on dividend distributions in order to improve the quality and quantity of capital in advance of full implementation of CRD IV on 1 January 2019; (ii) dividends and other distributions on AIB Bank Shares and AIB HoldCo Shares (as relevant) as CET1 instruments under the CRR can only be paid out of distributable items within the meaning of that term in article 4(128) of CRR; and (iii) in the case of AIB Bank only, in February 2017, the Minister for Finance made rules under the terms of the CIFS Scheme and ELG Scheme (the "Government Guarantee Schemes") on the declaration and payment of dividends (for additional details, see "*Part X: Relationship with Government and State Aid—Governance Restrictions—Governance Restrictions—Statutory—CIFS Scheme and ELG Scheme*"). AIB Bank is required, pursuant to the terms of the Dividend Rules and the AIB Bank Relationship Framework (and will continue to be required from the Scheme Effective Time pursuant to the AIB HoldCo Relationship Framework), to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends. In the case of AIB HoldCo, with effect from the Scheme Effective Time, pursuant to the terms of the AIB HoldCo Relationship Framework, AIB HoldCo will be required to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends or distributions. Since AIB HoldCo is a recently incorporated company, it will not initially have distributable reserves. It is proposed that following implementation of the Scheme, AIB HoldCo will create distributable reserves by way of a High Court approved capital reduction of AIB HoldCo. Although AIB is not aware of any reason why the High Court would not approve the creation by AIB HoldCo of distributable reserves, the issuance of the required order is ultimately a matter for the discretion of the High Court. In the event distributable reserves of AIB HoldCo are not created by way of the AIB HoldCo Reduction of Capital, AIB HoldCo would have to generate distributable reserves from realised profits earned by it after the Scheme Effective Date before making distributions by way of dividends, share repurchases or otherwise. Subject to the availability of sufficient distributable reserves, which is a prerequisite to paying a dividend under Irish company law, and to the aforementioned restrictions, the Directors will review, on an ongoing basis, the expected timing and quantum of any possible future dividend payments (subject to any regulatory restrictions under CRD IV and the above or other restrictions that may apply).

AIB Bank is and, with effect from the Scheme Effective Date, AIB HoldCo will also be subject to the restrictions set out above in relation to AIB Bank Shares/AIB HoldCo Shares (as relevant) when paying dividends and is also subject to other regulatory requirements that may restrict its ability to pay dividends. On 13 December 2016, the ECB published a recommendation which specifies the requirements which credit institutions, such as AIB Bank, should meet before being capable of paying a dividend on the AIB Bank and AIB HoldCo Shares (as relevant). The recommendation states that credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements and the outcomes of the SREP.

The recommendation also states that, to the extent that such institution does not and would not, after making such a dividend, meet its applicable minimum capital requirements (Pillar 1 requirements), its Pillar 2 requirements (following the SREP), combined buffer requirements and its CET1 ratio, Tier 1 Capital ratio and total capital ratio, on a fully loaded basis (i.e., after application of transitional pressures and the combined buffer requirements (i.e. countercyclical capital and systemic buffers and all other required buffers)), then such institution's ability to make and pay dividends should be

restricted. Even where an institution meets these requirements, it must distribute its net profits in dividends in a conservative manner to enable it to continue to fulfil all requirements and outcomes of the SREP even in the case of deteriorated economic and financial conditions. Furthermore, AIB Bank and AIB HoldCo will be prohibited from paying a dividend in connection with the AIB Bank or, as applicable, AIB HoldCo Shares if and to the extent that the payment of such dividend would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of CRD (or any provision of applicable law transposing or implementing Article 141(2) of CRD), the lower of (i) the maximum distributable amount (if any) then applicable to AIB Bank or, as applicable, AIB HoldCo and (ii) the maximum distributable amount (if any) then applicable to AIB to be exceeded. Under the CRD V/BRRD2 Proposal, an institution (such as AIB Bank) will be deemed to fail to meet its combined buffer requirement, and therefore subject to the restrictions on certain discretionary payments, such as dividends on AIB Bank or, as applicable, AIB HoldCo Shares, where it does not have own funds and eligible liabilities in an amount and quality to meet all of the following:

- its combined buffer requirement;
- its 4.5 per cent. Pillar 1 and Pillar 2 CET1 requirement;
- its 6 per cent. Pillar 1 and Pillar 2 Tier 1 requirement;
- its 8 per cent. Pillar 1 and Pillar 2 total capital requirement; and
- its MREL/TLAC requirement (subject to a potential six-month grace period).

Any decision to declare and pay dividends on AIB Bank or AIB HoldCo Shares in the future will be, subject to the receipt of regulatory approvals, made at the discretion of the Director's of AIB Bank or, as applicable, AIB HoldCo and will depend on AIB Bank or, as applicable, AIB HoldCo's financial position, general economic conditions and other factors the Directors of AIB Bank and/or AIB HoldCo deem significant from time to time.

As a result of the foregoing, there can be no assurance that AIB Bank and/or AIB HoldCo will pay dividends in the future.

50 *AIB HoldCo Shareholders outside Ireland and the United Kingdom may not be able to participate in future equity offerings.*

Irish company law provides for pre-emptive rights in respect of equity offerings for cash to be granted to a company's existing shareholders, unless such rights are disappplied by shareholder resolution. However, shareholders in certain jurisdictions (including in the United States) may not be entitled to exercise these rights unless the rights and AIB HoldCo Shares are registered under their applicable laws (for example, in the United States pursuant to a registration statement under the Securities Act or where an exemption from the registration requirements of the Securities Act is available). AIB HoldCo cannot at this point predict whether it will seek such registrations in the future and intends to evaluate, at the time of any future offering of AIB HoldCo Shares, the costs and potential liabilities associated with such registrations or qualifying for an exemption, as well as the indirect benefits to AIB HoldCo of enabling AIB HoldCo Shareholders in those jurisdictions to exercise rights and any other factors it considers appropriate at the time and then to make a decision as to whether to file such a registration statement. AIB HoldCo is unlikely to file a registration statement to enable US shareholders or other AIB HoldCo Shareholders outside of Ireland and the United Kingdom to exercise their pre-emptive rights or to participate in a rights offer.

51 *Any person that intends to acquire or dispose of 10 per cent. or more of the AIB HoldCo Shares will be required to notify the ECB, the Central Bank and the FCA and any such transaction may not proceed if the ECB or such other relevant regulator opposes the transaction within the prescribed period of time.*

Under the Irish CRD IV Regulations, the proposed acquisition of any direct or indirect holding of the capital or of the voting rights of a credit institution such as AIB Bank, AIB Mortgage Bank, EBS or EBS Mortgage Finance ("Relevant Interests"), including by way of the acquisition of AIB HoldCo Shares if AIB HoldCo becomes the holding company of AIB Bank and AIB which represents a level of 10 per cent. or more of the Relevant Interests is notifiable to the ECB. Any person (including a person acting in concert with one or more persons) that intends, directly or indirectly, to acquire (including by way of the acquisition of AIB HoldCo Shares if AIB HoldCo becomes the holding company of AIB Bank by implementation of the Restructuring Proposals) (i) 10 per cent. or more of the issued share capital of AIB Bank and its relevant subsidiaries; or (ii) such number of AIB HoldCo Shares as would increase its shareholding to 10 per cent. or more of the issued share capital of AIB Bank and its relevant subsidiaries, will be required to notify the proposed acquisition to the ECB. Where Relevant Interests representing a level of 10 per cent. or more of total Relevant Interests have been notified and acquired, the proposed acquisition of further Relevant Interests which on acquisition together with existing holdings of Relevant Interests would reach or exceed a level representing 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests is also notifiable to the ECB. A proposed acquisition of Relevant Interests which would reach or exceed a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests cannot proceed unless so notified and (i) the prescribed period of time has elapsed without the ECB notifying the proposed acquirer(s) that it opposes the proposed acquisition, or (ii) the ECB has confirmed to the proposed acquirer(s) that it does not oppose the acquisition. Where an acquisition proceeds in default of the above requirements, the exercise of voting rights based on the acquisition concerned is suspended. In turn, a person may not dispose of Relevant Interests representing a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. or more of total Relevant Interests without having given prior notice

to the ECB. Equivalent regulatory requirements apply with respect to certain subsidiaries of AIB Bank (and, following implementation of the Restructuring Proposals, of AIB HoldCo) which are authorised in the United Kingdom or Ireland by the PRA, the FCA or, as applicable, the Central Bank.

52 *Overseas AIB HoldCo Shareholders may have only limited ability to bring actions or enforce judgments against AIB HoldCo.*

AIB HoldCo is incorporated under the laws of Ireland. The rights of holders of AIB HoldCo Shares are governed by Irish law, including the Companies Act 2014, as amended (the “Companies Act” or, the “Companies Act 2014”), and by the articles of association of AIB HoldCo (the “AIB HoldCo Articles”) and certain laws of the EU. These rights differ in certain respects from the rights of shareholder corporations incorporated in other jurisdictions, including in the United States. It may be difficult for AIB HoldCo Shareholders outside Ireland to serve process on or enforce foreign judgments against AIB HoldCo. In particular, Irish law significantly limits the circumstances under which shareholders in Irish companies may bring derivative actions, and does not afford appraisal rights to dissenting shareholders in the form typically available to shareholders of a US corporation.

Risks relating to the Restructuring Proposals

53 *There are risks that the Restructuring Proposals will not be implemented on a timely basis or at all.*

Implementation of the Scheme is conditional upon, among other things, approval of the Scheme at the Court Meeting, approval of the Scheme Resolution at the Extraordinary General Meeting of AIB Bank and sanction of the Scheme by the Court. The admission of the AIB HoldCo Shares to trading on the main securities markets of the Irish Stock Exchange and London Stock Exchange is conditional upon the Scheme becoming effective. There are risks that the conditions of the Scheme will not be satisfied on a timely basis or at all. If such conditions are not satisfied, or, where applicable, waived, the Restructuring Proposals will not be implemented and the benefits expected to result from the Restructuring Proposals will not be achieved. In this scenario, AIB will be unable to implement the preferred resolution strategy of the SRB, as AIB’s group level resolution authority for the purposes of, inter alia, the BRRD (“Group Level Resolution Authority”), and the Bank of England, as the regulatory supervisor of AIB UK (the “Resolution Authorities”), for AIB Group under the BRRD framework. This could have significant regulatory and financial consequences, including:

- an inability of the AIB Group to meet MREL requirements applicable under the BRRD framework in a manner set out by the Resolution Authorities;
- the adoption by the Resolution Authorities of a different resolution strategy for AIB Group that could have adverse (including financial) consequences for AIB Group;
- the potential exercise by the AIB Group’s regulatory authorities of other regulatory powers (including the setting of capital requirements) which may have adverse (including financial) consequences for AIB Group; and
- enforcement actions against the AIB Group by the regulatory authorities and/or Resolution Authorities.

Implementation of the AIB HoldCo Reduction of Capital is conditional upon, among other things, sanction of the Court. There are risks that this will not be given and that the AIB HoldCo Reduction of Capital will not occur on a timely basis or at all. If this does not happen, the AIB HoldCo Reduction of Capital will not be implemented and the benefits expected to result from the AIB HoldCo Reduction of Capital will not be achieved. In addition, in that event, the nominal value of the AIB HoldCo Shares will remain at €2.47 and will not be reduced to a nominal value of €0.625 as envisaged by the AIB HoldCo Reduction of Capital.

Risks relating to AIB HoldCo

54 *The establishment of AIB HoldCo involves risks relating to dividend payment capacity, regulatory capital level recognition and credit ratings*

On the establishment of AIB HoldCo as AIB’s holding company, in addition to the risks referred to elsewhere in this section of this Prospectus, the following risk factors become relevant:

- dividend capacity: AIB HoldCo as a recently incorporated company without a trading record will initially not have distributable reserves, which are required inter alia to enable AIB HoldCo to pay a dividend on its shares. As part of the establishment of AIB HoldCo as the holding company of AIB, AIB HoldCo will seek Court approval to undertake the AIB HoldCo Reduction of Capital in order to create distributable reserves.
- Tier 1 and Total Capital at consolidated AIB Group level: as a result of the application of the CRR (articles 85 and 87-88), upon the establishment of AIB HoldCo as the new holding company of AIB, a portion of the regulatory capital instruments issued by an AIB subsidiary (including AIB Bank) to third party investors will not be recognised in full for AIB consolidated regulatory capital purposes. Upon the establishment of AIB HoldCo as the holding company of AIB Bank, a portion of the regulatory capital reserves represented by the existing Additional Tier 1 (“AT1”) and Tier 2 Capital instruments issued by AIB Bank will as a consequence not qualify as regulatory capital at consolidated AIB level. Had a new holding company for the AIB Group been implemented as of 30 June 2017, it is estimated that AIB’s consolidated Tier 1 Capital Ratio (transitional basis) would reduce by approximately 0.4 per

cent. and the consolidated Total Capital Ratio (transitional basis) would reduce by approximately 0.9 per cent., both of which are within capital planning capacity for the AIB Group (as to the impact on AIB's consolidated Tier 1 Capital and Total Capital levels on a fully loaded basis, see "*Part XVI – Unaudited Pro Forma Financial Information*"). If, subject to regulatory approval at the relevant time, the principal existing non-equity capital instruments issued by AIB Bank were called at their first call dates, the impact of any reductions would be expected to be substantially eliminated by the end of December 2020. While the introduction of AIB HoldCo as a new holding company of AIB Group is expected to have a negative impact on the consolidated Tier 1 Capital and Total Capital positions of AIB, it is not expected to have an impact on the consolidated AIB CET1 Capital position as, upon the Scheme becoming effective, all of AIB's external shareholders will be at the level of AIB HoldCo; and

- credit ratings: the credit ratings which may be given to AIB HoldCo are not known at this point but they may be lower than the corresponding credit ratings of AIB Bank. Lower credit ratings could raise the costs of debt instruments issued by AIB HoldCo (including instruments issued for the purposes of meeting MREL requirements) and reduce the potential investor base in AIB HoldCo's debt instruments (including instruments issued to meet MREL requirements). See "*Part II: Risk Factors—Downgrades to AIB's, Ireland's sovereign or other Irish bank credit ratings or outlook could impair AIB's access to private sector funding, trigger additional collateral requirements and weaken its financial position*" for a discussion of certain factors that may affect the credit ratings of AIB HoldCo.

PART III PRESENTATION OF INFORMATION

General

Prospective AIB HoldCo Shareholders should only rely on the information in this Prospectus. No person has been authorised to give any information or to make any representations in connection with Admission and the Restructuring Proposals other than the information and representations contained in this Prospectus and the Scheme Circular and, if any other information or representations is or are given or made, such information or representations must not be relied upon as having been authorised by or on behalf of AIB HoldCo, AIB Bank, the Directors of AIB HoldCo. No representation or warranty, express or implied, is made by the Joint Sponsors as to the accuracy, completeness or verification of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Joint Sponsors as to the past, present or future.

Without prejudice to any obligation of AIB HoldCo to publish a supplementary prospectus pursuant to the Irish Prospectus Regulations, the delivery of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the business or affairs of AIB HoldCo, AIB Bank or of AIB taken as a whole since the date hereof or that the information contained herein is correct as of any time after its date.

Save to the extent information published by AIB HoldCo is republished by the press or other media, AIB HoldCo does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding Admission, the Restructuring Proposals or AIB. AIB HoldCo makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

AIB HoldCo will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective AIB HoldCo Shareholders of Admission or the Restructuring Proposals occurs prior to Admission or if this Prospectus contains any material mistake or inaccuracy. This Prospectus and any supplement thereto will be subject to approval by the Central Bank and will be made public in accordance with the Irish Prospectus Rules and Part 8 of the Irish Prospectus Regulations. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective AIB HoldCo Shareholder should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to the Restructuring Proposals. In making any investment decision in relation to the AIB HoldCo Shares or any other decision in relation to the Scheme, each investor must rely on his or her own examination, analysis and enquiry of AIB HoldCo, AIB and the terms of the Restructuring Proposals, including the merits and risks involved.

Apart from the responsibilities and liabilities, if any, which may be imposed under the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), the Investment Intermediaries Act 1995 (as amended), the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, neither of the Joint Sponsors accept any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the accuracy, completeness or verification of the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with AIB HoldCo, AIB Bank, the AIB HoldCo Shares, the AIB Bank Shares, the Restructuring Proposals and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Joint Sponsors, accordingly, disclaim all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

No representation or warranty, express or implied, is made by the Joint Sponsors as to the accuracy, completeness or verification of information contained in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Joint Sponsors.

The Joint Sponsors and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, AIB HoldCo and AIB Bank for which they would have received customary fees. Neither of the Joint Sponsors intend to disclose the extent of any such transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Prospective AIB HoldCo Shareholders should read this Prospectus in its entirety, and in particular the section headed "Risk Factors" and should not just rely on key information or information summarised within it, when considering the Restructuring Proposals and any investment in AIB HoldCo. In making an investment decision in relation to the AIB HoldCo Shares or any other decision in relation to the Scheme, prospective AIB HoldCo Shareholders must rely upon his or her own examination of AIB HoldCo, AIB Bank, the AIB HoldCo Shares, the AIB Bank Shares and the Restructuring Proposals and the terms of this Prospectus, including the risks involved.

Presentation of historical financial information

The historical financial information for 2016, 2015 and 2014 incorporated by reference in this Prospectus was prepared specifically for the purposes of the AIB Bank IPO Prospectus in accordance with the requirements of the Prospectus Directive, the Listing Rules and IFRS. The basis of preparation for the historical financial information for 2016, 2015 and 2014 is explained in note 1 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, which is incorporated by reference herein. The historical financial information incorporated by reference in this Prospectus consists of the condensed consolidated interim financial statements of AIB for the six months ended 30 June 2017 and the consolidated financial information for the years ended 31 December 2016, 2015 and 2014. The consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, which is incorporated by reference herein, has been audited by Deloitte as set out in the Accountant’s Report in Section A of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus. The condensed consolidated interim financial statements for the six months ended 30 June 2017 contained in the AIB Bank 2017 Half Yearly Accounts, incorporated by reference herein, have been reviewed by Deloitte as set out in the Independent Review Report in the AIB Bank 2017 Half Yearly Accounts.

Alternative Performance Measures

In addition to the financial information prepared in accordance with IFRS, this Prospectus includes certain alternative performance measures (“APMs”) as defined in the guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415) (the “ESMA APM Guidelines”). The ESMA APM Guidelines define an APM as a financial measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

AIB uses certain APMs, which have not been audited, for a better understanding of its financial performance. These measures are considered additional disclosures and in no case replace the financial information prepared under IFRS. Moreover, the way AIB defines and calculates these measures may differ from the way similar measures are calculated by other companies. Accordingly, they may not be comparable.

In “*Part XIII: Operating and Financial Review—Results of Operations*”, AIB’s results of operations are presented on a management basis with exceptional items reported separately. Exceptional items are items that management believes obscure the underlying performance trends in the business.

For a description of exceptional items that management believes obscure the underlying performance trends in the business and a reconciliation to each resulting APM from the most directly reconcilable IFRS line item in Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, and in the condensed consolidated interim financial statements section of the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein, see “*Part XIII: Operating and Financial Review—Exceptional Items*”.

In accordance with the ESMA APM Guidelines, the following is a list of APMs that the Directors of AIB HoldCo believe to be useful indicators of AIB’s operating performance and financial strength.

In analysing net interest income, the following APMs are widely used by management and analysts to specifically monitor the performance of net interest income and net interest margin of financial institutions.

- *net interest margin*: net interest income divided by average interest-earning assets.

There is also a measure reported for net interest margin: net interest margin excluding one off income for cured loans (which are defined as loans upgraded from impaired without incurring financial loss). This measure has been disclosed given the impact of the additional one-off income on assessing the actual performance for the six months ended 30 June 2017 and for the six months ended 30 June 2016.

Furthermore for the years 2016, 2015 and 2014 a further measure is reported for net interest margin: net interest margin excluding the ELG Scheme charge. This measure has been disclosed given the nature of the ELG Scheme and its impact in these years.

- *average interest-earning assets*: includes loans and receivables to customers, NAMA senior bonds, financial investments available for sale, financial investments held to maturity and other interest earning assets. Averages are based on daily balances where available and month-end balances for all other categories;
- *average asset yield*: interest and similar income divided by average interest-earning assets;
- *average interest-bearing liabilities*: includes deposits by banks, customer accounts, subordinated liabilities and other debt issued. Averages are based on daily balances where available and month-end balances for all other categories;
- *average cost of funds*: interest expense and similar charges divided by average interest-bearing liabilities; and
- *cost of customer accounts*: interest expense and similar charges from customer accounts divided by average customer accounts (which are based on daily averages).

In relation to the assessment of net interest income, net interest margin, average asset yield, average interest-earning assets, average interest-bearing liabilities, average cost of funds and cost of customer accounts, see the average balance sheets set forth in “Part XIII: Operating and Financial Review—Results of Operations—Six months ended 30 June 2017 and 2016—Net Interest Income—Average Balance Sheet” of this Prospectus and “Part XIII: Operating and Financial Review—Results of Operations—Years Ended 31 December 2016 and 2015—Net Interest Income—Average Balance Sheet” and “Part XIII: Operating and Financial Review—Results of Operations—Years Ended 31 December 2015 and 2014—Net Interest Income—Average Balance Sheet” of the AIB Bank IPO Prospectus, incorporated by reference herein.

In analysing operating efficiency, the following APM is widely used by management and analysts:

- *cost/income ratio*: total operating expenses excluding exceptional items and bank levies and regulatory fees divided by total operating income excluding exceptional items.

In analysing credit risk and financial institutions’ credit risk appetite, the following APMs are widely used by management and analysts:

- *credit impairment charge*: writeback/(provision) for impairment on loans and receivables divided by average loans and receivables to customers;
- *loans percentage*: loan balances (criticised or impaired) divided by total loan balances; and
- *provision cover*: credit provision (specific and/or total) divided by loan balances (impaired and /or total).

In analysing funding and liquidity of a financial institution, the following APM is widely used by management and analysts:

- *loan to deposit ratio*: loans and receivables to customers divided by customer accounts.

In assessing capital efficiency of a financial institution, the following APM is a better reflection of performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity:

- *return on tangible equity*: profit after tax from continuing operations plus movement in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 Capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity. For the basis of calculation of return on tangible equity as at and for the half year to 30 June 2017, see “Part XIII: Operating and Financial Review—Return on Tangible Equity”.

Currency presentation

Unless otherwise indicated, all references to the “Euro”, “euro” or “€” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community, as amended. All references in this Prospectus to “sterling”, “pound sterling”, “GBP”, “£” or “pence” are to the lawful currency of the United Kingdom. All references to “dollars”, “\$” or “US\$” are to the lawful currency of the United States.

AIB HoldCo prepares its financial statements in euro.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in euro.

Exchange rates

The table below shows the high, low, average and period-end exchange rates of US dollars per Euro for each year since 2012, and for each month from January 2017 to October 2017 (through 6 October 2017), expressed as the number of US dollars per €1.00 and as published by Bloomberg. These rates may differ from the actual rates used in the preparation of AIB Bank’s and AIB HoldCo’s financial statements and other financial information appearing in this Prospectus.

	US dollars per Euro			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
Year				
2012	1.3222	1.2913	1.4874	1.2053
2013	1.3789	1.3300	1.3804	1.2772
2014	1.2141	1.3286	1.3925	1.2100
2015	1.0887	1.1097	1.2141	1.0517
2016	1.0541	1.1069	1.1518	1.0379
Month				
January 2017	1.0755	1.0624	1.0755	1.0382
February 2017	1.0597	1.0645	1.0810	1.0535
March 2017	1.0691	1.0692	1.0885	1.0527
April 2017	1.0930	1.0725	1.0930	1.0600
May 2017	1.1221	1.1065	1.1247	1.0867
June 2017	1.1412	1.1237	1.1425	1.1127
July 2017	1.1727	1.1517	1.1747	1.1329

	US dollars per Euro			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
August 2017	1.1825	1.1809	1.2025	1.1704
September 2017	1.1806	1.1911	1.2018	1.1732
October 2017 (through 6 October 2017)	1.1732	1.1739	1.1760	1.1715

Notes:

- (1) Represents the exchange rate on the last Business Day of the applicable period.
- (2) The average rate is calculated based on the rate on the last Business Day of each month for annual averages and on each Business Day of the month for monthly averages.

The table below shows the high, low, average and period-end exchange rates of pound sterling per Euro for each year since 2012, and for each month from January 2017 to October 2017 (through 6 October 2017), expressed as the number of pound sterling per €1.00 and as published by Bloomberg. These rates may differ from the actual rates used in the preparation of AIB Bank's and AIB HoldCo's financial statements and other financial information appearing in this Prospectus.

	Pound sterling per Euro			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
Year				
2012	0.8182	0.8126	0.8483	0.7775
2013	0.8357	0.8494	0.8748	0.8116
2014	0.7789	0.8062	0.8396	0.7786
2015	0.7340	0.7260	0.7856	0.6942
2016	0.8562	0.8196	0.9048	0.7319
Month				
January 2017	0.8611	0.8608	0.8789	0.8471
February 2017	0.8531	0.8523	0.8628	0.8440
March 2017	0.8555	0.8660	0.8759	0.8555
April 2017	0.8447	0.8478	0.8570	0.8363
May 2017	0.8737	0.8559	0.8744	0.8395
June 2017	0.8793	0.8771	0.8842	0.8668
July 2017	0.8942	0.8866	0.8972	0.8750
August 2017	0.9197	0.9118	0.9285	0.8924
September 2017	0.8818	0.8943	0.9193	0.8762
October 2017 (through 6 October 2017)	0.8988	0.8894	0.8988	0.8842

Notes:

- (1) Represents the exchange rate on the last Business Day of the applicable period.
- (2) The average rate is calculated based on the rate on the last Business Day of each month for annual averages and on each Business Day of the month for monthly averages.

Rounding

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. Thus, the figures shown as totals may not be the precise sum of the figures that precede them.

Market, economic and industry data

Certain information in this Prospectus, in particular the information in "*Part VIII: Industry Overview*", has been sourced by AIB from industry publications, data and reports compiled by professional organisations and analysts and data from other external sources. AIB Bank and AIB HoldCo confirms that all third-party information contained in this Prospectus has been accurately reproduced and, so far as AIB Bank and AIB HoldCo are aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

Certain of the aforementioned third-party sources may state that the information they contain has been obtained from sources believed to be reliable. However, such third-party sources may also state that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on significant assumptions. As AIB does not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in these third-party sources, it is unable to verify such information. Information sourced from Banking & Payments Federation Ireland ("BPF") is limited to information provided through surveys of its members, which include many, but not all, Irish banks.

Forward-looking statements

This Prospectus contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB and certain of the plans and objectives of AIB. 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 macroeconomic and demographic trends as well as AIB’s future financial position, capital structure, credit ratings, liquidity, employees, the Minister for Finance’s shareholding in AIB Bank and, with effect from the Scheme Effective Date, AIB HoldCo, 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 “*Part II: Risk Factors*”. In addition to matters relating to AIB’s business, future performance will be impacted by Irish or other relevant economies and financial market considerations. Any forward-looking statements made by or on behalf of AIB speak only as of the date they are made. AIB cautions that the list of important factors in “*Part II: Risk Factors*” is not exhaustive. Prospective AIB HoldCo Shareholders and others should carefully consider the foregoing factors and other uncertainties and events when making any investment decision or any other decision in relation to the AIB HoldCo Shares or the Scheme, based on any forward-looking statement.

Neither AIB HoldCo nor AIB Bank undertakes any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to AIB HoldCo or AIB Bank or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

Definitions

Certain terms and rules of construction used in this Prospectus, including all capitalised terms and certain technical and other terms, are defined and explained in “*Part XXI: Definitions*” and “*Part XXII: Glossary of Technical Terms*”.

Service of process and enforcement of civil liabilities

AIB HoldCo and AIB Bank are incorporated under the laws of Ireland. Service of process upon Directors and senior management of AIB HoldCo and/or AIB Bank, many of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since most directly owned assets of AIB HoldCo and/or AIB Bank are outside the United States, any judgment obtained in the United States against it may not be collectible within the United States. There is doubt as to the enforceability of certain civil liabilities under US federal securities laws in original actions in Irish or UK courts, and, subject to certain exceptions and time limitations, Irish and UK courts will treat a final and conclusive judgment of a US court for a liquidated amount as a debt enforceable by fresh proceedings in the Irish and UK courts, respectively.

No incorporation of website information

This Prospectus will be made available to the public in Ireland and the United Kingdom at www.aib.ie/investorrelations. Notwithstanding the foregoing and save for this Prospectus and the documents incorporated by reference herein as listed in Section 23 (*Documents Incorporated by Reference*) in Part XX (*Additional Information*) of this Prospectus, the contents of AIB’s website, any website mentioned in this Prospectus or any website directly or indirectly linked to these websites, have not been verified and do not form part of this Prospectus, and prospective AIB HoldCo Shareholders should not rely on such information.

PART IV
DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Directors	Richard Pym—Chairman Simon Ball Mark Bourke Bernard Byrne Thomas (Tom) Foley Peter Hagan Carolan Lennon Brendan McDonagh Helen Normoyle James (Jim) O’Hara Dr Michael Somers Catherine Woods
Company Secretary	Sarah McLaughlin
Registered and head office of AIB HoldCo	Bankcentre Ballsbridge Dublin 4 Ireland
Joint Broker, Joint Financial Advisor, Joint Irish Sponsor and Joint UK Sponsor	Morgan Stanley and Co. International plc 25 Cabot Square Canary Wharf London E14 4QA United Kingdom
Joint Broker, Joint Financial Advisor, Joint Irish Sponsor and Joint UK Sponsor	Goodbody Stockbrokers UC Ballsbridge Park Dublin 4 Ireland
Irish legal advisers to AIB HoldCo	McCann FitzGerald Riverside One Sir John Rogerson’s Quay Dublin 2 D02 X576 Ireland
English and US legal advisers to AIB HoldCo	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Irish legal advisers to the Joint Sponsors	Arthur Cox Earlsfort Centre Ten Earlsfort Terrace Dublin 2 D02 T380 Ireland
English and US Legal advisers to the Joint Sponsors	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS United Kingdom

Reporting Accountants and Auditors.....

Deloitte
Hardwicke House
Hatch Street
Dublin 2
Ireland

Registrar

Computershare Investor Services (Ireland) Limited
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

PART V
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Expected timetable of principal events

<i>Event</i>	<i>Time and Date</i> ^{(1) (2)}
Date of this Prospectus and posting of the Scheme Circular	10 October 2017
Latest time for lodging completed green Forms of Proxy for the Court Meeting	10:00 a.m. on 1 November 2017 ⁽³⁾
Latest time for lodging completed purple Forms of Proxy for the Extraordinary General Meeting	10:15 a.m. on 1 November 2017
Voting record time for the Meetings	6:00 p.m. on 1 November 2017
Court Meeting	10:00 a.m. on 3 November 2017
Extraordinary General Meeting	10:15 a.m. on 3 November 2017 ⁽⁴⁾
Court Hearing to sanction the Scheme and to confirm the related AIB Bank reduction of capital	6 December 2017
Last day of trading on the main markets of the Irish Stock Exchange and the London Stock Exchange in respect of, and for registration of transfers of, AIB Bank Shares	8 December 2017
Scheme Effective Date	8 December 2017 ⁽⁵⁾
Scheme Record Time	6:00 p.m. on 8 December 2017
Cancellation of admission of AIB Bank Shares to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange	8:00 a.m. on 11 December 2017
Admission and listing of AIB HoldCo Shares and commencement of dealings in AIB HoldCo Shares on the main markets of the Irish Stock Exchange and the London Stock Exchange	8:00 a.m. on 11 December 2017
Credit of AIB HoldCo Shares in uncertificated form to CREST accounts	11 December 2017
Court hearing to confirm AIB HoldCo Reduction of Capital	13 December 2017
AIB HoldCo Reduction of Capital becomes effective	14 December 2017
Despatch of share certificates in respect of AIB HoldCo Shares in certificated form	No later than 2 months after the Scheme Effective Date
Long Stop Date	30 March 2018 ⁽⁶⁾

(1) The references above to the times of the Meetings are to Dublin time.

(2) These dates and times are indicative only and will depend, amongst other things, on the date upon which the Court sanctions the Scheme. If either of the expected dates of the Court hearings to sanction the Scheme and to confirm the AIB HoldCo Reduction of Capital change, AIB Bank or (as the case may be) AIB HoldCo will give notice of this change by issuing an appropriate announcement.

(3) A green Form of Proxy not so lodged may be handed to the Registrar at the venue of the Court Meeting or the Chairman at the Court Meeting before the taking of the poll.

(4) Or as soon thereafter as the Court Meeting, convened for the same time and place, shall have concluded or been adjourned.

(5) Or as soon thereafter as a certificate of registration of the Court Order, together with the minute approved by the Court in respect of the AIB Bank reduction of capital, is issued by the Registrar of Companies.

(6) Unless the Scheme shall have become effective on or before 30 March 2018 or such later date, if any, as AIB Bank and AIB HoldCo may agree and the Court may allow, this Scheme shall never become effective.

PART VI SCHEME SUMMARY

SECTION A - OVERVIEW

1. Introduction

On 3 February 2017, AIB Bank announced that it had been notified by the SRB that the PRS for AIB Group consists of a single point of entry via a holding company. Implementation of the PRS would require the introduction of a new AIB Group holding company. The new company, AIB HoldCo, is a recently incorporated company registered in Ireland. It is intended that this new corporate structure will be implemented by means of a scheme of arrangement under Chapter 1 of Part 9 of the Companies Act (and a related reduction of capital of AIB Bank) (the “Scheme”). A subsequent reduction of capital of AIB HoldCo, which is expected to be concluded shortly after the Scheme has become effective will, if approved by the Court, be used to create distributable reserves in AIB HoldCo.

The purpose of the Scheme is to give effect to the decision of the of the SRB, as the Group Level Resolution Authority, and the Resolution Authorities, requiring the establishment of a new holding company, AIB HoldCo, to sit at the top of the AIB Group, directly above AIB Bank. A key consideration in the Resolution Authorities’ decision is the ease and speed of effecting pre-resolution and resolution measures (including any potential bail-in) in the event of regulatory intervention being deemed appropriate.

The Scheme will require approval by the Scheme Shareholders at the Court Meeting and the approval of the Court. If these approvals are obtained, if all other conditions to the Scheme (as set out in paragraph 5 of this Part VI) are satisfied (including approval by AIB Bank Shareholders of the Scheme Resolution at the Extraordinary General Meeting) and the Scheme becomes effective, AIB HoldCo will become the new holding company of the AIB Group and own the entire issued share capital of AIB Bank.

The AIB Bank Board considers the Scheme and its terms to be fair and reasonable and in the best interests of AIB Bank Shareholders as a whole. The AIB Bank Board has unanimously recommended that Scheme Shareholders vote in favour of the Scheme at the Court Meeting and that AIB Bank Shareholders vote in favour of the Resolutions at the Extraordinary General Meeting.

2. Background to, reasons for and benefits of the Scheme and the Restructuring Proposals

AIB Bank has been engaging with the Resolution Authorities in relation to the PRS for AIB Bank under the BRRD framework.

On 3 February 2017, AIB Bank announced that it had been notified by the SRB that the Resolution Authorities’ PRS for AIB Group consists of a single point of entry via a new holding company. Implementation of the PRS would require the introduction of a new AIB Group holding company and means that any future bail-in of instruments held by external creditors would be expected to take place in the first instance at the level of that holding company.

Further information in relation to the BRRD and related requirements – including MREL, a Single Point of Entry (“SPE”) resolution strategy and the reasons why the Resolution Authorities determined that an SPE resolution strategy via a holding company is the PRS for AIB Group – is set out in Section B of this Part VI.

Accordingly, in order to comply with the Resolution Authorities’ requirements under the BRRD framework and ensure that AIB is in a position to issue instruments that meet MREL requirements, AIB Bank is proposing to undertake a group reorganisation which will involve the establishment of a new group holding company (AIB HoldCo) directly above AIB Bank. AIB HoldCo will carry on the usual activities of a holding company (including the overall stewardship and governance of the AIB Group and intra-group funding activities) and will also become the primary issuer of AIB’s external MREL-eligible capital and debt instruments. AIB has received the necessary permissions from its financial service regulatory supervisors to establish AIB HoldCo where such permissions are required in advance of implementation. Any post-establishment notifications required to be made to such supervisors will be made by the relevant AIB Group member within the permitted periods.

Subject to the Scheme becoming effective, the Scheme Shares will be cancelled or (as the case may be) transferred to AIB HoldCo and the Scheme Shareholders at the Scheme Record Time will receive one AIB HoldCo Share for each Scheme Share cancelled or (as the case may be) transferred to AIB HoldCo under the Scheme. Application will be made to the Irish Stock Exchange and the London Stock Exchange for the AIB HoldCo Shares to be admitted to trading on the Irish Stock Exchange’s and the London Stock Exchange’s main markets for listed securities and dealings are expected to commence on 11 December 2017. The admission of the AIB Bank Shares to trading on the Irish Stock Exchange’s and the London Stock Exchange’s main markets for listed securities is expected to be cancelled immediately prior to Admission.

Following the implementation of the Scheme, AIB HoldCo will be the new holding company for AIB Group. In that event, AIB’s principal activity will continue to be the provision of financial services in Ireland and the United Kingdom

and AIB's strategy will continue to be centred around its four key pillars: Customer First, Simple and Efficient, Risk and Capital Management, and Talent and Culture.

The proposed AIB HoldCo Reduction of Capital is related to, but is not a condition of, the Scheme. Under Irish company law, distributable reserves are required in order to, for example, pay dividends and (without the issue of new shares for the purpose) to effect share repurchases. If approved, the AIB HoldCo Reduction of Capital will have the effect of creating distributable reserves at AIB HoldCo level. If such reserves are not created in this manner, then AIB HoldCo (as a recently incorporated company, initially having no distributable reserves) would need to generate distributable reserves from realised profits earned by it after the Scheme Effective Date before it would be in a position to pay dividends to AIB HoldCo Shareholders or to effect share repurchases (in the case of the latter, without the issue of new shares for that purpose). The AIB Bank Board believes that having a sufficient pool of distributable reserves at the level of AIB HoldCo will provide greater flexibility, and strengthen investor confidence, in terms of any future actions that are reliant upon the availability of distributable reserves, including future dividend payments to the AIB HoldCo Shareholders or share repurchases, as and when conditions permit, and distributions on any AT1 instruments that AIB HoldCo may issue in the future.

The Restructuring Proposals comprise two key elements: the Scheme (which, if it becomes effective, will enable Admission to take place) and the AIB HoldCo Reduction of Capital.

The Directors of AIB Bank believe that the implementation of the Scheme will have the following benefits:

- (a) it will enable AIB Bank to give effect to the decision of the Resolution Authorities under the BRRD as to the PRS for AIB Group;
- (b) the establishment of AIB HoldCo will enhance AIB's ability to meet future MREL requirements; and
- (c) provide clarity to the market in relation to AIB's resolution strategy and the expected structural form of AIB's future MREL-eligible issuances.

If approved, the AIB HoldCo Reduction of Capital will have the effect of creating distributable reserves at AIB HoldCo level. Under Irish company law, distributable reserves are required in order to pay dividends and effect share repurchases (in the case of the latter, without the issue of new shares for that purpose) and therefore the AIB HoldCo Reduction of Capital will provide greater investor confidence in relation to the ability of AIB HoldCo to pay dividends, as and when conditions permit, and take other actions that require distributable reserves.

3. Effects of the Scheme

The effects of the implementation of the Scheme will be as follows:

- (a) instead of having its ordinary share capital owned by the AIB Bank Shareholders, AIB Bank will become a wholly-owned subsidiary of AIB HoldCo, with its entire issued share capital owned by AIB HoldCo;
- (b) instead of owning a given number of AIB Bank Shares, Scheme Shareholders will own an equal number of AIB HoldCo Shares; and
- (c) AIB HoldCo will become the new holding company of the AIB Group.

Immediately following the Scheme becoming effective, AIB HoldCo will not own any material assets other than the issued ordinary share capital of AIB Bank.

Cancellation of trading from the main markets of the Irish Stock Exchange and the London Stock Exchange

If the Scheme proceeds as currently envisaged, it is expected that the last day of trading in the AIB Bank Shares on the main markets of the Irish Stock Exchange and the London Stock Exchange will be 8 December 2017 and that the admission to trading of the AIB Bank Shares on the main markets and their listing on the primary listing segment of the Official List of the Irish Stock Exchange and the premium listing segment of the Official List of the FCA will be cancelled at 8:00 a.m. on 11 December 2017.

Applications will be made (i) to the Irish Stock Exchange and to the FCA, for all of the AIB HoldCo Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and the premium listing segment of the Official List of the FCA; and (ii) to the Irish Stock Exchange and the London Stock Exchange for all of the AIB HoldCo Shares to be admitted to trading on the Irish Stock Exchange's main securities market and the London Stock Exchange's main market for listed securities.

Admission is expected to become effective, and trading in AIB HoldCo Shares is expected to commence, on the main markets of the Irish Stock Exchange and the London Stock Exchange, at 8.00 a.m. on 11 December 2017.

These dates may be deferred if it is necessary to adjourn any meeting required to approve the arrangements described in this Prospectus or if there is any delay in obtaining the Court's sanction of the Scheme. In the event of a delay, the applications for cancellation of trading from the main markets of the Irish Stock Exchange and the London Stock

Exchange of the AIB Bank Shares will be deferred, so that the admission to trading will not be cancelled until immediately before Admission occurs.

With effect from (and including) the Scheme Effective Time, all share certificates representing the Scheme Shares will cease to be valid and binding in respect of such holdings and should be destroyed.

Board of directors

AIB HoldCo has the same board of directors as AIB Bank. From the Scheme Effective Time, AIB HoldCo will have the same standing board committees as AIB Bank. All directors of AIB HoldCo have been appointed on the basis that, with effect from the Scheme Effective Time, the terms of their appointment will be substantially the same as those that are currently in place with respect to their appointments to the AIB Bank Board. No additional remuneration will be paid to the directors of AIB Bank in respect of their appointment to the AIB HoldCo Board. With effect from the Scheme Effective Time, certain of the senior executives who are employed by AIB Bank (including the CEO and CFO) will perform senior executive functions in respect of AIB HoldCo.

Changes to the rights and obligations of shareholders under the AIB HoldCo Memorandum and Articles

From the Scheme Effective Time, Scheme Shareholders will no longer hold AIB Bank Shares and will no longer be subject to the AIB Bank Memorandum and Articles. Instead, they will become AIB HoldCo Shareholders and will be subject to the AIB HoldCo Memorandum and Articles. An AIB HoldCo Shareholder will have the same voting rights and the same proportionate interest in the profits, net assets and dividends of the AIB Group as he or she currently has as an AIB Bank Shareholder. The AIB HoldCo Memorandum and Articles will mirror substantially the AIB Bank Memorandum and Articles. The principal differences between the AIB HoldCo Memorandum and Articles and the AIB Bank Memorandum and Articles are described at paragraph 9 of Part VI of this Prospectus.

AIB's relationship with the Irish Government

The governance and operations of AIB are subject to operational and behavioural restrictions arising from AIB's relationship with the Irish Government. The sources of these restrictions are contractual deriving from the State's majority shareholding in AIB Bank, as well as statutory and regulatory requirements.

The relationship between AIB and the Minister for Finance was governed by the 2012 Relationship Framework until AIB Bank Admission whereupon it was amended and restated by the AIB Bank Relationship Framework. The Minister for Finance has specified the AIB HoldCo Relationship Framework, in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, at which time the AIB Bank Relationship Framework will terminate.

Furthermore, pursuant to the Deed of Covenant entered into on 10 October 2017, AIB HoldCo has undertaken, with effect from the date of the Deed of Covenant, to comply with contractual governance obligations currently applicable to AIB Bank under the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister's Letter. The obligations repeat existing obligations in respect of AIB Bank contained in the 2010 Placing Agreement, 2011 Placing Agreement and the Minister's Letter and relate to: (a) restrictions on reduction of reserves; (b) restrictions on director and senior executive/employee remuneration and termination payments; (c) assisting in the placing, offer to the public or admission to trading of AIB HoldCo Shares owned by the Minister for Finance; and (d) rights to obtain information. The Deed of Covenant also requires AIB HoldCo and AIB Bank to comply with the AIB HoldCo Relationship Framework and for AIB HoldCo to enter into a registration rights agreement with the Minister for Finance on terms not inconsistent with the AIB Bank Registration Rights Agreement in circumstances where the AIB HoldCo Shares are listed on a stock exchange that has registered with the US Securities and Exchange Commission. The Deed of Covenant requires AIB to obtain the consent of the Minister for Finance to amend the terms of the Scheme or the Resolutions (save for technical amendments which are required for the proper implementation of the Scheme and which do not have a substantive consequence on the terms or implementation of the Scheme). The Deed of Covenant will terminate if the Scheme has not become effective by 30 March 2018 (or such later date, if any, agreed by AIB Bank and AIB HoldCo and the Court may allow).

Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument entered into by AIB Bank will be replaced by a new warrant instrument (the "AIB HoldCo Warrant Instrument") pursuant to which the Minister for Finance will be issued warrants to subscribe for AIB HoldCo Shares (the "AIB HoldCo Warrants"). The AIB HoldCo Warrants will be issued on the same terms and conditions as the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised) and the AIB Bank Warrants will be cancelled.

In addition to these contractual rights, the Irish Government also has certain statutory powers under the NAMA Act, the CIFS Scheme and the ELG Scheme. If AIB HoldCo becomes the new holding company of AIB under the Scheme, AIB HoldCo will not be a NAMA Participating Institution, an AIB CIFS Covered Institution, or an AIB ELG Participating Institution, meaning that AIB HoldCo will not itself be subject to the NAMA Programme, the CIFS Scheme or the ELG Scheme. However, in that event, AIB Bank will continue to be a NAMA Participating Institution, an AIB CIFS Covered Institution and an AIB ELG Participating Institution for the purposes of the NAMA Programme, CIFS Scheme and the

ELG Scheme, respectively. As such, the NAMA Programme will in that event apply to AIB Bank and its subsidiaries, and the CIFS Scheme and ELG Scheme apply to the AIB CIFS Covered Institutions and the AIB ELG Covered Institutions, and their respective subsidiaries. For this reason, following AIB HoldCo becoming the holding company of AIB, the NAMA Programme, the CIFS Scheme and the ELG Scheme will, in all material respects, continue to apply to AIB in the same way that they do currently.

Irish Takeover Rules

The Irish Takeover Panel has, pursuant to its powers under the Irish Takeover Panel Act, provided a derogation from the application of the Irish Takeover Rules to the Scheme.

Regulatory Capital

The establishment of AIB HoldCo as the holding company of AIB, if the Scheme becomes effective, will reduce AIB's consolidated Tier 1 Capital Ratio and consolidated Total Capital Ratio due to technical requirements under the CRR, but these are within AIB's capital planning capacity and are not expected to have any material impact on AIB's ability to continue to meet its regulatory capital requirements. This point is considered in more detail at Question 8 of Section B of this Part 6.

4. Summary of the Scheme

The Scheme is to be effected by way of a scheme of arrangement between AIB Bank and the Scheme Shareholders under Chapter 1 of Part 9 of the Companies Act and a related reduction of capital of AIB Bank.

The Scheme will require approval by Scheme Shareholders at the Court Meeting and the sanction of the Court at the Court Hearing. In addition, in order for AIB Bank to give effect to the Scheme, AIB Bank Shareholders will need to approve the Scheme Resolution at the Extraordinary General Meeting.

The principal steps involved in the Scheme are as follows:

4.1 Cancellation/transfer of Scheme Shares

The Scheme Shares are comprised of the Cancellation Shares and (if any) the Transfer Shares. Under the Scheme, all the Cancellation Shares will be cancelled, and any Transfer Shares will be transferred to AIB HoldCo, on the Scheme Effective Date (which is expected to be on 8 December 2017). AIB Bank does not intend to issue any AIB Bank Shares between the Cancellation Record Time and the Scheme Record Time and therefore, no Transfer Shares are expected to be in existence at or before the time the Scheme becomes effective. Accordingly, the Directors of AIB Bank expect that the Scheme Shares will comprise Cancellation Shares only.

In consideration of the cancellation or (as the case may be) transfer to AIB HoldCo of the Scheme Shares, the Scheme Shareholders will receive, in respect of any Scheme Shares held as at the Scheme Record Time.

one AIB HoldCo Share for every Scheme Share cancelled or (as the case may be) transferred.

With effect from the Scheme Effective Time, the rights attaching to the AIB HoldCo Shares will be the same as those attaching to AIB Bank Shares (except as described at paragraph 9 below).

4.2 Establishing AIB HoldCo as the new holding company of AIB

The cancellation or (as the case may be) transfer to AIB HoldCo of the Scheme Shares will be followed forthwith with the issue of AIB HoldCo Shares to Scheme Shareholders (in consideration for the cancellation or (as the case may be) transfer of their Scheme Shares) which will result in AIB HoldCo becoming the holding company of AIB Group. This process is explained in further detail below.

5. Conditions to the Scheme

The implementation of the Scheme is conditional upon the satisfaction of certain conditions, namely:

1. the Scheme being approved by a majority in number of the Scheme Shareholders, representing at least 75 per cent. in value of the Scheme Shares held by such holders at the Scheme Voting Record Time, present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment of such Meeting);
2. the Scheme Resolution being approved by at least 75 per cent. of the votes cast by AIB Bank Shareholders (in person or by proxy) at the Extraordinary General Meeting (or at any adjournment of such Meeting);
3. the sanction by the Court (with or without modification) of the Scheme pursuant to section 453 of the Companies Act and the confirmation by the Court of the related AIB Bank reduction of capital;
4. copies of the Court Order and the minute required by section 86 of the Companies Act in respect of the AIB Bank reduction of capital being delivered for registration to the Registrar of Companies and being registered by the Registrar;

5. all regulatory approvals necessary to implement the Scheme having been obtained; and
6. the Irish Stock Exchange, the UK Listing Authority and the London Stock Exchange having acknowledged to AIB Bank or its agent (and such acknowledgements not having been withdrawn) that the applications for the admission of the AIB HoldCo Shares have been approved and (after satisfaction of any conditions to which such approvals are expressed to be subject) will become effective as soon as dealing notices have been issued by the Irish Stock Exchange, the UK Listing Authority and the London Stock Exchange acknowledging to AIB HoldCo or its agent (and such acknowledgements not having been withdrawn) that the AIB HoldCo Shares will be admitted to (i) listing on the Official Lists; and (ii) trading on the Irish Stock Exchange's and the London Stock Exchange's main markets for listed securities.

The AIB Bank Board will not take the necessary steps to implement the Scheme unless the above conditions have been satisfied (or waived) and, at the relevant time, they consider that it continues to be in AIB Bank's best interests and that of AIB Bank Shareholders that the Scheme should be implemented.

6. The Court Meeting and the Extraordinary General Meeting

6.1 Overview

The Court Meeting is being held at the direction of the Court to seek the approval by Scheme Shareholders of the Scheme. The Extraordinary General Meeting is being convened to seek the approval by AIB Bank Shareholders of elements of the Scheme and various matters in connection with the Scheme pursuant to the Scheme Resolution and of the Distributable Reserves Resolution.

Whether or not a Scheme Shareholder votes in favour of the Scheme at the Court Meeting and/or an AIB Bank Shareholder votes in favour of the Resolutions at the Extraordinary General Meeting, if the Scheme becomes effective, all Scheme Shares will be cancelled or (as the case may be) transferred to AIB HoldCo and the Scheme Shareholders will receive one AIB HoldCo Share for every Scheme Share held by them as at the Scheme Record Time.

Before the Court's approval for the Scheme can be sought, the Scheme will require approval by the Scheme Shareholders at the Court Meeting and the passing of the Scheme Resolution at the Extraordinary General Meeting. Notices of the Court Meeting and the Extraordinary General Meeting are set out in the Scheme Circular.

6.2 The Court Meeting

The Court Meeting, which has been convened for 10:00 a.m. on 3 November 2017, is being held at the direction of the Court to seek the approval of the Scheme Shareholders for the Scheme.

At the Court Meeting, voting will be by poll and not by a show of hands and each Scheme Shareholder present, either in person or by proxy, will be entitled to one vote for each Scheme Share held. The approval required at the Court Meeting is a majority in number of those Scheme Shareholders, representing at least 75 per cent. in value of the Scheme Shares held by such holders at the Scheme Voting Record Time, present and voting either in person or by proxy.

6.3 The Extraordinary General Meeting

In addition to the Court Meeting, the Extraordinary General Meeting of AIB Bank has been convened for 10:15 a.m on 3 November 2017, or as soon thereafter as the Court Meeting has concluded or been adjourned, to consider and, if thought fit, pass the Resolutions (being the Scheme Resolution and the Distributable Reserves Resolution).

In the event that the Scheme Resolution is not passed, the Scheme will not proceed. Passing of the Distributable Reserves Resolution or the taking effect of the AIB HoldCo Reduction of Capital is not a condition of the Scheme.

At the Extraordinary General Meeting, voting will be by poll and not by a show of hands and each AIB Bank Shareholder present, either in person or by proxy, will be entitled to one vote for each AIB Bank Share held at the appropriate record time.

6.4 The Scheme Resolution

The Scheme Resolution set out in the notice of Extraordinary General Meeting is a special resolution and therefore requires the approval of AIB Bank Shareholders, representing at least 75 per cent. of the votes cast by AIB Bank Shareholders, present and voting either in person or by proxy.

The Scheme Resolution is required in order to:

- authorise the AIB Bank Board to take such action as it considers necessary or appropriate to carry the Scheme into effect;
- approve the cancellation of the Cancellation Shares; and

- grant to the AIB Bank Board the authority to issue relevant securities pursuant to section 1021 of the Companies Act and to apply the reserve in the books of account of AIB Bank arising upon the cancellation described above in paying up in full and at par AIB Bank Shares, to be issued to AIB HoldCo.

6.5 The Distributable Reserves Resolution

The Distributable Reserves Resolution set out in the notice of the Extraordinary General Meeting will be proposed as an advisory and non-binding ordinary resolution. The resolution will acknowledge, approve and confirm the AIB HoldCo Reduction of Capital, which is described in more detail at paragraph 12 of this Part VI.

7. The Court Hearing and sanction of the Scheme

The Court Hearing (at which it is proposed that the Court sanction the Scheme) is expected to be held on or around 6 December 2017. Submissions and arguments to the Court are generally made orally, but any facts other than those expressed in AIB Bank's own documents that a person wishes to put forward must be put forward as evidence in the form of a sworn written statement (an affidavit being the standard form for this in Irish court practice). Any person proposing to make submissions or put forward evidence to the Court at the hearing will be requested to advise AIB Bank's Irish lawyers in advance and they in turn will advise the Court. Individuals may make these submissions personally or by a person entitled to appear in the Court (usually a solicitor or barrister in Irish practice).

The Court Hearing will take place on the advertised date or on adjourned dates then fixed by the Court. The Court will consider the submissions and evidence presented to it so as to establish whether the requirements of Irish law and AIB Bank's Articles of Association (the "AIB Bank Articles"), so far as these are applicable, have been complied with, whether the necessary majorities of Scheme Shareholders have voted in favour of approving the Scheme and whether the Scheme is fair and reasonable in all the circumstances. The Court may announce its decision immediately after the hearing or may defer this until a date to be announced later.

The Scheme contains a provision for AIB Bank and AIB HoldCo jointly to consent, on behalf of all persons concerned, to any modification of or addition to the Scheme, or to any condition that the Court may think fit to approve or impose. AIB Bank has been advised by its legal advisers that the Court would be unlikely to approve or impose any modification of, or addition or condition to, the Scheme that might be materially prejudicial to the interests of Scheme Shareholders unless Scheme Shareholders were informed of any such modification, addition or condition. It will be a matter for the Court to decide, in its discretion, whether or not further meetings of AIB Bank Shareholders should be held. If the Court does approve or impose a modification of, or addition or condition to, the Scheme that, in the opinion of the AIB Bank Board, is such as to require the consent of AIB Bank Shareholders, the AIB Bank Board will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained. AIB Bank and AIB HoldCo have agreed that in certain circumstances the necessary actions to seek sanction of the Scheme may not be taken.

If the Scheme is sanctioned by the Court and the other conditions to the Scheme are satisfied (or waived), the Scheme is expected to become effective on 8 December 2017 and dealings in AIB HoldCo Shares to be issued pursuant to the Scheme are expected to commence on 11 December 2017.

If the Scheme has not become effective by 30 March 2018 (or such later date as AIB Bank and AIB HoldCo agree and the Court may allow), it will lapse, in which event the Scheme will not proceed, there will not be a new holding company of AIB Bank, the Scheme Shareholders will remain AIB Bank Shareholders and the AIB Bank Shares will continue to be admitted to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange.

The Scheme will become effective as soon as a copy of the Court Order, together with the minute required by section 86 of the Companies Act confirming the related AIB Bank reduction of capital, have been duly delivered by AIB Bank to the Registrar of Companies for registration and have been registered by the Registrar of Companies.

If the Scheme becomes effective, it will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted in favour of the Scheme at the Court Meeting or in favour of the Resolutions to be proposed at the Extraordinary General Meeting.

The full text of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting are set out in the Scheme Circular.

8. Admission to trading on the Irish Stock Exchange and the London Stock Exchange of the AIB HoldCo Shares and cancellation of the admission to trading on the Irish Stock Exchange and the London Stock Exchange of the AIB Bank Shares

Applications will be made (i) to the Irish Stock Exchange and to the FCA for all of the AIB HoldCo Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and to the premium listing segment of the Official List of the FCA; and (ii) to the Irish Stock Exchange and the London Stock Exchange for all of the AIB HoldCo Shares to be admitted to trading on the Irish Stock Exchange's main securities market and the London Stock Exchange's main market for listed securities.

If the Scheme proceeds as currently envisaged, it is expected that the last day of trading in the AIB Bank Shares on the Irish Stock Exchange and the London Stock Exchange will be 8 December 2017 and that the admission to trading of the AIB Bank Shares on the main markets of the Irish Stock Exchange and the London Stock Exchange and their listing on the Official Lists of the Irish Stock Exchange and the FCA will be cancelled at 8:00 a.m. on 11 December 2017. Admission is expected to become effective, and trading in AIB HoldCo Shares is expected to commence, on the main markets of the Irish Stock Exchange and the London Stock Exchange, at 8:00 a.m. on 11 December 2017.

These dates may be deferred if it is necessary to adjourn any meeting required to approve the arrangements described in this Prospectus or if there is any delay in obtaining the Court's sanction of the Scheme. In the event of a delay, the applications for cancellation of trading from the main markets of the Irish Stock Exchange and of the London Stock Exchange of the AIB Bank Shares will be deferred, so that the admission to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange will not be cancelled until immediately before Admission occurs.

With effect from (and including) the Scheme Effective Time, all share certificates representing the Scheme Shares held in certificated form will cease to be valid and binding in respect of such holdings and should be destroyed.

AIB HoldCo Shares can be held in certificated or uncertificated form. Share certificates for the AIB HoldCo Shares of Scheme Shareholders who held their Scheme Shares in certificated form will be despatched by no later than the date that is two months after the Scheme Effective Date. In the case of joint holders, share certificates will be despatched to the joint holder whose name appears first in the register of members. Pending the despatch of such certificates, transfers of AIB HoldCo Shares in certificated form will be certified against the register of members of AIB HoldCo. Temporary documents of title have not been, and will not be, issued in respect of such shares.

Scheme Shares held in uncertificated form will be disabled in CREST on the Scheme Effective Date. For Scheme Shareholders who hold their AIB Bank Shares in a CREST account, AIB HoldCo Shares are expected to be credited to the relevant CREST member account on 11 December 2017. CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles of Association of AIB HoldCo (the "AIB HoldCo Articles") will permit the holding of AIB HoldCo Shares under the CREST system. Application will be made for the AIB HoldCo Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in AIB HoldCo Shares following Admission may take place within the CREST system. CREST is a voluntary system and holders of AIB HoldCo Shares who wish to receive and retain share certificates will be able to remove their AIB HoldCo Shares from the CREST system following the Scheme becoming effective.

AIB HoldCo will have the right to issue AIB HoldCo Shares to all AIB HoldCo Shareholders in certificated form if, for any reason, it wishes to do so.

All instructions, mandates, elections and communication preferences of Scheme Shareholders then in force on the Scheme Effective Date relating to notices and other communications will, unless and until varied or revoked, be deemed from the Scheme Effective Date to be valid and effective mandates or instructions to AIB HoldCo in relation to the corresponding holding of AIB HoldCo Shares.

All documents, certificates, cheques or other communications sent by, to, from or on behalf of Scheme Shareholders, or as such persons shall direct, will be sent entirely at their own risk.

9. Changes to the AIB HoldCo Memorandum and Articles

9.1 Overview

The AIB HoldCo Articles will become effective at the Scheme Effective Time. They are available for inspection at AIB Bank's registered office in Dublin and at its offices in London (the addresses of which are given in paragraph 22 of Part XX of this Prospectus) and in electronic form on AIB's website, www.aib.ie/investorrelations.

The AIB HoldCo Memorandum and Articles mirror substantially the AIB Bank Memorandum and Articles. A redline version of the AIB HoldCo Memorandum and Articles as compared to the AIB Bank Memorandum and Articles, showing all changes made to the latter, is available for inspection at the above addresses and in electronic form on AIB's website, www.aib.ie/investorrelations. The principal differences between the AIB Bank Memorandum and Articles and the AIB HoldCo Memorandum and Articles are summarised below.

9.2 Changes to objects clause in the AIB HoldCo Memorandum

The objects in the AIB HoldCo Memorandum will be amended and updated (as against those in the AIB Bank Memorandum) so that they are appropriate for a holding company of its nature and also reflect the nature of business that will be carried on by AIB HoldCo. In particular, the amendments and updates to the AIB HoldCo Memorandum will include:

- the replacement of the main objects clause permitting the undertaking of banking and related activities with one which permits those of a holding company which is to acquire AIB Bank and to raise finance that will be used by AIB HoldCo for intra-group funding activities; and

- the deletion of objects or powers relating to the engagement in financial activities (or holding out as being entitled to engage in such activities) by AIB HoldCo which would require AIB HoldCo to be authorised by the Central Bank or another regulator.

9.3 **Subscriber Shares**

In order to enable it to meet applicable requirements under the Companies Act as to its minimum allotted share capital by virtue of it being an Irish incorporated public limited company, AIB HoldCo has issued 40,000 ordinary shares of €0.625 each to MFSD Holdings Limited and MFSD Nominees Limited (companies owned and controlled by McCann FitzGerald, AIB Group's legal advisors in relation to the Restructuring Proposals). Subject to and conditional on the Scheme becoming effective, those shares will be converted into 40,000 Subscriber Shares, which will carry no voting or income rights and have only limited rights on a return of capital (being the right of the holders to be repaid, in priority to the holders of ordinary shares, the nominal value of the Subscriber Shares held by them). The 40,000 Subscriber Shares will be redeemed at par and cancelled at an appropriate time following the Scheme Effective Time. The AIB HoldCo Articles include provisions dealing with the Subscriber Shares.

9.4 **New provisions dealing with general meetings**

The AIB HoldCo Articles will include provisions, not currently contained in the AIB Bank Articles, that give the AIB HoldCo Board additional flexibility in the convening and conduct of general meetings. In particular, they include provisions that:

- allow AIB HoldCo to postpone a general meeting where the AIB HoldCo Board considers that it is impracticable or unreasonable to hold a general meeting on the date or at the time or place stated in the notice calling the meeting;
- give the Chairman of AIB HoldCo additional powers to interrupt or adjourn any general meeting if he is of the opinion that it has become necessary to do so in order to secure the proper and orderly conduct of the meeting or to give all persons entitled to do so a reasonable opportunity of attending, speaking and voting at the meeting or to ensure that the business of the meeting is properly disposed of;
- give the Chairman of AIB HoldCo and the AIB HoldCo Board additional powers to ensure the security of general meetings and the safety of the people attending those meetings and also, where necessary, facilitate use of appropriate over-flow rooms to accommodate additional attendees who cannot be seated in the main meeting room;
- require any proposed amendments to a resolution duly proposed as an ordinary resolution to be notified to AIB HoldCo at least 48 hours prior to the time appointed for holding the relevant general meeting and clarify that, in the case of a resolution duly proposed as a special resolution, no amendment to it (other than an amendment to correct a patent error) may in any event be considered or voted on; and
- give the Chairman of AIB HoldCo powers with respect to the conduct of polls at general meetings, including to appoint scrutineers.

9.5 **Payment of interim dividends**

The AIB Bank Articles currently contain a provision to the effect that a resolution of the AIB Bank Board declaring an interim dividend shall (once announced) be irrevocable. It is proposed that this provision not be replicated in the AIB HoldCo Articles to ensure maximum flexibility from an AIB Group regulatory capital perspective. This will have the effect that, from the Scheme Effective Time, an interim dividend declared by AIB HoldCo can be cancelled by AIB HoldCo at any time prior to the time at which it is paid.

9.6 **Communications with AIB HoldCo Shareholders**

The AIB HoldCo Articles will provide that, where an AIB HoldCo shareholder has previously consented to receipt of notices or documents by means of an electronic communication or using electronic means in respect of his or her or its holding of ordinary shares in AIB Bank, such consent shall be deemed to apply to AIB HoldCo for the purpose of the notice provisions in the AIB HoldCo Articles.

The AIB HoldCo Articles will also include updated provisions setting out the basis on which AIB HoldCo may give notices in electronic form and/or by means of a website. In addition, they will provide that AIB HoldCo may cease sending notices by post to members where notices have been returned undelivered twice on two consecutive occasions from such members and, following such second occasion, reasonable enquiries have failed to establish any new address of the registered holder of the shares. These provisions are described in detail at paragraph 5.2.21 of Part XX of this Prospectus.

10. **AIB Bank Warrants**

The effects of the Scheme on the AIB Bank Warrants to subscribe for AIB Bank Shares issued by AIB Bank are described in paragraph 1.6 (under the heading ‘Warrants’) of Part X of this Prospectus.

11. **Directors’ and other interests**

Details of the current interests of the Directors of AIB HoldCo, in AIB Bank Shares and, if the Scheme becomes effective, AIB HoldCo Shares are set out in paragraph 8 of Part XX of this Prospectus.

The effects of the Scheme on the service contracts of the executive directors of AIB Bank and the terms of appointments of the non-executive directors of AIB Bank and of AIB HoldCo are described at paragraph 3 of Section A of Part VI of this Prospectus. The total emoluments receivable by each AIB Bank Director will not be varied as a result of the Scheme or the implementation of the Restructuring Proposals.

Save as described above, the effect of the Scheme on the interests of the Directors of AIB Bank does not differ from its effect on the interests of any other holder of AIB Bank Shares.

12. **AIB HoldCo Reduction of Capital**

Since AIB HoldCo is a recently incorporated company, it will not initially have distributable reserves. Therefore, the directors of AIB HoldCo will seek the approval of the Court for the AIB HoldCo Reduction of Capital, which (if approved) will create distributable reserves in the accounts of AIB HoldCo. This will involve the nominal value of each AIB HoldCo Share being reduced from €2.47 (its nominal value at the Scheme Effective Time) to €0.625, thereby replicating the nominal value per share of the existing AIB Bank Shares.

This is a legal and accounting adjustment and will, if approved, create a new distributable reserve on the balance sheet of AIB HoldCo of approximately €5 billion (assuming no further shares of AIB Bank are issued after 6 October 2017 (being the Latest Practicable Date)). The AIB HoldCo Reduction of Capital will not, of itself, result in the return of any capital to AIB HoldCo Shareholders and should not have any impact on the market value of the AIB HoldCo Shares.

The implementation of the AIB HoldCo Reduction of Capital is conditional upon:

- confirmation by the Court; and
- the registration by the Companies Registration Office of a copy of the Court order confirming the AIB HoldCo Reduction of Capital.

At the Extraordinary General Meeting, AIB Bank Shareholders will vote on the creation of distributable reserves by AIB HoldCo (on an advisory and non-binding basis) as set out in the Distributable Reserves Resolution.

13. **Taxation**

A summary of certain Irish, UK and U.S. federal income tax consequences of the Scheme is set out in Part XIX of this Prospectus. The summary is intended as a general guide only and, if you are in any doubt as to your tax position, you should consult an appropriate independent professional adviser.

14. **Other Considerations**

The Directors of AIB Bank also considered that the AIB Group is party to a variety of arrangements that could potentially terminate upon a change of control of the AIB Group, including a change of control as a result of the Scheme. The AIB Group has undertaken a review of its material agreements in that regard and has assessed that it is not expected that any change of control provisions contained in such agreements would give rise to the exercise of the termination rights on the implementation of the Scheme that would have a material impact on AIB.

15. **Overseas Shareholders**

General

15.1 The distribution of this Prospectus, the Scheme Circular and the allotment and issue of the AIB HoldCo Shares in jurisdictions other than Ireland and the United Kingdom may be restricted by law. No action has been taken by AIB HoldCo or AIB Bank to obtain any approval, authorisation or exemption to permit the allotment or issue of the AIB HoldCo Shares or the possession or distribution of the Prospectus and the Scheme Circular (or any other publicity material relating to the AIB HoldCo Shares) in any jurisdiction, other than Ireland and the United Kingdom.

15.2 The Scheme may have implications for Overseas Shareholders under the laws of the relevant overseas jurisdictions. Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or

other taxes or duties or payments due in such jurisdiction. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.

- 15.3 No AIB HoldCo Shares or any other securities of AIB HoldCo have been marketed to, nor are any available for purchase by, in whole or in part, the public in Ireland, the United Kingdom or elsewhere in connection with the Restructuring Proposals. This Prospectus does not constitute an offer or form part of an offer to purchase, sell, subscribe for or exchange or the solicitation of an offer to purchase, sell, subscribe for or exchange any securities or the solicitation of any vote or approval in any jurisdiction in which such offer or solicitation would be unlawful.
- 15.4 This Prospectus has been prepared for the purposes of complying with Irish law and the Listing Rules and information disclosed herein may not be the same as that which would have been disclosed if this Prospectus had been prepared in accordance with the laws of any other jurisdiction.
- 15.5 AIB Bank Shareholders who are citizens or residents of the United States or other jurisdictions outside Ireland or the United Kingdom should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

Restricted Jurisdictions

- 15.6 The AIB Bank Board may determine that the Scheme Circular and other Scheme documentation shall not be distributed into Restricted Jurisdictions.

Restricted Shareholders

- 15.7 If, in respect of any Overseas Shareholders, the AIB HoldCo Board considers that the allotment and issue of AIB HoldCo Shares may infringe the laws of any jurisdiction outside Ireland or the United Kingdom or that to seek legal advice in relation to same would be unduly onerous having regard (without limitation) to the cost and inconvenience of obtaining such advice and complying with any requirements that might be contained in such advice, or if such allotment and issue of AIB HoldCo Shares in any such jurisdiction might require AIB HoldCo to observe any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of AIB HoldCo, it would be unable to comply with or which it regards as unduly onerous (as aforesaid), then the Scheme provides that the AIB HoldCo Board may in its sole discretion:
- (a) determine that no AIB HoldCo Shares shall be allotted and issued to such shareholders (“Restricted Shareholders”) but instead that those AIB HoldCo Shares shall be allotted and issued to a nominee appointed by AIB HoldCo as trustee for such Restricted Shareholder, on terms that they shall be sold on behalf of such shareholder as soon as reasonably practicable after the Scheme becomes effective at the best price that can be reasonably obtained at the time of sale (after the deduction of all expenses and commissions, including any amount in respect of tax payable thereon), with the net proceeds of sale being remitted to the Overseas Shareholder concerned at the risk of such shareholder; or
 - (b) determine that the AIB HoldCo Shares shall be issued to that shareholder and sold, on behalf of that shareholder, as soon as reasonably practicable after the Scheme becomes effective at the best price that can be reasonably obtained at the time of sale (after the deduction of all expenses and commissions, including any amount in respect of tax payable thereon), with the net proceeds of sale being remitted to the Overseas Shareholder at that person’s risk.

16. Importance of the Scheme

The Scheme forms part of necessary steps which AIB Bank proposes to take in order to give effect to a decision, in respect of the resolution strategy for AIB, of the Resolution Authorities for the purposes of the BRRD and related EU bank resolution measures. If the Scheme does not proceed, there could be significant regulatory consequences, including the adoption by the Resolution Authorities of a different resolution strategy for AIB and AIB’s inability to meet MREL requirements in a manner set out by the Resolution Authorities, which may in turn have adverse financial or other consequences for AIB.

17. Recommendation

The AIB Bank Board considers the Scheme and its terms to be fair and reasonable and in the best interests of AIB Bank Shareholders as a whole.

The AIB Bank Board has unanimously recommended that Scheme Shareholders vote in favour of the Scheme at the Court Meeting and that AIB Bank Shareholders vote in favour of the Resolutions at the Extraordinary General Meeting, as the members of the AIB Bank Board intend to do in respect of their own shareholdings.

SECTION B - QUESTIONS AND ANSWERS

The questions and answers set out in this Section B of Part VI (Scheme Summary) are intended to be generic guidance only and are not a substitute for reading this Prospectus in full. You should read this Prospectus in full. If you are in any doubt about the contents of this Prospectus, or as to what actions you should take, you are recommended to immediately consult, if you are resident in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) or the Investment Intermediaries Act 1995 (as amended) and, if you are resident in the United Kingdom, a person authorised under the Financial Services and Markets Act 2000, as amended, of the United Kingdom, or another appropriately authorised professional adviser if you are in a territory outside Ireland or the United Kingdom.

1. WHAT IS BEING PROPOSED?

It is proposed that pursuant to the Scheme, a new company be introduced as the holding company of the AIB Group. The new company, AIB Group plc (“AIB HoldCo”), is a recently incorporated public company registered in Ireland. Allied Irish Banks, p.l.c. (“AIB Bank”), the existing principal operating company and holding company of the AIB Group, and its operating subsidiaries will continue as the principal trading entities of the AIB Group. AIB HoldCo will carry on the usual activities of a group holding company and will also become the primary issuer of external capital securities and debt securities, issued to meet minimum requirement for own funds and eligible liabilities (“MREL”) requirements (see Question 5 below) on behalf of the AIB Group.

After the Scheme takes effect, it is also proposed that distributable reserves be created at the level of AIB HoldCo by way of a Court approved reduction of capital of AIB HoldCo (the “AIB HoldCo Reduction of Capital”).

2. WHAT ARE THE REASONS FOR THE RESTRUCTURING PROPOSALS?

The Restructuring Proposals comprise two key elements: the Scheme (which, if it becomes effective, will enable Admission to take place) and the AIB HoldCo Reduction of Capital. The purpose of the Scheme is to give effect to a regulatory decision taken by AIB’s Resolution Authorities (as defined in the answer to Question 4 below) under the EU Bank Recovery and Resolution Directive (“BRRD”) with respect to the structure of the AIB Group. Specifically, AIB’s Resolution Authorities determined that the Preferred Resolution Strategy (“PRS”) for AIB Group is a “Single Point of Entry” (“SPE”) via a holding company. Implementation of the PRS would require the introduction of a new AIB Group holding company, AIB HoldCo, to sit at the top of the AIB Group, directly above AIB Bank, and mean that any future bail-in of instruments held by external creditors would be expected to take place in the first instance at the level of that holding company. On 3 February 2017, AIB Bank announced that it had been notified of this decision by its Group Level Resolution Authority, the Single Resolution Board (“SRB”).

The purpose of the AIB HoldCo Reduction of Capital is to create distributable reserves at the level of AIB HoldCo given that, as a new company, it will not initially have any distributable reserves which are required for a company to, amongst other things, pay dividends to its shareholders or (without the issue of new shares for the purpose) to effect share repurchases.

The purpose of Admission is to allow for the admission to trading of the AIB HoldCo Shares on the main markets of the Irish Stock Exchange and the London Stock Exchange and their listings on the Official Lists of the Irish Stock Exchange and the FCA.

3. WHAT IS BANK RESOLUTION?

Bank resolution is the restructuring of a bank (including its group) which has failed, or is likely to fail, by a regulatory authority (referred to as a ‘resolution authority’) through the use of resolution tools to help stabilise the bank, ensure the continuity of its critical functions and restore it (or parts of it) to viability. A key objective of resolution is to mitigate the impact of a failing bank (or its group) on financial stability and minimise the use of taxpayers’ money in supporting failing banks (or their groups). The BRRD (see the answer to Question 4 below) provides for a number of resolution tools and measures to be available to resolution authorities in respect of failing or failed banks or their groups, including the power to sell to, or merge the bank’s or its group’s business with another bank, to set up a temporary bridge bank to operate critical functions, to separate good assets from bad assets, and a “bail-in” tool to impose losses on shareholders and creditors by means of a write-down of capital instruments and the conversion of unsecured debts into equity. Resolution of banks and their groups in the European Union is provided for under the BRRD as transposed into the laws of member states of the European Union (the BRRD was transposed into Irish law by the European Union (Bank Recovery and Resolution) Regulations 2015).

4. WHAT IS THE BRRD?

In the aftermath of the global financial crisis and the Eurozone banking crisis, there was a recognition by regulators that the pre-crisis regulatory framework was not capable of responding swiftly and robustly to a financial crisis. In response, a number of significant regulatory measures were introduced focused on the establishment of single centralised mechanisms for the supervision and restructuring of banks and their groups.

A central tenet of the post-crisis regulatory reform agenda was the BRRD, which establishes an EU framework dealing with pre-resolution and resolution mechanisms, tools and rules applicable to banks and certain investment firms and their groups. The BRRD is designed to provide the relevant resolution authorities and competent authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing bank or its group to ensure the continuity of its critical financial and economic functions, while minimising the impact of a bank's or its group's failure on the economy and financial system. The resolution authorities that determined the PRS for AIB are the SRB, as the Group Level Resolution Authority and the Bank of England, as the resolution authority for AIB Group (UK) p.l.c. ("AIB UK") (the "Resolution Authorities").

5. WHAT IS MREL?

In connection with the bail-in and other resolution tools under the BRRD, the BRRD requires banks (including through their holding companies) to issue securities which meet minimum requirement for own funds and eligible liabilities requirements. MREL is in effect a layer of bail-in-able debt which is intended to provide additional confidence that a bank has sufficient amounts of capital and liabilities that are capable of absorbing losses without recourse to public funds and in a manner that minimises the impact on financial stability. Under AIB's SPE resolution strategy with any future bail-in of instruments held by external creditors expected to take place in the first instance at the level of a new group holding company, AIB HoldCo would be the primary issuer of external MREL instruments on behalf of AIB. AIB's MREL requirements, on a group consolidated basis, are expected to be confirmed by way of a joint decision of the Resolution Authorities by the end of 2017 or early in 2018.

6. WHAT IS AN SPE RESOLUTION STRATEGY AND WHY DID THE RESOLUTION AUTHORITIES DETERMINE THAT THIS IS APPROPRIATE FOR AIB GROUP?

An SPE strategy via a holding company is a resolution strategy involving a holding company at the top of a banking group and with banking related financial services (such as deposit taking) being provided by regulated operating subsidiaries of that holding company. The holding company issues external equity and debt instruments that are structured to meet MREL requirements. If the banking group were subject to resolution measures, it is anticipated that, at least initially, these measures would be focused on shareholders and creditors at the holding company level thereby seeking to preserve the business of operating regulated subsidiaries such as those conducting a banking business. The Resolution Authorities have determined that an SPE strategy via a holding company is the PRS for AIB Group. Implementation of the PRS would require the introduction of a new AIB Group holding company and mean that any future bail-in of instruments held by external creditors would be expected to take place in the first instance at the level of that holding company.

In reaching its decision, the Resolution Authorities determined that the current structure of the AIB Group, whereby AIB Bank acts as both AIB Group's holding company in addition to it being an authorised bank operating a banking business, presents a potential impediment to the speedy application of the bail-in and resolution tools available under the BRRD. A key consideration in the Resolution Authorities' assessment of the SPE resolution strategy for AIB Group is the ease and speed of effecting pre-resolution and resolution measures (including write-down of capital instruments and (as the case may be) bail-in of debt instruments) in the event of regulatory intervention being deemed appropriate. From the perspective of the Resolution Authorities, taking such measures at the level of a new holding company (i.e. AIB HoldCo) could enable a speedier and simplified bail-in and resolution process with less risk of disruption to the financial system than if such measures were effected at the level of AIB Bank, which has significant operating activities, depositors and other creditors.

7. WHAT ARE THE BENEFITS OF THE RESTRUCTURING PROPOSALS?

Establishing AIB HoldCo as the new group holding company will ensure that the AIB Group implements the PRS as determined by the Resolution Authorities and has available to it a platform for the issuance of capital and debt instruments that are expected to meet MREL requirements under the BRRD framework, and provides clarity to the market in relation to AIB's resolution strategy and the form of future MREL issuances.

The establishment of AIB HoldCo as the new holding company of AIB Group should also avoid or reduce the negative consequences referred to in Question 21 which may otherwise arise.

The AIB HoldCo Reduction of Capital, if approved, will create distributable reserves at AIB HoldCo level which will facilitate the future payment of dividends and other actions that are reliant upon the availability of distributable reserves. If such distributable reserves are not created in this manner, then AIB HoldCo (as a recently incorporated company, initially having no distributable reserves) would need to generate distributable reserves from realised profits earned by AIB HoldCo after the Scheme Effective Date before it would be in a position to make distributions to AIB HoldCo Shareholders.

8. WILL THE RESTRUCTURING PROPOSALS HAVE AN IMPACT ON AIB GROUP'S REGULATORY CAPITAL POSITION?

Under Regulation 575/2013 on prudential requirements for credit institutions and investment firms (the "CRR"), upon the establishment of AIB HoldCo as the new holding company of AIB, a portion of the regulatory capital instruments issued

by an AIB subsidiary (including AIB Bank) to third party investors will not be recognised in full for AIB consolidated regulatory capital purposes. Upon the establishment of AIB HoldCo as the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group), a portion of the regulatory capital reserves represented by the existing Additional Tier 1 (“AT1”) and Tier 2 Capital instruments issued by AIB Bank will as a consequence not qualify as regulatory capital at consolidated AIB level.

Had a new holding company for AIB Group been implemented as of 30 June 2017, it is estimated that AIB’s consolidated Tier 1 Capital Ratio (transitional basis) would reduce by approximately 0.4 per cent. and the consolidated Total Capital Ratio (transitional basis) would reduce by approximately 0.9 per cent., both of which are within capital planning capacity for AIB Group. If, subject to regulatory approval at the relevant time, the principal existing non-equity capital instruments issued by AIB Bank were called at their first call dates, the impact of any reductions would be expected to be substantially eliminated by the end of December 2020. It should be noted that while the introduction of AIB HoldCo as a new holding company of AIB Group is expected to have a negative impact on the consolidated Tier 1 Capital and Total Capital positions of AIB, it is not expected to have an impact on the consolidated AIB CET1 Capital position as, upon the Scheme becoming effective, all of AIB’s external shareholders will be at the level of AIB HoldCo. See “*Part XVI: Unaudited Pro Forma Financial Information*” for the unaudited pro forma financial information prepared to illustrate the effect (on both a transitional and fully loaded basis) of the Scheme as if it had become effective on 30 June 2017.

9. **WHAT WILL SCHEME SHAREHOLDERS END UP WITH AFTER THE SCHEME COMES INTO EFFECT AND WILL THE RIGHTS OF SCHEME SHAREHOLDERS BE AFFECTED?**

If the Scheme becomes effective, then instead of owning a given number of AIB Bank Shares, AIB Bank Shareholders will own an equal number of AIB HoldCo Shares, with no dilution or change in voting rights. If the Scheme becomes effective, then it is expected that the admission of the AIB Bank Shares to trading on each of the main markets of the Irish Stock Exchange and the London Stock Exchange will be cancelled and that the AIB HoldCo Shares will be admitted to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange. Trading in the AIB HoldCo Shares is expected to commence on the main markets of the Irish Stock Exchange and the London Stock Exchange at 8:00 a.m. on 11 December 2017.

10. **WILL THE RESTRUCTURING PROPOSALS INCREASE AIB GROUP’S COST BASE?**

The establishment of a new AIB Group holding company is not expected to have a material impact on AIB’s business activities or on its operating costs.

11. **HOW WILL THE RESTRUCTURING PROPOSALS AFFECT THE GOVERNANCE STRUCTURE OF AIB?**

AIB HoldCo has the same board of directors as AIB Bank. It is proposed that the existing standing board committees of AIB Bank will be replicated at AIB HoldCo level with the relevant board committees at both levels being composed of identical members. The directors of AIB Bank will not receive any additional compensation for membership of the board of AIB HoldCo or its board committees. It is also proposed that the remit of the responsibilities of certain senior executives employed by AIB Bank (including the CEO and CFO) will be extended to AIB HoldCo.

12. **WHY ARE TWO SHAREHOLDER MEETINGS REQUIRED?**

The two meetings, being the Court Meeting and the subsequent Extraordinary General Meeting, are being called for different purposes and will be held on 3 November 2017 at the same venue, one immediately after the other.

Under the Companies Act, a scheme of arrangement must be approved at a special meeting or meetings of shareholders convened by either the directors of the company or the Court for the specific purpose of approving the Scheme, which meeting is referred to in this Prospectus as the Court Meeting. The AIB Bank Shareholders who are entitled to attend and vote at the Court Meeting are described in this Prospectus as Scheme Shareholders or holders of Scheme Shares. The Scheme Shares are comprised of the Cancellation Shares and (if any) the Transfer Shares. AIB Bank does not intend to issue any AIB Bank Shares between the Cancellation Record Time and the Scheme Record Time and therefore, no Transfer Shares are expected to be in existence at or before the time the Scheme becomes effective. Accordingly, the Directors of AIB Bank expect that the Scheme Shares will comprise Cancellation Shares only.

The Extraordinary General Meeting, which will be held immediately after the Court Meeting, is being called to authorise the AIB Bank Board to take such action as it considers necessary or appropriate to put the Scheme into effect, including to give effect to the related reduction of capital of AIB Bank under sections 84 to 86 of the Companies Act. It will also consider and, if thought fit, approve, an advisory and non-binding ordinary resolution to acknowledge, approve and confirm the AIB HoldCo Reduction of Capital. The implementation of the Scheme and the AIB HoldCo Reduction of Capital are each conditional upon confirmation by the Court. All AIB Bank Shareholders at the applicable record time are entitled to attend the Extraordinary General Meeting.

13. WHY DOES THIS PROSPECTUS DISTINGUISH BETWEEN AIB BANK SHAREHOLDERS AND SCHEME SHAREHOLDERS?

A scheme of arrangement is a formal procedure under the Companies Act. In proposing the Scheme, AIB Bank is required to clearly identify the AIB Bank Shares that will be subject to the Scheme (if approved) and also the AIB Bank Shareholders who are entitled to vote on the Scheme at the Court Meeting. In this Prospectus, the AIB Bank Shares that will be subject to the Scheme (if approved) are described as Scheme Shares (which in turn are comprised of Cancellation Shares and Transfer Shares) and the AIB Bank Shareholders who are entitled to vote on the Scheme at the Court Meeting are described as Scheme Shareholders.

For technical reasons under the Companies Act, AIB HoldCo has already acquired one AIB Bank Share (which is defined in this Prospectus as the “Excluded Share”) and that AIB Bank Share is excluded from the operation of the Scheme. Accordingly, AIB HoldCo is not a Scheme Shareholder and it is not entitled to vote at the Court Meeting and, if the Scheme becomes effective, the Excluded Share will not be cancelled and AIB HoldCo will not be issued with a new AIB HoldCo Share in respect of the Excluded Share.

14. WHAT IS A SCHEME OF ARRANGEMENT AND WHY IS AIB BANK USING THE SCHEME TO IMPLEMENT THE RESTRUCTURING PROPOSALS?

A scheme of arrangement is a formal procedure under the Companies Act that is commonly used to carry out corporate reorganisations and is, in the view of the AIB Bank Board, the best way of achieving the proposed reorganisation of the AIB Group. The Scheme requires the approval of the Scheme Shareholders at the Court Meeting and approval of the Scheme Resolution by AIB Bank Shareholders at the Extraordinary General Meeting and the subsequent approval of the Court. If the relevant approvals are obtained, all AIB Bank Shareholders will be bound by the Scheme, regardless of whether or how they voted at the Meetings.

15. DO SCHEME SHAREHOLDERS HAVE TO PAY ANYTHING UNDER THE SCHEME?

No. The AIB HoldCo Shares arising as a result of the Scheme are being issued to Scheme Shareholders in return for the cancellation or transfer to AIB HoldCo of their existing AIB Bank Shares. No additional payment is required. In relation to taxes, see Question 24 below.

16. DO AIB BANK SHAREHOLDERS NEED TO VOTE?

It is important that AIB Bank Shareholders vote at the Meetings, whether in person or by proxy. This applies both to the Court Meeting (for Scheme Shareholders) and the Extraordinary General Meeting (for AIB Bank Shareholders), so as to demonstrate to the Court that there is a fair representation of the opinion of AIB Bank Shareholders.

Scheme Shareholders or (as the case may be) AIB Bank Shareholders may appoint someone (known as a proxy) to act on his, her or its behalf, attend and vote at those Meetings. A proxy need not be an AIB Bank Shareholder but must attend the Meetings in order to vote on behalf of the relevant AIB Bank Shareholder.

17. HOW ARE VOTES TAKEN?

At the Court Meeting, voting will be by poll and not by a show of hands and each Scheme Shareholder present, either in person or by proxy, will be entitled to one vote for each Scheme Share held by that Scheme Shareholder. The approval required at the Court Meeting is a majority in number of those Scheme Shareholders, representing at least 75 per cent. in value of the Scheme Shares held by such holders at the Scheme Voting Record Time, present and voting either in person or by proxy.

At the Extraordinary General Meeting, voting will be by poll and not by a show of hands and each AIB Bank Shareholder present, either in person or by proxy, will be entitled to one vote for each AIB Bank Share held at the appropriate record time.

18. HOW DO AIB BANK SHAREHOLDERS APPOINT A PROXY?

Scheme Shareholders or (as the case may be) AIB Bank Shareholders may appoint a proxy by completing the green Form of Proxy (in relation to the Court Meeting) and the purple Form of Proxy (in relation to the Extraordinary General Meeting) and returning them (either physically or electronically) in accordance with the instructions set out on the relevant Form of Proxy.

19. HOW CAN AIB BANK SHAREHOLDERS VOTE?

Scheme Shareholders or (as the case may be) AIB Bank Shareholders can vote in person at the meetings or can complete, sign and return the Forms of Proxy. Scheme Shareholders or (as the case may be) AIB Bank Shareholders can also vote online by going to www.eproxyappointment.com.

20. WHAT ACTION MUST BE TAKEN TO COMPLETE A FORM OF PROXY?

Scheme Shareholders should complete the green Form of Proxy (for the Court Meeting) and AIB Bank Shareholders should complete the purple Form of Proxy (for the Extraordinary General Meeting) in accordance with the instructions on the form, and, where indicated:

- insert the name and address of the person they wish to nominate (if they wish their representative to attend and vote on their behalf); or
- retain the reference to the Chairman of the Meeting (if they wish the Chairman to cast their vote, as they may direct).

Forms of Proxy should be sent by post to Registrars, Computershare Investor Services (Ireland) Limited, P.O. Box 954, Sandyford, Dublin 18, Ireland or (during normal business hours) by hand to the Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, so as to be received by the following times and dates:

- green Forms of Proxy for the Court Meeting by 10:00 a.m. on 1 November 2017; and
- purple Forms of Proxy for the EGM by 10:15 a.m. on 1 November 2017,

or, in the case of an adjourned Meeting, no later than 48 hours prior to the time and date set for the adjourned Meeting or, in the case of a poll taken otherwise than at or on the same day as the Meeting or adjourned Meeting, no later than 48 hours before the taking of the poll at which it is to be used. This will enable Scheme Shareholders' and AIB Bank Shareholders' votes to be counted at the Meetings in the event of their absence. If the green Form of Proxy relating to the Court Meeting is not returned so as to be received by the time mentioned above for return of Forms of Proxy relating to the Court Meeting, it may be handed to the Registrar at the venue of the Court Meeting or to the Chairman at the Court Meeting before the taking of the poll. However, in the case of the Extraordinary General Meeting, if the purple Form of Proxy is not lodged so as to be received by the time mentioned above for return of the Forms of Proxy relating to the Extraordinary General Meeting, it will be invalid.

Scheme Shareholders and AIB Bank Shareholders should detach and retain the attendance cards (attached to the Forms of Proxy) for attendance at the Meetings. If Scheme Shareholders' and AIB Bank Shareholders' would like to submit their proxy via the Internet, they may do so by utilising the Registrars' online proxy appointment service at www.eproxyappointment.com and following the instructions thereon. To be valid, a Form of Proxy for the Court Meeting submitted via the Internet must be received by no later than 10:00 a.m. on 1 November 2017 or, if the Court Meeting is adjourned, no later than 48 hours before the time fixed for the holding of the adjourned Court Meeting or (in the case of a poll taken otherwise than at or on the same day as the Court Meeting or adjourned Court Meeting) no later than 48 hours before the taking of the poll at which it is to be used.

21. WHAT WILL HAPPEN TO AIB BANK IF THE SCHEME DOES NOT PROCEED?

If the Scheme does not proceed, AIB Bank will remain the principal operating company and holding company of the AIB Group and the AIB Bank Shares will continue to be admitted to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange. In this scenario, AIB will be unable to implement the Resolution Authorities' PRS for AIB Group. This could have significant regulatory and financial consequences, including:

- an inability of AIB to meet MREL requirements applicable under the BRRD framework in a manner set out by the Resolution Authorities;
- the adoption by the Resolution Authorities of a different resolution strategy for AIB that could have adverse (including financial) consequences for AIB;
- the potential exercise by AIB's regulatory authorities of other regulatory powers (including the setting of capital requirements) which may have adverse (including financial) consequences for AIB Group; and
- enforcement actions against AIB by the regulatory and/or resolution authorities.

22. WHAT SHOULD SCHEME SHAREHOLDERS DO WITH OLD SHARE CERTIFICATES?

When the Scheme becomes effective, Scheme Share certificates will cease to be valid and binding in respect of such holdings and should be destroyed.

23. WHEN WILL SCHEME SHAREHOLDERS RECEIVE AIB HOLDCO SHARE CERTIFICATES

Share certificates for AIB HoldCo Shares held in certificated form will be despatched to AIB Bank Shareholders by no later than the date that is two months after the Scheme Effective Date.

24. WILL SCHEME SHAREHOLDERS HAVE TO PAY ANY TAX AS A RESULT OF THE SCHEME?

The attention of Scheme Shareholders is drawn to Part XIX of this Prospectus for a summary of certain Irish, United Kingdom and U.S. federal income taxation considerations. The summary is intended as a general guide only and if a Scheme Shareholder is in any doubt about his, her or its tax position, he, she or it should consult a professional adviser.

25. WILL AIB BANK SHAREHOLDERS BE ABLE TO TRADE AIB BANK SHARES WHILE THE RESTRUCTURING PROPOSALS ARE BEING CONSIDERED?

Yes, AIB Bank Shareholders will be able to trade his, her or its AIB Bank Shares. The last day of trading in AIB Bank Shares on the main markets of the Irish Stock Exchange and the London Stock Exchange is expected to be 8 December 2017. The last time for registration of transfers of AIB Bank Shares is expected to be 6:00 p.m. on 8 December 2017. Trading in AIB HoldCo Shares is expected to commence at 8:00 a.m. on 11 December 2017.

26. WHAT IF AIB BANK SHAREHOLDERS STILL HAVE QUESTIONS?

If AIB Bank Shareholders have read this Prospectus and still have questions, they should call the shareholder helpline on (01) 247 5411 or (if calling from outside Ireland) +353 1 247 5411.

For legal reasons this helpline will be able to provide practical information only and will not provide advice on the merits of any of the Restructuring Proposals or give any financial, legal or taxation advice. For financial, legal or taxation advice, AIB Bank Shareholders will need to consult an independent financial or legal adviser.

PART VII DIVIDEND POLICY

AIB Bank's dividend approach is, and with effect from the Scheme Effective Date, AIB HoldCo's dividend approach will be to work towards an annual pay-out ratio in line with normalised European banks, with capacity for excess capital levels to be returned to AIB Bank Shareholders and, with effect from the Scheme Effective Date, AIB HoldCo Shareholders through special dividends and/or share buy backs, subject to receipt of all regulatory and other approvals.

A final dividend in the amount of €250 million in respect of AIB Bank Shares for the financial year ended 31 December 2016 was approved by AIB Bank Shareholders at the 2017 AIB Bank AGM and paid on 9 May 2017. The dividend equated to €0.0921 per AIB Bank Share based on the number of AIB Bank Shares for 2016, which was 2.714 billion. AIB Bank did not pay any dividends in respect of AIB Bank Shares for the years ended 31 December 2015 and 2014.

In accordance with the "Joint Decision of the European Central Bank and Prudential Regulation Authority of 25 November 2016" AIB Bank is, and, with effect from the Scheme Effective Date, it is expected that AIB HoldCo will be required to obtain prior approval from the SSM in order to pay dividends to shareholders. Conditional on the Scheme becoming effective, AIB HoldCo expects to seek approval in 2018 for the payment of a final dividend for the year ended 31 December 2017.

The 2009 Preference Shares of AIB Bank carried a fixed non-cumulative dividend at a rate of 8 per cent. per annum, payable annually in arrears at the discretion of AIB Bank. Dividend payments were made in respect of the 2009 Preference Shares in accordance with their terms as follows during the period 2014 to 2015: (i) in lieu of payment of the annual dividend on the 2009 Preference Shares during the financial year ended 31 December 2014, and in accordance with the terms of the 2009 Preference Shares, 2,177,293,934 new ordinary shares of AIB Bank were issued to the NPRFC by way of bonus issue on 13 May 2014; and (ii) €446 million was paid to the National Treasury Management Agency ("NTMA") during the financial year ended 31 December 2015 (comprising a full year dividend from 14 May 2014 to 13 May 2015 of €280 million and a further accrued dividend from 14 May 2015 to 17 December 2015 of €166 million).

AIB Bank is and, with effect from the Scheme Effective Date, AIB HoldCo will be subject to the following potential restrictions on the payment of dividends on the AIB Bank Shares and the AIB HoldCo Shares respectively:

- (i) the Relevant Banking Regulator may require AIB to observe a restriction on dividend distributions in order to improve the quality and quantity of capital in advance of full implementation of CRD IV on 1 January 2019;
- (ii) dividends and other distributions on AIB Bank Shares and AIB HoldCo Shares (as relevant) as CET1 instruments under the CRR can only be paid out of distributable items within the meaning of that term in article 4(128) of CRR;
- (iii) in the case of AIB Bank, in February 2017, the Minister for Finance made rules under the terms of the Government Guarantee Schemes on the declaration and payment of dividends (the "Dividend Rules") (for additional details, see "*Part X: Relationship with Government and State Aid—Governance Restrictions—Governance Restrictions—Statutory—CIFS Scheme and ELG Scheme*"). AIB Bank is required, pursuant to the terms of the Dividend Rules and the AIB Bank Relationship Framework (and will continue to be required from the Scheme Effective Time pursuant to the AIB HoldCo Relationship Framework), to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends or distributions; and
- (iv) in the case of AIB HoldCo, with effect from the Scheme Effective Time, pursuant to the terms of the AIB HoldCo Relationship Framework, AIB HoldCo will be required to consult in writing with the Minister for Finance in respect of the declaration or payment of dividends or distributions.

Since AIB HoldCo is a recently incorporated company, it will not initially have distributable reserves. It is proposed that following implementation of the Scheme, AIB HoldCo will create distributable reserves by way of a High Court approved capital reduction of AIB HoldCo. Although AIB is not aware of any reason why the High Court would not approve the creation by AIB HoldCo of distributable reserves, the issuance of the required order is ultimately a matter for the discretion of the High Court. In the event distributable reserves of AIB HoldCo are not created by way of the AIB HoldCo Reduction of Capital, AIB HoldCo would have to generate distributable reserves from realised profits earned by it after the Scheme Effective Date before making distributions by way of dividends, share repurchases or otherwise. Subject to the availability of sufficient distributable reserves, which is a prerequisite to paying a dividend under Irish company law, and to the aforementioned restrictions, the Directors will review, on an ongoing basis, the expected timing and quantum of any possible future dividend payments (subject to any regulatory restrictions under CRD IV and the above or other restrictions that may apply). Any decision to declare and pay dividends in the future will be, subject to the receipt of regulatory approvals, made at the discretion of the Directors and will depend on AIB HoldCo's or, as applicable, AIB Bank's financial position, general economic conditions and other factors the Directors deem significant from time to time. See "*Part XX: Additional Information—Constitution—Articles—Dividends*" and "*Part II: Risk Factors—Risks Relating to the AIB HoldCo Shares—There can be no assurance that AIB HoldCo will pay dividends in the future and AIB HoldCo Shareholders may earn a negative or no return on their investment in AIB.*".

PART VIII INDUSTRY OVERVIEW

The following information relating to the banking industry in Ireland and the United Kingdom has been provided for background purposes only. The information has been extracted from a variety of sources released by public and private organisations. The information has been accurately reproduced and, as far as AIB HoldCo is aware, and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Prospective AIB HoldCo Shareholders should read this “Part VIII: Industry Overview” in conjunction with the more detailed information contained in this Prospectus, including “Part II: Risk Factors”, “Part IX: Information on AIB”, “Part XIII: Operating and Financial Review” and “Part XVIII: Supervision and Regulation”.

1 Market Overview

1.1 Macro-economic Context

The Irish economy experienced strong export led growth and moderate wage and price inflation between 1994 and 2000, with average annual GDP growth of 9.2 per cent. during this period, according to the CSO. Between 2000 and 2007, GDP continued to grow strongly, at an average annual rate of 5.9 per cent., according to the CSO, primarily driven by domestic economic factors. During the latter period, however, the following negative trends developed:

- There was a systematic shift away from stable and reliable tax sources, such as personal income tax, VAT and excises, and towards cyclically sensitive taxes linked to high levels of construction activity, such as stamp duties and capital gains tax.
- The loan books of Irish banks became heavily concentrated with construction and property loans. Irish banks also became very reliant on wholesale funding (Source: Report of the Commission of Investigation into the banking sector in Ireland, Nyberg, 2011). As the global financial crisis worsened, credit markets became more difficult to access, creating a capital and liquidity shortfall for Irish banks, leading to intervention by the Irish Government.
- While unemployment consistently remained below 5.0 per cent. and the number of people in employment grew from 1.7 million in 2000 to over 2.1 million in 2007 (Source: CSO Statbank National Household Survey), Irish unit labour costs increased rapidly during this period. This growth was well above the Eurozone average (3.6 per cent. per annum versus 1.5 per cent. in the euro area) (Source: OECD Unit Labour Costs), indicating a substantial loss of competitiveness.

A combination of the aforementioned issues, along with wider systemic concerns across the Eurozone and a collapse in the Irish property market, triggered a loss of confidence in Irish sovereign bond markets in 2010. An announcement of further capital requirements for Irish banks in September 2010 triggered a further loss of confidence, pushing Irish Government 10-year bond yields above 9 per cent.

In December 2010, Ireland applied for the EU/IMF Programme, a programme of assistance, which was in place from December 2010 to December 2013. As part of the EU/IMF Programme, the Irish Government received €67.5 billion in exchange for committing to a four-year €15 billion fiscal adjustment to apply between 2011 and 2014. This incorporated a number of elements, including public expenditure reductions and tax increases to cut the budget deficit to below 3 per cent. of GDP by 2014.

Following measures to stabilise the banking sector and aided by growing exports, GDP grew by 1.8 per cent. in 2010 and the economy remained broadly flat in 2011 and 2012 (Source: CSO Statbank National Quarterly Accounts). Subsequently, Ireland successfully exited the EU/IMF Programme in December 2013, with every fiscal target set under the programme having been met.

Since Ireland left the EU/IMF Programme in 2013, GDP grew by 8.5 per cent., 26.3 per cent. and 5.2 per cent. in 2014, 2015 and 2016, respectively. However, the 2015 growth rate was skewed by certain one off factors including companies relocating assets to Ireland from abroad and contract manufacturing (the contribution to GDP from industry increased by 110.2 per cent. in 2015 in comparison to 2014). Future GDP figures for Ireland could be similarly affected by one off factors or challenges presented by Brexit. GDP is forecast to grow by 4.3 per cent. in 2017, 3.7 per cent. in 2018 and by 3.1 per cent. in 2019, according to the Irish Department of Finance (Source: Stability Programme Update, April 2017). This is significantly higher than the forecasted Eurozone average of 1.6 per cent., 1.8 per cent., and 1.5 per cent. in 2017, 2018 and 2019, respectively (Sources: European Economic Forecast, Winter 2017 and IMF World Economic Outlook (Oct 2016)).

Ireland’s population grew from 4.588 million in 2011 to 4.762 million in 2016, representing a compound annual growth rate of 0.75 per cent. Ireland’s age demographics are attractive compared to those of other European Union countries. Ireland has the youngest population in the European Union, with 33.3 per cent. of the population under the age of 25, compared to the United Kingdom, which has 30.3 per cent. of the population under the age of 25 (Source: CSO Population Data 2011-2016, IDA Ireland Demographics). AIB has a 45 per cent. market share of current account banking services for the population under the age of 25 in Ireland, according to the Ipsos MRBI Personal Tracker , Q2 2017.

Employment conditions have also improved, with the total number of people in employment having increased 3.5 per cent. year-on-year in the three months ended 31 March 2017 (Source: CSO Quarterly National Household Survey, Q1 2017). The unemployment rate fell from a peak of 15.2 per cent. in January 2012 to 6.1 per cent. in, September 2017 (Source: CSO Seasonally Adjusted Unemployment Rate). In addition to decreasing unemployment, there has been sustained increase in compensation per employee since 2011 with compensation per employee increasing by 1.8 per cent., 2.7 per cent. and 2.8 per cent. in 2014, 2015 and 2016 respectively (Source: Central Bank Quarterly Bulletin Q4 2016, Q2 2017).

House prices have also recovered strongly. Irish residential property prices peaked in 2007 and fell by 54.4 per cent. between their peak in April 2007 and their low point in March 2013. In June 2013, house prices experienced the first annual increase since 2007 (Source: CSO Residential Property Price Index October 2014). Recent supply shortages and improved macro-economic drivers resulted in Irish property prices recovering to 71 per cent. of peak 2007 levels (Source: CSO Residential Property Price Index, June 2017). The annual increase in the residential property price index for the years ended 31 December 2015 and 2016 was 8.9 per cent. and 6.3 per cent., respectively.

Personal spending has been increasing since 2013, as retail sales have grown by 8.2 per cent., 9.5 per cent. and 6.7 per cent. in 2014, 2015 and 2016 respectively (Source: CSO Statbank Retail Sales Index March 2017). Also consumer confidence has been increasing, as the Consumer Sentiment Index increased from 39.6 in July 2008 to 123.4 in June 2017 (Source: ESRI Consumer Sentiment Index June 2017).

The following table presents some of the macro-economic indicators highlighted above and other relevant metrics for Ireland:

Metric	2009	2010	2011	2012	2013	2014	2015	2016	2017F⁽¹⁾
GDP (constant prices) (<i>year-on-year %</i>) ⁽²⁾	(4.6)	1.8	3.0	0.0	1.6	8.3	25.6 ⁽³⁾	5.1	4.3
Unemployment (SUR) (%) ⁽²⁾	12.0	13.8	14.6	14.7	13.1	11.2	9.5	7.9	6.4
Inflation (Harmonised index of consumer prices) (%) ⁽²⁾	(1.7)	(1.6)	1.2	1.9	0.5	0.3	0.0	(0.2)	0.6
Refi rate ⁽⁴⁾	1.0	1.0	1.0	0.75	0.25	0.05	0.05	—	—
Modified Final Domestic demand (<i>year-on-year %</i>) ⁽⁵⁾	(9.7)	(4.4)	(3.4)	0.8	1.9	3.9	7.3	4.7	—
Population ('000) ⁽⁶⁾	4,533	4,555	4,575	4,585	4,593	4,610	4,635	4,674	—
Population under 25 years old (%) ⁽⁶⁾	35.0	34.5	34.0	33.8	33.6	33.4	33.4	33.3	—
Modified Investment (<i>year-on-year %</i>) ⁽⁷⁾	—	—	(11.0)	13.1	12.4	8.6	20.5	7.5	—
House prices (<i>year-on-year %</i>) ⁽⁶⁾	(19.2)	(13.4)	(17.1)	(13.5)	1.2	16.6	11.5	7.5	11.5
House completions ('000) ⁽⁸⁾	26.4	14.6	10.5	8.5	8.3	11.0	12.7	14.9	18.5
Current account (% of GDP) ⁽⁶⁾	(4.4)	(1.1)	(1.5)	(2.4)	2.0	1.5	10.9	3.3	—

Notes:

- (1) Forecasted figure.
- (2) Historical—CSO (2009-2016). Forecast—Irish Department of Finance.
- (3) 2015 GDP figure was affected by certain one-off factors as described above.
- (4) ECB.
- (5) EC.
- (6) Historical—CSO (2009-2016). Forecast—AIB Economic Research Unit.
- (7) Historical—CSO (2009-2016).
- (8) Historical—CSO (2009-2016). Forecast—AIB Economic Research Unit.

In January 2014, Moody's restored Ireland's sovereign credit rating to investment grade. Since the January 2014 rating upgrade, Ireland has been rated as investment grade by all three of the main ratings agencies. The NTMA issued €13 billion of bonds during 2015 at a weighted average yield of 1.5 per cent., €8.25 billion of bonds during 2016 at a weighted average yield of 0.82 per cent. and €8.75 billion of bonds during the first six months of 2017 at a weighted average yield of 1.3 per cent. It has also repaid €18 billion of IMF loans early, refinancing the debt at a lower rate (Source: NTMA 2015 & 2016 Annual Reports and 2017 H1 Report).

In line with its previous commitments to the Troika and the Stability and Growth Pact, the Irish Government is continuing to manage public finances prudently. A budget deficit of 1.9 per cent. of GDP was achieved in 2015. General Government debt as a percentage of GDP has declined from its peak level of 119.5 per cent. of GDP at the end of 2012 to 78.7 per cent. of GDP at the end of 2015. As a result of the Irish Government's holdings of financial assets, net Government debt was 67.1 per cent. at the end of 2015. However, these statistics are skewed by the 2015 GDP figure as

described above. Ireland’s debt to GDP ratio is estimated by the Irish Department of Finance to have been 75.4 per cent. in 2016 and is forecasted to be, 72.7 per cent. for 2017 (Source: NTMA—Government Finance Statistics, Irish Department of Finance).

As Ireland has demonstrated the strength of its recovery across both macro-economic and fiscal indicators, the cost of borrowing for the Irish Government has fallen materially, with 10 year sovereign bond yields of 0.75 per cent. as at 29 September 2017 (Source: Factset - Irish Government 10 Year Bond Yield, 29 September 2017).

1.2 Key Industry Trends

1.2.1 Pre Global Financial Crisis

Prior to the global financial crisis commencing in 2008, the Irish banking market had experienced a period of unprecedented growth. From 2002 to 2008, the total domestic assets of the Irish banking market increased from approximately €366 billion to approximately €872 billion, representing a compound annual growth rate of 16 per cent. (Source: “Stabilising and Healing the Irish Banking System: Policy Lessons, Central Bank-CEPR-IMF Conference, 2015”).

These attractive returns encouraged a number of foreign banks to enter the Irish market, particularly the Irish mortgage market. Although Irish domestic banks continued to represent a large share of the market, foreign banks had a significant impact on the market through the pricing of their offers and the introduction of new products, for example 100 per cent. LTV mortgages. Domestic banks reacted by matching the offers of foreign banks. New mortgage lending grew significantly, reaching a peak of almost €40 billion in 2006 (Source: BPF Mortgage Lending Report). In 2007, approximately 15 per cent. of new mortgages had an LTV ratio of greater than 95 per cent. (Source: Central Bank Publication, The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears, 2011). Outside of the mortgage market, property-related loans to construction businesses increased from €45 billion in 2003 to € 125 billion in 2008 (Source: Ireland’s Economic Crisis, the Good, the Bad and the Ugly, 2013).

By the end of 2007, the loan to deposit ratio of the Irish banking sector had reached approximately 200 per cent. (Source: A Preliminary Report on the Sources of Ireland’s Banking Crisis, commissioned by the Minister for Finance, 2010). A domestic funding gap resulted in an increased reliance on foreign funding.

1.2.2 Global Financial Crisis and Government Response

Ireland’s economic downturn and the onset of the global financial crisis in 2008 marked the end of the period of rapid expansion in the Irish banking sector. As house prices declined and unemployment rose, there was a significant increase in arrears and defaults, which resulted in significant growth in loan provisions across the Irish banks.

With the deeper integration of euro-based wholesale funding markets (including euro-denominated borrowing in the London market), Irish banks had become increasingly reliant on international wholesale market funding with the total value of foreign deposits totalling €600.7 billion in 2008 (Source: CSO Statbank National Quarterly Accounts). As the global financial crisis began to impact international markets, obtaining funding and liquidity became increasingly difficult for Irish banks.

Depositors also lost confidence in the stability of the banking sector and withdrew funds on a large scale. This outflow of deposits, as set forth in the chart below, was predominantly driven by a reduction in foreign deposits:

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(€ millions)								
Irish household deposits	85.2	99.1	94.6	91.3	92.4	91.2	91.4	94.7	97.1
Irish non-financial corporations deposits	43.2	40.6	33.5	30.9	30.9	33.9	39.8	42.7	45.6
European foreign deposits	243.8	199.7	151.8	141.7	113.0	91.5	96.1	85.0	84.5
Non-European foreign deposits	356.9	324.9	195.3	157.4	128.5	120.1	101.7	79.6	81.9

Source: CSO

As a result of these factors, a number of measures were implemented by the Irish Government in order to restore confidence in the Irish banking system and to enhance the availability of liquidity and improve access to funding for systemically important financial institutions in Ireland.

- *CIFS Scheme:* In September 2008, the Minister for Finance introduced the CIFS Scheme, which guaranteed certain types of liabilities (the “Covered Liabilities”) of certain institutions (the “Covered Institutions”) until 29 September 2010.
- *Preference Shares:* On 21 December 2008, the Minister for Finance announced his intention to subscribe for €5.5 billion of preference shares in three Irish financial institutions: €2.0 billion of preference shares in AIB Bank, €2.0 billion in Bank of Ireland and €1.5 billion in Anglo Irish Bank, in order to reinforce their capital position and ensure they could meet the economy’s financial needs. In conjunction with the announcement, those financial institutions and the Minister for Finance agreed to a series of measures, including the provision of increased lending

capacity for SMEs and mortgage borrowers. On 11 February 2009, following the nationalisation of Anglo Irish Bank, the amount of preference shares to be subscribed for at each of AIB Bank and Bank of Ireland was increased to €3.5 billion and the NPRFC subscribed for the €3.5 billion 2009 Preference Shares in AIB Bank on 13 May 2009 (which shares became assets of the ISIF, itself owned by the Minister for Finance, in 2014).

- *ELG Scheme*: On 9 December 2009, the Minister for Finance commenced the ELG Scheme, which was intended to facilitate participating institutions issuing debt securities and taking deposits with a maturity of up to five years on either a guaranteed or unguaranteed basis. On 26 February 2013, the Minister for Finance announced that the ELG Scheme would be closed for all new liabilities placed after midnight on 28 March 2013.
- *NAMA*: In addition to the CIFS Scheme and the ELG Scheme, to isolate the impact on the Irish banking system from land and development and associated loans, and to assist with the funding difficulties encountered by certain Irish banks, in April 2009 the Irish Government created NAMA. Five institutions applied to join the NAMA Programme and were designated as participating institutions in February 2010: AIB; Bank of Ireland; Irish Bank Resolution Corporation (“IBRC”) under its former name Anglo Irish Bank Corporation; Irish Nationwide Building Society; and EBS.

NAMA subsequently acquired loan assets with a nominal value of €74 billion (comprising approximately 12,000 loans secured against approximately 60,000 properties). In exchange for these loans, NAMA issued approximately €30.2 billion of senior debt securities to the five participating financial institutions, which were guaranteed by the Minister for Finance, and approximately €1.6 billion of subordinated debt securities, which were not guaranteed.

(a) EU/IMF Programme and Financial Management Programme

As part of its obligations under the EU/IMF Programme, on 31 March 2011 the Central Bank introduced the Financial Measures Programme (the “FMP”). The two principal requirements of the FMP were (i) deleveraging by the participating banks, corresponding to the output of the PCAR and PLAR risk measurement tests, the results of which were also announced on 31 March 2011 and (ii) the raising of additional regulatory capital.

In 2011, as a consequence of PCAR and PLAR, the participating banks were required to hold sufficient capital to maintain a capital target of 10.5 per cent. Core Tier 1 in the base scenario and 6.0 per cent. Core Tier 1 in the stress scenario, as well as allow for an additional protective buffer. Cumulatively, AIB/EBS, Bank of Ireland and Irish Life & Permanent needed to raise €24 billion in capital in order to meet this requirement. Each bank was also required to meet a liquidity requirement of a target loan to deposit ratio of 122.5 per cent. by 2013 through a combination of run-off and disposals of non-core assets. In aggregate, the Irish Government provided capital injections of €16.5 billion, as set forth below:

	AIB/EBS ⁽¹⁾	Bank of Ireland	Irish Life & Permanent	Total
	(€ billions)			
Equity and capital contributions.....	11.1	0.2	2.3	13.5
Contingent capital notes (10 per cent. coupon).....	1.6	1.0	0.4	3.0
Total⁽²⁾	12.7	1.2	2.7	16.5

Source: CSO “ESA95 accounting treatment of July 2011 capital injections into Irish banks”.

Note:

(1) AIB and EBS were subject to the FMP individually. The figures relating to AIB/EBS reflect the combined contribution provided to AIB and EBS.

(2) Total figures in the table are subject to rounding.

The balance of €7.5 billion in capital requirements was raised through contributions from subordinated debt holders and the sale of assets to generate capital, as well as through private sector investors.

Following the above recapitalisation of AIB/EBS, Bank of Ireland and Irish Life & Permanent, the assets and liabilities of Irish Nationwide Building Society were transferred to IBRC. AIB acquired EBS in July 2011 and it was agreed that EBS would operate as a standalone subsidiary of AIB and continue as a separate brand.

1.3 Post Global Financial Crisis

(a) Deleveraging

The pace of expansion in lending to Irish households in the pre-crisis years was among the highest in the Eurozone. As of 31 December 2010, the average loan to deposit ratio for the four largest Irish banks (AIB, Bank of Ireland, EBS and Irish Life & Permanent) was approximately 180 per cent., compared to a loan to deposit ratio target of 122.5 per cent. set out by the Central Bank in March 2011 (Source: Central Bank of Ireland The Financial Measures Programme Report March 2011).

The subsequent decline in lending was particularly significant for consumer lending, which declined from €21.7 billion in December 2008 to a low of €11.2 billion in March 2016 (Source: Central Bank of Ireland, Loans to Irish Households). The extent of the contraction in household lending in Ireland was more pronounced than in the Eurozone as a whole. Consumer credit balances in Ireland (including term loans, hire purchase, vendor finance, credit cards and overdrafts and personal loans) contracted during the global financial crisis, although the decline has begun to reverse since February 2016. Consumer credit balances were €12.6 billion as at June 2017 (Source: Central Bank of Ireland, Loans to Irish Households). Household deleveraging has been a recent feature of the post crisis deleveraging. Household debt as a percentage of disposable income increased from 113.1 per cent. at the end of 2002 to 219.8 per cent. at its peak in Q1 2011. In the intervening period, this ratio has reduced to 145.2 per cent. as of Q1 2017 (Source: CBI Household Credit Market Report, CBI QFA, Q1 2017). The post-crisis decline in corporate and commercial lending was initially concentrated in longer-term loans, while short-term loans including the use of overdrafts continued to increase, albeit at a much slower pace. The Irish banking system's loan to deposit ratio is slightly lower than the Eurozone average, at approximately 111 per cent. as at March 2017, compared to a Eurozone average of approximately 119 per cent. as at March 2017, as banks have reduced their wholesale funding reliance and deleveraged their loan portfolios (Source: ECB - Eurozone Loan-to-Deposit Ratio, Irish Loan-to-Deposit Ratio).

(b) Government Initiatives in Mortgages and Housing

On 27 January 2015, the Central Bank announced new macro-prudential rules to apply proportionate limits to mortgage lending by regulated financial service providers in the Irish market. These macro-prudential rules, known as the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 (the "Central Bank Housing Loan Regulations 2015"), came into force on 9 February 2015. Changes to the macro-prudential rules were made in November 2016 after a review by the Central Bank. The new rules, which are set out below, came into effect on 1 January 2017 and include:

- The property value threshold of €220,000 was removed, such that a 90 per cent. LTV limit applies to first-time buyers ("FTBs") and an 80 per cent. LTV limit applies to second and subsequent buyers ("SSBs");
- The structure of the proportionate caps was amended. Instead of an LTV allowance of 15 per cent. of total new lending for principal private residences, separate allowances for FTBs and SSBs were introduced. For SSBs, 20 per cent. of the value of new lending to this group is allowed above the 80 per cent. LTV limit and 5 per cent. of the value of new lending to FTBs is allowed above the 90 per cent. LTV limit for FTBs;
- The two-month valuation period was extended to four months; and
- There was a technical amendment to the scope of the non-principal private residence limit so that large commercial landlords and developers are not in-scope of the Central Bank Housing Loan Regulations 2015. This is being implemented by applying the Central Bank Housing Loan Regulations 2015 to consumers based on the definition in the CPC and that used by the FSO to define the scope of its jurisdiction. This definition includes persons acting outside the course of their business, trade or profession, in addition to persons (including sole traders, companies, partnerships and other unincorporated bodies of persons) with an annual turnover of €3 million or less in the preceding financial year taking into account the combined turnover of any group of persons of which they are a member.

In July 2016, the Minister for Housing published the Government Housing Plan. The plan provides an approach to achieving many of the Government's key housing objectives, as set down in the Programme for a Partnership Government. The key objectives are: (i) to significantly increase the supply of social housing; (ii) to double the output of overall housing from the current levels to at least 25,000 per annum by 2020; (iii) to service all tenure types; and (iv) to tackle homelessness in a comprehensive manner.

In addition to the updated macro-prudential rules, the Irish Government introduced a help-to-buy scheme in October 2016. Under the new scheme, first time buyers are entitled to an income tax rebate of up to €20,000, or 5 per cent. of the purchase price of a new home valued at up to €400,000, to fund their deposit. A lower rebate was introduced for new homes costing between €400,000 and €600,000.

Due in part to the Government initiatives in mortgages and housing outlined above, there was a significant increase in housing activity in 2016 in comparison to 2015. House building commencements increased by 52 per cent. to 13,200 residential units in 2016. House completions increased by 18 per cent. to 14,900 residential units in 2016, although still below the 2006 peak of 93,400 residential unit completions. Planning permission applications increased by 45 per cent. to over 16,000 residential units up to September 2016 (Source: Department of Housing, Planning, Community and Local Government). Central Bank data shows that new lending to SMEs in construction and real estate grew by 78 per cent. in 2016 in comparison to 2015, primarily driven by domestic demand growth and GDP growth, which grew by 17.1 per cent. and 5.2 per cent. in 2016, respectively (Source: CBI credit to SMEs Construction & Real Estate, Domestic Demand: Data and Table confirming macro-economic indicators for Ireland, Department of Finance Stability Program Update 2017). As a result of these trends, forecast house completions have risen to 19,500 units for 2017 and 23,500 for 2018 (Source: Central Bank - Quarterly Economic Bulletin, Q3 2017). This compares to 11,000 units completed in 2014, 12,700 in 2015 and 14,900 in 2016 (Source: CSO Statbank, Department of Housing, Planning, Community and Local Government).

Furthermore, residential property prices regained momentum in the second half of 2016, with CSO data showing a year-on-year increase of 8.1 per cent. for December 2016 in residential property prices nationally (Source: CSO Residential Property Price Index December 2016). Residential property prices have risen by 11.6 per cent. in the year to June 2017 (Source: CSO Residential Property Price Index June 2017).

(c) Current Demographics of the Irish Banking Market

The size of the Irish mortgage lending market, in terms of total new lending, has increased from €4.9 billion in 2015 to €5.7 billion in 2016 (Source: BPFi Mortgage Lending Report). The increase in new mortgage lending has been supported by the Government's initiatives in mortgages and housing. The size of the Irish business lending market, in terms of total new lending, was €5.3 billion in 2016 and is expected to grow to €8.7 billion by 2020 (Source: Central Bank SME Market Report/BPFi SME Market Monitor). Growth in new lending in the business lending sector is expected to be helped by the year-on-year growth in GDP. The size of the Irish personal lending market, in terms of total new lending, was €1.8 billion in 2016 and is expected to grow to €3.0 billion by 2020 (Source: AIB Credit Market Outlook Presentation, September 2016). The expected growth in new personal lending reflects the improved consumer sentiment in Ireland, as the Consumer Sentiment Index increased from a low of 39.6 in July 2008 to 123.4 in June 2017 (Source ESRI Consumer Sentiment Index June 2017).

1.4 Competitive Landscape

The competitive landscape of the Irish banking sector has changed dramatically since the global financial crisis. Under Irish Government ownership, Anglo Irish Bank and Irish Nationwide Building Society were merged in June 2011 to form IBRC, which was subsequently put into special liquidation in February 2013. In 2011 AIB acquired EBS. Also, several foreign banks exited the Irish market. For example, Bank of Scotland (Ireland), a member of Lloyds Group, announced its withdrawal from the Irish market. Similarly, Danske Bank and ACC Bank (owned by Rabobank) closed their retail businesses in Ireland (although Danske Bank remains open to new corporate and institutional business).

The Irish banking sector is concentrated in the two largest banks in terms of total assets, AIB and Bank of Ireland, based on their publicly available financial statements. This compares to the situation in Northern Ireland and the United Kingdom, where the banking sectors are more fragmented. Other significant banks in the Irish banking sector include Ulster Bank, KBC and permanent tsb. Ulster Bank is a subsidiary of the RBS Group, which is in turn majority owned by the UK Government. KBC is a subsidiary of the Belgian bank, KBC Bank, which was previously a recipient of state aid from the Belgian government. permanent tsb also received state aid and the Irish Government currently has a 75 per cent. shareholding, according to its publicly available financial statements.

A number of Fintech companies have entered the Irish market recently, providing services such as online transaction and payments, currency trading, mobile banking, crowdfunding and peer-to-peer lending. These Fintech companies typically have lower cost bases than traditional banks, do not have legacy issues such as IT systems issues or non-performing loans and operate in a less onerous regulatory framework than traditional banks. Examples of Fintech companies operating in the Irish market include CurrencyFair, LinkedFinance, Fundit, Realex, Kickstarter, PayPal and Apple Pay. Other new entrants such as non-bank lenders have also become active in the Irish market, providing niche funding solutions to customers. Examples of non-bank lenders in the Irish market include Finance Ireland, Volkswagen Bank, Frank Mortgages, BlueBay, the Strategic Business Corporation of Ireland ("SBCI"), Pepper, Dilosk and Relm.

1.4.1 Mortgages

As at June 2017 the annualised size of the mortgage market in Ireland in terms of new lending was €6.1 billion. AIB has approximately 36 per cent. of Irish residential mortgage drawdowns in the market across all three of its mortgage brands to the six months ended 30 June 2017, based on BPFi published data.

AIB had €1.1 billion in total drawdowns in the six months ended 30 June 2017, a 42 per cent. increase compared to the six months ended 30 June 2016.

1.4.2 Main business loans and current accounts

As at 30 June 2017, AIB and Bank of Ireland have the largest market shares in the main business loans market, with estimated market shares of 34 per cent. and 42 per cent. for the six months ended 30 June 2017, respectively, based on the AIB SME Financial Monitor June 2017. Ulster Bank and permanent tsb accounted for 5 per cent. and 3 per cent. of main business loans, respectively. In terms of business current accounts, AIB and Bank of Ireland are the market leaders, with estimated market shares of 43 per cent. and 39 per cent. for the six months ended 30 June 2017, respectively, based on the AIB SME Financial Monitor June 2017. Ulster Bank and permanent tsb accounted for 11 per cent. and 6 per cent. of business current accounts, respectively.

1.4.3 Personal loans

As at 30 June 2017, AIB and Bank of Ireland are the market leaders for personal lending within the banking sector, with estimated market shares of 20 per cent. and 15 per cent. for the six months ended 30 June 2017, respectively, based on the Ipsos MRBI Personal Tracker Q2 2017. The other major players include credit unions (49 per cent. market share), Ulster Bank (3 per cent. market share) and permanent tsb (3 per cent. market share).

1.4.4 Personal main current accounts

As at 30 June 2017, AIB and Bank of Ireland have the largest market shares in personal main current accounts, with estimated market shares of 36 per cent. and 32 per cent. for the six months ended 30 June 2017, respectively, based on the Ipsos MRBI Personal Tracker Q2 2017. Ulster Bank and permanent tsb accounted for 10 per cent. and 14 per cent. of personal current accounts, respectively.

1.4.5 Corporate banking

AIB is the leading bank for foreign direct investment in Ireland with a 49 per cent. market share of Irish banked new projects announced by the IDA in 2016. AIB believes its success in attracting clients who make foreign direct investment in Ireland is based on its relationship model, which is focused on building long-term relationships and supporting such clients in all aspects of banking, as well as its dedicated foreign direct investment unit's 30 years of experience.

1.5 Overview of Key Banking Products

The main trends affecting key banking products in Ireland are described below. For details of the competitive dynamics in relation to each of these products, see "*Market Overview—Competitive Landscape*".

1.5.1 Mortgages

The volume of outstanding mortgages in June 2017 totalled approximately €76.4 billion, 40 per cent. below the high in May 2008 of €127.3 billion (Source: Central Bank Loans to Irish Residents).

There are various types of mortgages in the Irish banking market, including SVR based mortgages, tracker mortgages and fixed-rate mortgages. In conjunction with these types of mortgages, certain banks have introduced a cash back offer on new mortgages as an incentive to consumers. As at March 2017 there was €30.4 billion of SVR based mortgages outstanding, €32.0 billion of tracker based mortgages outstanding and €11.3 billion of fixed rate mortgages outstanding in the Irish market. These figures represented 41 per cent., 43 per cent. and 15 per cent. of the Irish mortgage market (Source Central Bank of Ireland, Irish Private Sector Credit and Deposits).

New mortgage lending has increased recently, with the value of mortgage drawdowns for 2016 having increased by 16.2 per cent. on 2015 (Source: BPFi Mortgage Lending Report). Additionally, mortgage approvals by volume were 13.0 per cent. higher in 2016 than in 2015, and in 2016, mortgage approvals by value were 19.8 per cent. higher than in 2015 (Source: BPFi Mortgage Approvals Report).

Effective interest rates have varied significantly in recent years. The effective interest rate for new house purchase related loans increased from a low of 2.76 per cent. in January 2010 to 3.22 per cent. in June 2017, although it remains significantly lower than peak levels of 5.62 per cent. in September 2008 (Source: CBI Retail Interest Rates June 2017). In recent years, a number of Irish banks including Ulster Bank, KBC and AIB have reduced the effective interest rates on mortgages. The weighted average interest rate on new mortgages stood at 3.32 per cent. as of July 2017. The equivalent euro area rate was 1.84 per cent. Additionally, there was a fall in SVR mortgages on principal private residence mortgages, which fell by 23 basis points to 3.34 per cent. over the year to June 2017 (Source: Central Bank—Retail Interest Rates July 2017).

A combination of decreasing property prices, rising unemployment rates and the downturn in the broader economy from 2008 onwards resulted in a significant increase in the number of mortgage accounts in arrears. The number of mortgage accounts in arrears over 90 days increased from 3.3 per cent. of all outstanding mortgages on principal private residences as at the end of the third quarter of 2009 to a peak of 12.9 per cent. as at the end of the third quarter of 2013. The trend of increasing mortgage arrears has recently reversed, with the number of mortgage accounts for PDH in arrears over 90 days falling for the fifteenth consecutive quarter in the second quarter of 2017 to 7 per cent. of outstanding PDH accounts in arrears over 90 days. This represents a reduction of 2.5 per cent. relative to the first quarter of 2017 (Source: Central Bank Residential Mortgage Arrears and Repossession Statistics, Q2 2017).

1.5.2 SME Lending

SMEs constitute a significant part of the Irish economy and are primarily focused on the domestic economy. The volume of loans outstanding to SMEs (excluding financial and property related SMEs), according to the Central Bank—H1 2015 SME Market Report, decreased by over 40 per cent. from €36.6 billion in the first quarter of 2010 to €21.4 billion in the first quarter of 2015.

SME lending has grown strongly since the start of 2015. Annualised new lending to the first quarter of 2017 totalled €3.6 billion, representing a 32 per cent. increase compared to the first quarter of 2016 and a 38 per cent. increase compared to the first quarter of 2015 (Source: Central Bank—2017 H1 SME Market Report). Annualised new SME lending grew in the construction (44 per cent.), agriculture (8 per cent.), hotel/restaurant (95 per cent.), wholesale/retail (74 per cent.), administrative services (22 per cent.) and manufacturing sectors (104 per cent.) in the first quarter of 2017 compared to the first quarter of 2016 (Source: Central Bank—H1 2017 SME Market Report). The increase in new SME lending illustrates the improving macro-economic and SME business environment in Ireland.

Using interest rates on loans under €0.25million as a proxy for the Irish SMEs cost of credit, (per the Central Bank methodology), interest rates decreased from 5.5 per cent in H2 2016 to 5 per cent in H1 2017 (Source: Central Bank—H1 2017 SME Market Report).

There are no industry wide statistics available for SME loan impairments in Ireland. However, AIB and Bank of Ireland are the largest SME lenders in Ireland based on their publicly available financial statements, and their SME loan portfolios experienced high levels of impairments following the onset of the global financial crisis. Based on data from AIB and Bank of Ireland, impaired SME loans as a percentage of gross SME loans was 15.7 per cent. in June 2017

1.5.3 Personal Loans

Personal loans to consumers decreased significantly after the global financial crisis. Personal credit outstanding in the Irish banking sector decreased from a peak of €29.0 billion in January 2009 to €12.6 billion in June 2017. The level of outstanding consumer credit in June 2017 represents an increase of €0.7 billion and €1.3 billion on both June 2016 and 2015 levels respectively (Source: CBI Private Sector Credit and Deposits).

1.5.4 Current Accounts and Deposits

Based on data from the Central Bank, overall household deposit balances in Ireland have been relatively stable between 2010 and 2016. Household deposits in June 2017 were €99.5 billion, comprising €74.2 billion of overnight deposits, €8.1 billion of redeemable at notice deposits, €14.2 billion of deposits with up to two years maturity and €2.9 billion of deposits with more than two years maturity. These deposit categories accounted for 75 per cent., 8 per cent., 14 per cent. and 3 per cent. of total household deposits, respectively, as at June 2017.

Non-financial corporation deposits have grown from €30.9 billion in December 2011 to €46.8 billion in June 2017. Within non-financial corporation deposits, overnight deposits have steadily increased from 56 per cent. of non-financial corporation deposits in December 2011 to 80 per cent. in June 2017. However, deposits with agreed maturity decreased from €12.1 billion in 2011 to €8.4 billion in June 2017 (Source: CBI Private Sector Deposits).

1.6 Distribution Channels

The Irish banking industry is experiencing a shift towards digitisation. Banking has become increasingly omni-channel, as digital channels such as online and mobile banking are increasingly complementing traditional customer channels such as branches and call centres.

1.6.1 Digital

Approximately 2.3 million customers were active users of online banking during the fourth quarter of 2014, while 1.2 million were active users of mobile banking. There were more than 1 million online or mobile banking log-ins per day in 2014 and mobile banking log-ins exceeded online banking log-ins for the first time in the fourth quarter of 2014. Additionally, there were more than five million online or mobile banking payments per month in 2014, rising to almost 6 million per month in the fourth quarter of 2014. (Source: BPF Online and Mobile Banking Report 2014—mobile banking data not collected before 2014).

1.6.2 Branch Network

Historically, banks operating in the Irish banking market have used a branch network to distribute financial products. In 2005, Irish banks had a high number of branches per capita (34.6 branches per 100,000 adults) and ranked 21st globally. Recently, however, the number of branches per capita has decreased significantly to 20.1 per 100,000 adults in 2015, placing Ireland in 64th place out of 208 countries (Source: World Bank - Commercial Bank Branches).

1.6.3 Intermediaries

Banks operating in the Irish banking market also use intermediaries to distribute financial products. There are over 3,000 regulated intermediaries in operation in Ireland and two significant broker networks, PIBA Mortgage Services and The Irish Brokers Association (Source: Central Bank – Report on Retail Intermediary Sector in Ireland, February 2013). Intermediaries in Ireland are subject to different regulation, depending on the services they offer. For example, insurance intermediaries are regulated under the European Communities Insurance Mediation Regulations 2005 while mortgage credit intermediaries are regulated under the EU (Consumer Mortgage Credit Agreements) Regulations 2016 and/or under the CCA (Source: Central Bank - Report on Retail Intermediary Sector in Ireland, February 2013).

1.7 Regulatory Developments

Regulatory developments relating to the Irish banking industry are described in “*Part II: Risk Factors—Risks Relating to Supervision and Regulation*” and “*Part XVIII: Supervision and Regulation*”.

2 UK Banking Sector

2.1 Macro-economic Context

Economic indicators in the United Kingdom have grown strongly since 2013, following a prolonged period of economic weakness since the onset of the global financial crisis in 2008. GDP in the United Kingdom grew by 1.8 per cent. in 2016.

The labour market has also improved considerably. In December 2016, the UK unemployment rate was 4.7 per cent., compared to 5.1 per cent. a year earlier. Consumer price inflation in December 2016 was below the 2 per cent. target set by the Bank of England. However, consumer price inflation increased to 2.6 per cent. by July 2017 as a result of upward pressure on prices brought about by the depreciation of sterling in the second half of 2016. This has resulted in a weakening in retail spending in early 2017, with growth in GDP slowing to 0.3 per cent. in the second quarter of 2017 from 0.6 per cent. in the second quarter of 2016 (Source: ONS Second estimate of GDP - April to June 2017).

Base rates were reduced to 0.25 per cent. in August 2016 from 0.5 per cent. in an attempt to support economic activity in the aftermath of the Brexit vote in June 2016. The improved economic environment in recent years has also been evident in the housing market, with a 31.9 per cent. increase in the seasonally adjusted number of residential property transaction completions, with value of £40,000 or above, in 2016 compared to 2012 (Source: HMRC UK Property Transaction Statistics, April 2017). Average house prices increased by 25.9 per cent. over the same period. However, the rate of house price growth has slowed in 2017, with an increase of 4.9 per cent. in the year to June 2017, down from 5.0 per cent. in the year to May 2017. (Source: ONS House Price Index UK June 2017).

The following table presents certain macro-economic indicators for the United Kingdom:

	2009	2010	2011	2012	2013	2014	2015	2016	2017F ⁽⁴⁾	2018F ⁽⁴⁾
Metric										
GDP (year-on-year %) ⁽¹⁾⁽³⁾	(4.3)	1.9	1.5	1.3	1.9	3.1	2.2	1.8	2.0	1.6
Unemployment (SUR)(%) ⁽¹⁾⁽³⁾	7.6	7.9	8.1	8.0	7.6	6.2	5.4	4.9	4.9	5.1
Consumer price index (year-on-year%) ⁽¹⁾⁽³⁾	2.2	3.3	4.5	2.8	2.6	1.5	0.0	0.7	2.4	2.3
Base rate (%) ⁽²⁾	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.25	—	—
Business investment (year-on-year %) ⁽¹⁾⁽³⁾	(16.0)	6.0	4.3	7.2	2.6	3.9	5.1	(1.5)	(0.1)	3.7
House prices (year-on-year %) ⁽¹⁾	(8.6)	5.9	(1.5)	0.4	2.6	8.0	6.0	7.3	—	—

Notes:

- (1) ONS
- (2) Bank of England
- (3) Forecast data from Office of Budget Responsibility (March 2017 Economic and Fiscal Outlook)
- (4) "F" means forecasted

Within the United Kingdom, the Northern Irish economy has also shown signs of improvement recently. Gross value added ("GVA") in Northern Ireland grew by 1.6 per cent. and 1.5 per cent. in 2015 and 2016 respectively, with forecast growth of 1.2 per cent. and 1.0 per cent. in 2017 and 2018 respectively. This compares to forecast GVA growth of 1.7 per cent. and 1.4 per cent. in 2017 and 2018, respectively, for the United Kingdom as a whole (Source: Danske Bank Oxford Economics Q2 2016 GVA, Danske Bank Northern Ireland Quarterly Sectoral Forecasts Q2 2017, Danske Bank Northern Ireland Quarterly Sectoral Forecasts Q1 2017). The seasonally adjusted unemployment rate in Northern Ireland of 5.3 per cent. from April to June 2017 was unchanged over the previous year (Source: NISRA Labour Market Report August 2017). House prices in Northern Ireland also increased by an annual rate of 4.4 per cent. in the second quarter of 2017 in comparison to the second quarter of 2016 (Source: NISRA/NIRPPI – Northern Ireland House Price Index Q2 2017).

The following table presents certain macro-economic indicators for Northern Ireland:

	2009	2010	2011	2012	2013	2014	2015	2016	2017F ⁽⁴⁾	2018F ⁽⁴⁾
Metric										
GVA (year-on-year %) ⁽¹⁾⁽⁵⁾	(3.8)	1.1	0.5	(1.0)	1.4	1.7	1.6	1.5	1.1	1.2
Unemployment (%) ⁽²⁾⁽⁵⁾	4.2	4.9	5.1	5.4	5.4	4.6	3.7	3.0	3.0	3.0
House prices (year-on-year %) ⁽³⁾⁽⁵⁾	(7.7)	(12.3)	(10.2)	(10.9)	2.2	8.7	7.2	5.3	3.3	2.4

Notes:

- (1) Danske Bank/Oxford Economics Quarterly Economic Overview.
- (2) Northern Ireland Statistics and Research Agency—Claimant Count Rate.
- (3) Department of Finance and Personnel and Northern Ireland Centre for Economic Policy .
- (4) "F" means forecasted.
- (5) 2017 and 2018 forecast data from Ulster University Economic Policy Centre Outlook Summer 2017.

2.2 Key Trends

2.2.1 Digitisation

The UK banking industry is experiencing a significant shift towards digitisation. Banking has become increasingly omni-channel focussed, as digital channels such as online and mobile banking are increasingly popular and the utilisation

of traditional branches and call centres in the United Kingdom is in decline. During the ten year period to 2014, 2,153 branches closed in the United Kingdom resulting in one of the lowest density branch networks in Europe at 180 branches per million customers (Source: Deloitte Bricks and Clicks Report 2014), with a total of 9,661 branches at the end of 2014 (Source: Competition and Markets Authority (the “CMA”) October 2015). Total branch visits by personal current account customers fell by 15 per cent. between 2012 and 2014.

Retail banking customers tend to use digital functionality for speed and convenience, while using human interaction at key decision points such as obtaining a mortgage. Digital functionality is typically used to conduct routine transactions and to purchase simple products such as savings accounts and credit cards (Source: Mintel—Deposit and Savings Accounts UK). Mobile banking remains the main driver of digital channel usage, with an average of 11.0 million log-ins per day, compared to 4.3 million internet banking log-ins per day in the United Kingdom in 2015 (Source: BBA—Help at Hand, 2016). Additionally, 81 per cent. of SME customers interact with their banks online, with 39 per cent. using online banking services on a daily basis in 2014 (Source: BBA—Promoting Competition, 2014).

2.2.2 Lending and Interest Rates

As at June 2017, the total UK banking market comprised of £1.7 trillion of total loans outstanding to households and private non-financial corporations and £1.7 trillion of deposits (Source: Bank of England, Sector Analysis of M4 Lending and M4 Deposits).

Growth in the outstanding amount of lending to non-financial UK businesses increased by 2.6 per cent. from June 2016 to June 2017, with positive net issuances during this period. The outstanding amount of mortgage lending for house purchases continued to rise in 2016 as the month-on-month rate of growth in the year to December 2016 ranged from 0.2 per cent. to 0.7 per cent. The outstanding amount of mortgage lending increased from £1.1 trillion in June 2016 to £1.2 trillion in June 2017. The outstanding amount of consumer credit has grown by 5.2 per cent. from June 2016 (£124.6 billion) to June 2017 (£131.1 billion), in comparison to the December 2015 to December 2016 growth rate of 6.6 per cent. (Source: Bank of England, Sector Analysis of M4 Lending).

Spreads on lending to large companies narrowed in the second quarter of 2017 and are expected to remain unchanged in the third quarter of 2017. Spreads for small businesses remained unchanged in the second quarter of 2017 and are also expected to remain unchanged in the third quarter of 2017. Market share objectives are expected to continue to be the main factor increasing credit availability into 2017. Demand for secured lending for house purchases remained unchanged for the second quarter of 2017. Demand for prime lending increased and demand for buy-to-let lending decreased significantly. Demand for corporate lending for small and medium sized businesses increased significantly in the second quarter of 2017, the first increase reported for either since the second quarter of 2016. (Source: Bank of England, Credit Conditions Survey Q2 2017).

The following table shows changes in spreads on loans to small businesses, as well as medium and large private non-financial corporations (“PNFCs”):

	2014 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾				2015 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾				2016 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾				2017 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Net percentage balances													
Small businesses														
Past three months	3.3	3.1	3.0	3.0	0.6	4.9	12.1	(1.4)	0.7	0.0	0.0	0.0	(11.7)	0.0
Next three months	3.3	(4.7)	3.0	3.0	7.9	4.2	0.0	0.6	0.7	(10.5)	(11.3)	(11.7)	0.0	0.0
Medium PNFCs														
Past three months	14.7	35.2	29.7	41.7	37.5	43.4	25.7	4.5	9.6	0.9	20.8	(11.7)	0.0	(12.2)
Next three months	23.9	29.1	22.2	10.3	5.2	8.9	7.7	0.6	2.0	1.4	(11.8)	0.0	0.0	(0.8)
Large PNFCs														
Past three months	45.8	50.6	49.8	45.0	50.0	46.3	23.0	13.1	(1.3)	4.6	1.2	(5.3)	10.7	22.4
Next three months	42.7	30.2	25.7	20.9	8.7	5.3	7.3	7.1	0.0	0.5	0.5	(7.5)	8.6	(1.2)

Source: Bank of England, Credit Conditions Survey Q2 2017

Notes:

- (1) Net percentage balances are calculated by weighting together the responses of those lenders who answered the question by their market shares. Positive balances indicate that lenders, on balance, reported/expected demand/credit availability/defaults to be higher than over the previous/current three-month period, or that the terms and conditions on which credit was provided became cheaper or looser respectively.
- (2) A positive balance indicates that the changes in the factors described have served to increase credit availability/demand.
- (3) A positive balance indicates an improvement in the credit quality of new borrowing.
- (4) A positive balance indicates an increase in new corporate loan tenors. The sign convention was changed in 2009 Q3 and was applied to the back data accordingly.

2.2.3 Distribution Channels

Mortgages are primarily distributed through two channels in the United Kingdom; intermediaries and direct-to-consumer by lenders through high street branches, internet and telephone. Intermediaries play an important and growing role in UK mortgage distribution and accounted for more than half of mortgage origination in 2014 (Source: IRESS Annual

Mortgage Efficiency Benchmark Survey 2014). According to a survey conducted by Accenture, 46 per cent. of UK SMEs prefer to interact with their bank through a relationship manager when applying for new financial products or services, followed by online (23 per cent.), branch network (13 per cent.), email (8 per cent.), telephone (5 per cent.), mobile (2 per cent.) and post (1 per cent.). When selecting a banking provider, 42 per cent. of UK SMEs determined that access to a relationship manager was an important factor in their decision process, while 28 per cent. felt that their distance from the nearest branch was an important factor (Source: Accenture SME Banking 2020). A strong digital presence is also important for SME customers as they make frequent use of online banking, with 64 per cent. of SMEs using online banking as their main channel in 2015 (Source: CMA, October 2015), up from 48 per cent. in 2010.

2.3 Competitive Landscape

The UK banking market includes a range of participants, with the large high street banks (Barclays, Lloyds, HSBC, Santander UK, RBS and Nationwide) accounting for most of the market. Challenger banks and building societies (Metro Bank, Virgin Money, CYBG, TSB, Handelsbanken, Yorkshire Building Society, Coventry Building Society and The Co-operative Bank) compete with the high street banks, typically with a more targeted product or regional focus. More recently, there has been an increase in the number of new entrants into specialist lending/niche segments of the UK banking market (Aldermore, Close Brothers, Secure Trust, Shawbrook, One Savings Bank, Investec and Paragon), joining a number of established participants. AIB UK focuses, in particular, on SMEs and competes with banks such as RBS and Handelsbanken. Incumbent banks are also facing increased competition from a range of Fintech companies including peer-to-peer lenders, crowd-funding and specialist online payment firms. These companies tend to have a lower cost base than traditional banks. Fintech companies active in the UK market include Funding Circle, RateSetter, LendInvest, Lending Works, Atom Bank, Tandem Bank and Mondo.

As larger, established banks have suffered reputational damage from the global financial crisis and conduct related issues, smaller market participants have been able to benefit from high growth rates through differentiated brand and service offerings. This has been evident across personal current accounts, residential mortgage lending and SME lending.

The Northern Irish banking market is a relatively distinct regional market within the overall UK market, with four key high street banks (First Trust, Danske Bank, Ulster Bank and Bank of Ireland) dominating the market. All of these four banks are headquartered outside Northern Ireland, and only Ulster Bank, owned by RBS, is part of a pan-UK high street banking business. Santander UK has also established an organic presence in Northern Ireland with approximately 29 branches now in operation. However, barriers to entry for newer and smaller banks remain significant (Source: “Personal current accounts and small business banking not working well for customers”, CMA press release, 18 July 2014). In 2014, Danske Bank and Ulster Bank together accounted for approximately 40 to 60 per cent. of the business current accounts market, whilst First Trust Bank, which is positioned as a challenger bank in the Northern Ireland banking market, and Bank of Ireland had market shares of approximately 10 per cent. to 20 per cent. each. For business credit cards, the four largest providers had a combined market share of approximately 87 per cent. in 2014 (Source: Competition and Markets Authority, “Retail banking market investigation”, May 2016). The market in Northern Ireland is considered to be highly concentrated, according to the Herfindahl-Hirschman Index, with market concentration levels declining only slightly in recent years from 2,646 in 1999 to 2,454 in 2012. However, the mortgage market in Northern Ireland is less concentrated with the four main banks holding approximately 28 per cent. market share and the remaining 72 per cent. of the market primarily comprised by Santander UK, Nationwide Building Society, Halifax and Progressive Building Society (Source: Ipsos MORI MFS 2016).

2.4 Regulatory Developments

There have been a number of key regulatory developments that have impacted banks in the United Kingdom and the UK banking market in recent years.

- UK banks have been significantly impacted by legacy conduct issues arising from both retail and business banking products mis-selling, principally in relation to payment protection insurance and interest rate swaps. As a result of changing regulations, there have been significant changes to certain product offerings and to client suitability criteria.
- Prudential regulation has changed significantly, with CRD IV and PRA stress testing and Leverage Ratio requirements resulting in significantly higher capital ratios and liquidity and funding metrics. UK banks with core deposits of over £25 billion will also be subject to ring-fencing requirements from 1 January 2019, with a number of large banks being forced to legally and operationally separate their UK retail banking business from certain activities and business lines (e.g., non-EEA banking, investment banking).
- Competition is currently under scrutiny by politicians and regulators, in particular the CMA and the FCA.
- In 2013/2014, the CMA and the FCA jointly conducted a market study into banking services for UK SMEs, the results of which were published in July 2014. The market study focussed on two core SME banking services—(i) business current accounts and overdrafts; and (ii) business loans (excluding commercial mortgages). The study concluded that competition in the UK banking market is not working effectively for SMEs and the CMA referred both SME banking and personal current account markets for an in-depth investigation.

- In November 2014, the CMA launched a market investigation into the supply of retail banking services to personal current account customers and SMEs in the United Kingdom. The investigation concluded that there are features of the UK banking market which prevent, restrict or distort competition in the supply of personal current accounts in the United Kingdom and the supply of certain retail banking services to SMEs in the United Kingdom. The CMA set out a package of remedies to address the problems it found, including:
 - delivering open banking standards and requiring the largest banks in the United Kingdom to make data available using these standards to enable customers and SMEs to more easily identify products which suit their needs and to facilitate the creation of new digital services to help them manage their money;
 - enabling customers and SMEs to be able to access and compare information on providers' service quality; and
 - introducing measures to increase customer awareness of the potential benefits of switching and prompt customers to consider their banking arrangements (Source: CMA—Retail banking market investigation final report, 9 August 2016).
- In November 2015, the FCA set out a package of proposals on payment protection insurance (“PPI”) complaints. The package included imposing a deadline for making new PPI complaints and launching a consumer communications campaign to raise awareness of the PPI issue and the deadline. The FCA confirmed the final rules and guidance on handling PPI complaints in March 2017 (Source: FCA Consultation Paper, Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance, March 2017).
- The Mortgage Credit Directive, an EU framework of conduct rules for mortgage firms, was implemented in the UK in March 2016. The Mortgage Credit Directive was designed to provide better protection for consumers of financial services across the EU. Most of the Mortgage Credit Directive provisions set minimum regulatory requirements that Member States are required to meet in order to protect consumers taking out credit agreements relating to residential property. It includes residential mortgages secured against the borrower's home, and any other lending secured against property (Source: FCA—Mortgage Credit Directive, available at: <https://www.fca.org.uk/firms/mortgage-credit-directive>).
- The UK parliament passed the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 2017 No. 692)(the "UK Money Laundering Regulations 2017"), which came into force on 26 June 2017. The UK Money Laundering Regulations 2017 replaced the UK Money Laundering Regulations 2007 and the UK Transfer of Funds (Information on the Payer) Regulations 2007 with updated provisions that implement MLD4 and the Revised Wire Transfer Regulation. The UK Money Laundering Regulations 2017 are currently applicable to all AIB operations in the UK. The short window between the publishing of the final UK Money Laundering Regulations 2017 on 22 June 2017 and their coming into effect on 26 June 2017, meant UK financial institutions (including AIB UK) had little time to update all of their policies, procedures and processes to ensure that they are in full compliance with all of the requirements set out in the Regulations. AIB UK has put a plan in place to ensure compliance with all applicable elements of the UK Money Laundering Regulations 2017 taking account of the FCA's subsequent industry note acknowledging the short lead in time for regulated firms in relation to implementation. AIB UK will actively engage at UK industry working groups with regard to the implementation of the UK Money Laundering Regulations 2017.

PART IX INFORMATION ON AIB

Information in this “Part IX: Information on AIB” should be read in conjunction with the more detailed information contained in this Prospectus, including the financial and other information contained in “Part XIII: Operating and Financial Review”. All financial information contained in this “Part IX: Information on AIB” has been extracted without material adjustment from “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein. AIB’s consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus, which is incorporated by reference herein, has been audited by Deloitte as set out in the Accountant’s Report in Section A of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus. AIB’s condensed consolidated interim financial statements for the six months ended 30 June 2017 contained in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein, has been reviewed by Deloitte as set out in the Independent Review Report in the AIB Bank 2017 Half Yearly Accounts.

1 Overview

AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB had leading market shares in its core retail banking products within Ireland in 2016 and in the six months to June 2017, including a 37 per cent. share of mortgages across all three of its mortgage brands (in the five months to May 2017), according to BPFi published figures for mortgage lending flows, as well as a 37 per cent. share of personal main current accounts, a 20 per cent. share of personal loans and a 35 per cent. share of personal credit cards, according to the Ipsos MRBI Personal Tracker Q2 2017. AIB also retains strong market shares in products for SMEs, including a 43 per cent. share of business current accounts, a 45 per cent share of business credit cards, a 34 per cent. share of main business loans and a 20 per cent share of business leasing for 2017 according to the Ipsos MRBI SME Financial Services Monitor 2017. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB).

AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

AIB is managed through the following segments:

- Retail & Commercial Banking (“RCB”): RCB is Ireland’s leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 296 locations, including 205 AIB branches, 71 EBS offices, 19 business centres and 1 digital banking location, 989 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at approximately 1,100 locations in Ireland. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS and underpins a broader efficiency agenda.
- Wholesale, Institutional & Corporate Banking (“WIB”): WIB provides wholesale, institutional and corporate banking services to AIB’s larger customers or customers requiring specific sector or product expertise. WIB serves customers through a relationship-driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB’s activities in New York comprise syndicated and international finance activities.
- AIB UK: AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 28,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and has recently migrated to a more integrated business model, with the closure of 15 of its 30 branches completed by August 2017. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK’s overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.

- Group: The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

The following table provides a breakdown of net loans and customer accounts across AIB's four segments as at 30 June 2017:

	<u>As at 30 June 2017</u>	
	<u>Net</u>	<u>Customer</u>
	<u>Loans</u>	<u>Accounts</u>
	(unaudited)	
	(€ billions)	
RCB.....	42.1	44.7
WIB.....	9.1	5.6
AIB UK ⁽¹⁾	8.5	10.4
Group.....	<u>0.1</u>	<u>3.0</u>
	<u>59.8</u>	<u>63.7</u>

Notes:

- (1) Net loans were £7.5 billion and customer accounts were £9.2 billion as at 30 June 2017. Euro amounts calculated using the pound sterling to euro exchange rate of 0.8793, being the period end exchange rate.

Within the above segments, AIB has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group (the "FSG"), AIB's standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. AIB is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

AIB's profit before taxation from continuing operations was €761 million and €1,017 million for the six months ended 30 June 2017 and 30 June 2016, respectively and €1,682 million, €1,914 million and €1,111 million for the years ended 31 December 2016, 2015 and 2014, respectively. As at 30 June 2017, AIB had total assets of €90.5 billion and equity of €13.2 billion.

2 History

AIB has a long history of operating in Ireland, with its predecessor organisations having been part of the Irish banking sector for almost 200 years. AIB's origins date back to the amalgamation in 1966 of three long-established banks: the Munster and Leinster Bank Limited (established 1885), the Provincial Bank of Ireland Limited (established 1825) and the Royal Bank of Ireland Limited (established 1836). AIB Bank was incorporated as a limited company on 21 September 1966 and was subsequently re-registered as a public limited company on 2 January 1985.

In 1991, AIB merged its interests in Northern Ireland with those of TSB Northern Ireland to create First Trust Bank. In 1996, AIB's retail operations in the United Kingdom were integrated and the resulting entity was renamed AIB Group (UK) p.l.c., with two distinct trading names, First Trust Bank in Northern Ireland and Allied Irish Bank (GB) in Great Britain. During the 1980s and 1990s, AIB entered a phase of international expansion in select markets, acquiring businesses in the United States and Poland. During this period, it acquired a 100 per cent. stake in Allfirst, a US bank, which subsequently merged with M&T Bank Corporation ("M&T"), resulting in AIB owning a 22.5 per cent. stake in M&T. It also acquired a 70.5 per cent. stake in Bank Zachodni Wielkopolski Bank Kredytowy S.A. ("BZWBK"), a Polish bank.

In the context of the global financial crisis beginning in 2008, the Irish Government recognised the need to stabilise Irish financial institutions and to create greater certainty for all stakeholders. It implemented a number of measures in response to the crisis, including the introduction of the CIFS Scheme and the ELG Scheme and the establishment of NAMA, and several capital investments in AIB and EBS during 2009, 2010 and 2011 amounting to a total of €20.8 billion, which included the NPRFC making a €3.5 billion investment in AIB by way of a subscription for the 2009 Preference Shares in AIB Bank on 13 May 2009. AIB was also required to deleverage approximately €20.5 billion of non-core assets by December 2013. During 2010 and 2011, it also disposed of substantially all of the international businesses it had acquired in the 1980s and 1990s as follows:

- on 10 September 2010, AIB announced the sale of its Polish interests to Banco Santander S.A. for a total cash consideration of €3.1 billion. This transaction was completed on 1 April 2011;
- on 4 November 2010, AIB disposed of its stake in M&T for a consideration of approximately \$2.1 billion; and

- during this period, AIB also sold Goodbody Holdings Limited, AIB International Financial Services Limited; AIB Jerseytrust Limited; its 49.99 per cent. stake in Bulgarian-American Credit Bank and AIB Asset Management Holdings (Ireland) Limited, including AIB Investment Managers.

Following the issuance of €3.8 billion of new ordinary shares to the NPRFC in December 2010 (net proceeds of €3.7 billion), AIB Bank's ordinary shares were delisted from both the Main Securities Market of the Irish Stock Exchange and from the UK Official List. AIB Bank's ordinary shares were subsequently admitted, in January 2011, to the ESM.

On 24 February 2011, AIB acquired deposits of €7 billion and NAMA senior bonds with a nominal value of €12 billion from Anglo Irish Bank pursuant to a transfer order made by the Court under the Credit Institutions (Stabilisation) Act 2010. AIB also acquired Anglo Irish Bank Corporation (International) PLC in the Isle of Man, including customer deposits of almost €1.6 billion. In July 2011, AIB was required to strengthen and increase its capital base to help restore confidence in the Irish banking sector, which it did through placing €5.0 billion of new ordinary shares in the capital of AIB Bank with the NPRFC, following which the NPRFC owned 99.8 per cent. of the ordinary shares in the capital of AIB Bank; capital contributions totalling €6.1 billion from the Minister for Finance and the NPRFC; and the issue of €1.6 billion of CCNs at par to the Minister for Finance. The Minister for Finance also invested €875 million in EBS through a subscription for special investment shares in EBS pursuant to Section 18(1A) of the Building Societies Act 1989 (which special investment shares were converted into ordinary shares on conversion of EBS to a limited company and acquired by AIB Bank on 1 July 2011) ("Special Investment Shares") in EBS and the contribution to EBS of the EBS Promissory Note during 2010. AIB completed its acquisition of EBS for a nominal cash payment of €1.00 in July 2011.

In August 2011, AIB Bank's American Depository Shares were delisted and ceased to be traded on the New York Stock Exchange.

On 22 December 2014, under the NTMA 2014 Act, the 2009 Preference Shares and the ordinary shares in the capital of AIB Bank held by the NPRFC, became the assets of the ISIF, a fund whose assets are owned by the Minister for Finance.

During 2012, AIB made significant progress in restructuring its balance sheet and also introduced a series of cost reduction programmes, including, in 2012, a voluntary severance scheme and an early retirement scheme. On 7 May 2014, the EC approved the Restructuring Plan under state aid rules. The EC concluded that the Restructuring Plan set out the path to restoring AIB's long-term viability. In October 2014, the results of the European-wide Comprehensive Assessment, a stress-testing exercise conducted by the EBA and the ECB in conjunction with the Central Bank, were published (the "2014 Comprehensive Assessment"). The results of the 2014 Comprehensive Assessment confirmed that AIB had capital buffers above minimum requirements under all stress test assessment scenarios, including 12.4 per cent. in the baseline scenario (minimum requirement: 8.0 per cent.), and 6.9 per cent. in the adverse scenario (minimum requirement: 5.5 per cent.) under the static balance sheet results.

On 5 March 2015, AIB announced a pre-tax profit of €1,111 million for the year ended 31 December 2014, its first annual profit since 2008. AIB has since continued its positive momentum and in December 2015 met all of the medium-term targets it had set in December 2012.

In 2015, AIB carried out the capital reorganisation approved by AIB Bank Shareholders at an EGM on 16 December 2015 ("2015 Capital Reorganisation"), which entailed the partial redemption by AIB Bank of the 2009 Preference Shares, which involved the payment of €1.7 billion, with the remainder being converted into ordinary shares in the capital of AIB Bank at 125 per cent. of the subscription price. Further, an accrued dividend on the 2009 Preference Shares of €166 million was paid by AIB Bank to the NTMA and the EBS Promissory Note was redeemed by the Minister for Finance. AIB Bank Shareholders approved these transactions at an EGM of AIB Bank held on 16 December 2015. AIB Bank also issued in the fourth quarter of 2015 €750 million of subordinated Tier 2 notes and €500 million Additional Tier 1 securities (the "AT1 Notes"). Upon the maturity and redemption of the CCNs in July 2016, AIB Bank made a further capital repayment to the Minister for Finance of €1.6 billion, as well as a coupon payment of €160 million to the Minister for Finance.

AIB was subject to the 2016 EU-wide stress test conducted by the EBA, in cooperation with the Central Bank, the ECB, the EC and the SRB (the "2016 EBA stress test"), the results of which were published in July 2016. AIB's result was a 7.4 per cent. projected CET1 ratio in the adverse scenario (transitional basis), which was a 0.5 per cent. improvement over the result of the 2014 Comprehensive Assessment, and 4.3 per cent. (fully loaded basis). Unlike the 2014 Comprehensive Assessment, there was no pass/fail threshold in the 2016 EBA stress test; instead the results of the exercise were taken into account in AIB's SREP, the results of which were communicated to AIB in December 2016. AIB's minimum requirements for 2017 were set at 9.0 per cent. for the CET1 Ratio and 12.5 per cent. for the Total Capital Ratio. This excludes Pillar 2 guidance that is not publicly disclosed. See "*Part XIV: Capital—Approval of AIB Restructuring Plan and Comprehensive Assessment*". Given the strength of AIB's capital position, no mitigating capital actions were required as a result of the 2016 EBA stress test or the SREP.

Publication of the 2016 EBA stress test results and AIB's relative ranking in the list of participating banks generated some adverse commentary in the media. In response, AIB drew attention to:

- the strength of its capital position following the implementation of the 2015 Capital Reorganisation in December 2015, including the partial conversion by AIB Bank of the 2009 Preference Shares (which increased CET1 Capital on a fully loaded CRD IV basis by €1.8 billion, net of the redemption of the remaining 2009 Preference Shares) and the issuance by AIB Bank of additional non-equity capital instruments (€500 million in AT1 Notes and €750 million in Tier 2 Capital instruments); and
- having received SSM approval where required, AIB's ability to make significant capital and income payments to the State during this period, including the capital repayment by AIB Bank of €1.6 billion, and a further coupon payment by AIB Bank of €160 million, to the Minister for Finance upon the maturity of the CCNs in July 2016, and the €1.7 billion paid by AIB Bank on partial redemption of the 2009 Preference Shares, together with the dividends on the 2009 Preference Shares paid by AIB Bank to the Minister for Finance during 2015 in an aggregate amount of €446 million.

A final dividend by AIB Bank in the amount of €250 million in respect of the AIB Bank Shares for the financial year ended 31 December 2016 was approved by AIB Bank Shareholders at the 2017 AIB Bank AGM and paid on 9 May 2017, the first ordinary dividend declared by AIB Bank since 2008. To date, including this dividend, AIB has paid approximately €6.8 billion in capital, fees, dividends, coupons and levies to the State.

AIB Bank IPO

On 30 May 2017, the Minister for Finance and AIB Bank announced an intention to seek admission of the AIB Bank Shares to the Official Lists of each of the Irish Stock Exchange and the FCA and to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange and to proceed with a secondary offering of ordinary shares in AIB Bank by the Minister for Finance. Pursuant to this secondary offering, on 23 June 2017, the Minister for Finance sold 780,384,606 ordinary shares in AIB Bank to certain institutional and retail investors (including on the exercise of an over-allotment option) (the "AIB Bank IPO"), comprising in aggregate 28.75 per cent. of the issued ordinary share capital of AIB Bank. AIB Bank did not receive any of the proceeds of the AIB Bank IPO, all of which were received by the Minister for Finance. In connection with the AIB Bank IPO, on 27 June 2017, the AIB Bank Shares were admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and on the premium listing segment of the Official List of the FCA and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange (the "AIB Bank Admission"). Immediately before the AIB Bank Admission, the admission of the AIB Bank Shares to trading on the Enterprise Securities Market of the Irish Stock Exchange was cancelled. The AIB Bank IPO reduced the Minister for Finance's shareholding in AIB Bank to 1,930,436,543 AIB Banks Shares, representing 71.1188 per cent. of the issued share capital of AIB Bank.

3 Key Strengths

The Directors believe that AIB has the following key strengths.

Leading bank in a fast growing European economy with attractive banking dynamics

Macro-economic and demographic trends in Ireland have contributed to growth in demand for mortgages, as well as business and personal loan products. The Directors believe that these dynamics will continue to support growth across these products in future periods.

The Irish economy has been one of the fastest growing Eurozone economies in each of the past three years, according to data from the CSO Statbank and Eurostat. Despite uncertainties as to the potential impact of Brexit, the Irish economy is expected to continue to grow at attractive rates over the next several years, with the Irish Department of Finance forecasting GDP growth of 4.3 per cent. in 2017, 3.7 per cent. in 2018 and 3.1 per cent. in 2019. This compares to expected Eurozone GDP growth of 1.6 per cent., 1.8 per cent. and 1.5 per cent. in 2017, 2018 and 2019, respectively (Sources: European Economic Forecast, Winter 2017 and IMF World Economic Outlook (Oct 2016)). Employment levels in Ireland have been increasing steadily, unemployment levels have been falling and wages have been growing, contributing to higher personal spending. The improving economic environment has led to deleveraging by Irish households, with debt as a percentage of disposable income decreasing to 145.2 per cent. as at March 2017, compared to 148 per cent. at December 2016, 155.4 in March 2016 and its peak of 219.8 in March 2011. The improving economy has also helped Irish borrowers to meet the stricter requirements of macro-prudential rules put in place by the Central Bank following the global financial crisis.

The demographics of the Irish banking market are also favourable to AIB. Ireland has the youngest population in the European Union, with 33.3 per cent. of its population under the age of 25, according to Eurostat, compared to 30.4 per cent., 30.3 per cent., 28.9 per cent., 25.1 per cent., 23.9 per cent. and 23.6 per cent. in France, the United Kingdom, the Netherlands, Spain, Germany and Italy, respectively. AIB has the highest market share of current account banking services among the population under the age of 35 (Source: Ipsos MRBI Personal Finance Tracker Q2 2017). The Directors believe that this is the demographic with the greatest potential for demand for banking services. Only 59 per cent. of this group is carrying debt based on data from the CSO, and this segment of the population is less likely to have experienced the peak pricing and over-leveraging experienced by older members of the population in the run up to the

global financial crisis. Given its relatively high market share among this segment of the population, AIB is well positioned to capitalise on these demographics.

The Directors believe that these favourable macroeconomic and demographic developments will contribute to the normalisation of new lending in future periods. New mortgage lending across the Irish market is expected to normalise at a level of approximately €10 billion per annum in the longer term. This is based on the construction of 25,000 to 30,000 additional units per year, compared to 15,000 in 2016. The Government Action Plan for Housing and Homelessness and growth in the buy-to-let sector in order to accommodate rental demand are expected to contribute to increases in new lending. New business lending across the Irish market is expected to normalise at a level of approximately €8 billion per annum in the longer term. This is expected to be driven by the recovery of SMEs, the strong volume of start-ups, increasing demand for digital and cloud services and growth in sectors such as energy, healthcare, food and agriculture. New personal lending across the Irish market is expected to normalise at a level of approximately €4 billion per annum. This is expected to be influenced by improved consumer sentiment, digital enablement and personal current accounts serving as an anchor relationship banking product.

Re-engineered, simplified, digitally enabled business model with “Customer first” strategy driving the commercial agenda

AIB has re-engineered its business model to focus on a “Customer first” strategy based on understanding customer needs and meeting these needs through simple and innovative products delivered through its omni-channel distribution network. AIB has invested significantly as part of its three-year €870 million investment programme, which commenced in 2015, in order to achieve these aims. The investment programme has entailed investments in a resilient and agile technology platform, customer and data analytics and strategic initiatives to improve the customer experience. These investments have facilitated higher levels of customer interaction, both in person and online. In 2016, AIB reached over 1.2 million daily interactions with its customers, compared to approximately 802,000 in 2013. In 2016, this included approximately 501,000 mobile interactions (2013: 148,000), 240,000 internet banking log-ins (2013: 208,000), 100,000 branch transactions (2013: 77,000), 325,000 ATM withdrawals (2013: 351,000), 18,000 contact centre calls (2013: 18,000), 12,000 kiosk log-ins (2013: n.a.) and 16,000 tablet log-ins (2013: n.a.). With 67 per cent. of transactional customers active on digital channels in 2016, 53 per cent. of all key products were purchased via online channels and over-the-counter transactions decreased by 50 per cent. between 2013 and 2016.

As part of its “Customer first” strategy, AIB has focused on a number of personal loan customer journeys. In particular, AIB introduced online applications for personal loans with a decision within three hours, subject to appropriate risk controls. It has implemented a digital strategy across its personal lending products, with approximately 63 per cent. of such products by volume purchased through digital channels in 2016. These initiatives have contributed to growth in AIB’s transactional NPS from 16 in the fourth quarter of 2014 to 45 in the fourth quarter of 2016. NPS is a measurement tool that tracks customers’ loyalty and advocacy on an index ranging from –100 to 100 based on the willingness of customers to recommend a company’s product or services to others.

AIB’s investments in digital capabilities have contributed to its leadership in the digital sphere. Innovative digital offerings supporting AIB’s core customer propositions will be an area of continued focus and investment in the future. AIB has recently launched both Android Pay and Apple Pay, offering personal and business customers the latest technology in payments via their mobile phones. Android and Apple Pay are part of AIB’s digital enablement strategy and are intended to make banking more convenient and secure for AIB’s customers. AIB has also introduced a new digitised proposition for car finance intermediaries. Approximately 300 car dealerships across Ireland now have a system to enable customers to apply for credit, receive a decision and obtain the funds to purchase new and used cars through an AIB digital process which is quick and highly automated. AIB’s digital capabilities serve the dual purpose of supporting a broad-based efficiency agenda as well as driving improved relationship and transactional NPS.

AIB’s focus on its people has also led to higher levels of engagement across AIB’s employee base, based on surveys conducted in 2016, which the Directors believe in turn leads to better engagement with customers, from in-person interactions at branches to customer service calls at AIB’s contact centres.

The Directors believe that AIB’s significant investment in its business since 2015 will enable it to create efficiencies, improve the customer experience and harvest digital and analytical capabilities to capitalise on opportunities in the Irish banking market. In particular, within mortgage lending, there are opportunities for further enhancement of the product suite and customer experience, continued deployment of customer analytics and leveraging of brand differentiation across AIB’s three mortgage brands, AIB, EBS and Haven. Within business lending, there are opportunities to enhance AIB’s sectoral profile and sectoral-based approach and expertise, expand its product suite, as well as improve customer experience through digitisation of the SME loan application processes. Within personal new lending, there is potential to further capitalise on AIB’s digital platform to increase penetration of the personal lending market and customer experience. Opportunities also exist across the business for increasing the usage of predictive analytics to identify new lead generation opportunities for automation of the credit decision making process and improving “after care” in credit management, all of which are aimed at improving the overall customer experience.

Strong risk management framework resulting in improved asset quality and a reduction in impaired loans

In the aftermath of the global financial crisis, AIB's risk function was significantly reorganised and enhanced through a formal Risk Enhancement Programme. As part of the programme, a revised risk appetite and risk management approach have been fully embedded in AIB. The risk appetite framework has been significantly strengthened, with the Board leading the determination of AIB's risk appetite, an extensive suite of qualitative and quantitative risk appetite statement ("RAS") metrics across material risks, and monthly monitoring and reporting of the risk profile against AIB's risk appetite. Senior management's objectives are tied explicitly to the RAS. In addition, AIB has introduced a controlled delegation of credit approval authorities and enhanced reporting to the Board and senior management.

AIB's focus on reducing impaired loans and its strong arrears management capabilities, along with the positive effect of the momentum of the Irish economy, have helped it to achieve a significant reduction in impaired loans, with gross impaired loans decreasing from €22.2 billion as at 31 December 2014 to €7.8 billion as at 30 June 2017. Over the same period, net impaired loans decreased from €10.9 billion to €4.3 billion. This has also contributed to net credit provision writebacks of €185 million, €925 million and €294 million in 2014, 2015 and 2016, respectively.

Stable funding model and significant capital generation, delivering robust capital ratios

AIB has a strong funding profile, with a low cost of funding, stable current account and deposit base, the ability to access funding in the wholesale market and strong capital and liquidity ratios. Its average cost of funds excluding the ELG Scheme charge has been declining, from 151 basis points in 2014 to 97 basis points in 2016 due to a number of factors, including the redemption of the CCNs and changes in the funding mix, with an increase in low-yielding current accounts and the roll-off of deposits at higher rates. AIB's most significant source of funding continues to be customer accounts, which accounted for 73 per cent. of its funding base as at 30 June 2017. It has a strong and stable loan to deposit ratio, which was 94 per cent. as at 30 June 2017. This has provided AIB with the capacity to meet increased demand for lending. In the wholesale market, AIB has successfully completed covered bond and senior unsecured issuances at favourable pricing. AIB's long-term debt has also been upgraded by two rating agencies since 2014, with S&P increasing its rating from BB+ to BBB- (with a stable outlook) (from January 2017) and Moody's increasing its rating from Ba1 to Baa2 (with a stable outlook) (from June 2017).

AIB's liquidity ratios are above those introduced by CRD IV. AIB's LCR was 134 per cent. and its NSFR was 122 per cent. as at 30 June 2017, both of which are within the CRD IV requirements that will apply from 1 January 2018.

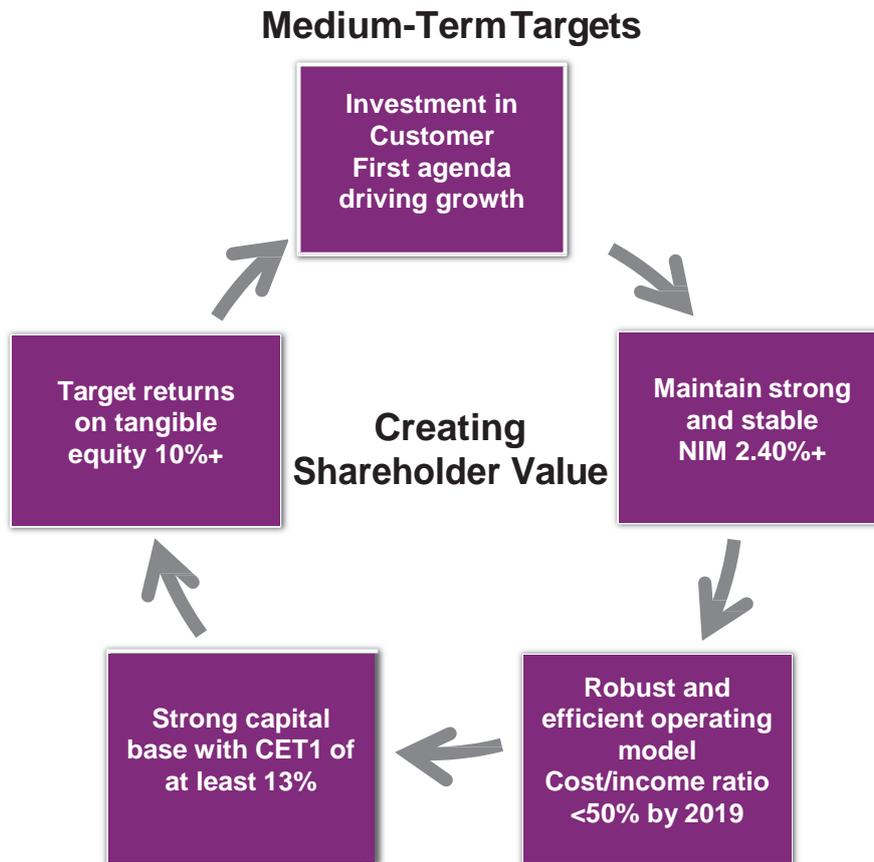
AIB has a robust capital structure, with a fully loaded CET1 Ratio of 16.6 per cent. as at 30 June 2017, compared to 11.8 per cent. as at 31 December 2014 (which included the 2009 Preference Shares). The increase in AIB's Capital Ratios has been driven by organic capital generation underpinned by a return to profitability, as well as the 2015 Capital Reorganisation. AIB's capital ratios are significantly above the minimum requirements of 9.0 per cent. for the CET1 Ratio and 12.5 per cent. for the Total Capital Ratio set by the ECB following the SREP in December 2016. This requirement excludes Pillar 2 guidance that is not publicly disclosed. AIB's increasing capital levels are supportive of its aim to grow lending volumes and provide potential for future distributions to shareholders.

Sustainable financial performance underpinning strong momentum to achieve attractive returns and capital return to shareholders

On 5 March 2015, AIB announced a pre-tax profit of €1,111 million for the year ended 31 December 2014, its first annual profit since 2008. AIB has since continued its positive momentum, achieving a pre-tax profit of €1,682 million and €1,914 million for the years ended 31 December 2016 and 2015, respectively. AIB's net interest margin excluding the ELG Scheme charge increased from 1.69 per cent. in 2014 to 2.25 per cent. in 2016. It has also reduced its cost base significantly since 2012, with its cost/income ratio decreasing to 52 per cent. for the year ended 31 December 2016 compared to 55 per cent. for the year ended 31 December 2014. Its gross impaired loans have also decreased significantly, from €22.2 billion as at 31 December 2014 to €7.8 billion as at 30 June 2017. Over the same period, net impaired loans decreased from €10.9 billion to €4.3 billion. In addition, following significant credit impairment charges in the years following the global financial crisis, AIB recorded net credit provision writebacks during each of the years ended 31 December 2014, 2015 and 2016.

AIB's strong financial position and stable capital base, which is comfortably above minimum regulatory requirements, give AIB the ability to support its customers, grow its business and reward its shareholders. This has facilitated the return of capital to the State, including the partial redemption of the 2009 Preference Shares, involving the payment of €1.7 billion, in December 2015, which received regulatory approval from the SSM, and the capital repayment of €1.6 billion to the Minister for Finance, with a further coupon payment of €160 million, upon maturity and redemption of the CCNs in July 2016. A dividend of €250 million on AIB Bank Shares for the financial year ended 31 December 2016 was approved by AIB Bank Shareholders at the 2017 AIB Bank AGM and paid on 9 May 2017. To date, including this dividend, AIB has paid approximately €6.8 billion in capital, fees, dividends, coupons and levies to the State.

The Directors believe that AIB is well positioned to continue to achieve a strong return on tangible equity (as defined in “Part III: Presentation of Information—Alternative Performance Measures”) and to return capital to AIB Bank Shareholders (and if the Scheme and the HoldCo Reduction of Capital become effective, to AIB HoldCo Shareholders), having set the medium-term targets below, which supersede the projections issued in 2014 as a part of the Restructuring Plan.



The Directors believe that AIB’s achievement of the above medium term targets will be underpinned by a sustainable net interest margin due to lower funding costs (including deposit repricing actions), stable customer loan yields and the scheduled run-off of lower yielding portfolios, including tracker mortgages, partially offset by a decline in asset yield for the available for sale portfolio and the issuance of securities eligible for MREL purposes over the medium to long term. The maintenance of a strong and stable net interest margin, along with improvements in AIB’s cost/income ratio and a normalisation of the credit cycle are expected to underpin its achievement of the above return on tangible equity target as well as strong organic capital generation. Given the expected capital generation and current robust capital ratios, the Directors expect to maintain a strong capital base with CET1 of at least 13 per cent. while returning capital to shareholders.

Experienced and proven senior management

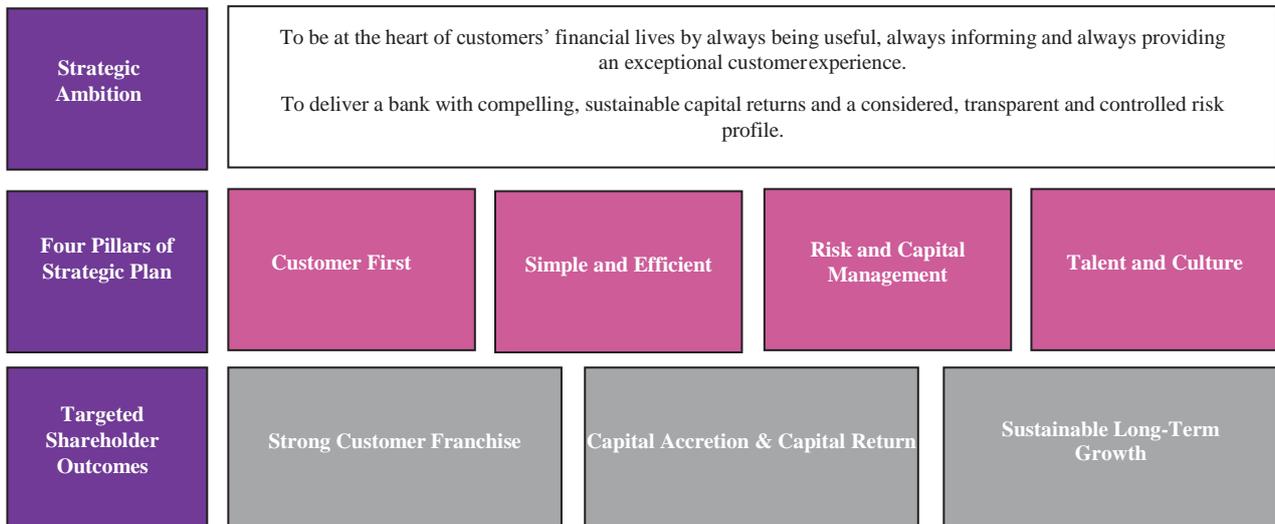
AIB has an experienced and proven senior management team, with a broad range of complementary experience, as set out in “Part XI: Directors, Senior Executives and Corporate Governance”, and a clear strategy in relation to the future of AIB. AIB’s most senior executive committee (the “Leadership Team”) is led by the CEO of AIB Bank and comprises the twelve senior executives of AIB who establish the business strategy, managing the associated risks of that strategy and AIB’s risk appetite, within which the business operates.

Many members of senior management joined AIB following the global financial crisis, including CEO of AIB Bank, Bernard Byrne, who joined AIB Bank in May 2010 as CFO and became its CEO in May 2015, and CFO of AIB Bank, Mark Bourke, who joined AIB Bank in April 2014. A core strength of the Leadership Team is the diversity of its experience, with six of the 12 members having significant non-banking experience, including the Chief People Officer and Chief Marketing Officer. Individuals who have progressed to the Leadership Team during their careers with AIB have overseen the successful turnaround of AIB’s business over the past several years, which was accomplished notwithstanding the challenges posed by compensation constraints, a rapidly changing regulatory environment and volatility in the political and economic environment globally.

4 Strategy

AIB’s strategic ambition is focused on leveraging its significant investment in the business and the technology it has deployed in order to meet evolving customer needs and deliver an exceptional customer experience. AIB capitalises on its domestic franchise strengths and growth opportunities to deliver sustainable returns within a balanced, transparent and controlled risk framework.

AIB’s strategic framework is set out below:



4.1 Four Pillars

4.1.1 Customer first

AIB is focused on leveraging its omni-channel distribution network to offer its customers simple and innovative products and services. AIB’s local markets approach forms a key part of that strategy, and the Directors believe the recent refurbishment of a substantial part of the branch network, together with its enhanced analytical capabilities allows AIB to differentiate itself in the areas of retail excellence and sales effectiveness. In the digital channel, the “LAB” (Learn about Banking), AIB’s flagship innovative digital banking location, allows AIB to test concepts in a live environment with customers. These have included concepts such as AIB’s fully digitised personal lending application and mobile payment solutions, where feedback from customers helps AIB to fully understand their needs and use this information to shape product and services. The “LAB” (Learn about Banking) is situated in Dundrum Town Centre, the highest footfall retail location in Ireland.

In order to successfully embed a customer first culture, AIB continuously strives to apply the customer lens to all phases of new product development, aiming to maintain its position at the heart of customers’ financial lives. A key component of AIB’s product development includes the identification of both stated and unstated customer needs, analysis of customer complaints and measurement of customer satisfaction through ‘Voice of the Customer’ engagement models.

AIB’s “Customer first” pillar also includes a focus on the pricing of its products. In 2016 and 2017, AIB has continued to share the reduction in its funding costs by reducing SVRs for AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven mortgage customers. This resulted in an overall cut of up to 100 basis points in SVRs for those customers since late 2014, and a further cut of 25 basis points announced in September 2017 for AIB Bank and AIB Mortgage Bank customers and in October 2017 for Haven customers. To make it easier for non-AIB customers to switch to AIB, AIB has also introduced a proposition whereby mortgage holders will receive up to €2,000 towards fees incurred when switching mortgage provider. In 2016, AIB also responded to customer feedback in relation to personal loan pricing by implementing a reduction in its personal loan pricing, including a reduction of 4 per cent. annual percentage rate (“APR”) on personal loans up to €10,000. AIB is also focused on providing pricing transparency to its mortgage customers by offering the same price to both new and existing customers, with no difference between front-book and back-book prices for its SVR mortgages.

AIB has sought to improve its complaint-handling policies and processes by using the “Customer first” approach. The complaints team successfully completed a pilot programme where complex complaints were handled by one small central team. This focussed team has more than halved the average time to resolve a complex complaint. AIB looks at complaints from a customer perspective and is developing root cause analysis capability to deal with the underlying issues and reduce the number of complaints.

Other “Customer first” strategic objectives include reducing processing and turnaround times; enhancing existing functionality of its customers’ digital experience; developing brand campaigns that resonate with customers across

segments and drive omni-channel engagement; and developing prioritised customer segments in order to align its services to core segment needs.

4.1.2 Simple and efficient

The simple and efficient pillar involves the simplification of AIB's business, focusing efforts in areas that will have the greatest impact on improving customer experience, operating model efficiency and risk management. To achieve this, AIB has established a customer-led design approach which has entailed significant customer journey research aimed at identifying customer needs, which informs the investments AIB needs to make in order to address those needs.

A key focus of the simple and efficient pillar has been investment in a resilient and agile technology platform. In 2014, AIB assessed its technology estate, identifying key replacement programmes, including replacement of its treasury, retail payments engine and internet business banking platform. Following this assessment, AIB enhanced its capability and agility by entering into strategic partnerships with IT service providers. AIB has six major contracts with five strategic technology partners, with approximately 500 staff transitioned to these arrangements, and has developed capabilities to leverage its relationship with these partners to improve efficiency. These relationships are instrumental to the delivery of AIB's €870 million investment programme and can be scaled down upon completion. Additionally, AIB has deployed desktop, productivity and collaboration tools, which provide AIB's staff with greater mobility.

Another key element of the simple and efficient pillar is "making processes simple" to deliver better experiences to customers and more efficient processes to AIB. In particular, significant investments have been made in business process management, scanning and other productivity tools.

AIB has also made investments in data and customer analytics, which it views as central to the delivery of customer experience in a digitally enabled bank. AIB has built capability to capture all interactions across all channels in order to provide a better customer experience.

4.1.3 Risk and capital management

AIB has developed an effective and dynamic RAS that informs its business strategy and approach to risk taking. AIB balances robust risk governance embedded across all functions with a risk appetite that is fully aligned with its ambition. AIB has taken the key lessons learned during the global financial crisis and used them to transform its credit risk culture, philosophy and operating model.

In the context of its ICAAP, AIB aims to allocate capital consistently across the organisation to optimise sustainable risk-adjusted returns. AIB has also taken steps to ensure that individual lending, pricing and investment decisions are taken based on consistent AIB Group-wide standards and models. A key initiative in the area of risk management is AIB's use of the risk-adjusted return on capital ("RAROC") measure, which is used in new lending decisions.

4.1.4 Talent and culture

AIB aims to foster a vibrant, risk aware, diverse and progressive culture across the organisation that consistently puts the customer first while attracting and retaining the best talent. It is also focused on ensuring that its workforce is highly engaged, inspired and talented in order to deliver an exceptional customer experience. AIB aims to ensure that the right people are in the right roles, including through effective capability assessments and an emphasis on expertise and experience.

AIB has been focused on the establishment of a strong digital development function with experts in digital delivery, as well as enhancing the capabilities of its workforce in the areas of portfolio management, customer focus, product development and business transformation. In line with the strategic direction, AIB's people capability has evolved significantly from 2012 to 2016, including as a result of automation and outsourcing. However, AIB continues to focus on developing internal talent with 11 per cent. of the senior management team moving into new roles to broaden their skill sets, and since 2015, four members of the Leadership Team being promoted from the senior management team.

Despite the restructuring activity that AIB has undertaken across its workforce (as described under "*—Employees—Voluntary Severance Programme*"), employee engagement has been improving through programmes aimed at ensuring staff feel listened to, involved and energised about the part they play in delivering AIB's strategy. AIB partners with Gallup to conduct iConnect, an employee engagement survey using a standard set of 12 questions that employees answer annually on a scale of one to five. AIB's iConnect employee engagement scores increased from 3.15 in 2013 to 4.08 in 2016, which put AIB in the 52nd percentile of organisations, compared to the fifth percentile in 2013. The Directors believe that the improvements in employee engagement have played, and will continue to play, a key role in AIB's growth.

AIB is committed to seeking to better align the reward of the senior management team with the objectives of creating long-term sustainable value for customers and shareholders, simultaneously safeguarding AIB's capital, liquidity and risk positions. AIB will ensure that any strategy is in full compliance with current EBA protocols and is aligned with investor appetite.

4.2 Investment Programme

In 2014, AIB designed and approved a three-year investment programme to meet its strategic needs. This €870 million investment programme commenced in 2015 and is expected to be completed later in 2017. The programme is being funded by cash flow from operations. As at 30 June 2017, AIB had spent €705 million, 79 per cent. of which was capitalised (as at 31 December 2016, €606 million, 78 per cent. of which was capitalised). AIB's investment agenda can be categorised into four key areas: strategic ambition, resilient technology, sustainability and regulatory delivery.

AIB's strategic ambition is the delivery of enhanced customer engagement capability and simpler and more efficient processes for its employees. AIB has invested extensively in customer experience capabilities, data analytics and business process management.

To enhance the provision of a resilient technology platform AIB has invested in replacing those technology platforms that were no longer fit for purpose or are out of support. The key platforms being replaced include those used for retail payments, internet business banking and AIB's treasury services.

AIB has invested in security systems and data protection, in line with industry best practices. By prioritising these investments, AIB is able to offer customers a more secure banking experience and minimise business risks associated with attempted digital security breaches. AIB is focused on maintaining its IT systems hardware, software and processes, ensuring functionality and supportability are optimised. See "*Information Technology—IT Transformation Programmes*" for further detail of AIB's investments in IT.

AIB's regulatory investment agenda is operated with a strategic lens ensuring the capabilities built are aligned and supportive of AIB's strategic aims, while ensuring AIB is fully compliant with applicable laws and regulations. AIB's regulatory investment increased in 2017 due to, among other things, the introduction of PSD2 and IFRS 9.

5 AIB's Business

AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Since 1 January 2017, AIB has conducted its business through four segments: RCB, WIB, AIB UK and Group. The following table presents a breakdown of contribution before exceptional items and taxation by segment for the six months ended 30 June 2017 and the years ended 31 December 2016, 2015 and 2014:

	For the six months ended 30 June	For the year ended 31 December		
	2017 (unaudited)	2016	2015	2014
		(€ millions)		
RCB.....	692	1,247	1,853	998
WIB.....	110	201	159	131
AIB UK ⁽¹⁾	70	193	187	45
Group.....	(49)	(166)	12	103
Total	823	1,475	2,211	1,277

Note:

(1) Calculated using the average pound sterling to euro exchange rate for the period, which was 0.8605, 0.8196, 0.7260 and 0.8062 for the six months ended 30 June 2017 and the years ended 31 December 2016, 2015 and 2014, respectively.

5.1 RCB

RCB comprises AIB's core banking products and services for retail customers in Ireland, which it offers through the AIB, EBS and Haven brands, and for SME customers. RCB has approximately 2.3 million retail and SME customers. As at 30 June 2017, it had €42.1 billion in net loans and €44.7 billion in customer accounts. RCB has maintained a focus on mortgages, with mortgages accounting for 74 per cent. of RCB's lending as at 30 June 2017, and personal lending accounting for 6 per cent. and property and construction and non-property business lending accounting for 20 per cent.

AIB has the leading market share across each of the core retail products offered by RCB, according to BPFi and the Ipsos MRBI Personal Tracker 2016. AIB has experienced particular growth in its mortgage market share, due in part to its multi-brand strategy with AIB enhancing its customer base through competitive SVR positioning and loyalty propositions, EBS as a challenger brand and Haven targeting the intermediary market.

Within RCB, AIB has had success in implementing its four pillar strategy outlined above under “—Strategy”. In particular, it has focused on digital migration of its customers and increased process automation. In 2017, AIB has approximately 717,000 active mobile users and approximately 1.2 million digital users. For the twelve months ended June 2017, 17.6 million transactions were conducted through mobile devices, a 77 per cent increase over the twelve months ended June 2015 (full year 2016 14.8 million transactions were conducted through mobile devices). The Directors believe that AIB has a leading digital offering in the Irish banking market.

AIB is focused on new initiatives to make the application process for its products seamless for customers, including online applications for personal loans with a decision within three hours, subject to appropriate risk controls. It has implemented a digital strategy across its personal lending products, with approximately 77 per cent. of Personal Lending online at the end of H1 2016.

AIB is also committed to backing entrepreneurs, early start-ups and established SMEs. AIB has pursued a sector-led approach, providing customers with leading sector specialists who understand the challenges and opportunities of their industry and business. In partnership with industry bodies, AIB has commissioned in-depth research reports on various industries in order to better understand its business customers. AIB has also launched several sector specific funds for lending to business customers. The sector funds are managed by teams consisting of industry experts to add sector expertise to lending decisions. In response to feedback from business customers, AIB has rolled out a series of other initiatives, including the “Backing Brave” campaign, which is described below under “—Banking Services—Business Banking”.

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

The following tables set forth certain key metrics for the RCB segment as at and for the six months ended 30 June 2017 and as at and for the years ended 31 December 2016, 2015 and 2014:

	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2017	2016	2015	2014
	(unaudited)	(audited)		
Contribution statement				
Total operating income (<i>€ millions</i>)	1,019	1,671	1,602	1,475
Contribution before exceptional items and taxation (<i>€ millions</i>).....	692	1,247	1,853	998
Statement of financial position				
Net loans (<i>€ billions</i>).....	42.1	42.7	43.7	45.4
Customer accounts (<i>€ billions</i>).....	44.7	42.9	40.4	37.8

	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2017	2016	2015	2014
	(unaudited)			
Additional Information				
Mortgages.....	31.1	31.4	32.1	32.9
Personal	2.6	2.7	2.6	2.5
Business.....	7.7	7.6	7.7	8.2
Legacy distressed loans ⁽¹⁾	0.7	1.0	1.3	1.8
Net loans (<i>€ billions</i>)	<u>42.1</u>	<u>42.7</u>	<u>43.7</u>	<u>45.4</u>
Net impaired loans (<i>€ billions</i>)	3.9	4.4	5.9	9.3
Mortgages.....	1.1	2.0	1.7	0.4
Personal	0.4	0.7	0.5	1.3
Business.....	0.7	1.2	1.1	0.9
New lending drawdowns (<i>€ billions</i>)	<u>2.2</u>	<u>3.9</u>	<u>3.3</u>	<u>2.5</u>

Notes:

(1) Includes larger legacy distressed loans that have been subject to restructuring arrangements that are managed through the RCB workout unit.

5.1.1 Banking Services

RCB offers retail and business banking services to customers in the Irish market via its omni-channel distribution model. It offers these services through the AIB, EBS and Haven brands for retail customers and the AIB brand for SME customers.

Retail Banking

AIB is focused on the design, development and delivery of retail banking financial propositions, delivering value to meet customers' needs across youth, retail mass market, business customer, and affluent segments of the market. Retail propositions are developed using a design approach focused on customer testing and feedback, ensuring that customers have the optimum customer experience during their interactions with AIB. The Retail Banking team is responsible for increasing penetration with existing retail customers, and the acquisition of new retail customers.

Within Retail Banking, AIB's Branch Banking and Direct Banking (comprising online, mobile, tablet and telephone banking) teams are responsible for the distribution of retail banking products and services. The Direct Banking sales teams are located in Dublin and Kildare and provide a telephone banking service to retail as well as business customers.

RCB also has dedicated wealth management services that deliver wealth propositions to AIB's customers. These propositions are tailored to the needs of specific customer segments, including a private banking offering for high net worth clients.

The business banking team is responsible for the provision of banking services to AIB's business customers, typically SMEs, and the management of those relationships.

AIB's business banking strategy is firmly focused on a sectoral approach in order to best serve customers.

AIB recognises that supporting its SME customers requires a detailed understanding of the challenges and opportunities facing specific sectors within the market and the businesses which operate within those sectors. In 2013, AIB began developing its sectoral-led team comprising experts who previously worked in the relevant sectors, which include retail, exports, agriculture and technology. These experts support staff in Retail and Business Banking dealing with customers and potential transactions within these sectors.

AIB provides sector specific funds for lending. Recent examples include a €200 million Export Fund, a €300 million Long Term Care Fund and a €500 million Agriculture Fund. In conjunction with the SBCI, AIB agreed a €200 million SME Fund in February 2015 which was subsequently launched in March 2015. In December 2015, AIB signed an agreement for an additional €200 million, taking the fund to €400 million. SBCI is the state promotional bank founded during Ireland's exit from the EU/IMF programme to ensure that Irish businesses have access to long-term funding. AIB is also involved in an SBCI Agriculture Cashflow Support Loan Scheme launched in January 2017 in the amount of €150 million, of which its share is €60 million (with the remainder attributable to Bank of Ireland and Ulster Bank). This fund is now closed as AIB's €60 million has been fully subscribed. AIB has also held sector specific seminars for the agriculture and energy efficiency sectors, which were attended by AIB's customers.

AIB is increasingly focusing on asset based lending to its SME/business customers, with new asset finance business lending increasing from €431 million in 2015 to €495 million in 2016. AIB has a dedicated specialist Asset Finance Sales team of 46 working with AIB's local market network and over 600 motor and equipment suppliers to deliver asset finance products to both AIB and non-AIB customers.

AIB has also tailored solutions and products to support SME/business customers. Business Banking devises customer segment strategies for business customers, including the "Backing Brave" campaign, which it introduced in September 2014. As part of this campaign, AIB introduced a 48-hour decision commitment for all SME loans under €30,000 ("€30K in 48 Hours"). Since inception in September 2014, AIB has processed in excess of 37,000 applications which were eligible for approval under the "€30K in 48 Hours" decision commitment and this timeframe was achieved in over 90 per cent. of cases. AIB is committed to backing and supporting start-ups through the Start-up Academy programme and had a leading market share of 55 per cent. in Ireland, according to AIB SME Financial Monitor 2017.

AIB also recently launched its 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 site, 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 phones, tablets or computer terminals.

In 2016, AIB launched a next generation portable card payments terminal that allows businesses to accept card payments in a more convenient manner.

5.1.2 Products and Services

RCB offers its retail customers mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. To its business customers, RCB offers finance and loans, business current

accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, leasing, invoice discounting, credit cards, merchant services and payments and savings.

Mortgages

In the area of mortgages, RCB has a differentiated multi-brand approach, with the AIB brand targeted at opportunities within its existing customer base through competitive variable rate positioning and loyalty propositions as well as switching customers in key demographics and the EBS brand positioned as a challenger brand with targeted offers. (See “—EBS and Haven” below). For the year ended 31 December 2016, the AIB brand accounted for 60 per cent. of new mortgage lending by AIB in Ireland, with EBS and Haven accounting for 23 per cent. and 17 per cent., respectively.

AIB offers mortgages for owner-occupiers including variable rate and fixed-rate mortgages. Variable mortgages are variable rate, where interest is based on the LTV ratio for the property. AIB does not offer SVR rate to new owner occupier customers, it is the default roll off rate for maturing fixed rate customers. Since late 2014, AIB has reduced its SVRs for mortgage customers of AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven by up to 100 basis points, which benefitted approximately 155,000 customers. A further cut of 25 basis points was announced in September 2017 for AIB Bank and AIB Mortgage Bank customers and in October 2017 for Haven customers. AIB also offers split rates, which give customers the option of dividing their borrowings between fixed and variable rates. Existing AIB tracker mortgage customers that are selling their existing homes and buying a new home can also apply for a tracker retention mortgage, which allows the customer to retain his or her existing tracker interest rate (plus an additional 1 per cent. margin) on a new mortgage loan. AIB offers top-up mortgages for expenditure on mortgaged properties in minimum amounts of €10,000, subject to certain exceptions.

For first-time buyers, AIB requires a deposit of at least 10 per cent. (or 25 per cent. for one bedroom properties). For movers, a deposit of at least 20 per cent. is required (or 25 per cent. for one bedroom properties). Repayment terms of up to 35 years are available to owner-occupier mortgage customers.

AIB also offers buy-to-let mortgages at fixed and variable rates. For buy-to-let mortgages, loans up to 70 per cent. of LTV are available with repayment terms of up to 25 years. See “*Part XVIII: Supervision and Regulation—Regulation of Banks and Parent Financial Holding Companies in Ireland—LTV/LTI Related Regulatory Restrictions on Residential Mortgage Lending*” for details of the LTV and LTI related restrictions to which AIB is subject in relation to its mortgage lending.

AIB’s residential mortgages in Ireland amounted to €32.7 billion as at 30 June 2017. Of this amount, 87 per cent. were owner-occupier mortgages and 13 per cent. were buy-to-let mortgages. 34 per cent. of AIB’s residential mortgages in Ireland were tracker mortgages, 54 per cent. were variable rate mortgages and 12 per cent. were fixed-rate mortgages as at that date. Total drawdowns in the six months ended 30 June 2017 were €1.1 billion, of which 94 per cent. related to owner-occupier mortgages. The weighted average indexed LTV for new residential mortgages in the six months ended 30 June 2017 was 74 per cent.

Finance and loans

AIB offers personal loans including loans for specified purposes, including car loans, home improvement loans, wedding loans, travel loans and education loans. Existing customers of AIB who bank online can apply for personal loans for one to five years for amounts between €1,000 and €30,000. AIB aims to provide decisions on personal loans within three business hours and, once the decision is made, the amount is immediately disbursed to the customer’s account. New customers, customers who do not bank online or customers who want to apply for a loan in excess of €30,000 need to visit an AIB branch to apply for the loan.

AIB has a further range of finance offerings for its business customers, including business loans, business overdrafts, start-up loans, asset finance, invoice discounting, prompt pay (which permits borrowers to spread the cost of one-off payments over a longer period), insurance premium finance and farmer/business credit lines.

Credit cards

AIB offers a range of credit cards, including AIB Click Visa Card, ‘be’ Visa/MasterCard, and the Platinum Visa Card which provides a free and exclusive cashback loyalty programme. AIB also offers the AIB Student MasterCard. The minimum required salary for the AIB Click Visa Card and the ‘be’ Visa/MasterCard is €16,000 and for the Platinum Visa Card is €40,000. The Click Visa Card is only offered online. AIB also offers Visa business credit cards that are tailored to the needs of its business customers, including premier and executive Visa corporate credit cards.

Current accounts

AIB offers a range of current accounts, including its standard AIB Personal Current Account as well as the AIB Student Account, AIB Student Plus Account, AIB Graduate Account, AIB Advantage Account and AIB Basic Bank Account, as well as a range of business current accounts, including accounts in foreign currencies. AIB also offers AIB debit cards alongside its current accounts.

Insurance

AIB has developed strategic partnerships with a range of providers to offer general insurance and life insurance offerings to customers.

On the general insurance side, AIB offers personal customers home insurance and car insurance in partnership with AXA and travel insurance in partnership with ACE. EBS offers personal customers home insurance in partnership with Allianz. AIB's home insurance policies cover main residence, investment or rental properties, holiday homes and homes under construction. AIB also offers buildings and contents insurance.

On the life insurance side, AIB and EBS offer life insurance, mortgage protection, income protection and illness cover through a relationship with Irish Life pursuant to a distribution agreement. In addition, AIB offers inheritance tax planning products, business protection and succession planning services to business customers. AIB does not carry the risk associated with the insurance products on its statement of financial position given the receipt of profit share and commission structure contained in the distribution agreement.

Savings and investing

AIB offers a range of savings accounts, including online saver products, demand/regular saver products, fixed term products, junior saver/student saver products and deposits in foreign currencies to its personal customers. AIB offers pensions products through a relationship with Irish Life pursuant to a distribution agreement. AIB offers all of its personal customers a free personalised financial review with a financial adviser to help them to plan for future financial goals such as retirement or children's education.

AIB offers its business customers deposit accounts, including demand and fixed accounts, as well as foreign currency deposits; investments; and retirement and pensions products, including group pension schemes. All life and pension products are offered through AIB's relationship with Irish Life pursuant to a distribution agreement through 118 specialist advisers within AIB's local markets and direct channels. AIB also offers high net worth customers an open architecture bespoke investment offering through a private banking channel.

Merchant services

AIB Merchant Services accepts and processes debit and credit card payments through a joint venture with First Data and is Ireland's largest provider of card acceptance services. AIB Merchant Services enables customers to accept credit and debit card payments in-store, over the phone or online in multiple currencies. AIB Merchant Services also offers Clover, a next generation electronic point of sale solution that replaces the standard card payments terminal with a smart touchscreen and comes with a wide range of apps that enable businesses to handle anything from gift cards and loyalty schemes to employee management and inventory tracking.

Payments

AIB offers a range of electronic payment services for its business customers, including direct debit originator, SEPA direct debit originator, funds transfer, same day value and standing orders.

5.1.3 EBS and Haven

EBS is a wholly owned subsidiary of AIB. AIB operates EBS as a standalone challenger brand with its own distribution network of tied branch agents with an incentive based model. EBS operates in Ireland and has a nationwide network of 71 offices and a direct telephone based distribution division, EBS Direct. EBS primarily offers mortgages, although it also offers insurance, savings and investments, financial planning and current accounts. As part of its more targeted offerings to new customers, EBS launched its 'anytime' mortgage proposition in 2014, meaning that customers are able to meet a mortgage advisor at a time that suits them.

AIB also distributes mortgages through Haven Mortgages Limited ("Haven"), an indirect wholly owned subsidiary of AIB Bank, to independent mortgage intermediaries.

5.2 WIB

WIB serves AIB's larger customers and customers requiring specific sector or product expertise. AIB's vision is to be the wholesale bank of choice serving multiple industry sectors through the provision of an integrated suite of products, services and technology and supported by superior customer service with a focus on revenue growth and diversity. WIB accounted for € 9.1 billion of net loans and €5.6 billion of customer accounts as at 30 June 2017.

WIB has pursued a lending model which is aimed at ensuring that learnings from past economic cycles are consistently applied. It is focused on a selective and risk-aware approach to new business origination using sector experts and multi-disciplinary teams, including lenders, engineers and surveyors. These teams work within WIB's improved underwriting standards, including the application of RAROC, an analysis of a property's potential cash flow for all property lending, a focus on entry and exit LTV for commercial real estate lending and a phased approach to residential development lending.

WIB operates a relationship management model with the objective of developing a deep and comprehensive understanding of its customers and their sectors and markets, enabling AIB to identify opportunities to meet a broader range of customer financial needs. WIB continuously reviews and adapts its product offering to ensure that evolving customer needs are met. WIB serves customers out of two locations: Dublin and New York. AIB's activities in the United States comprise its US Syndicated & International Finance activities and its New York branch activities. The US Syndicated & International Finance team participate in public market loan syndications, while the smaller New York branch comprises a treasury function and a corporate loan portfolio.

Within WIB, experienced sector teams work closely with customers to structure bespoke financing solutions using a range of financing options from senior debt through to mezzanine finance and in certain instances, debt capital markets issuances or equity investments.

The following tables set forth certain metrics for the WIB segment as at and for the six months ended 30 June 2017 and as at and for the years ended 31 December 2016, 2015 and 2014:

	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2017 (unaudited)	2016	2015 (audited)	2014
Contribution statement				
Total operating income (<i>€ millions</i>)	149	320	269	218
Contribution before exceptional items and taxation (<i>€ millions</i>).....	110	201	159	131
Statement of financial position				
Net loans (<i>€ billions</i>).....	9.1	9.1	8.6	7.3
Customer accounts (<i>€ billions</i>).....	5.6	6.4	6.0	5.6

	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2017	2016	2015	2014
Additional information				
		(unaudited)		
Corporate	4.2	4.4	4.6	4.6
Syndicated & International.....	2.9	2.8	2.3	1.5
Real Estate Finance	1.8	1.7	1.5	1.2
Specialised Finance	0.2	0.2	0.2	—
Net loans (<i>€ billions</i>)	<u>9.1</u>	<u>9.1</u>	<u>8.6</u>	<u>7.3</u>
Corporate	0.3	0.9	0.9	0.8
Syndicated and International	0.7	1.3	1.1	0.7
Real Estate Finance	0.2	0.6	0.3	0.1
Specialised Finance	0.1	0.1	0.2	—
New lending drawdowns (<i>€ billions</i>)	<u>1.3</u>	<u>2.9</u>	<u>2.5</u>	<u>1.6</u>

5.2.1 Sector and Product Teams

To best support customer needs and provide the necessary product and service expertise, WIB's business is organised into three sector focused teams (Corporate Banking, Real Estate Finance and the newly created Energy, Climate Change & Infrastructure Unit) and three product teams (Syndicated & International Finance, Specialised Finance and Corporate Finance), which are described below.

Corporate Banking

Corporate Banking is the cornerstone of the WIB customer franchise. It is primarily focused on domestic corporate customers with a senior debt requirement of at least €10 million. Corporate Banking teams provide senior debt and core banking products to diversified portfolio domestic companies. Within the corporate banking market, AIB targets a broad range of sectors, including hotels and leisure, food and agriculture, healthcare and student accommodation. Foreign direct investment is also an important segment of the corporate banking market for AIB.

AIB's customer relationship management teams are divided into specialist sector teams which work closely with its customers to gain a deep understanding of their banking requirements. AIB's Corporate Banking relationship management teams directly manage the end-to-end delivery of traditional credit facilities and leverage the expertise of the

other customer facing units within WIB (e.g., foreign exchange and mezzanine financing) and RCB (e.g., transactional banking and leasing), to provide the full range of solutions to AIB's corporate customers.

Corporate Banking's customer base is segmented with a differentiated service approach. It has approximately 650 core corporate clients and institutional corporate clients, all of which have a dedicated relationship manager, and approximately 600 portfolio corporates, most of which are foreign direct investment clients.

In addition to its relationship management teams, Corporate Banking has a dedicated new business team that targets customers to which AIB does not currently provide banking services. Once an opportunity has been identified and the customer's needs are understood, the prospective customer is transferred to the relevant relationship management team.

As at 30 June 2017, Corporate Banking had €4.2 billion of net loans.

Real Estate Finance

AIB's Real Estate Finance team provides finance for commercial property investment and for property development and construction to domestic and international property investors. AIB's multi-disciplinary team, which is comprised of property lenders, chartered surveyors and engineers, has deep knowledge in providing finance to this specialist asset class. AIB has a strong customer relationship model, adding value through its expertise, dependability, and professionalism. From an origination perspective, the Real Estate Finance team is primarily focussed on commercial real estate investors with senior debt requirements of greater than €10 million and land and development customers with senior debt requirements of greater than €1 million.

As at 30 June 2017, Real Estate Finance had €1.8 billion of net loans.

Energy, Climate Change & Infrastructure

In 2017, AIB introduced a new centre of expertise providing integrated capital solutions with a focus on renewable energy. The Directors believe that this sector is both commercially and strategically important, given Ireland's 2020 sustainability targets and the growth potential of renewable energy.

Syndicated & International Finance

The Syndicated & International Finance team participates in public loan markets to provide senior secured debt to large and selected mid-capitalisation corporates. It also has a team based in the United States with Dublin-based governance. The team takes a highly selective approach to lending and has strong risk-adjusted returns from a well-diversified portfolio.

As at 30 June 2017, Syndicated & International Finance had €2.9 billion of net loans.

Specialised Finance

The Specialised Finance team's activities include mezzanine finance, structured finance and equity investments. AIB has a dedicated mezzanine fund, enabling it to fulfil SME and corporate customers' subordinated finance requirements. AIB also specialises in providing bespoke structured finance solutions to its corporate customers and structured finance to support institutional clients' portfolio financing requirements.

AIB is a significant seed, venture and growth capital fund investor in the Irish marketplace with commitments currently totalling €146 million to twelve funds. These funds have a combined fund size of c. €900m, a large part of which is providing equity finance to Irish SMEs with high growth potential particularly across the technology, fintech and life sciences sectors. AIB also has the ability to deploy equity on a selective basis to Irish SMEs to help support the Irish economy and generate a commercial return for AIB.

As at 30 June 2017, Specialised Finance had €0.2 billion of net loans.

Corporate Finance

The Corporate Finance team is a long-standing Irish corporate finance adviser with a proven track record of advising on mergers and acquisitions transactions in the Irish market. AIB offers a wide range of services, including advice in relation to disposals, acquisitions, fundraisings, management buy-outs and strategic shareholder advice. AIB has in-depth experience on complex private and public transactions and an internationally experienced team of professionals with a strong understanding of the underlying market dynamics in Ireland, which enables it to deliver significant value for clients. It is focused on the core SME/mid-capitalisation Irish corporate customer base.

5.2.2 Products and Services

WIB directly manages the end-to-end delivery of traditional credit facilities and provides the full range of solutions to AIB's corporate and institutional customers.

Senior and subordinated term debt

AIB provides a range of bespoke senior and subordinated debt solutions to its corporate customers both directly and through syndicated deals. Each loan facility is structured to meet the customer's specific needs while minimising the risks to AIB.

Revolving credit facilities

In addition to the term debt, AIB provides revolving credit facilities to its corporate and institutional customers.

Equity investments

AIB provides equity investments either directly or through third-party funds. As described above under "*—Sector and Product Teams—Specialised Finance*", through its equity investments capability, AIB is the largest bank seed fund investor in Ireland.

Advisory

AIB provides a range of corporate finance advisory services to customers including advisory services for disposals, acquisitions, fundraisings, management buy-outs and strategic shareholder advice.

Foreign exchange services and interest rate risk management

AIB offers a range of products to help protect its customers from adverse interest rate and foreign exchange rate movements, including interest rate swaps, spot foreign exchange, forward foreign exchange contracts, foreign exchange options, foreign exchange orders and foreign currency accounts. Foreign exchange services are transacted over electronic portals, within branches over the counter and via voice channels, supported by the treasury function.

Trade finance

AIB offers its customers a range of trade finance products to help manage the risks associated with international trade, and to help customers to win overseas contracts. Standard products include letters of credit and documentary collections as well as a range of guarantees which may be required to support the business such as bid/tender guarantees, performance guarantees and advance payment guarantees.

Cash management

AIB's cash management service provides a complete payment solution for companies trading internationally and domestically. The service includes the provision of a range of currency accounts to support efficient and streamlined payments and collections, a file upload service for supplier payments in euro and other currencies, processing of SEPA direct debits and reconciliation reports as well as the ability to deliver bank account information abroad.

Invoice discounting

Invoice discounting is a solution for customers' working capital needs, providing a confidential debt financing facility. This service helps customers with cash flow problems by offering immediate access of up to 80 per cent. of invoiced debt. While invoice discounting is primarily a working capital facility, it may also be used to fund transactions such as mergers, acquisitions, management buy-outs, management buy-ins and capital expenditure programmes.

Economic research

AIB provides its customers with leading financial research in the foreign exchange and fixed income markets, as well as research on Irish and international economics. Economic research is distributed via AIB's bespoke web portal for the treasury function and directly via e-mail to customers. Research is distributed on a daily basis to approximately 4,000 customers through these channels.

5.3 AIB UK

AIB UK comprises two distinct trading brands operating in two distinct markets with different economies and operating environments: (i) First Trust Bank, which offers full banking services to business and personal customers across Northern Ireland, and (ii) Allied Irish Bank (GB) which offers full banking services to predominantly business customers across Great Britain. Both brands are supported by a single operations function. In addition, AIB UK has units in Belfast, Birmingham and London dedicated to managing customers experiencing financial difficulty, as described below under "*—Customers in Financial Difficulty*".

AIB UK accounted for £7.5 billion of net loans (with First Trust Bank accounting for £2.4 billion and Allied Irish Bank (GB) accounting for £5.1 billion) and £9.2 billion of customer accounts (with First Trust Bank accounting for £4.3 billion and Allied Irish Bank (GB) accounting for £4.9 billion) as at 30 June 2017.

AIB UK is a bank registered in the United Kingdom and regulated by the FCA and the PRA. Although it is subject to a separate regulatory regime and has its own governance, AIB UK is closely aligned to AIB Bank in order to achieve the most efficient operating model.

The following table sets forth certain metrics for the AIB UK segment as at and for the six months ended 30 June 2017 and as at and for the years ended 31 December 2016, 2015 and 2014:

	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2017 (unaudited)	2016	2015 (audited)	2014
Contribution statement				
Total operating income (£ millions)	135	237	219	218
Contribution before exceptional items and taxation (£ millions)	60	157	137	37
Statement of financial position				
Net loans (£ billions)	7.5	7.5	7.6	8.1
Customer accounts (£ billions)	9.2	8.9	8.6	9.0
Additional information	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2017	2016	2015 (unaudited)	2014
FTB (£ billions)	2.4	2.4	2.5	2.7
Allied Irish Bank GB (£ billions)	5.1	5.1	5.1	5.4
Net loans (£ billions)	<u>7.5</u>	<u>7.5</u>	<u>7.6</u>	<u>8.1</u>
FTB (£ billions)	0.2	0.2	0.3	0.3
Allied Irish Bank GB (£ billions)	0.6	1.3	1.6	1.0
New lending drawdowns (£ billions)	<u>0.8</u>	<u>1.5</u>	<u>1.9</u>	<u>1.3</u>

5.3.1 AIB UK's markets

Northern Ireland

First Trust Bank is a long established bank in Northern Ireland, providing a full banking service, including online, mobile and telephone banking to business and personal customers.

First Trust Bank aims to be a focussed challenger bank in Northern Ireland, offering business banking with a local market presence, a competitive mortgage proposition to customers via intermediary and direct channels, and digitally enabled personal products and services. The overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.

In 2015, First Trust Bank began an 18-month strategic review to consider ways in which it could best meet the needs of customers while maintaining a successful and sustainable business. During this review, First Trust Bank found the number of customers using bank branches declined by almost 40 per cent. since 2010, while there was a 117 per cent. increase in mobile transactions between 2014 and 2016. Following the completion of the strategic review, it announced in February 2017 a reshaping and investment programme to focus on its digital capability, including the closure of 15 of its 30 branches (the final of these closures having completed in August 2017) and the reduction of approximately 130 full-time employees. It also announced a £10 million investment strategy for personal and business customers, including plans to open 5 new business centres across Northern Ireland. First Trust Bank also agreed an arrangement with the UK post office that will enable customers to conduct their everyday banking transactions in 500 post offices located across Northern Ireland.

To enable First Trust Bank to deliver its strategic aim, First Trust Bank is implementing a new operating model, incorporating the following:

- Retail Banking—Full range of personal banking services and products for personal/ retail customers across an optimised retail branch network;
- Business Banking—A segmented relationship manager approach across four business centres and two satellite hubs; and
- Direct Banking—Digital and telephone banking, allowing retail and business customers to self-service or manage their banking needs remotely.

In the retail sector, First Trust Bank has approximately 253,000 active personal customers. Its share of the mortgage market is approximately 4% per cent., according to the Ipsos MORI—MFS NI for the second quarter of 2017. First Trust Bank’s share of the current account market and savings markets is higher, at 12% per cent. and 7% per cent., respectively, according to the Ipsos MORI MFS NI for Q2 2017.

First Trust Bank continues to invest in offering customers a wide choice of how to engage with First Trust Bank in a way that is most suited to them in a modern banking setting, through traditional channels or via technology.

During 2016, First Trust Bank had an average of approximately 750 new registrations per month for its digital banking services, with approximately 100,000 customers per month now actively using the online and mobile channels.

First Trust Bank’s feedback on customer service from retail customers is strong, reflected in its high NPS. It had a loan to deposit ratio of 56 per cent. as at 30 June 2017, with significant surplus liquidity available to fund future lending growth.

In the business sector, First Trust Bank has approximately 28,000 active customers, mainly in the SME sector, where it had a market share of 13 per cent. based on the PwC Northern Ireland Business Banking Tracker 2016.

Great Britain

AIB’s operations in Great Britain are conducted under the Allied Irish Bank (GB) trading name. Allied Irish Bank (GB) is a niche player which aims to be recognised as the bank of choice for owner-managed businesses in Great Britain.

Allied Irish Bank (GB) is an established specialist business bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain, providing a full clearing and day-to-day transactional banking service to customers.

Allied Irish Bank (GB)’s strategy is to be a leading niche business bank, with recognised expertise in particular sectors and markets, targeting mid-tier corporates and larger SMEs in local geographies who value a high-touch relationship model. Dedicated relationship management teams work closely with customers to establish and find solutions to their banking needs.

Allied Irish Bank (GB) offers a full range of banking services, including lending, treasury, trade finance facilities, asset finance, invoice discounting and day-to-day transactional banking. In addition, Allied Irish Bank (GB) has a committed focus to British-Irish trade, meeting the needs of companies in Ireland and the United Kingdom who are operating, or want to set up operations, in either jurisdiction.

Allied Irish Bank (GB) has approximately 1 per cent. of the business lending market in Great Britain, and given the size of this market share, together with a targeted growth strategy and the benefits of rationalisation within this business has clear opportunities to increase its presence and market share through its sector focused strategy (Sources: Bank of England - Monetary & Financial Statistics July 2017, AIB UK Balance Sheet)

5.3.2 Products and Services

First Trust Bank provides a full range of transactional banking services. For retail customers, the core products offered include current accounts; ATM network (LINK); telephone, internet, tablet and mobile banking; savings and deposit accounts; personal loans (secured and unsecured) and overdrafts; mortgages; private banking and financial services (as the appointed representative of Legal & General). For business and corporate customers, it offers current accounts, iBusiness Banking (“iBB”), deposit and treasury accounts, secured loans and overdrafts; asset finance and invoice discounting; customer treasury services; business credit and debit cards; merchant services and private banking services for businesses (including mortgages).

Allied Irish Bank (GB) provides full service business banking, including term loans, revolving credit facilities, overdrafts, asset finance and invoice finance; senior and subordinated debt and equity investments for corporate customers; business current accounts; card services (Visa business and Visa debit card); merchant services; payments (including iBB, BACS and DD Originator); savings and deposit accounts; treasury services (including foreign exchange contracts and foreign exchange options, interest rate products and interest rate options); trade finance (including letters of credit and documentary credits); and personal and some private banking services (including mortgages). Allied Irish Bank (GB) also has a small centralised unit which manages all personal and small SME banking. This unit also manages a large proportion of the deposit base in Allied Irish Bank (GB).

5.4 Customers in Financial Difficulty

Within the segments set out in “—Overview” above, AIB has migrated the management of the vast majority of its non-performing loans to FSG, AIB’s standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG’s well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty and has devised an holistic “One Customer” approach through its customer treatment strategies. The “One Customer” debt management strategy is in recognition of the fact that AIB’s distressed portfolio is weighted towards customers who hold multiple asset types and associated debt obligations.

AIB is moving into the mature stage of managing its customers in difficulty and non-performing loan portfolios. FSG has continued to evolve its standalone operating model to support AIB's objective to reduce its non-performing loans to more normalised European banking norms, whilst continuing to support its customers. FSG has placed increased focus on the performance of restructured customers in terms of compliance with asset disposal targets and covenants while managing the significant complexity and lengthy timeframes to support customers who are yet to be restructured. FSG teams are aligned to the non-performing loan life cycle through the following units and activities in Ireland and the United Kingdom:

- Loan Recovery: Restructuring activities for cooperating customers; managing non-cooperating customers through legal enforcement where AIB is not able to find a consensual resolution;
- Customer Management: Post restructuring case management to ensure adherence with agreed solutions including asset disposals for all asset classes;
- Retail Arrears Credit and Collections: Retail arrears for multiple products for smaller exposures in the retail, personal and SME segments; and
- FSG UK: Retail and business customers in difficulty for the United Kingdom with teams located in Belfast, Birmingham and London.

The teams are supported by:

- Portfolio Management Unit: Business performance reporting and analysis;
- Business Services: Operational fulfilment and change management; and
- Strategy: Implementation of strategic initiatives including deleveraging initiatives.

For further detail regarding AIB's forbearance solutions and loans subject to forbearance solutions, see "*—Additional Credit Risk Information—Forbearance*" of the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts "*—Credit risk—Additional Credit Risk Information—Forbearance*" in note 58 of Section B of "*Part XVI: Consolidated Historical Financial Information*" of the AIB Bank IPO Prospectus, which are incorporated by reference herein.

5.5 Group

The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

As at 30 June 2017, the Group segment had €0.1 billion of net loans and for the six months ended 30 June 2017 and the year ended 31 December 2016, it had €204 million and €350 million of total operating income, respectively.

6 Distribution Channels

AIB has an omni-channel customer strategy which focuses on customer convenience and consistency. The omni-channel approach encompasses the branch network as well as direct and digital channels, which offer self-service capability through self-service kiosks, ATMs and cash and cheque lodgement machines ("CCLs"), telephone, internet, tablet and mobile banking. The Directors believe that AIB is the largest Irish bank in terms of mobile penetration.

In 2013, AIB opened The "LAB" (Learn about Banking). LAB is an innovative digital banking location, which allows AIB to test digital concepts in a live environment with its customers. These have included concepts such as the fully digitised personal lending application and mobile payment solutions, where feedback from customers helps AIB to fully understand their needs and use this information to shape products and services. The "LAB" (Learn about Banking) is situated in Dundrum Town Centre, the highest footfall retail location in Ireland.

As a result of continuous investment in digital platforms, AIB has received external recognition, winning the "Best Use of Mobile" at the Digital Media Awards for the AIB mobile banking application. "Best Adoption of Social Media" at the CCMA awards and "Best Innovation in Financial Services" at the Digital Media Awards.

AIB's omni-channel approach is also being adopted by AIB UK as AIB adopts a more consistent model across its operations.

6.1 Branch Network

In conjunction with its digital channels, AIB continues to maintain the largest physical distribution network in Ireland, based on management information and publicly available information from competitor banks, with 205 AIB branches, 71 EBS offices, 19 business centres, which are tailored to the needs of AIB's SME customers, and the "LAB" (Learn About Banking) outlet, which is a digital banking location, 989 ATMs, and a partnership with An Post with over approximately 1,100 locations nationwide. At the An Post locations, customers can carry out much of their regular banking, including depositing cash using an AIB debit card or deposit book, withdrawing up to €600 in cash per day using an AIB debit card, paying an AIB credit card bill, and depositing cheques at designated post offices.

AIB has undertaken significant rationalisation of its branch network, having reduced the number of branches by a net 23 per cent. and branch staff by 28 per cent. over the past four years. This has contributed to increasing efficiency across the branch network, and AIB will continue to maintain a branch network that is appropriately sized to meet the needs of its customers. Following this rationalisation, AIB has also completed 134 refurbishments across its branch network.

AIB divides its branches into retail, which are full sales and service branches; central, which are similar to retail branches but with relationship managers sitting at the relevant branch; retail campus, which are situated in or on college or university grounds; and sales and advisory, which provide reactive sales and machine assisted cash transactions without tellers. As at 30 June 2017, AIB had 135 retail branches, 47 central branches, 15 retail campus outlets and 8 sales and advisory outlets. AIB's "LAB" (Learn About Banking) outlet is situated in Dundrum Town Centre, the highest footfall retail location in Ireland.

AIB is focused on upgrades to self service facilities across its branch network in order to reduce the number of over-the-counter ("OTC") transactions. It has introduced CCLs, which allow customers to deposit cash and cheques, among other services. As at 30 June 2017, AIB had 414 CCLs across 191 branches. The number of CCL transactions has been increasing over the past three years, while the number of OTC transactions in branches has been declining.

In recognition of the fact that customers increasingly need to bank outside of normal working hours, AIB has extended the opening hours in many of its branch locations and also now provides an out-of-hours service.

AIB has 15 business centres in Great Britain to serve customers. In Northern Ireland, AIB provides banking services through 15 branches and outlets under the trading name First Trust Bank. In February 2017, AIB announced the closure of 15 of its 30 First Trust Bank branches. All 15 branch closures were completed by August 2017. It also announced a £10 million investment strategy for personal and business customers, including plans to open five new business centres across Northern Ireland. First Trust Bank also agreed an arrangement with the UK post office that will enable customers to conduct their everyday banking transactions in approximately 500 post offices located across Northern Ireland.

6.2 Direct Channels

AIB's direct channels include telephone, internet, mobile and tablet banking. The Direct Banking sales teams are located in Dublin and Kildare and provide a telephone banking service to retail as well as, more recently, business customers. Through internet banking, customers can apply for personal loans, balance enquiries, view transactions, eStatements and eFee Advices, pay bills and manage standing orders, transfer money between accounts domestically and internationally, top up mobile phones, access online products, search for and place stop orders on cheques and view all incoming payment details.

Through the use of the AIB's mobile banking applications, customers can securely check their balances, pay their bills, transfer funds and apply for personal loans and credit cards.

iBB is an online service for AIB's business and corporate customers. These customers can access services such as payroll and supplier payments, multi-user access, higher value transactions and enhanced audit trails. In 2016, €400 billion in digital payments were made through the service across both Ireland and the United Kingdom. The total payment values for Ireland submitted through the iBB channel increased by 8.5 per cent. over 2015.

AIB has approximately 717,000 active mobile users and approximately 1.2 million digital users. For the twelve months ended June 2017, 17.6 million transactions were conducted through mobile devices, a 77 per cent increase over the twelve months ended June 2015 (full year 2016 14.8 million transactions were conducted through mobile devices).

AIB has recently launched both Android Pay and Apple Pay, offering personal and business customers the latest technology in payments via their mobile phones. Android and Apple Pay are part of AIB's digital enablement strategy and are intended to make banking more convenient and secure for AIB's customers.

6.3 Intermediary Channel

While the use of intermediaries in the Irish mortgage market is limited, AIB has a proven track record of originating mortgages through its third-party distribution channel of mortgage intermediaries. AIB employs a selective approach to establishing and operating its mortgage intermediary panel in order to maintain the high quality of its intermediary relationships and customer service, and employs a team of experienced business development managers to manage its relationships with mortgage intermediaries. In particular, the Haven brand exclusively distributes AIB mortgages through intermediaries.

For the six months ended 30 June 2017, 16 per cent. of AIB's gross new mortgage lending was originated through intermediaries, compared to 72 per cent. for AIB and EBS branch originations and 12 per cent. for originations through AIB's direct channels. These relationships have enabled AIB to leverage its existing mortgage infrastructure, including risk management, at a low marginal cost of origination, to provide a cost-effective way of achieving mortgage portfolio growth.

7 Employees

For the six months ended 30 June 2017, AIB had an average of 10,308 employees on a full-time equivalent (“FTE”) basis, including 9,044 permanent employees and 1,264 temporary employees. For the years ended 31 December 2016, 2015 and 2014, AIB had an average of 10,226, 10,663 and 11,384 employees on an FTE basis, respectively. The following table sets forth a breakdown of average employees by segment for the six months ended 30 June 2017:

	Six months ended 30 June 2017
RCB.....	5,470
WIB.....	267
AIB UK.....	1,316
Group.....	3,255
Total	10,308

7.1 Voluntary Severance Programme

Since 2012, AIB has undergone a structured exercise of cost reduction with approximately 4,100 employees on an FTE basis leaving under a voluntary severance programme, which comprised a voluntary severance scheme and an early retirement scheme. The reduction in employees was supported by AIB’s transformation strategy which enabled the staff exits.

The voluntary severance terms were consistent with those available to staff in other banks in receipt of state aid and were based on either three weeks’ annualised salary for each year of service plus statutory redundancy, or four weeks’ annualised salary for each year of service, inclusive of statutory redundancy, both with an annualised salary cap of €225,000 (£190,000). The scheme was introduced on a phased basis, according to business needs and capacity, with the result that not all areas of the business were immediately within the scope of the voluntary severance scheme. The scheme continues to support the ongoing transformation programme.

An early retirement scheme was also opened for staff in defined benefit pension schemes in Ireland and the United Kingdom, with early retirement on a pro rata, actuarially-reduced basis, based on pensionable service to the date of leaving. AIB reduced the impact of actuarial reduction by an amount broadly equivalent to the comparable voluntary severance payment. A strong level of interest was expressed in the scheme, with early retirement dates phased to December 2013.

Both schemes have been positively received by staff, with an average acceptance rate of 90 per cent. on approved offers. The voluntary severance scheme is still open and has been extended to December 2019.

7.2 Unions

AIB has a long-standing history of constructive working relations with all of its employee representative unions, which include the FSU, Services Industrial Professional and Technical Union (also known as SIPTU) and Unite. The FSU is the main negotiating partner and represents more than one-third of AIB’s employees across Ireland and the UK. Recently, a partnership approach to negotiation and collective agreement has evolved, which has been instrumental in the introduction of change and transformation. A new alliance initiative is currently underway between AIB and the FSU to enhance working relationships between management and union representatives at all levels across the organisation by developing more effective processes of local engagement.

7.3 Pay and Benefits Review

In 2013, the Labour Court and Labour Relations Commission issued recommendations on terms and conditions of employment for staff across AIB, which addressed future pay and pension arrangements. The Labour Court recommended that arrangements be put in place to review pay on an annual basis, commencing in January 2014. This review should have regard to such matters as cost of living, progression within bands, AIB’s financial performance, market movement, performance management and other relevant considerations.

From 2009 to 2015, there were no pay increases across AIB. In 2015, a general pay increase of 2 per cent. (capped) was awarded. In 2016, following a joint working party between AIB and the FSU, performance-related pay was agreed and implemented, with pay increases being granted according to individual performance only. In January 2017, following discussions between AIB and the FSU at the WRC, it was agreed to implement performance-related pay applicable for 2017 and 2018 ranging from 0 per cent. to 3.25 per cent. with effect from 1 April 2017 and 1 April 2018. It was also agreed that any redundancies will be volunteer led where possible, and paid on the agreed voluntary severance terms until 2019 and that AIB will bear pension management fees until December 2018. The FSU has agreed to ongoing co-operation with AIB’s change and restructuring plans.

Discussions are ongoing regarding other arrangements across AIB such as the introduction of a new career banded framework and, in particular, the composition and proposed structure of jobs and salary ranges within the new framework.

AIB does not currently operate any share option scheme pursuant to which employees of AIB can acquire any shares in the capital of AIB Bank or, following the Scheme Effective Date, AIB HoldCo. AIB is committed to seeking to better align the reward of the senior management team with the objectives of creating long-term sustainable value for customers and shareholders, simultaneously safeguarding the bank's capital, liquidity and risk positions. AIB will ensure that any strategy is in full compliance with current EBA protocols and is aligned with investor appetite.

7.4 Learning and Development

AIB has recently made enhancements to its learning and development platform to offer classroom and web-based learning on a range of topics under the banner iLearn. There has been attendance of over 50,000 at classroom events and employees have accessed web based training over 550,000 times since iLearn was launched in February 2014. A new all-employee risk training course has been rolled out on iLearn by AIB's risk department.

Recognising the level of change across AIB, workshops have also been introduced to support people through transitions. These workshops encourage those running change programmes to consider the people aspect of change. AIB also supports its employees with training through the AIB Leadership Framework and a new Leadership Curriculum.

7.5 Code of Conduct

In 2015, AIB adopted a new code of conduct in relation to business ethics that applies to all employees (the "Code of Conduct"). The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standard of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training, which are designed to ensure that the Code of Conduct is understood and that all employees act in accordance with it.

As part of the implementation of the Code of Conduct, AIB encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external. One such channel, the Speak Up channel, is designed to support any whistleblowing concerns, and includes a confidential external helpline. Employees are assured that if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the employee as a result.

8 Information Technology

The business of AIB is dependent upon IT infrastructure, services and systems. These systems support customer interactions with AIB and back office functions, including:

- Direct customer and assisted channels: providing sales and services systems for retail and business in-branch banking customers, via direct banking (i.e., internet, tablet and mobile banking) and corporate banking products and services;
- Business and customer services: providing operational systems that support customers from centralised functions, including the customer call centre, operations and technology services;
- Payments and cards: providing processing conducted through a variety of banking systems and schemes, for domestic, international (SWIFT) and Euro (SEPA) payments; and
- Enterprise functions: supporting AIB's finance, risk, and analytics and reporting systems.

8.1 Core banking systems

AIB's primary core banking systems are mainframe based and internally developed and maintained by AIB. The core systems are used across all areas of AIB's business.

8.1.1 Data Centres

AIB operates dual active-active data centres with resilient infrastructure that deliver high availability to critical business services, located approximately 15 kilometres apart from each other. The technologies within the data centres have been configured to eliminate single points of failure and to provide active-active services or near real-time recovery capabilities in the event of a components failure. Each data centre is operated by a different third-party supplier, with all assets owned and operated by AIB.

8.1.2 Network

AIB operates, through a third party, a secure segmented network which is configured to be highly available with diverse routing. AIB operates a number of security measures across its network and infrastructure, including advance threat detection and intelligence, systems auditing, password security, data loss prevention and attack mitigation.

8.1.3 Infrastructure

AIB's infrastructure solutions have been engineered to provide embedded local and cross site resilience as a common platform available to all services; including core network, content managers and firewalls, virtualisation, clusters and storage.

8.1.4 Mainframe

AIB runs core banking systems on a third-party supported mainframe environment, including proprietary software for core retail banking and third-party software for corporate, treasury and payments.

AIB has a business continuity arrangement in place with a third party that provides for data replication and an offsite backup in the event of an IT failure at the main campus.

8.2 IT Transformation Programmes

AIB is investing significantly in technology as a part of its three-year €870 million investment programme, which AIB has funded out of its cash flow from operations. This includes investments in AIB's IT systems, such as a retail payments engine replacement, a treasury platform upgrade an internet business banking replacement, digitisation and process management and data transformation.

AIB has completed an outsourcing programme to leverage the skills and capabilities of external vendors. Through a small number of global strategic partnerships, AIB utilises outsourcing arrangements to manage certain of its infrastructure and systems. Its outsourcing agreements are overseen and managed by AIB's internal technology functions. Processes and controls for AIB's systems are managed by its strategic partners, with appropriate oversight from AIB's internal functions. The Directors believe that by leveraging these partnerships, AIB is able to reduce delivery time, access more personnel with critical skills and enable greater resource flexibility.

AIB has entered into master services agreements (and related services agreements) with five service providers:

- Wipro Limited for the provision of IT hosting and storage services and related support services, and application development and maintenance services;
- Eir for the provision of IT telecommunications services and related support services;
- HCL Technologies Limited for the provision of desktop services and service desk;
- Integrity Communications Limited for the provision of IT security services and related support services; and
- Infosys Limited for the provision of IT application development and maintenance services;

The terms of each of these agreements are set out in more detail under "*Part XX: Additional Information—Material Contracts—Outsourcing/Service Agreements—IT Outsourcing Agreements*".

PART X RELATIONSHIP WITH GOVERNMENT AND STATE AID

This “Part X: Relationship with Government and State Aid” sets out certain information relating to the relationship between AIB and the Irish Government, including state aid received by AIB. Prospective AIB HoldCo Shareholders should note that the policy, plans, views, expectations and/or intentions of the Irish Government are subject to change after the date of this Prospectus. Each of the statements in this “Part X: Relationship with Government and State Aid” should be read together with the other parts of this Prospectus and, in particular, the section entitled “Part II: Risk Factors”.

1 Irish State as Shareholder in AIB

As a consequence of the global financial crisis which commenced in 2008 and deterioration in AIB’s capital base, AIB received capital investments from the State, as described below.

1.1 2009 Preference Shares

On 13 May 2009, the Irish Government, in the name of the NPRFC, subscribed for €3.5 billion of the 2009 Preference Shares in AIB Bank. In conjunction with the subscription for the 2009 Preference Shares, the NPRFC was granted the 2009 Warrants (which, with the agreement of the NPRFC, were subsequently cancelled by AIB Bank on 23 December 2010 without having been exercised in whole or in part). The annual dividend in respect of the 2009 Preference Shares, amounting to €280 million, was satisfied in each year from 2010 to 2014 by the issue of bonus ordinary shares in the capital of AIB Bank. However, the AIB Bank Board announced on 5 March 2015 that the 2015 annual dividend in respect of the 2009 Preference Shares would be paid in cash, which was paid on 13 May 2015.

Prior to 22 December 2014, the 2009 Preference Shares owned by the Minister for Finance were held in the name of the NPRFC. On 22 December 2014, under the NTMA 2014 Act, those shares became assets of the ISIF, a fund whose assets are owned by the Minister for Finance. Neither the National Pensions Reserve Fund (“NPRF”) nor the ISIF had or has separate legal personality. The ISIF’s holding of AIB Bank Shares is controlled and managed by the NTMA pursuant to directions in writing given to the NTMA by the Minister for Finance from time to time.

On 17 December 2015, as part of the 2015 Capital Reorganisation, the 2009 Preference Shares were partially redeemed, which involved the payment of €1.7 billion, with the remainder being converted into ordinary shares in the capital of AIB Bank. This resulted in the Minister for Finance, through the ISIF, holding a total of 677,705,287,273 ordinary shares in the capital of AIB Bank with a nominal value of €0.0025 per share.

A dividend for the period from the last dividend payment of 13 May 2015 up to the date of the partial redemption and conversion of the remainder of the 2009 Preference Shares, amounting to €166 million, was paid by AIB Bank in cash to the NTMA (as manager and controller of the ISIF) on 17 December 2015. The 2009 Preference Shares no longer form part of AIB Bank’s capital structure.

1.2 AIB Bank Shares

The Irish Government has made the following equity investments in AIB Bank since 2010:

- in December 2010, AIB Bank issued €3.8 billion of new ordinary shares (and convertible non-voting shares that converted into ordinary shares in the capital of AIB Bank in April 2011) to the NPRFC, resulting in the NPRFC holding 92.8 per cent. of the issued ordinary share capital of AIB Bank; and
- in July 2011, AIB Bank placed a further €5 billion of new ordinary shares with the NPRFC increasing the NPRFC’s shareholding in AIB Bank to 99.8 per cent.

As described above, the annual cash dividend in respect of the 2009 Preference Shares in the amount of €280 million was not paid in any of the years from 2010 to 2014. Rather, the NPRFC’s dividend entitlement (as holder of the 2009 Preference Shares) was satisfied by way of bonus issues to the NPRFC by AIB Bank of approximately 11.3 billion in aggregate ordinary shares in the capital of AIB Bank between 2010 and 2014.

Prior to 22 December 2014, the ordinary shares in the capital of AIB Bank currently owned by the Minister for Finance were held in the name of the NPRFC. On 22 December 2014, under the NTMA 2014 Act, those shares became assets of the ISIF, a fund whose assets are owned by the Minister for Finance, pursuant to directions in writing given to the NTMA by the Minister for Finance from time to time.

On 21 December 2015, as a further part of the 2015 Capital Reorganisation described under “—2009 Preference Shares” above, all ordinary shares in the capital of AIB Bank, which each had a nominal value of €0.0025, were consolidated on the basis that for every 250 ordinary shares in the capital of AIB Bank with a nominal value of €0.0025 per share held by a shareholder, that shareholder was issued one ordinary share with a nominal value of €0.625 (with a rounding up of any fractional shareholdings of less than 250 ordinary shares in the capital of AIB Bank).

Following the above equity investments, conversion/redemption, bonus issues and share consolidation, the Minister for Finance owned 99.8688 per cent. of the 2,714,381,238 AIB Bank Shares then in issue. On 23 June 2017, the Minister for

Finance disposed of in aggregate 780,384,606 AIB Bank Shares comprising 28.75 per cent. of the issued ordinary capital of AIB Bank. As such the remaining holding by the Minister for Finance of AIB Bank Shares is 1,930,436,543 AIB Bank Shares, representing 71.188 per cent. of the issued share capital of AIB Bank.

1.3 Contingent Capital Tier 2 Notes

On 27 July 2011, AIB Bank issued €1.6 billion of CCNs to the Minister for Finance. The CCNs matured and were redeemed, in line with their scheduled maturity date, on 28 July 2016 and therefore no longer form part of AIB Bank's capital structure. On their maturity, a capital repayment of €1.6 billion, together with a coupon payment of €160 million, was made by AIB Bank to the Minister for Finance.

1.4 Capital Contributions

On 28 July 2011, the Minister for Finance and the NPRFC made investments into AIB Bank by way of capital contribution totalling €6.1 billion (a capital contribution is a means of strengthening the capital resources of the payee entity by way of an unconditional payment made for no consideration).

1.5 Irish Government Investment in EBS

Prior to AIB's acquisition of EBS on 1 July 2011, the Irish Government invested €875 million in EBS through the following:

- on 27 May 2010, EBS issued €100 million of Special Investment Shares to the Minister for Finance;
- on 17 June 2010, the Minister for Finance contributed a promissory note for €250 million to EBS (the "EBS Promissory Note"); and
- on 14 December 2010, EBS issued a further €525 million of Special Investment Shares to the Minister for Finance.

The Special Investment Shares were converted into ordinary shares in EBS and were acquired by AIB Bank in July 2011 as part of the EBS acquisition and the EBS Promissory Note was redeemed and cancelled by the Minister for Finance in December 2015 as part of the 2015 Capital Reorganisation.

1.6 Warrants

As part of the 2015 Capital Reorganisation, AIB Bank entered into the AIB Bank Warrant Agreement with the Minister for Finance and granted the Minister for Finance the right to receive warrants to subscribe for additional AIB Bank Shares. On 26 April 2017, the Minister for Finance exercised his rights under the AIB Bank Warrant Agreement by issuing a Warrant Notice to AIB Bank requiring AIB Bank to issue AIB Bank Warrants to the Minister for Finance to subscribe for such number of AIB Bank Shares representing 9.99 per cent. in aggregate of the issued ordinary share capital of AIB Bank at AIB Bank Admission (calculated on the basis that none of the AIB Bank Warrants have been exercised). On 4 July 2017, AIB Bank issued 271,166,685 AIB Bank Warrants to the Minister for Finance to subscribe for AIB Bank Shares, representing 9.99 per cent. of the issued share capital of AIB Bank at AIB Bank Admission. In accordance with the terms of the AIB Bank Warrant Agreement, no cash consideration was paid by the Minister for Finance to AIB Bank in respect of the issue of the AIB Bank Warrants. The exercise price for the AIB Bank Warrants is the Warrant Exercise Price and the AIB Bank Warrants will be capable of exercise by the holder of the AIB Bank Warrants during the period commencing on the first anniversary of AIB Bank Admission and ending on the tenth anniversary of AIB Bank Admission. A condition to the exercise of the AIB Bank Warrants is that, on each of the thirty most recent consecutive trading days, the share price of the AIB Bank Shares has reached or exceeded the Warrant Exercise Price, as adjusted. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument will be replaced by the AIB HoldCo Warrant Instrument, pursuant to which the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled.

2 Irish State's Regulatory Role

Following the crisis in the Irish banking sector which commenced in 2008 and the related stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in certain other Irish banks has been and in the case of AIB continues to be considerable. This involvement includes commitments and restrictions on the operation of AIB's business under the CIFS Scheme (the guarantee under which expired in September 2010, although provisions of the CIFS Scheme as amended by the ELG Scheme remain in force), the ELG Scheme (which was closed for new liabilities in March 2013 and the guarantee under which will expire in March 2018) and the NAMA Act. If AIB HoldCo becomes the new holding company of AIB under the Scheme, AIB HoldCo will not be a NAMA Participating Institution, an AIB CIFS Covered Institution or an AIB ELG Participating Institution, meaning that AIB HoldCo will not itself be subject to the NAMA Programme, the CIFS Scheme or the ELG Scheme. However, AIB Bank will continue to be a NAMA Participating Institution, an AIB CIFS Covered Institution and an AIB ELG Participating Institution for the purposes of the NAMA Programme, the CIFS Scheme and the ELG Scheme, respectively. As such, the NAMA Programme will

continue to apply to AIB Bank and its subsidiaries, and the CIFS Scheme and the ELG Scheme will continue to apply to the AIB CIFS Covered Institutions and the AIB ELG Participating Institutions, and their respective subsidiaries. For this reason, following AIB HoldCo becoming the holding company of AIB, the NAMA Programme, the CIFS Scheme and the ELG Scheme will, in all material respects, continue to apply to AIB in the same way that they do currently. The NAMA programme, the CIFS Scheme and the ELG Scheme may serve to limit AIB's operations and place significant demands on the reporting systems and resources of AIB. Application of EU state aid rules to this involvement is described below under "*—State Aid*".

The Minister for Finance and the Central Bank have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. The relationship between AIB and the Minister for Finance was governed by the 2012 Relationship Framework until AIB Bank Admission whereupon it was amended and restated by the AIB Bank Relationship Framework.

The Minister for Finance has specified the AIB HoldCo Relationship Framework, in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate.

The AIB HoldCo Relationship Framework is described below under "*—AIB HoldCo Relationship Framework*".

Further details of the regulatory role of the Irish State under the CIFS Scheme, the ELG Scheme and the NAMA Act are summarised in "*Part VIII: Industry Overview—Market Overview—Key Industry Trends—Global Financial Crisis and Government Response*" and below under "*—Governance Restrictions*". See also "*Part XVII: Supervision and Regulation*".

3 Funding Support

During the global financial crisis, in addition to guarantees provided by the Minister for Finance to AIB under the CIFS Scheme and the ELG Scheme and emergency liquidity assistance provided by the Central Bank when required, the Central Bank provided direct funding to AIB as part of the Eurosystem. These borrowings are under ECB Monetary Policy Operations and as at 30 June 2017 amounted to €1.9 billion. Targeted Long Term Refinancing Operation II ("TLTRO II") funding from the ECB, through the Central Bank, amounted to €1.9 billion as at 30 June 2017. The interest rate on the TLTRO II is the main ECB rate which is currently 0 per cent. The term of the TLTRO II is four years with AIB having the option to repay after two years.

4 Irish Government as Customer

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. These transactions include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, fees under the ELG Scheme and the payment of regulatory fees as appropriate.

5 AIB HoldCo Relationship Framework

On 12 June 2017, the Minister for Finance specified the AIB Bank Relationship Framework which took effect on AIB Bank Admission and amends and restates the 2012 Relationship Framework. On 10 October 2017, the Minister for Finance specified the AIB HoldCo Relationship Framework, in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate. Under the AIB HoldCo Relationship Framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the AIB HoldCo Board and AIB's management team. Details of the governance restriction imposed on AIB by the AIB HoldCo Relationship Framework are set out in detail below under "*—Governance Restrictions*".

6 State Aid

6.1 State Aid received by AIB

AIB and EBS have each received state aid individually, which was notified to the EC in separate procedures. AIB acquired EBS on 1 July 2011, and the EC assessed the aid granted to the resulting AIB/EBS group in a separate procedure. Hence, there were three state aid procedures relating to AIB, EBS and AIB/EBS.

In respect of AIB, by decision dated 12 May 2009, the EC temporarily approved a €3.5 billion capital injection into AIB Bank in the form of the 2009 Preference Shares on the basis of several commitments, including the submission of a restructuring plan by AIB to the EC. The 2009 Preference Shares were partially redeemed, which involved the payment of €1.7 billion, with the remainder being converted into ordinary shares in the capital of AIB Bank as part of the 2015 Capital Reorganisation. By decision dated 21 December 2010, the EC temporarily approved a €9.8 billion rescue capital injection by the NPRFC in AIB Bank, pending the approval by the EC of a revised restructuring plan taking into account the further aid. That capital injection was planned to take place in two stages: (i) €3.8 billion to be injected by 31 December 2010 by way of an equity placing in AIB Bank; and (ii) €6.1 billion to be injected in AIB Bank in February

2011 by way of a capital contribution. While the first instalment of the approved recapitalisation was carried out by the NPRFC at the end of December 2010, the second injection planned to be undertaken in February 2011 never took place but was superseded by the €5 billion ordinary share equity investment in AIB Bank and the €6.1 billion capital contributions to AIB Bank in July 2011 referred to above.

In respect of EBS, by decision dated 2 June 2010, the EC approved the recapitalisation of EBS for a total amount of up to €875 million. This was comprised of a €100 million capital injection through the issuance of Special Investment Shares to the Minister for Finance, a further capital injection of €250 million through a contribution by the Minister for Finance in the form of the EBS Promissory Note by the Minister for Finance to EBS and a further €525 million capital injection through the issuance of additional Special Investment Shares. The Special Investment Shares and reserve recognised by the contribution of the EBS Promissory Note qualified at the time as Core Tier 1 Capital. The Special Investment Shares were converted into ordinary shares in EBS that were acquired by AIB Bank in July 2011 and the EBS Promissory Note was redeemed by the Minister for Finance in December 2015 as part of the 2015 Capital Reorganisation.

In addition, on an individual basis, the AIB CIFS Covered Institutions received the benefit of guarantees under the CIFS Scheme and AIB ELG Participating Institutions received guarantees under the ELG Scheme. On an individual basis AIB and EBS received the benefit of a State guarantee on emergency liquidity assistance provided by the Central Bank, and asset relief measures consisting of the transfer of approximately €20 billion of assets to NAMA during 2010 and 2011.

In July 2011, AIB Bank acquired EBS which became a fully integrated subsidiary of AIB Bank. By a decision dated 15 July 2011, the EC approved a combined rescue package for AIB/EBS of up to €13.1 billion pending the approval of a restructuring plan for AIB to take into account the further aid provided. That capital injection comprised: (i) €5 billion injected on 27 July 2011 by way of a placing for new ordinary shares in the capital of AIB Bank and (ii) €6.1 billion injected on 28 July 2011 by way of a capital contribution by the Minister for Finance to AIB Bank. On 27 July 2011, AIB Bank also issued €1.6 billion of CCNs to the Minister for Finance which matured and were repaid on 28 July 2016.

6.2 Restructuring Plan and Commitments

The Restructuring Plan was submitted to the EC on 28 September 2012. Having assessed the Restructuring Plan, the EC, by the State Aid Decision, approved the state aid received by AIB (including EBS) as restructuring aid compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union (“TFEU”) in light of the Restructuring Plan and the terms contained therein (the “Commitments”). The Commitments which the State has committed to implement are set out in the Annex to the State Aid Decision. Under the terms of the State Aid Decision, Ireland is required to ensure that the Restructuring Plan is implemented in full, including the Commitments. The period of the Restructuring Plan runs from 7 May 2014 to 31 December 2017 (the “Restructuring Period”).

In the State Aid Decision, the EC concluded that the Restructuring Plan provided for a credible strategy to make AIB profitable. In particular, it found that AIB would operate as a smaller domestically focused bank with an improved funding profile, that AIB would increase its level of profitability notably by enhancing its net interest margin and further curbing its operating expenses and that AIB would maintain a strong capital buffer during the Restructuring Period. In addition, the EC found that AIB had already implemented a series of restructuring measures, including divestitures, asset transfers and deleveraging, liability management exercises and cost reduction measures, which contributed to its return to viability and ensured that the aid is limited to the minimum necessary.

6.3 Commitments in the Restructuring Plan

The Commitments relate to: (i) the restructuring of AIB’s mortgages and SME loan portfolios and the limitation of certain new lending to the property and construction sector; (ii) the timing of the redemption of the CCNs; (iii) cost reductions; (iv) limitation of exposure to Irish sovereign bonds; (v) behavioural commitments, which include limiting acquisitions, restrictions on marketing, advertising and sponsorship in Ireland, a restriction on any steps that could lead to a capital outflow prior to repayment of the aid and a ban on discretionary coupon payments on instruments issued prior to 7 May 2014; (vi) measures to enhance competition in the Irish banking market (called competition measures and comprising a Services Package and a Customer Mobility Package) and a commitment to contribute €500,000 per annum for a period of 3 years commencing on 1 July 2014 to a public awareness campaign to raise awareness and promote customer mobility; (vii) the appointment of the monitoring trustee to monitor compliance with the commitments; and (viii) a commitment, subject to receipt of all regulatory and other approvals, to repay state aid before the end of the Restructuring Period (which is described in more detail below under “*Remuneration and Repayment*”). Some of these commitments contained in the Restructuring Plan have expired, whilst the others will expire in the course of 2017 or on 31 December 2017. Those commitments which remain operable are described in more detail in “*Part XX: Additional Information—Material Contracts—Restructuring Plan*”.

6.4 Remuneration and Repayment

In the State Aid Decision, the EC considered the remuneration payable to the State in respect of the CCNs and the 2009 Preference Shares as appropriate, albeit at a low level, in light of AIB’s distressed situation at the time. The EC also set out a repayment commitment under which the State has committed, subject to receipt of all regulatory and other approvals, that, prior to the end of the Restructuring Period on 31 December 2017, AIB Bank will repay the state aid

through the payment of “dividends or other means”, in such amount equal to the surplus regulatory capital above the minimum CET1 ratio (on a Basel III fully implemented basis) as set by the Central Bank (plus a buffer of 2 per cent.) on 31 December 2016. The Directors believe that AIB Bank has met its state aid repayment commitments for 2017 for the purposes of the Commitments under the State Aid Decision, although, given their nature, the precise effect of such commitments is uncertain in some respects. AIB Bank has paid a final dividend for the year ended 31 December 2016 of €250 million for which it received approval from the SSM. Repayment of further state aid through a further dividend or other payment by AIB Bank in 2017 would require SSM approval for the payment.

6.5 AIB’s Services Package Commitment

Under the terms of the Services Package, AIB is required to provide certain services to qualifying competitors of AIB (“Relevant Competitors”). A “Relevant Competitor” means an undertaking which, at the date on which it requests services from AIB: (i) is licensed in Ireland or elsewhere to operate as a credit institution in Ireland; (ii) is not in receipt of state aid (i.e., banks which have received state aid and which are still in their restructuring periods are not considered “Relevant Competitors”; however, banks which have received state aid, but whose restructuring periods have ended, are considered “Relevant Competitors”); and (iii) has, by virtue of all related undertakings, a market share of less than 15 per cent. of stock or flow of the Relevant Product market in which AIB has a market share in excess of 30 per cent. of stock or flow of the Relevant Product market, based on a market share measurement by an independent external research source, including regulatory returns proposed by AIB and approved by the monitoring trustee. A “Relevant Product” means: (1) personal current accounts; (2) personal credit cards; (3) business current accounts; (4) business credit cards; (5) mortgages; and (6) SME loans and corporate loans. These services were required to be provided by AIB for a period of three years from 1 July 2014 and AIB’s obligations under the Services Package expired on 30 June 2017.

Under the Services Package, AIB was required to facilitate Relevant Competitors wishing to access (subject to security, credit and regulatory requirements):

- Ireland’s bank clearing system (both servicing paper and electronic transactions);
- debit card access to any ATM network in Ireland of which AIB is a member;
- market intelligence (e.g., rate of default of customers generally and macro/micro-economic data generally) but such access is subject to compliance with all laws, codes and practices including, without limitation, those relating to data protection, confidentiality, intellectual property, contract and competition;
- cash supply and distribution services; and
- foreign exchange supply and distribution services.

AIB was required to provide the Services Package on fair, reasonable and non-discriminatory terms and on terms which recoup AIB’s incremental costs (including the relevant cost of capital, being the cost of AIB’s funds (e.g., debt and equity) to support this business) to Relevant Competitors.

No competitors made a successful application under the Services Package.

6.6 AIB’s Customer Mobility Package Commitment

Under the terms of the Customer Mobility Package, AIB was required to provide certain services to Relevant Competitors for a total period of three years from 1 July 2014 (i.e. until 1 July 2017) and AIB’s obligations under the Customer Marketing Package expired on 30 June 2017.

Under the Customer Mobility Package, AIB was required to facilitate Relevant Competitors wishing to have their advertising material relating to a Relevant Product mailed to a proportion of AIB’s customers, on pre-determined mailing dates. No customer data was, at any stage, to be transferred by AIB to a Relevant Competitor; however, customer name and address data could be used to create a mailing file. That mailing file is securely held on behalf of AIB by an external mailing company with an established relationship with AIB and used to issue mailings on behalf of Relevant Competitors. The data remains at all times under the control of AIB. The manner in which this is handled, as described above, is intended to ensure that no breach of customer confidentiality obligations or applicable data protection legislation occurs.

Relevant Competitors making use of the Customer Mobility Package were required to reimburse AIB on commercial terms for all costs directly involved with the mailing and were required to take full responsibility for the lawfulness, accuracy and appropriateness of the material and provide to AIB in advance a written indemnity from and against all and any loss or damage caused or suffered by AIB in connection with the mailing.

KBC is the only competitor to have made a successful application under the Customer Mobility Package.

6.7 Potential Impact on AIB of Services Package and Customer Mobility Package Commitments

The effect of implementing the Services Package Commitment and the Customer Mobility Package Commitment under the Restructuring Plan may be the emergence of one or more new competitors and/or a material strengthening of one or

more of AIB's existing competitors in the Irish banking market, which may materially impact AIB's competitive position.

7 Governance Restrictions

The governance and operations of AIB are subject to operational and behavioural restrictions arising from contractual, statutory and regulatory requirements. The sources of these restrictions include (i) those arising from the State's majority shareholding in AIB (in particular, under the terms of the Deed of Covenant, 2010 Placing Agreement, the 2011 Placing Agreement, the AIB HoldCo Relationship Framework and the Minister's Letter); (ii) statutory requirements (arising from AIB's participation in the ELG Scheme, AIB's participation in the CIFS Scheme and AIB's participation in the NAMA Programme) and (iii) the Commitments. Although these restrictions derive from a number of sources, as indicated above, in terms of the Minister for Finance's direct control over the activities of AIB (controls not involving primary action by the Relevant Banking Regulator, following consultation with or the approval of the Minister for Finance), these restrictions for the most part are common or similar in type and relate to: (a) restrictions on reduction of reserves; (b) the right to appoint two non-executive directors and to require improved corporate governance; (c) restrictions on director and senior executive/employee remuneration and termination payments; (d) the right to require AIB to prepare and implement restructuring and business plans; and (e) rights to obtain information.

The relevant governance restrictions in respect of AIB are described below.

7.1 Governance restrictions—Contractual

7.1.1 Deed of Covenant

Pursuant to the Deed of Covenant, AIB HoldCo has undertaken to comply with certain contractual governance obligations currently applicable to AIB Bank under the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister's Letter, which are described below.

The relevant governance obligations include the following:

- (i) without the consent of the Minister for Finance, not (I) take or omit to take any action that would result in, its share premium account or any of its other distributable reserves being reduced (other than in relation to the making or payment of any dividend or distribution and save in respect of the AIB HoldCo Reduction of Capital and the redemption at par and cancellation of the Subscriber Shares) or (II) issue (other than to the Minister for Finance) of any convertible securities, the conversion of which would result in any of the foregoing items at (I) being capitalised;
- (ii) to take other specified steps in relation to certain matters of corporate governance, including providing access to the Minister for Finance to AIB's premises, books, records, senior executives, relevant personnel and professional advisers, maintaining regular, adequate and effective monitoring, reporting, risk management and audit controls and procedures, and not entering into or varying any arrangement with a director or former director or connected person other than on normal commercial arms length terms agreed in the ordinary course of business;
- (iii) to ensure that the remuneration of its Directors, senior executives and employees, including as regards any bonus, and pension arrangements, conform to the limits, prohibitions and conditions set out therein;
- (iv) to comply in all respects with the terms of the AIB HoldCo Relationship Framework;
- (v) on request, to provide information to the Minister for Finance as the Minister for Finance reasonably requires for the purposes of performing its statutory functions and ensure that a copy of any information provided to the Minister for Finance or the Central Bank is provided to the NTMA;
- (vi) not to consent to any changes to the trust deed or rules of any pension fund of AIB which may enhance or improve the retirement benefits of a senior executive of AIB without the consent of the Minister for Finance;
- (vii) not to give directly or indirectly, financial assistance for share issues by AIB for non-cash consideration or enter into any put or call options or acquire any subsidiary or issue any shares in a member of the AIB Group where such action is for the purpose of or in connection with a "cash box" arrangement;
- (viii) to do all necessary acts (at its own expense) to effect and/or facilitate the placing or the offer to the public, or the admission to trading of the ordinary shares owned by the Minister for Finance (an "Equity Transaction"), including by:
 - (a) entering into an underwriting agreement, sale and purchase, placing or equivalent agreement on market terms, and entering into such other customary agreements as are reasonably required to effect the Equity Transaction;
 - (b) preparing and publishing an information memorandum, listing particulars, offering circular, admission document, prospectus or similar document (an "Offer/Listing Document") in compliance with applicable laws;

- (c) permitting the use of any Offer/Listing Document prepared and published by AIB HoldCo in compliance with the applicable laws for the purposes of an Equity Transaction;
 - (d) procuring that its directors accept responsibility for the contents of any Offer/Listing Document and any marketing materials relating to the transaction described therein in accordance with customary market practice and applicable law and regulation; and
- (ix) to ensure that the total annual remuneration of any director, senior executive or employee of AIB shall not exceed €500,000 (excluding a normal pension contribution) without the consent of the Minister for Finance. In addition, the consent of the Minister for Finance is also required in respect of any proposed introduction of a performance related element to the remuneration package of any director, senior executive or employee of AIB. In January 2017, the Minister for Finance confirmed that the current Government has no plans to deviate from the current policy of restricted pay to employees of Irish banks which have received financial support from the Irish Government.

In addition, under the Deed of Covenant, where AIB HoldCo proposes to offer or sell any of its securities (except for routine offerings or sales by AIB HoldCo of debt securities under customary debt issuance programmes) (an “AIB HoldCo Offering”), AIB HoldCo is required to consult with the Minister for Finance with respect to an AIB HoldCo Offering and, if required by the Minister for Finance, at AIB HoldCo’s expense, do and execute or procure to be done and executed all necessary acts that the Minister for Finance reasonably considers necessary to effect and/or facilitate the sale of some or all of the ordinary shares owned by the Minister for Finance as part of AIB HoldCo’s Offering.

Under the Deed of Covenant, AIB HoldCo is required to discharge all expenses of the Minister for Finance and any other State Entity (as defined therein) incurred in connection with any Equity Transaction or AIB HoldCo Offering.

The foregoing does not apply to an Equity Transaction or an AIB HoldCo Offering that is conducted in the United States as a public offering registered under the Securities Act (each a “US Offering”). Any US Offering will be governed by and conducted in accordance with the provisions of a registration rights agreement which AIB HoldCo is required to enter into with the Minister for Finance pursuant to the Deed of Covenant on terms not inconsistent with the AIB Bank Registration Rights Agreement in circumstances where the AIB HoldCo Shares are listed on a stock exchange that has registered with the US Securities Exchange Commission.

The Deed of Covenant will terminate if the Scheme has not become effective by 30 March 2018 (or such later date, if any, as AIB Bank and AIB HoldCo may agree and the Court may allow).

7.1.2 2010 Placing Agreement

The 2010 Placing Agreement, which is of indefinite duration, sets out certain covenants with which AIB undertook to the Minister for Finance to comply. The covenants in the 2010 Placing Agreement were amended pursuant to the terms of the AIB Bank Relationship Framework which became effective on AIB Bank Admission. The Minister for Finance has specified the AIB HoldCo Relationship Framework in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate. The AIB HoldCo Relationship Framework provides that amendments made to the 2010 Placing Agreement and the 2011 Placing Agreement pursuant to the AIB Bank Relationship Framework will continue to apply upon the AIB HoldCo Relationship coming into effect. The amended covenants to the Minister for Finance in the 2010 Placing Agreement prescribe how AIB will manage its activities across a number of matters. The matters which AIB HoldCo has undertaken to comply with, pursuant to the Deed of Covenant, as described above, replicate relevant current obligations under the 2011 Placing Agreement and the Minister’s Letter.

In addition to the above obligations, the contractual governance obligations currently applicable to AIB Bank pursuant to the 2010 Placing Agreement include the following (with references below to the NPRFC to be read in the context of the assets of the NPRFC having become the assets of the ISIF, itself owned by the Minister for Finance, in 2014):

- (i) to use all reasonable efforts to meet certain measures to promote the availability of credit;
- (ii) to implement the Restructuring Plan and cooperate fully and consult where required with the Minister for Finance and the EC (including by promptly providing such assistance and information as is requested by the Minister for Finance and/or the EC) in connection with the Restructuring Plan; and
- (iii) to apply the amount subscribed for ordinary shares in AIB Bank pursuant to the 2010 Placing Agreement for the purpose of increasing its Core Tier 1 Capital and not use the subscription amount to make any contribution to any pension fund in excess of the amount it is required by law or any applicable regulatory authority to contribute.

Whereas certain powers and functions under the 2010 Placing Agreement and the 2011 Placing Agreement were previously performed by the NTMA under delegated authority from the Minister for Finance, these powers and functions are now exercised by the Minister for Finance directly. The present position in this regard has been reflected in the descriptions above and below of the provisions of the 2010 Placing Agreement and the 2011 Placing Agreement.

7.1.3 2011 Placing Agreement

The covenants contained in the 2011 Placing Agreement were substantially similar to the covenants in the 2010 Placing Agreement. Pursuant to the terms of the AIB Bank Relationship Framework which became effective on AIB Bank Admission, the covenants in the 2011 Placing Agreement are subject to similar amendments to those applicable to the covenants contained in the 2010 Placing Agreement. The AIB HoldCo Relationship Framework provides that amendments made to the 2010 Placing Agreement and the 2011 Placing Agreement pursuant to the AIB Bank Relationship Framework will continue to apply upon the AIB HoldCo Relationship Framework coming into effect.

Pursuant to the Deed of Covenant, AIB HoldCo has provided a covenant to the Minister for Finance to enter into a registration rights agreement with the Minister for Finance on terms not inconsistent with the AIB Bank Registration Rights Agreement in circumstances where the AIB HoldCo Shares are listed on a stock exchange that has registered with the US Securities and Exchange Commission.

7.1.4 Minister's Letter

Pursuant to the 2011 Placing Agreement, the Minister for Finance wrote to the AIB Bank Board on 25 July 2011 (the "Minister's Letter") and created:

- (i) obligations on AIB in respect of measures to promote the availability of credit, related party transactions and corporate governance that are reflected in the other agreements referred to above or that have by now been fulfilled;
- (ii) undertakings on AIB's part concerning fulfilment of the Commitments; and
- (iii) restrictions on executive remuneration within AIB which have been incorporated in the Deed of Covenant, as described above at 7.1.1(ix).

7.1.5 AIB Bank Registration Rights Agreement

Pursuant to its obligations under the 2011 Placing Agreement, AIB Bank entered into a registration rights agreement with the NPRFC and the Minister for Finance on 1 July 2011 (being the AIB Bank Registration Rights Agreement), granting customary demand and "piggyback" registration rights in the United States under the Securities Act to the NPRFC and the Minister for Finance with respect to any securities of AIB Bank, including the ordinary shares, held by the NPRFC or the Minister for Finance ("Registrable Securities"). Pursuant to the AIB Bank Registration Rights Agreement, each of the NPRFC (now the ISIF, following the ordinary shares in the capital of AIB Bank held by the NPRFC having become assets of the ISIF in 2014) and the Minister for Finance is permitted to transfer its registration rights to any of its wholly owned, directly or indirectly, entities, as well as to any third party to whom it transfers not less than US\$50 million in Registrable Securities to the public in the United States or US\$75 million to the public within and outside the United States. In connection with any registered offering of ordinary shares by AIB Bank under the Securities Act, any holders of Registrable Securities will have the right to participate in the offering, pursuant to customary "piggyback" registration rights, to the extent that such participation would not prevent successful completion of the offering. In addition, all holders of Registrable Securities have "piggyback" registration rights, on a pro rata basis, in any demand registration made by another holder pursuant to the AIB Bank Registration Rights Agreement.

7.1.6 AIB HoldCo Relationship Framework

Under the 2010 Placing Agreement, AIB agreed to be bound by and to comply in all respects with the terms of any relationship framework regulating the relationship between the Minister for Finance and AIB specified by the Minister for Finance in the context of EU competition law matters. On 29 March 2012, the 2012 Relationship Framework was specified by the Minister for Finance as being the document which provides the basis under which the relationship between the Minister for Finance and AIB is governed. It provides for safeguards as to the management of the State's interest in AIB, in order to ensure that those interests, and the management of those interests, do not lead to a prevention, restriction or distortion of competition in contravention of merger control or competition law rules. The 2012 Relationship Framework was amended and restated on 12 June 2017, conditional on AIB Bank Admission. The Minister for Finance has specified the AIB HoldCo Relationship Framework, in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will terminate.

Under the terms of the AIB HoldCo Relationship Framework:

- The Minister for Finance expects the Board and management team of AIB to conduct AIB's commercial operations in a prudent and sustainable manner which seeks to create a commercially oriented credit institution that recognises the need to encourage and enforce implementation of lessons learned from the global financial crisis.
- The Minister for Finance recognises that AIB remains a separate economic unit with independent powers of decision and that its Board and management team retain responsibility and authority for determining AIB's strategy and commercial policies (including business plans and budgets) and conducting its day-to-day operations.

- The Minister for Finance will ensure that the investment in AIB is managed on a commercial basis and will not intervene in day-to-day management decisions of AIB (including with respect to pricing and lending decisions).
- The Minister for Finance will, and will do all in his power to procure that each Government Entity will:
 - (a) conduct transactions and arrangements with AIB at arm's length and on normal commercial terms;
 - (b) not take any action that would have the effect of preventing AIB from complying with its obligations under the Listing Rules; and
 - (c) not propose or procure the proposal of a shareholder resolution in respect of AIB which is intended to circumvent the proper application of the Listing Rules,

(the "Listing Rules Commitments"), where the term "Government Entity" means any entity or body which is part of, or is controlled by, the Government of Ireland, but excluding all such entities or bodies which carry out a regulatory or supervisory function that are independent of the Minister for Finance (including, for example, but without limitation, the Central Bank, the Revenue Commissioners and the Competition and Consumer Protection Commission).

- AIB will notify the Minister for Finance if it becomes aware of any breach or potential breach by any Government Entity of the Listing Rules Commitments.
- The Minister for Finance will engage with AIB, including in respect of the manner in which he exercises his voting rights, in accordance with best institutional practice in a manner proportionate to the shareholding interest of the State in AIB. In addition, the Minister for Finance will not and will procure (so far as the Minister for Finance has the power to do so) that each Government Entity will not (i) hold or acquire any material shareholding in any direct or indirect subsidiary of AIB HoldCo, and (ii) vote on any "related party transaction" (for the purposes of the Listing Rules) involving or for the benefit of the Minister for Finance or a Government Entity as the related party.
- The Minister for Finance expects AIB to conduct its dealings with the State in a transparent, cooperative and proactive manner which fully recognises the significant level of support provided to AIB since 2008.
- The views of the Minister for Finance and the Irish Department of Finance are expected to be appropriately considered by AIB as part of any consultation process under the AIB HoldCo Relationship Framework. However, the Board and management team have full responsibility and authority for determining AIB's strategy and commercial policies.

The AIB HoldCo Relationship Framework also provides that the Minister for Finance and AIB will review the AIB HoldCo Relationship Framework from time to time when either party reasonably considers that changes to the AIB HoldCo Relationship Framework or to the State Agreements (as defined in the AIB HoldCo Relationship Framework and which include the 2010 Placing Agreement and the 2011 Placing Agreement) would be necessary or desirable to ensure that the AIB HoldCo Relationship Framework continues to reflect certain principles specified in the AIB HoldCo Relationship Framework and to enable AIB to continue to comply with its obligations under applicable law and regulations, including, but not limited to, the Listing Rules.

The AIB HoldCo Relationship Framework also imposes restrictions on AIB undertaking certain actions without the consent of, or first consulting with, the Minister for Finance. The principal restrictions are as follows:

- (i) AIB is required to provide a copy of each draft business plan (a business plan must be prepared and updated at least annually by the Board) to the Minister for Finance before it is finalised and adopted by the AIB HoldCo Board, but it is noted that ultimate and final responsibility for the contents of the business plan rests with the AIB HoldCo Board;
- (ii) the AIB HoldCo Board is required to consult with the Minister for Finance before appointing, removing or reappointing a chairman or a CEO of AIB HoldCo or AIB Bank. The AIB HoldCo Board is also required to consult with the Minister for Finance in respect of any proposed AIB HoldCo Board or the AIB Bank Board appointments;
- (iii) the CEO of AIB HoldCo is required to notify the Minister for Finance in writing of any senior executive appointments prior to announcement;
- (iv) AIB HoldCo is required to procure that up to two nominees of the Minister for Finance are appointed as Directors of AIB HoldCo upon receipt of written notice from the Minister for Finance naming the proposed nominees ("Minister's Nominees"). The appointment of a Minister's Nominee is deemed to take effect on the date of the next Board meeting of AIB HoldCo following the date of receipt of the notice from the Minister for Finance. If any of the Minister's Nominees are removed by a shareholder's resolution or fails to be re-elected by shareholders at a general meeting of AIB HoldCo, AIB HoldCo is required to procure that a replacement Minister's Nominee is appointed to the AIB HoldCo Board in accordance with the constitution of AIB HoldCo. AIB HoldCo is required to ensure that there are sufficient vacancies on the AIB HoldCo Board at all times to permit the appointment of the Minister's Nominees save where a resolution of the AIB HoldCo Shareholders

causes the maximum number of Directors permitted by the constitution of AIB HoldCo to be exceeded. In these circumstances, the AIB HoldCo Board must not recommend that shareholder appointment resolution and is required to propose a shareholder resolution to increase the maximum number of Directors provided for in the constitution of AIB HoldCo to accommodate the appointment of the Minister's Nominee. The Minister's Nominees are entitled to the same remuneration as the Non-Executive Directors receive for performing the role of Non-Executive Director and are permitted, subject to compliance with any regulatory requirements, to share confidential information they receive in their capacity as Directors of AIB HoldCo with the Minister for Finance on a confidential basis. AIB HoldCo must procure that for so long as a Minister's Nominee is a director of AIB HoldCo, such person is also appointed and holds office as a director of AIB Bank. To date, the Minister for Finance has not appointed any Minister's Nominee under the terms of the AIB HoldCo Relationship Framework. However, Dr Michael Somers was originally appointed as a Government nominee to the AIB Bank Board under the terms of the 2009 Preference Shares as to which see paragraph 2 of "*Part XI—Directors, Senior Executives and Corporate Governance*";

- (v) subject to any applicable regulatory requirements, AIB is required to keep the Minister for Finance informed promptly in writing of developments, including the terms of any settlement, in relation to any Material Litigation (as defined in the AIB HoldCo Relationship Framework). AIB is required to consult with the Minister for Finance prior to the conclusion of and/or before agreeing to the terms of any settlement in relation to Material Litigation to which the Minister for Finance is a party;
- (vi) AIB is required to ensure that the remuneration of its executives does not breach any of the provisions of the agreements and arrangements entered into between AIB and the Minister for Finance and any other State agency or entity including the Deed of Covenant, the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister's Letter;
- (vii) AIB is required to consult in writing with the Minister for Finance in respect of the following matters: (a) any material acquisitions, disposals, investments, realisations, reorganisations, restructurings or other transactions, (b) the declaration or payment of dividends, (c) the redemption or repurchase of any shares or securities unless such a redemption or repurchase of securities is undertaken at a redemption date or repurchase date in accordance with the terms of those securities, (d) the initiation by AIB of any liquidation, receivership, examinership or analogous statutory process in respect of AIB, (e) the entry into or variation of any transaction between AIB HoldCo or AIB Bank and a former Director or senior executive (as defined in the AIB HoldCo Relationship Framework) (a "Key Person") on terms other than on normal commercial arm's-length terms, (f) all important actions in respect of the commencement, defence, conduct or settlement of legal proceedings to which a Key Person or any connected person of a Key Person is party, and (g) any transaction or arrangement which may be classified by AIB as a "related party transaction" under the Listing Rules involving or for the benefit of any State agency or entity;
- (viii) AIB is required to provide to the Minister for Finance all documents circulated for Board meetings of AIB HoldCo at the same time they are provided to the AIB HoldCo Board. AIB is also required to provide the Minister for Finance with information and documentation which has been reasonably requested by the Minister for Finance from time to time. The Minister for Finance expects the AIB HoldCo Board or the CEO of AIB HoldCo to bring to the attention of the Minister for Finance in writing any material matter of which the AIB HoldCo Board or the CEO of AIB HoldCo becomes aware;
- (ix) AIB is required to notify the Minister for Finance in writing of any public statement relating to a material matter at the earliest possible opportunity prior to making the public statement, except where AIB is required to make the public statement in advance of such notification in order to meet AIB's legal or regulatory requirements;
- (x) senior management from AIB are required to meet with Irish Department of Finance officials on a monthly basis to discuss the achievement of AIB's business plan; and
- (xi) AIB is required to keep the Minister for Finance informed of its lending plans, including in particular SME lending and any changes thereto by means of regular updates to officials of the Irish Department of Finance. The views of the Minister will be considered by AIB in the context of the AIB HoldCo Board's or, as applicable, the AIB Bank Board's responsibility for the assessment of credit risk and the Board's responsibility for the determination of a credit risk appetite but it is noted that the Minister for Finance will have no function in individual lending decisions or the pricing of loans, both of which remain the responsibility of the AIB HoldCo Board and management of AIB.

Pursuant to the Deed of Covenant, the Minister for Finance may from time to time specify any amendments to, or revoke or replace, the AIB HoldCo Relationship Framework, provided that such amendments, revocations or replacements do not conflict with regulatory requirements. Any such amendment, revocation or replacement of the AIB HoldCo Relationship Framework will be specified or made following consultation with AIB and upon the instruction, or with the agreement, of the Directorate-General for Competition of the EC, and once specified will be notified to AIB in writing.

7.2 Governance restrictions—Statutory

AIB is subject to certain governance-related obligations under the CIFS Scheme, the ELG Scheme and the NAMA Act. These governance-related obligations are legislative in nature and apply to each Irish bank which applied for and received the benefit of the Government Guarantee Schemes or, as applicable, participated in the NAMA Programme put in place by the Government during the banking crisis from 2008. If AIB HoldCo becomes the new holding company of AIB under the Scheme, AIB HoldCo will not be a NAMA Participating Institution, an AIB CIFS Covered Institution or an AIB ELG Participating Institution, meaning that AIB HoldCo will not itself be subject to the NAMA Programme, the CIFS Scheme or the ELG Scheme. However, AIB Bank will continue to be a NAMA Participating Institution, an AIB CIFS Covered Institution and an AIB ELG Participating Institution for the purposes of the NAMA Programme, the CIFS Scheme and the ELG Scheme, respectively. As such, the NAMA Programme will continue to apply to AIB Bank and its subsidiaries, and the CIFS Scheme and the ELG Scheme will continue to apply to the AIB CIFS Covered Institutions and the AIB ELG Participating Institutions, and their respective subsidiaries. For this reason, following AIB HoldCo becoming the holding company of AIB, the NAMA Programme, the CIFS Scheme and the ELG Scheme will, in all material respects, continue to apply to AIB in the same way that they do currently.

Each of the CIFS Scheme and the ELG Scheme is a statutory scheme set up under legislation enacted by the Oireachtas (the Irish legislature) during the banking crisis that was designed to support the participating Irish banks by providing depositors and other providers of funding with a State guarantee. Likewise, the NAMA Programme scheme is a ‘bad-bank’ type arrangement set up under the NAMA Act, legislation enacted during the banking crisis and dealing with the transfer of certain distressed and other related loans together with their security to a State agency, NAMA. A description of how each statutory regime may impact on the governance of AIB is set out below. The obligations imposed on participants, including those of complying with a direction of the Minister given under these statutory regimes, are designed and intended to support the purposes for which the statutory regimes were set up, and not with the purpose of enabling the Minister for Finance to exert influence over AIB (or other participating institutions) as a shareholder. These statutory regimes apply equally to all participating institutions and regardless of whether the Minister for Finance has a shareholding in the institution concerned.

These statutory regimes are distinct from any rights that the Minister for Finance has as an AIB Bank Shareholder. As these regimes have a statutory basis under legislation, in exercising any power thereunder, the Minister for Finance or the relevant agency is subject to constitutional restrictions arising from the separation of the executive (including the Minister for Finance) arm of the Irish Government from the legislative arm under the Irish Constitution, as well as principles of administrative law, which apply to the exercise of all functions conferred by legislation. Any action which the Minister for Finance or relevant agency might take under any statutory authority is prescribed by the relevant legislation, and must be consistent with the purposes of the relevant legislation or be reasonably incidental to it and is capable of being subject to judicial review by the Irish courts.

7.2.1 CIFS Scheme and ELG Scheme

The CIFS Scheme gave effect to the Minister for Finance’s guarantee of certain liabilities of certain Irish banks and certain of their subsidiaries which was announced by the Irish Government on 30 September 2008. Under the CIFS Scheme, the Minister for Finance guaranteed Covered Liabilities of Covered Institutions for the period from 30 September 2008 to 29 September 2010, whereby if a Covered Institution defaulted in respect of a Covered Liability, the Minister for Finance was obliged to pay to the creditor, on demand, an amount equal to the unpaid Covered Liabilities. As part of their accession to the CIFS Scheme as covered institutions, each of the AIB CIFS Covered Institutions (amongst other participating institutions) entered into guarantee acceptance deeds in respect of the CIFS Scheme in favour of the Minister for Finance in October and December 2008, whereby each of them consented to all of the terms and conditions of the CIFS Scheme and agreed to indemnify the Minister for Finance against any payments the Minister for Finance was required to make under the CIFS Scheme in respect of their Covered Liabilities. The terms of those guarantee acceptance deeds survive notwithstanding the expiry of the guarantee under the CIFS Scheme on 29 September 2010. On its current terms, the CIFS Scheme, as amended by the ELG Directions, survives the expiry of the guarantee under the CIFS Scheme.

In addition to the guarantee acceptance deeds related to the CIFS Scheme referred to above, and in respect of AIB’s relationship with the Irish Government, AIB’s governance is further restricted as a result of its continued participation in the ELG Scheme. The ELG Scheme, which came into effect on 9 December 2009, gave effect to a further guarantee by the Minister for Finance of certain liabilities of participating institutions and was closed to new liabilities on 29 March 2013. However, the liabilities under the ELG Scheme on that date remain covered until they mature and the AIB ELG Participating Institutions (amongst other participating institutions) remain participants in the ELG Scheme. As the maximum duration of liabilities under the ELG Scheme is five years, the guarantee under the ELG Scheme will cease to apply on 29 March 2018, however, on its current terms, the ELG Scheme survives the expiry of the guarantee.

Following expiry of the guarantee under the ELG Scheme, AIB intends to apply to the NTMA (as operator of the ELG Scheme) to cease to be a participating institution under the ELG Scheme and to also apply to the Minister for Finance to seek to be released from the relevant obligations of the CIFS/ELG Schemes. In that regard, the guarantee acceptance deed in relation to the ELG Scheme provides that it will remain in full force and effect until the Minister for Finance confirms

to AIB that it has been released from liability under the ELG Scheme. It would be reasonable to expect that following such an application, the Irish Department of Finance would conduct a review of the continued operation and application of the Government Guarantee Schemes with a view to concluding the Government Guarantee Schemes and releasing both the Minister for Finance and the participating institutions from their respective obligations under the CIFS/ELG Schemes, although no assurance can be given that this will occur.

Pursuant to eligible liabilities guarantee scheme agreements in respect of the ELG Scheme entered into in January 2010 and February 2010 (together the “ELG Scheme Agreements”), each of the AIB ELG Participating Institutions has given certain covenants in favour of the Minister for Finance and also given an indemnity for costs incurred by the Minister for Finance in respect of the ELG Scheme. Each ELG Scheme Agreement also provides for the incorporation therein of the obligations and liabilities imposed on the AIB ELG Participating Institutions under the CIFS Scheme. As currently constituted, the terms of the ELG Scheme Agreements survive the expiry of the guarantee under the ELG Scheme.

The terms and conditions of the CIFS Scheme and the ELG Scheme place certain restrictions on, and require AIB to submit to a degree of governmental regulation in relation to, the operation of AIB’s business. Furthermore, under paragraph 22 of the ELG Scheme, the Minister for Finance, after consultation with the Governor of the Central Bank and the Relevant Banking Regulator, is required to issue directions to participating institutions which in his or her view are necessary to ensure that the objectives of the Credit Institutions (Financial Support) Act 2008 (under which the ELG Scheme was made) and the ELG Scheme are met, including to comply with some or all of the provisions of conduct, transparency and reporting requirements applicable to Covered Institutions under the CIFS Scheme. The ELG Scheme provides (and the CIFS Scheme makes similar provision with respect to the CIFS Scheme) that the Minister for Finance had regard to the following objectives in establishing the ELG Scheme:

- (a) maintaining financial stability in the best interests of the public and the economy of the State;
- (b) providing participating institutions with access to a stable funding stream and longer term funding from the capital markets to ensure that they can discharge their central role in facilitating economic activity and lending to the real economy in the State;
- (c) ensuring compliance with the requirements of EU state aid and competition law; and
- (d) minimising the potential cost to the exchequer and taxpayers.

The ELG Directions issued to the AIB ELG Participating Institutions in some cases modify the manner in which the provisions contained in the CIFS Scheme are to apply to the AIB ELG Participating Institutions for the purposes of the ELG Scheme, and require the AIB ELG Participating Institutions to comply with obligations towards the Minister for Finance, the Relevant Banking Regulator, or both. The modifications made to the terms of certain provisions of the CIFS Scheme as applied to the AIB ELG Participating Institutions under the ELG Directions issued to the AIB ELG Participating Institutions mean that the AIB ELG Participating Institutions are deemed compliant with those provisions of the CIFS Scheme once it adheres to the terms of its banking licence and the capital adequacy and related banking regulatory requirements to which it is subject (as to which see “*Part XVIII: Supervision and Regulation*”).

The rights conferred on the Minister for Finance under the CIFS Scheme and the ELG Scheme include (i) the power to make rules, following consultation with the Relevant Banking Regulator, concerning the declaration and payment of dividends (as to which, see references to Dividend Rules below); (ii) the right to make directions to appoint up to two non-executive directors to the Board in order to promote the public interest, and to take steps to restructure its executive management responsibilities and improve corporate governance, (iii) the right to direct, following consultation with the Relevant Banking Regulator, AIB to draw up and comply with a restructuring plan to ensure compliance with the objectives of the CIFS Scheme, and (iv) the right to direct the Relevant Banking Regulator to require such reports from AIB as the Minister for Finance considers necessary. In relation to (ii) above, Mr Dick Spring and Mr Declan Collier were appointed public interest directors of AIB Bank in January 2009 under the terms of the CIFS Scheme. Mr Dick Spring retired as a public interest director in December 2014 and Mr Declan Collier retired as a public interest director in June 2012. There have been no directors, which have been appointed under that right under the CIFS Scheme, on the AIB Bank Board since December 2014. However, Dr Michael Somers was originally appointed as a Government nominee Director of AIB Bank under the terms of the 2009 Preference Shares as to which see paragraph 2 of “*Part XI—Directors, Senior Executives and Corporate Governance*”.

The rights conferred on the Relevant Banking Regulator under the CIFS Scheme and the ELG Scheme include the ability, following consultation with the Minister for Finance, to regulate the commercial conduct of AIB (strictly in order to achieve the objectives of the CIFS Scheme and the ELG Scheme), and the Relevant Banking Regulator is required (in consultation with the Minister for Finance) to impose conditions regulating the commercial conduct of a covered institution’s business, having regard to capital ratios, market share and balance sheet growth, in order to minimise competitive distortion that might otherwise arise by virtue of the guarantee, and to require changes to the Board in order that an appropriate balance between executive and non-executive directors is represented. AIB is also required to seek the approval of the Relevant Banking Regulator, following consultation with the Minister for Finance, before engaging in buy backs or redemptions of its shares.

The CIFS Scheme and the ELG Scheme impose requirements on AIB, in favour of the Minister for Finance, the NTMA (as the CIFS Scheme and ELG Scheme operator) and the Relevant Banking Regulator, to report on and/or certify its compliance with the CIFS Scheme, the ELG Scheme and other provisions of law.

As set out above, in some cases the rights of the Relevant Banking Regulator under the CIFS Scheme and the ELG Scheme are to be exercised following consultation with the Minister for Finance, and vice versa. However, both the ELG Scheme and the CIFS Scheme, provide that nothing in the CIFS Scheme or the ELG Scheme shall prejudice the independence of the Relevant Banking Regulator.

As concerns the discretion of the Minister for Finance to issue rules in relation to the declaration and payment of dividends described above, on 28 February 2017, the Minister for Finance issued the Dividend Rules. The Dividend Rules prescribe that (i) where an agreement or deed between a covered institution and the Minister for Finance provides that a dividend may not be declared or paid by that covered institution without the consent of the Minister for Finance and/or the NTMA, the covered institution concerned must obtain the prior consent of the Minister for Finance and/or NTMA prior to declaring or paying such dividend; and (ii) where the relationship framework specified by the Minister for Finance in respect of a covered institution provides that the declaration or payment of dividend is a “Matter for Consultation” (as defined in the relevant relationship framework), that covered institution must consult with the Minister for Finance in writing before it concludes on the declaration or payment of the dividend. The rule at (ii) above is applicable in the case of AIB Bank because AIB Bank has a duty to consult with the Minister for Finance in relation to the declaration and payment of dividends under the AIB Bank Relationship Framework (and AIB Bank will continue to have such a duty to consult from the Scheme Effective Time pursuant to the AIB HoldCo Relationship Framework). The Dividend Rules provide that the procedure for AIB Bank consulting with the Minister for Finance and/or the NTMA, as the case may be, is that prescribed in the AIB Bank Relationship Framework (and will be, from the Scheme Effective Time, that prescribed in the AIB HoldCo Relationship Framework). The Dividend Rules facilitate the payment of dividends by participating institutions under the ELG Scheme/the CIFS Scheme, including the dividend on AIB Bank Shares for the financial year ended 31 December 2016 which was approved by AIB Bank Shareholders at the 2017 AIB Bank AGM and paid on 9 May 2017.

7.2.2 NAMA Programme

Each of AIB and EBS are two of a number of participating institutions under the NAMA Act. The purposes for which the NAMA Act was introduced, as stated therein, are consistent with and not dissimilar to, the objectives of the CIFS Scheme/ELG Scheme, as outlined above. In addition to providing for a statutory framework for the process of NAMA acquiring bank assets (as defined in the NAMA Act) from participating institutions, the NAMA Act also contains provisions relating to the ongoing relationship between NAMA and the relevant participating institution following such acquisition. Section 129 of the NAMA Act obliges the participating institution to inform the Minister for Finance and NAMA of any impediment to the achievement of the purposes of the NAMA Act, the performance by the Minister for Finance and/or NAMA of their respective obligations thereunder, or the fulfilment by the participating institution of the obligations under the NAMA Act, and to take all reasonable steps to address the impediment in a manner that best furthers the purposes of the NAMA Act. Section 131 of the NAMA Act provides that a participating institution from which NAMA has acquired a bank asset may be directed by NAMA to perform, or, as the case may be, to continue to perform, management, administrative and enforcement services (or any service included in a direction by NAMA) in respect of that bank asset. In fulfilling its obligations arising from such a direction from NAMA, a participating institution must ensure that all relevant authorisations, consents and licences are in place. Section 132 of the NAMA Act provides that the participating institution shall do all such acts or things as NAMA directs to facilitate the provision of those services by a third-party service provider. In addition, Section 133 of the NAMA Act provides that NAMA may, for the furtherance of the achievement of its purposes under the NAMA Act, give directions to a participating institution to deal in a specified way with a bank asset which was not acquired. Under Section 184 of the NAMA Act, the participating institution is obliged, on NAMA’s request, to provide NAMA with any assistance it reasonably requires for the purposes of proceedings relating to an “acquired bank asset” (as defined in the NAMA Act).

The NAMA Act also contains provisions concerning the ongoing conduct of participating institutions. Under section 206 of the NAMA Act, the Relevant Banking Regulator may, with the approval of the Minister for Finance, give a direction to a participating institution in order to achieve the purposes of the NAMA Act. A direction under this section may restrict balance sheet growth, restrict the participating institution’s ability to take over other credit institutions, require balance sheet reductions, or restrict or require consolidation and merger of participating institutions. Under section 207 of the NAMA Act, the Relevant Banking Regulator may direct a participating institution in writing to make any report that the Relevant Banking Regulator considers necessary to monitor the participating institution’s compliance with the obligations under or by virtue of the NAMA Act. Pursuant to section 208 of the NAMA Act, a participating institution may be directed by the Minister for Finance, after consultation with the Relevant Banking Regulator, to draw up, or amend, a restructuring plan and, if approved by the Minister for Finance, to put in place the plan in accordance with a timetable directed by the Minister for Finance. A participating institution may also be directed by the Minister for Finance, after consultation with the Relevant Banking Regulator, to draw up, or submit for approval, and to amend, a business plan. If the Minister for Finance approves a draft business plan, the participating institution is obliged to take all reasonable steps to implement that plan. To date, no such directions under the NAMA Act have been given by the

Relevant Banking Regulator or the Minister for Finance to AIB or EBS. The NAMA Act does not prescribe a cessation date for the NAMA Programme.

The NAMA Act provides for five-year reviews by the Minister for Finance whereby the Minister for Finance is required to assess the extent to which NAMA has made progress towards achieving its overall objectives, and the Minister for Finance shall decide whether continuation of the NAMA Programme is necessary having regard to the purposes of the NAMA Act. The last review took place in July 2014. In its 2016 annual report, NAMA has described itself as in a wind-down phase, which suggests an expectation that, absent an expansion of NAMA's current mandate, NAMA may no longer be necessary at some point in the near future. NAMA has stated that it expects to redeem its subordinated bonds held by NAMA Participating Institutions, including AIB and EBS, by 1 March 2020, and accordingly AIB expects its participation in the NAMA Programme should end then, although no assurance can be given that this will occur.

7.3 Governance restrictions—Commitments in the Restructuring Plan

The Commitments relate to: (i) the restructuring of AIB's mortgages and SME loan portfolios and the limitation of certain new lending to the property and construction sector; (ii) the timing of the redemption of the CCNs; (iii) cost reductions; (iv) limitation of exposure to Irish sovereign bonds; (v) behavioural commitments, which include limiting acquisitions, restrictions on marketing, advertising and sponsorship in Ireland, a restriction on any steps that could lead to a capital outflow prior to repayment of the aid and a ban on discretionary coupon payments on instruments issued prior to 7 May 2014; (vi) measures to enhance competition in the Irish banking market (called competition measures and comprising a Services Package and a Customer Mobility Package as to which see "*—Part X: Relationship with Government and State Aid—State Aid*"); (vii) the appointment of the monitoring trustee to monitor compliance with the commitments; and (viii) a commitment, subject to receipt of all regulatory and other approvals, to repay state aid before the end of the Restructuring Period (which is described in more detail above under "Remuneration and Repayment"). Some of these commitments have expired, whilst the others will expire on 31 December 2017. Those commitments which remain operable are described in more detail in "*Part XX: Additional Information—Material Contracts—Restructuring Plan*".

PART XI
DIRECTORS, SENIOR EXECUTIVES AND CORPORATE GOVERNANCE

1 Directors

The Board of Directors of AIB HoldCo currently consists of twelve Directors. A list of the members of the Board of Directors of AIB HoldCo is set forth in the table below:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date appointed</u>
Richard Pym.....	68	Chairman and Director	21 September 2017 ⁽¹⁾
Simon Ball.....	57	Director	21 September 2017 ⁽⁵⁾
Mark Bourke	51	Director	21 September 2017 ⁽²⁾
Bernard Byrne	49	Director	21 September 2017 ⁽³⁾
Thomas (Tom) Foley.....	64	Director	21 September 2017 ⁽⁵⁾
Peter Hagan	69	Director	21 September 2017 ⁽⁵⁾
Carolan Lennon	50	Director	21 September 2017 ⁽⁵⁾
Brendan McDonagh	59	Director	21 September 2017 ⁽⁵⁾
Helen Normoyle	49	Director	21 September 2017 ⁽⁵⁾
James (Jim) O’Hara.....	66	Director	21 September 2017 ⁽⁵⁾
Dr Michael Somers.....	75	Director	21 September 2017 ⁽⁶⁾
Catherine Woods	55	Director	21 September 2017 ⁽⁴⁾

Notes:

Each Director will be a Non-Executive Director until the Scheme Effective Time.

- (1) With effect from the Scheme Effective Time; Chairman and Non-Executive Director.
- (2) With effect from the Scheme Effective Time; Executive Director and Chief Financial Officer.
- (3) With effect from the Scheme Effective Time; Executive Director and Chief Executive Officer.
- (4) With effect from the Scheme Effective Time; Senior Independent Non-Executive Director.
- (5) With effect from the Scheme Effective Time; Non-Executive Director.
- (6) With effect from the Scheme Effective Time; Deputy Chairman and Non-Executive Director.

The business address of each Director is Bankcentre, Ballsbridge, Dublin 4, Ireland.

The Board of Directors of AIB HoldCo is comprised of the same directors as those forming the Board of Directors of AIB Bank.

With effect from the Scheme Effective Time, the AIB HoldCo Board will have in place an AIB HoldCo Board Audit Committee, an AIB HoldCo Board Risk Committee, an AIB HoldCo Nomination and Corporate Governance Committee and an AIB HoldCo Remuneration Committee, each such committee to have an identical membership and chairmanship as the corresponding committee of the AIB Bank Board.

Certain information in respect of the Directors is set out below. Please also refer to paragraph 7.1 of “*Part XX: Additional Information*” for a full list of the current directorships held by each Director together with a list of the directorships held by each in the last five years.

Richard Pym—Chairman, Non-Executive Director

Mr Pym was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director and the Chairman of AIB HoldCo. Mr Pym was co-opted to the AIB Bank Board on 13 October 2014 as Chairman Designate of AIB Bank and Non-Executive Director and was appointed Chairman of AIB Bank 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 director and 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. Mr Pym is Chairman of the AIB Bank Nomination and Corporate Governance Committee and member of the AIB Bank Remuneration Committee. With effect from the Scheme Effective Time, Mr Pym shall be Chairman of the AIB HoldCo Nomination and Corporate Governance Committee and a member of the AIB HoldCo Remuneration Committee.

Simon Ball—Non-Executive Director

Mr Ball was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director of AIB HoldCo. Mr Ball was co-opted to the AIB Bank Board on 13 October 2011 as Non-Executive Director. He has previously held roles as Chairman of Anchura Group Limited, 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. Mr Ball was appointed to the board of AIB Mortgage Bank during March 2017 and is also currently a member of the board of Commonwealth Games England. He is a member of the AIB Bank Board Risk Committee, the AIB Bank Nomination and Corporate Governance Committee and the AIB Bank Remuneration Committee. With effect from the Scheme Effective Time, Mr Ball shall be a member of the AIB HoldCo Board Risk Committee, the AIB HoldCo Nomination and Corporate Governance Committee and the AIB HoldCo Remuneration Committee.

Mark Bourke—Chief Financial Officer, Executive Director

Mr Bourke was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be an Executive Director and the Chief Financial Officer of AIB HoldCo. Mr Bourke joined AIB Bank in April 2014 as Chief Financial Officer of AIB Bank and member of AIB's Leadership Team and was co-opted to the AIB Bank Board on 29 May 2014 and was also appointed a Director of AIB UK on 6 July 2017. He joined AIB from IFG Group p.l.c. 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.

Bernard Byrne—Chief Executive Officer, Executive Director

Mr Byrne was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be an Executive Director and the Chief Executive Officer of AIB HoldCo. Mr Byrne was appointed Chief Executive Officer of AIB Bank in May 2015. He joined AIB Bank in May 2010 as Group Chief Financial Officer and member of AIB Bank's Leadership Team and was co-opted to the AIB Bank Board on 24 June 2011. Since then he has held a number of significant roles including Director of Personal, Business & Corporate Banking and more recently Director of Retail & Business Banking. Mr Byrne is currently the President of the Institute of Banking. In January 2015, he was appointed President of BPFi and remained in this position until December 2016. Mr Byrne was also previously a director of EBS between July 2011 and March 2017. A Chartered Accountant by profession, Mr Byrne joined PricewaterhouseCoopers (PwC) in 1988 and moved to ESB International in 1994, where he worked as Commercial Director for International Investments. In 1998, he became the Finance Director, and later the Deputy Chief Executive Officer of IWP International plc. He later became Group Finance Director and Commercial Director with ESB, until he left to join AIB.

Thomas (Tom) Foley—Non-Executive Director

Mr Foley was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director of AIB HoldCo. Mr Foley was co-opted to the AIB Bank Board on 13 September 2012. Mr Foley is a former executive director of KBC Bank Ireland, former Chief Executive Officer of KBC Homeloans and has held a variety of senior management and board positions with the KBC Group in Corporate, Treasury and Personal Banking in Ireland and the United Kingdom. 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. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank. He is a non-executive director of AIB UK since April 2015 and of Intesa SanPaolo Life d.a.c, and he is a former non-executive director of BPV Finance (International) p.l.c. He was appointed non-executive director of EBS d.a.c. in November 2012. He is a member of the AIB Bank Board Audit Committee and the AIB Bank Remuneration Committee. With effect from the Scheme Effective Time, Mr Foley shall be a member of the AIB HoldCo Board Audit Committee and the AIB HoldCo Remuneration Committee.

Peter Hagan—Non-Executive Director

Mr Hagan was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director of AIB HoldCo. Mr Hagan was co-opted to the AIB Bank Board on 26 July 2012. Mr Hagan is former Chairman and Chief Executive Officer 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, Japan). During 2011 and until September 2012, he was a director of each of the US subsidiaries of IBRC and was also previously a director and treasurer of 179 East 70th Street Corporation. He is at present a consultant in the fields of financial services litigation and regulatory change. He is Chairman of the AIB Bank Board Risk Committee

and a member of the AIB Bank Board Audit Committee. With effect from the Scheme Effective Time, Mr Hagan shall be the Chairman of the AIB HoldCo Board Risk Committee and a member of the AIB HoldCo Board Audit Committee.

Carolann Lennon—Non-Executive Director

Ms Lennon was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, Ms Lennon shall be a Non-Executive Director of AIB HoldCo. Ms Lennon was co-opted to the AIB Bank Board on 27 October 2016. She 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. She currently sits on the Council of Patrons for Special Olympics Ireland. Ms Lennon is a member of the AIB Bank Board Risk Committee and AIB Bank's Sustainable Business Advisory Committee. With effect from the Scheme Effective Time, Ms Lennon shall be a member of the AIB HoldCo Board Risk Committee.

Brendan McDonagh—Non-Executive Director

Mr McDonagh was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director of AIB HoldCo. Mr McDonagh was co-opted to the AIB Bank Board on 27 October 2016. Mr McDonagh is an independent non-executive director of UK Asset Resolution Limited, where he is the Chairman of its Audit Committee and a member of its Risk Committee and its Nomination 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, Middle East, Europe and North America. Mr McDonagh is a former member of the board of the NTMA and other previous roles include Executive Chairman of Bank of N.T. Butterfield & Son Limited, Hamilton, Bermuda, and a former CEO of HSBC North America Holdings Inc. with responsibility for its banking and consumer finance operations in the United States and Canada. He was also Group Managing Director for HSBC Holdings Inc. and a member of the HSBC Group Management Board. He is a member of the AIB Bank Board Risk Committee. With effect from the Scheme Effective Time, Mr McDonagh shall be a member of the AIB HoldCo Board Risk Committee.

Helen Normoyle—Non-Executive Director

Ms Normoyle was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, Ms Normoyle shall be a Non-Executive Director of AIB HoldCo. Ms Normoyle was co-opted to the AIB Bank Board on 17 December 2015. She is currently the Marketing Director of Boots UK and Ireland. Prior to this, she was the Chief Marketing Officer of Countrywide, the UK's largest estate agency group. She also 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. Ms Normoyle is Chairman of AIB Bank's Sustainable Business Advisory Committee established during 2016.

James (Jim) O'Hara—Non-Executive Director

Mr O'Hara was co-opted to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director of AIB HoldCo. Mr O'Hara was co-opted to the AIB Bank Board on 13 October 2010. He 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 the 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 non-executive director of Fyffes p.l.c. He was appointed non-executive director of EBS in June 2012. He is Chairman of the AIB Bank Remuneration Committee and a member of the AIB Bank Board Audit Committee, the AIB Bank Nomination and Corporate Governance Committee and AIB Bank's Sustainable Business Advisory Committee. With effect from the Scheme Effective Time, Mr O'Hara shall be the Chairman of the AIB HoldCo Remuneration Committee and a member of the AIB HoldCo Board Audit Committee and the AIB HoldCo Nomination and Corporate Governance Committee.

Dr Michael Somers—Deputy Chairman, Non-Executive Director

Dr Somers was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, he shall be a Non-Executive Director and the Deputy Chairman of AIB HoldCo. Dr Somers was co-opted to the AIB Bank Board on 14 January 2010. He is former Chief Executive Officer of the NTMA. He is Chairman of Goodbody Stockbrokers UC and a non-executive director of Fexco Holdings UC and Goodbody Holdings UC, Hewlett-Packard International Bank p.l.c., 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 (now known as Willis Towers Watson p.l.c.). On 25 May 2017, Dr Somers was appointed President of the Institute of Directors. He is a member of the AIB Bank Board Risk Committee and the AIB Bank Nomination and Corporate Governance Committee. With effect from the Scheme Effective Time, Dr Somers shall be a member of the AIB HoldCo Board Risk Committee and the AIB HoldCo Nomination and Corporate Governance Committee.

Catherine Woods—Senior Independent Non-Executive Director

Ms Woods was appointed to the AIB HoldCo Board on 21 September 2017 as a Director. With effect from the Scheme Effective Time, Ms. Woods shall be the Senior Independent Non-Executive Director of AIB HoldCo. Ms Woods was co-opted to the AIB Bank Board on 13 October 2010. She is a non-executive director of AIB Mortgage Bank and EBS d.a.c. She has been a non-executive director of Beazley Re d.a.c. since July 2015 and Chairman since March 2016 and became a director of Beazley plc in January 2016. She was appointed Senior Independent Non-Executive Director of AIB Bank in January 2015. She is a former Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband scheme and is a former Vice President and Head of the JP Morgan 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, and a former member of the Electronic Communications Appeals Panel. She is Chairman of the AIB Bank Board Audit Committee and a member of the AIB Bank Board Risk Committee and the AIB Bank Nomination and Corporate Governance Committee. With effect from the Scheme Effective Time, Ms Woods shall be the Chairman of the AIB HoldCo Board Audit Committee and a member of the AIB HoldCo Board Risk Committee and the AIB HoldCo Nomination and Corporate Governance Committee.

2 Board Appointments

The 2009 Preference Shares conferred on the NPRFC (now the ISIF as the holder of such shares following the 2009 Preference Share having become the assets of the ISIF in 2014, ISIF itself being owned by the Minister for Finance), the right to appoint a non-executive director to the AIB Bank Board. Dr Michael Somers was appointed to the AIB Bank Board in January 2010 for an initial term ending on 31 December 2012 and was then subsequently reappointed for a further period of one year with effect from 1 January 2013, and for a further two years with effect from 1 January 2014. He was subsequently reappointed on 15 December 2015 as a Non-Executive Director for a further two-year period to 31 December 2017 prior to the conversion and redemption of the 2009 Preference Shares described in “Part X: Relationship with Government and State Aid—Irish State as Shareholder in AIB—2009 Preference Shares”. Dr Somers offered himself for re-election, and was re-elected at the 2017 AIB Bank AGM. Nevertheless, Dr Somers continues as a Government appointed Bank Director and his re-appointment as a Director of AIB Bank and appointment as an AIB HoldCo Director is in accordance with his existing terms of appointment.

3 Senior Executives

The Senior Executives listed below are responsible for the day-to-day management of AIB’s business, in addition to the proposed executive directors of AIB HoldCo and the executive directors of AIB Bank (“Executive Directors”), listed above. With effect from the Scheme Effective Time, the following Senior Executives, who are employed by AIB Bank, will perform service executive functions for AIB HoldCo:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Helen Dooley.....	48	Group General Counsel
Triona Ferriter	46	Chief People Officer
Donal Galvin	44	Group Treasurer
Deirdre Hannigan	56	Chief Risk Officer
Dr Colin Hunt.....	46	Managing Director, WIB
Tom Kinsella	48	Chief Marketing Officer
Robert Mulhall	43	Managing Director, RCB
Brendan O’Connor	52	Managing Director, AIB UK
Jim O’Keeffe.....	49	Head of FSG
Tomás O’Midheach.....	48	Chief Operating Officer

The business address of each Senior Executive is Bankcentre, Ballsbridge, Dublin 4, Ireland save for Brendan O’Connor, whose business address is St. Helen’s, 1 Undershaft, London EC3A 8AB.

Certain information in respect of the Senior Executives (in addition to those listed above) is set out below. Please refer to paragraph 7.2 of Part “XX: *Additional Information*” below for a full list of the current directorships held by each Senior Executive together with a list of the directorships held by each in the last five years.

Helen Dooley—Group General Counsel

Ms Dooley was appointed to her current role as Group General Counsel and as a member of the Leadership Team in October 2012. For the period June 2014 to August 2017 she also assumed responsibility for the Compliance function within AIB. Ms Dooley previously held the role of Head of Legal in EBS d.a.c. Prior to this, she held a number of other senior roles in EBS including Head of the Regulatory Compliance Function and Company Secretary. Ms Dooley began her career in 1992 working principally as a banking and restructuring lawyer with Wilde Sapte solicitors in London, moving to Hong Kong in 1998 to work for Johnson Stokes & Master solicitors and returning to Ireland in 2001 to work for A&L Goodbody solicitors.

Triona Ferriter—Chief People Officer

Ms Ferriter joined AIB in January 2017 as Chief People Officer and a member of the Leadership Team. She has 20 years experience in human resources operating at a senior management level within both US multinational and indigenous Irish companies, working across diverse business functions, including sales and marketing, manufacturing, shared services and retail, mainly in the pharmaceutical sector. With experience in companies such as Schering-Plough/MSD, Dunnes Stores and Procter & Gamble, her responsibilities have included the full range of human resources functions both at a local organisation and pan-European level, and key areas of expertise include effective change management through organisation restructuring and development, strategic business partnering and planning, and management of industrial and employee relations in both unionised and non-unionised environments.

Donal Galvin—Group Treasurer

Mr Galvin joined AIB in 2013 as Head of Treasury and was appointed to the Leadership Team as Group Treasurer in April 2016. He has worked in domestic and international financial markets for the past 20 years. Prior to joining AIB, he was Managing Director in Mizuho Securities Asia, the investment banking arm of Japanese bank Mizuho, where he was responsible for Asian Global Markets. Before that he was Managing Director in Dutch Rabobank where his responsibilities included managing all European and Asian Global Financial Markets business as well as leading Rabobank’s Global Client Structured Products division.

Deirdre Hannigan—Chief Risk Officer

Ms Hannigan joined AIB in April 2017 as Chief Risk Officer and member of the Leadership Team. Ms Hannigan began her career in retail banking at AIB before moving to AIB’s corporate banking team. In 1995, she left AIB to be the Head of Corporate Banking at Rabobank Ireland Limited. Since then, Ms Hannigan has gained extensive experience in risk management, including at GE Money—Ireland as the Chief Risk Officer from 2007 to 2010, at GE Capital as Enterprise Risk Management Director (EMEA) from 2010 to 2012 and as Global Credit Risk Review Director (International) from 2012 to 2014, and most recently at the NTMA as Chief Risk Officer. Ms Hannigan is a fellow of both the Association of Chartered Certified Accountants and the Institute of Bankers. Ms Hannigan is also a Chartered Director from the Institute of Directors.

Dr Colin Hunt—Managing Director, WIB

Dr Hunt joined AIB as Managing Director, WIB and a member of the Leadership Team in August 2016. Prior to joining AIB, he was Managing Director at Macquarie Capital where he led the development of its business in Ireland. Previously, Dr Hunt was a Special Policy Adviser at the Departments of Transport and the Department of Finance, Research Director and Chief Economist at Goodbody Stockbrokers, Head of Trading Research and Senior Economist at Bank of Ireland Group Treasury and a Country Risk Analyst at NatWest.

Tom Kinsella—Chief Marketing Officer

Mr Kinsella joined AIB in November 2012 as Group Marketing Director and was appointed to his current role as Chief Marketing Officer and to the Leadership Team in November 2015. Prior to joining AIB, he worked in a variety of senior marketing roles in Diageo, working locally and internationally across Europe, Asia and the Americas on a wide variety of leading brands including Guinness and Baileys. In 2015 he was made a Fellow of the Marketing Institute of Ireland in recognition of his contribution to the profession in Ireland and his achievements in driving brand growth.

Robert Mulhall—Managing Director, RCB

Mr Mulhall has over 20 years experience in financial services, with a career which has included many roles up to senior executive management level in AIB in such areas as Digital Channels Innovation and Management, Retail Banking Distribution Management, Customer Relationship Management, Business Intelligence, Strategic Marketing, Strategy Development, and Operations and Sales Management. Mr Mulhall spent two years building and leading the Distribution & Marketing Consulting Practice for Accenture in Financial Services, North America. In this capacity he brought his industry experience to build a rapidly growing consultancy practice in the fast moving and innovative area of

financial services in North America. He returned to AIB in October 2015 as Managing Director of Retail, Corporate and Business Banking and is a member of the Leadership Team.

Brendan O'Connor—Managing Director, AIB UK

Mr O'Connor joined the Leadership Team in February 2013 as Head of FSG and was appointed to his current role in October 2015. He joined AIB in 1984 and from 1988 to 2009, he worked in AIB Treasury in New York and Dublin before moving to AIB Corporate Banking in 2009. Mr O'Connor has held a number of senior roles throughout the organisation including Head of AIB Global Treasury Services, Head of Corporate Banking International, and Head of AIB Business Banking.

Jim O'Keefe—Head of FSG

Mr O'Keefe has over 27 years banking experience with AIB. During his career, he has worked across many aspects of banking from IT to the Retail Business. From 2004 to 2008 he relocated to AIB's then subsidiary BZWBK in Poland as Head of Personal & SME Business Development. Following his return to Ireland, from 2009 to 2011 he was Head of AIB's Direct Channels before taking up his previous role as Head of AIB's Mortgage Business in June 2011. He was appointed as Head of FSG and a member of the Leadership Team in November 2015.

Tomás O'Midheach—Chief Operating Officer

Mr O'Midheach was appointed to the role of Chief Operating Officer and a member of the Leadership Team in February 2016. He has over 22 years of experience in the financial services industry. His experience has spanned many diverse areas of banking including Finance, Data, Customer Analytics, Direct Channels and Digital. He spent 11 years with Citibank in the United Kingdom, Spain and Ireland where he held several senior positions in Finance. He joined AIB in June 2006 as Business Lead Finance Operating Model and has since held a number of senior executive positions including Head of Direct Channels and Analytics and Chief Digital Officer.

4 Board of Directors and Corporate Governance

AIB is firmly committed to the highest standards of corporate governance and maintaining an effective framework for the control and management of the business. The AIB Bank Board is responsible for corporate governance, encompassing leadership, direction and control of AIB, and is accountable to shareholders for financial performance. With effect from the Scheme Effective Time, the AIB HoldCo Board will assume that responsibility. Following the Scheme Effective Time, the AIB HoldCo Board will meet as often as is required to satisfy its own legal, regulatory and main securities market obligations from the date of Admission.

4.1 Compliance with Corporate Governance Requirements

4.1.1 UK Code and Irish Code

Compliance with the UK Code and Irish Code

The UK Code sets out a number of principles in relation to board leadership, effectiveness, accountability, remuneration and relations with shareholders.

The Irish Code supplements the provisions of the UK Code and contains additional corporate governance provisions that the Irish Stock Exchange requires Irish listed companies to comply with or explain against where they are companies with a primary equity listing on the Main Securities Market of the Irish Stock Exchange, such as AIB Bank.

As at the Latest Practicable Date, AIB Bank is in compliance with the provisions of the UK Code, save in respect of provision D.2.2 with regard to a remuneration committee's delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments: under the terms of the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister's Letter and the AIB Bank Relationship Framework specified by the Minister for Finance, neither the AIB Bank Remuneration Committee nor the AIB Bank Board has autonomy in that regard. The UK Code will cease to apply to AIB Bank from Admission and instead AIB HoldCo will be required to comply (on a comply or explain basis) with the UK Code and the Irish Code pursuant to the Listing Rules. From Admission, the position described above in respect of AIB Bank's compliance with the provisions of the UK Code and the autonomy of the AIB Bank Remuneration Committee and AIB Bank Board will apply with respect to AIB HoldCo's compliance with the provisions of the UK Code and the autonomy of the AIB HoldCo Remuneration Committee and the AIB HoldCo Board.

Board of Directors' independence

The UK Code recommends that at least half the board of directors of a UK listed company (excluding the chairman) should comprise "independent" non-executive directors. The board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. As at the date of this Prospectus, the AIB HoldCo Board consists of twelve members all of whom are Non-Executive Directors (including the Chairman). With effect from the Scheme Effective Time, Mr Byrne will be appointed CEO of AIB HoldCo and Mr Bourke will be appointed as CFO of AIB HoldCo.

Notwithstanding Mr McDonagh's previous non-executive role with the NTMA, the AIB Bank Board determined Mr McDonagh to be independent in character and judgment on appointment to the AIB Bank Board on 27 October 2016. On the same basis Mr McDonagh was also determined to be independent in appointment to the AIB HoldCo Board on 21 September 2017.

The AIB HoldCo Board has determined that all of the Non-Executive Directors in office at the date of this Prospectus, other than Dr Michael Somers, are "independent non-executive directors" within the meaning of the UK Code and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

In 2011, the Central Bank confirmed that Dr Somers should be considered independent for the purposes of the Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings (2010), now replaced by the Central Bank's Corporate Governance Requirements for Credit Institutions 2015 (the "Revised CGC Code") (referred to in "*Corporate Governance Code for Credit Institutions and Insurance Undertakings*") as regards his role as director of AIB Bank. Notwithstanding Dr Somers' designation as a non-independent director of AIB HoldCo under the UK Code, by virtue of being a shareholder-appointed director, the AIB HoldCo Board is satisfied that Dr Somers exercises independence of thought and action in fulfilling his duties as a Non-Executive Director of AIB HoldCo.

Annual re-election of Directors

The UK Code recommends that directors should be subject to annual election by shareholders. Since 2005, all the Executive Directors and Non-Executive Directors of AIB Bank, with the exception of the Government appointees, have retired from office at the AGM of AIB Bank and offered themselves for reappointment. In 2017, Dr Somers, the only Government appointee, was also put forward for reappointment and will continue to be put forward annually during his term of office. The Directors of AIB HoldCo will be subject to the same annual re-election.

Senior Independent Non-Executive Director

The UK Code also recommends that the board of directors should appoint one of its independent non-executive directors to be the senior independent non-executive director (the "Senior Independent Non-Executive Director"). The Senior Independent Non-Executive Director should be available to shareholders if they have concerns that the normal channels of Chairman, CEO or other executive directors have failed to resolve or for which such channels of communication are inappropriate. AIB Bank's Senior Independent Non-Executive Director is Ms Catherine Woods who, with effect from the Scheme Effective Time, will also be AIB HoldCo's Senior Independent Non-Executive Director.

4.1.2 Corporate Governance Requirements for Credit Institutions

Although the Revised CGC Code should not apply to AIB HoldCo if it becomes the new holding company of AIB under the Scheme, as AIB HoldCo will not be a credit institution authorised under Irish law, AIB Bank and other Irish credit institutions in AIB are subject to the provisions of the revised CGC Code, including compliance with (1) additional obligations on high impact designated credit institutions and (2) additional corporate governance obligations on credit institutions which are deemed significant for the purposes of the CRD. The Revised CGC Code impose minimum core standards upon all credit institutions licensed or authorised by the Relevant Banking Regulator while the additional obligations are imposed so as to ensure that appropriate and robust corporate governance frameworks are in place and implemented to reflect the risk and nature of high impact/significant credit institutions for CRD IV purposes. For further details, see "*Part XVIII: Supervision and Regulation – Regulation of Banks and Parent Financial Holding Companies in Ireland – Central Bank Regulatory Codes and Requirements – Corporate Governance Code for Credit Institutions and Insurance Undertakings*". The Directors of AIB HoldCo believe that in that event AIB HoldCo will comply with the Revised CGC Code in all material respects.

4.1.3 Business Ethics Code of Conduct

In June 2012, AIB adopted a new Code of Conduct in relation to business ethics that applies to all employees. The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standards of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training, which are designed to ensure that the Code of Conduct is understood and that all employees act in accordance with it. The Code of Conduct was extensively revised and re-launched to staff in September 2014.

As part of the implementation of the Code of Conduct, AIB encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external through its Speak-Up policy. One such channel includes a confidential external helpline. Employees are assured that, if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the employee as a result.

The Protected Disclosure Act 2014 came into law in Ireland in July 2014 and provides statutory protection for whistleblowers in relation to reporting potential wrongdoing in the workplace. An extensive review of the Speak-Up policy in 2014 addressed the requirements of the Protected Disclosure Act 2014, as well as the UK Public Interest Disclosure Act 1998 (as amended in 2013) and the recommendations of the UK Whistleblowing Commission (2013).

The Code of Conduct and supporting policies are subject to annual review by management and updates are provided to the AIB Bank Board. With effect from the Scheme Effective Time, the AIB HoldCo Board will also assume that role.

4.2 Board Committees

The AIB Bank Board has established a Board Audit Committee, Board Risk Committee, Nomination and Corporate Governance Committee and a Remuneration Committee, each with formally delegated duties and responsibilities which are articulated in the written terms of reference for each committee. With effect from the Scheme Effective Time, the AIB HoldCo Board will replicate these committees and will have in place the AIB HoldCo Board Audit Committee, the AIB HoldCo Board Risk Committee, the AIB HoldCo Nomination and Corporate Governance Committee and the AIB HoldCo Remuneration Committee. Each such committee will initially have an identical membership and chairmanship and terms of reference (save for any necessary changes required for the context of AIB HoldCo) as the corresponding committee of the AIB Bank Board. Set out below is an outline of the composition, duties and responsibilities of each relevant committee of the AIB Bank Board which should be read, subject to the foregoing, as also applicable in relation to the committees proposed to be established by the AIB HoldCo Board. From time to time, separate committees may be set up by the AIB HoldCo Board and/or AIB Bank to consider specific issues when the need arises. During 2016, a Sustainable Business Advisory Committee was established by the AIB Bank Board with formally delegated duties and responsibilities relating to supporting the execution of AIB's sustainable business strategy, including the development and safeguarding of AIB's 'social license to operate'. This committee will remain in place at the AIB Bank level post Admission and will perform its duties in respect of the AIB Group.

AIB Bank Board Audit Committee

Current Members: Ms Catherine Woods (Chair), Mr Thomas (Tom) Foley, Mr Peter Hagan and Mr James (Jim) O'Hara.

The role and responsibilities of the AIB Bank Board Audit Committee are set out in its terms of reference. Those responsibilities are discharged through its meetings and receipt of reports from management, the Auditor, the CFO, the Internal Auditor, the CRO and the Group General Counsel, in each case of AIB Bank.

The UK Code recommends that an audit committee should comprise at least three members, all of whom must be independent non-executive directors and that at least one such member has recent and relevant financial experience. The current members of the AIB Bank Board Audit Committee are all independent non-executive directors and the AIB Bank Board considers that a number of the members of the AIB Bank Board Audit Committee have recent and relevant financial experience; accordingly, the AIB Bank Board considers that AIB Bank complies with the requirements of the UK Code in this respect. The AIB HoldCo Board considers that on establishment of the AIB HoldCo Board Audit Committee, the above position will also apply with respect to compliance by AIB HoldCo with the UK Code. The UK Code will cease to apply to AIB Bank from Admission.

The AIB Bank Board Audit Committee reviews, inter alia, AIB's annual and interim financial statements; the scope of the external audit; the findings, conclusions and recommendations of the AIB Internal Auditor and the Auditor; and the effectiveness of internal controls. The AIB Bank Board Audit Committee is responsible for making recommendations on the appointment, reappointment and removal of the Auditor, ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditor and the AIB Internal Auditor, each of whom it meets separately at least once each year, in confidential sessions, in the absence of management. Each of these parties has unrestricted access to the Chairman of the AIB Bank Board Audit Committee. There is a process in place by which the AIB Bank Board Audit Committee reviews the nature and extent of non-audit services undertaken by the Auditor and, if considered appropriate, approves, within parameters outlined in the AIB Bank Board Audit Committee-approved Non-Audit Services Fee Policy, the related fees. This ensures that the objectivity and independence of the Auditor is safeguarded. A report is submitted, annually, to the AIB Bank Board, regarding the activities undertaken and issues considered by the AIB Bank Board Audit Committee.

The Auditor, the CFO, the Internal Auditor and the CRO, in each case of AIB Bank, attend the AIB Bank Board Audit Committee's meetings by invitation. Other senior executives also attend, where appropriate.

The AIB Bank Board Audit Committee met on seven occasions during 2016.

AIB Bank Board Risk Committee

Current Members: Mr Peter Hagan (Chair), Mr Simon Ball, Ms Carolan Lennon, Mr Brendan McDonagh, Dr Michael Somers and Ms Catherine Woods.

The AIB Bank Board Risk Committee was established to assume the risk oversight responsibilities previously delegated to the AIB Bank Board Audit Committee. The objectives of the AIB Bank Board Risk Committee are to monitor risk governance and to assist the AIB Bank Board in discharging its responsibilities in ensuring that risks are appropriately identified and assessed; managed, reported and controlled; and ensuring that strategy is informed by and aligned with AIB's risk appetite.

The Auditor, the CEO, the CFO, the CRO, the Chief Credit Officer and the Internal Auditor, in each case of AIB Bank, attend the AIB Bank Board Risk Committee's meetings by invitation. Other senior executives also attend, where appropriate.

The AIB Bank Board Risk Committee met on nine occasions during 2016.

AIB Bank Nomination and Corporate Governance Committee

Current Members: Mr Richard Pym (Chair), Mr Simon Ball, Mr James (Jim) O'Hara, Dr Michael Somers and Ms Catherine Woods.

The AIB Bank Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the AIB Bank Board for appointment as Directors of AIB Bank; reviewing the size, structure and composition of the AIB Bank Board and the AIB Bank Board's committees; reviewing succession planning; and the appointment of members of AIB Bank's Leadership Team and related succession planning. The search for suitable candidates for the AIB Bank Board is a continuous process, and recommendations for appointment are made, based on merit and objective criteria, following an appraisal process and interviews. The AIB Bank Nomination and Corporate Governance Committee is also responsible for reviewing AIB Bank's corporate governance policies and practices.

The UK Code recommends that a majority of members of a nomination committee should be independent non-executive directors and that the chairman of the board or an independent non-executive director should chair the nomination committee. The AIB Bank's Nomination and Corporate Governance Committee is comprised wholly of independent non-executive directors and the Chairman of the AIB Bank Board is chairman of the AIB Bank Nomination and Corporate Governance Committee; accordingly, the AIB Bank Board considers that AIB Bank complies with the requirements of the UK Code in this respect. The AIB HoldCo Board considers that on establishment of the AIB HoldCo Nomination and Corporate Governance Committee, the above position will also apply with respect to compliance by AIB HoldCo with the UK Code. The UK Code will cease to apply to AIB Bank from Admission.

The AIB Bank Nomination and Corporate Governance Committee met on seven occasions during 2016.

AIB Bank Remuneration Committee

Current Members: Mr James (Jim) O'Hara (Chair), Mr Simon Ball, Mr Thomas (Tom) Foley and Mr Richard Pym.

The AIB Bank Remuneration Committee's responsibilities include: recommending to the AIB Bank Board, AIB Group remuneration policies and practices; the remuneration of the Non-Executive Chairman of the AIB Bank Board (which matter is considered in his absence); performance-related bonus schemes for executive directors; and the operation of the share-based incentive schemes.

The AIB Bank Remuneration Committee also determines the remuneration of the Chief Executive Officer of AIB Bank, and, in consultation with the Chief Executive Officer of AIB Bank, the remuneration of other executive directors, when in office, and the other members of the Leadership Team, under advice to the AIB Bank Board.

The UK Code recommends that a remuneration committee should comprise at least three members, all of whom must be independent non-executive directors, and provides that the chairman of the board may also serve as a member (but not chairman) of such remuneration committee if he or she is considered independent on appointment as chairman. The current members of the AIB Bank Remuneration Committee (including the Chairman of the AIB Bank Board who is a member but not chairman of the AIB Bank Remuneration Committee) are all independent non-executive directors; accordingly, the AIB Bank Board considers that AIB Bank complies with the requirements of the UK Code in this respect.

As a result of the terms of the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister's Letter and the AIB Bank Relationship Framework (and, if the Scheme becomes effective, the AIB HoldCo Relationship Framework) specified by the Minister for Finance, neither the AIB Bank Remuneration Committee nor the AIB Bank Board has autonomy to set remuneration for executive directors and the Chairman.

The AIB HoldCo Board considers that on establishment of the AIB HoldCo Remuneration Committee, the above position will also apply with respect to compliance by AIB HoldCo with the UK Code and, by virtue of the terms of the Deed of Covenant and the AIB HoldCo Relationship Framework, the autonomy of the AIB HoldCo Remuneration Committee and the AIB HoldCo Board to set remuneration for executive directors and the Chairman of AIB HoldCo. The UK Code will cease to apply to AIB Bank from Admission.

The AIB Bank Remuneration Committee met on six occasions during 2016.

5 Conflicts of Interest

In accordance with the Revised CGC Code, AIB Bank has in place a board-approved Code of Conduct and Conflicts of Interest Policy for Directors.

Save as set out in paragraph 7.3 of Part "XX: *Additional Information*" in respect of Dr Somers' appointment as a Government appointed Director of AIB Bank, there are no conflicts of interest between any duties owed by those

Directors to AIB Bank and their private interests or other duties. In the event that a conflict of interest (actual, perceived or potential) does arise the Directors of AIB Bank are required to ensure that such situations and areas of conflict (actual, perceived or potential) are promptly identified and disclosed so that in a conflict situation, the AIB Bank Board may acknowledge the conflict and deal with it in the best interests of AIB Bank and all of its stakeholders. Where conflicts of interest arise, the AIB Bank Board ensures that they are noted in the minutes of the meeting at which such conflicts are disclosed and AIB Bank's Board Conflict of Interests register. If ongoing conflicts of interest arise, consideration shall be given to the relevant Directors continued membership of the AIB Bank Board. Although the Revised CGC Code should not apply to AIB HoldCo if it becomes the new holding company of AIB under the Scheme, as AIB HoldCo will not be a credit institution authorised under Irish law, in that event the AIB HoldCo Board considers that the above position will also apply with respect to conflicts of interests in respect of Directors of AIB HoldCo.

PART XII
SECTION A: SELECTED CONSOLIDATED HISTORICAL FINANCIAL AND
OPERATING INFORMATION

The tables below set out selected historical financial information of AIB for the six months ended 30 June 2017 and 2016, for the years ended 31 December 2016, 2015 and 2014 and as at 30 June 2017, 31 December 2016, 2015 and 2014. The selected consolidated financial information of AIB as at and for the years ended 31 December 2016, 2015 and 2014 to the extent it has been extracted from AIB's consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus has been audited by Deloitte as set out in the Accountant's Report in Section A of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus and is incorporated by reference herein. The selected historical financial information of AIB as at and for the six months ended 30 June 2017 (and comparative figures for the six months ended 30 June 2016) to the extent it has been extracted from AIB's condensed consolidated interim financial statements for the six months ended 30 June 2017 contained in the AIB Bank 2017 Half Yearly Accounts has been reviewed by Deloitte as set out in the Independent Review Report in the AIB Bank 2017 Half Yearly Accounts and is incorporated by reference herein.

The selected consolidated financial information presented below should be read in conjunction with "Part XIII: Operating and Financial Review", and Section B of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus, which is incorporated by reference herein and the AIB Bank 2017 Half Yearly Accounts, which are also incorporated by reference herein.

Consolidated Income Statement Data

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		(audited)		
			(€ millions)		
Continuing operations					
Interest and similar income	1,241	1,323	2,611	2,821	2,921
Interest expense and similar charges	(164)	(378)	(598)	(894)	(1,234)
Net interest income	1,077	945	2,013	1,927	1,687
Dividend income	27	25	26	26	25
Fee and commission income	220	211	430	449	430
Fee and commission expense	(25)	(18)	(35)	(44)	(40)
Net trading income/(loss)	61	1	71	95	(1)
Profit/(loss) on disposal/transfer of loans and receivables	6	11	11	(22)	52
Other operating income	170	353	403	197	379
Other income	459	583	906	701	845
Total operating income	1,536	1,528	2,919	2,628	2,532
Administrative expenses	(752)	(704)	(1,462)	(1,604)	(1,527)
Impairment and amortisation of intangible assets	(34)	(26)	(70)	(39)	(65)
Depreciation of property, plant and equipment	(21)	(19)	(39)	(35)	(46)
Total operating expenses	(807)	(749)	(1,571)	(1,678)	(1,638)
Operating profit before provisions	729	779	1,348	950	894
Writeback of provisions for impairment on loans and receivables	19	211	294	925	185
Writeback of provisions for liabilities and commitments	4	1	2	11	4
Writeback/(Provisions) for impairment on financial investments available for sale	—	2	2	—	(1)
Operating profit	752	993	1,646	1,886	1,082
Associated undertakings and joint ventures	10	23	35	25	23
(Loss)/Profit on disposal of property	(1)	—	—	3	6
Profit on disposal of business	—	1	1	—	—
Profit before taxation from continuing operations	761	1,017	1,682	1,914	1,111
Income tax charge from continuing operations	(109)	(194)	(326)	(534)	(230)
Profit after taxation from continuing operations	652	823	1,356	1,380	881
Discontinued operations					
Profit after taxation from discontinued operations	—	—	—	—	34
Profit for the period	652	823	1,356	1,380	915

Selected Consolidated Statement of Financial Position Data

	As at	As at 31 December		
	30 June	2016	2015	2014
	(unaudited)	(audited)		
		(£ millions)		
Assets				
Cash and balances at central banks	5,262	6,519	4,950	5,393
Items in course of collection	195	134	153	146
Disposal groups and non-current assets held for sale	9	11	8	14
Trading portfolio financial assets	32	1	1	1
Derivative financial instruments	1,366	1,814	1,698	2,038
Loans and receivables to banks	1,226	1,399	2,339	1,865
Loans and receivables to customers	59,822	60,639	63,240	63,362
NAMA senior bonds	360	1,799	5,616	9,423
Financial investments available for sale	14,333	15,437	16,489	20,185
Financial investments held to maturity	3,295	3,356	3,483	—
Interests in associated undertakings and joint ventures	149	65	70	69
Intangible assets	444	392	289	171
Property, plant and equipment	339	357	344	290
Other assets	238	248	785	211
Current taxation	12	13	35	10
Deferred tax assets	2,796	2,828	2,897	3,576
Prepayments and accrued income	449	444	503	526
Retirement benefit assets	135	166	222	175
Total assets	90,462	95,622	103,122	107,455
Liabilities				
Deposits by central banks and banks	4,955	7,732	13,863	16,768
Customer accounts	63,723	63,502	63,383	64,018
Trading portfolio financial liabilities	28	—	86	—
Derivative financial instruments	1,313	1,609	1,781	2,334
Debt securities in issue	4,726	6,880	7,001	7,861
Current taxation	13	18	31	—
Deferred tax liabilities	93	81	—	—
Other liabilities	929	973	1,108	1,225
Accruals and deferred income	407	484	653	729
Retirement benefit liabilities	97	158	368	1,239
Provisions for liabilities and commitments	177	246	382	258
Subordinated liabilities and other capital instruments	792	791	2,318	1,451
Total liabilities	77,253	82,474	90,974	95,883
Equity				
Share capital	1,696	1,696	1,696	1,344
Share premium	1,386	1,386	1,386	1,752
Reserves	9,633	9,572	8,572	8,476
Total shareholders' equity	12,715	12,654	11,654	11,572
Other equity interests	494	494	494	—
Total equity	13,209	13,148	12,148	11,572
Total liabilities and equity	90,462	95,622	103,122	107,455

Key Financial Ratios

	Six months ended		Year ended 31 December		
	30 June		2016	2015	2014
	2017	2016	(unaudited)		
	(% , unless otherwise indicated)				
CET1 fully loaded capital ratio ⁽¹⁾	16.6%	N/A	15.3%	13.0%	11.8% ⁽²⁾
CET1 transitional capital ratio ⁽³⁾	19.9%	N/A	19.0%	15.9%	16.4% ⁽²⁾
Net interest margin ⁽⁴⁾	2.54%	2.06%	2.23%	1.94%	1.63%
Net interest margin excluding ELG Scheme charges	N/A ⁽⁵⁾	N/A	2.25%	1.97%	1.69%
Cost/income ratio ⁽⁶⁾	45%	55%	52%	49%	55%
Credit impairment charge (bps) ⁽⁷⁾	6	62	(44)	(126)	(22)
Loan to deposit ratio ⁽⁸⁾	94%	N/A	95%	100%	99%

Notes:

- (1) Based on full implementation of Basel III and CRD IV.
- (2) Includes 2009 Preference Shares.
- (3) Capital calculated in accordance with 'Part Ten—Transitional Provisions, Reports, Review and Amendments' of the CRR.
- (4) Calculated as net interest income divided by average interest-earning assets.
- (5) The impact of the ELG Scheme charge on the net interest margin for the six months ended 30 June 2017 is not considered material and has not been disclosed separately.
- (6) Calculated as total operating expenses before exceptional items divided by total operating income before exceptional items, as set forth above.
- (7) Calculated as writeback/(provision) for impairment on loans and receivables divided by average loans and receivables to customers.
- (8) Calculated as loans and receivables to customers divided by customer accounts

SECTION B – THE AIB GROUP

The financial statements of the AIB Group included in “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus (accessible at www.aib.ie/investorrelations) for each of the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 (as identified in the table below), together with the audit report thereon and the definitions relating to such financial statements included in “*Part XXII: (Definitions)*” of the IPO Prospectus, are incorporated by reference into this Prospectus. The financial statements for years ended 31 December 2016, 31 December 2015 and 31 December 2014 have been prepared in accordance with IFRS as adopted by the EU.

In addition, condensed consolidated interim financial statements for the six months ended 30 June 2017 contained in the AIB Bank 2017 Half Yearly Accounts (accessible at www.aib.ie/investorrelations), together with the Review Report thereon, are incorporated by reference into this Prospectus.

The table below sets out the portions of the documents referred to in this Section B which are incorporated by reference into this Prospectus, to ensure that the readers of this Prospectus are aware of all information which, according to the particular nature of the AIB Group, is necessary to enable the readers of this Prospectus to make an informed assessment of the assets and liabilities, financial position and profit and losses and prospects of the AIB Group.

Document	Section	Page numbers in such document
AIB Bank IPO Prospectus	<i>Part XVI: Consolidated Historical Financial Information</i>	233-549
AIB Bank IPO Prospectus	<i>Part XIII: Operating and Financial Review;</i>	152-228
AIB Bank IPO Prospectus	<i>Part XVII: Risk Management;</i>	
	<i>Section 2.2.1</i>	555-556
	<i>Section 2.3</i>	557
	<i>Section 2.4</i>	558
	<i>Section 4.7</i>	561
AIB Bank IPO Prospectus	<i>Part XXII: (Definitions) (to the extent these relate to any other section of the IPO Prospectus incorporated by reference herein)</i>	663-687
AIB Bank 2017 Half Yearly Accounts	Incorporated in its entirety	N/A

SECTION C: AIB GROUP PLC – FINANCIAL INFORMATION FOR THE PERIOD FROM THE DATE OF INCORPORATION (BEING 8 DECEMBER 2016) TO 30 JUNE 2017

The following financial information presents the financial records of AIB Group plc for the period from incorporation on 8 December 2016 to 30 June 2017. The Directors of AIB Group plc have prepared financial information for AIB Group plc for the period ended 30 June 2017 on the basis expected to be applicable, in so far as this is currently known, for the first set of consolidated financial statements of AIB Group plc expected to be prepared for the period ended 31 December 2017.

	As at 30 June 2017
	€
<i>Statement of financial position</i>	
Total assets	<u>25,000</u>
Equity	
Called up share capital	<u>25,000</u>
Total equity	<u>25,000</u>

Income Statement

Other than its acquisition of one ordinary share of €0.625 in Allied Irish Banks, p.l.c., (the “AIB Bank Share”), AIB Group plc did not trade during the period from incorporation, being 8 December 2016 to 30 June 2017, and received no income and incurred no expenditure. Consequently, during this period AIB Group plc made neither a profit nor loss.

	Called up Share Capital	Total Equity
	€	€
<i>Statement of equity</i>		
Issuance of shares on incorporation – 8 December 2016	1	1
Issuance of shares on 21 February 2017	<u>24,999</u>	<u>24,999</u>
As at 30 June 2017	<u>25,000</u>	<u>25,000</u>

	From 8 December 2016 to 30 June 2017
	€
<i>Statement of cash flow</i>	
Net cash outflows from investing activities	(5)
Cash flow from financing activities	<u>12</u>
Closing Cash	<u>7</u>

1. Summary of Accounting Policies

AIB Group plc is a company domiciled in Ireland. AIB Group plc’s registered office address is Bankcentre, Ballsbridge, Dublin 4, Ireland. AIB Group plc was incorporated as RPML 1966 Holdings plc on 8 December 2016. On 5 September 2017, RPML 1966 Holdings plc changed its name to AIB Group plc.

Statement of compliance

The financial information has been prepared in accordance with IFRS as adopted by the EU.

Basis of preparation

The financial information presents the financial records of AIB Group plc for the period from incorporation (being 8 December 2016) to 30 June 2017.

The financial information is presented in euro (€), being the functional currency of AIB Group plc’s operations.

AIB Group plc did not trade during the period from incorporation to 30 June 2017 (other than its acquisition of one AIB Bank Share).

As a company seeking admission, AIB Group plc is required by paragraph 20.1 of Annex I to the EU Prospectus Regulation to prepare and present in this Prospectus the last three years (or such shorter period that the issuer has been in operation) of audited historical financial information in a form consistent with the accounting policies to be adopted by AIB Group plc’s next published consolidated financial statements. Accordingly, the Directors of AIB Group plc have prepared financial information for AIB Group plc for the period ended 30 June 2017 on the basis expected to be applicable, in so far as this is currently known, for the first set of consolidated financial statements of AIB Group plc expected to be prepared for the period ended 31 December 2017).

Debtors

Debtors are stated at the lower of amortised cost or recoverable amount.

Share capital

Ordinary shares are classified as equity.

2. Authorised and Issued Share Capital

30 June 2017

Authorised Share Capital

40,000 ordinary shares of €0.625 each €25,000

Issued and called up Share Capital

40,000 ordinary shares of €0.625 each €25,000

On incorporation (8 December 2016), the issued share capital of AIB Group plc was €1.25 divided into two ordinary shares of €0.625 each. All of these shares were fully paid up on that date.

On 21 February 2017, AIB Group plc issued 39,998 ordinary shares of €0.625 each, fully paid up, in order to allow AIB Group plc satisfy the authorised share capital requirements for a public limited company under Irish company law. Of the 39,998 AIB Group plc ordinary shares of €0.625 each, 39,980 of these were issued subject to an undertaking to pay from the subscribers for those shares.

3. Total Assets

This includes a) debtors of €24,988, due within one year, relating to the subscribers of 39,980 AIB Group plc shares issued subject to an undertaking to pay, b) one AIB Bank Share and c) €7 in cash.

4. Indebtedness

As at the date of this Prospectus, AIB Group plc has no guaranteed, secured, unguaranteed or unsecured debt and no indirect or contingent indebtedness.

5. Post Balance Sheet Events

There have been no post balance sheet events since 30 June 2017.

SECTION D: AIB GROUP PLC - ACCOUNTANT'S REPORT ON THE FINANCIAL INFORMATION FOR THE PERIOD FROM THE DATE OF INCORPORATION (BEING 8 DECEMBER 2016) TO 30 JUNE 2017



The Board of Directors
on behalf of AIB Group plc
Bankcentre
Ballsbridge
Dublin 4
Ireland

The Board of Directors
on behalf of Allied Irish Banks, p.l.c.
Bankcentre
Ballsbridge
Dublin 4
Ireland

10 October 2017

Dear Sirs

AIB Group plc (the 'Company')

We report on the historical financial information set out in Section C of "*Part XII: "Selected Consolidated Historical Financial and Operating Information"*" for the period ended 30 June 2017. This historical financial information has been prepared for inclusion in the prospectus dated 10 October 2017 of the Company (the "Prospectus") on the basis of the accounting policies set out in note 1 of Section C of "*Part XII: "Selected Consolidated Historical Financial and Operating Information"*". This report is required by paragraph 20.1 of Annex I of the Commission Regulation (EC) No. 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the historical financial information on the basis of preparation set out in note 1 of Section C of "*Part XII: "Selected Consolidated Historical Financial and Operating Information"*".

It is our responsibility to form an opinion on the historical financial information and to report our opinion to you.

Save for any responsibility arising under paragraph 2(2) (f) of Schedule 1 to the Prospectus (Directive 2003/71/EC) Regulations 2005 (S.I. No 324 of 2005), as amended, to any person and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting (SIR) 2000 issued by the Auditing Practices Board in the United Kingdom and Ireland. Our work included an assessment of evidence relevant to the amounts and disclosures in the historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the historical financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the historical financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on historical financial information

In our opinion, the historical financial information gives, for the purposes of the Prospectus dated 10 October 2017, a true and fair view of the assets, liabilities and financial position of the Company as at 30 June 2017 and of its results, cash flows and changes in equity for the period then ended in accordance with the basis of preparation set out in note 1 of Section C of *“Part XII: “Selected Consolidated Historical Financial and Operating Information”*.

Declaration

For the purposes of paragraph 2(2) (f) of Schedule 1 to the Prospectus (Directive 2003/71/EC) Regulations 2005 (S.I. No. 324 of 2005), as amended we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

Deloitte

Chartered Accountants

PART XIII OPERATING AND FINANCIAL REVIEW

Operating and Financial Review relating to AIB

The following discussion of the financial condition and results of operations of AIB should be read in conjunction with “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus (including the Accountant’s Reports contained therein) and the AIB Bank 2017 Half yearly Accounts (including the Independent Review Report contained therein), each of which are incorporated by reference herein and the information relating to AIB’s business included elsewhere in this Prospectus.

- *Financial information for 2016, 2015 and 2014*

The financial information for 2016, 2015 and 2014 contained in this “Part XIII: Operating and Financial Review” has been extracted without material adjustment from “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus . AIB’s consolidated historical financial information for 2016, 2015 and 2014 contained in Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus has been audited by Deloitte

- *Financial information for the six months ended 30 June 2017*

The financial information for the six months ended 30 June 2017 contained in this “Part XIII: Operating and Financial Review” has been extracted without material adjustment from the AIB Bank 2017 Half Yearly Accounts. AIB’s condensed consolidated interim financial statements for the six months ended 30 June 2017 contained in the AIB Bank 2017 Half Yearly Accounts has been reviewed by Deloitte.

The following discussion is prepared in line with how AIB’s performance is reported to management and the Board of AIB Bank. Profit from continuing operations before exceptional items excludes exceptional items that management believe obscure the underlying performance trends in the business. This is referred to as ‘on a management basis’ when presented in this “Part XIII: Operating and Financial Review”. Exceptional items are presented separately and a breakdown of the items classified as exceptional, together with a reconciliation to each resulting APM from the directly reconcilable IFRS line item, is included below under “—Exceptional Items”.

Some of the information contained in the following discussion contains forward-looking statements that are based on assumptions and estimates and are subject to risks and uncertainties. You should read “Part III: Presentation of Information—Forward-looking statements” for a discussion of the risks and uncertainties related to these statements. You should also read the section entitled “Part II: Risk Factors” for a discussion of certain factors that may affect AIB’s business, financial condition or results of operations.

Percentages presented throughout this discussion are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers.

Operating and Financial Review relating to AIB HoldCo

As AIB HoldCo was incorporated on 8 December 2016 and has not traded or undertaken any other significant transactions since incorporation (other than its acquisition of one AIB Bank Share), there is no operating and financial review in respect of AIB HoldCo.

1 Overview

AIB is a financial services group operating predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. AIB had leading market shares in its core retail banking products within Ireland in 2016 and in the six months to June 2017, including a 37 per cent. share of mortgages across all three of its mortgage brands (in the five months to May 2017), according to BPFi published figures for mortgage lending flows, as well as a 37 per cent. share of personal main current accounts, a 20 per cent. share of personal loans and a 35 per cent. share of personal credit cards, according to the Ipsos MRBI Personal Tracker Q2 2017. AIB also retains strong market shares in products for SMEs, including a 43 per cent. share of business current accounts, a 45 per cent share of business credit cards, a 34 per cent. share of main business loans and a 20 per cent share of business leasing for 2017 according to the Ipsos MRBI SME Financial Services Monitor 2017. AIB also has operations in Northern Ireland, where it operates under the trading name of First Trust Bank, and in Great Britain, where it operates as Allied Irish Bank (GB).

AIB offers a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

AIB is managed through the following business segments: RCB, WIB, AIB UK and Group.

- Retail & Commercial Banking (“RCB”): RCB is Ireland’s leading provider of retail and commercial banking products and services based on its market shares across key products. It has approximately 2.3 million retail and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest distribution network of any bank in Ireland, comprising 296 locations, including 205 AIB branches, 71 EBS offices, 19 business centres and 1 digital banking location, 989 ATMs and AIB telephone, internet, tablet and mobile banking, as well as a partnership with An Post through which it offers certain banking services at approximately 1,100 locations in Ireland. Complementing its physical infrastructure, RCB has a market leading digital banking proposition which has contributed significantly to strengthened relationship and transactional NPS and underpins a broader efficiency agenda.
- Wholesale, Institutional & Corporate Banking (“WIB”): WIB provides wholesale, institutional and corporate banking services to AIB’s larger customers or customers requiring specific sector or product expertise. WIB serves customers through a relationship-driven model with a sector specialist focus. In addition to traditional credit products, WIB offers corporate customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance. WIB teams are based in Dublin and New York. WIB’s activities in New York comprise syndicated & international finance activities.
- AIB UK: AIB UK offers services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). First Trust Bank has approximately 253,000 active personal customers and approximately 28,000 active business customers. First Trust Bank operates as a focused retail and SME challenger bank and has recently migrated to a more integrated business model, with the closure of 15 of its 30 completed by August 2017. This will be complemented by an arrangement with the Post Office in Northern Ireland. Allied Irish Bank (GB) is a niche specialist business bank supporting businesses in Great Britain for over 40 years. It operates out of 15 locations in key cities across Great Britain targeting mid-tier corporates and larger SMEs in local geographies. AIB UK’s overall proposition includes simplified products and improved digital capability, with closer alignment over time to that offered by the retail operations of AIB in Ireland.
- Group: The Group segment comprises wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB’s Group segment.

The following table provides a breakdown of net loans and customer accounts across AIB’s four segments as at 30 June 2017:

	As at 30 June 2017	
	Net Loans	Customer Accounts
	(unaudited) (€ billions)	
RCB.....	42.1	44.7
WIB.....	9.1	5.6
AIB UK ⁽¹⁾	8.5	10.4
Group.....	0.1	3.1
	<u>59.8</u>	<u>63.7</u>

Notes:

- (1) Net loans were £7.5 billion and customer accounts were £9.2 billion as at 30 June 2017. Euro amounts calculated using the pound sterling to euro exchange rate of 0.8793, being the period end exchange rate.

Within the above segments, AIB has migrated the management of the vast majority of its non-performing loans to FSG, AIB’s standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG’s well-resourced operational capacity, workout expertise and skillset. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty. AIB is moving into the mature stage of managing customers in difficulty and non-performing loan portfolios.

AIB’s profit before taxation from continuing operations was €761 million and €1,017 million for the six months ended 30 June 2017 and 30 June 2016, respectively and €1,682 million, €1,914 million and €1,111 million for the years ended 31 December 2016, 2015 and 2014, respectively. As at 30 June 2017, AIB had total assets of €90.5 billion, a decrease from €95.6 billion as of 31 December 2016, and total equity of €13.2 billion, an increase from €13.1 billion as of 31 December 2016.

2 Current Trading

AIB's performance since 30 June 2017 has been consistent with the improved outturn evidenced in the six months ended 30 June 2017, with continued strong performance in net interest income, other income and costs.

Net interest margin continues to be positively impacted by stable asset yields and lower funding costs.

AIB's operating costs remain consistent with the expectations of the Directors of AIB Bank with continued focus on cost management and disciplined continued management of the factors expected to impact costs in 2017 including wage inflation, continued investment in loan restructuring and increased cost of regulatory compliance. AIB's three year €870 million investment programme is on track and will conclude by the end of 2017.

AIB has maintained momentum in its loan book with new lending contributing to growth in earning loans and the reduction in impaired loans continuing as planned since 30 June 2017

3 Key Factors Affecting Results of Operations

3.1 Economic Recovery

AIB's activities in Ireland and the United Kingdom account for the majority of its business. As a result, the performance of the Irish economy is extremely important to it. Its operations in the United Kingdom also mean that it is influenced directly by political, economic and financial developments there, as well as indirectly through the impact of such developments in the United Kingdom on the Irish economy.

Ireland's improved economic environment has had a very favourable impact on AIB's performance in the periods under review. Growing GDP, falling unemployment and increased consumer spending have all contributed to Ireland being one of the fastest growing Eurozone economies in each of the past three years, according to data from BMI and CSO Statbank. According to CSO National Accounts data, GDP in Ireland rose by 5.1 per cent. in 2016, following growth of 25.6 per cent. (which was skewed by certain one off factors including companies relocating assets to Ireland from abroad, which is evidenced by contribution to GDP from Industry increasing by 110.2 per cent. in 2015 in comparison to 2014) and 8.5 per cent. during 2015 and 2014 respectively. CSO Statbank data shows that GDP continued to grow strongly in the first quarter of 2017, rising by 6.1 per cent. on a year-on-year basis.

Despite uncertainties as to the potential impact of the United Kingdom's decision to withdraw from the European Union, the Irish economy is expected to continue to grow at attractive rates over the next several years, with the Irish Department of Finance forecasting GDP growth of 4.3 per cent. for 2017, 3.7 per cent. for 2018 and 3.1 per cent. in 2019.

Conditions in the Irish labour markets have also improved steadily since 2012 with growth in total employment each year. The unemployment rate according to CSO data had dropped to below 6.1 per cent. by September 2017 from a peak of over 15 per cent. in 2012. In addition, the Irish housing market has continued to show signs of recovery, albeit at low activity levels and from a very low base, with increases in mortgage approvals from 17,786 in 2012 to 35,003 in 2016, increases in housing transactions from 31,802 in 2012 to 55,153 in 2016 and increases in average new house prices from €220,224 in 2012 to €309,653 for the first three quarters of 2016 (Source: BPF Mortgage Approvals data, CSO Statbank Average House Prices and Housing Transactions).

After having deteriorated sharply during the recession, Irish public finances continued to show improvement over the course of 2016. The Irish Department of Finance data shows that the budget deficit declined to 0.6 per cent. of GDP in 2016. This compares to a high of 11.6 per cent. in 2010. The Irish Department of Finance is targeting a decrease in the budget deficit to 0.4 per cent. of GDP in 2017.

Ireland's debt to GDP ratio is estimated by the Irish Department of Finance to have been 75.4 per cent. in 2016 and is forecasted to be 72.7 per cent. for 2017. The Irish Department of Finance is forecasting that the debt ratio will fall to 65.2 per cent. by 2020.

Similarly, GDP in the United Kingdom increased between 2014 and 2016, with growth of 1.8 per cent., 2.2 per cent. and 3.1 per cent. in 2016, 2015 and 2014, respectively (Source: ONS, Second estimate of GDP: April to June 2017). However, GDP growth slowed in the first half of 2017 and the IMF is forecasting GDP growth of 1.7 per cent. in the United Kingdom for 2017 and 1.5 per cent. in 2018.

As a result of improving macro-economic conditions in Ireland and the United Kingdom, AIB's new lending volumes have been improving and its impaired loan book has been decreasing. In 2016, AIB had €8.7 billion in new lending across all segments, compared to €5.7 billion in 2014. New lending increased from €3.8 billion for the six months ended 30 June 2016 to €4.3 billion from the first six months ended 30 June 2017. The asset quality of AIB's loan portfolio has also been improving, with gross impaired loans decreasing from €22.2 billion as at 31 December 2014 to €7.8 billion as at 30 June 2017, while maintaining a stable asset yield. AIB expects that further improvement in economic conditions will help it to continue to achieve growth in new lending volumes and further stabilise asset quality.

3.2 Brexit

Improved economic conditions in Ireland and the United Kingdom and trade, business and other connections between those countries are in jeopardy as a result of Brexit. Although the overall impact of the United Kingdom's withdrawal from the European Union remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Ireland's GDP growth over the medium term, with the United Kingdom's future trading relationship with the European Union post-Brexit being the key consideration in this regard. Legal, fiscal and regulatory impediments to trade and services (including banking) may be introduced between the remaining member states of the European Union (including Ireland) and the United Kingdom. In addition, it may increase the level of non-performing loans held by, and reduce the level of demand for new loans from, banks across Ireland, including AIB. In Ireland, any negative impact on the economy may be disproportionate on sectors which have significant linkages to the United Kingdom, such as agriculture, tourism and the border area generally. Exports from Ireland to the United Kingdom have been and may continue to be adversely affected by weakness of the exchange rate of the pound sterling against the euro and that weakness may increase over the course of the Brexit process.

3.3 Loan Restructuring

Mortgage delinquencies increased in 2008 as interest rates continued to increase up to mid-2008 and housing oversupply persisted. This was heightened by the start of the decline of the Irish economy following the onset of the global financial crisis in 2008. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property, and residential mortgage sectors, to which AIB was heavily exposed, increased substantially.

During recent years, AIB has been focused on restructuring its loan portfolio through the implementation of sustainable solutions for customers in difficulty. AIB's plan to reduce impaired loans includes restructuring as well as sales and redemptions, cures, portfolio sales and other strategic initiatives. As at 30 June 2017, AIB had €16.6 billion in criticised loans on its balance sheet, representing 26 per cent. of total loans, compared to €34.0 billion, representing 45 per cent. of total loans, as at 31 December 2014. Specific provisions and IBNR provisions for impairment on loans and receivables have decreased from €12.4 billion as at 31 December 2014 to €4.1 billion as at 30 June 2017 primarily due to the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty combined with improved economic conditions in Ireland and the United Kingdom.

AIB recognised net writeback of provisions for impairment on loans and receivables on its income statement of €294 million, €925 million and €185 million in 2016, 2015 and 2014, respectively. AIB recognised a net credit provision writeback of €19 million for the six months ended 30 June 2017 compared to a writeback of €211 million for the six months ended 30 June 2016. This reduction was due to higher level of new impairments (including those loans that have previously been restructured) and an increase in new to impaired loans and an increase in the IBNR charge reflecting an increase in the assumed emergence period on the non mortgage portfolio. Key drivers of the writebacks include increased security values and improved business cash flows due to the stronger economic environment, cases cured from impairment and additional security gained as part of the restructuring process.

During 2016, AIB began to experience an expected slowdown in restructuring momentum as the primary restructuring period concludes and it is now primarily dealing with those cases which are of lower monetary value, more complex, more specific to an individual's circumstances and more protracted in nature. In addition, a larger proportion of the remaining loans being resolved are subject to enforcement and the legal process associated with these takes more time than a consensual process. Going forward, AIB expects that the level of impaired loans will continue to decrease but at a lower rate than has been the case to date.

3.4 Capital Reorganisation

The impact of the global financial crisis and the deterioration of Ireland's property market commencing in 2008 presented funding and liquidity issues for AIB and led to a rapid deterioration of its capital base. This necessitated several capital investments by the Irish Government in AIB Bank and EBS amounting to a total of €20.8 billion. These included, in the case of AIB Bank, the issuance of €3.5 billion of 2009 Preference Shares to the NPRFC in May 2009, the issuance of €3.8 billion of new ordinary shares to the NPRFC in December 2010 (net proceeds of €3.7 billion), a placing of a further €5.0 billion of new ordinary shares to the NPRFC in July 2011, capital contributions totalling €6.1 billion from the Minister for Finance and the NPRFC also in July 2011 and the issuance of €1.6 billion of CCNs at par to the Minister for Finance in July 2011 and, in the case of EBS, the issuance to the Minister for Finance of an aggregate of €625 million of Special Investment Shares in May and December 2010 and the EBS Promissory Note with an initial principal amount of €250 million provided by the Minister for Finance to EBS on 17 June 2010. Those ordinary shares in the capital of AIB Bank and the 2009 Preference Shares held by the NPRFC became assets of the ISIF, which is controlled and managed by the NTMA, in 2014. Ownership of the ISIF vests in the Minister for Finance.

AIB completed the 2015 Capital Reorganisation in December 2015. The 2015 Capital Reorganisation was designed to enable AIB to return capital to the Irish Government in line with its obligations under the Restructuring Plan, contribute to growth in AIB's business, meet CRD IV regulatory requirements, allow for future dividend payments, align AIB's capital structure with market norms and investor expectations, and position AIB for a return to private ownership over

time, the process of which commenced with the sale of 780,384,606 ordinary shares by the Minister for Finance as part of the AIB Bank IPO.

In conjunction with the 2015 Capital Reorganisation, AIB Bank issued €750 million of subordinated Tier 2 notes and €500 million AT1 Notes, both in the fourth quarter of 2015.

The 2015 Capital Reorganisation included the partial redemption of the 2009 Preference Shares (1.36 billion of the 3.5 billion 2009 Preference Shares were redeemed for cash at 125 per cent. of the subscription price resulting in a repayment of €1.7 billion), with the remainder being converted into ordinary shares in the capital of AIB Bank at 125 per cent. of the subscription price. Furthermore, an accrued dividend on the 2009 Preference Shares of €166 million was paid to the NTMA (as manager and controller of the ISIF). In addition, the 2015 Capital Reorganisation involved the redemption by the Minister for Finance of the EBS Promissory Note. The 2015 Capital Reorganisation received regulatory approval from the SSM and was approved by AIB Bank Shareholders at an EGM of AIB Bank held on 16 December 2015.

On conversion of part of the 2009 Preference Shares, AIB Bank had 678.6 billion ordinary shares of €0.0025 in issue. The 2015 Capital Reorganisation included a share consolidation of AIB Bank's ordinary shares at the time that resulted in AIB Bank Shareholders receiving one new ordinary share of €0.625 for every 250 existing ordinary shares of €0.0025 (with a rounding up of any fractional shareholdings of less than 250 ordinary shares in the capital of AIB Bank). AIB Bank now has approximately 2.7 billion AIB Bank Shares of nominal value €0.625 each in issue.

As part of the 2015 Capital Reorganisation, AIB Bank entered into the AIB Bank Warrant Agreement with the Minister for Finance and granted the Minister for Finance the right to receive AIB Bank Warrants to subscribe for additional ordinary shares in the share capital of AIB Bank. On 26 April 2017, the Minister for Finance exercised his rights under the AIB Bank Warrant Agreement by issuing a Warrant Notice to AIB Bank requiring AIB Bank to issue AIB Bank Warrants to the Minister for Finance to subscribe for such number of AIB Bank Shares representing 9.99 per cent. in aggregate of the issued share capital of AIB Bank at AIB Bank Admission. On 4 July 2017, AIB Bank issued 271,166,685 AIB Bank Warrants to the Minister for Finance to subscribe for AIB Bank Shares, representing 9.99 per cent. of the ordinary share capital of AIB Bank at AIB Bank Admission. In accordance with the terms of the AIB Bank Warrant Agreement, no cash consideration was paid by the Minister for Finance to AIB Bank in respect of the issue of the AIB Bank Warrants. The exercise price for the AIB Bank Warrants is the Warrant Exercise Price and the AIB Bank Warrants will be capable of exercise by the holder of the AIB Bank Warrants during the period commencing on the first anniversary of AIB Bank Admission and ending on the tenth anniversary of AIB Bank Admission. A condition to the exercise of the AIB Bank Warrants is that, on each of the thirty most recent consecutive trading days, the share price of the AIB Bank Shares has reached or exceeded the Warrant Exercise Price, as adjusted. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument will be replaced by the AIB HoldCo Warrant Instrument to be entered into by AIB HoldCo, pursuant to which the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled.

Upon the maturity and redemption of the CCNs in July 2016, AIB Bank made a further capital repayment to the Minister for Finance of €1.6 billion, as well as a coupon payment of €160 million to the Minister for Finance. A final dividend in the amount of €250 million in respect of AIB Bank Shares for the financial year ended 31 December 2016 was approved by AIB Bank Shareholders at the 2017 AIB Bank AGM and paid on 9 May 2017. The dividend equated to €0.0921 per AIB Bank Share based on the number of AIB Bank Shares for 2016, which was 2.714 billion.

The simplification of AIB's capital structure, in particular the maturity of the CCNs, has contributed to a reduction in the cost of its liabilities and therefore an increase in its net interest margin³. AIB reported a net interest margin of 2.54 per cent. for the six months ended 30 June 2017. This compared to 2.06 per cent. for the six months ended 30 June 2016.

AIB's profitability in 2014, 2015, 2016 and the six months ended 30 June 2017 has also resulted in strong organic capital generation. During 2015 and 2016, and for the first six months of 2017, AIB's capital ratios have been robust, with all capital ratios being in excess of AIB's regulatory requirements, as communicated by the SSM as part of its 2016 SREP.

3.5 Cost Management and Efficiency

Since 2012, AIB has undergone a structured programme of cost reduction. This contributed to a reduction in operating expenses (excluding exceptional items) of approximately €360 million from 2012 to 2016. The implementation of disciplined cost management involved lowering of costs in all key operating segments of AIB, a reduction of approximately 3,200 FTEs since 2012, significant rationalisation of the branch network and operational simplification. The reduction in FTEs was supported by AIB's transformation strategy which enabled staff exits as part of AIB's severance scheme. The cost of the severance scheme has been included in exceptional items and amounted to €24 million, €37 million and €24 million in 2014, 2015 and 2016, respectively, and €24 million in the six months ended

³ Net interest margin i.e. includes ELG Scheme charge.

30 June 2017. Additionally, throughout the periods under review, AIB engaged in selective outsourcing of certain back office and support functions and with third party resources for use in projects or to facilitate seasonal additional work demands. Ongoing costs related to this outsourcing activity, and the use of other third party resources, are reported within operating expenses.

AIB is investing significantly, as a part of its three-year €870 million investment programme, in customer engagement channels, customer data and analytics. This will provide a resilient and agile technology platform while replacing sub-optimal systems and so deliver standardised, repeatable and de-risked straight-through processing end-to-end which is automated where possible. The investment programme encompasses spending on regulatory requirements, sustainment and maintenance, resilience and strategic initiatives. As at 30 June 2017, AIB had spent €705 million, 79 per cent. of which was capitalised (as at 31 December 2016, €606 million, 78 per cent. of which was capitalised). The investment programme is expected to deliver further efficiencies and productivity enhancements from further simplification and digitalisation. The investment programme will conclude by the end of 2017. The focus from 2017 onwards will be on achieving a return on the digital capabilities put in place as part of the investment programme. A reduced level of investment spend is anticipated from 2018 onwards.

AIB's operating expenses (excluding exceptional items) increased by €16 million in the six months ended 30 June 2017 compared to 30 June 2016 reflecting salary inflation, investment in loan restructuring unit, and increased depreciation as assets created under the investment programme are put into operational use. These costs are partly absorbed by savings from process efficiencies and product enhancements and improvements in staff grade mix.

3.6 Redemptions of NAMA senior bonds

In the aftermath of the global financial crisis and the collapse of the Irish property market, the Irish Government recognised the need to stabilise Irish financial institutions and to create greater certainty for all stakeholders. One of the measures it undertook to achieve this was the introduction of the NAMA Act, pursuant to which AIB transferred financial assets to NAMA in exchange for which it received consideration in the form of NAMA senior bonds and NAMA subordinated bonds. AIB transferred approximately €20.0 billion of assets to NAMA during 2010 and 2011. The NAMA senior bonds are guaranteed by the Irish Government. Interest on the senior bonds is payable semi-annually each March and September at a rate of six-month EURIBOR.

As at 30 June 2017, AIB had €0.4 billion of NAMA senior bonds on its balance sheet, compared to €1.8 billion as at 31 December 2016, €5.6 billion as at 31 December 2015 and €9.4 billion as at 31 December 2014, following redemptions by NAMA. NAMA senior bonds are low yielding, because of this they have represented a drag on AIB's net interest margin. The NAMA senior bonds had an 8 basis point impact on net interest margin in 2016. The remaining NAMA senior bonds are expected to be fully redeemed by the end of 2017.

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. Since then, AIB has reviewed its expected pattern of repayments on the NAMA senior bonds and revised the expected timing of repayments. AIB recognised a gain of €132 million, €6 million and €10 million for the years ended 31 December 2014, 2015 and 2016, respectively and €4 million for the six months ended 30 June 2017.

3.7 ELG Scheme, bank levies and other regulatory costs

3.7.1 ELG Scheme

As part of new regulations introduced in response to the global financial crisis, there has generally been an increase in levies and other regulatory costs for certain Irish banks, including AIB. In December 2009, in order to stabilise the Irish banking sector after the establishment of the CIFS Scheme, the Irish Department of Finance established the ELG Scheme, which facilitated participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of five years. AIB joined the ELG Scheme on 21 January 2010. With effect from 28 March 2013, the ELG Scheme was closed for all new liabilities, reflecting improved and more stabilised funding conditions. As the maximum duration of liabilities under the ELG Scheme is five years, all liabilities will roll off by no later than 29 March 2018. AIB's total liabilities guaranteed under the ELG Scheme as at 30 June 2017 amounted to €0.6 billion, compared with €1.1 billion as at 31 December 2016.

Participating institutions must pay a fee to the Minister for Finance in respect of each liability guaranteed under the ELG Scheme. For the years ended 31 December 2016, 2015 and 2014, AIB paid €17 million, €30 million and €59 million, respectively, in fees in connection with the ELG Scheme. These charges are included within interest expense. The ELG Scheme charge had a negative impact of 2, 3 and 6 basis points on AIB's net interest margin for the years ended 31 December 2016, 2015 and 2014, respectively. The impact of the ELG Scheme charge on the net interest margin for the six months ended 30 June 2017 is not considered material and has not been disclosed separately. The ELG Scheme charge for the six months to 30 June 2017 was €5 million.

3.7.2 Bank levies and other regulatory costs

The Irish bank levy fee, payable annually in October, is a form of stamp duty that applies through to 2021. The Deposit Guarantee Scheme, established in 2016, is a statutory deposit protection scheme requiring credit institutions to pay an

annual contribution based on their covered deposits and degree of risk. The Single Resolution Fund fee, introduced in 2016, is a fee imposed pursuant to the SRM as part of the new regulations designed to protect the European banking system.

The Financial Services Compensation Scheme fee (the “FSCS”), established by FSMA, applies to activities of AIB UK but not those of AIB’s branches in the United Kingdom. The FSCS pays compensation to eligible customers of FCA-authorised financial services firms that are unable, or likely to be unable, to pay claims against them. In the year ended 31 December 2016, AIB paid bank levies and regulatory fees of €112 million, including the Irish bank levy in the amount of €60 million, the Deposit Guarantee Scheme (including its legacy fund) contribution in the amount of €35 million and the Single Resolution Fund fee in the amount of €18 million, partially offset by a €1 million credit on other regulatory fees. For the six months ended 30 June 2017, AIB reported bank levies and regulatory fees of €45 million, compared to €48 million for the six months ended 30 June 2016.

4 Consolidated Income Statement

The consolidated income statement data in the below table has been extracted from “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		€ millions		
			(audited)		
Continuing operations					
Interest and similar income	1,241	1,323	2,611	2,821	2,921
Interest expense and similar charges	(164)	(378)	(598)	(894)	(1,234)
Net interest income	1,077	945	2,013	1,927	1,687
Dividend income	27	25	26	26	25
Fee and commission income	220	211	430	449	430
Fee and commission expense	(25)	(18)	(35)	(44)	(40)
Net trading income/(loss)	61	1	71	95	(1)
Profit/(loss) on disposal/transfer of loans and receivables	6	11	11	(22)	52
Other operating income	170	353	403	197	379
Other income	459	583	906	701	845
Total operating income	1,536	1,528	2,919	2,628	2,532
Administrative expenses	(752)	(704)	(1,462)	(1,604)	(1,527)
Impairment and amortisation of intangible assets	(34)	(26)	(70)	(39)	(65)
Impairment and depreciation of property, plant and equipment	(21)	(19)	(39)	(35)	(46)
Total operating expenses	(807)	(749)	(1,571)	(1,678)	(1,638)
Operating profit before provisions	729	779	1,348	950	894
Writeback of provisions for impairment on loans and receivables	19	211	294	925	185
Writeback/(provisions) for impairment on financial investments available for sale	—	2	2	—	(1)
Writeback of provisions for liabilities and commitments	4	1	2	11	4
Operating profit	752	993	1,646	1,886	1,082
Associated undertakings and joint ventures	10	23	35	25	23
(Loss)/Profit on disposal of property	(1)	—	—	3	6
Profit on disposal of businesses	—	1	1	—	—
Profit before taxation from continuing operations	761	1,017	1,682	1,914	1,111
Income tax charge from continuing operations	(109)	(194)	(326)	(534)	(230)
Profit after taxation from continuing operations	652	823	1,356	1,380	881
Discontinued operations					
Profit after taxation from discontinued operations	—	—	—	—	34
Profit for the period	652	823	1,356	1,380	915
Attributable to:					
Owners of the parent:					
Profit from continuing operations	652	823	1,356	1,380	881
Profit from discontinued operations	—	—	—	—	34
Profit for the period	652	823	1,356	1,380	915

5 Exceptional Items

In “Part XIII: Operating and Financial Review—Results of Operations”, AIB’s results of operations are presented on a management basis with exceptional items reported separately. Exceptional items are items that management believes obscure the underlying performance trends in the business. Financial information presented on this basis represent APMs and should not be considered in isolation or as a substitute for analysis of AIB’s results of operations as reported

under IFRS in Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and in the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

The tables set out below are reconciliations to each APM from the most directly reconcilable IFRS line item in Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and in the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

The following are exceptional items that management believes obscure the underlying performance trends in the business:

5.1 Gain on disposal of loan portfolios

AIB has committed to achieve a medium term target of bringing level of non performing exposures in line with European banking norms. As part of this process a number of distressed loan portfolios were disposed of in the half-year to June 2017 which resulted in a gain of €7 million being recognised.

5.2 Profit on disposal of Visa Europe (2016)

During 2016, AIB’s membership interest in Visa Europe was disposed of when Visa Inc. acquired 100 per cent. ownership of Visa Europe. Given the nature and the materiality of this transaction, it was deemed an exceptional item. Profit amounting to €272 million comprised of €207 million for the cash and deferred cash component and €65 million in respect of the fair value of preferred stock acquired in Visa Inc.

5.3 Gain on transfer of financial instruments

During 2010 and 2011, AIB transferred approximately €20 billion of customer loans and receivables to NAMA. The settlement process has extended over a number of years subsequent to the transfer. Given the nature of this transaction, any subsequent valuation adjustments arising from these transfers have been viewed as exceptional. Valuation adjustments on previous transfers of financial assets were nil and €16 million in the six months ended June 2017 and June 2016 respectively and €17 million, €5 million and €2 million in December 2016, 2015 and 2014, respectively.

As a result of exceptional items outlined in paragraphs 5.1 to 5.3 above, management has reported other income in “—Results of Operations” below with these items excluded and reported separately. The reconciliation from the consolidated income statements extracted from Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein, as reported under IFRS to the APM is as follows:

Other income	Six months ended		For the year ended 31 December		
	30 June	30 June	2016	2015	2014
	2017	2016	2016 2015 2014		
	(€ millions)				
Per consolidated income statement	459	583	906	701	845
Gain on disposal of loan portfolios	(7)	—	—	—	—
Profit on disposal of Visa Europe	—	(272)	(272)	—	—
Gain on transfer of financial instruments	—	(16)	(17)	(5)	(2)
Total exceptional items	(7)	(288)	(289)	(5)	(2)
Other income excluding exceptional items⁽¹⁾	452	295	617	696	843

Note:

(1) In “—Results of Operations”, other income is analysed through business income and other items.

5.4 Restitution and restructuring expenses

AIB has identified certain legacy issues over time which have resulted in restitution to customers. In particular, in September 2015, the Central Bank wrote to AIB to inform AIB that it had embarked on the Tracker Mortgage Examination. In December 2015, the Central Bank confirmed to the affected lenders that the objective of the Tracker Mortgage Examination is to assess compliance with both contractual and regulatory requirements relating to tracker mortgages and in circumstances where customer detriment is identified from the Tracker Mortgage Examination, to provide appropriate redress and compensation in line with the Central Bank’s ‘Principles for Redress’. In 2015, AIB provisioned €190 million relating to the Tracker Mortgage Examination, which was included in restitution and restructuring expenses. No further provision was required in 2016.

Restructuring expenses include costs associated with transformation, reorganisation, certain provisions for liabilities and write off of intangible assets.

Due to the nature and materiality of these items, they were viewed as exceptional by management. They amounted to €3 million in the six months ended 30 June 2017, compared to €20 million in the six months ended 30 June 2016, and €58 million, €250 million and €144 million in the years ended 31 December 2016, 2015 and 2014, respectively.

5.5 Termination benefits

Since 2012, AIB has undergone a structured exercise of cost reduction with approximately 4,100 employees on an FTE basis leaving under a voluntary severance programme. The reduction in employees was supported by AIB's transformation strategy which enabled the staff exits. Given the nature and materiality of this, the associated costs were viewed as exceptional by management. The cost of termination benefits under the voluntary severance programme were €24 million in the six months ended 30 June 2017, €3 million in the six months ended 30 June 2016 and €24 million, €37 million and €24 million in the years ended 31 December 2016, 2015 and 2014, respectively.

5.6 AIB Bank IPO, capital and other related expenses

Other exceptional items include expenses incurred by AIB in connection with the AIB Bank IPO. These costs incurred in the six months ended 30 June 2017 amounted to €42 million, in the six months ended 30 June 2016, amounted to €1 million and in the year ended 31 December 2015 amounted to €15 million.

As a result of the exceptional items outlined in paragraphs 5.4 to 5.6 above, management reported personnel expenses, general and administration expenses, depreciation, impairment and amortisation and writeback/(provisions) for liabilities and commitments in “—Results of Operations” below with these items excluded and reported separately. The reconciliations from the consolidated income statements extracted from Section B of “Part XVI: Consolidated Historical Financial Information”, of the AIB Bank IPO Prospectus and the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein, as reported under IFRS to the APM is as follows:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
Personnel expenses			(€ millions)		
Per consolidated income statement	(388)	(362)	(742)	(763)	(791)
Restitution and restructuring expenses	4	—	1	1	—
Termination benefits	24	3	24	37	24
Total exceptional items	28	3	25	38	24
Personnel expenses excluding exceptional items	(360)	(359)	(717)	(725)	(767)

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
General and administrative expenses			(€ millions)		
Per consolidated income statement	(364)	(342)	(720)	(841)	(736)
Bank levies and regulatory fees ⁽¹⁾	45	48	112	71	73
Restitution and restructuring expenses	(2)	20	42	262	118
IPO and capital related expenses	42	1	—	15	—
Total exceptional items	40	21	42	277	118
General and administrative expenses excluding exceptional items	(279)	(273)	(566)	(493)	(545)

Note:

- (1) Bank levies and regulatory fees are reported separately on the management basis income statement. However, they are not treated as an exceptional item as they are recurring in nature. Information given above is to allow a reconciliation to general and administration expenses per the consolidated income statement. These are discussed separately in “—Results of Operations” below.

	Six months ended	Year ended 31 December	
	30 June	2016	2014
Depreciation, impairment and amortisation		(€ millions)	
Per consolidated income statement	(55)	(109)	(111)
Restitution and restructuring expenses	1	15	26
Total exceptional items	1	15	26
Depreciation, impairment and amortisation excluding exceptional items ...	(54)	(94)	(85)

Depreciation, impairment and amortisation expense for the six months ended 30 June 2016 and the year ended 31 December 2015 were not impacted.

<u>Writeback/(provisions) for liabilities and commitments</u>	<u>Year ended 31 December 2015</u>
	(€ millions)
Per Consolidated Income Statement	11
Restitution and restructuring expenses	(13)
Total exceptional items	(13)
Writeback/(provisions) for liabilities and commitments excluding exceptional items	(2)

Writeback/(provisions) for liabilities and commitments for the six months ended 30 June 2017 and 2016 and the years ended 31 December 2016 and 2014 were not impacted.

There are no APMs for net interest income, writeback of provisions for impairment on loans and receivables, writeback of provisions for impairment on financial investments available for sale, associated undertakings, profit on disposal of property and profit on disposal of businesses. In “—Results of Operations”, they are unchanged from the IFRS line item of the consolidated historical financial information in Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

As the result of the APM presentation of bank levies and regulatory fees and exceptional items described above, in “—Results of Operations”, the relevant subtotals and totals are correspondingly adjusted. The tables below set out the impact on these line items for the management basis of the consolidated income statement and detail the reconciliation from the most directly reconcilable IFRS line item in Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

	<u>Six months ended 30 June</u>		<u>Year ended 31 December</u>		
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating income			(€ millions)		
Per consolidated income statement	1,536	1,528	2,919	2,628	2,532
Adjustments to other income.....	(7)	(288)	(289)	(5)	(2)
Total operating income excluding exceptional items	1,529	1,240	2,630	2,623	2,530

	<u>Six months ended 30 June</u>		<u>Year ended 31 December</u>		
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating expenses			(€ millions)		
Per consolidated income statement	(807)	(749)	(1,571)	(1,678)	(1,638)
Adjustments to personnel expenses.....	28	3	25	38	24
Adjustments to general and administrative expenses	85	69	154	348	191
Adjustments to depreciation, impairment and amortisation	1	—	15	—	26
Total operating expenses excluding exceptional items, bank levies and regulatory fees	(693)	(677)	(1,377)	(1,292)	(1,397)

	<u>Six months ended 30 June</u>		<u>Year ended 31 December</u>		
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating profit before provisions			(€ millions)		
Per consolidated income statement	729	779	1,348	950	894
Adjustments to other income.....	(7)	(288)	(289)	(5)	(2)
Adjustments to personnel expenses.....	28	3	25	38	24
Adjustments to general and administrative expenses	85	69	154	348	191
Adjustments to depreciation, impairment and amortisation	1	—	15	—	26
Operating profit before provisions excluding exceptional items, bank levies and regulatory fees	836	563	1,253	1,331	1,133

Operating profit	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
			(€ millions)		
Per consolidated income statement	752	993	1,646	1,886	1,082
Adjustments to other income	(7)	(288)	(289)	(5)	(2)
Adjustments to personnel expenses	28	3	25	38	24
Adjustments to general and administrative expenses	40	21	42	277	118
Adjustments to depreciation, impairment and amortisation	1	—	15	—	26
Adjustments to writeback/(provisions) for liabilities and commitments	—	—	—	(13)	—
Operating profit excluding exceptional items	814	729	1,439	2,183	1,248

Profit before taxation from continuing operations	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
			(€ millions)		
Per consolidated income statement	761	1,017	1,682	1,914	1,111
Adjustments to other income	(7)	(288)	(289)	(5)	(2)
Adjustments to personnel expenses	28	3	25	38	24
Adjustments to general and administrative expenses	40	21	42	277	118
Adjustments to depreciation, impairment and amortisation	1	—	15	—	26
Adjustments to writeback/(provisions) for liabilities and commitments	—	—	—	(13)	—
Profit before taxation from continuing operations excluding exceptional items	823	753	1,475	2,211	1,277

6 Results of Operations

Certain information in this “—*Results of Operations*” is presented on a management basis and represent APMs. A reconciliation to each such APM from the most directly reconcilable IFRS line item is included within “—*Exceptional Items*” above. Financial information presented on this basis represent APMs and should not be considered in isolation or as a substitute for analysis of AIB’s results of operations as reported under IFRS Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus and the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

6.1 Six months ended 30 June 2017 and 2016

AIB recorded a profit before taxation from continuing operations of €761 million for the six months ended 30 June 2017, compared to a profit of €1,017 million for the six months ended 30 June 2016. The reduction is mainly driven by the continued slowdown in the net writeback of the provisions of loans and receivables, as the restructuring period concludes, of €192 million, increase in costs of €58 million (€41 million related to costs in connection with the IPO, €21 million increase in termination benefit, an increase in investment in loan restructuring operations and impairment and amortisation of intangible assets partially offset by a decrease in restitution and restructuring expenses). In addition, operating income increased €8 million as an increase in net interest income of €132 million was partially offset by a decrease of €124 million in other income (of which €272 million related to the profit on disposal of Visa Europe for the six months ended June 2016, this was partially offset by €103 million increase in realisation/re-estimation of cashflows on loans and receivables previously restructured and net trading income of € 60 million).

The following table presents AIB’s summary income statement on a management basis for the six months ended 30 June 2017 and 2016.

Summary income statements on a management basis for the years ended 31 December 2016, 2015 and 2014 are included in the table below being the basis for *Section 6.2, Years Ended 31 December 2016 and 2015 and Section 6.3, Years Ended 31 December 2015 and 2014*.

These income statements should be considered with the reconciliations to the most directly reconcilable IFRS line item in “—*Exceptional Items*” above:

	Six months ended 30 June		Year ended 31 December		
	2017	2016	2016	2015	2014
	(€ millions)		(€ millions)		
Net interest income.....	1,077	945	2,013	1,927	1,687
Business income.....	287	223	493	533	406
Other items.....	165	72	124	163	437
Other income.....	452	295	617	696	843
Total operating income.....	1,529	1,240	2,630	2,623	2,530
Personnel expenses.....	(360)	(359)	(717)	(725)	(767)
General and administrative expenses.....	(279)	(273)	(566)	(493)	(545)
Depreciation, impairment and amortisation.....	(54)	(45)	(94)	(74)	(85)
Total operating expenses.....	(693)	(677)	(1,377)	(1,292)	(1,397)
Operating profit before bank levies, regulatory fees and provisions.....	836	563	1,253	1,331	1,133
Bank levies and regulatory fees.....	(45)	(48)	(112)	(71)	(73)
Writeback of provisions for impairment on loans and receivables.....	19	211	294	925	185
Writeback /(provisions) for liabilities and commitments.....	4	1	2	(2)	4
Writeback /(provisions) for impairment on financial investments available for sale.....	—	2	2	—	(1)
Total writeback of provisions.....	23	214	298	923	188
Operating profit.....	814	729	1,439	2,183	1,248
Associated undertakings.....	10	23	35	25	23
(Loss)/profit on disposal of property.....	(1)	—	—	3	6
Profit on disposal of business.....	—	1	1	—	—
Profit from continuing operations before exceptional items.....	823	753	1,475	2,211	1,277
Gains on disposal of loan portfolios.....	7	—	—	—	—
Restitution and restructuring expenses.....	(3)	(20)	(58)	(250)	(144)
Termination benefits.....	(24)	(3)	(24)	(37)	(24)
IPO and capital related expenses.....	(42)	(1)	—	(15)	—
Gain on transfer of financial instruments.....	—	16	17	5	2
Profit on disposal of Visa Europe.....	—	272	272	—	—
Total exceptional items.....	(62)	264	207	(297)	(166)
Profit before taxation from continuing operations.....	761	1,017	1,682	1,914	1,111
Income tax charge from continuing operations.....	(109)	(194)	(326)	(534)	(230)
Profit after taxation from continuing operations.....	652	823	1,356	1,380	881
Profit after taxation from discontinued operations.....	—	—	—	—	34
Profit for the period	652	823	1,356	1,380	915

6.1.1 Net interest income

Net interest income increased by €132 million, or 14 per cent., to €1,077 million for the six months ended June 2017 from €945 million for the six months ended 30 June 2016. This was due to a stable asset yield and reduction in the cost of funds driven by lower deposit pricing, positive mix from term deposits to current accounts and the redemption of €1.6 billion of CCNs in July 2016.

Net interest margin excluding one-off income for cured loans (upgraded from impaired without incurring financial loss) for the six months ended 30 June 2017 was 2.47 per cent. compared to 1.99 per cent. in the six months ended 30 June 2016.

Including the benefit of one-off income for cured loans, AIB's net interest margin increased to 2.54 per cent. in the six months ended 30 June 2017, compared to 2.06 per cent. in the six months ended 30 June 2016.

The following table presents trends in AIB’s net interest margin for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions, unless otherwise indicated)	
Interest and similar income ⁽¹⁾	1,232	1,313
Interest expense and similar charges ⁽¹⁾	(155)	(368)
Net interest income.....	1,077	945
Average interest-earning assets	85,522	92,130
Group net interest margin ⁽²⁾	2.54	2.06

Note:

- (1) Throughout “Part XIII: Operating and Financial Review”, negative interest on liabilities in the amount of €8 million and €10 million in the six months ended 30 June 2017 and 2016 respectively is offset against interest expense and negative interest income amounting to €1 million and nil in the six months ended 30 June 2017 and 2016 respectively is offset against interest income.
- (2) The impact of the ELG Scheme charge (€5 million) on the net interest margin for the six months ended 30 June 2017 is not considered material and has not been disclosed separately.

Average asset yield

The average asset yield (defined as interest and similar income over average interest-earning assets as set forth under “—Average Balance Sheet” below) improved from 287 basis points to 290 basis points. Although yields on loans and receivables to customers, financial investments available for sale and other interest-earning assets decreased in the six months ended 30 June 2017 compared to 30 June 2016, the mix of assets changed to a higher percentage of loans and receivables to customers, with a reduction in lower yielding NAMA senior bonds.

Average interest-earning assets

Average interest-earning assets decreased from €92.1 billion to €85.5 billion mainly due to a reduction in average NAMA senior bonds of €3.7 billion and a reduction of average loans and receivables to customers of €1.9 billion, (€0.9 billion due to movement in FX rates and €1.0 billion due to redemptions and disposals on the non performing loan book). Further decreases were due to reductions in financial investments available for sale of €0.9 billion towards liquidity requirements.

Average cost of funds

The average cost of funds (defined as interest expense and similar charges divided by average interest bearing liabilities as set forth under “—Average Balance Sheet” below) including the ELG Scheme charge decreased from 122 basis points to 62 basis points. The reduction in the average cost of funds was driven by the redemption of the CCNs in July 2016 and maturity of other higher yielding debt issued. The cost of funds also benefitted from a reduction in yields on customer account to 69 basis points from 93 basis points as high interest bearing corporate and treasury deposits reduced. With the ongoing low interest rate environment customers continued to migrate funds to non interest bearing retail current accounts with resulting benefit to the Groups overall funding cost. This resulted in the gap between asset yields and the cost of funds increasing from 165 basis points in the six months ended 30 June 2016 to 228 basis points in the six months ended 30 June 2017.

Average Balance Sheet

The following table presents AIB's average balance sheet as at and for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Average balance ⁽¹⁾ (€ millions)	Interest	Average rate (%)	Average balance ⁽²⁾ (€ millions)	Interest	Average rate (%)
Assets						
Loans and receivables to customers	60,815	1,078	3.57	62,767	1,133	3.63
NAMA senior bonds.....	845	2	0.49	4,529	7	0.32
Financial investments available for sale.....	14,299	81	1.14	15,168	96	1.27
Financial investments held to maturity.....	3,325	65	3.92	3,451	65	3.79
Other interest-earning assets.....	6,238	6	0.17	6,215	12	0.37
Average interest-earning assets	85,522	1,232	2.90	92,130	1,313	2.87
Non-interest-earning assets ⁽³⁾	7,401			8,023		
Total assets	92,923	1,232		100,153	1,313	
Liabilities and equity						
Deposits by banks.....	5,981	(4)	(0.15)	10,951	(6)	(0.10)
Customer accounts.....	37,104	128	0.69	39,686	183	0.93
Subordinated liabilities.....	792	16	3.97	2,348	162	13.87
Other interest-bearing liabilities.....	6,625	15	0.46	7,684	29	0.76
Average interest-bearing liabilities	50,502	155	0.62	60,669	368	1.22
Non-interest-bearing liabilities ⁽⁴⁾	29,217			27,114		
Equity.....	13,204			12,370		
Total liabilities and equity	92,923	155		100,153	368	
Net interest income		1,077	2.54		945	2.06

Notes:

- (1) Averages are based on daily balances for loans and receivables to customers, NAMA senior bonds, financial investments available for sale, financial investments held to maturity and customer accounts, the remaining categories are based on month end balances.
- (2) Averages are based on daily balances for loans and receivables to customers and customer accounts, the remaining categories are based on month end balances.
- (3) Non-interest-earning assets include deferred tax asset, equity investments, prepayments and accrued income and other assets.
- (4) Non-interest-bearing liabilities include non-interest-bearing customer accounts and other liabilities.

6.1.2 Business income

Business income was €287 million for the six months ended 30 June 2017 compared to €223 million for the six months ended 30 June 2016, an increase of €64 million, or 29 per cent. The following table presents business income for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net fee and commission income.....	195	193
Dividend income	27	25
Net trading income	61	—
Miscellaneous business income.....	4	5
Business income	287	223

Net fee and commission income

Net fee and commission income was €195 million for the six months ended 30 June 2017 compared to €193 million for the six months ended 30 June 2016, an increase of €2 million or 1 per cent., an increase in wealth income of €2 million and lending related fees of €1 million were offset by a reduction in card income of €2 million following the sale of Visa Europe in 2016 and the associated cessation of annual profit share rebates.

Dividend income

Dividend income was €27 million for the six months ended 30 June 2017, compared to €25 million for the six months ended 30 June 2016 an increase of €2 million, or 8 per cent. In each period, €25 million was received in respect of NAMA subordinated bonds.

Net trading income

Net trading income was €61 million for the six months ended 30 June 2017 compared to nil for the six months ended 30 June 2016. The increase was mainly due to the movement in valuations on AIB's long-term customer derivative positions. In the six months ended 30 June 2017, AIB had a net positive movement of €18 million, compared to a net negative movement in the six months ended 30 June 2016 of €28 million. Further, there was an increase in income on interest rate contracts and debt securities of €14 million for the six months ended 30 June 2017 compared to the six months ended 30 June 2016 and income from foreign exchange contracts increased by 2 per cent. to €23 million in the six months ended 30 June 2017 compared to the six months ended 30 June 2016.

Miscellaneous business income

Miscellaneous business income was €4 million for the six months ended 30 June 2017 compared to €5 million for the six months ended 30 June 2016, a decrease of €1 million, or 20 per cent.

6.1.3 Other items

Other items were €165 million for the six months ended 30 June 2017 compared to €72 million for the six months ended 30 June 2016, an increase of €93 million, or 129 per cent. The following table presents other items for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net profit on disposal of available for sale securities	16	22
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds.....	4	10
Settlements and other gains	145	40
Other items	<u>165</u>	<u>72</u>

Net profit on disposal of available for sale securities

Net profit on disposal of available for sale securities was €16 million for the six months ended 30 June 2017 compared to €22 million for the six months ended 30 June 2016 and related to the disposal of available for sale debt and equity securities.

Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds

AIB recognised a gain of €4 million on NAMA senior bonds for the six months ended 30 June 2017, which reflected accelerated repayments compared to €10 million in the six months ended 30 June 2016.

Settlements and other gains

Settlements and other gains for the six months ended 30 June 2017 were €145 million compared to €40 million for the six months ended 30 June 2016. This mainly related to fair value gains on realisations/re-estimation of cash flows on loans previously restructured which were €146 million in the six months ended 30 June 2017 compared to €43 million in the six months ended 30 June 2016. The €146 million in the six months ended 30 June 2017 included €116 million of gain recognised on a small number of complex legacy property cases.

6.1.4 Total operating expenses

Total operating expenses before exceptional items increased by €16 million to €693 million for the six months ended 30 June 2017, compared to €677 million for the six months ended 30 June 2016. Excluding the impact of currency movements, underlying operating expenses increased by €23 million. This primarily reflected higher staff numbers and the impact of the €870 million investment programme as depreciation increases as assets come into use.

The following table presents total operating expenses before exceptional items for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions, unless otherwise indicated)	
Personnel expenses.....	360	359
General and administrative expenses	279	273
Depreciation, impairment and amortisation	54	45
Total operating expenses before exceptional items	<u>693</u>	<u>677</u>
Staff numbers at period end ⁽¹⁾	10,189	10,095
Average staff numbers ⁽¹⁾	10,286	10,116

Note:

(1) Staff numbers are presented on a FTE basis.

Personnel expenses

Personnel expenses increased by €1 million to €360 million for the six months ended 30 June 2017, compared to €359 million for the six months ended 30 June 2016. Higher average staff numbers and salary increases based on the recommendation of the WRC were partially offset by a favourable staff grade mix. Period end staff numbers increased by 94 (1 per cent.) to 10,189 as at 30 June 2017 compared to 10,095 as at 30 June 2016 as AIB continued to invest in its loan restructuring operations and responded to increasing regulatory compliance requirements.

General and administrative expenses

General and administrative expenses increased by €6 million, or 2 per cent., to €279 million for the six months ended 30 June 2017, compared to €273 million for the six months ended 30 June 2016 mainly due to an increase in statutory fees of €3 million and third party resourcing for the loan restructuring operation of €3 million.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation increased by €9 million, or 20 per cent., to €54 million for the six months ended 30 June 2017, compared to €45 million for the six months ended 30 June 2016 due to increased levels of assets relating to the investment programme in use in 2017 as the 3 year €870 million strategic investment programme nears completion.

6.1.5 Bank levies and regulatory fees

Bank levies and regulatory fees for the six months ended 30 June 2017 were €45 million, compared to €48 million for the six months ended 30 June 2016. The six months ended 30 June 2017 included the Single Resolution Fund fee of €20 million, Deposit Guarantee Scheme of €24 million which included a credit of €4 million relating to previous payments. The fees were at similar levels to those incurred in the half year to June 2016.

6.1.6 Provisions

The income statement writeback of provisions for the six months ended 30 June 2017 was €23 million, compared to a writeback of €214 million for the six months ended 30 June 2016.

The following table presents the income statement (writeback)/provision for impairment on financial assets and (writeback)/provisions for liabilities and commitments for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Specific provisions		
Individually significant loans and receivables.....	(80)	(171)
Individually insignificant loans and receivables.....	6	60
IBNR	<u>55</u>	<u>(100)</u>
Total writeback of provisions for impairment on loans and receivables to customers.....	(19)	(211)
Writeback of provisions for impairment on financial investments available for sale.....	—	(2)
Writeback of provisions for liabilities and commitments.....	<u>(4)</u>	<u>(1)</u>
Total	<u>(23)</u>	<u>(214)</u>

Total net writeback of provisions for impairment on loans and receivables to customers for the six months ended 30 June 2017 was €19 million, compared to a net writeback of €211 million for the six months ended 30 June 2016.

The specific provisions net writeback for the six months ended 30 June 2017 was €74 million, compared to a net writeback of €111 million for the six months ended 30 June 2016 reflecting reduced writebacks as the primary restructuring period concludes. The specific provisions net writeback for the six months ended 30 June 2017 comprises of a new to impaired charge of €158 million (six months ended 30 June 2016: €103 million) and a writeback (net of top-ups) of €232 million (six months ended 30 June 2016: €214 million).

The IBNR provisions charge of €55 million for the six months ended 30 June 2017 compared to a net writeback of €100 million for the six months ended 30 June 2016. Following a review during the period, the emergence period was extended for some of the portfolios, resulting in an increase in overall IBNR levels by €45 million in the six months ended June 2017, which is included in the net charge of €55 million in the six months ended 30 June 2017.

For more information on loan loss provisioning, see the “Risk Management” Section of the AIB Bank 2017 Half Yearly Accounts, which is incorporated by reference herein.

For more information on credit quality, see “—Balance Sheet—As at 30 June 2017 and 31 December 2016—Loans and receivables to customers of Part XIII: Operating and Financial Review” of this Prospectus and “—Credit risk—Credit profile of the loan portfolio” in the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, which is incorporated by reference herein.

6.1.7 Associated undertakings

Income from associated undertakings for the six months ended 30 June 2017 was €10 million, compared to €23 million for the six months ended 30 June 2016. Profit from associates AIB Merchant Services and Aviva Undershaft Five Limited was €10 million and nil respectively in the six months ended 30 June 2017, compared to €14 million and €9 million respectively in the six months ended 30 June 2016. Income from associated undertakings included a reversal of impairment of associate, Aviva Undershaft Five Limited, of €8 million in the six months ended 30 June 2016 compared to nil for the six months ended 30 June 2017.

6.1.8 Loss on disposal of property

Loss on disposal of property for the six months ended 30 June 2017 was €1 million, compared to nil for the six months ended 30 June 2016.

6.1.9 Exceptional items

The following table presents a breakdown of exceptional items for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Gain on disposal of loan portfolios	7	—
Restitution and restructuring expenses	(3)	(20)
Termination benefits	(24)	(3)
IPO and capital related expenses	(42)	(1)
Gain on transfer of financial instruments	—	16
Profit on disposal of Visa Europe.....	—	272
Total exceptional items	(62)	264

Gain on disposal of loan portfolios

For the six months ended 30 June 2017, AIB recognised a gain on disposal of loan portfolios of €7 million, compared to nil in the six months ended 30 June 2016.

Restitution and restructuring expenses

For the six months ended 30 June 2017, AIB recognised restitution and restructuring expenses of €3 million, which included costs associated with restitution, transformation and reorganisation, compared to €20 million in the six months ended 30 June 2016.

Termination benefits

The cost of the voluntary severance programme was €24 million and €3 million for the six months ended 30 June 2017 and 2016, respectively.

AIB IPO and capital related expenses

For the six months ended 30 June 2017, AIB recognised IPO and capital related expenses of €42 million, mainly in connection with the IPO.

Gain on transfer of financial instruments

For the six months ended 30 June 2016, AIB recognised a gain on the transfer of financial instruments to NAMA in the amount of €16 million, compared to nil in the six months to 30 June 2017, which related to valuation adjustment on previous transfers of financial assets to NAMA.

Profit on disposal of Visa Europe

The profit on disposal of Visa Europe of €272 million resulted from disposal of Visa Europe by AIB to Visa Inc. in the six months to June 2016.

6.1.10 Income tax charge from continuing operations

The taxation charge for the six months ended 30 June 2017 was €109 million, compared to a total taxation charge of €194 million for the six months ended 30 June 2016 primarily reflecting the reduced level of profit in the six months ended 30 June 2017.

6.2 Years Ended 31 December 2016 and 2015

For further detail regarding AIB's results of operations for the years ended 31 December 2016 and 2015 and a description of material changes year on year for that period see "Part XIII: Operating and Financial Review—Section 6.2, Years Ended 31 December 2016 and 2015" of the AIB Bank IPO Prospectus which is incorporated by reference herein.

6.3 Years Ended 31 December 2015 and 2014

For further detail regarding AIB's results of operations for the years ended 31 December 2015 and 2014 and a description of material changes year on year for that period see "Part XIII: Operating and Financial Review—Section 6.3, Years Ended 31 December 2015 and 2014" of the AIB Bank IPO Prospectus which is incorporated by reference herein.

7 Balance Sheet

7.1 As at 30 June 2017 and 31 December 2016

The following table presents AIB's summary balance sheet as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
	(€ billions, unless otherwise indicated)	
Gross loans and receivables to customers	63.9	65.2
Provisions	(4.1)	(4.6)
Net loans and receivables to customers	59.8	60.6
Financial investments available for sale	14.3	15.4
Financial investments held to maturity	3.3	3.4
NAMA senior bonds	0.4	1.8
Other assets	12.7	14.4
Total assets	90.5	95.6
Customer accounts	63.7	63.5
Monetary authority funding	1.9	1.9
Other market funding	3.1	5.8
Debt securities in issue	4.7	6.9
Other liabilities	3.9	4.4
Total liabilities	77.3	82.5
Equity	13.2	13.1
Total liabilities and equity	90.5	95.6
Loan to deposit ratio	94%	95%

7.1.1 Loans and receivables to customers

Gross loans and receivables to customers decreased by €1.3 billion, or 2 per cent., to €63.9 billion as at 30 June 2017, compared to €65.2 billion as at 31 December 2016. Excluding currency movements, gross loans and receivables to customers decreased by €0.8 billion, or 1 per cent.

Earning loans (gross loans less impaired loans), excluding the impact of currency movements of €0.5 billion, increased by €0.5 billion, or 1 per cent., to €56.1 billion as at 30 June 2017, compared to €56.1 billion as at 31 December 2016 and

included the benefit of €0.7 billion of loans upgraded to earning loans during the period. This also included new term lending of €4.3 billion, which represented an increase of 15 per cent. New term lending for RCB was €2.2 billion, which represented an increase of 29 per cent., new term lending for WIB was €1.3 billion, which represented an increase of 10 per cent. and new term lending for AIB UK at €0.9 billion, which represented an increase of 5 per cent. excluding the impact of currency movement. There was also additional new transaction lending of €0.5 billion in the six months ended 30 June 2017.

Impaired loans decreased by €1.3 billion, or 15 per cent., to €7.8 billion as at 30 June 2017 from €9.1 billion as at 31 December 2016, reflecting the continued implementation of sustainable restructure solutions for customers in difficulty and improved economic conditions. AIB also disposed of distressed loan portfolios which accounted for €0.4 billion of the decrease. New to impaired loans in the half-year to June 2017 were €0.4 billion.

Balance sheet provisions were €4.1 billion as at 30 June 2017, compared to €4.6 billion as at 31 December 2016, mainly reflecting the utilisation of provisions as part of sustainable restructure solutions for customers in difficulty.

Net loans and receivables to customers were €59.8 billion as at 30 June 2017, compared to €60.6 billion as at 31 December 2016.

The table below sets out the movement in loans and receivables to customers from 1 January 2017 to 30 June 2017:

	Earning loans	Impaired loans	Gross loans	Specific provisions	IBNR provisions	Net loans
	(€ billions)					
Opening balance (1 January 2017)	56.1	9.1	65.2	(4.1)	(0.5)	60.6
New lending volumes	4.3	—	4.3	—	—	4.3
New impaired loans ⁽¹⁾	(0.4)	0.4	—	(0.2)	—	(0.2)
Restructures and write-offs ⁽²⁾	0.7	(0.7)	—	0.4	—	0.4
Disposals	—	(0.4)	(0.4)	0.2	—	(0.2)
Redemptions of existing loans ⁽³⁾	(4.3)	(0.4)	(4.7)	—	—	(4.7)
Foreign exchange movements	(0.5)	—	(0.5)	—	—	(0.5)
Other movements	0.2	(0.2)	—	0.2	(0.1)	0.1
Closing balance (30 June 2017)	<u>56.1</u>	<u>7.8</u>	<u>63.9</u>	<u>(3.5)</u>	<u>(0.6)</u>	<u>59.8</u>

Notes:

(1) New impaired loans include re-impaired loans

(2) Includes write-offs not contracted with customers.

(3) New transaction lending is netted against redemptions given the revolving nature of these products.

Loans and receivables to customers by type of loan

The following table presents a breakdown of gross loans and receivables to customers into residential mortgages, other personal loans, property and construction loans, and non-property business loans as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
	(€ millions)	
Residential mortgages:		
Owner-occupier	29,948	30,195
Buy-to-let	4,409	5,044
	<u>34,357</u>	<u>35,239</u>
Other personal	3,140	3,100
Property and construction	9,072	9,394
Non-property business	17,359	17,495
Total—gross loans and receivables to customers	<u>63,928</u>	<u>65,228</u>

For more information on loans and receivables to customers by type of loan, including a breakdown of loans by industry, see “—Credit risk—Credit profile of the loan portfolio” in the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, which is incorporated by reference herein.

Residential mortgage loan portfolio

Residential mortgages decreased by 3 per cent., to €34.4 billion as at 30 June 2017, compared to € 35.2 billion as at 31 December 2016. As at 30 June 2017, residential mortgages accounted for 54 per cent. of total gross loans and receivables to customers, with 95 per cent. relating to residential mortgages in RCB and 5 per cent. relating to residential mortgages in AIB UK. As at 31 December 2016, residential mortgages accounted for 54 per cent. of total loans and

receivables to customers, with 95 per cent. relating to residential mortgages in RCB and 5 per cent. relating to residential mortgages in AIB UK. The split of the residential mortgage book as at 30 June 2017 was €29.9 billion, or 87 per cent., related to owner-occupier and €4.4 billion, or 13 per cent., related to buy-to-let, compared to €30.2 billion, or 86 per cent., related to owner-occupier and €5.0 billion, or 14 per cent., related to buy-to-let as at 31 December 2016.

Other personal lending

The other personal lending portfolio was €3.1 billion as at 30 June 2017, in line with €3.1 billion as at 31 December 2016. Other personal lending accounted for 5 per cent. of total gross loans and receivables to customers as at 30 June 2017 and 31 December 2016. As at 30 June 2017, the other personal lending portfolio comprised €2.3 billion of loans and overdrafts and €0.8 billion of credit card facilities compared to €2.2 billion of loans and overdrafts and €0.9 billion of credit card facilities as at 31 December 2016.

Property and construction

The property and construction portfolio decreased by €0.3 billion, or 3 per cent., to €9.1 billion as at 30 June 2017, compared to €9.4 billion as at 31 December 2016. Property and construction loans accounted for 14 per cent. of total gross loans and receivables to customers as at 30 June 2017 and as at 31 December 2016. The decrease in property and construction loans came entirely from criticised loans and was primarily due to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers.

As at 30 June 2017, the property and construction portfolio was comprised of 76 per cent. investment loans (€6.9 billion), 16 per cent. land and development loans (€1.5 billion) and 8 per cent. other property and construction loans (€0.7 billion). AIB UK accounted for 28 per cent. of the property and construction portfolio as at 30 June 2017. The following table presents a breakdown of the property and construction portfolio by type of loan as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
	(€ millions)	
Investment		
Commercial investment.....	5,934	6,198
Residential investment	1,003	1,051
	<u>6,937</u>	<u>7,249</u>
Land and development		
Commercial development.....	448	444
Residential development	1,028	1,077
	<u>1,476</u>	<u>1,521</u>
Contractors	421	365
Housing associations	238	259
	<u>9,072</u>	<u>9,394</u>
Total gross loans and receivables—property and construction	<u>9,072</u>	<u>9,394</u>

Investment. Property investment loans decreased by €0.3 billion, or 4 per cent., to €6.9 billion as at 30 June 2017, compared to €7.2 billion as at 31 December 2016. As at 30 June 2017, €5.9 billion of property investment loans related to commercial investment, with the remaining €1.0 billion relating to residential investment. This compared to €6.2 billion of loans related to commercial investment and €1.0 billion of loans related to residential investment as at 31 December 2016. The decrease in property investment loans was primarily due to loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs. As at 30 June 2017, €5.1 billion of the investment property portfolio related to loans for the purchase of property in RCB and WIB and €1.8 billion related to AIB UK.

Land and development. Land and development loans of €1.5 billion as at 30 June 2017, were broadly in line with €1.5 billion as at 31 December 2016. As at 30 June 2017, €1.2 billion of this portfolio related to loans in RCB and WIB and €0.3 billion related to AIB UK. This compared to €1.2 billion and €0.3 billion as at 31 December 2016, respectively.

Non-property business

Non-property business loans decreased by €0.1 billion, or 1 per cent., to €17.4 billion as at 30 June 2017, compared to €17.5 billion as at 31 December 2016. Non-property business loans accounted for 27 per cent. of total gross loans and receivables to customers as at 30 June 2017, in line with 27 per cent. as at 31 December 2016. There was increased activity across most sub-sectors in the portfolio due to increased credit demand across all segments resulting in new lending of €2.3 billion in the six months to 30 June 2017 (six months to 30 June 2016: €1.9 billion). However, this was more than offset by amortisation, restructuring activity and the impact of sterling depreciation, resulting in a reduction of €0.1 billion in the portfolio. As at 30 June 2017, 35 per cent. of the portfolio related to RCB, 37 per cent. related to WIB and 27 per cent. related to AIB UK.

The following table presents a breakdown of non-property business lending by sector as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
	(€ millions)	
Agriculture	1,814	1,773
Distribution		
Hotels	2,270	2,311
Licensed premises	540	541
Retail/wholesale	2,357	2,339
Other distribution	250	248
	<u>5,417</u>	<u>5,439</u>
Other services	5,481	5,706
Other	4,647	4,577
Total gross loans and receivables—non-property business	<u><u>17,359</u></u>	<u><u>17,495</u></u>

The agriculture sub-sector accounted for 10 per cent. of the non-property business portfolio as at 30 June 2017.

The hotels sub-sector accounted for 13 per cent. of the non-property business portfolio as at 30 June 2017.

The licensed premises sub-sector accounted for 3 per cent. of the non-property business portfolio as at 30 June 2017.

The retail/wholesale sub-sector accounted for 14 per cent. of the non-property business portfolio as at 30 June 2017.

The other services sub-sector, which accounted for 32 per cent. of the non-property business portfolio as at 30 June 2017, includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery.

The other category, which accounted for 27 per cent. of the non-property business portfolio as at 30 June 2017, includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Credit quality of loans and receivables to customers

The following table presents a breakdown of the asset quality of loans and receivables to customers and impairment provisions for the years ended 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
	(€ millions, unless otherwise indicated)	
Analysed as to asset quality⁽¹⁾		
Satisfactory	<u>47,279</u>	<u>46,462</u>
Watch	2,590	3,001
Vulnerable	6,295	6,629
Impaired	<u>7,764</u>	<u>9,136</u>
Total criticised loans	<u><u>16,649</u></u>	<u><u>18,766</u></u>
Total loans percentage		
Criticised loans/total loans	26%	29%
Impaired loans/total loans	12%	14%
Impairment provisions—balance sheet		
Specific	3,511	4,047
IBNR	<u>595</u>	<u>542</u>
Total impairment provisions	<u><u>4,106</u></u>	<u><u>4,589</u></u>
Provision cover percentage		
Specific provisions/impaired loans	45%	44%
Total provisions/impaired loans	53%	50%
Total provisions/total loans	6%	7%

Note:

(1) Satisfactory includes credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see “Part XVII: Risk Management—Credit risk—Measurement of credit risk”.

Loans with satisfactory credit quality increased by €0.8 billion, or 2 per cent., to €47.3 billion as at 30 June 2017, driven primarily by new lending, compared to €46.5 billion as at 31 December 2016.

Criticised loans, including impaired loans, decreased by €2.1 billion, or 11 per cent., to €16.6 billion as at 30 June 2017, compared to €18.8 billion as at 31 December 2016. The decrease was driven by the continuing restructuring programme and the reduction in impaired loans.

Loans with assigned “Watch” status decreased by €0.4 billion, or 14 per cent., to €2.6 billion as at 30 June 2017, compared to €3.0 billion as at 31 December 2016. As at 30 June 2017, residential mortgage loans accounted for 64 per cent., other personal loans accounted for 4 per cent., property and construction loans accounted for 11 per cent. and non-property business accounted for 21 per cent. of loans assigned “Watch” status. This compared to 62 per cent., 4 per cent., 13 per cent. and 22 per cent. as at 31 December 2016, respectively.

Impairment provisions

Specific provisions as a percentage of impaired loans increased from 44 per cent. as at 31 December 2016 to 45 per cent. as at 30 June 2017. The increase occurred in collectively assessed loans where the cover increased from 41 per cent. to 43 per cent. at 30 June 2017. IBNR provisions were €0.6 billion as at 30 June 2017, compared to €0.5 billion as at 31 December 2016. The level of IBNR provisions continues to reflect a conservative estimate of unidentified incurred loss within the portfolio.

See “—*Credit Risk—Credit profile of the loan portfolio*” in the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, which is incorporated by reference herein, for the profile of criticised and impaired loans and provisions for impairment analysed by industry, geographic and overdue structure, including the overdue structure of contractually past due but not impaired gross loans and receivables to customers.

7.1.2 Financial investments available for sale

Financial investments available for sale decreased to €14.3 billion as at 30 June 2017 (including €13.7 billion of debt securities and €0.6 billion of equity securities), compared to €15.4 billion as at 31 December 2016 (including €14.8 billion of debt securities and €0.6 billion of equity securities). This reduction is consistent with plans to reduce overall available for sale holdings towards liquidity requirements.

7.1.3 Financial assets held to maturity

Financial assets held to maturity decreased to €3.3 billion as at 30 June 2017, compared to €3.4 billion as at 31 December 2016, as amortisation of the accumulated fair value gain, at the date of reclassification, continues.

7.1.4 NAMA senior bonds

AIB’s holdings of NAMA senior bonds decreased to €0.4 billion as at 30 June 2017, compared to €1.8 billion as at 31 December 2016. During the six months ended 30 June 2017, €1.4 billion of NAMA senior bonds were redeemed.

7.1.5 Other assets

AIB had other assets of €12.7 billion as at 30 June 2017, compared to €14.4 billion as at 31 December 2016, comprising:

- cash and loans to banks of €6.5 billion, compared to €7.9 billion as at 31 December 2016, a decrease of 18 per cent.;
- deferred taxation of €2.8 billion, has decreased by 1 per cent. since 31 December 2016;
- derivative financial instruments of €1.4 billion, compared to €1.8 billion as at 31 December 2016, a decrease of 25 per cent.; and
- remaining assets of €2.0 billion, compared to €1.9 billion as at 31 December 2016, an increase of 10 per cent.

7.1.6 Customer accounts

Customer accounts increased by €0.2 billion to €63.7 billion as at 30 June 2017, compared to €63.5 billion as at 31 December 2016. The increase in customer accounts included an increase of €1.7 billion in current accounts partly offset by €1.5 billion reduction in corporate and treasury deposits (including repos).

7.1.7 Monetary authority funding

Monetary authority funding, comprising ECB funding, of €1.9 billion as at 30 June 2017, was in line with €1.9 billion as at 31 December 2016.

7.1.8 Other market funding

Other market funding decreased by €2.7 billion from €5.8 billion as at 31 December 2016 to €3.1 billion as at 30 June 2017 due to reduced funding requirement following NAMA senior bond repayments and a reduction in available for sale securities.

7.1.9 Debt securities in issue

Debt securities in issue decreased by €2.2 billion from €6.9 billion as at 31 December 2016 to €4.7 billion as at 30 June 2017. The decrease of €2.2 billion mainly reflects maturities of €0.4 billion in March 2017 and €1.7 billion in June 2017.

7.1.10 Other liabilities

AIB had other liabilities of €3.9 billion as at 30 June 2017, compared to €4.4 billion as at 31 December 2016, comprising:

- subordinated liabilities of €0.8 billion, compared to €0.8 billion as at 31 December 2016;
- derivative financial instruments of €1.3 billion, compared to €1.6 billion as at 31 December 2016, a decrease of 18 per cent.;
- retirement benefit liabilities of €0.1 billion, compared to €0.2 billion as at 31 December 2016, a decrease of 39 per cent.; and
- remaining liabilities in the amount of €1.7 billion, compared to €1.8 billion as at 31 December 2016, a decrease of 9 per cent.

7.1.11 Equity

Equity increased from €13.1 billion as at 31 December 2016 to €13.2 billion as at 30 June 2017. The increase was mainly due to profit for the period of €0.7 billion partially offset by negative other comprehensive income of €0.3 billion and dividends paid of €0.3 billion.

7.2 As at 31 December 2016 and 31 December 2015

For further detail regarding AIB's balance sheet as at 31 December 2016 and 31 December 2015 and a description of material changes year on year for that period see "*Part XIII: Operating and Financial Review—Section 7.2, As at 31 December 2016 and 31 December 2015*" of the AIB Bank IPO Prospectus which is incorporated by reference herein.

7.3 As at 31 December 2015 and 31 December 2014

For further detail regarding AIB's balance sheet as at 31 December 2015 and 31 December 2014 and a description of material changes year on year for that period see "*Part XIII: Operating and Financial Review—Section 7.3, As at 31 December 2015 and 31 December 2014*" of the AIB Bank IPO Prospectus which is incorporated by reference herein.

8 Segmental Discussion

AIB is managed through the following business segments: RCB, WIB, AIB UK and Group.

RCB comprises personal and commercial banking. WIB comprises wholesale, institutional and corporate lending, including specialist sector and products teams. AIB UK offers full banking services in Northern Ireland (operating as First Trust Bank) and Great Britain (operating as Allied Irish Bank (GB)). The Group segment includes wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing risk, compliance audit, finance, legal, human resources and corporate affairs. Certain overheads related to these activities are managed and reported in AIB's Group segment.

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in the Group segment. Funding and liquidity charges are based on each segment's funding requirements and AIB's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirements.

In addition to the information below, for an analysis of credit quality and provisioning by segment, see "*Credit risk—Credit profile of the loan portfolio*" in Section B of "*Part XVI: Consolidated Historical Information*" of the AIB Bank IPO Prospectus and "*Credit risk—Credit profile of the loan portfolio*" in the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, each of which are incorporated by reference herein.

8.1 Six months ended 30 June 2017 and 2016

8.1.1 RCB

The following table presents RCB's contribution statement for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net interest income.....	709	604
Other income	310	197
Total operating income.....	<u>1,019</u>	<u>801</u>
Total operating expenses	<u>(373)</u>	<u>(355)</u>
Operating contribution before bank levies, regulatory fees and provisions	646	446
Total net writeback of provisions	<u>39</u>	<u>225</u>
Operating contribution	685	671
Associated undertakings	<u>8</u>	<u>21</u>
Contribution before disposal of property.....	693	692
Loss on disposal of property	<u>(1)</u>	<u>—</u>
Contribution before exceptional items and taxation	<u>692</u>	<u>629</u>

The following table presents certain balance sheet information for RCB as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
		(€ billions)
Net loans.....	42.1	42.7
Customer accounts	44.7	42.9

The following table presents certain income statement information regarding the earning loan book of RCB for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net interest income.....	647	537
Other income	310	197
Total operating income.....	<u>957</u>	<u>734</u>
Total operating expenses	<u>(320)</u>	<u>(310)</u>
Operating contribution before bank levies, regulatory fees and provisions	<u>637</u>	<u>424</u>

The following table presents net earning loans for RCB as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
		(€ billions)
Net earning loans.....	38.2	38.3

The following table presents certain income statement information regarding the impaired loan book of RCB for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net interest income.....	62	67
Other income	—	—
Total operating income.....	<u>62</u>	<u>67</u>
Total operating expenses	<u>(53)</u>	<u>(45)</u>
Operating contribution before bank levies, regulatory fees and provisions	<u>9</u>	<u>22</u>

The following table presents net impaired loans for RCB as at 30 June 2017 and 31 December 2016:

	<u>As at 30 June 2017</u>	<u>As at 31 December 2016</u>
	(€ billions)	
Net impaired loans	3.9	4.4

Net interest income

Net interest income increased by €105 million, or 17 per cent., to €709 million for the six months ended 30 June 2017, compared to €604 million for the six months ended 30 June 2016. Net interest income on the earning loan book increased €110 million to €647 million for the six months ended 30 June 2017 from €537 million in the six months ended 30 June 2016. The increase was due to the continued reduction in cost of funds and increase in average earning loans. The net interest income on the impaired loan book decreased €5 million to €62 million for the six months ended 30 June 2017 from €67 million in the six months ended 30 June 2016 due to lower average net impaired loans as restructuring activity continued.

Other income

Other income increased by €113 million, or 57 per cent., to €310 million for the six months ended 30 June 2017, compared to €197 million for the six months ended 30 June 2016. The increase was due to higher gains on realisation/re-estimation of cash flows on loans previously restructured, which included €116 million of gains recognised on a small number of complex legacy property cases, in the six months ended 30 June 2017. Business income increased by €5 million due to an increase of € 3 million in net fee and commission and an increase €2 million in net trading income.

Total operating expenses

Total operating expenses increased by €18 million, or 5 per cent., to €373 million for the six months ended 30 June 2017, compared to €355 million for the six months ended 30 June 2016, driven by an increase in resourcing for the FSG workout unit for loan restructuring and increase in depreciation as assets created under the investment programme are put into operational use partly offset by lower other distribution network costs.

Total provisions

Total overall net writeback decreased by €186 million to €39 million for the six months ended 30 June 2017, compared to net provision writeback of €225 million for the six months ended 30 June 2016. The reduction in net writebacks was driven by higher levels of new-to-impaired loans including loans previously restructured, lower credit writebacks combined with an IBNR charge resulting from an extended assumed emergence period on non mortgage loans in the half-year to June 2017.

Associated undertakings

Income from associated undertakings decreased by €13 million to €8 million for the six months ended 30 June 2017 compared to €21 million for the six months ended 30 June 2016, driven primarily by the reversal of impairment of associate of €8 million in the six months ended 30 June 2016 and a decrease in profits attributable of €4 million and €1 million from AIB Merchant Services and Aviva Undershaft Five Limited, respectively.

Loss on disposal of property

Loss on disposal of property for the six months ended 30 June 2017 was €1 million, compared to nil for the six months ended 30 June 2016.

Balance sheet

Net earning loans decreased by €0.1 billion to €38.2 billion as at 30 June 2017 from €38.3 billion as at 31 December 2016 driven by repayments of legacy distressed loans.

New term lending of €2.2 billion increased 29 per cent. compared to €1.7 billion for the six months ended 30 June 2016. This included mortgage lending of €1.1 billion, personal lending of €0.4 billion and business lending of €0.7 billion. There was also additional new transaction lending of €0.1 billion in the six months ended 30 June 2017.

RCB has made progress and momentum in restructuring loans to customers in financial difficulty with impaired loans reducing by €0.5 billion to €3.9 billion as at 30 June 2017 from €4.4 billion as at 31 December 2016 mainly as a result of net €0.2 billion loan portfolio disposal and €0.3 billion net loans returning to earning from impaired.

Customer accounts increased by €1.8 billion, or 4 per cent. while reducing its average cost of funds, as increase was driven by non interest bearing current accounts.

8.1.2 WIB

The following table presents WIB's contribution statement for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net interest income.....	130	121
Other income.....	19	25
Total operating income.....	<u>149</u>	<u>146</u>
Total operating expenses.....	<u>(44)</u>	<u>(39)</u>
Operating contribution before bank levies, regulatory fees and provisions.....	105	107
Total net writeback of provisions/(provisions).....	5	(28)
Contribution before exceptional items and taxation.....	<u>110</u>	<u>79</u>

The following table presents certain balance sheet information for WIB as at 30 June 2017 and 31 December 2016:

	As at	As at
	30 June	31
	2017	December
	(€ billions)	
Net loans.....	9.1	9.1
Customer accounts.....	5.6	6.4

Net interest income

Net interest income increased by €9 million, or 7 per cent., to €130 million for the six months ended 30 June 2017, compared to €121 million for the six months ended 30 June 2016. The increase was due to growth in net earning loans combined with margin improvement from continued reduction in cost of funds.

Other income

Other income decreased by €6 million, or 24 per cent., to €19 million for the six months ended 30 June 2017, compared to €25 million for the six months ended 30 June 2016. Business income was in line with the half-year to June 2016. Other items decreased by €6 million primarily due to €5 million income recognised on the realisation/re-estimation of cash flows on loans and receivables previously restructured in the half-year to June 2016 compared to nil in the half-year to June 2017.

Total operating expenses

Total operating expenses increased by €5 million, or 13 per cent., to €44 million for the six months ended 30 June 2017, compared to €39 million for the six months ended 30 June 2016, due to additional resources required for the growth and development of the business and salary inflation.

Total provisions

Total overall net writeback of €5 million for the six months ended 30 June 2017, compared to a provision charge of €28 million for the six months ended 30 June 2016. The net writeback comprised €7 million writeback in provisions for impairment on loans and receivables and a provision charge of €2 million related to provisions for liabilities and commitments. In the six months ended 30 June 2016, the provision charge of €28 million related to provisions for impairment on loans and receivables.

Balance sheet

Net loans of €9.1 billion as at 30 June 2017 were in line with the net loans of €9.1 billion as at 31 December 2016.

New term lending of €1.3 billion increased by 10 per cent. compared to €1.2 billion for the six months ended 30 June 2016. There was also additional new transaction lending of €0.2 billion in the six months ended 30 June 2017.

Customer accounts decreased by €0.8 billion, or 13 per cent. mainly due to a decrease in current accounts of €0.5 billion and a decrease of €0.3 billion in deposits.

8.1.3 AIB UK

The following table presents AIB UK's contribution statement for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions, unless otherwise indicated)	
Net interest income.....	102	83
Other income.....	33	21
Total operating income.....	135	104
Total operating expenses.....	(57)	(60)
Operating contribution before bank levies, regulatory fees and provisions.....	78	44
Bank levies.....	(1)	(2)
Total net (provisions)/writeback of provisions.....	(18)	14
Operating contribution.....	59	56
Associated undertakings.....	1	2
Contribution before disposal of business.....	60	58
Profit on disposal of business.....	—	1
Contribution before exceptional items and taxation.....	60	59
Contribution before exceptional items and taxation (€ millions).....	70	75

The following table presents certain balance sheet information for AIB UK as at 30 June 2017 and 31 December 2016:

	As at 30 June 2017	As at 31 December 2016
		(€ billions)
Net loans.....	7.5	7.5
Customer accounts.....	9.2	8.9

Net interest income

Net interest income increased by €19 million, or 23 per cent., to €102 million for the six months ended 30 June 2017, compared to €83 million for the six months ended 30 June 2016. The increase reflected reduction in cost of funds as loan volumes remained stable.

Other income

Other income increased by €12 million, or 57 per cent., to €33 million for the six months ended 30 June 2017, compared to €21 million for the six months ended 30 June 2016. The increase was mainly due to a net positive movement in valuations of long-term customer derivative positions of €1 million in the six months to 30 June 2017, compared to a net negative movement of €5 million in the six months to 30 June 2016 and an increase in net profit on disposal of AFS Securities of €5 million. Net fee and commission income was in line with the six months ended 30 June 2016.

Total operating expenses

Total operating expenses decreased by €3 million, or 5 per cent., to €57 million for the six months ended 30 June 2017, compared to €60 million for the six months ended 30 June 2016. The decrease reflects continued cost management and control.

Total provisions

Total net charge for provisions of €18 million for the six months ended 30 June 2017 was driven by an increase in new to impaired charge offset by writebacks due to repayments from asset disposals and valuation uplifts, compared to a net writeback of €14 million for the six months ended 30 June 2016.

Balance sheet

Net loans of €7.5 billion as at 30 June 2017 were in line with net loans of €7.5 billion as at 31 December 2016. Net loans of €7.5 billion includes net earning loans of €7.2 billion and net impaired loans of €0.3 billion. Net earning loans of €7.2 billion were €0.1 billion higher than 31 December 2016 as new lending was higher than redemptions. Net impaired loans of €0.3 billion at 30 June 2017 have reduced from €0.4 billion at 31 December 2016 due to repayments in the period. There was also a disposal of a loan portfolio of €44 million which had no impact on net loans as the corresponding provision was written off.

New term lending of £0.8 billion in the six months ended 30 June 2017 increased by 5 per cent. from £0.7 billion for the six months ended 30 June 2016. There was also additional new transaction lending of £0.1 billion in the six months ended 30 June 2017.

Customer accounts increased by £0.3 billion, or 3 per cent. to £9.2 billion with an increase in current accounts partially offset by a decrease in deposits.

8.1.4 Group

The following table presents the Group segment's contribution statement for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	(€ millions)	
Net interest income.....	120	114
Other income.....	84	46
Total operating income.....	204	160
Total operating expenses.....	(209)	(206)
Operating contribution before bank levies, regulatory fees and provisions.....	(5)	(46)
Bank levies and regulatory fees.....	(44)	(46)
Total net writeback of provisions.....	—	(1)
Contribution before exceptional items and taxation.....	(49)	(93)

The following table presents certain balance sheet information for the Group segment as at 30 June 2017 and 31 December 2016:

	As at 30 June	As at 31 December
	2017	2016
	(€ billions)	
Net loans.....	0.1	0.1
Financial investments available for sale.....	14.3	15.4
Financial investments held to maturity.....	3.3	3.4
NAMA senior bonds.....	0.4	1.8
Customer accounts.....	3.1	3.9

Net interest income

Net interest income increased by €6 million, or 5 per cent., to €120 million for the six months ended 30 June 2017, compared to €114 million for the six months ended 30 June 2016. The increase was due to lower cost of funding, which was partially offset by lower income on NAMA senior bonds and lower income from the securities portfolio due to sales and maturities.

Other income

Other income increased by €38 million, or 83 per cent., to €84 million for the six months ended 30 June 2017, compared to €46 million for the six months ended 30 June 2016. The increase was mainly due to movement in valuations of long-term customer derivative positions in the six months ended 30 June 2017, when there was a net positive movement of €17 million compared to a net negative movement of €20 million in the six months ended 30 June 2016, and an increase in income in the six months ended 30 June 2017 of €14 million on interest rate contracts and debt securities compared to the six months ended 30 June 2016. This was partially offset by net profit on disposal of available for sale securities of €9 million for the six months ended 30 June 2017 compared to €21 million for the six months ended 30 June 2016. AIB recognised a gain of €10 million on NAMA senior bonds for the six months ended 30 June 2016, compared to €4 million in the six months ended 30 June 2017.

Total operating expenses

Total operating expenses in the Group segment include unallocated overheads relating to operations and technology, risk, audit, finance, legal, human resources and corporate affairs and strategy. Total operating expenses increased by €3 million, or 1 per cent., to €209 million for the six months ended 30 June 2017, compared to €206 million for the six months ended 30 June 2016 reflecting the impact of salary inflation and increased cost of regulatory compliance.

Bank levies and regulatory fees

Bank levies for the six months ended 30 June 2017 were €44 million, compared to €46 million for the six months ended 30 June 2016. The six months ended 30 June 2017 included the Single Resolution Fund fee of €20 million and Deposit Guarantee Scheme of €24 million, which were at similar levels to those recognised in the half year to June 2016.

Balance sheet

Financial investments available for sale decreased by €1.1 billion during the six months ended 30 June 2017, consistent with plans to reduce overall holdings of available for sale securities towards liquidity requirements.

Financial investments held to maturity decreased by €0.1 billion during the six months ended 30 June 2017.

NAMA senior bonds decreased by €1.4 billion during the six months ended 30 June 2017 due to redemptions. NAMA senior bonds are expected to be fully redeemed by the end of 2017.

Customer accounts decreased by €0.8 billion mainly due to the maturity of high yielding term deposits and a reduction in repo balances.

8.2 Years Ended 31 December 2016 and 2015

For further detail regarding the contribution statement and certain balance sheet information for RCB, WIB, AIB UK and the Group segment for the years ended December 2016 and 2015 and a description of material changes year on year for that period see “Part XIII: Operating and Financial Review—Section 8.2, Years Ended 31 December 2016 and 2015” of the AIB Bank IPO Prospectus which is incorporated by reference herein.

8.3 Years Ended 31 December 2015 and 2014

For further detail regarding the contribution statement and certain balance sheet information for RCB, WIB, AIB UK and the Group segment for the years ended 31 December 2015 and 2014 and a description of material changes year on year for that period see “Part XIII: Operating and Financial Review—Section 8.3, Years Ended 31 December 2015 and 2014” of the AIB Bank IPO Prospectus which is incorporated by reference herein.

9 Return on Tangible Equity

In assessing the capital efficiency of AIB, the following APM with regard to return on tangible equity is a better reflection of performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity.

Return on tangible equity is defined as profit after tax from continuing operations plus movement in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity. The following table presents the basis of calculation of return on tangible equity (annualised) for the half year ended 30 June 2017:

	<u>As at and for the half year to 30 June 2017</u> (unaudited) (€ millions, unless otherwise indicated)
Profit after taxation.....	652
Adjustments:	
AT1 coupon paid during first half of 2017.....	(18)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	76
Adjusted profit attributable to tangible equity (numerator).....	710
Adjusted profit attributable to tangible equity annualised (numerator).....	1,431
Tangible equity	
Targeted CET1 (13% of average risk-weighted assets—€54,029 million) ⁽¹⁾	7,024
Deferred tax assets—average unutilised tax losses ⁽¹⁾	2,933
Tangible equity (denominator).....	9,957
Return on tangible equity (%)*.....	14.4%

Note:

(1) Average calculated based on period-end balance (subject to minimal adjustments) as at 30 June 2017 and as at 31 December 2016.

* The return on tangible equity calculated for the six months ended 30 June 2016 was 16.5%.

10 Non-Performing Exposures

In analysing the credit quality of its loan book, AIB considers criticised loans, which include “watch”, “vulnerable” and “impaired” loans, as described in further detail in “—*Credit risk*” in note 58 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus and the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, each of which are incorporated by reference herein. For regulatory reporting, EBA stress testing and capital planning purposes, AIB also considers non-performing exposures, which includes both loans and receivables to customers and off balance sheet commitments such as loan commitments and financial guarantee contracts.

Non-performing exposures are defined by the EBA to include material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due (this would include, for example, loans in respect of which the relevant collateral has been disposed as well as loans previously subject to forbearance solutions for a period of one year thereafter). Non-performing exposures will overlap with criticised loans to a certain extent.

AIB is focused on reducing the level of its non-performing exposures as defined by the EBA to a normalised level in line with its European peers over the medium term. As at 31 December 2016, non-performing loans of European banks accounted for 5.1 per cent. of total loans on a weighted average basis, based on the EBA Risk Dashboard Q4 2016. Based on that figure, this would imply a reduction of non-performing loans by AIB to €3 - €4 billion over the medium term. This is, however, subject to change in line with the evolution of European banks’ balance sheets over that period and the evolution and implementation of AIB’s strategies to address its non-performing exposures. AIB has maintained momentum in its restructuring activity and may consider options such as further loan portfolio disposals and other strategic initiatives.

The following tables set forth AIB’s non-performing loans and receivables to customers by asset class as at 30 June 2017 and 31 December 2016 and 2015:

	As at 30 June 2017				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	(€ millions, unless otherwise indicated)				
Total gross loans and receivables	34,357	3,140	9,072	17,359	63,928
Non-performing loans					
Impaired	3,822	403	2,355	1,184	7,764
Greater than 90 days past due but not impaired	267	49	168	146	630
Neither past due nor impaired and/or less than 90 days past due	1,551	165	1,098	932	3,746
Total non-performing loans	<u>5,640</u>	<u>617</u>	<u>3,621</u>	<u>2,262</u>	<u>12,140</u>
Non-performing loans as % of total gross loans (%).....	16%	20%	40%	13%	19%
	As at 31 December 2016				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	(€ millions, unless otherwise indicated)				
Total gross loans and receivables	35,239	3,100	9,394	17,495	65,228
Non-performing loans					
Impaired	4,576	432	2,724	1,404	9,136
Greater than 90 days past due but not impaired	261	54	165	140	620
Neither past due nor impaired and/or less than 90 days past due	1,842	175	1,325	974	4,316
Total non-performing loans	<u>6,679</u>	<u>661</u>	<u>4,214</u>	<u>2,518</u>	<u>14,072</u>
Non-performing loans as % of total gross loans (%).....	19%	21%	45%	14%	22%

Total non-performing off-balance sheet commitments at 30 June 2017 amounted to €308 million (31 December 2016: €321 million).

	As at 31 December 2015				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	(€ millions, unless otherwise indicated)				
Total gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Non-performing loans					
Impaired	5,966	698	4,308	2,113	13,085
Greater than 90 days past due but not impaired	283	46	209	145	683
Neither past due nor impaired and/or less than 90 days past due	1,561	136	1,596	907	4,200
Total non-performing loans	<u>7,810</u>	<u>880</u>	<u>6,113</u>	<u>3,165</u>	<u>17,968</u>
Non-performing loans as % of total gross loans (%).....	21%	25%	53%	17%	26%

11 Cash Flows

The following table sets forth AIB's cash flows for the six months ended 30 June 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014:

	Six months ended		Year ended 31 December		
	2017	2016	2016	2015	2014
	(€ millions)				
Net cash (outflow)/inflow from operating activities	(1,710)	102	3,229	(93)	(1,200)
Net cash inflow from investing activities	787	1,518	723	149	1,706
Net cash outflow from financing activities.....	(268)	(18)	(1,828)	(1,062)	(160)
Change in cash and cash equivalents.....	(1,191)	1,602	2,124	(1,006)	346
Opening cash and cash equivalents	7,164	5,672	5,672	6,384	5,730
Effect of exchange translation adjustments	(134)	(501)	(632)	294	308
Closing cash and cash equivalents	<u>5,839</u>	<u>6,773</u>	<u>7,164</u>	<u>5,672</u>	<u>6,384</u>

For further detail on AIB's cash flows, see the consolidated statement of cash flow and note 50 of Section B of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus and the condensed consolidated statement of cash flows and notes 15, 25 and 40 to the condensed consolidated interim financial statements of the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

12 Critical Accounting Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. For information on AIB's accounting policies and estimates, see Sections B of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus and note 1 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

PART XIV CAPITAL

1 Capital Structure

The following table presents AIB's regulatory capital and capital ratios on a CRD IV transitional basis and CRD IV fully loaded basis as at 30 June 2017 and 31 December 2016. AIB HoldCo was incorporated on 8 December 2016 and is expected to become the holding company of the Group upon the Scheme becoming effective. AIB HoldCo has not traded or undertaken any other significant transactions since incorporation (other than its acquisition of one AIB Bank Share). As such, no historical financial information of AIB HoldCo has been provided in this part. AIB's consolidated statement of financial position is based on IFRS accounting standards whereas certain information in the table below has been compiled based on capital adequacy concepts and rules as contained in CRD IV:

	CRD IV transitional basis ⁽¹⁾		CRD fully loaded basis ⁽²⁾	
	As at 30 June 2017 ⁽³⁾	As at 31 December 2016	As at 30 June 2017 ⁽³⁾	As at 31 December 2016
	(€ millions, unless otherwise indicated)			
Common equity tier 1 capital				
Equity	13,209	13,148	13,209	13,148
Less AT1 capital.....	(494)	(494)	(494)	(494)
Foreseeable charges (including proposed ordinary dividend)	(125)	(250)	(125)	(250)
Regulatory adjustments:				
Goodwill and intangibles.....	(444)	(392)	(444)	(392)
Cash flow hedging reserves.....	(289)	(460)	(289)	(460)
Available for sale securities reserves.....	(203)	(445)	—	—
Pension	(112)	(140)	(102)	(126)
Deferred tax.....	(845)	(610)	(2,816)	(3,050)
Expected loss deduction	—	(28)	—	(46)
Other.....	(19)	(22)	(17)	(16)
Total regulatory adjustments	(1,912)	(2,097)	(3,668)	(4,090)
Total common equity tier 1	<u>10,678</u>	<u>10,307</u>	<u>8,922</u>	<u>8,314</u>
AT1 Capital issuance.....	494	494	494	494
Expected loss deduction	—	(9)	—	—
Total AT1 Capital.....	<u>494</u>	<u>485</u>	<u>494</u>	<u>494</u>
Total Tier 1 Capital	<u>11,172</u>	<u>10,792</u>	<u>9,416</u>	<u>8,808</u>
Tier 2 Capital				
Subordinated debt.....	783	783	783	783
Credit provisions	181	200	13	—
Expected loss deduction	—	(9)	—	—
Other.....	3	6	—	—
Total Tier 2 Capital	<u>967</u>	<u>980</u>	<u>796</u>	<u>783</u>
Total Capital	<u>12,139</u>	<u>11,772</u>	<u>10,212</u>	<u>9,591</u>
Risk-weighted assets				
Credit risk.....	47,910	48,843	48,017	49,027
Market risk	352	288	352	288
Operational risk	4,248	3,874	4,248	3,874
Credit valuation adjustment.....	1,017	1,225	1,017	1,225
Other.....	5	5	5	5
Total risk-weighted assets	<u>53,532</u>	<u>54,235</u>	<u>53,639</u>	<u>54,419</u>
CET1 Ratio	19.9%	19.0%	16.6%	15.3%
Tier 1 Ratio	20.9%	19.9%	17.6%	16.2%
Total Capital Ratio	22.7%	21.7%	19.0%	17.6%

Notes:

- (1) Transitional ratios are calculated applying the transitional provisions set out in Part Ten of CRD IV.
- (2) Fully loaded ratios are calculated applying all requirements of CRD IV without applying the transitional requirements set out in Part Ten of CRD IV.
- (3) Capital ratios as at 30 June 2017 have been presented including the benefit of the retained profit for the six months to 30 June 2017 and also takes account of foreseeable charges as at 30 June 2017.

2. Supervisory review and evaluation process

On an annual basis, AIB submits extensive documentation on the ICAAP to its regulator as prescribed in the CRD IV frameworks. This documentation includes a description of AIB's internal capital models, its risk appetite framework, an asset quality analysis and capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the ECB's SREP, the outcome of which is communicated to AIB's management.

AIB's minimum requirement set by the ECB for the transitional CET1 ratio is 9.0 per cent. and the minimum requirement for the transitional total capital is 12.5 per cent. for 2017. This requirement excludes Pillar 2 guidance that is not publicly disclosed. The transitional CET1 and total capital ratios as at 30 June 2017 were 19.9 per cent. and 22.7 per cent., respectively. Based on these ratios, AIB has a very significant buffer over maximum distributable amount trigger levels.

AIB has been designated as an "other systemically important institution" ("O-SII"). A buffer for O-SII will be applied at 0.5 per cent. from 2019, rising to 1.5 per cent. by 2021.

3 Approval of AIB Restructuring Plan and Comprehensive Assessment

On 7 May 2014, the EC approved, under state aid rules, AIB's Restructuring Plan. For additional details regarding AIB's Restructuring Plan, see "*Part X: Relationship with Government and State Aid—State Aid*".

AIB was subject to the 2016 EU-wide stress test conducted by the EBA, in conjunction with the Central Bank, the ECB, the EC and the SRB, the results of which were published in July 2016. AIB's result of a 7.4 per cent. adjusted CET1 ratio in the adverse scenario (transitional) was 0.5 per cent. higher than the result of the 2014 Comprehensive Assessment. Unlike the 2014 exercise, there was no pass/fail threshold in the 2016 EBA stress test; instead the results of the exercise were taken into account in AIB's SREP, the results of which were communicated to AIB in December 2016.

The stress tests were conducted on a static balance sheet basis based on how the balance sheet as at 31 December 2015 would perform over three years. Both the baseline and the adverse scenarios were assessed for capital under the transitional arrangements as set out in CRD IV, over a three-year period from 2015 to 2018.

AIB's capital ratios and stress test results are as outlined below:

	<u>Static Balance Sheet</u>
CET1 ratio at 31 December 2015.....	15.9%
Adjusted CET1 ratio after:	
Baseline Scenario	17.0%
Adverse Scenario.....	7.4%

4 Subordinated Liabilities and Other Capital Instruments

4.1 AT1 Notes

On 3 December 2015, as part of the 2015 Capital Reorganisation, AIB Bank issued the AT1 Notes. Interest on the AT1 Notes is payable semi-annually in arrears at the discretion of AIB at a fixed rate of 7.375 per cent. On the first reset date on 3 December 2020, if the AT1 Notes are not redeemed, interest will be reset to the relevant five-year rate plus a margin of 7.339 per cent.

The AT1 Notes are perpetual securities with no fixed redemption date. AIB Bank may, in its sole and full discretion, redeem all (but not some only) of the AT1 Notes on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the ECB, and conditional upon meeting the requirements of the CRR. The AT1 Notes rank: (i) *pari passu* with holders of AIB Bank's other tier 1 instruments; (ii) senior to the claims of holders of AIB Bank's ordinary share capital; (iii) junior to the claims of holders of tier 2 instruments; and (iv) junior to the claims of senior creditors.

If AIB's CET1 ratio (solo or consolidated) falls below 7.0 per cent., the AT1 Notes may be written down by the lower of the amount necessary to generate sufficient CET1 capital to restore the CET1 ratio to 7.0 per cent. or the amount that would reduce the prevailing principal amount to zero.

4.2 Dated loan capital

Certain dated loan capital issued under the European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of AIB.

On 26 November 2015, AIB Bank issued €750 million Subordinated Tier 2 Notes. These notes mature on 26 November 2025, but can be redeemed in whole, but not in part, by AIB Bank on the optional redemption date of 26 November 2020, subject to the approval of the ECB and conditional upon meeting the requirements of the CRR. Interest is payable annually in arrears at a fixed rate of 4.125 per cent. and, if the Subordinated Tier 2 Notes are not redeemed, will be reset on 26 November 2020 to the euro 5 year mid swap rate plus the initial margin of 395 basis points.

On 14 April 2011, the High Court made the Subordinated Liabilities Order (the “SLO”) in respect of certain of AIB’s then outstanding subordinated notes in the aggregate nominal amounts of €1,550,784,000, £733,406,000 and U.S. \$247,420,999. Pursuant to the SLO, which became effective as of 22 April 2011, the terms of AIB’s relevant subordinated notes were amended as follows:

- any interest that may fall due on such liabilities will only be payable at the option of AIB (in its sole discretion); and
- the maturity date of each such liability has been extended to 25 June 2035.

Following the SLO, AIB announced on 13 May 2011 its intention to launch a liability management exercise in relation to 18 series of subordinated securities (including tier 1 and upper and lower tier 2 securities) in which AIB offered to buy back the relevant outstanding subordinated liabilities at discounts of up to 90 per cent.

Following the liability management exercise, residual balances remained outstanding on the dated loan capital instruments concerned in the aggregate nominal amounts of €25,285,000 and £79,816,035. The original liabilities were derecognised and new liabilities were recognised, based on the fair value of the relevant securities at the SLO effective date reflecting the amended terms of the instruments under the SLO.

For the avoidance of doubt, AIB does not currently propose to novate or transfer its obligations under the capital instruments described in this paragraph 4 to AIB HoldCo.

PART XV
CAPITALISATION AND INDEBTEDNESS STATEMENT

The following table sets out AIB's capitalisation and indebtedness as at 31 July 2017, which has been derived from unaudited management statements.

AIB HoldCo was incorporated on 8 December 2016 and is expected to become the holding company of the Group upon the Scheme becoming effective. AIB HoldCo has not traded or undertaken any other significant transactions since incorporation (other than its acquisition of one AIB Bank Share). As such, no historical financial information of AIB HoldCo has been provided in this part.

	<u>As at</u> <u>31 July 2017</u> (€ millions)
Indebtedness	
<i>Current Debt</i> ⁽¹⁾	
Debt securities in issue ⁽²⁾	
Secured.....	—
Unsecured.....	<u>132</u>
Total current debt	132
<i>Non-current Debt</i>	
Debt securities in issue ⁽²⁾	
Secured.....	3,590
Unsecured.....	<u>1,000</u>
	4,590
Subordinated liabilities	
Dated (unsecured)	<u>792</u>
Total non-current debt	<u>5,382</u>
Total Indebtedness	<u><u>5,514</u></u>
Capitalisation	
Share capital	1,696
Share premium	1,386
Other reserves.....	9,712
AT1 securities ⁽³⁾	<u>494</u>
Total capitalisation	<u>13,288</u>
Total capitalisation and indebtedness	<u><u>18,802</u></u>

Notes:

- (1) Maturity up to one year.
- (2) Maturity analysis of debt securities in issue is based on expected maturity.
- (3) AT1 securities with a par value of €500 million.

As at 30 June 2017, indirect and contingent indebtedness, which comprises (i) guarantees and irrevocable letters of credit, and (ii) other contingent liabilities totalled €886⁽¹⁾ million. For information on AIB's indirect and contingent indebtedness, see note 37 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which is incorporated by reference herein.

Notes:

- (1) Information provided as at 30 June 2017 as there has been no material change since this reporting date.

PART XVI
UNAUDITED PRO FORMA FINANCIAL INFORMATION

SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information has been prepared to illustrate the effect of the Scheme as if it had become effective on 30 June 2017. In the case of the regulatory capital measures, the unaudited pro forma financial information has been prepared by applying the adjustments described in the notes set out below on a transitional and fully loaded basis and in accordance with Annexes I and II of the EU Prospectus Regulation. Reference to “transitional basis” in the context of regulatory capital measures refers to the application of the transitional provisions set out in Part Ten of the CRR in the calculation of regulatory capital and regulatory capital ratios. Reference to “fully loaded basis” refers to the calculation of regulatory capital and regulatory capital ratios without applying the transitional requirements set out in Part Ten of the CRR.

The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, the pro forma financial information addresses a hypothetical situation and does not, therefore, represent AIB’s actual financial position or results.

The unaudited pro forma financial information below illustrates the effect of the Scheme (as if it had become effective on 30 June 2017) in terms of:

- a) the impact on certain reported values in AIB’s consolidated balance sheet;
- b) the estimated impact on AIB’s consolidated regulatory capital measures:
 - i. on a transitional basis; and
 - ii. on a fully loaded basis.

a) Unaudited pro forma balance sheet as at 30 June 2017

The unaudited pro forma financial information is based on the unaudited condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference in this Prospectus. These unaudited condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and should be read in conjunction with Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus which is incorporated by reference herein and was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively “IFRS”) as issued by the International Accounting Standards Board (“IASB”) and IFRS as adopted by the European Union (“EU”). There have been no significant changes to the accounting policies described in note 1 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus which is incorporated by reference herein.

	Reported position as at 30 June 2017 ⁽¹⁾ €m	Effect of the Scheme ⁽²⁾ €m	Pro forma adjusted position as at 30 June 2017 ⁽³⁾ €m
Total assets	90,462	—	90,462
Total liabilities	77,253	—	77,253
Total equity	13,209	—	13,209
 Total equity and liabilities	90,462	—	90,462

Notes:

- (1) Information on the balance sheet of AIB Group as at 30 June 2017 has been extracted without material adjustment from the unaudited condensed consolidated interim financial statements included in the AIB Bank 2017 Half Yearly Accounts.
- (2) This column represents the effect of the Scheme on AIB Group’s balance sheet, which is nil in relation to the reported values in the AIB Bank 2017 Half Yearly Accounts. At a granular level, the Scheme does result in an increase of €25,000 in issued share capital in respect of the Subscriber Shares, which shares will be redeemed and cancelled at an appropriate time after the Scheme Effective Date.
- (3) No account has been taken of AIB Group’s trading performance, changes in AIB Group’s liquidity or funding positions or any other transactions (actual or proposed) of AIB Group since 30 June 2017.

b) Unaudited pro forma regulatory capital ratios as at 30 June 2017

The SSM has advised AIB that following the establishment of AIB HoldCo as the new holding company of AIB Group, pursuant to Articles 85 and 87 of the CRR, a proportion of the capital reserves represented by the AT1 and Tier 2 capital

instruments issued by AIB Bank and its subsidiaries to third party investors will not be reflected in the consolidated Tier 1 and Total Capital positions of AIB. Whilst a certain amount of the consolidated capital reserves represented by these capital instruments will not count towards AIB's consolidated regulatory capital position after AIB HoldCo becomes the new holding company of the Group, those instruments remain available to absorb losses and are expected to count as MREL (at least for a transitional period). The impact of this change on a pro forma basis as at 30 June 2017 is estimated to be a reduction of 0.4 per cent in AIB's consolidated Tier 1 Capital Ratio from 20.9 per cent to 20.5 per cent (on a transitional basis) and a reduction of 0.9 per cent. in AIB's consolidated Total Capital Ratio from 22.7 per cent. to 21.8 per cent. (on a transitional basis). The actual impact will depend on the timing of the establishment of AIB HoldCo as the new holding company of AIB Group, the absolute capital levels and capital structure at the time of such establishment and any mitigating actions AIB may take. The scale of this reduction in the consolidated capital position of AIB would be reduced as and when the outstanding AIB Bank AT1 and Tier 2 Capital instruments are redeemed. This change in regulatory capital recognition has no impact on AIB's financial statements. The Scheme is not expected to give rise to changes in AIB's reported consolidated CET1 Capital ratios as, following the implementation of the Scheme, all of AIB Bank's ordinary shares will be held by AIB HoldCo.

The estimated impact on AIB Group's capital position of the exclusion of a portion of the consolidated capital reserves represented by AT1 and Tier 2 capital instruments issued by AIB Bank to third party investors is set out below on (i) a transitional basis, and (ii) a fully loaded basis.

(i) Unaudited pro forma impact as at 30 June 2017 (transitional basis)

	As at 30 June 2017⁽¹⁾	Effect of the Scheme⁽²⁾⁽³⁾	Pro forma as at 30 June 2017⁽⁵⁾
Key Capital Adequacy Metrics (Unaudited)			
Total Risk Weighted Assets (€ million)	53,532	0	53,532
CET1 Capital (€ million)	10,678	0	10,678
Total Tier 1 Capital (€ million)	11,172	(194)	10,978
Total Capital (€ million)	12,139	(451)	11,688
Common Equity Tier 1 (ratio)	19.9%	0.0%	19.9%
Total Tier 1 Capital (ratio)	20.9%	(0.4)%	20.5%
Total Capital (ratio)	22.7%	(0.9)%	21.8%

(ii) Unaudited pro forma impact as at 30 June 2017 (fully loaded basis)

	As at 30 June 2017⁽¹⁾	Effect of the Scheme⁽²⁾⁽⁴⁾	Pro forma as at 30 June 2017⁽⁵⁾
Key Capital Adequacy Metrics (Unaudited)			
Total Risk Weighted Assets (€ million)	53,639	0	53,639
Total Leverage Ratio exposure (€ million)	90,708	0	90,708
CET1 Capital (€ million)	8,922	0	8,922
Total Tier 1 Capital (€ million)	9,416	(150)	9,266
Total Capital (€ million)	10,212	(320)	9,892
Common Equity Tier 1 (ratio)	16.6%	0.0%	16.6%
Total Tier 1 Capital (ratio)	17.6%	(0.3)%	17.3%
Total Capital (ratio)	19.0%	(0.6)%	18.4%
Leverage Ratio	10.4%	(0.2)%	10.2%

Notes:

- (1) Information on the risk weighted assets, capital resources and capital ratios of AIB Group as at 30 June 2017 has been extracted without material adjustment from the AIB Bank 2017 Half Yearly Accounts.
- (2) This column ('Effect of the Scheme') represents the adjustments for the Scheme which reduce AIB Group's regulatory capital following the application of Articles 85 and 87 of the CRR. In the context of AIB, Article 85 requires that where capital instruments are issued to third party investors at a level below AIB HoldCo, a proportion of the surplus Tier 1 Capital (at the level of the AIB Bank regulatory consolidation) in excess of the applicable regulatory capital requirements be excluded from AIB's consolidated Tier 1 Capital. The proportion of the surplus Tier 1 Capital that is excluded is calculated as the amount of Tier 1 Capital represented by instruments issued at the level of AIB Bank or its subsidiaries that is held by third party investors as a percentage of the total amount of qualifying Tier 1 Capital for the purposes of Article 85 of the CRR. Article 87 CRR requires a similar adjustment in respect of surplus Total Capital taking account of surplus Total Capital. Further information in respect of the calculation of the surplus capital is provided in note 3 (transitional basis) and note 4 (fully loaded basis).
- (3) The surplus capital used for the purposes of estimating the impact on a transitional basis has been calculated using the amount of regulatory capital (Tier 1 Capital or Total Capital, as the case may be) in excess of AIB's current regulatory requirements (comprising Pillar 1 requirements as prescribed by Article 92 of the CRR and Pillar 2 requirements applied by the ECB) and the relevant proportions of the applicable capital buffers.
- (4) The surplus capital used for the purposes of estimating the impact on a fully loaded basis has been calculated using the amount of regulatory capital (Tier 1 Capital or Total Capital, as the case may be) in excess of AIB's current regulatory requirements (comprising Pillar 1 requirements

as prescribed by Article 92 of the CRR and Pillar 2 requirements applied by the ECB) and the full application of known buffers (but excluding the “other systematically important institution” buffer which is applied at a consolidated level and is scheduled to be phased in from 2019 at 0.5 per cent, rising to 1.5 per cent by 2021 (“O-SII buffer”)), regardless of their scheduled implementation timetable.

- (5) This column represents the estimated the pro forma total Risk Weighted Assets, Total Leverage Ratio exposure (disclosed on a fully loaded basis only), CET1 Capital, Total Tier 1 Capital, Total Capital, Common Equity Tier 1 Ratio, Total Tier 1 Capital Ratio, Total Capital Ratio and Leverage Ratio (disclosed on fully loaded basis only) on the basis that the Scheme became effective on 30 June 2017.

SECTION B: REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF AIB GROUP
PLC



The Board of Directors
on behalf of AIB Group plc
Bankcentre
Ballsbridge
Dublin 4
Ireland
(“**AIB HoldCo**”)

The Board of Directors
on behalf of Allied Irish Banks, p.l.c.
Bankcentre
Ballsbridge
Dublin 4
Ireland
(“**AIB Bank**”)

Joint Irish and Joint UK Sponsor
Goodbody Stockbrokers UC
Ballsbridge Park
Dublin 4
Ireland

Joint UK and Joint Irish Sponsor
Morgan Stanley and Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

10 October 2017

Dear Sirs

AIB Group plc (“AIB HoldCo”).

We report on the pro forma financial information (the “**unaudited pro forma financial information**”) set out in Section A of “Part XVI: Unaudited Pro forma Financial Information” of AIB HoldCo’s prospectus dated 10 October 2017 (the “**Prospectus**”) which has been prepared on the basis described in the notes to the unaudited pro forma financial information, for illustrative purposes only, to provide information about how the proposed Scheme might have affected the financial information presented on the basis of the accounting policies adopted by AIB HoldCo in preparing the financial information for the period ended 30 June 2017. This report is required by item 20.2 of Annex I to the Commission Regulation (EC) No. 809/2004 (the “**Prospectus Directive Regulation**”) and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

It is the responsibility of the Directors of AIB HoldCo to prepare the unaudited pro forma financial information in accordance with item 20.2 of Annex I and items 1 to 6 of Annex II to the Prospectus Directive Regulation.

It is our responsibility to form an opinion as to the proper compilation of the unaudited pro forma financial information and to report that opinion to you in accordance with item 7 of Annex II to the Prospectus Directive Regulation.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the unaudited pro forma financial information, nor do we accept responsibility for

such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility under paragraph 2(2)(f) of Schedule 1 of the Prospectus (Directive 2003/71/EC) Regulations 2005 (S.I. No. 324 of 2005), as amended (the “**Prospectus Regulations**”), which we may have to any person as and to the extent there provided, by the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom and Ireland. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of AIB HoldCo.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the unaudited pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of AIB HoldCo.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated; and
- b) such basis is consistent with the accounting policies of AIB HoldCo.

Declaration

For the purposes of paragraph 2(2)(f) of Schedule 1 of the Prospectus Regulations we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Item 1.2 of Annex I to the Prospectus Directive Regulation.

Yours faithfully

Deloitte
Chartered Accountants

PART XVII

RISK MANAGEMENT

1 Overview of AIB's risk management

The principal risks and uncertainties to which AIB is exposed are set out in “*Part II: Risk Factors*”. The governance and organisation framework through which AIB manages and seeks to mitigate these risks is set out in this “*Part XVII: Risk Management*”.

Risk policies and frameworks that are currently applicable to AIB Bank and/or AIB Group will, conditional upon the Scheme becoming effective, be adopted by AIB HoldCo where appropriate. As the new holding company of AIB, AIB HoldCo will following the Scheme Effective Time exercise overall governance and stewardship of AIB Group's activities through the AIB HoldCo Board and AIB HoldCo Board committees. With effect from the Scheme Effective Time, the AIB HoldCo Board will have in place an AIB HoldCo Audit Committee, an AIB HoldCo Risk Committee, an AIB HoldCo Nomination and Corporate Governance Committee and an AIB HoldCo Remuneration Committee, each such committee to have an identical membership and chairmanship as the corresponding committee of the AIB Bank Board. The terms of reference of AIB Bank's existing executive committees, including the Leadership Team, the Executive Risk Committee and the Asset and Liability Committee, will be expanded where appropriate to include AIB HoldCo. The responsibilities of the CEO, CFO, CRO and other Senior Executives, currently appointed by AIB Bank, are AIB Group-wide and will, from the Scheme Effective Time, include responsibilities relating to risk governance and other activities of AIB HoldCo. With effect from the Scheme Effective Time, the CEO and CFO of AIB Bank will be the CEO and CFO, respectively, and Executive Directors, of AIB HoldCo.

1.1 Risk management framework

AIB assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of AIB, increase earnings or cash flow volatility, reduce capital, threaten business reputation or viability and/or breach regulatory or legal obligations. AIB Bank has adopted an enterprise risk management approach to identifying, assessing and managing risks. To support this approach, a number of frameworks and policies approved by the AIB Bank Board (or appropriate AIB Bank Board delegation) are in place which set out the key principles, roles and responsibilities and governance arrangements through which AIB's material risks are managed. The core aspects of AIB's risk management approach are described below.

1.2 Risk identification and assessment process

AIB uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment (“MRA”) is undertaken on at least an annual basis. The MRA identifies and assesses the most material risks faced by AIB in terms of their likelihood and impact. Other assessments of risk are undertaken, as required, by business areas, focussing on the nature of the risk, the adequacy of the internal control environment and whether additional management action is required. Periodic risk assessments are also undertaken in response to specific internal or external events. Reporting on AIB's risk profile and emerging risks is presented to each Executive Risk Committee (“ERC”) and AIB Bank Board Bank Risk Committee meeting. The ERC meets on a monthly basis.

1.3 Risk appetite

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

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

While the AIB Bank Board approves AIB's RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. AIB's risk profile is measured against its risk appetite and adherence to AIB's RAS is reported on a monthly basis to the ERC and the AIB Bank Board Risk Committee. Should any breaches of AIB's RAS limits arise, these, together with associated management action plans, are escalated to the AIB Bank Board for review, and also reported to the JST, in line with the provisions of the Revised CGC Code.

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

1.4 Risk governance

1.4.1 Risk management organisation

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

1.4.2 Committees with risk management responsibilities

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

The role of the AIB Bank Board (which is comprised of the same directors forming the AIB HoldCo Board), the AIB Bank Board Audit Committee and the AIB Bank Board Risk Committee is set out in “*Part XI: Directors, Senior Executives and Corporate Governance*”. With effect from the Scheme Effective Date, the AIB HoldCo Board will replicate certain of the committees in place at the AIB Bank level and in particular will have in place among, others, an audit committee and a risk committee, with both committees to initially have an identical role, membership and chairmanship as the corresponding committee of the AIB Bank Board.

AIB’s Leadership Team comprises the senior executives of AIB who manage the strategic business risks of AIB. It establishes the business strategy and risk appetite within which AIB operates.

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

The ERC’s principal duties and responsibilities include reviewing the effectiveness of AIB’s risk frameworks and policies, monitoring and reviewing AIB’s risk profile, risk trends, risk concentrations and policy exceptions, and monitoring adherence to approved risk appetite and other limits. The ERC acts as a parent body to both the AIB Group Credit Committee (“GCC”) and the Operational Risk Committee (“ORC”).

Principal responsibilities of the GCC include: the exercising of approval authority for exposure limits to customers of AIB; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; and the approval of credit inputs to credit decisioning models, as well as the review and approval of other credit related matters as they occur. The principal responsibility of the ORC is to provide oversight to the ERC in relation to the current and potential future operational risks/ profile facing AIB and operational risk strategy in that regard. The ORC reviews, approves and recommends as appropriate to ERC, AIB Bank Board Risk Committee and the AIB Bank Board, the Operational Risk Framework and all other operational policies and standards. The ORC is also responsible for reviewing key operational risk assessments and mandating related action plans, where required.

The role of the AIB Group Conduct Committee (“CC”) is to promote a sustainable customer centric culture through the oversight of conduct across AIB’s operations including in Ireland, the United Kingdom and the United States and monitor compliance with the Board approved Conduct Risk Appetite and policy. It is a sub-committee of the Leadership Team chaired by the Chief Marketing Officer who is responsible for ensuring a consistent approach to conduct risk management across AIB.

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

The role of the Asset and Liability Committee (“ALCo”) is to act as AIB’s strategic balance sheet management forum that combines a business-decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the Director of Finance (who reports directly to the CFO) and its membership includes the CFO, the CRO, in each case of AIB Bank, and the heads of significant business areas. The ALCo is tasked with decision-making in respect of AIB’s balance sheet structure, including capital, liquidity, funding, interest rate risk in the banking book from an economic value and net interest margin perspective, foreign exchange hedging risks and other market risks.

In ensuring sound capital and liquidity management and planning, the ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital and for the

calculation of expected and unexpected credit losses and stress testing. In addition, the ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing and review and analysis of RAROC.

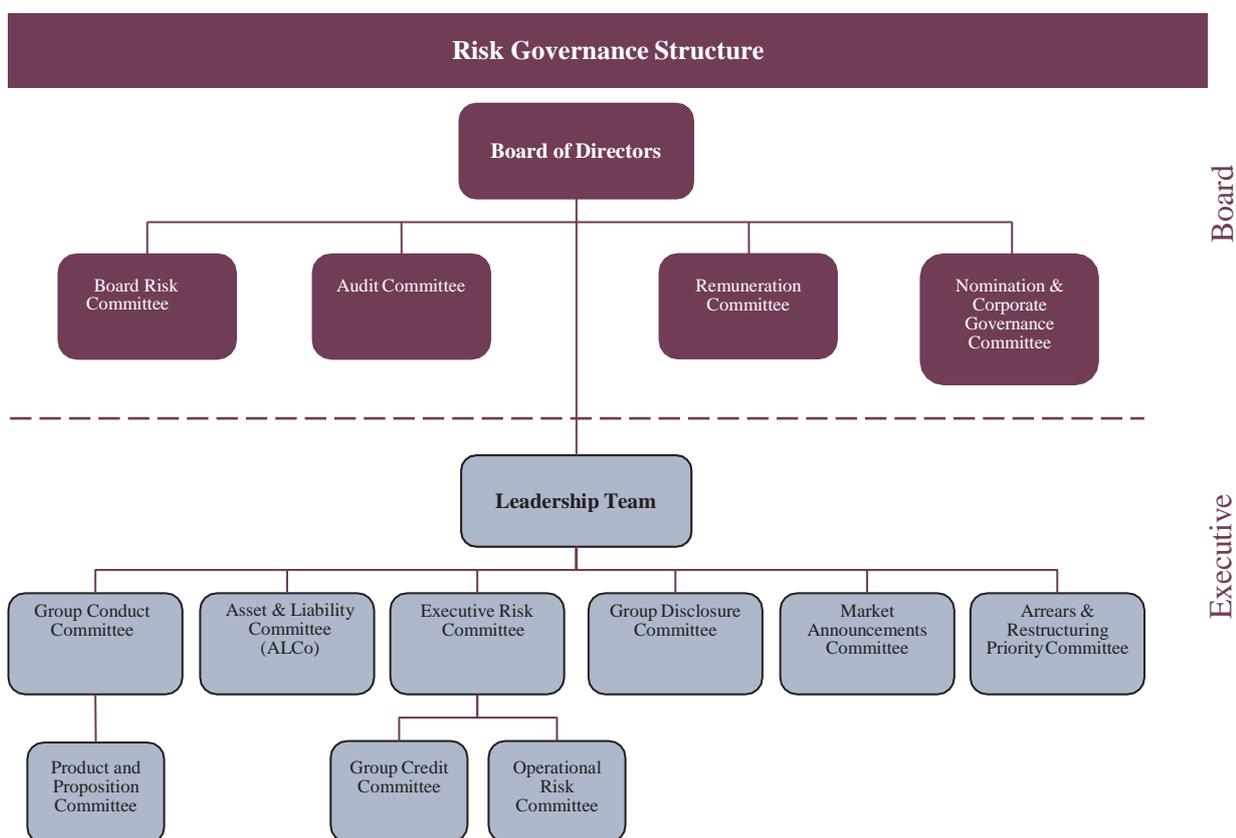
The role of the Market Announcements Committee (“MAC”) is to act as an advisory committee to the CEO and the CFO, in each case of AIB Bank, in determining on a timely basis the treatment of material information relating to AIB and its impacted subsidiary entities in order to comply with insider information disclosure obligations under the Market Abuse Regulation (“MAR”), the Central Bank’s Market Abuse Rules and the Irish Stock Exchange Listing Rules.

The MAC’s principal duties include determination as to whether information raised is deemed to be inside information and, if so, to implement and monitor the appropriate procedure to be followed together with assigning a business owner for each inside information event. The MAC also ensures that AIB issues an interim announcement in circumstances where an obligation to disclose insider information has arisen under MAR but where AIB is not yet in a position to provide full details of the underlying facts. The MAC is chaired by the CFO and its membership includes the CEO, the CRO, the Group General Counsel, Director of Corporate Affairs and the Group Treasurer, in each case of AIB Bank.

AIB’s Group Disclosure Committee is responsible for reviewing AIB’s financial information for compliance with legal and regulatory requirements prior to external publication, and for exercising oversight of the Accounting Policies Forum, which ensures that the accounting policies adopted by AIB conform to the highest standards in financial reporting.

The role of the Arrears & Restructuring Priority Committee (“ARPC”) is to take all decisions and actions required or deemed necessary in relation to AIB’s non-performing loan exposures. It is a sub-committee of the Leadership Team and is chaired by the Head of FSG.

The following chart sets out AIB’s risk management structure:



2 Credit risk

Credit risk is the risk that AIB will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that they had entered into. Credit exposure arises in relation to lending activities to customers and banks, including ‘off-balance sheet’ guarantees and commitments, the trading portfolio, financial investments available for sale, financial investments held to maturity and derivatives.

Concentrations in particular portfolio sectors, such as property and construction, can impact the overall level of credit risk.

Credit risk management objectives are to:

- establish and maintain a control framework to ensure credit risk taking is based on sound credit management principles;
- control and plan credit risk taking in line with external stakeholder expectations;
- identify, assess and measure credit risk clearly and accurately across AIB and within each separate business, from the level of individual facilities up to the total portfolio; and
- monitor credit risk and adherence to agreed controls.

AIB lends to personal and retail customers, commercial entities and government entities and banks. Credit risk arises on the drawn amount of loans and receivables, but also as a result of loan commitments, such as undrawn loans and overdrafts, and other credit related commitments, such as guarantees, performance bonds and letters of credit. These credit-related commitments are subject to the same credit assessment and management as loans and receivables.

For more detail on credit risk, see “—*Credit risk*” in note 58 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus and “*Credit Risk*” in the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

2.1 Credit risk organisation and structure

AIB’s credit risk management systems operate through a hierarchy of lending authorities. All customer loan requests are subject to a credit assessment process.

The role of the credit risk function is to provide direction, oversight and challenge of credit risk-taking. AIB’s RAS sets out the credit risk appetite and framework. Credit risk appetite is set at Board level and is described, reported and monitored through a suite of metrics. These metrics are supported by more detailed appetite metrics at a business segment level. These are also supported by a comprehensive suite of credit risk policies, concentration limits and product and country limits to manage concentration risk and exposures within AIB’s approved risk appetite. AIB’s risk appetite for credit risk is reviewed and approved annually.

AIB operates credit approval criteria which:

- include a clear indication of AIB’s target market(s), in line with AIB and segment RASs;
- require a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
- enforce compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken, in the most part, by experienced credit risk professionals operating within a defined delegated authority framework. However, for certain selected retail portfolios (including personal (up to €30,000) and micro-SME (up to €60,000)), scorecards and automated strategies (together referred to as ‘score enabled decisions’) are deployed to automate and to support credit decisions and credit management (e.g. score enabled auto-renewal of overdrafts).

The Board is the ultimate credit approval authority and grants authority to various credit committees and individuals to approve limits. Credit limits are approved in accordance with AIB’s written policies and guidelines. All exposures above certain levels require approval by the GCC and/or the AIB Bank Board. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the relevant credit authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

2.2 Measurement of credit risk

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

The primary model measures used are:

- probability of default (“PD”)—the likelihood that a borrower is unable to repay his or her obligations;
- exposure at default (“EAD”)—the exposure to a borrower who is unable to repay his or her obligations at the point of default;
- loss given default (“LGD”)—the loss associated with a defaulted loan or borrower; and
- expected loss (“EL”)—the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

To calculate PD, AIB assesses the credit quality of borrowers and other counterparties and assigns a credit grade or score to these. This grading is fundamental to credit sanctioning and approval, and to the ongoing credit risk management of loan portfolios. It is a key factor in determining whether credit exposure limits are sanctioned for new borrowers, at which authority level they can be approved and how any existing limits are managed for current borrowers.

The ratings methodology and criteria used in assigning borrowers to grades varies across the models used for the portfolios, but models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

For the purposes of calculating credit risk, each “probability of default model” segments counterparties into a number of rating grades, each representing a defined range of default probabilities. Exposures migrate between rating grades if the assessment of the counterparty PD changes. These individual rating models continue to be refined and recalibrated based on experience. The calculation of internal ratings differs between portfolios. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment and decision making is largely automated through the use of statistically-based scoring models. All counterparties are assessed using the appropriate model or scorecard prior to credit approval.

Mortgage applications are generally assessed centrally with particular reference to affordability, assisted by scoring models. However, for larger cases with connected exposures, some mortgage applications are assessed by the relevant credit authority. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk, as well as to facilitate the management of these portfolios.

In the non-retail portfolio, the grading systems utilise a combination of objective information, essentially financial data (e.g., borrowers’ EBITDA, interest cover and balance sheet gearing) and qualitative assessments of non-financial risk factors such as management quality and competitive position within the sector/industry. The combination of expert lender judgement and statistical methodologies varies according to the size and nature of the portfolio, together with the availability of relevant default experience applicable to the portfolio.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or “criticised” loans. Criticised loans include “watch”, “vulnerable” and “impaired” loans which are defined as follows:

- Watch:** The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
- Vulnerable:** Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.
- Impaired:** A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

AIB’s criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to ongoing review in order to ensure that AIB is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

2.2.1 Use of PD, LGD and EAD

For information regarding the use of PD, LGD and EAD, as at 31 December 2016, 2015 and 2014 see “Part XVII: Risk Management” - Section 2.2.1, Use of PD, LGD and EAD” of the AIB Bank IPO Prospectus which is incorporated by reference herein.

2.2.2 Control mechanisms for rating systems

AIB’s ALCo approves all material risk rating models, model development, model implementation and all associated policies. AIB mitigates model risk for IRB portfolios as follows:

- AIB has specific policies on model governance, development and calibration, validation and deployment; and

- all models are subject to in-depth analysis and review, at least annually, supplemented by model tracking on a quarterly basis. This is carried out by a dedicated unit and is independent of credit origination and management functions.

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

For an analysis of loans and receivables to customers as at 31 December 2016, 2015 and 2014 see “*Part XVII: Risk Management*” - Section 2.3, Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity” of the AIB Bank IPO Prospectus which is incorporated by reference herein.

2.4 Analysis of available-for-sale debt securities by contractual residual maturity and weighted average yield

For an analysis available for sale debt securities by contractual residual maturity and weighted average yield as at 31 December 2016, 2015 and 2014 see “*Part XVII: Risk Management*” - Section 2.4, “Analysis available for sale debt securities by contractual residual maturity and weighted average yield” of the AIB Bank IPO Prospectus which is incorporated by reference herein.

3 Restructure execution risk

There is a risk that AIB’s restructuring activity programme for customers in difficulty will not be executed in line with management’s expectation.

AIB continues to have a relatively high level of problem or criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. As at 30 June 2017, AIB had €16.6 billion of criticised loans on its balance sheet. AIB has been proactive in managing its criticised loans through a restructuring process. The objective of this process is to assist customers that find themselves in financial difficulties, to deal with them sympathetically and to work with them constructively and to explore appropriate solutions. By continuing to work together in this process, AIB and the customer can find a mutually acceptable and alternative way forward. These plans, if successfully completed, will materially change the make-up of AIB’s operations. They will remove non-performing assets from AIB’s balance sheet, improve its asset quality, lower its overall risk profile, and strengthen its solvency.

However, as AIB moves forward into the post-restructure phase, the realisation of collateral and the receipt of expected cashflows within the timeframes estimated, presents a level of execution risk. In addition, there is the risk of a customer re-defaulting, post restructure.

AIB has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage and to assist with the restructuring of problem loans. AIB regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio.

4 Funding and Liquidity Risk

Liquidity risk is the risk that AIB will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. The objective of liquidity management is to ensure that, at all times, AIB holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

For more detail on liquidity risk, see “—*Funding and liquidity risk*” in note 58 of Section B to “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus and “*Funding and Liquidity Risk*” in the Risk Management Section of the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

4.1 Risk identification and assessment

Liquidity risk is assessed by modelling cash flows of AIB over a series of maturity bands. Behavioural assumptions are applied to those assets and liabilities whose contractual repayment dates are not reflective of their inherent stability. Both contractual and behaviourally adjusted cash flows are compared against AIB’s stock of unencumbered liquid assets to determine, by maturity bands, the adequacy of AIB’s liquidity position. In addition, AIB monitors and manages the funding support provided by its deposit base to its loan portfolio through a series of measures including the CRD IV related liquidity ratios, i.e. the LCR and NSFR as required by the CRR and the CRD and ultimately the LCR as required by the published European Commission Delegated Regulation (the “Delegated Act”) to supplement the CRR and which came into force on 1 October 2015.

4.2 Risk management and mitigation

AIB manages liquidity and funding risks through its Internal Liquidity Adequacy Assessment Process (“ILAAP”). The ILAAP encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. The ILAAP considers evolving regulatory standards and aims to ensure that AIB maintains sufficient financial resources of appropriate quality for its funding profile. AIB has a comprehensive Funding and Liquidity Framework for managing its liquidity risk. The Funding and Liquidity Framework

is designed to comply with evolving regulatory standards and ensure that AIB maintains sufficient financial resources of appropriate quality for its funding profile. The Funding and Liquidity Framework is delivered through a combination of policy formation, review and governance, analysis, stress testing and limit setting and monitoring.

In addition to the CRR liquidity requirements, AIB's liquidity management policy seeks to ensure compliance with the "Principles for the Sound Liquidity Risk Management and Supervision" as set out by the Basel Committee on Banking Supervision (September 2008) and the Central Bank's "Requirements for the Management of Liquidity Risk" (June 2009) and in doing so ensures that it has sufficient liquidity to meet its current and forecasted requirements. AIB is required to comply with the liquidity requirements of the SSM/Central Bank and also with the requirements of local overseas regulators which include regulatory restrictions on the transfer of liquidity within AIB. In addition, it operates a funding strategy designed to anticipate additional funding requirements based on projected balance sheet movements and to maintain a diversified funding base with an emphasis on high quality, stable customer deposit funding whilst maintaining an appropriate balance between short term and long-term funding sources at an appropriate cost.

The liquidity and funding requirements of AIB are managed and controlled by the treasury function. Euro and sterling are the most important currencies to AIB from a liquidity and funding perspective. AIB manages its liquidity in a number of ways:

- firstly, through the active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on periods up to one month. Monitoring ratios also apply to longer periods for long-term funding stability;
- secondly, AIB aims to maintain a stock of HQLA to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity; and
- finally, net inflows and outflows are monitored on a daily basis.

4.3 Risk monitoring and reporting

In common with other areas of risk management, AIB operates a "three lines of defence" model. Liquidity risk management is undertaken in the treasury function. Reporting and monitoring is carried out by the Capital and Liquidity unit which reports to the CFO of AIB Bank. Management in these areas comprises the first line of defence. Control and assurance is provided by Financial Risk reporting to the CRO of AIB Bank. This area comprises the second line. AIB Group Internal Audit comprises the third line. AIB's liquidity and funding position is reported regularly to the ALCo, the ERC and AIB Bank Board Risk Committee. In addition, the Leadership Team and the AIB Bank Board are briefed on liquidity and funding on an ongoing basis.

4.4 Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework and ILAAP. AIB undertakes liquidity stress testing as a key liquidity control. These stress tests include both firm-specific and systemic risk events and a combination of both. Stressed assumptions are applied to AIB's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of AIB's liquidity position, within AIB's pre-defined liquidity risk tolerance levels.

AIB has established the Contingency Funding Plan ("CFP") which is designed to ensure that AIB can manage its business in stressed liquidity conditions and restore its liquidity position should there be a major stress event.

Liquidity stress test results are reported to the ALCo, Leadership Team and Board, and to other committees. If the AIB Bank Board approved survival limits are breached, the CFP will be activated. The CFP can also be activated by management decision independently of the stress tests. The CFP is a key element in AIB's Recovery Plan in relation to funding and liquidity.

4.5 Liquidity regulation

AIB is required to comply with the liquidity requirements of the Central Bank/SSM and also with the requirements of local regulators in jurisdictions in which it operates.

AIB monitors and reports its current and forecast position against CRD IV related liquidity metrics—the LCR and the NSFR.

AIB Group had an LCR of 134 per cent. as at 30 June 2017 (31 December 2016: 128 per cent.). The minimum LCR requirement in 2017 is 80 per cent., rising to 100 per cent. by 1 January 2018. AIB has fully complied with the requirement.

The minimum NSFR requirement is scheduled to be introduced on 1 January 2018 at 100 per cent. As at 30 June 2017, AIB had an estimated NSFR of 122 per cent. (31 December 2016: 119 per cent.).

In addition, AIB is required to carry out liquidity stress testing capturing firm-specific, systemic risk events and a combination of both. AIB adheres to this requirement.

4.6 Funding structure

AIB maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

Customer deposits represent the largest source of funding for AIB. The core retail franchises and accompanying deposit base in both Ireland and the United Kingdom provide a stable and reasonably predictable source of funds. Customer accounts have broadly remained flat with a slight increase of €0.2 billion as at 30 June 2017 compared with the balances as at 31 December 2016, due to an increase in current accounts partially offset by institutional deposits. AIB's loan to deposit ratio as at 30 June 2017 was 94 per cent. (having been 95 per cent. as at 31 December 2016).

AIB continued to participate in Central Bank/ECB operations. Central Bank/ECB funding amounted to €1.9 billion as at 30 June 2017 in line with €1.9 billion as at 31 December 2016, down from €2.9 billion as at 31 December 2015 and €3.4 billion as at 31 December 2014. AIB decided to early mature the legacy €1.9 billion in the TLTRO I facility and re-invest it into the TLTRO II facility to lock in low cost term funding for the extended period.

Wholesale funding markets saw continued improvement in sentiment towards Ireland and towards AIB in 2015 and 2016. In the 12 months to December 2016, AIB raised secured funding through a €1 billion covered bond issuance with a 7-year tenor which was issued at a spread over mid-swaps of 54 basis points. This represented a spread increase of approximately 27 basis points compared to the historic low levels experienced in 2015 with a similar tenor.

Senior debt funding of €1.0 billion as at 30 June 2017 was in line with €1.0 billion at 31 December 2016, €1.6 billion at 31 December 2015 and €3.3 billion as at 31 December 2014. See note 30 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts and note 36 of Section B of "*Part XVI: Consolidated Historical Financial Information*" of the AIB Bank IPO Prospectus, which are incorporated by reference herein, for details of senior debt funding.

The final regulatory decision on future MREL requirements specific to AIB is expected to be formally confirmed to AIB by way of a joint decision of the Resolution Authorities by the end of 2017 or early in 2018. In advance of this, AIB has considered a pathway to MREL compliance in its funding and liquidity strategy.

The performance of the economy driving credit demand and the retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment will be the key factors influencing AIB's capacity for asset growth and the future shape of AIB. Coupled with actions to restructure stressed assets, this is paramount to increasing AIB's pool of available liquid assets and to AIB's overall funding and liquidity strategy.

4.7 Encumbrance

For information regarding encumbered and unencumbered assets as at 31 December 2016, 2015 and 2014 see "*Part XVII: Risk Management*" - Section 4.7, Encumbrance" of the AIB Bank IPO Prospectus which is incorporated by reference herein.

4.8 Large exposures

AIB's Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

As at 31 December 2016, AIB's top 50 exposures amounted to € 4.5 billion, and accounted for 6.9 per cent. (€4.8 billion and 6.9 per cent. as at 31 December 2015; €5.1 billion and 6.8 per cent. as at 31 December 2014) of AIB's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to approximately €83 million (31 December 2015: €266 million; 31 December 2014: €200 million). No single customer exposure exceeded regulatory requirements. In addition, AIB holds NAMA senior bonds amounting to € 1.8 billion as at 31 December 2016 (€5.6 billion as at 31 December 2015; €9.4 billion as at 31 December 2014).

4.9 Credit ratings

AIB's long-term debt (which is not covered by the ELG Scheme) is rated BBB- (with a stable outlook) by S&P (from January 2017), Baa2 (with a stable outlook) by Moody's (from June 2017) and BB+ (with a positive outlook) by Fitch (from December 2015).

Bank and sovereign rating downgrades have the potential to adversely affect AIB's liquidity position and this has been factored into AIB's stress tests.

5 Capital adequacy risk

Capital adequacy risk is defined as the risk that AIB breaches or may breach regulatory capital ratios and internal targets. The key material risk impacting on the capital adequacy position of AIB is credit risk, although it should be noted that all material risks can to some degree impact capital ratios.

Capital adequacy risk is mitigated at AIB level by an evaluation of the adequacy of AIB’s capital under both forecast and stress conditions as part of the ICAAP. The ICAAP process includes the identification and evaluation of potential capital mitigants.

6 Market risk

For details of market risk, see “—*Market risk*” in note 58 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, which is incorporated by reference herein.

7 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk—the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which include Product, Project, People & Property, Continuity & Resilience, Information & Security and Outsourcing.

7.1 Operational risk operating model

AIB’s operating model for operational risk is designed to ensure the framework described below is embedded and executed robustly across AIB. The key principles of the framework are:

- a strong operational risk function, appropriately staffed and clearly independent of the first line of defence; and
- technology, policies and procedures in place to support effective assessment and mitigation of operational risks.

7.2 Risk identification and assessment

Risk and Control Self-Assessment (“RCA”) is a core process in the identification and assessment of operational risk across the enterprise. The process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken to mitigate them. Self-assessment of risks is completed at business unit level and are recorded on Shield (AIB’s risk management system). RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks and action plans must be developed to introduce mitigants for the more significant risks. Monitoring processes are in place at business and support level. The central operational risk team sets and maintains policies and procedures for self-assessment and undertakes risk-based reviews to ensure the completeness and robustness of each business unit’s self-assessment, and that appropriate attention is given to the more significant risks.

7.3 Risk management and mitigation

Each business area is responsible for managing its own risks. The Operational Risk (“OR”) framework includes policies specific to key operational risks (such as information security and continuity and resilience) and key operational risk management processes (such as incident reporting and management) to ensure an effective and consistent approach to operational risk management across AIB.

An important element of AIB’s OR framework is the ongoing monitoring of risks, control deficiencies and weaknesses, including the tracking of operational risk events. The role of Operational Risk is to review operational risk management activities across AIB including setting policy and promoting best practice disciplines, augmented by an independent assurance process. The operational risk function is accountable to the CRO of AIB Bank and to the Board through the AIB Bank Board Risk Committee, ERC and the ORC.

In addition, an insurance programme is in place, including a self-insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; and directors’ and officers’ liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

7.4 Risk monitoring and reporting

The primary objective of the OR management reporting and control process within AIB is to provide timely, pertinent operational risk information to the appropriate management level so as to enable appropriate corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and incident data for AIB. The reporting of operational incidents and trend data, as required, at the ERC and AIB Bank Board Risk Committee supports these two objectives. In addition, the AIB Bank Board, the AIB Bank Board Audit Committee and the ERC receive summary information on significant operational incidents on a regular basis.

Business units are required to review and update their assessment of their operational risks on a regular basis. Operational risk teams undertake, review and challenge assessments of the business unit risk assessments. In addition, quality assurance teams, which are independent of the business, undertake reviews of the operational controls in the retail branch networks as part of a combined regulatory/compliance/operational risk programme.

8 Regulatory compliance risk and conduct risk

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which AIB may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

The regulatory compliance function is an AIB Group-wide function which operates independently of the business. The function is responsible for identifying relevant compliance obligations arising in each of AIB's operating markets. The regulatory compliance function works closely with management in assessing compliance risks and provides advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Conduct risk is defined as the risk that inappropriate actions, or inaction, by AIB could cause poor and unfair outcomes for its customers or market instability. A mature Conduct Risk Framework, aligned with AIB's strategy, is embedded in the organisation and provides oversight of conduct risks at Leadership Team and AIB Bank Board level. This includes the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

The Central Bank, CCPC and FCA have defined consumer protection principles in conduct of business requirements. These principles are embedded in AIB's conduct risk management and policies and procedures.

Conduct risk is managed in line with the processes, procedures and organisational structures for the management of regulatory compliance risk.

8.1 Risk identification and assessment

The regulatory compliance function is specifically responsible for independently identifying and assessing current and forward-looking "conduct of business" compliance obligations, as well as financial crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, prudential regulation is assigned to the Finance and Risk functions, with emerging prudential regulations being monitored by the Compliance Upstream unit. The regulatory compliance function undertakes a periodic detailed assessment of the key conduct of business compliance risks and associated mitigants. The regulatory compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the RCAs for the relevant business unit.

8.2 Risk management and mitigation

The AIB Bank Board, operating through the AIB Bank Board Risk Committee, approves AIB's compliance policy and its mandate for the regulatory compliance function.

The AIB Bank Board is responsible for ensuring that AIB complies with its regulatory responsibilities. The AIB Bank Board's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates. The Board ensures that regulatory compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the regulatory compliance function is to provide direction and advice to enable management to discharge its responsibility for managing AIB's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, AIB has insurance policies that cover certain consequences of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

8.3 Risk monitoring and reporting

Regulatory compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams, or in collaboration with other control functions such as AIB Group Internal Audit and/or operational risk.

Risk prioritised annual compliance monitoring plans are prepared with monitoring undertaken both on a business unit and a process basis. The annual monitoring plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation timelines are agreed. The implementation of these action plans is monitored by the regulatory compliance function.

The regulatory compliance function reports to AIB's Chief Risk Officer and independently to the AIB Bank Board, through the AIB Bank Board Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

9 People and Culture Risk

The risk to achieving AIB's strategic objectives as a result of an inability to recruit, retain or develop resources, or as a result of behaviours associated with low levels of employee engagement. It also includes the risk that the business, financial condition and prospects of AIB are materially adversely affected as a result of inadvertent or intentional behaviours or actions taken or not taken by employees that are contrary to the overall strategy, culture and values of AIB.

9.1 Mitigating actions

Culture is an essential component in realising an organisation's strategic ambitions. An effective culture is built around a general principle of "doing the right thing" for all stakeholders, including customers, staff and regulators.

AIB seeks to foster a consistent culture, in the way decision making occurs and how it communicates this from the top and throughout AIB. In this way AIB has embedded a set of customer centric Brand Values. These values drive and influence activities of all staff, guiding dealings with customers, other employees and all stakeholders. The Brand Values are embedded within AIB's framework, from the way it recruits, promotes, rewards and manages its employees.

A strong culture demonstrates a consistent approach to compliance in both the letter and spirit of the law. AIB's Risk Culture Principles and Code of Conduct places great emphasis on the integrity of staff and accountability for both inaction and actions taken.

How the staff live up to AIB's values determines what behaviours are acceptable in AIB and this means aligning remunerations and reward models around these values. In 2016, AIB launched the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions that contribute to delivering AIB's strategic ambitions. Aspire allows all staff to create goals that are clear on "what" they will achieve and "how" they will achieve them.

AIB has made significant steps in increasing engagement and awareness of its risk management activities throughout AIB by embedding the RAS in policies and frameworks of AIB. The RAS contains clear statements of intent as to AIB's attitude to taking and managing risk, including culture risk. It ensures AIB monitors and reports against certain culture metrics in measuring culture risk and tracking cultural change.

AIB closely monitors its evolving culture at the AIB Group level through its staff engagement programme, iConnect. Engagement scores have consistently increased since its inception in 2013. As a result, initiatives continue to be undertaken at team level to improve the way things are done and from which AIB continuously identifies opportunities to evolve its culture at the AIB Group level as a competitive advantage.

AIB's iLearn training portal, provides all staff with a dedicated and bespoke curriculum that allow teams and individuals to invest in themselves and therefore the organisation. AIB's Speak Up Policy and process also provides staff with a protected channel for raising concerns which is at the heart of fostering an open and receptive cultural environment.

10 Business model risk

Business model risk is defined as the risk of not achieving the agreed strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment, or due to factors in the economic, political or competitive environment.

This also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

These risks are mitigated at the AIB Group level through AIB's financial planning process which evaluates the impact of economic and market conditions on AIB's financial performance and results of operation. The operations are included within the financial planning process. Performance against the AIB Group's financial plan is monitored by management and the Board on a monthly basis.

10.1 Risk identification and assessment

AIB identifies and assesses business risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of AIB's strategic objectives aligned to AIB's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long-term strategy of AIB.

AIB reviews its assumptions on its external operating environment and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets. In normal circumstances, this is undertaken annually.

AIB's business and financial planning process supports AIB's strategy. Every year, AIB prepares three-year business plans at a group level based on macro-economic and market forecasts across a range of scenarios. The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across profit and loss, balance sheet and business targets. This assessment includes, but is

not limited to discussion on new lending volumes and pricing, deposit volumes and pricing, other income, cost management initiatives and credit performance. AIB's plan is supported by detailed business unit plans. Each business unit plan is aligned to AIB's strategy and risk appetite. The business plan typically describes the market in which the segment operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

10.2 Risk management and mitigation

At a strategic level, AIB manages business risk within its risk appetite framework, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through periodic monitoring of variances to plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter. During the year, periodic forecast updates for the full year financial outcome may also be produced. The frequency of forecast updates during each year will be determined based on prevailing business conditions.

At an individual level, planning targets translate into accountable objectives to enable performance tracking across the bank and to facilitate formulation and review of Leadership Team performance scorecards.

10.3 Risk monitoring and reporting

Performance against business and financial plans is monitored at segment level on a monthly basis and reported to senior management teams within the business. At an overall AIB Group level, performance against business and financial plans is monitored as part of AIB Bank's CFO Report which is discussed at Leadership Team and AIB Bank Board on a monthly basis. Risk profile against risk appetite measures, some of which would reference performance against Plan, is monitored by the CRO of AIB Bank and reported on a monthly basis to the ERC, Leadership Team and AIB Bank Board.

11 Pension risk

Pension risk is the risk that:

- the funding position of AIB's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its pension obligations;
- the capital position of AIB is negatively affected. Deficits recorded under IFRS measurement impact regulatory capital on a phased basis and any funding deficits will be fully deductible from regulatory capital beginning in 2018; and
- there could be a negative impact on industrial relations if the funding level of the schemes were to deteriorate significantly.

AIB maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in "*—Retirement benefit obligations*" in note 2 and note 12 of Section B of "*Part XVI: Consolidated Historical Financial Information*" of the AIB Bank IPO Prospectus, and note 11 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein. These defined benefit schemes were closed to future accrual from 31 December 2013. Approval was received from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Irish Pension Scheme. In the United Kingdom, AIB has established the AIB UK Pension Scheme, an asset backed funding vehicle to meet its statutory funding objective as per the UK Pensions Act 2004.

While AIB has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk.

Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements.

Actuarial risk arises due to the risk that the estimated value of the defined benefit scheme liabilities may increase due to changes in actuarial assumptions. There has been a change to the actuarial assumption of the nature and extent of any obligation to fund discretionary increases in pensions in payment in the AIB Irish Pension Scheme in 2016. This has been reassessed following a review by the Board, having considered actuarial and external legal advice. Although AIB is confident of its assessment, it may be subject to the risk of challenge, however, AIB will robustly defend any such challenge, legal, regulatory or otherwise.

The ability of the pension schemes to meet the projected pension payments is managed by the trustees through the active management of the investment portfolios across geographies and asset classes and as the schemes are closed to future accrual a process of de-risking the investment strategy to reduce market risk.

12 Model risk

Model risk is comprised of two elements:

- Operational risk: The risk of losses relating to the development, implementation or improper use of models for decision making (for example, product pricing, evaluation of financial instruments, monitoring of risk limits, etc.); and
- Capital impact: The risk relating to the underestimation of own funds requirements by models used within the Bank for those purposes.

The responsibilities and accountabilities in relation to the governance of model risk are outlined in AIB's Model Risk Framework.

AIB mitigates this risk by having policies and standards in place in relation to model development, operation and validation. In addition, AIB Group Internal Audit provide independent assurance on the adequacy, effectiveness and sustainability of the governance, risk management and control framework supporting model risk through their periodic review of the Model Risk Management processes.

PART XVIII SUPERVISION AND REGULATION

1 Regulation of Banks and Parent Financial Holding Companies in Ireland

1.1 General Supervision and Regulation of Banks and Parent Financial Holding Companies in Ireland

AIB HoldCo will be the parent financial holding company of AIB Bank (the current principal operating company and holding company of the AIB Group) with effect from the Scheme Effective Time, and as such AIB HoldCo will be subject to consolidated supervision with respect to AIB Bank and other credit institutions and investment firms in AIB.

As a credit institution that is incorporated in Ireland, each of AIB Bank, AIB Mortgage Bank, EBS and EBS Mortgage Finance is (i) authorised by and subject to the regulatory oversight of the Relevant Banking Regulator (as described below under “—*Role of the Relevant Banking Regulator*”); and (ii) subject to regulation under general banking legislation in Ireland. AIB Mortgage Bank and EBS Mortgage Finance are subject to regulation under the Asset Covered Securities Acts 2001 and 2007, as amended (the “ACS Act”) in respect of the activities regulated thereby.

The relevant Irish and EU legislation applicable to banking in Ireland consists primarily of the Central Bank Acts 1942 to 2015 (the “Central Bank Acts”), including the Central Bank and Financial Services Authority of Ireland Act 2003, the Central Bank and Financial Services Authority of Ireland Act 2004 (the “2004 CBI Act”), the Central Bank Reform Act 2010, the Central Bank and Credit Institutions (Resolution) Act 2011 (the “Bank Resolution Act”), the Central Bank (Supervision and Enforcement) Act 2013 (the “2013 CBI Act”), regulations made by the Minister for Finance under the European Communities Act 1972, regulatory notices, regulations and codes of conduct issued by the Central Bank and EU regulations relating to banking regulation. These ministerial regulations implement EU directives relating to banking regulation, including the CRD and give further effect to such EU regulations, including the SSM Regulation and the CRR.

The Central Bank Acts provide that banking business may only be carried on in Ireland by the holder of a local banking authorisation or a passported EEA banking authorisation on an EEA branch or cross border basis (as described below). The Relevant Banking Regulator may, in its discretion, grant or refuse a local banking authorisation under the Central Bank Acts or, as applicable, SSM Regulation and may attach conditions to any local banking authorisation on its issuance or subsequently. The Relevant Banking Regulator is empowered in specified circumstances, to revoke a local banking authorisation. Under the Central Bank Acts, holders of a local banking authorisation must maintain a minimum deposit with the Central Bank.

The CRD was implemented in Ireland by the Irish CRD IV Regulations. The European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. CRD IV permits a credit institution authorised for the purposes of CRD IV in an EEA Member State (its “Home State”) to do banking business in any other EEA Member State (the “Host State”) without having to obtain an official authorisation from the relevant regulator in the Host State. The authorisation from the competent authority of the Home State operates effectively as a “passport” to do banking business throughout the EEA. Other EU directives which have been implemented in Ireland provide similar “passporting” mechanisms for authorised investment firms and authorised life and non-life insurance undertakings.

1.2 SSM and SRM

Under the SSM, the ECB is the central prudential supervisor of certain financial institutions in the Eurozone, including AIB, and in those non-Eurozone but EU Member States that have chosen to join the SSM. The aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. The EU legislative measures which provide for the SSM are the SSM Regulation and the SSM Framework Regulation, which are given full effect in Irish law under the European Union (Single Supervisory Mechanism) Regulations 2014.

The European institutions have also established the SRM under the SRM Regulation. The SRM applies to credit institutions covered by the SSM. In the case of the failure of a credit institution, the SRM will allow its resolution to be managed effectively by the SRB and funded by the single resolution fund, which is financed by levies raised at national level. See “—*Bank Resolution and Recovery Directive/Single Resolution Mechanism Regulation*” below for details of the single resolution board and the single resolution fund.

1.3 Capital and Liquidity Requirements

In Ireland, the Relevant Banking Regulator requires credit institutions to manage their liquidity, on a consolidated group-wide basis, by applying a cash-flow maturity mismatch approach. This requires a credit institution to analyse its cash flows on a group-wide basis under various headings and to place them in pre-determined time bands depending on when the cash is received or paid out. Limits are imposed on AIB on the first (0-8 days) and second (8-31 days) time bands and monitoring ratios are calculated for subsequent time bands. These liquidity requirements apply to AIB on a consolidated basis rather than to AIB Bank (or other Irish credit institutions in AIB) on a standalone basis and AIB Bank

complies with such requirements as part of AIB's consolidated reporting, as permitted by the Relevant Banking Regulator.

A set of reform measures, known as Basel III, have been developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector. In December 2010, the Basel Committee published "Basel III: A global regulatory framework for more resilient banks and banking systems" (as revised in June 2011) and "Basel III: International framework for liquidity risk measurement, standards and monitoring", which together present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The Basel III reforms were implemented in the EU under CRD IV.

The CRD governs, amongst other things, the access by credit institutions to deposit-taking activities, while the CRR establishes the prudential requirements credit institutions need to respect.

The CRR contains detailed prudential requirements for credit institutions and certain investment firms and includes the following measures:

- capital: the CRR sets out the amount of own funds credit institutions need to hold as well as the quality of those funds. It also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is recognised for regulatory purposes.
- liquidity: the LCR requires credit institutions to have sufficient HQLAs to withstand a 30-day stressed funding scenario that is specified by the supervisors. The LCR came into effect in January 2015 with a phased implementation up until January 2018 (within the EU). The second liquidity measure is the NSFR, which is a longer-term structural ratio designed to address liquidity mismatches. It requires credit institutions to maintain a stable funding profile in relation to their on and off balance sheet activities. An NSFR of 100 per cent. is scheduled to come into effect from January 2018.
- Leverage Ratio: the Leverage Ratio is subject to supervisory review and monitoring by the competent authorities of Member States prior to its possible move to a binding requirement on 1 January 2018. The CRD V/BRRD2 Proposals (see below) to amend the CRR, the CRD and the BRRD and SRM published by the EC on 23 November 2016 include a proposal that a binding 3 per cent. CET1 Leverage Ratio requirement is added to the CRR basic regulatory capital (own funds) requirements which would be applicable to all institutions subject to CRD IV.
- single rule book: the CRR includes a single set of harmonised prudential rules which credit institutions throughout the EU must follow. These rules removed a large number of national options and discretions that were previously available.

CRD IV includes the following measures with respect to credit institutions such as AIB Bank:

- enhanced governance: CRD IV contains a number of requirements with regard to corporate governance arrangements and processes which include requirements aimed at increasing the effectiveness of risk oversight by boards, improving the status of the risk management function and ensuring effective monitoring by supervisors of risk governance;
- sanctions: CRD IV sets out certain minimum requirements regarding administrative sanctions and contains measures to ensure that supervisors can apply sanctions that are dissuasive, but also effective and proportionate. For example, it provides for administrative fines of up to 10 per cent. of an institution's annual turnover, and/or temporary bans on members of the institution's management body;
- capital buffers: CRD IV specifies a number of capital buffers on top of the minimum capital requirements—a capital conservation buffer (identical for all credit institutions in the EU, subject to transitional arrangements), a buffer in respect of global systemically important institutions, a buffer in respect of O-SII, a systemic risk buffer (not yet transposed into Irish law) and a countercyclical capital buffer (determined at national level);
- remuneration: CRD IV contains requirements regarding the relationship between the variable component of remuneration and the fixed component. It requires credit institutions to disclose the number of individuals who have been remunerated over €1 million and provides for a bonus cap which sets the maximum amount of variable remuneration at 100 per cent. of fixed remuneration, or 200 per cent. subject to shareholder approval;
- enhanced transparency: CRD IV makes provision for transparency and disclosure regarding the activities of credit institutions, as regards profits, taxes and subsidies in different jurisdictions in respect of which annual disclosure is required; and
- "maximum distributable amount" restrictions which limit a credit institution's ability to make distributions on CET1 and AT1 capital instruments or certain other discretionary payments in respect of pensions and remuneration where a combined requirement as to the level of capital buffers referred to above is not met.

On 23 November 2016, the EC published the CRD V/BRRD2 Proposals which included proposals to amend, inter alia, the CRD, the CRR and the BRRD. The CRD V/BRRD2 Proposals cover multiple areas, including capital add-ons, the introduction of a minimum Leverage Ratio, the MREL framework and the integration of the FSB's standard on TLAC

into EU legislation (in particular, the proposal to incorporate TLAC into the capital requirements framework, as an extension to the own funds requirement). The CRD V/BRRD2 Proposals also contain proposals for new provisions and amendments to elements of CRD IV, in order to bring financial holding companies, which will include AIB HoldCo in the event that it becomes the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group) under the Restructuring Proposals, directly in the scope of the EU prudential framework. The CRD V/BRRD2 Proposals will formalise the extent to which the EU regulatory framework and direct supervision applies to financial holding companies (which would include AIB HoldCo if the Scheme becomes effective). An authorisation requirement is proposed along with direct supervisory powers over financial holding companies. It is proposed to amend Article 11 of the CRR to clarify that where requirements are applied on a consolidated basis at the level of such holding companies, it will be the holding company which is directly responsible for compliance, not the institutions that are subsidiaries of such holding companies. It is also proposed to amend Articles 13 and 18 of the CRR to reflect direct responsibility of the financial holding companies. The CRD V/BRRD2 Proposals are being considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final new package of legislation may not include all elements of the CRD V/BRRD2 Proposals and new or amended elements may be introduced throughout the course of the legislative process.

1.4 Role of the ECB under the SSM

1.4.1 Framework of Supervision

Under the SSM Framework Regulation, the ECB is the single supervisory authority for all credit institutions, financial holding companies and mixed financial holding companies in the Eurozone and in those other Member States that participate in the EU banking union (the “Banking Union”).

In Ireland, the SSM Regulation and the SSM Framework Regulation were given full effect under the European Union (Single Supervisory Mechanism) Regulations 2014, which amended the Central Bank Acts and certain other legislation relating to credit institutions so as to give that effect. The ECB is the direct supervisor of AIB Bank, EBS, AIB Mortgage Bank and EBS Mortgage Finance and each of them is deemed to be authorised by the ECB under the SSM Regulation.

Although the ECB has been charged with the critical task of ensuring financial stability, certain functions remain at national level, as described in further detail below.

In performing its supervisory functions, the ECB is accountable to the Council of the EU and (to a lesser extent) to the European Parliament and to national parliaments.

Under the SSM Framework Regulation, the ECB has established a framework for co-operation within the SSM between the ECB and national competent authorities (which includes the Central Bank) and with national designated authorities (together with national competent authorities, “national supervisory authorities”).

1.4.2 Direct and Indirect Supervision

Under the SSM, the ECB supervises any credit institution that satisfies any of the following conditions (a significant credit institution for CRD IV purposes):

- the total value of its assets exceeds €30 billion;
- the ratio of the total assets of the credit institution to the gross domestic product of the relevant Member State in which the credit institution is established exceeds 20 per cent., unless the total value of its assets is less than €5 billion;
- the ECB (either on its own initiative or on the recommendation of the relevant national authorities) decides that the credit institution is significant;
- the credit institution is one of the three most significant credit institutions operating in the relevant Member State; or
- the credit institution has received financial support from the European Stability Mechanism or the European Financial Stability Facility.

In Ireland, AIB Bank, EBS, AIB Mortgage Bank and EBS Mortgage Finance are each significant credit institutions for CRD IV purposes for the purposes of the SSM and are subject to supervision and regulation by the ECB under the SSM.

A credit institution that is not a significant credit institution for CRD IV purposes is referred to below as an “other credit institution”.

1.4.3 Powers of the ECB

In performing its prudential supervisory role in respect of every credit institution in the Eurozone and in any other Member State that participates in the Banking Union, the ECB has two principal functions:

- to authorise, and withdraw the authorisation of, credit institutions; and

- to assess applications for the approval of the acquisition and disposal of qualifying holdings in credit institutions, subject to limited exceptions.

In respect of significant credit institutions for CRD IV purposes, the ECB is also empowered to (among other functions):

- impose prudential requirements on the significant credit institution for CRD IV purposes, including in respect of own funds, large exposures, liquidity requirements and other prudential regulatory matters;
- assess “passport” applications by the significant credit institution for CRD IV purposes (i.e., to provide services on a cross-border basis or to establish a branch) in a Member State that is outside the Banking Union;
- carry out supervisory reviews, including stress tests; and
- impose and assess compliance with governance and probity requirements, including “fit and proper” tests.

The ECB is vested under the SSM Regulation and the SSM Framework Regulation with a range of supervisory and investigatory powers for these purposes, including on-site inspections. The ECB is also empowered under those regulations to impose administrative penalties on certain entities including credit institutions (such as AIB Bank) and financial holding companies (which would include AIB HoldCo if the Scheme becomes effective), for CRD purposes.

In August 2017, the ECB imposed administrative penalties of €2,500,000 in total on the parent financial holding company of a significant Irish credit institution. These penalties were imposed under article 18(7) of the SSM Regulation. The financial penalties related to a failure to comply with ECB decisions imposing specific LCR requirements. (source: Press release dated 28 August 2017 ‘ECB Sanctions Permanent tsb Group Holdings Plc’).

1.4.4 The Role of National Supervisory Authorities

Although every credit institution in the Eurozone is subject to the SSM, national supervisory authorities (which include the Central Bank) are responsible for the day-to-day supervision of other credit institutions; the ECB in turn monitors the supervision of other credit institutions by those national supervisory authorities. The ECB may issue general and specific instructions to national supervisory authorities and a national supervisory authority must notify the ECB of any supervisory decision at national level that has material consequences.

Furthermore, national supervisory authorities retain responsibility for every supervisory function that is not transferred specifically to the ECB. Therefore the national supervisory authorities retain certain functions, including those relating to:

- consumer protection;
- the imposition of a sanction for a breach of EU law (other than in respect of an ECB act);
- the supervision of payment services;
- combating money laundering and terrorist financing; and
- the supervision of non-EEA credit institutions that establish a branch in the EEA or provide services into the EEA on a cross-border basis.

In addition, national supervisory authorities have a role in relation to certain macro-prudential tasks and tools, including setting requirements in respect of capital buffers such as the O-SII buffer and countercyclical buffer, subject to the power of the ECB under the SSM Regulation to apply higher requirements if the ECB deems it necessary.

1.4.5 Cross-Border Credit Institutions

The ECB acts as the host state supervisor for any credit institution that is established in a Member State that is not participating in the Banking Union and which (through a branch or on a cross-border basis) provides banking services in a Member State that is participating in Banking Union.

1.4.6 Functional Separation within the ECB

To address the same tension that could emerge in many national authorities with responsibility for both monetary policy and prudential supervision, the ECB in accordance with the SSM Regulation and the SSM Framework Regulation operates according to a number of organisational principles to ensure that there is a clear separation between its supervisory functions and its monetary policy functions. The internal separation aims to be both organisational (in terms of governance) and practical.

1.4.7 Role of the EBA within the SSM

The EBA has a role in developing proposals for binding technical standards to build the single rulebook that applies in all Member States participating in the SSM with respect to the CRD IV, the BRRD and the Directive 2014/49/EU on deposit guarantee schemes (the “DGSD”) in order to enhance convergence in supervisory practices in the EU/EEA. The EBA has also been tasked with developing a single supervisory handbook to complement the single rulebook, in the expectation that this will ensure greater consistency in regulatory practices at a national level.

1.5 Role of the Relevant Banking Regulator

The role of the Central Bank with respect to the regulation of banking in Ireland is subject to the role of the ECB under the SSM.

The Relevant Banking Regulator is responsible for regulating and supervising a range of banking and financial services entities in Ireland, including credit institutions, and operates on the basis of consolidated regulation. The Relevant Banking Regulator can grant banking licences (ECB authorisations for the purposes of the SSM Regulations) in the case of Irish incorporated credit institutions or local authorisations in the case of Irish branches of credit institutions incorporated outside the EEA. The Relevant Banking Regulator carries out regular review meetings and periodically inspects holders of local banking authorisations. The Relevant Banking Regulator is also empowered by law to carry out inspections of the books and records of local banking authorisation holders and to obtain information from such holders about their banking and bank-related business. The Relevant Banking Regulator has a wide range of statutory powers to enable it to effectively regulate and supervise the activities of credit institutions in Ireland. These include prudential regulation, codes of conduct and restrictions on acquiring transactions, each of which is addressed in more detail below. See paragraph 6.4 in the case of acquiring transactions, “Irish CRD IV Regulations—Notification Requirements” under “Part XX: Additional Information—Mandatory takeover bids, squeeze-out and sell-out rules, Irish merger control legislation and Irish CRD IV Regulations —Notification Requirements”.

The Relevant Banking Regulator also has wide ranging powers of inspection. Inspectors appointed by the Relevant Banking Regulator can enter the relevant premises, take documents or copies thereof, and require persons employed in the business to provide information and produce documents. In cases of extreme concern, the Relevant Banking Regulator may direct a holder of a local banking authorisation to suspend its business activity for a specified period and may also intervene in the management or operation of an entity. The Relevant Banking Regulator must also approve appointments to senior and influential positions in the holder of a local banking authorisation and has the power under the Central Bank Acts to impose administrative sanctions directly on credit institutions for failure to comply with regulatory requirements, subject, in the case of acts by the Central Bank, to a credit institution having a right of appeal to the Irish Financial Services Appeals Tribunal (and from there to the High Court) and, in the case of acts by the ECB, to a right of appeal to the Administrative Board of Review. The procedure adopted by the Relevant Banking Regulator may be by public hearings or a settlement agreement which is binding on the Relevant Banking Regulator and the credit institution concerned (and sanctions agreed, which are publicised by the Relevant Banking Regulator). Administrative sanctions, which may be imposed by the Relevant Banking Regulator, include without limitation, a reprimand or a caution, financial penalties up to €1 million for an individual or the greater of €10 million or 10 per cent. of annual turnover for regulated financial service providers such as credit institutions or a direction disqualifying a person from being concerned in the management of the regulated financial service provider. The ECB also has broad investigatory powers, rights to information, rights to carry out on-site inspections and the power to impose sanctions on supervised entities in the form of heavy financial penalties under the SSM. The SSM Framework Regulation sets out the procedural rules to be applied by the ECB when imposing sanctions. The ECB and the Central Bank also have the power to suspend or revoke a credit institution’s authorisation following an inquiry.

The Relevant Banking Regulator may prescribe ratios to be maintained between, and requirements as to the composition of, the assets and liabilities of holders of local banking authorisations and make a range of regulations for the prudent and orderly conduct of banking business of such holders. CRD IV imposes minimum start-up and ongoing capital requirements for holders of an ECB banking authorisation and requires applicants for such an authorisation to notify the Relevant Banking Regulator of the identity of certain shareholders and the size of their holdings in the applicant.

The Relevant Banking Regulator also sets requirements and standards from time to time for the assessment of applications for local banking authorisations.

The European Communities (Financial Conglomerates) Regulations 2004 implemented in Ireland the Directive 2002/87 on the supplementary supervision, insurance undertakings and investment firms in a financial conglomerate. Those regulations include rules regarding the supplemental supervision of regulated entities in a financial conglomerate (i.e., a financial group that provides products and services in the banking, investment and insurance sectors). The regulations impose requirements in respect of own funds, notification obligations in relation to risk concentrations and intra-group transactions and obligations in relation to the maintenance of adequate risk management processes and internal control mechanisms.

AIB’s operations in overseas locations are subject to the regulations and reporting requirements of the regulatory and supervisory authorities in the overseas locations, with the Relevant Banking Regulator having overall responsibility for their regulation and supervision. The Relevant Banking Regulator is required to supervise AIB on a consolidated basis (i.e., taking account of the activities and relationships of the entire group).

Under the CCA, the holder of a local banking authorisation (including AIB Bank) or a passported EEA authorisation, must notify certain of its existing fees and charges and related terms and conditions, and any changes therein from time to time to the Central Bank who can direct that no fees, charges or increases or changes therein be made without the Central Bank’s approval.

The 2004 CBI Act gives the Relevant Banking Regulator the power to request a holder of a local banking authorisation to provide it with a statement confirming that the entity has complied with its relevant obligations, thus going further than the general company law obligation to ensure that appropriate policies and procedures are in place and reviewed.

The 2013 CBI Act strengthened the regulatory framework for Irish regulated financial services providers (financial service providers authorised or licenced under Irish law by the Central Bank or ECB) by clarifying and enhancing the powers of the Relevant Banking Regulator to allow it to monitor, supervise, query and investigate the conduct and activities of regulated financial services providers and to impose sanctions as appropriate. The 2013 CBI Act applies to all regulated financial services providers and in many cases extends to any related undertakings including group companies and partnerships of which a regulated financial services provider is a member and which themselves may not have previously been subject to financial services legislation.

The main provisions of the 2013 CBI Act include:

- Independent expert report: the Relevant Banking Regulator may require a regulated financial services provider to engage an appropriately skilled person, to be approved or in the absence of agreement nominated by the Relevant Banking Regulator but at the cost of the regulated financial services provider, to prepare a report for the Relevant Banking Regulator on any matter that the Relevant Banking Regulator could require provision of information under any financial services legislation;
- Information gathering powers: the Relevant Banking Regulator has a general power to require information from persons in such manner and form, and from such time to time, as the Relevant Banking Regulator may require for the performance of its functions under financial services legislation;
- Authorised officer regime: the Relevant Banking Regulator's previous authorised officer regime has been re-enacted with certain additional powers. In particular, authorised officers have the power to summon persons to provide such information as the authorised officer may require and to explain decisions, a course of action or the content of records;
- Assurances from auditors: the Relevant Banking Regulator can request that the auditor of a regulated financial services provider conducts an examination and prepares a report to the Relevant Banking Regulator outlining the extent to which the regulated financial services provider has complied with its obligations;
- Protection for persons reporting breaches: protection is provided for persons who, in good faith, make a disclosure regarding an actual or possible contravention of financial services legislation. A mandatory disclosure regime for those performing pre-approval controlled functions is also provided for;
- Power to give directions: the Relevant Banking Regulator in specified circumstances may give directions to a regulated financial services provider or a related undertaking, including directions to refrain for up to 12 months from certain activities such as providing a financial service, making payments of a specified kind, or acquiring or disposing of assets. The Relevant Banking Regulator may also give directions to a regulated financial services provider or related undertaking to dispose of assets or liabilities or a part of its business, to raise and maintain such capital or other financial resources as may be specified in the direction and to make such modifications to its business practices and dealings with third parties as may be specified in the direction;
- Customer protection: the Relevant Banking Regulator may issue a direction requiring a regulated financial services provider to make appropriate redress to customers in certain circumstances. In addition, a failure by a regulated financial services provider to comply with any obligation under financial services legislation is actionable by any customer of the regulated financial services provider who suffers loss or damage as a result of such failure;
- Power to make regulations: the Relevant Banking Regulator may issue new regulations for the proper and effective control of regulated financial services providers; and
- Penalties: the 2013 CBI Act provides for increased monetary penalties.

The powers of the Relevant Banking Regulator under the 2013 CBI Act apply to regulated financial services providers, including members of AIB.

1.6 Competition

Credit institutions in Ireland are subject to supervision and oversight by the CCPC under the Competition Acts 2002 to 2014 and the European Commission under the TFEU and EU competition laws. These regulators have broad powers to launch market studies or conduct investigations. On 15 June 2017, the CCPC, following a public consultation exercise, published a report in relation to the future of the Irish mortgage market, see *“Part II: Risk Factors—AIB’s loan book (in particular, its residential mortgage book) may become subject to further supervision and scrutiny by the Irish Government, the Central Bank and the CCPC, which could result in regulation and control of AIB’s loan book and therefore result in a reduction in AIB’s level of lending, interest income and net interest margin and/or increased operational costs”*.

1.7 Financial Statements

Every holder of an ECB banking authorisation (including AIB Bank) is obliged to draw up and publish its annual accounts in accordance with the European Union (Credit Institutions: Financial Statements) Regulations 2015. AIB has procedures in place which are designed to ensure that AIB Bank's (and other Irish authorised credit institutions in AIB) annual accounts are so prepared and published. The Disclosure Committee is responsible for reviewing AIB's financial information for compliance with legal and regulatory requirements prior to external publication and for exercising oversight of the accounting policy forum, which ensures that the accounting policies adopted by AIB conform to the highest standard in financial reporting. In addition, the AIB Bank Board Audit Committee considers in depth AIB's financial statements. In this regard, the AIB Bank Board Audit Committee will engage with management in respect of accounting matters and consider matters where management judgement is important to the results and financial position of AIB and will consider the appropriateness of these. Where appropriate the views of the external auditor would also be sought. Having satisfied itself of the appropriateness of management's estimates, judgements and disclosures, the AIB Bank Board Audit Committee will recommend approval by the AIB Bank Board prior to publication.

1.8 Anti-Money Laundering, Counter Terrorist-Financing and Financial Sanctions

Every credit institution in Ireland (including AIB Bank) is obliged to take the necessary measures to effectively detect and counteract money laundering and terrorist financing. The third anti-money laundering directive, MLD3, repealed and replaced the previous anti-money laundering directives and introduced additional requirements and safeguards in line with the Forty Recommendations of the OECD-based FATF. The Criminal Justice (Money Laundering and Terrorist Financing) Acts of 2010 and 2013 (the "AML Acts") transpose MLD3 and the associated implementing Directive 2006/70/EC into Irish law. The AML Acts contain requirements on the part of designated bodies covered by the AML Acts (including credit institutions such as AIB Bank) to identify and verify the identity of customers, to report suspicious transactions to An Garda Síochána and the Revenue Commissioners and to have specific procedures in place to provide for the prevention of money laundering and terrorist financing. AIB has AML/CTF policies and procedures in place which are designed to identify money laundering and terrorist financing risks to which it is exposed as a result of its business model. The fourth anti-money laundering directive, MLD4, was published on 5 June 2015. MLD4 introduced two significant changes namely, first, the increased emphasis it places on the "risk-based approach" to AML and CTF and, second, the approach taken to the issue of beneficial ownership, including the requirement to set up a central register of beneficial owners. MLD4 also abolishes the automatic exemptions from customer due diligence ("CDD"), including for credit or financial institutions and for listed companies. While simplified CDD may still be carried out on the basis of a risk assessment, credit institutions (including AIB Bank) will be required to carry on "sufficient monitoring" to enable the detection of unusual or suspicious transactions. MLD4 also affects the scope of AML requirements, CDD requirements; the approach taken to electronic money; the treatment of politically exposed persons; third-party equivalents; and record keeping, as well as a variety of other matters. AIB will need to reflect the changes under MLD4 as set out in the relevant transposing legislation in both the Republic of Ireland and in the UK in its own policies, procedures and practices, as well as updating its framework to take account of the increased emphasis on the risk-based approach. MLD4 was transposed in part into Irish law on 15 November 2016 by the European Union (Anti-Money Laundering: Beneficial Ownership of Corporate Entities) Regulations 2016 which impose obligations on Irish incorporated bodies (such as AIB HoldCo) to take measures to compile a beneficial ownership register and on individuals who are beneficial owners in certain circumstances. Dáil Éireann is due to consider the Criminal Justice (Money Laundering and Terrorist Financing)(Amendment) Bill which will give effect to the remaining provisions of MLD4 later in the current sitting of Dáil Éireann. The fifth anti-money laundering directive is currently being considered by the European Parliament and the Council of the European Union and, if passed, could introduce changes to MLD4.

The Wire Transfer Regulation sets out the existing regime under which payment service providers are required to send information on the payer throughout the payment chain for the purposes of preventing, investigating and detecting money laundering and terrorist financing. Regulation (EC) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006 (the "Revised Wire Transfer Regulation") amends and replaces the Wire Transfer Regulation. It has applied directly since 26 June 2017 and together with MLD4 will represent the revised EU framework on anti-money laundering and CTF. AIB has put in place procedures designed to comply with the Revised Wire Transfer Regulation on AML/CTF. AIB has engaged with industry fora on this matter, including the BPFI's AML & CTF Committee, and the Association of Compliance Officers in Ireland's Private Sector Group. Internally AIB has mobilised a project across the Group for the implementation of MLD4, which is sponsored at a senior level within the organisation and includes system enhancements to assist with identification of (i) politically exposed persons, (ii) high risk customers and (iii) customers who may be on EU sanctions lists. It also includes a full review of existing procedures to ensure they are in line with the obligations under MLD4. There is a separate project for the Revised Wire Transfer Regulation, again sponsored at a senior level within AIB. This builds on existing procedures in place to meet Regulation 1781/2006. An objective of the Revised Wire Transfer Regulation is to increase transparency of payment information, it makes it mandatory to verify certain information either upon remitting or receiving the monies.

In the UK, the UK parliament passed the UK Money Laundering Regulations 2017, which came into force on 26 June 2017. The UK Money Laundering Regulations 2017 replaced the UK Money Laundering Regulations 2007 and the UK Transfer of Funds (Information on the Payer) Regulations 2007 with updated provisions that implement MLD4 and the

Revised Wire Transfer Regulation. The UK Money Laundering Regulations 2017 are currently applicable to all AIB operations in the UK. The short window between the publishing of the final UK Money Laundering Regulations 2017 on 22 June 2017 and their coming into effect on 26 June 2017, meant UK financial institutions (including AIB UK) had little time to update all of their policies, procedures and processes to ensure that they are in full compliance with all of the requirements set out in the Regulations. AIB UK has put a plan in place to ensure compliance with all applicable elements of the UK Money Laundering Regulations 2017 taking account of the FCA's subsequent industry note acknowledging the short lead in time for regulated firms in relation to implementation. AIB UK will actively engage at UK industry working groups with regard to the implementation of the UK Money Laundering Regulations 2017.

Sanctions are legally binding measures that are used as a tool by the United Nations, the European Union, the United States and others to bring about a change in the policy or behaviour of a country, entity or individual. For example, sanctions may be applied to deter the development of weapons of mass destruction, political or military aggression and/or human rights violations. They can also be used to sanction unfair trade, target terrorism and/or drug trafficking and to prevent or penalise a country interfering in another country's affairs. Under certain sanctions regulations, financial institutions are prohibited from making available any funds, other financial assets or economic resources to sanctioned persons or entities. Credit institutions must ensure that they have the policies and procedures in place necessary to comply with any applicable sanctions. In Ireland, sanctions can be imposed under EU regulations having direct effect in Ireland, orders made by the Minister for Finance under the Financial Transfers Act 1992, the Criminal Justice (Terrorist Offences) Acts 2005 and 2015 or the European Communities Act 1972 to 2012, or directions or orders made under the AML Acts.

See *“Part II: Risk Factors—Risks Relating to Supervision and Regulation—AIB is subject to anti-money laundering, anti-corruption and sanctions regulations and if it fails to comply with these regulations, it may face administrative sanctions, criminal penalties and/or reputational damage”* for details of the investigation by the Central Bank as part of an administrative sanctions procedure for breaches by AIB Bank of AML laws and regulations, which commenced in April 2015 and concluded in April 2017, and the monetary penalty of €2,275,000 imposed in connection with the investigation.

1.9 Data Protection

The DPA, which give effect to the Directive 95/146 on the protection of individuals with regard to the processing of personal data and on the free movement of such data, regulate the retention and use of data relating to individual customers. The DPA also require certain “data controllers” (including financial institutions which control personal data) to register with the Irish Data Protection Commissioner. AIB Bank and other members of AIB have registered under the DPA. The GDPR, adopted on 27 April 2016, will come into force across the European Union on 25 May 2018 and will replace the existing directive referred to above. The GDPR introduces substantial changes to European data protection law, including significantly increasing the scope of financial penalties for non-compliance. AIB Bank and other members of AIB are taking steps designed to ensure that they are in compliance with the GDPR when it comes into force in May 2018.

1.10 Credit Reporting Act 2013

The Credit Reporting Act 2013 provides for the establishment of a mandatory credit reporting and credit checking system to be regulated and operated by the Central Bank, namely the Central Credit Register (“CCR”). On 22 September 2016, the Central Bank published a number of regulations governing the operation of the CCR (“CRA Regulations”).

The purpose of the CCR is to provide for a national register for the collection and centralisation of financial information on borrowers, to ensure that a credit provider has access to the most accurate and up-to-date information regarding a borrower's total exposure. The Central Bank will also use the information for prudential/statistical purposes.

Key elements of the Credit Reporting Act 2013 are as follows:

- **Available Information:** the Credit Reporting Act 2013 prescribes the categories of information that the Central Bank may maintain on the CCR and the period for which such information may be held;
- **Mandatory Reporting:** the Credit Reporting Act 2013 requires a credit provider (which includes AIB Bank) to report a comprehensive range of credit information. In doing so, a credit provider must meet specified reporting standards. Under the CRA Regulations, the collection of credit and personal data from lenders will be implemented on a phased basis, with phase 1 focusing on data collection for consumer lending and phase 2 focusing on data collection for lending to businesses;
- **Credit Checks:** a credit provider must undertake mandatory credit checks with the CCR for every credit application above a threshold of €2,000. Information accessed as a result of such a check may be used by the credit provider for certain specified purposes only, as set out in more detail in the Credit Reporting Act 2013. Such a permitted use includes verification of information provided by the borrowing customer in connection with a credit application;
- **Access to Information:** the Credit Reporting Act 2013 provides for security controls in connection with access to information on the CCR;

- Data Protection: the Credit Reporting Act 2013 extends the role of the Data Protection Commissioner to deal with complaints from any individual or company with an annual turnover of less than €3 million in respect of the person's personal data that is held on the CCR; and
- Fees: although fees may be charged for access to information held on the CCR, consumers are entitled to one free copy of their own record, once every 12 months. The Central Bank may, with the consent of the Minister for Finance, make regulations prescribing a levy to be paid by credit providers for the purposes of meeting expenses properly incurred by the Central Bank in maintaining the CCR.

Data submissions by lenders for phase 1 commenced on 30 June 2017 with all lenders to consumers required to submit data by 31 December 2017. The Central Bank has notified some in-scope lenders of their obligations under the Credit Reporting Act 2013 and has provided technical and guidance manuals to support implementation. The Central Bank has indicated the CCR will produce credit reports for individual lenders after 31 December 2017, subject to quality data assurance. The credit reporting obligations and other requirements provided under the Credit Reporting Act 2013 will apply to AIB. AIB is putting in place policies and procedures to take steps designed to comply with its CCR reporting obligations and other requirements under the Credit Reporting Act 2013.

1.11 Central Bank Regulatory Codes and Requirements

1.11.1 Consumer Protection Code 2012 (“CPC”)

The CPC is designed to protect the interests of customers of regulated entities (as defined in the CPC) and is applicable (in part) to the activities of AIB Bank (and other members of AIB which are regulated entities) with its customers generally and (in its entirety) to its dealings with those of its customers who are consumers within the meaning of the CPC. See “—Consumer-related Regulation—Consumer Protection Code” below for further details of the CPC. AIB Bank and other regulated members of AIB have adopted policies and procedures aimed at ensuring their compliance with the requirements of the CPC.

1.11.2 Minimum Competency Requirements

The Central Bank applies minimum competency requirements to individuals who, in their own right or on behalf of a regulated firm, arrange or offer to arrange retail financial products for consumers (as defined in the CPC) and/or advise on same. AIB Bank and other members of AIB which are regulated firms are obliged to comply with these requirements to the extent that they apply to their business. In November 2016, the Central Bank published a Consultation Paper (CP106) seeking views from stakeholders on the proposals set out in the Consultation Paper to replace the Minimum Competency Code 2011 (“MCC 2011”) in part by a revised minimum competency code and in part by minimum competency regulations.

In September 2017 following the aforementioned consultation period, the Central Bank published the Minimum Competency Code 2017 (“MCC 2017”) and the Central Bank (Supervision and Enforcement) Act 2013 (Section 48 (1) Minimum Competency Regulations 2017 (“Minimum Competency Regulations”), which together, with effect from 3 January 2018, will replace the MCC 2011. The aim of the MCC 2017 and the Minimum Competency Regulations is to ensure that consumers of retail financial products, and retail or opt-up professional clients in the context of MiFID services or activities, obtain a minimum acceptable level of competence from individuals undertaking certain specific functions on behalf of regulated firms, relating to, for example, providing advice and information about retail financial products and adjudicating on complaints. A review of the MCC 2011 was undertaken by the Central Bank to, inter alia, consider the implications of the Mortgage Credit Regulations and the MiFID II Directive and the ESMA APM Guidelines for the assessment of knowledge and competence. The MCC 2017 specifies certain minimum competencies that persons coming within its scope must comply with when performing certain controlled functions.

Members of AIB that are subject to the MCC 2011 have policies and procedures in place aimed at ensuring compliance with that code. AIB is in the process of putting in place policies and procedures which are intended to ensure that the relevant members of AIB comply with the MCC 2017 and the Minimum Competency Regulations from 3 January 2018.

1.11.3 Fitness and Probity

The directors and other senior personnel of a regulated firm (including AIB Bank) are required to be approved by the Relevant Banking Regulator, which exercises its oversight by requiring the completion of a detailed individual questionnaire by each proposed appointee. The Relevant Banking Regulator's fitness and probity assessment seeks to ensure that directors and other senior personnel have the necessary skills to run the entity and also have the necessary personal qualities such as honesty, integrity, diligence, independent-mindedness and fairness to ensure that the entity is run ethically, in compliance with relevant legislation and in a manner that treats its customers fairly.

The Central Bank Reform Act 2010 gives the Relevant Banking Regulator wide-ranging powers across the financial services industry to, amongst other things: (i) approve or veto the appointment of people to certain positions; (ii) investigate and, where appropriate remove or prohibit, certain position holders; and (iii) set statutory standards of fitness and probity across the financial services industry.

The Central Bank published regulations and standards of fitness and probity under Part 3 of the Central Bank Reform Act 2010, the Central Bank Reform Act 2010 (Sections 20 and 22) Regulations 2011 (the “CBRA Regulations 2011”). The CBRA Regulations 2011 were amended by the Central Bank Reform Act 2010 (Sections 20 and 22) (Amendment) Regulations 2015 (collectively the “CBRA Regulations”).

Under the CBRA Regulations the fitness and probity regime applies to the following functions: “controlled functions” and “pre-approval controlled functions”. The CBRA Regulations identify 46 senior positions as prescribed “pre-approval controlled functions” which require the Relevant Banking Regulator’s approval before individuals can take up those positions. They also prescribe specific categories of staff as “controlled functions”, which are positions from which individuals can be temporarily or permanently removed or prohibited from taking up in the future.

The Fitness and Probity Standards Code 2011 (the “Fitness and Probity Standards Code”) was issued by the Central Bank under section 50 of the Central Bank Reform Act 2010 and last updated in 2014. It applies to persons performing “controlled functions” within regulated financial service providers (the latter are also obliged to ensure that their in-scope personnel meet the regime set out. These include the obligation to be competent and capable to carry out the controlled function, to act honestly, ethically and with integrity and to be financially sound.

A regulated financial services provider may not permit a person to perform a controlled function unless satisfied that the person complies with the Fitness and Probity Standards Code and the person has agreed to comply with that Code. Failure to do so may expose that regulated financial services provider and/or a person concerned in its management to financial penalties and other sanctions by the Relevant Banking Regulator.

The Central Bank also published guidance for industry which, among other things, indicates the type of due diligence that regulated financial services providers should carry out in relation to persons proposed for or holding pre-approval controlled functions or controlled functions.

AIB has policies and procedures in place designed to ensure compliance with the above fitness and probity requirements.

In addition to Central Bank requirements set out above, the ECB published its ‘Guide to fit and proper assessments’ in May 2017. The guide has been introduced to ensure a higher level of harmonisation in the application of fit and proper requirements across the Eurozone. The guide includes six high-level principles and guidance on five specific areas; assessment criteria, interviews, assessment process, decisions and removal of members of a credit institution’s management body.

1.11.4 Corporate Governance Code for Credit Institutions and Insurance Undertakings

The Central Bank’s Corporate Governance Code for Credit Institutions and Insurance Undertakings (2010) applied to directors and boards of credit and insurance institutions (including AIB Bank). That Code included provisions on the membership of the board of directors, the role and responsibilities of the chairman and other directors and the operation of various board committees.

The Central Bank issued in 2013 a revised Corporate Governance Code for Credit Institutions and Insurance Undertakings 2013. The Code is now split into the Corporate Governance Requirements for Insurance Undertakings 2015 and the Revised CGC Code which have applied since 1 January and 11 January 2016, respectively.

The Revised CGC Code sets out minimum statutory requirements on how credit institutions (such as AIB Bank) should organise the governance of their institutions. The key objective of the Revised CGC Code is to facilitate good corporate governance in institutions which fall within its remit.

The main changes in the Revised CGC Code are as follows:

- credit institutions are required to appoint a CRO and the Revised CGC Code outlines the role and responsibilities of the CRO;
- a credit institution’s risk committee must be made up of a majority of non-executive or independent non-executive directors, one of whom must be the chairman of the committee;
- the risk and audit committees of credit institutions are required to have a minimum of three members;
- credit institutions are required to ensure that there is at least one shared member between the risk and audit committees. In addition, high impact credit institutions (for the purposes of the Revised CGC Code) will be required to have at least one shared member between the risk and remuneration committees;
- credit institutions are required to introduce a diversity policy for board membership;
- the minimum number of board meetings required for high impact credit institutions was reduced from eleven to six per year;
- the chairman can hold the role of chairman in other financial institutions within the credit institution’s group, subject to prior approval by the Relevant Banking Regulator; and

- the CEO of a medium-low or low impact credit institution (in each case, for the purposes of the Revised CGC Code) can hold up to two additional CEO positions, provided they are in such medium-low or low impact financial institution, subject to prior approval by the Relevant Banking Regulator.

Derogations to certain provisions of the Revised CGC Code are available on application to the Relevant Banking Regulator. AIB has procedures and policies in place which are designed to ensure compliance with the Revised CGC Code where it applies.

1.11.5 Code of Practice on Lending to Related Parties

The Code of Practice on Lending to Related Parties (2013) (the “CPLRP”) revised the Code of Practice on Lending to Related Parties (2010). It prescribes requirements in respect of lending by a credit institution to a related party (a director, senior manager or significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding, as well as a connected person of any of these). Such lending is required to be on an arm’s length basis and must be subject to appropriate management oversight and limits. The CPLRP applies to every loan to related parties whether granted in Ireland or outside Ireland. Where a loan that is outstanding or a lending commitment entered into prior to 1 January 2011 is not consistent with the CPLRP, a credit institution is required to take all steps possible to modify the loan or lending commitment so that it is consistent with the CPLRP. The Relevant Banking Regulator requires related party exposures to be disclosed to it on a quarterly basis. In addition, where there is an error of conduct in respect of the CPLRP, the Relevant Banking Regulator must be informed of proposals to correct such errors within five Business Days. The CPLRP applies to credit institutions in AIB which are authorised under Irish law and AIB has adopted policies and procedures with the aim of their complying with the CPLRP.

1.11.6 CCMA

For details of the CCMA, see “—Consumer-related Regulation—CCMA” below.

1.12 Financial Services Ombudsman

The 2004 CBI Act provides for the establishment of the FSO and the Financial Services Ombudsman Council. The FSO has, in respect of complaints regarding financial services provided to consumers and SMEs, a range of powers to investigate complaints and to impose financial or other sanctions on a regulated financial services provider.

Under section 72 of the 2013 CBI Act, the FSO has “name and shame” powers. Pursuant to these powers, the FSO may publish the name of regulated financial services providers, or the group of which the regulated financial services provider is a member, where three complaints have been substantiated against the regulated financial services provider in the preceding financial year.

1.13 Deposit Guarantee Scheme and Investor Compensation Scheme

The European Union (Deposit Guarantee Schemes) Regulations 2015 (the “DGS Regulations”), give full effect to the DGSD in Irish law. Under the DGS Regulations, the Relevant Banking Regulator operates a statutory deposit protection scheme under which credit institutions authorised by the Central Bank are required to contribute to a deposit guarantee scheme fund annually based on their covered deposits and degree of risk. The Central Bank, in its ‘Risk-Based Contributions to the Irish Deposit Guarantee Scheme’ document, has developed a risk based methodology for the calculation of contributions in accordance with the EBA’s “Guidelines on methods for calculating contributions to deposit guarantee schemes”. The deposit guarantee scheme must reach an available financial means of 0.8 per cent. of covered deposits by July 2024.

The DGS Regulations aim to ensure that depositors are protected up to an amount of €100,000 generally in the event of a credit institution (including AIB Bank) being unable to repay deposits. The €100,000 per person per institution cover level is increased to €1,000,000 in the case of deposits held for up to six months and which meet restrictive criteria. The DGS Regulations protect all ‘covered deposits’ to the applicable aggregate amount.

The Investor Compensation Act 1998 established an independent body called the Investor Compensation Company Limited, now the (“ICCL”) to administer and supervise investor compensation schemes. The Investor Compensation Act 1998 requires authorised investment firms (including AIB Bank) to pay the ICCL such contribution to the fund maintained by the ICCL, as the ICCL may from time to time specify. The ICCL is given discretion to specify different rates or amounts of contributions or different bases for the calculation of contributions of different classes or categories of investment firms. The maximum level of compensation payable to any one eligible investor is 90 per cent. of net loss or €20,000, whichever is the lower.

AIB has in place policies and procedures designed to comply with the DGS Regulations and its obligations to the ICCL.

1.14 Companies Act 2014

The Companies Act 2014 represented the most significant consolidation and modification of Irish companies legislation in over 50 years. As a company incorporated in Ireland and registered under the Companies Act 2014, AIB HoldCo and other Irish incorporated members of AIB must comply with the provisions of such legislation. The Director of Corporate Enforcement, an Irish independent statutory officer, is responsible for encouraging compliance with, and for the

enforcement of, the Companies Act 2014. AIB has in place policies and procedures designed to comply with requirements under the Companies Act 2014.

1.15 Financial Support Act/NAMA Act

The Financial Support Act permitted, amongst other matters, the Minister for Finance to provide financial support in respect of the borrowings, liabilities and obligations of any credit institution or subsidiary which the Minister for Finance may specify by order. The AIB CIFS Covered Institutions are Covered Institutions for the purposes of the Minister for Finance's guarantee under the CIFS Scheme and the AIB ELG Participating Institutions are participating institutions under the ELG Scheme. In accordance with the Financial Support Act and the terms of the CIFS Scheme and the ELG Scheme (which continue to apply to AIB Bank and other relevant members of AIB), the Minister for Finance has powers to give directions to those members of AIB to regulate their conduct in certain aspects. AIB Bank and certain other members of AIB as participants of the NAMA Programme are also subject to the provisions of the NAMA Act. See "*Part X: Relationship with Government and State Aid—Governance Restrictions—Statutory*".

1.16 The Bank Resolution Act, BRRD and SRM Regulation

The Bank Resolution Act sets out a special resolution regime for a certain category of credit institution which, since the introduction of the European Union (Bank Recovery and Resolution) Regulations 2015, does not encompass AIB. However, the provisions contained in Part 7 of the Bank Resolution Act in respect of the winding up of certain credit institutions, and related BRRD powers of the Central Bank, continue to apply to AIB.

The BRRD establishes a European framework dealing with pre-resolution and resolution mechanisms, loss absorbency and bail-in rules. The BRRD is designed to provide relevant authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. The overarching goal of the bank recovery and resolution framework is to break the linkages between national banking systems and sovereigns. The BRRD framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while imposing to the extent possible the costs of resolution on bank shareholders and creditors. Among other provisions, the BRRD requires credit institutions to produce a full recovery plan that sets out detailed measures to be taken in different scenarios when the viability of the institution is at risk.

The BRRD introduces the Write-Down Tool. The Write-Down Tool would be applicable in particular if the resolution authority determines that unless the Write-Down Tool is applied, the credit institution or its group will no longer be viable or if a decision has been made to provide the credit institution with extraordinary public financial support without which the credit institution or its group will no longer be viable.

The BRRD also equips the resolution authority with the following Resolution Tools in circumstances where the credit institution meets the conditions for resolution under BRRD:

- the sale of business tool; and/or
- the bridge institution tool; and/or
- the asset separation tool; and/or
- the General Bail-In Tool.

BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; when its assets are, or are likely in the near future to be, less than its liabilities; when it is, or is likely in the near future to be, unable to pay its debts as they fall due; or when it requires extraordinary public financial support (except in limited circumstances).

In respect of the Write-Down Tool, and the General Bail-In Tool, the resolution authority has the power, upon certain trigger events, to cancel existing shares, to write down eligible liabilities (i.e. own funds instruments and, in the case of the General Bail-In Tool, other subordinated debt and even senior debt, subject to exceptions in respect of certain liabilities) of a failing credit institution (including its parent holding company, which would include AIB HoldCo if the Scheme becomes effective) or to convert such eligible liabilities of a failing credit institution into equity at certain rates of conversion representing appropriate compensation to the affected holder for the loss incurred as a result of the write-down and conversion.

The BRRD also makes provision for the meeting by a credit institution of its MREL requirements as set by its resolution authority based on RTS developed by the EBA and set out in a Commission Delegated Regulation. On the basis of the

RTS, it is possible that AIB may have to issue a significant amount of additional MREL eligible liabilities in order to meet the requirements within the required timeframes. If AIB were to experience difficulties in raising MREL eligible liabilities, then it may have to reduce its lending or investments in other operations, which could have a material adverse effect on the business.

Where a credit institution (including its parent holding company, which would include AIB HoldCo if the Scheme becomes effective) meets the conditions for resolution, the appropriate resolution authority will be required to apply the Write-Down Tool before applying the Resolution Tools. The write-down or conversion will follow the ordinary allocation of losses and ranking in insolvency. Equity holders will be required to absorb losses in full before any eligible debt claim is subject to write-down or conversion. After shares and other similar instruments, the write-down or conversion will, if necessary, impose losses evenly on holders of other subordinated debt which rank *pari passu* according to their terms.

Pursuant to the BRRD, resolution authorities must ensure when applying the Resolution Tools, that creditors do not incur greater losses than they would have incurred if the credit institution had been wound down in normal insolvency proceedings. Furthermore, the Relevant Banking Regulator may require AIB to make changes to its legal structures and/or business model pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation. See “*Part II: Risk Factors*” for further information.

The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. A SRM has been introduced, including a SRB and a single fund for the resolution of credit institutions, which will be funded by levies on credit institutions raised at the national level. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for Member States that share the supervision of credit institutions within the SSM. The requirements of the SRM are set out in the SRM Regulation and the BRRD. The SRM became fully operational on 1 January 2016.

Pursuant to the SRM Regulation, the SRB is responsible for drawing up AIB’s resolution plan providing for resolution actions that may be taken if AIB would fail or would be likely to fail. In drawing up AIB’s resolution plan, the SRB identifies any material impediments to AIB’s resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments.

These actions may include (but are not limited to):

- legal restructuring of AIB, which could lead to high transaction costs, or could make AIB’s business operations or its funding mix become less optimally composed or more expensive;
- issuing additional liabilities at various levels within AIB. This may result in higher capital and funding costs for AIB, and as a result adversely affect AIB’s profits and its possible ability to pay dividends; and
- reviewing and amending AIB’s contracts for the purposes of ensuring (i) continuity of business operations and (ii) that such contracts do not cause any impediments to resolvability of AIB. This may result in additional costs and operational complexity for AIB.

If the SRB is of the view that the measures proposed by AIB would not effectively address the impediments to resolvability, the SRB may direct AIB to take alternative measures as outlined in the SRM Regulation.

On 23 November 2016, the EC published proposals to amend the BRRD and the SRM Regulation. These are currently being considered by the European Parliament and the Council of the European Union.

AIB has adopted policies and procedures designed to comply with its obligations under BRRD and the SRM Regulation.

1.17 Consumer-related Regulation

1.17.1 Overview

It is not necessary to hold a local banking authorisation in order to provide credit to natural persons in Ireland. However, the provision of credit to such natural persons requires the lender to be authorised and regulated by the Central Bank as a retail credit firm, unless exempted as in the case of the holder of a local banking authorisation or a passported EEA authorisation. Under the Central Bank Acts, retail credit firms are subject to the CPC and the CCMA in respect of lending activities. See “—*Authorisation as a “Retail Credit Firm” under the Central Bank Act 1997*” below. The provision of home reversion loans is also regulated in Ireland.

The primary regulatory requirements in Ireland applicable to the extension of credit to and hire purchase arrangements with, consumers are contained in the CCA. Any entity regulated by the Central Bank (including AIB Bank and other regulated members of AIB) is also obliged to comply with the CPC. In addition, AIB Bank and those regulated members of AIB are obliged to comply with certain consumer legislation which transposes EU directives, including the Unfair Terms in Consumer Contracts Regulation (“UTCCR”) and the European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004 (“DM Regulations”).

1.17.2 Consumer Credit Act 1995

The extension of credit (including, the making of cash loans, housing loans, and other financial accommodation) as well as hire purchase arrangements to or with, consumers (individuals who act outside their trade, business or profession) in Ireland is principally regulated by the CCA. The CCA imposes a range of obligations and restrictions on lenders and intermediaries.

The relevant part of the CCA applicable to housing loans (Part IX) applies to loans made by mortgage lenders only. For the purposes of the CCA, a mortgage lender is an entity that carries on a business that consists of or includes making housing loans. A housing loan is an agreement for the provision of credit to a person on the security of a mortgage of a freehold or leasehold estate or interest in land for any of a number of purposes, including the purchase or construction of a house to be used as the PDH or that of the person's dependents, or refinancing a loan that was made for any of those purposes, and any loan to a consumer where that loan is secured by a mortgage and on which a house is or is to be constructed.

Relevant obligations imposed by the CCA in respect of the making of housing loans include rules regulating advertising for housing loans; a requirement to furnish the borrower with a valuation report concerning the property; criteria for calculation of APR on housing loans; a requirement that specified warnings regarding the potential loss of the person's home be included in all key documentation relating to a housing loan and that key, prescribed information be displayed on the front page of a housing loan; obligations to provide prescribed documents and information to a borrower; disclosure of certain fees and charges; and requirements to ensure that the borrower obtains mortgage protection insurance (life cover). Restrictions include prohibitions on the imposition of a redemption fee in the case of a variable rate housing loan; compelling a borrower to pay the lender's legal costs of investigating title and the linking of certain services.

A breach of obligations or restrictions imposed by the CCA may constitute a criminal offence. In respect of a regulated financial services provider (but not an entity that is a mortgage lender only), the Central Bank may, instead of a criminal prosecution, impose under its administrative sanctions regime a monetary penalty for breach of any of these obligations and restrictions.

Under section 149 of the CCA, credit institutions must apply to the Central Bank in order to either increase existing fees or introduce any new fee or charge on customers (whether or not consumers) in the case of certain services, including the provision of credit and foreign currency facilities. The Central Bank has the right to decline any such application. Section 149(12) entitles the Central Bank to require a credit institution to refrain from using any terms and conditions that the Central Bank considers to be unfair or likely to be regarded as unfair.

Consumer credit agreements and related guarantees (other than those relating to housing loans, overdrafts and credit cards) are unenforceable unless the creditor has complied with the CCA's requirements as to their form and content, unless the court exercises a discretion to render them enforceable. Such discretion does not apply in respect of a breach of section 30 of the CCA.

Certain members of AIB engage in consumer lending and financing which is subject to the requirements of the CCA. Those AIB Group companies have established internal frameworks, including providing information on products and applicable charges, and drafted customer documentation, which are intended to ensure that they comply with relevant obligations under the CCA.

1.17.3 Unfair Terms in Consumer Contracts Regulations

The UTCCR apply in relation to consumer contracts entered into by consumers (natural persons acting for purposes outside their business) and their related security. A consumer may challenge a term in an agreement on the basis that it is "unfair" within the meaning of the UTCCR and therefore not enforceable against the borrower. If the court finds a term of a contract to be unfair and therefore, not binding on the consumer, the rest of the contract will continue to bind the consumer if the contract is capable of continuing in existence without the unfair term. In addition, the CCPC or an authorised body (as defined in the UTCCR) may seek an injunction preventing the use of specific terms that are unfair.

The UTCCR will not generally affect "core terms" which set out the main subject of the contract, such as, in the context of a loan, a borrower's obligation to repay principal, but may affect terms deemed to be ancillary which may include terms the application of which are in the lender's discretion (such as a term permitting the lender to vary the interest rate or waiver by a borrower of set off rights).

Certain members of AIB provide financial products to consumers and so are subject to the UTCCR.

1.17.4 Authorisation as a "Retail Credit Firm" under the Central Bank Act 1997

Under the Central Bank Act 1997, a person who wishes to carry on a regulated business can apply to the Central Bank for an authorisation to carry on such a business. "Regulated business" is defined to include, *inter alia*, a retail credit firm. A "retail credit firm" is, in turn, defined as, *inter alia*, any person who holds itself out as carrying on a business of, and whose business consists wholly or partly of, providing credit directly to certain natural persons, but does not include, *inter alia*, (i) a person who is a regulated financial services provider (which is defined to include entities (such as AIB Bank)

which carry on a business of providing one or more financial services and which are subject to regulation by the Relevant Banking Regulator) and which is authorised to provide credit in the State and (ii) in relation to credit that was originally provided by another person, a person to whom all or any part of that person's interest in the credit is directly or indirectly assigned or otherwise disposed of.

Two companies in AIB, AIB Leasing Limited and Haven, are authorised by the Central Bank as retail credit firms.

1.17.5 Consumer Protection Code

The CPC, issued by the Central Bank under its statutory powers, applies to AIB Bank and other regulated financial service providers in AIB and contains provisions that cover all aspects of a regulated entity's (meaning firms subject to regulation by the Relevant Banking Regulator when providing financial services, with certain exceptions such as services for the purposes of the MiFID I Directive and the MiFID II Directive) relationship with a consumer and certain aspects of a regulated entity's relationship with all of its customers. These range from advertising and marketing, to knowing the consumer and offering suitable products, to ensuring that consumers are treated fairly. The general principles of the CPC apply to all customers of AIB Bank and other regulated financial services providers in AIB.

Relevant obligations of the CPC include: a requirement to supply a written suitability statement before providing certain services or products; a strict time period for complaint handling; for consolidation mortgages, an obligation to supply a written comparison detailing the total cost of the consolidated facility on offer versus the cost of maintaining existing loans; for setting variable mortgage interest rates, an obligation to produce a summary statement of its policy for setting each variable mortgage interest rate that it makes available to personal consumers and publishes on its website; and a requirement to advise personal consumers how to mitigate/avoid fees and penalties in respect of the chosen product.

In the case of all mortgage products provided to personal consumers (other than those where the interest rate is fixed for a period of five years or more), the CPC requires that a lender test the consumer's ability to repay the instalments on the basis of a two per cent. interest rate increase above the interest rate offered. Other relevant provisions include suitability requirements, disclosure and notice requirements, requirements in connection with complaints resolution and a restriction of the circumstances in which unsolicited contact can be made with consumers.

The CPC also sets out how regulated entities must deal with and treat personal consumers who are in arrears on a range of loans, including buy-to-let mortgages. Amongst other things, under the CPC, the regulated entity is required to (i) make certain information available to the personal consumer within certain time periods and (ii) where arrears arise, seek to agree an approach which would assist the personal consumer in resolving the arrears, and explain any revised payment arrangement agreed with the personal consumer. In particular, the regulated entity is required to notify the personal consumer of the potential for legal proceedings and proceedings for repossession of the property, and is not permitted to initiate more than three unsolicited communications per calendar month with a personal consumer in respect of the arrears. However, the provisions of the CPC in relation to arrears do not apply to the extent that the loan is a mortgage loan to which the CCMA applies.

In July 2016, the Central Bank published an Addendum to the CPC which amended the CPC as a consequence of the introduction of the Mortgage Credit Regulations and the SME Regulations. The Addendum also introduced a number of increased protections for variable rate mortgage holders. The enhanced measures require lenders to take certain measures, for example to produce a policy statement for setting variable interest rates and to notify variable rate borrowers of alternative mortgage options that could provide savings for the borrower, both on an annual basis and also when notifying borrowers of an increase in the variable interest rate. Where there is an increase in a variable interest rate, lenders are required to include the reason for the rate increase in the notification provided to variable rate borrowers.

In August 2017, the Central Bank published an additional Addendum to the CPC, which amended the CPC as a consequence of the transposition of the MiFID II Directive into Irish law, by the IR MiFID II Regulations. This Addendum is effective from 3 January 2018, the date the IR MiFID II Regulations will come into operation. The Addendum is required in order to apply the Member State discretion contained in Article 3 of the MiFID II Directive which is set out in regulation 4(3) of the IR MiFID II Regulations. This discretion allows certain firms to continue to be regulated under the Investment Intermediaries Act 1995 rather than the IR MiFID II Regulations, provided they are subject to analogous requirements to those imposed on investment firms under the IR MiFID II Regulations. The Addendum imposes such analogous requirements on those firms authorised under the Investment Intermediaries Act 1995 that avail of the exemption from authorisation under regulation 4(3) of the IR MiFID II Regulations.

Companies within AIB that are regulated financial service providers are, depending on the services they provide, subject to some or all of the CPC. Those AIB Group companies have in place policies and procedures designed to ensure that those companies comply with their obligations under the CPC when providing financial products and services to consumers (as defined in the CPC) and other customers.

1.17.6 CCMA

The CCMA was issued under the statutory powers of the Central Bank and is to be read together with the CPC. The CCMA sets out the procedures that must be adopted by every regulated entity operating in Ireland as regards mortgage

lending and mortgage servicing to a borrower in respect of the borrower's primary residence in Ireland. As such, the CCMA applies to AIB Bank, AIB Mortgage Bank, EBS, Haven and EBS Mortgage Finance.

In addition, the CCMA applies to the mortgage loan of a borrower which is secured on the borrower's "primary residence", which the CCMA defines as:

- the residential property which the borrower occupies as his or her primary residence in Ireland; or
- a residential property which is the only residential property owned by the borrower in Ireland.

In addition to applying to borrowers in arrears, the CCMA also applies to borrowers who notify their lender that they are facing financial difficulties and may be at risk of mortgage arrears (known as "pre-arrears" cases).

The CCMA requires a lender to wait at least eight months from the date the arrears arose before commencing legal proceedings against a co-operating borrower. Separately, a lender is required to give three months' notice to the borrower before a lender may commence legal proceedings where the lender does not offer the borrower an alternative repayment arrangement or the borrower is unwilling to accept an alternative repayment arrangement offered by the lender.

In addition, the CCMA imposes the following requirements:

- A provision requiring lenders to provide a warning letter giving at least 20 Business Days' notice to the borrower, outlining the implications of being classified as not cooperating and providing specific information on how to avoid this classification.
- Lenders must have a board-approved communications policy that will protect borrowers against unnecessarily frequent contacts and harassment, while ensuring that lenders can make the necessary contact to progress resolution of arrears cases. This replaces the limit under the CPC of three successful, unsolicited communications per month and allows for an approach to lender and borrower communication that is suited to individual needs and circumstances.
- Lenders must provide the standard financial statement ("SFS") (a document which a lender uses to obtain information from a borrower in order to complete an assessment of that borrower's case) at the earliest opportunity, and to offer assistance to borrowers with completing it. In addition, lenders can agree with the borrower to put a temporary arrangement in place to prevent the arrears from worsening while the full SFS is being completed and assessed.
- Where there is no other sustainable option available, lenders can offer an arrangement to distressed mortgage holders which provides for the removal of a tracker rate, but only as a last resort, where the only alternative option is repossession of the home. Lenders must be able to demonstrate that there is no other sustainable option that would allow the borrower to keep the tracker rate, and the arrangement offered must be a long-term, sustainable solution that is affordable for the borrower.
- Cooperating borrowers must be given at least eight months from the date arrears first arise before legal action can commence and, at the end of the MARP process, lenders must provide a three-month notice period to allow co-operating borrowers time to consider their options, such as voluntary surrender or an arrangement under the Personal Insolvency Act, before legal action can commence.
- increased information requirements for lenders in order to improve transparency for borrowers including more detail in the MARP booklet on:
 - how the alternative repayment arrangements offered by the lender work and their key features;
 - explanations of other options such as voluntary surrender or trading down;
 - explanations of the meaning and implications of not co-operating;
 - summary information on a lender's potential use of confidentiality agreements;
 - information on the borrower's right of appeal;
 - a link to keepingyourhome.ie (i.e. where borrowers can get further information and assistance); and
 - a summary of the lender's communications policy.
- Lenders are required to establish a MARP framework for handling arrears and pre-arrears cases and where alternative repayment arrangements expire or where the alternative repayment arrangement put in place breaks down. The MARP must incorporate the requirements of the CCMA regarding:
 - communication with, and provision of information to, a borrower;
 - the collection and assessment of financial information from a borrower; and
 - resolution of cases by exploring alternative repayment arrangements.

- Lenders also have to establish a centralised and dedicated arrears support unit (“ASU”), which must be adequately staffed, to manage cases under the MARP. Each branch office must have at least one person with specific responsibility for dealing with arrears and pre-arrears cases and for liaising with the ASU in respect of these cases.
- Where a borrower is in mortgage arrears, a lender is permitted to commence legal action for repossession of the property within the relevant moratorium period in the following circumstances:
 - where the borrower does not co-operate with the lender and the lender has made every reasonable effort under the CCMA to agree an alternative repayment arrangement with the borrower or his or her nominated representative;
 - in the case of a fraud perpetrated on the lender by the borrower; or
 - in the case of a breach of contract by the borrower other than the existence of arrears.
- Lenders are restricted from imposing charges and/or surcharge interest on arrears arising on a mortgage account in arrears to which the CCMA applies and in respect of which a borrower is cooperating reasonably and honestly with the lender under the MARP.

AIB Bank and other relevant members of AIB (namely, AIB Mortgage Bank, EBS and EBS Mortgage Finance) are subject to the requirements of the CCMA. Those companies have in place policies and procedures which seek to ensure that appropriate resolution strategies are applied and the CCMA is adhered to when dealing with customers who are in arrears or pre-arrears on a mortgage in respect of their primary residence.

1.17.7 Sustainable Mortgage Resolution Template returns

A requirement applicable to the main Irish residential mortgage credit institutions (including AIB and other Irish residential mortgage lenders in AIB) to make Sustainable Mortgage Resolution Template (“SMRT”) returns to the Relevant Banking Regulator in respect of mortgages secured on properties located within Ireland commenced in 2016, replacing the Central Bank Mortgage Arrears Resolution Targets which previously set performance targets for those institutions.

The SMRT return is completed in respect of all mortgages secured on properties located within Ireland. Details of proposed and concluded sustainable PDH and buy-to-let mortgage arrears solutions are provided in the SMRT return which is submitted as part of the overall ‘Finrep’ regulatory reports required to be made by AIB each quarter. This information is used to monitor performance of sustainable solutions for Irish residential mortgage arrears cases in line with supervisory expectations to assess where any mitigation may be required.

1.17.8 Consumer Protection Act 2007

The Consumer Protection Act 2007 and the Competition and Consumer Protection Act 2014 (together, the “Consumer Protection Acts”) apply the Directive on Unfair Commercial Practices in Ireland and prohibit business-to-consumer commercial practices that are unfair, misleading, aggressive or which otherwise are prohibited by the Consumer Protection Acts. Principally, the Consumer Protection Acts (i) empower a consumer who is aggrieved by any of those proscribed varieties of commercial practice, and the CCPC, to apply to court for an order prohibiting the continued use of the proscribed practice and (ii) confer on every consumer who is aggrieved by a proscribed commercial practice a right of action to claim damages (including exemplary damages) against the person who has committed or engaged in the prohibited act or practice. For this purpose, a consumer would include certain borrowers of residential loans and a relevant service would include residential lending.

1.17.9 Mortgage Credit Directive

The Mortgage Credit Directive was transposed into Irish law by the Mortgage Credit Regulations.

The Mortgage Credit Directive aims to improve consumer protection measures by introducing revised rules for residential mortgage lending which apply across the EU. The Mortgage Credit Directive is designed to create an efficient and competitive single market for consumers, creditors and credit intermediaries with a high level of consumer protection and to promote financial stability by ensuring that mortgage credit markets operate in a responsible manner.

The Mortgage Credit Regulations apply to credit agreements with consumers which are secured by a mortgage or other comparable security on residential immovable property and to credit agreements the purpose of which is to acquire or retain property rights in land or in an existing or projected building. Member States are permitted to exclude certain credit agreements (such as bridging loans and credit agreements in respect of buy-to-let properties) from the scope of the Mortgage Credit Directive where an appropriate national framework is in place to deal with such agreements. However, the Mortgage Credit Regulations have included these loans as being in scope.

The Mortgage Credit Regulations apply to consumer mortgage lending by credit institutions and non-credit institutions and affects the activities of creditors (such as AIB Bank and certain of its subsidiaries), credit intermediaries and their appointed representatives. A “consumer” for the purposes of the Mortgage Credit Regulations is a natural person acting for purposes which are outside his or her trade, business or profession.

The key elements of the Mortgage Credit Regulations are:

- **Transparency requirements:** the Mortgage Credit Regulations require information to be provided to a consumer at a pre-contractual stage to enable a consumer to choose the mortgage product which best meets his or her needs. A creditor is required to provide a consumer with a European Standardised Information Sheet which will allow the consumer to compare terms and conditions of loans being offered by different lenders in the market and so identify the product that is most appropriate for him or her. A consumer must be given a minimum thirty-day reflection period before the conclusion of the credit agreement or, alternatively, a minimum seven-day right of withdrawal after the conclusion of the credit agreement;
- **Consumer safeguards:** the Mortgage Credit Regulations oblige a creditor to conduct a thorough creditworthiness assessment before granting credit to a consumer;
- **Business conduct rules:** the Mortgage Credit Regulations require a creditor and a credit intermediary to act in the consumer's interests and imposes high-level standards regarding their remuneration structure. Member States are also required to establish minimum knowledge and competence requirements for lenders and credit intermediaries in accordance with the principles set out in the Mortgage Credit Directive. The MCC 2017 prescribe minimum competency standards to persons exercising a controlled function in relation to mortgage credit agreements as set out in the Mortgage Credit Regulations;
- **Early repayment:** the Mortgage Credit Regulations grant a consumer a general right to repay a relevant mortgage loan early. The Mortgage Credit Regulations provide that a creditor is entitled to fair and objective compensation for potential costs directly linked to the early repayment, where justified. Where it is a fixed-rate loan, early repayment can be subject to the existence of a legitimate interest on the part of the consumer, for example, in the event of divorce or unemployment;
- **Arrears and foreclosures:** the Mortgage Credit Regulations require creditors to exercise reasonable forbearance before foreclosure proceedings are initiated, who must at a minimum comply with any code or similar measure put in place by the Central Bank on the handling of arrears. The Mortgage Credit Regulations require that any charge that a creditor may impose on a consumer arising from the consumer's default, subject to the provisions of section 149 of the CCA and any requirements that may be imposed by the Central Bank from time to time, shall be no greater than is necessary to compensate the creditor for the costs it has incurred as a result of the default. Where, after foreclosure proceedings, outstanding debt remains, in order to protect the consumer, the creditor is required to put in place measures to facilitate repayment of the outstanding debt by the consumer;
- **Passport regime for credit intermediaries:** the Mortgage Credit Regulations include principles for the authorisation and registration of credit intermediaries and the Mortgage Credit Directive establishes a passport regime for those intermediaries;
- **Non-credit institutions:** the Mortgage Credit Regulations require the Central Bank to ensure that non-credit institutions engaged in mortgage lending pursuant to the Mortgage Credit Directive are subject to an adequate admission process and to supervision arrangements, including entering the non-credit institution in a register; and
- **Amendment to European Communities (Consumer Credit Agreements) Regulations 2010 (the "Consumer Credit Regulations"):** the Mortgage Credit Regulations amend the Consumer Credit Regulations by extending their application to an unsecured credit agreement which is provided for the purpose of renovating a residential immovable property involving a total amount of credit in excess of €75,000.

Certain members of AIB (AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven) engage in lending to consumers which is subject to the Mortgage Credit Regulations. AIB has in place policies and procedures which seek to ensure that they comply with the information provision, transparency, arrears handling and other requirements and obligations imposed on them, under the Mortgage Credit Regulations.

1.17.10 Consumer Credit Directive

The Consumer Credit Regulations transpose the Consumer Credit Directive into Irish law and broadly apply to agreements for credit in the form of a deferred payment, loan or other similar financial accommodation but do not apply to credit agreements secured by a mortgage on immovable property. The Consumer Credit Regulations impose requirements in relation to relevant consumer credit including with respect to:

- advertising of credit to consumers;
- consumers' rights of withdrawal from credit agreements within 14 calendar days after the relevant day, without providing a reason;
- information to borrowers including borrowing rates and charges;
- pre-financing credit checks; and

- consumers' rights to prepay loans and restrictions on the compensation to be paid to a creditor in the case of prepayment.

Certain members of AIB (including AIB Bank) provide credit to consumers, which is subject to the Consumer Credit Regulations. AIB has in place policies and procedures which are intended to ensure that they comply with their obligations under the Consumer Credit Regulations. However, as part of an industry-wide exercise, in 2015 the Central Bank requested that AIB undertake a review exercise with respect to its compliance with the requirements of the Consumer Credit Regulations regarding the disclosure of APR across marketing and advertising materials for credit products. The requirement is to state the representative annual percentage rate of interest in advertising materials and credit agreements for applicable credit products. The results of the review determined that there had been no financial detriment to customers and no systemic issues were identified, however minor compliance issues were identified with respect to advertising materials for certain personal loans and credit cards. AIB has engaged with the Central Bank to resolve the issues identified as a result of the review and has written to applicable customers to make them aware of the issues identified and has made a charitable donation in connection with the matter.

1.18 LTV/LTI related Regulatory Restrictions on Residential Mortgage Lending

The Central Bank has, under the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015, as amended by the Central Bank (Supervision and Enforcement) Act of 2013 (section 48) (Housing Loan Requirements) Regulations 2016, imposed restrictions on Irish residential mortgage lending by lenders which are regulated by the Central Bank (such as AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven in the case of AIB). The restrictions impose limits on residential mortgage lending by reference to LTV and LTI ceilings, subject to limited exceptions.

The regulations impose different LTV limits for different categories of buyers. A limit of 80 per cent. LTV applies to new mortgage lending for non-first-time buyers of a PDH. For first-time buyers of PDH's, a limit of 90 per cent. LTV applies. For non-PDH purchases (e.g., buy-to-let properties), a limit of 70 per cent. LTV applies.

In relation to these LTV restrictions, AIB is required:

- in the case of a loan to a first time buyer for the purpose of purchasing a PDH, to restrict lending beyond the prescribed LTV limits to no more than 5 per cent. of the aggregate value of all such loans;
- in the case of a loan to a non-first time buyer for the purpose of purchasing a PDH, to restrict lending beyond the prescribed LTV limits to no more than 20 per cent. of the aggregate value of all such loans in the relevant period (except in the case of the first relevant period, this is the calendar year); and
- in the case of loans other than PDH loans, to restrict lending beyond the prescribed LTV limits to 10 per cent. of the aggregate value of all such loans entered into in that relevant period.

The relevant members of AIB (AIB Bank, AIB Mortgage Bank, EBS, EBS Mortgage Finance and Haven) are required to restrict lending above 3.5 times LTI to no more than 20 per cent. of the aggregate value of the PDH loans AIB makes in the relevant period. Mortgages for non-PDH loans are exempt from the LTI limit. AIB has in place policies and procedures aimed at ensuring that they do not exceed the prescribed limits and comply with their obligations under the regulations.

1.19 Personal Insolvency Act

1.19.1 General

The Personal Insolvency Act transformed the personal insolvency regimes including through the introduction of three new debt resolution processes, namely:

- a debt relief notice ("DRN") to allow for the write-off of qualifying debts up to €35,000, subject to a three-year supervision period;
- debt settlement arrangement ("DSA") for the settlement of qualifying unsecured debts over a period of up to five years (extendable to six years in certain circumstances) and subject to majority creditor approval; and
- a personal insolvency arrangement ("PIA"), which is for the agreed settlement or restructuring of qualifying secured debts of up to €3 million (although this cap can be increased with the consent of all secured creditors) and the agreed settlement of qualifying unsecured debt, over a period of up to six years (extendable to seven years in certain circumstances).

These processes are administered by approved intermediaries (in the case of the DRN) and registered personal insolvency practitioners (in the case of a DSA and PIA). The DSA and PIA processes involve the issuance of a protective certificate which precludes enforcement and related actions by creditors. Detailed eligibility criteria and other requirements relating to the processes are set out in the Personal Insolvency Act. The Insolvency Service, amongst other things, processes DRN, DSA and PIA applications in the first instance. The application for a DRN, DSA or PIA and protective certificates

ultimately needs to be approved by a court (the Circuit Court for debts below €2.5 million, the High Court for debts above €2.5 million) before it can come into effect.

The PIA is capable of settling and/or restructuring secured debt, including residential mortgage debt. Subject to certain mandatory requirements and minimum protections for a debtor and his or her secured creditors, the Personal Insolvency Act provides flexibility as to how a PIA treats a secured debt. For example, a PIA may provide for an adjustment of the interest rate, interest basis or maturity of the debt, a capitalisation of arrears, a debt-for-equity swap, or a principal write-down to a specified amount equal to or greater than the value of the security.

The Insolvency Service was established to oversee and operate the measures under the Personal Insolvency Act.

AIB has in place policies and procedures, and have engaged with impacted customers, in a manner which seeks to ensure compliance with the Personal Insolvency Act.

1.19.2 DRN and DSA

The DRN process facilitates the release of a debtor meeting certain eligibility criteria from qualifying debts totalling not more than € 35,000 after a three-year supervision period. The Personal Insolvency Act provides that, for the purposes of that eligibility criterion, the value of an asset of a debtor shall be taken to be its market value, irrespective of any mortgage, charge or other security to which it is subject.

The DSA process facilitates the settlement of qualifying unsecured debts owed by a debtor meeting certain eligibility criteria over a period of up to five years (subject to a possible extension to six years). A personal insolvency practitioner formulates a proposal for an arrangement during a protective period of up to 110 days extendable to 150 days in exceptional circumstances during which unsecured creditors cannot take enforcement action against the debtor. The proposal must be approved by the debtor and a qualified 65 per cent. majority of the creditors representing the value of debts. Upon successful completion of the DSA, the debtor is released from all of his or her qualifying unsecured debts.

Secured debts cannot be settled pursuant to a DSA and a secured creditor may not participate in a DSA with respect to a secured debt. In addition, the Personal Insolvency Act provides that nothing in the chapter of the Personal Insolvency Act relating to the DSA process including a protective certificate affects the right of a secured creditor of the debtor to enforce or otherwise deal with his or her security.

AIB has in place policies and procedures in relation to the DRN and DSA processes, aimed at ensuring compliance with the Personal Insolvency Act.

1.19.3 PIA

The PIA process facilitates the settlement of unsecured debts of any amount and the settlement and/or restructuring of secured debts of up to € 3 million (which limit can be waived where all the secured creditors so consent) owed by a debtor meeting certain eligibility criteria over a period of up to six years (subject to a possible extension to seven years). A personal insolvency practitioner formulates a proposal for an arrangement during a protective period of up to 110 days extendable to 150 days in exceptional circumstances during which creditors cannot take enforcement action against the debtor. The proposal must be approved by the debtor and a qualified 65 per cent. majority of the creditors, with separate class approvals being required by secured and unsecured creditors representing over 50 per cent., in each case, of numbers of creditors voting and of the value of the relevant debts. Upon successful completion of the PIA, the debtor is released from all of his or her qualifying unsecured debts but is not released from his or her secured debts except to the extent provided for under the terms of the PIA.

The Personal Insolvency (Amendment) Act 2015 introduced a mechanism whereby a court review of a creditor's rejection of a proposal for a PIA is possible in certain qualifying circumstances. A PIA can affect the right of a secured creditor of the debtor to enforce or otherwise deal with his or her security. The Personal Insolvency Act provides that, subject to certain mandatory requirements set out in the Act, the terms of a PIA may provide for the manner in which the security is to be treated, which may include the sale or any other disposition of the property or asset the subject of the security, the surrender of the security to the debtor or the retention by the secured creditor of the security. In addition, the Personal Insolvency Act provides that the PIA may vary the terms of the secured debt, including variations with respect to interest payments, the term to maturity, capitalisation of arrears or reduction of the principal sum to a specified amount.

The Personal Insolvency Act provides that where a PIA provides for the sale or other disposal of the property which is the subject of the security for a secured debt, and the realised value of that property is less than the amount due in respect of the secured debt, the balance due to the secured creditor will abate in equal proportion to the unsecured debts covered by the PIA and will be discharged with them on completion of the obligations specified in the PIA.

The Personal Insolvency Act provides for certain specific protections for secured creditors, including: (i) where there is a sale or other disposal of the property the subject of the security, the secured creditor is entitled to the sale/disposal proceeds to discharge the debt up to the value of the security and (ii) where the security is retained by the secured creditor and the principal sum of the secured debt is reduced pursuant to the terms of the PIA, the principal sum cannot be reduced below the value of the security without the consent of the secured creditor and any such reduction of principal can be

“clawed back” in favour of the secured creditor where the debtor sells or otherwise disposes of the property the subject of the security within 20 years of the PIA coming into effect.

The Personal Insolvency Act also provides for certain specific protections for a debtor, including protection for the debtor’s ownership and occupation of his or her PDH subject to certain limits such as where the personal insolvency practitioner forms the opinion that the costs of the debtor continuing to reside in that PDH are disproportionately large.

AIB has in place policies and procedures relating to PIAs, which seek to ensure compliance with the Personal Insolvency Act.

1.19.4 Bankruptcy

Bankruptcy law in Ireland is set out in the Bankruptcy Act 1988 (the “Bankruptcy Act”). The Personal Insolvency Act (in Part 4) provides for a number of amendments to the Bankruptcy Act. The bankruptcy regime has been further amended by the Bankruptcy (Amendment) Act 2015. Amongst other things, the Bankruptcy (Amendment) Act 2015 provides for a reduction of the bankruptcy period from three years to one year so that every bankruptcy will be automatically discharged on the first anniversary of the date of the making of the adjudication order in respect of that bankruptcy (unless the court extends the period of bankruptcy, typically when there has been non-cooperation by the bankrupt or other irregular actions). The Bankruptcy (Amendment) Act 2015 also reduces the normal maximum duration of a bankruptcy payment order (a court order requiring a bankrupt individual to make payments for the benefit of his or her creditors from any surplus income or assets after the deduction of reasonable living expenses for him or her and any dependents) from five to three years, although it retains the maximum five-year duration in cases of non-cooperation or asset concealment. The Bankruptcy (Amendment) Act 2015 also provides that a bankrupt person’s legal interest in his or her home will revert in him or her after three years (subject to any outstanding mortgage), if the official assignee has neither sold it, nor applied to the High Court for an order permitting the sale of the house, before that date.

AIB has in place policies and procedures which are intended to ensure compliance with the Bankruptcy Act.

1.20 Asset Covered Securities Legislation

The ACS Act provides for a statutory framework for the issuance of Irish covered bonds known as asset covered securities (“ACS”). ACS can only be issued by Irish credit institutions that are registered under the ACS Act and restrict their principal activities to public sector or property financing. Those credit institutions that are registered under the ACS Act and restrict their principal activities for the main part to residential property sector financing, are called “designated mortgage credit institutions” and issue ACS known as mortgage covered securities.

The ACS Act provides, among other things, for the registration of eligible credit institutions, the maintenance by such credit institutions of a defined pool, known as a cover assets pool, of prescribed mortgage credit assets (including mortgage credit assets in securitised form) and limited classes of other assets (known as cover assets), and the issuance by such credit institutions of mortgage covered securities which are secured by a statutory preference under the ACS Act on those cover assets.

The ACS Act also makes provision for the inclusion in the cover assets pool as cover assets of certain hedging contracts which are called cover assets hedge contracts. The ACS Act also varies the general provisions of Irish insolvency law which would otherwise apply with respect to an eligible credit institution, cover assets, cover assets hedge contracts and mortgage covered securities on the insolvency of the eligible credit institution and replaces them with a special insolvency regime applicable to such institutions.

The ACS Act further provides for the supervision and regulation of eligible credit institutions by the Central Bank, for the role of a monitor in respect of each eligible credit institution and the cover assets pool maintained by it, for restrictions on the types and status of cover assets which may be included in the cover assets pool (including LTV restrictions and duration restrictions), for asset/liability management between the cover assets pool and mortgage covered securities, for overcollateralisation of the cover assets pool with respect to mortgage covered securities, for transfers between an eligible credit institution and other credit institutions (including another eligible credit institution) of assets and/or business, and, in certain circumstances, for the role with respect to an institution, and its cover assets pool and mortgage covered securities of the NTMA or a manager appointed by the Central Bank.

AIB Mortgage Bank and EBS Mortgage Finance, which are subsidiaries of AIB Bank, are registered as designated mortgage credit institutions under the ACS Act. AIB has in place policies and procedures aimed at ensuring that they comply with the registration, monitoring, reporting and other obligations imposed on them under the ACS Act.

1.21 SME lending regulation

The SME Regulations apply to a regulated financial service provider (such as AIB Bank and certain of its subsidiaries which are regulated by the Central Bank) when providing certain credit products to an SME operating within Ireland. The protections set out in the SME Regulations differ depending on whether the credit is provided to micro and small enterprises or to medium-sized enterprises.

The SME Regulations set out detailed requirements on lending to micro and small enterprises, which are enterprises which employ fewer than 50 persons; and which has either or both of the following: an annual turnover which does not exceed €10 million or an annual balance sheet total which does not exceed €10 million. Those requirements deal with, among other things, advertising, pre-contract and post-sale information, applications for credit, refusing or withdrawing credit, annual meetings and credit reviews, arrears and appeals.

The SME Regulations are generally less prescriptive regarding lending to a medium-sized enterprise, namely an enterprise that is not a micro and small enterprise and which has: fewer than 250 employees; an annual turnover not exceeding €50 million; and an annual balance sheet not exceeding €43 million.

When providing in-scope financing to SMEs, certain AIB Group companies which are regulated financial service providers (as defined in the SME Regulations) are subject to the requirements of the SME Regulations. AIB has in place policies and procedures which are aimed at ensuring that those AIB Group companies comply with their obligations under the SME Regulations.

1.22 Dormant accounts

The Dormant Accounts Act 2001 contains certain rules in respect of balances of dormant accounts with credit institutions in Ireland (such as AIB and EBS). A dormant account is an account where, during a 15 year period, no transaction has been effected by the account holder. Unclaimed money is transferred to a fund known as the Dormant Accounts Fund managed by the NTMA. The rights of original account holders (or their heirs) are not affected by the transfer to the Dormant Accounts Fund and they can reclaim the funds. Credit institutions are obliged to submit annual certificates of compliance with the Dormant Accounts Act 2001 and the Central Bank may authorise inspections of a credit institution's records.

Members of AIB which are credit institutions authorised under Irish law, are subject to the Dormant Accounts Act 2001. AIB has policies and procedures which are intended to ensure that they comply with the requirements of the Dormant Accounts Act 2001 when dealing with any dormant accounts held with them.

1.23 Other EU Legislation

1.23.1 Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds

That regulation regulates the production and use of benchmarks and will apply from 1 January 2018. Among other things, it imposes requirements on a supervised entity, (including a credit institution), that uses a benchmark. Specifically, a supervised entity is restricted as to the types of benchmarks it may use. In addition, a supervised entity that uses a benchmark must produce and maintain robust written plans setting out the actions it would take in the event that a benchmark materially changes or ceases to be provided. It must also provide its relevant competent authority with those plans on request and reflect them in the contractual relationship with clients. Standard variable rates offered by credit institutions will not be considered benchmarks when used in mortgage or consumer credit contracts.

1.23.2 EMIR Regulations

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, Central Counterparts and Trade Repositories (the "EMIR Regulations") imposes obligations on derivatives market participants operating within the EEA in three principal areas; the clearing of certain standardised OTC derivative contracts, reporting, and the employment of certain risk mitigation techniques in respect of, certain derivative contracts, with its provisions taking effect on a phased basis. The EMIR Regulations impose certain obligations on, and leaves certain discretions to, Member States of the EEA. The European Union (European Markets Infrastructure) Regulations 2014 were made by the Minister for Finance to discharge those obligations and exercise those discretions with respect to Ireland. Those regulations designate the Central Bank as Ireland's national competent authority for EMIR Regulations purposes, confer on the Central Bank functions (including supervisory and investigatory powers) and establish Ireland's sanctions regime for infringements of obligations imposed by the EMIR Regulations and those Irish transposed regulations.

Certain members of AIB (such as AIB Bank) are in-scope financial counterparties and so subject to the EMIR Regulations. AIB has policies and procedures that are designed to ensure compliance with the reporting and other obligations imposed on them under the EMIR Regulations.

1.23.3 Distance Marketing Regulations

The Distance Marketing of Financial Services Directive was implemented in Ireland by way of the DM Regulations. The DM Regulations apply to, *inter alia*, credit agreements entered into on or after 31 October 2014 by means of distance communication (i.e., without any substantive simultaneous physical presence of the originator and the borrower).

The DM Regulations require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally must be provided within a reasonable time before the consumer is bound by a distance contract for the supply of the financial services in question and includes, but is not limited to, general

information in respect of the supplier and the financial service, contractual terms and conditions (including the price to be paid by consumers to the supplier of financial services) and whether or not there is a right of cancellation.

Unlike certain other distance contracts for the supply of financial services, a consumer does not have the right under the DM Regulations to cancel a housing loan (within the meaning of the CCA) within the 14-day cooling-off period introduced by the DM Regulations, if originated by an Irish lender from an establishment in Ireland. However, failure by the supplier to comply with certain obligations under the DM Regulations may result in the distance contract being unenforceable against the consumer. The relevant obligations include (i) the provision of the prescribed pre-contractual information to the consumer; (ii) keeping a copy of all information provided to a consumer in relation to a distance contract in durable and tamper-proof form; (iii) upon a request from the consumer, providing a hard paper copy of the distance contract; or (iv) changing the means of distance communication pursuant to a consumer request (unless to do so would be inconsistent with the contract or nature of the service). The discretion as to enforceability, lies with the courts, who if satisfied that the supplier's non-compliance was not deliberate, the consumer has not been prejudiced by such non-compliance, and it is just and equitable to dispense with the relevant obligation, may decide that the contract is enforceable, subject to any conditions that the court sees fit to impose.

The DM Regulations apply to certain members of AIB when entering into distance contracts for the supply of financial services to consumers (as defined in the DM Regulations, and subject to certain exceptions). AIB has in place policies and procedures, and drafted customer documentation, in a manner which is intended to ensure that they comply with the information provision, cooling-off period, customer communication and other obligations imposed on them under the DM Regulations.

1.23.4 Markets in Financial Instruments Directive

The MiFID I Directive governs the provision of investment services in financial instruments by credit institutions and investment firms and the operation of traditional stock exchanges and alternative trading venues.

MiFID I Directive was implemented in Ireland by the IR MiFID I Regulations. The Central Bank is the competent authority in Ireland for the purposes of the MiFID I Directive and the IR MiFID I Regulations. AIB Bank, as the holder of an Irish banking authorisation for the purposes of CRD IV, is subject to certain of the provisions of the IR MiFID I Regulations in accordance with the terms of the IR MiFID I Regulations and the MiFID I Directive.

The MiFID I Directive and the IR MiFID I Regulations establish a regulatory framework for the provision of investment services in Ireland in relevant financial instruments (such as brokerage, advice, dealing, portfolio management, underwriting of relevant financial instruments by credit institutions and investment firms), for the operation of regulated markets by market operators and establishes the powers and duties of the Irish competent authority, the Central Bank, in relation to these activities. Requirements in relation to relevant financial instruments apply under the MiFID I Directive and the IR MiFID I Regulations with respect to a range of matters including transparency of price formation, best execution, transparency of costs, client data, client advice, information to be provided to clients, management of conflict of interests and regulatory compliance frameworks.

The MiFID II Directive will repeal the MiFID I Directive. Member States were required to transpose the MiFID II Directive into national law by 3 July 2017, which, together with the EU MiFID Regulation will apply within Member States from 3 January 2018. The MiFID II Directive has been transposed into Irish law by the European Union (Market in Financial Instruments) Regulations 2017 (the "IR MiFID II Regulations") which were made by the Minister for Finance on 10 August 2017 and will come into operation on 3 January 2018. The revised framework under the MiFID II Directive and EU MiFID Regulation will encompass a broader range of financial instruments than that to which the MiFID I Directive framework applied, require more trading to take place on regulated platforms and provide for more types of such platforms. It will introduce rules on algorithmic and high frequency trading. It will impose additional requirements in respect of transparency in trades and establish a harmonised EU regime for non-discriminatory access to trading venues, clearing counterparties and benchmarks for trading and clearing purposes. Building on the rules in place under the MiFID I Directive, the new framework is intended to strengthen the protection of clients by introducing additional organisational and conduct requirements and increasing the responsibilities of management bodies of the entities subject to regulation thereunder. The revised framework will also increase the role and supervisory powers of regulators and establishes powers to prohibit or restrict the marketing and distribution of certain financial products. It will also establish a harmonised regime for firms established in non-EEA countries to access EU "professional" markets, based on an equivalence assessment of the relevant country's jurisdiction by the EC.

Certain members of AIB (such as AIB Bank) provide MiFID services to professional clients only. When providing MiFID services, those companies are required to comply with the IR MiFID I Regulations and from 3 January 2018 will be required to comply with the IR MiFID II Regulations and the EU MiFID Regulation. AIB has in place policies and procedures which are intended to ensure that they comply with their disclosure, reporting, suitability, investor protection and other obligations under the IR MiFID Regulations when providing these services. AIB is in the process of putting in place policies and procedures which are intended to ensure that the relevant members of AIB comply with the IR MiFID II Regulations and the EU MiFID Regulation from 3 January 2018.

1.23.5 Payment services and related matters regulation

The Payment Services Regulations transpose Directive 2007/64 IEC on payment services in the internal market (“PSD”) into Irish law. PSD is the main EU legislative measure governing payment services in the EU. It covers all electronic and non-cash payments in the EU and provides common rules, obligations and rights for payment service providers and users. Among other things, the Payment Services Regulations set out certain prudential and conduct of business requirements for payment services providers as well as requirements on items such as the time-frames for payments, the provision of information to consumers and refunds on unauthorised transactions. PSD also provides the legal framework for the operation of the SEPA, which is a European-wide framework to standardise the way retail electronic payments are made and processed in Europe, thus eliminating the difference between domestic and cross-border payments. PSD will be replaced in Ireland by a new regulatory regime, once the revised PSD2 is transposed into Irish law. This is due to occur by 13 January 2018. PSD2 introduces a number of key changes to the existing regulatory framework for payment services. Among other things, it brings into scope payment service providers that were previously unregulated and raises conduct of business standards in a number of important areas.

Regulation (EU) 2015/751 on Interchange Fees for Card-Based Payment Transactions (the “Interchange Fee Regulation”) provides for uniform technical and business requirements for card-based payment transactions carried on within the European Union, where both the payer’s payment service provider and the payee’s payment service provider are located within the European Union. The Interchange Fee Regulation prescribes interchange fees limits for consumer debit cards and consumer credit cards. It also increases the transparency of fees charged as well as addressing licensing issues and other restrictive business rules for card-based payment schemes. The European Union (Interchange Fees for Card-based Payment Transactions) Regulations 2015 supplement the Interchange Fee Regulation in Ireland.

The European Communities (Electronic Money) Regulations 2011 (the “E-money Regulations”) transposed into Irish law the E-money Directive, which regulates electronic payment systems in the EU. The E-money Regulations set out the institutions that may issue electronic money and the requirements for the authorisation or registration of electronic money institutions. The E-money Regulations also set out the requirements to be met by all electronic money issuers when issuing and redeeming electronic money.

The European Union (Payment Accounts) Regulations 2016, which give effect in Irish law to the Payment Accounts Directive (“Payment Accounts Regulations”) transposed into Irish law Directive 2014/92 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. The Payment Accounts Regulations promote the transparency and comparability of payment account fees and facilitate account switching. They also set out certain requirements to ensure that consumers have access to payment accounts with basic features. Some of the elements of the Payment Accounts Regulations are not yet in force at the date of this Prospectus.

The Code of Conduct on the Switching of Payment Accounts with Payment Service Providers 2016 sets out certain rules in relation to the switching of payment accounts. It applies where a payment account is held with a payment service provider located in Ireland by a consumer or an incorporated body having an annual turnover of €3 million or less in the previous financial year.

Certain members of AIB are authorised or permitted to provide payment services and must comply with the above requirements (as applicable) when providing such services. AIB has in place policies and procedures which aim to ensure that they comply with their obligations under the Payment Services Regulation, SEPA, the Interchange Fee Regulation, the Payment Accounts Regulations and the Code of Conduct on the Switching of Payment Accounts. AIB does not currently provide e-money products or services.

Relevant AIB Group companies will also be required to update the relevant frameworks and processes, to align them with the revised requirements in PSD2 (when implemented in Ireland), which will replace the Payment Services Regulations with effect from 3 January 2018.

1.23.6 Packaged Retail Investment and Insurance Products Regulation (EU 1286/2014) (“PRIIPs Regulation”)

The PRIIPs Regulation seeks to promote investor protection by enhancing transparency over the key features and risks of packaged retail investment and insurance products (“PRIIPs”) sold to retail investors. It will apply from 1 January 2018.

The term “PRIIPs” covers two types of products, namely packaged retail investment products and insurance-based investment products. In both cases, the key feature of the product is that the amount repayable to the investor is subject to fluctuation because of exposure to reference values, or subject to the performance of one or more assets that are not directly purchased by the retail investor.

Among other things, the PRIIPs Regulation requires a “PRIIP manufacturer” (any person that manufactures a PRIIP), including credit institutions, to prepare and produce a standardised fact sheet, known as a Key Information Document, or KID, in accordance with a prescribed format and content. The person advising on or selling the PRIIP must then provide the KID to retail investors.

In addition, the PRIIP manufacturer and a person advising on, or selling, the PRIIP must establish appropriate procedures and arrangements for ensuring that retail investors can submit a complaint against a PRIIP manufacturer and that complaints regarding the KID receive a substantive reply in a timely and proper manner.

Certain AIB companies will be subject to the PRIIPs Regulation when it takes effect and AIB will have to implement systems and put in place procedures and processes which are intended to ensure compliance with their disclosure, investor protection and other obligations under the PRIIPs Regulation, from 1 January 2018.

2 Current Regulation of Credit Institutions in the United Kingdom

AIB Group (UK) p.l.c.

AIB Group (UK) p.l.c. is a company incorporated in Northern Ireland and is authorised by the PRA and regulated by the FCA and the PRA under the FSMA to carry on a wide range of regulated activities (including accepting deposits and entering into regulated mortgage contracts).

AIB Bank (London branch)

AIB Bank is incorporated and has its head office in Ireland, and is authorised as a credit institution in Ireland by the ECB. Pursuant to the Banking Consolidation Directive (Directive 2006/48/EC), AIB Bank has exercised its EU “passport” rights to provide banking, treasury and corporate treasury services in the UK through its London branch.

Whilst in Ireland the Central Bank continues to regulate AIB Bank in certain areas, including consumer protection, the ECB (together with support from the Central Bank) has primary responsibility for the prudential supervision of AIB. However, AIB must comply with the FCA’s and PRA’s rules in so far as they apply to its activities carried out in the UK. In addition, the PRA has a responsibility to co-operate with the ECB and the Central Bank in ensuring that branches of Irish credit institutions in the United Kingdom (such as AIB Bank’s London branch) maintain adequate liquidity and take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom. See “—*Regulation of Banks and Parent Financial Holding Companies in Ireland—General Supervision and Regulation of Banks and Parent Financial Holding Companies in Ireland*” above for details of passporting.

2.1 Regulatory Oversight by the PRA and the FCA

The FSMA is the principal piece of legislation governing the establishment, supervision and regulation of financial services and markets in the UK. The PRA and the FCA are the regulators in the UK responsible for the authorisation and supervision of regulated activities as defined in the FSMA including as to restricted and prohibited conduct.

The FCA is responsible, in respect of banks, building societies, credit unions, insurers and designated investment firms, for conduct of business regulation, market conduct (including market abuse), financial crime and enhancing competition.

2.1.1 The Financial Conduct Authority

The FCA has a single strategic objective to ensure that the markets for financial services function well. Three operational objectives support this: (i) securing an appropriate degree of protection for consumers; (ii) protecting and enhancing the integrity of the UK financial system; and (iii) promoting effective competition in the interests of consumers in the markets for financial services.

2.1.2 The Prudential Regulation Authority

The PRA is responsible under FSMA for the authorisation and prudential supervision of banks, building societies, credit unions, insurers and certain major investment firms. One of its three statutory objectives is to promote the safety and soundness of PRA-regulated firms, and it is required to advance this objective primarily by seeking to minimise any adverse effects of firm failure on the UK financial system and to ensure that firms carry on their business in a way that avoids adverse effects on the system.

Both regulators employ methods of supervising banks and other authorised firms in a manner consistent with the perceived threat that the institution poses to the regulatory bodies’ statutory objectives. This supervisory approach will include the regular reporting of statistical information and a regular set of returns giving levels of capital and liquidity, balance sheet and consolidated statement of income data, material on the maturity structure of assets and liabilities, sector-analysis of business and details of concentration of risk in assets and deposits.

Review meetings are held by both the PRA and the FCA with the management of regulated firms. The PRA also publishes requirements it expects PRA-authorised firms to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities and liquidity.

2.1.3 Threshold conditions

Authorised firms must at all times meet certain “threshold conditions” specified by the FSMA. Dual-regulated firms, such as AIB Group (UK) plc, must meet both the PRA and FCA threshold conditions.

At a high level, the threshold conditions for dual-regulated firms require that (amongst other things) (i) the firm is capable of being effectively supervised by the FCA and the PRA; (ii) the firm has appropriate financial and non-financial

resources; (iii) the firm itself is fit and proper, having regard to the FCA's and the PRA's objectives; (iv) the firm's business model is suitable for the regulated activities it carries on or seeks to carry on; and (v) the firm's business is conducted in a prudent manner.

2.1.4 PRA and FCA rules and guidance

The detailed rules and guidance made by the PRA and the FCA under the powers given to them by the FSMA are contained in various parts of their respective handbooks (the "PRA Handbook" and the "FCA Rulebook" respectively).

2.1.5 Senior managers and certification regime

Persons who hold PRA- or FCA-designated senior management functions such as certain specified key roles or having overall responsibility for whole areas of banks, building societies, credit unions, large PRA-regulated investment banks and branches of foreign banks operating in the UK must be approved by the PRA or the FCA under the "senior managers regime". Those persons must meet ongoing standards of conduct and fitness and propriety. The "certification regime" for deposit banking firms, such as AIB, separately applies to "material risk-takers" and other staff who pose a risk of significant harm to the firm or any of its customers (for example, staff who could give mortgage advice), referred to as performing a "significant harm function". Individuals performing significant harm functions are not subject to regulatory approval. However, a firm must take reasonable care to ensure that no employee performs any of these functions without having been certified by the firm as fit and proper to do so, both at the point of recruitment and on an annual basis. All staff employed by AIB UK are subject to specified rules of conduct with the exception of domestic staff, switch-board operators, etc.

2.1.6 Enforcement

The PRA and the FCA each have the power to take a wide range of disciplinary actions against regulated firms and any approved persons, including private warnings, public censure, the imposition of fines, the variation, suspension or termination of the firm's authorisation or the removal of approved status from individuals. The PRA and the FCA can, at their discretion, utilise their powers under section 166 of the FSMA to require a regulated firm to commission "skilled persons" to undertake focused reviews of its business. The PRA and the FCA use these powers to obtain an independent view of aspects of a firm's activities that for example cause concern or where further analysis is required. As part of this process, the skilled person is required to report his or her findings and recommendations directly to the regulator.

2.1.7 Mortgages

The regulation of entering into administering and advising on mortgages under the FSMA is in relation to regulated mortgage contracts, which are, broadly, owner occupier credit agreements with individuals or trustees (whether consumer or business customers) and secured by a mortgage over land in the EEA.

2.2 UK Banking Act 2009

Under the Banking Act, substantial powers have been granted to the HM Treasury, the Bank of England and the PRA (the "UK Authorities") as part of a special resolution regime ("SRR"). These powers enable the UK Authorities to deal with a UK bank (such as AIB Group (UK) p.l.c.), building society or other UK institution with permission to accept deposits pursuant to the FSMA (each, a "relevant entity") in circumstances in which the Authorities consider it is failing or is likely to fail and a threat is posed to the public interest or stability of the UK financial systems. The SRR consists of five stabilisation options, an insolvency procedure and an administration procedure applicable to relevant entities which may be commenced by the UK Authorities. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a bridge bank established by the Bank of England; (iii) transfer of all or part of the business to an asset management vehicle; (iv) bail-in and recapitalisation (for example, by cancelling, reducing or deferring the equity liabilities of a relevant entity); and (v) temporary public ownership (nationalisation) of the relevant entity. In each case, the UK Authorities have been granted wide powers under the Banking Act, including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if (i) the PRA is satisfied that a relevant entity (such as AIB Group (UK) p.l.c.) is failing, or is likely to fail; (ii) it is not reasonably likely that (other than potentially through the stabilising options) action will be taken that will result in the relevant entity no longer failing or likely to fail; and (iii) the UK Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial systems, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities subject to

certain protections made under the Banking Act 2009 (Restrictions of Partial Property Transfers) Order 2009) in respect of AIB Group (UK) p.l.c. Exercise of these powers could involve taking various actions in relation to any securities issued by AIB Group (UK) p.l.c. (including ordinary shares) without the consent of AIB Bank (as its sole shareholder), including (among other things): (i) transferring the shares notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance; (ii) converting the shares into another form or class; (iii) modifying or disapplying certain terms of the shares; and/or (iv) where property is held on trust, removing or altering the terms of such trust.

2.3 The Financial Services Compensation Scheme

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms that are unable, or likely to be unable, to pay claims against them. The jurisdiction of the FSCS includes eligible customers of AIB Group (UK) p.l.c. but does not include customers of AIB Bank's London branch (which is covered by the Irish compensation scheme arrangements summarised above under "*—Deposit Guarantee Scheme and Investor Compensation Scheme*"). The maximum levels of compensation below are, for example, for claims against firms declared in default on or after 1 January 2010 (except for deposits), per eligible customer, per firm and per type of claim:

- (a) for deposits, 100 per cent. of the first £85,000 for firms declared in default from 30 January 2017;
- (b) for mortgage advice and arranging, 100 per cent. of the first £50,000; and
- (c) for insurance, 90 per cent. of the claim with no upper limit (except compulsory insurance is protected in full).

Claims on the FSCS are funded by loans from Bank of England and by levies on PRA/FCA-authorised firms.

2.4 Financial Ombudsman Service

The FSMA established the UK Financial Ombudsman Service (the "FOS"), which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions within its jurisdiction. The jurisdiction of the FOS includes eligible complainants of AIB Group (UK) p.l.c. and AIB Bank's London branch.

The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of financial award by the FOS is £150,000 plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

3 United States

AIB is subject to federal and state banking and securities law supervision and regulation in the United States as a result of the banking activities conducted by its branch in New York.

Under the US International Banking Act of 1978, as amended (the "IBA"), AIB is a foreign banking organisation and is treated as a bank holding company, as such terms are defined in the statute, and, as such, is subject to regulation by the Federal Reserve Board (the "FRB"). The Bank Holding Company Act of 1956, as amended (the "BHCA"), imposes significant restrictions on AIB's US non-banking operations and on its holdings of equity in companies which directly or indirectly operate in the United States. As a bank holding company that has not elected to be a "financial holding company", AIB is generally required to limit its direct and indirect activities in the United States to banking activities and activities that the FRB has determined to be "so closely related to banking as to be a proper incident thereto". Under the BHCA, AIB is required to obtain the approval of the FRB before acquiring, directly or indirectly, the ownership or control of 5 per cent. or more of any class of voting securities of, among other things, any US bank or bank holding company.

AIB continues to conduct limited corporate lending, treasury and other operations through its New York branch. AIB's New York branch is supervised by the FRB and the New York State Department of Financial Services (the "NYDFS"). Under the IBA, AIB's New York branch is subject to reporting and examination requirements of the FRB similar to those imposed on domestic banks, and most US branches and agencies of foreign banks, including AIB's New York branch, are subject to reserve requirements on deposits. Further, under the IBA, the FRB may terminate the activities of any US branch or agency if it finds that:

- The foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country and the home country supervisor is not making demonstrable progress in establishing arrangements for the consolidated supervision of the foreign bank;
- There is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in an unsafe or unsound banking practice in the United States and, as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the federal banking laws; or
- For a foreign bank that presents a risk to the stability of the US financial system, the home country of the foreign bank has not adopted, or made demonstrable progress toward adopting, an appropriate system of financial regulation to mitigate such risk.

Also, under the New York Banking Law (the “NYBL”), the NYDFS may take possession of the business and property of a New York state-licensed branch under certain circumstances, including:

- Violation of any law;
- Conduct of business in an unauthorized or unsafe manner;
- Capital impairments;
- Suspension of payment obligations;
- Initiation of liquidation proceedings against the foreign bank; or
- Reason to doubt the foreign bank’s ability to pay in full certain claims of its creditors.

Pursuant to the NYBL, when the superintendent takes possession of a New York branch of a foreign bank, it succeeds to the branch’s assets, wherever located, and the non-branch assets of the foreign bank located in New York. In liquidating or dealing with a branch’s business after taking possession of the branch, the Superintendent will accept for payment out of the branch’s assets only the claims of creditors (unaffiliated with the foreign bank) that arose out of transactions with the branch (without prejudice to the rights of such creditors to be satisfied out of the other assets of the foreign bank) and only to the extent those claims represent an enforceable legal obligation against such branch as if such branch were a separate legal entity. After such claims are paid, together with any interest thereon, and the expenses of liquidation have been paid or properly provided for, the Superintendent would turn over the remaining assets to the foreign bank, or to its duly appointed liquidator or receiver.

Under US federal banking laws, state-licensed branches (such as AIB’s New York branch) may not, as a general matter, engage as a principal in any type of activity not permissible for their federally licensed counterparts, unless the FRB determines that the additional activity is consistent with sound banking practices. US federal and state banking laws also generally subject state branches to the same single-borrower lending limits that apply to federal branches or agencies, which are substantially similar to the lending limits applicable to national banks. These single-borrower lending limits are based on the worldwide capital of the entire foreign bank.

Anti-money laundering, anti-terrorism and economic sanctions regulations have become a major focus of US government policy relating to financial institutions and are rigorously enforced. Regulations applicable to AIB and its affiliates impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering. In particular, Title III of the USA PATRIOT Act, as amended, requires financial institutions operating in the United States to (i) give special attention to correspondent and payable-through bank accounts; (ii) implement enhanced due diligence and “know your customer” standards for private banking and correspondent banking relationships; (iii) scrutinise the beneficial ownership and activity of certain non-US and private banking customers (especially for so-called politically exposed persons); and (iv) develop new anti-money laundering programmes, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programmes are intended to supplement any existing compliance programmes under Bank Secrecy Act and OFAC regulations.

OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists and international narcotics traffickers to carry out US foreign policy and national security objectives. Generally, the regulations require blocking of accounts and other property of specified countries, entities and individuals, and the prohibition of certain types of transactions (unless OFAC issues a licence) with specified countries, entities and individuals. Banks, including US branches of foreign banks, are expected to establish and maintain appropriate OFAC compliance programmes to ensure compliance with OFAC regulations.

Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution. AIB has implemented AML/CTF controls which aim to ensure that AIB and its employees adhere to the applicable AML/CTF obligations.

Other more recent federal laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”), include provisions that place potentially significant limitations on non-US banks operating in the United States, and also impact activity conducted outside the US. AIB monitors its ongoing business activities to ensure continued compliance with the applicable requirements under Title VII of Dodd-Frank with respect to OTC derivatives. AIB’s swap trading activity as at 31 December 2016 with US persons was below the thresholds required for AIB to register as a swap dealer or major swap participant. In addition, the New York branch has submitted annual resolution plans under Section 165(d) of Dodd-Frank, most recently in December 2016. Final rules for implementing Section 619 of Dodd-Frank (the “Volcker Rule”) which implements restrictions on both (i) proprietary trading and (ii) investments in “covered funds” such as private equity and hedge funds by financial institutions were issued in December 2013 by regulatory authorities. Banking organisations covered by the Volcker Rule, including AIB, were required to conform their activities to the Volcker Rule’s requirements by 21 July 2015, though AIB had until 21 July 2017 to conform its investments in and relationships with, covered funds established prior to 2014 unless those investments and relationships are exempt from the Volcker Rule requirements.

PART XIX TAXATION

The following is a summary of certain Irish, United Kingdom and U.S. federal income tax considerations relating to the cancellation of the Scheme Shares and the acquisition and ownership of AIB HoldCo Shares issued pursuant to the Scheme and is based on the laws and practices in these jurisdictions as of the date of this Prospectus. The comments in this “Part XIX – Taxation” are of a general nature and are not intended to be exhaustive and should be treated with appropriate caution. Particular rules may apply to certain classes of Scheme Shareholder, and upon the cancellation or transfer pursuant to the Scheme of the Scheme Shares, the AIB HoldCo Shareholders. The summary does not constitute tax or legal advice. Any shareholders who are in any doubt as to their tax position should consult their professional advisers on the tax implications of the Scheme under the laws of their country of tax residence, citizenship and/or domicile, or the jurisdiction in which they are otherwise subject to taxation.

1 Irish Taxation

The following is a general summary of certain Irish tax consequences of the cancellation or transfer pursuant to the Scheme of the Scheme Shares and the acquisition and ownership of the AIB HoldCo Shares issued pursuant to the Scheme. This summary is based on Irish taxation law and the published practices of the Revenue Commissioners in force at the date of this Prospectus, each of which is subject to change, possibly with retrospective effect.

It does not constitute tax or legal advice, and it does not purport to be, and is not, a complete description of all of the Irish tax considerations that may be relevant to the cancellation or transfer pursuant to the Scheme of the Scheme Shares and the acquisition and ownership of the AIB HoldCo Shares issued pursuant to the Scheme.

For the purposes of the following summary, the terms “Scheme Shareholder” and “AIB HoldCo Shareholder” are used to refer only to a person who is the beneficial owner of Scheme Shares and AIB HoldCo Shares respectively and who holds, and will hold, them as investments (and not as securities to be realised in the course of a trade).

Separately, particular rules not referred to below may apply to certain classes of taxpayers holding shares, such as dealers in securities, investment funds, trustees, insurance companies and shareholders who have, or who are deemed to have Scheme Shares or AIB HoldCo Shares by virtue of an Irish office or employment (performed or carried on in Ireland). This summary does not necessarily apply where the income is deemed for tax purposes to be the income of any other person.

Prospective AIB HoldCo Shareholders should consult their own professional advisers on the implications of the cancellation or transfer pursuant to the Scheme of the Scheme Shares and the acquisition and ownership of the AIB HoldCo Shares issued pursuant to the Scheme under the laws of any jurisdiction in which they may be liable to taxation.

1.1 Irish tax consequences of the cancellation or transfer pursuant to the Scheme of the Scheme Shares and the issue of the AIB HoldCo Shares

Capital Gains Tax

For the purposes of Irish capital gains tax (or in the case of a body corporate, corporation tax on chargeable gains) (“Irish CGT”), the receipt by the relevant Scheme Shareholder of the AIB HoldCo Shares as consideration for the cancellation or transfer pursuant to the Scheme of the Scheme Shares should not be treated as a disposal of the Scheme Shares. Instead, the AIB HoldCo Shares should be treated as the same asset as those Scheme Shares, acquired at the same time and for the same consideration as the Scheme Shares from which they are derived. This treatment is on the basis that the Scheme is being effected for bona fide commercial reasons and does not form part of an arrangement or scheme of which the main purpose, or one of the main purposes, is avoidance of liability to Irish tax.

Stamp Duty

No stamp duty should be payable on the cancellation of Cancellation Shares pursuant to the Scheme or on the issue of the AIB HoldCo Shares pursuant to the Scheme. AIB Bank does not intend to issue any AIB Bank Shares between the Cancellation Record Time and the Scheme Record Time and therefore no Transfer Shares are expected to be in existence at or before the time the Scheme becomes effective. Accordingly, no guidance is given on the implications of the Scheme for holders of Transfer Shares with respect to Irish stamp duty.

1.2 Liability to Irish Capital Gains Tax

1.2.1 Subsequent disposal of AIB HoldCo Shares

An AIB HoldCo Shareholder may be liable to Irish CGT on any gain arising on a subsequent disposal of AIB HoldCo Shares.

1.2.2 Calculation of the capital gain or loss arising on a disposal

Where applicable, a gain on the disposal of AIB HoldCo Shares will generally be calculated as the excess of the proceeds realised on a sale of the AIB HoldCo Shares after deducting the costs of disposal, over the cost of acquisition of the AIB HoldCo Shares and any incidental costs of acquiring those AIB HoldCo Shares.

A loss on the disposal of AIB HoldCo Shares will generally be calculated as the excess of the cost of acquisition of the AIB HoldCo Shares and any incidental costs of acquiring those AIB HoldCo Shares, over the proceeds realised on a sale of the AIB HoldCo Shares after deducting the costs of disposal.

The rate of Irish CGT is currently 33 per cent.

1.2.3 AIB HoldCo Shareholders who are not resident or ordinarily resident in Ireland

For as long as the AIB HoldCo Shares are listed on a stock exchange (e.g., the Irish Stock Exchange), an AIB HoldCo Shareholder will not be subject to Irish CGT on any gain arising on a disposal of AIB HoldCo Shares, provided that AIB HoldCo Shareholder is neither resident in Ireland for the purposes of Irish tax (“Irish Resident”) nor ordinarily resident in Ireland for the purposes of Irish tax (“Ordinarily Resident in Ireland”), and does not or did not carry on a trade in Ireland through a branch or agency in respect of which the AIB HoldCo Shares are used or were used, or were held or acquired for use by or for the purposes of the branch or agency. To the extent that the AIB HoldCo Shares are not listed, a charge to Irish CGT will arise where the shares derive the greater part of their value from Irish land or Irish minerals or certain rights, interests or other assets in relation to mining or minerals or the search for minerals.

1.2.4 AIB HoldCo Shareholders who are individuals and who are Irish Resident or Ordinarily Resident in Ireland

Individual AIB HoldCo Shareholders who are Irish Resident and/or Ordinarily Resident in Ireland will generally (subject to the availability of exemptions or reliefs) be liable to Irish CGT on a disposal of AIB HoldCo Shares. Individual AIB HoldCo Shareholders who are not Irish Resident for a period of five years or less may (subject to the availability of exemptions or reliefs) be liable to Irish CGT on a disposal of AIB HoldCo Shares.

An individual is generally exempted from Irish CGT if, for the year of assessment, the amount on which the individual is chargeable does not exceed €1,270. If the amount on which the individual is chargeable exceeds €1,270, generally, only the excess of that amount over €1,270 is charged.

1.2.5 AIB HoldCo Shareholders who are corporates and who are Irish Resident

Irish CGT will generally apply to chargeable gains arising on the disposal of AIB HoldCo Shares by an Irish Resident corporate AIB HoldCo Shareholder.

1.2.6 Irish tax-exempt AIB HoldCo Shareholders

Certain Irish tax-exempt AIB HoldCo Shareholders will not be subject to Irish CGT on a gain arising on a disposal of AIB HoldCo Shares.

1.3 Payment of Dividends

1.3.1 Withholding tax

AIB HoldCo is required to operate dividend withholding tax in Ireland (“DWT”) at source on any “relevant distribution” made on AIB HoldCo Shares at the standard rate of Irish income tax (20 per cent.) unless an exemption applies and the relevant shareholder has submitted on time a properly completed declaration providing for exemption to the share registrar. A distribution of cash, assets or other property would be a “relevant distribution” for this purpose unless paid to certain specified Irish persons.

Certain categories of AIB HoldCo Shareholder are entitled to an exemption from DWT if, prior to payment of the dividend, AIB HoldCo or a “qualifying intermediary” from whom the dividend is received by that AIB HoldCo Shareholder, as the case may be, has received all documentation required by law in order for that exemption to apply, and in the case of AIB HoldCo Shareholders that are not Irish Resident, that documentation is current at the date of payment of the dividend.

Individual AIB HoldCo Shareholders who are Irish Resident and/or Ordinarily Resident in Ireland are generally not entitled to an exemption from DWT.

Categories of AIB HoldCo Shareholder that are entitled to exemption as outlined above include (but are not limited to):

- (a) companies that are Irish Resident;
- (b) Irish established pension schemes;
- (c) Irish authorised collective investment undertakings;

- (d) AIB HoldCo Shareholders that are not companies, that are neither Irish Resident nor Ordinarily Resident in Ireland and are resident for tax purposes in a member state of the European Union other than Ireland or a territory that has signed a double taxation agreement with Ireland (a “Relevant Territory”) under the laws of that Relevant Territory;
- (e) AIB HoldCo Shareholders that are companies that are not Irish Resident and:
 - (I) are resident for tax purposes in a Relevant Territory under the laws of that Relevant Territory, provided that company is not under the control, whether directly or indirectly, of a person or persons who is or are Irish Resident;
 - (II) are ultimately under the control, directly or indirectly, of a person or persons resident in a Relevant Territory under the laws of that Relevant Territory; or
 - (III) the principal class of shares of which, or where the company is a 75 per cent. subsidiary of another company, of that other company, or where the company is wholly owned, directly or indirectly, by two or more companies, where the principal class of shares of each of those companies, is substantially and regularly traded on a recognised stock exchange in a Relevant Territory or Relevant Territories, or in Ireland or on such other stock exchange approved by the Minister for Finance for that purpose.

AIB HoldCo Shareholders should note that DWT will be deducted in cases where a properly completed DWT exemption form has not been received before the next dividend is declared and paid on the AIB HoldCo Shares. Where a non-Irish Resident person suffers DWT on a distribution which would not have been deducted had a properly completed DWT declaration been received from that person, then that person should be entitled to receive a refund of the full amount of DWT deducted on application to the Irish Revenue Commissioners.

1.3.2 Taxation of Dividends

Irish taxation of individual AIB HoldCo Shareholders who are Irish Resident and/or Ordinarily Resident in Ireland

AIB HoldCo Shareholders that are individuals and are Irish Resident are subject to Irish income tax at their marginal rate of Irish income tax, the USC and Pay Related Social Insurance, if applicable, on the gross amount of any dividend to which they are beneficially entitled. The gross dividend amount is the amount of the distribution before deduction of DWT, if applicable. Such AIB HoldCo Shareholders are entitled to a credit for any DWT deducted against their income tax liability in the relevant tax year, and any amount by which such DWT exceeds such income tax liability may be refunded to them, provided that they furnish a statement of DWT suffered to the Revenue Commissioners.

Irish taxation of AIB HoldCo Shareholders who are Irish Resident companies

Companies that are Irish Resident are generally exempt from Irish tax on dividends received from a company that is Irish Resident, such as AIB HoldCo.

However, Irish Resident AIB HoldCo Shareholders that are close companies, as defined in Irish tax legislation, may be subject to a corporation tax surcharge on dividend income to the extent that it is not re-distributed by that company within the appropriate time frame.

Irish taxation of AIB HoldCo Shareholders who are not Irish Resident and/or Ordinarily Resident in Ireland

AIB HoldCo Shareholders that are not Irish Resident or Ordinarily Resident in Ireland are liable to Irish income tax on dividends received, unless an exemption applies. An AIB HoldCo Shareholder that is not Irish Resident or Ordinarily Resident in Ireland is entitled to exemption from Irish income tax on dividends received if that AIB HoldCo Shareholder is exempt from DWT on that dividend or would have been entitled to be so exempt if that AIB HoldCo Shareholder had provided to AIB HoldCo or a “qualifying intermediary” from whom the dividend is received by that AIB HoldCo Shareholder, as the case may be, the documentation required by law in order for that exemption from DWT to apply, and that documentation had been current at the date of payment of the dividend.

If an AIB HoldCo Shareholder is either an individual that is not Irish Resident or Ordinarily Resident in Ireland or a body corporate that is not Irish Resident and has, in any such case, suffered DWT or ought to have suffered DWT on dividends paid in respect of the AIB HoldCo Shares, then such AIB HoldCo Shareholder may be liable to income tax (plus USC and PRSI, if applicable) in Ireland on those dividends, with a credit given for the DWT withheld. Where the liability is less than the DWT withheld, the AIB HoldCo Shareholder may be entitled to a refund of the excess over the actual liability to Irish tax.

1.4 Stamp Duty

Any instrument that gives effect to a transfer on sale or a voluntary disposition of AIB HoldCo Shares will be liable to Irish stamp duty at a rate of 1 per cent. of the consideration passing or the market value of the AIB HoldCo Shares transferring, if greater. Generally, the person accountable for such stamp duty is the transferee, except in the case of a

voluntary disposition, in which case the transferor and the transferee are jointly accountable. Stamp duty is generally payable within 30 days of the date of execution of the relevant instrument.

1.5 Capital Acquisitions Tax

If AIB HoldCo Shares are comprised in a gift or inheritance taken from a disponent that is Irish Resident or ordinarily resident in Ireland for the purposes of capital acquisitions tax (or, in the case of certain settlements, an Irish domiciled disponent) or if the recipient is Irish Resident or ordinarily resident in Ireland for the purposes of capital acquisitions tax, or if the AIB HoldCo Shares are regarded as property situate in Ireland, the recipient (or, in certain cases, the disponent) may be liable for Irish capital acquisitions tax.

The AIB HoldCo Shares, which are issued in registered form, will be regarded as property situate in Ireland because the principal register of the AIB HoldCo Shares is maintained in Ireland. At the date of this Prospectus, the principal register of the AIB HoldCo Shares must be maintained in Ireland.

The rate of Irish capital acquisitions tax is currently 33 per cent.

2 United Kingdom Taxation

The comments set out below are based on current United Kingdom tax law and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to AIB Bank Shareholders or (as the case may be) AIB HoldCo Shareholders that are resident and in the case of an individual, domiciled, in the United Kingdom for tax purposes and to whom “split year” treatment does not apply (except insofar as express reference is made to the treatment of non United Kingdom tax residents), who hold shares in AIB Bank or (as the case may be) AIB HoldCo as an investment and who are the absolute beneficial owners thereof. In particular, AIB Bank Shareholders or (as the case may be) AIB HoldCo Shareholders holding their shares via a depositary receipt system or clearance service should note that they may not always be the absolute beneficial owners thereof. The discussion does not constitute tax or legal advice nor does it address all possible United Kingdom tax consequences relating to an investment in the shares. Certain categories of AIB Bank Shareholders or (as the case may be) AIB HoldCo Shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefitting from certain reliefs or exemptions, those connected with AIB Bank, AIB HoldCo or AIB Group and those for whom the shares are employment related securities, may be subject to special rules and this summary does not apply to such shareholders. This summary also does not apply to any AIB Bank Shareholder or (as the case may be) AIB HoldCo Shareholder who, alone, or with certain associated persons, is (or has been) interested or treated as interested in, 5 per cent. or more of the ordinary share capital of AIB Bank or (as the case may be) AIB HoldCo or any AIB Bank Shareholder or (as the case may be) AIB HoldCo Shareholder that owns (or is deemed to own) 5 per cent. or more of the shares and/or voting power of AIB Bank or (as the case may be) AIB HoldCo (either alone or together with connected persons).

The comments set out below do not address the implications of the Scheme for the purposes of United Kingdom capital gains tax (“CGT”) and corporation tax on chargeable gains for holders of Transfer Shares on the basis that AIB Bank does not intend to issue any AIB Bank Shares between the Cancellation Record Time and the Scheme Record Time and therefore no Transfer Shares are expected to be in existence at or before the time the Scheme becomes effective. The comments for holders of Cancellation Shares are also given on this basis.

AIB Bank Shareholders or (as the case may be) AIB HoldCo Shareholders and prospective shareholders who are in any doubt about their tax position, or who are tax resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

2.1 UK tax consequences of the cancellation of the Scheme Shares and the issue of the AIB HoldCo Shares

AIB has been advised that, for the purposes of UK CGT and corporation tax on chargeable gains, the cancellation of the Cancellation Shares and the issue of AIB HoldCo Shares should be treated as a scheme of reconstruction. A Scheme Shareholder should obtain reconstruction relief in respect of the cancellation of his Cancellation Shares and the issue to him of AIB HoldCo Shares, and for the purposes of CGT and corporation tax on chargeable gains, he should not be treated as having made a disposal of his Cancellation Shares. Instead, the AIB HoldCo Shares should be treated as the same asset as those Scheme Shares in respect of which he received the AIB HoldCo Shares, acquired at the same time and for the same consideration as those shares.

In the case of a person who holds (either alone or together with persons connected with him) more than 5 per cent. of, or of any class of, shares or debentures in AIB Bank, the treatment in the preceding paragraph is subject to the cancellation of his Cancellation Shares and the issue to him of AIB HoldCo Shares being carried out for bona fide commercial reasons and not forming part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of the liability to capital gains tax or corporation tax. Provided that this is the case, any such shareholder will be treated in the manner described in the preceding paragraph.

2.2 Taxation of Dividends

AIB HoldCo will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend. Please refer to “*Irish Taxation*” above for information regarding the entitlement of a non-Irish tax resident shareholder to claim exemption from Irish withholding tax on dividends

With effect from the tax year beginning 6 April 2016, a United Kingdom resident individual AIB HoldCo Shareholder will not be subject to income tax on a dividend such individual AIB HoldCo Shareholder receives from AIB HoldCo if the total amount of dividend income received by the individual in the tax year (including the dividend from AIB HoldCo) does not exceed a dividend allowance of £5,000, which will be taxed at a nil rate (the “Dividend Allowance”). The amount of the Dividend Allowance is expected to reduce to an allowance of £2,000 from 6 April 2018.

In determining the income tax rate or rates applicable to a United Kingdom resident individual shareholder’s taxable income, dividend income is treated as the highest part of such individual shareholder’s income. Dividend income that falls within the Dividend Allowance will count towards the basic or higher rate limits (as applicable) which may affect the rate of tax due on any dividend income in excess of the Dividend Allowance.

To the extent that a United Kingdom resident individual shareholder’s dividend income for the tax year exceeds the Dividend Allowance and, when treated as the top slice of such individual shareholder’s income, falls above such individual shareholder’s personal allowance but below the basic rate limit, such an individual shareholder will be subject to tax on that dividend income at the dividend basic rate of 7.5 per cent. To the extent that such dividend income falls above the basic rate limit but below the higher rate limit, such an individual shareholder will be subject to tax on that dividend income at the dividend upper rate of 32.5 per cent. To the extent that such dividend income falls above the higher rate limit, such an individual shareholder will be subject to tax on that dividend income at the dividend additional rate of 38.1 per cent.

UK tax resident individual AIB HoldCo Shareholders who hold their shares in an individual savings account are exempt from tax on dividends paid by AIB HoldCo.

Irish withholding tax withheld from the payment of a dividend may be available as a credit against the United Kingdom income tax payable by an individual shareholder in respect of the dividend.

AIB HoldCo Shareholders who are within the charge to United Kingdom corporation tax in respect of shares in AIB HoldCo will be subject to United Kingdom corporation tax on the gross amount of any dividends paid by AIB HoldCo, subject to any applicable credit for Irish withholding tax, unless (and subject to special rules for such AIB HoldCo Shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each such AIB HoldCo Shareholder’s position will depend on its own particular circumstances, although in the majority of cases it would be expected that the dividends paid by AIB HoldCo would fall within an exempt class.

A shareholder that is tax resident or otherwise subject to tax outside the United Kingdom (whether an individual or a body corporate) may be subject to foreign taxation on dividend income under local law. AIB HoldCo Shareholders to whom this may apply should obtain their own tax advice concerning tax liabilities on dividends received from AIB HoldCo.

2.3 Taxation of Capital Gains

AIB HoldCo Shareholders who are tax resident in the United Kingdom, or, in the case of individuals, who cease to be tax resident in the United Kingdom for a period of five years or less, may depending on their circumstances (including the availability of exemptions or reliefs), be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of shares in AIB HoldCo.

For AIB HoldCo Shareholders who are tax resident in the United Kingdom subject to the charge to corporation tax on chargeable gains (notwithstanding any additional reliefs or exemptions that may be due) indexation allowance should be available to reduce the amount of chargeable gain realised on a disposal of AIB HoldCo Shares (but not to create or increase any loss).

For UK tax resident AIB HoldCo Shareholders who are individuals and who are subject to CGT, an annual exemption is available, such that CGT is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £11,300 for the tax year 2017 2018. CGT chargeable in respect of disposals of shares in AIB HoldCo, on or after 6 April 2016, will be at the current rate of 10 per cent. (for basic rate taxpayers) and 20 per cent. (for higher and additional rate taxpayers).

2.4 Inheritance Tax

AIB HoldCo Shares will be assets situated outside the United Kingdom for the purposes of United Kingdom inheritance tax provided that the shares are not registered in any register kept in the United Kingdom. A gift of such assets by, or the death of, an individual AIB HoldCo Shareholder of such assets who is domiciled or is deemed to be domiciled in the United Kingdom may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full

market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Where a holder is neither domiciled nor deemed domiciled (under certain rules relating to long residence or previous domicile) in the United Kingdom, neither a gift of such assets by the holder nor the death of such holder will give rise to a liability to United Kingdom inheritance tax.

2.5 Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

No United Kingdom stamp duty will be payable on the cancellation or extinguishment of the Cancellation Shares, or on the issue in registered form of AIB HoldCo Shares and no United Kingdom stamp duty should be required to be paid on the transfer of AIB HoldCo Shares provided that any instrument of transfer is not executed in the United Kingdom, and does not relate to any property situate or to any matter or thing done or to be done, in the United Kingdom. No United Kingdom SDRT will be payable on the issue or transfer of the AIB HoldCo Shares provided that the shares are not registered in any register kept in the United Kingdom.

3 Certain US Federal Income Tax Considerations

The following is a summary of certain US federal income tax consequences of the ownership and disposition of AIB HoldCo Shares by a US Holder (as defined below). This summary deals only with US Holders that receive AIB HoldCo Shares pursuant to the Scheme and that will hold the AIB HoldCo Shares as capital assets. The discussion does not constitute tax or legal advice nor does it cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the ownership or disposition of AIB HoldCo Shares by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-US or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5 per cent. or more of the voting stock of AIB HoldCo, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the AIB HoldCo Shares as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes, persons that have ceased to be US citizens or lawful permanent residents of the United States, investors holding the AIB HoldCo Shares in connection with a trade or business conducted outside of the United States, US citizens or lawful permanent residents living abroad or investors whose functional currency is not the US dollar). Please see “*Part IV—Additional Information—2.5 Certain US Federal Income Tax Considerations*” in the Scheme Circular for a summary of certain US federal income tax consequences of the Scheme and receipt of AIB HoldCo Shares by a US Holder.

As used herein, the term “US Holder” means a beneficial owner of AIB HoldCo Shares that is, for US federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in an entity or arrangement treated as a partnership for US federal income tax purposes that holds AIB HoldCo Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for US federal income tax purposes should consult their tax advisers concerning the US federal income tax consequences to them and their partners of the ownership and disposition of AIB HoldCo Shares by the partnership.

Except as otherwise noted, the summary assumes that AIB HoldCo is not a passive foreign investment company (a “PFIC”) for US federal income tax purposes. If AIB HoldCo were to be a PFIC in any year, materially adverse consequences could result for US Holders. See “—*Passive Foreign Investment Company Considerations*” below.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING AND DISPOSING OF THE AIB HOLDCO SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-US AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

3.1 Dividends

General

Distributions paid by AIB HoldCo out of current or accumulated earnings and profits (as determined for US federal income tax purposes), before reduction for any Irish withholding tax paid by AIB HoldCo with respect thereto, generally

will be taxable to a US Holder as dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder's basis in the AIB HoldCo Shares and thereafter as capital gain. However, AIB HoldCo does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distribution by AIB HoldCo with respect to AIB HoldCo Shares will be reported as ordinary dividend income. US Holders should consult their own tax advisers with respect to the appropriate US federal income tax treatment of any distribution received from AIB HoldCo.

Dividends paid by AIB HoldCo generally will be taxable to a non-corporate US Holder at the reduced rate normally applicable to long-term capital gains, provided AIB HoldCo qualifies for the benefits of the income tax treaty between the United States and Ireland, and certain other requirements are met. AIB HoldCo expects to qualify for the benefits of the Treaty for its current taxable year. However, AIB HoldCo's eligibility for the benefits of the Treaty must be determined annually and no assurance can be given that AIB HoldCo will qualify for the benefits of the Treaty for future taxable years. Prospective purchasers should consult their tax advisers concerning the eligibility of dividends paid by AIB HoldCo to be taxed at the reduced tax rate normally applicable to long-term capital gains.

Dividends Paid in Euros

Dividends paid in euros will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the euros are converted into US dollars at that time. If dividends received in euros are converted into US dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

Effect of Irish Withholding Taxes

As discussed in "*—Irish Taxation—Payment of Dividends—Withholding tax*" above, under current law payments of dividends by AIB HoldCo to foreign investors may be subject to Irish withholding tax where an exemption from Irish withholding tax is not available. Please refer to "*—Irish Taxation*" above for information regarding the entitlement of a US resident shareholder to claim exemption from Irish withholding tax on dividends. For US federal income tax purposes, US Holders will be treated as having received the amount of any Irish taxes withheld by AIB HoldCo, and as then having paid over any such withheld taxes to the Irish taxing authorities. As a result, the amount of dividend income included in gross income for US federal income tax purposes by a US Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the US Holder from AIB HoldCo with respect to the payment.

Subject to certain limitations, a US Holder generally will be entitled to a credit against its US federal income tax liability, or a deduction in computing its US federal taxable income, for any Irish income taxes withheld by AIB HoldCo. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Irish withholding taxes.

3.2 Sale or other Disposition

Upon a sale or other disposition of AIB HoldCo Shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the AIB HoldCo Shares. This capital gain or loss will be long-term capital gain or loss if the US Holder's holding period in the AIB HoldCo Shares exceeds one year. Any gain or loss generally will be US source.

The amount realised on a sale or other disposition of AIB HoldCo Shares for an amount in euros generally will be the US dollar value of such amount on the settlement date, in the case of a cash basis US Holder, or the trade date in the case of an accrual basis US Holder, of such sale or disposition. On the settlement date, an accrual basis US Holder generally will recognise US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the trade date and the settlement date. However, in the case of AIB HoldCo Shares traded on an established securities market, accrual basis US Holders may elect to determine the US dollar value of the amount realised on the sale or other disposition of the AIB HoldCo Shares based on the exchange rate in effect on the settlement date, and no exchange gain or loss will be recognised on such date. The election by an accrual basis US Holder discussed above to use the settlement date for purposes of determining amount realised must be applied consistently from year to year and cannot be revoked without the consent of the U.S. Internal Revenue Service (the "IRS").

3.3 Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. AIB HoldCo does not expect to be treated as a PFIC for the current taxable year or in the foreseeable future. Although interest income generally is passive income, special rules generally allow banks to treat their banking business income as non-passive in certain circumstances. To

qualify for these rules, a bank must satisfy certain requirements regarding its licensing and activities. AIB HoldCo expects to meet these requirements for its current taxable year. AIB HoldCo's possible status as a PFIC is determined annually, however, and may be subject to change if AIB HoldCo fails to qualify under these special rules for any year in which a US Holder holds AIB HoldCo Shares. If AIB HoldCo were to be treated as a PFIC in any year, US Holders of AIB HoldCo Shares would be required (i) to pay a special US addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of AIB HoldCo Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

3.4 Backup Withholding and Information Reporting

Dividends and payments of other proceeds with respect to AIB HoldCo Shares by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain US Holders are not subject to backup withholding. US Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of AIB HoldCo Shares, including requirements related to the holding of certain "specified foreign financial assets".

PART XX
ADDITIONAL INFORMATION

1 Responsibility

AIB HoldCo, AIB Bank and the Directors of AIB HoldCo, whose names and principal functions are set out in “*Part XI: Directors, Senior Executives and Corporate Governance*”, each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of AIB HoldCo and the Directors of AIB HoldCo (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation and registered office

AIB HoldCo was incorporated in Ireland on 8 December 2016 as a public limited company under the Companies Act 2014 under the name RPML 1966 Holdings plc. On 5 September 2017, AIB HoldCo changed its name to its present name, AIB Group plc. AIB HoldCo is registered under company number 594283 under the Companies Act 2014 as a public limited company.

AIB HoldCo is domiciled in Ireland. Its head office and registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland (telephone number +353 1 660 0311).

The principal laws and legislation under which AIB HoldCo operates, and under which the AIB HoldCo Shares have been issued and which will be issued pursuant to the Scheme, is the Companies Act and regulations made thereunder. AIB HoldCo has not traded since incorporation (other than its acquisition of one AIB Bank Share).

3 Share capital of AIB HoldCo and other shareholder approvals

3.1 The authorised, issued and fully paid up share capital of AIB HoldCo as at the Latest Practicable Date was as follows:

<u>Class of Share</u>	<u>Nominal Value</u>	<u>Authorised Number</u>	<u>Issued and paid up number</u>	<u>Nominal value aggregate</u>
Ordinary shares	€2.47	4,000,000,000	Nil	Nil
Ordinary shares	€0.625	40,000	40,000	€25,000

3.2 Save as disclosed in “— History of share capital” below, since its incorporation, there has been no issue of AIB HoldCo Shares, fully or partly paid, either in cash or for other consideration.

3.3 As at the Latest Practicable Date, except as disclosed in paragraph 3.4 of this Part XX:

- (a) AIB HoldCo has no convertible debt securities, exchangeable debt securities or debt securities with warrants in issue;
- (b) no ordinary share capital of AIB HoldCo is under option or agreed conditionally or unconditionally to be put under an option;
- (c) there are no acquisition rights and/or obligations over authorised but unissued share capital or undertakings to increase capital; and
- (d) since incorporation AIB HoldCo has no treasury shares, or AIB HoldCo Shares that were purchased by AIB HoldCo, but not cancelled, in issue.

3.4 Subject to, and conditional on, the Scheme becoming effective and assuming no AIB Bank Shares are issued between the Latest Practicable Date and Admission, AIB HoldCo will issue 2,714,381,237 ordinary shares having a nominal value of €2.47 each. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument entered into by AIB Bank will be replaced by the AIB HoldCo Warrant Instrument, pursuant to which the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled.

3.5 On the date of incorporation of AIB HoldCo and as at 1 January 2017, there were two ordinary shares of €0.625 in issue in AIB HoldCo.

- 3.6 The authorised, issued and fully paid up share capital of AIB HoldCo immediately following Admission is expected to be, approximately, as follows:

<u>Class of Share</u>	<u>Nominal Value</u>	<u>Authorised Number</u>	<u>Issued and paid up number</u>	<u>Nominal value aggregate</u>
Ordinary shares	€2.47 ⁽¹⁾	4,000,000,000	2,714,381,237	€6,704,521,655.39 ⁽²⁾
Subscriber Shares ⁽³⁾	€0.625	40,000	40,000	€25,000

Notes:

- (1) If the AIB HoldCo Reduction of Capital becomes effective, the nominal value of the AIB HoldCo Shares will be reduced to €0.625.
(2) If the AIB HoldCo Reduction of Capital becomes effective, the aggregate nominal value will be reduced accordingly.
(3) The Subscriber Shares will be redeemed and cancelled at an appropriate time following the Scheme Effective Time.

- 3.7 AIB HoldCo will, in accordance with the Transparency Regulations and Rules, announce the final number of its shares that are issued and listed following Admission, by making an announcement on the Irish Stock Exchange and the London Stock Exchange, as soon as practicable after Admission.

History of share capital

Authorised share capital and issued shares

- 3.8 The share capital history of AIB HoldCo is as follows:

- (a) AIB HoldCo was incorporated on 8 December 2016 with an authorised share capital of €25,000 divided into 40,000 ordinary shares with a nominal value of €0.625 each and an issued share capital of €1.25, comprising two ordinary shares of €0.625 each.
- (b) One ordinary share of €0.625 was issued fully paid up to each of MFSD Holdings Limited and MFSD Nominees Limited, the subscribers to the constitution of AIB HoldCo. MFSD Holdings Limited and MFSD Nominees Limited are companies owned and controlled by AIB HoldCo's Irish legal advisers, McCann FitzGerald. Those companies subscribed for shares on incorporation and on 21 February 2017 (as set out below in paragraph 3.8(c) below) to allow AIB HoldCo to satisfy the authorised share capital requirements for a public limited company under Irish company law.
- (c) On 21 February 2017, MFSD Holdings Limited and MFSD Nominees Limited each subscribed for 19,999 ordinary shares of €0.625 each in AIB HoldCo. The ordinary shares of €0.625 were issued fully paid up and rank pari passu with the existing ordinary shares of €0.625 in issue.

Authorisations relating to the share capital of AIB HoldCo and related matters

- 3.9 By shareholder written resolutions passed on 6 October 2017, it was resolved by the holders of the AIB HoldCo Shares then in issue that:

- (a) the authorised share capital of AIB HoldCo be increased from €25,000 divided into 40,000 ordinary shares of €0.625 each to €9,880,025,000 divided into 4,000,000,000 ordinary shares of €2.47 each and 40,000 ordinary shares of €0.625 each;
- (b) the Directors of AIB HoldCo be authorised to exercise all the powers of AIB HoldCo to allot and issue the ordinary shares of €2.47 each in the capital of AIB HoldCo pursuant to the Scheme and to issue the 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares to the Minister for Finance;
- (c) subject to, and conditional on, the Scheme becoming effective:
- (i) the 40,000 authorised and issued ordinary shares of €0.625 in the capital of AIB HoldCo be converted into 40,000 Subscriber Shares and for those 40,000 Subscriber Shares to be redeemed at par and cancelled at an appropriate time (as determined by the Directors) following the Scheme Effective Time; and
- (ii) AIB HoldCo adopt the AIB HoldCo Memorandum and the AIB HoldCo Articles; and
- (d) subject to the Scheme becoming effective and the confirmation of the Court pursuant to sections 84 and 85 of the Companies Act, the reduction of the nominal value of each ordinary share of AIB HoldCo from €2.47 to €0.625 be approved and further that (i) the reserve resulting from such reduction of capital be treated as a realised profit for the purposes of section 117 of the Companies Act and (ii) the AIB HoldCo Memorandum and the AIB HoldCo Articles be amended to reflect the reduction in par value of the AIB HoldCo Shares.

- 3.10 By written resolutions (ordinary and special) of AIB HoldCo Shareholders passed on 6 October 2017 it was resolved that:
- (a) subject to, and conditional on, the Scheme becoming effective, the Directors of AIB HoldCo be authorised, in addition to the authority referenced at paragraph 3.9(b) above, to allot relevant securities (within the meaning of Section 1021 of the Companies Act) during the period commencing immediately following the Scheme Effective Time and expiring on the conclusion of the annual general meeting of AIB HoldCo in 2018, up to an amount representing approximately one third of the issued ordinary shares of AIB HoldCo (by number) immediately following the Scheme Effective Time;
 - (b) subject to, and conditional on, the Scheme becoming effective, the Directors of AIB HoldCo be empowered pursuant to section 1023 of the Companies Act, in addition to the authority referenced at paragraph 3.9(b) above and at paragraph 3.10(c) below, to allot equity securities (within the meaning of Section 1023 of the Companies Act 2014) for cash under the authority given by resolution set out in sub-paragraph 3.10(a) above during the period commencing immediately following the Scheme Effective Time and expiring on the conclusion of the annual general meeting of AIB HoldCo in 2018, up to an amount representing approximately five per cent. of the issued ordinary shares of AIB HoldCo (by number) immediately following the Scheme Effective Time;
 - (c) subject to, and conditional on, the Scheme becoming effective, the Directors of AIB HoldCo be empowered pursuant to section 1023 of the Companies Act, in addition to the authority referenced at paragraph 3.9(b) above, (and in addition to any authority granted under resolution set out in sub-paragraph 3.10(b) above) to allot equity securities (within the meaning of Section 1023 of the Companies Act 2014) for cash under the authority given by the resolution set out in sub-paragraph 3.10(a) during the period commencing immediately following the Scheme Effective Time and expiring on the conclusion of the annual general meeting of AIB HoldCo in 2018, up to an amount representing approximately five per cent. of the issued ordinary shares of AIB HoldCo (by number) immediately following the Scheme Effective Time, provided that the powers conferred by this resolution shall be used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Prospectus;
 - (d) subject to, and conditional on, the Scheme becoming effective, AIB HoldCo and/or any of its subsidiaries (as defined by Section 7 of the Companies Act) be generally authorised to make market purchases or overseas market purchases (each term as defined in Section 1072 of the Companies Act), of shares of any class in the capital of AIB HoldCo (the “Share” or “Shares”) on such terms and conditions and in such manner as the Directors may from time to time determine but subject to the provisions of the Companies Act and to the following restrictions and provisions:
 - (i) the maximum number of Shares authorised to be acquired pursuant to the terms of this resolution shall be up to an amount representing approximately 10 per cent. of the issued AIB HoldCo Shares (by number) immediately following the Scheme Effective Time;
 - (ii) the minimum price which may be paid for any Share shall be the nominal value of the Share at the relevant time;
 - (iii) the maximum price (excluding expenses) which may be paid for any Share in AIB HoldCo (a “Relevant Share”) shall be the higher of:
 - (A) 5 per cent. above the average of the closing quotation prices of a Relevant Share on the Irish Stock Exchange and the average of the closing quotation prices of a relevant share on the London Stock Exchange, in each case for the five business days immediately preceding the day of purchase (and, in respect of any business day on which there shall be no dealing in such shares either on the Irish Stock Exchange or the London Stock Exchange, the price which is equal to (A) the mid-point between the high and low market guide prices in respect of such shares on the relevant trading venue for that business day, or (B) if there shall be only one such market guide price so published, the market guide price so published; such prices shall be as published in the Irish Stock Exchange Daily Official List (or any successor publication thereto or any equivalent publication for securities admitted to trading on the Irish Stock Exchange) and/or the London Stock Exchange Daily Official List (or any successor publication thereto or any equivalent publication for securities admitted to trading on the London Stock Exchange); and

(B) the amount stipulated by Article 5(6) of the Market Abuse Regulation (No. 596/2014) or any corresponding provision of any replacement legislation, being the value of a Relevant Share calculated on the basis of the higher of the price for:

- (1) the last independent trade of; and
- (2) the highest current independent bid for;

any number of Relevant Shares on the trading venue where the purchase pursuant to the authority conferred by this resolution will be carried out.

If the means of providing the foregoing information as to dealings and prices by reference to which the maximum price is to be determined is altered or is replaced by some other means, then a maximum price shall be determined on the basis of the equivalent information published by the relevant authority in relation to dealings on the Irish Stock Exchange or its equivalent and/or on the London Stock Exchange or its equivalent; and

(iv) the authority shall commence during the period commencing immediately following the Scheme Effective Time and expiring on the conclusion of the annual general meeting of AIB HoldCo in 2018. AIB HoldCo or any such subsidiary may before such expiry enter into a contract for the purchase of Shares which would or might be executed wholly or partly after such expiry and may complete any such contract as if the authority conferred hereby had not expired;

(e) subject to, and conditional on, the Scheme becoming effective, for the purposes of Sections 109 and/or 1078 of the Companies Act, the re-issue price range at which any treasury shares for the time being held by AIB HoldCo may be re-issued (including by way of re-issue off market) shall be determined in accordance with Article 54 of the AIB HoldCo Articles. The authority conferred pursuant to this resolution shall commence during the period commencing immediately following the Scheme Effective Time and expiring on the conclusion of the annual general meeting of AIB HoldCo in 2018 and is without prejudice or limitation to any other authority of AIB HoldCo to re-issue treasury shares on-market.

3.11 With effect from the Scheme Effective Time, the AIB HoldCo Shares will be in registered form and, subject to the provisions of the CREST Regulations, the Directors of AIB HoldCo may permit the holding of AIB HoldCo Shares in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

3.12 Following Admission, the AIB HoldCo Shares will rank *pari passu* for dividends.

3.13 AIB HoldCo does not have any shares in issue which carry special control rights. Apart from the Minister for Finance, AIB HoldCo is not aware of any person who, directly or indirectly, exercises or could exercise control over AIB HoldCo as at or immediately following Admission.

4 Share capital of AIB Bank

The authorised, issued and fully paid share capital of AIB Bank on the Latest Practicable Date was as follows:

Class of Share	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Ordinary shares of €0.625 each	4,000,000,000	€2,500,000,000	2,714,381,238	€1,696,488,273.75

Save as disclosed in “—*History of share capital*” below, since 1 January 2014, there has been no issue of AIB Bank Shares, fully or partly paid, either in cash or for other consideration. Other than in connection with the AIB Bank Warrants, no ordinary share in the capital of AIB Bank or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

As at 30 June 2017, AIB Bank had no Treasury Shares, or AIB Bank Shares that were purchased by AIB Bank, but not cancelled, in issue.

AIB Bank Shares are currently admitted to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange. Admission to trading of AIB Bank Shares on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange will be cancelled immediately before Admission. The number of AIB Bank Shares outstanding at the beginning and end of the last financial year in 2016 was as follows:

	Authorised		Issued and fully paid	
	1 January 2016	31 December 2016	1 January 2016	31 December 2016
Ordinary share capital				
Ordinary shares of €0.625 each	4,000,000,000	4,000,000,000	2,714,381,238	2,714,381,238

4.1 History of share capital

4.1.1 Authorised share capital

As at 1 January 2014, the first day covered by the historical financial information included in Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, which is incorporated by reference herein, the authorised share capital of AIB Bank was €11,092,752,297. It was divided into (i) 702,000,000,000 ordinary shares with a nominal value at the time of €0.01 each; (ii) 3,500,000,000 2009 Preference Shares; and (iii) 403,775,229,679 deferred shares of €0.01 each. Between 1 January 2014 and the Latest Practicable Date, the authorised share capital was:

- reduced by €9,302,752,297 from €11,092,752,297 to €1,790,000,000 pursuant to shareholder resolutions passed at an EGM held on 19 June 2014 in connection with the 2014 Capital Reorganisation;
- increased by €745,000,000 from €1,790,000,000 to €2,535,000,000 pursuant to a shareholder resolution passed at an EGM held on 16 December 2015 in connection with the 2015 Capital Reorganisation; and
- reduced by €35,000,000 from €2,535,000,000 to €2,500,000,000 pursuant to a shareholder resolution passed at an EGM held on 16 December 2015 in connection with the 2015 Capital Reorganisation.

Further details of these movements in the authorised share capital are set out in “—*Issued share capital*” below).

4.1.2 Issued share capital

As at 1 January 2014, the first day covered by the historical financial information included in Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, which is incorporated by reference herein, 521,296,831,617 ordinary shares with a nominal value at the time of €0.01 each (of which 35,680,114 were held as Treasury Shares) were in issue fully paid or credited as fully paid. Between 1 January 2014 and the Latest Practicable Date, there have been the following changes in the issued ordinary share capital of AIB Bank:

	2014	2015	2016	1 January 2017 to the Latest Practicable Date
Movements in units of ordinary shares⁽¹⁾				
Period Start.....	521,261,151,503	523,438,445,437	2,714,381,238	2,714,381,238
Allotment of ordinary shares to NPRFC by way of bonus issue	2,177,293,934	—	—	—
Allotment of ordinary shares to NTMA pursuant to the conversion of the 2009 Preference Shares	—	155,146,574,363	—	—
Allotment of ordinary shares by way of bonus issue in connection with the Ordinary Share Consolidation	—	10,289,700	—	—
Total number of ordinary shares subject to the Ordinary Share Consolidation (250:1).....	—	678,595,309,500/2 50	—	—
Period End.....	523,438,445,437	2,714,381,238	2,714,381,238	2,714,381,238

Note:

- (1) Excludes 35,680,114 Treasury Shares in issue during the relevant period described at 4.1.2 above, which were cancelled on 17 December 2015 prior to the Ordinary Share Consolidation.

On 13 May 2014, 2,177,293,934 new ordinary shares in the capital of AIB Bank were issued to the NPRFC by way of bonus issue in lieu of payment of the annual dividend on the 2009 Preference Shares.

On 22 December 2014, under the NTMA 2014 Act, the 2009 Preference Shares and the ordinary shares in the capital of AIB Bank held by the NPRFC, became the assets of the ISIF, a fund whose assets are owned by the Minister for Finance.

On 17 December 2015, 155,146,574,363 new ordinary shares in the capital of AIB Bank were issued to the NTMA pursuant to the conversion of the 2009 Preference Shares which formed part of the 2015 Capital Reorganisation.

On 21 December 2015, 10,289,700 new ordinary shares in the capital of AIB Bank were issued to AIB Bank Shareholders by way of bonus issue to ensure that fractional entitlements did not arise as a result of the Ordinary Share Consolidation which formed part of the 2015 Capital Reorganisation.

On 4 July 2017, AIB Bank issued the 271,166,685 AIB Bank Warrants to the Minister for Finance to subscribe for ordinary shares in the share capital of AIB Bank, representing 9.99 per cent. of the issued share capital of AIB Bank at AIB Bank Admission, subject to adjustment in accordance with the terms of the AIB Bank Warrant Instrument. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrants will be replaced by 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as apply to the AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised).

Further details of the AIB Bank Warrants and the AIB HoldCo Warrants are set out in paragraph 13.4 of this “*Part XX: Additional Information*”.

2014 Capital Reorganisation

The following shareholder resolutions were passed at an EGM of AIB Bank held on 19 June 2014 in connection with the 2014 Capital Reorganisation:

- the authorised share capital of AIB Bank was reduced by €9,302,752,297 from €11,092,752,297 to €1,790,000,000;
- the 523,474,125,551 ordinary shares of €0.01 each then existing in the capital of AIB Bank (including 35,680,114 Treasury Shares) were renominialised, each such ordinary share was subdivided into one ordinary share of €0.0025 each (carrying the same rights and obligations as an existing ordinary share) and one deferred share of €0.0075 each. The 702,000,000,000 deferred shares created on the renominialisation had no voting or dividend rights and had no economic value; and
- AIB Bank acquired all of the 702,000,000,000 deferred shares for nil consideration and immediately cancelled them in accordance with its Articles (as amended at the EGM on 19 June 2014), which resulted in €3.926 billion transferring from share capital to a capital redemption reserve account of AIB Bank.

On 15 October 2014, the High Court confirmed an application by AIB Bank for a reduction of its share premium account by €1,073,944,058.37, in addition to a reduction of €3,926,055,941.63 of its capital redemption reserves. This resulted in a transfer from these reserve accounts to revenue reserves of AIB Bank. The effect and purpose of this was to create additional distributable reserves of €5,000,000,000 in order to provide flexibility to pay future dividends where deemed appropriate by the AIB Bank Board and subject to legal, regulatory and capital requirements.

2015 Capital Reorganisation

At an EGM of AIB Bank held on 16 December 2015, shareholders approved the 2015 Capital Reorganisation which simplified and rationalised AIB Bank’s capital structure. The following shareholder resolutions were passed at the EGM of AIB Bank to give effect to the following measures:

- the authorised share capital of AIB Bank was increased by €745,000,000 from €1,790,000,000 to €2,535,000,000;
- 2.14 billion of the 2009 Preference Shares were converted into ordinary shares of €0.0025 each in the capital of AIB Bank, resulting in the creation of 155,146,574,363 additional ordinary shares. The conversion comprised a (i) sub-division of the 2.14 billion 2009 Preference Shares; (ii) the subsequent re-designation of such sub-divided shares into ordinary shares of €0.0025 each in the capital of AIB Bank and (iii) a bonus issue of ordinary shares of €0.0025 each in the capital of AIB Bank. The rights attached to the sub-divided 2009 Preference Shares were amended (prior to their re-designation as ordinary shares) in order to allow payment in cash to the NTMA of accrued but unpaid dividends on such shares up to the date of the conversion;
- the remaining 1.36 billion of the 2009 Preference Shares were redeemed for cash by AIB Bank;

- on completion of the conversion and the redemption of the 2009 Preference Shares, all of the ordinary shares in the capital of AIB Bank (excluding the 35,680,114 Treasury Shares) were consolidated such that, for every 250 ordinary shares of €0.0025 each held by an AIB Bank Shareholder, that AIB Bank Shareholder subsequently held one new ordinary share of €0.625 in the capital of AIB Bank following the Ordinary Share Consolidation. Where residual fractions remained following the division of an AIB Bank Shareholder's holding into new AIB Bank Shares of €0.625, the shareholding was rounded up by the allotment of new AIB Bank Shares to AIB Bank Shareholders by way of bonus issue to ensure that no fractions remained following consolidation; and
- on completion of the Ordinary Share Consolidation, the authorised share capital of AIB Bank was reduced by €35,000,000 from €2,535,000,000 to €2,500,000,000 by the cancellation of all unissued 2009 Preference Shares and authorised but unissued sub-divided 2009 Preference Shares.

The increase in the authorised share capital took effect on 16 December 2015. The conversion and redemption of the 2009 Preference Shares took effect on 17 December 2015. The Ordinary Share Consolidation and the reduction in the authorised share capital as part of the 2015 Capital Reorganisation took effect on 21 December 2015.

Cancellation of Treasury Shares

On 17 December 2015, AIB Bank cancelled all of its 35,680,114 outstanding Treasury Shares and the nominal value of the shares cancelled was transferred from the ordinary share capital account to the capital redemption reserve account of AIB Bank. The balance on the treasury shares account was transferred to the revenue reserves account of AIB Bank.

AIB Bank Admission

On 30 May 2017, the Minister for Finance and AIB Bank announced an intention to seek admission of the AIB Bank Shares to the Official Lists of each of the Irish Stock Exchange and the FCA and to trading on the main markets of the Irish Stock Exchange and the London Stock Exchange and to proceed with a secondary offering of ordinary shares in AIB Bank by the Minister for Finance. Pursuant to this secondary offering, on 23 June 2017, the Minister for Finance sold 780,384,606 ordinary shares in AIB Bank to certain institutional and retail investors (including on the exercise of an over-allotment option), comprising in aggregate 28.75 per cent. of the issued ordinary share capital of AIB Bank. AIB Bank did not receive any of the proceeds of the AIB Bank IPO, all of which were received by the Minister for Finance. In connection with the AIB Bank IPO, on 27 June 2017, the AIB Bank Shares were admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange and on the premium listing segment of the Official List of the FCA and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange. Immediately before the AIB Bank Admission, the admission of the AIB Bank Shares to trading on the Enterprise Securities Market of the Irish Stock Exchange was cancelled. The AIB Bank IPO reduced the Minister for Finance's shareholding in AIB Bank to 1,930,436,543 AIB Bank Shares, representing 71.1188 per cent. of the issued share capital of AIB Bank.

5 AIB HoldCo Memorandum and Articles

The following is a summary of the AIB HoldCo Memorandum and Articles that will be in effect from the Scheme Effective Time. Any person requiring further detail than provided in the summary is advised to consult the AIB HoldCo Memorandum and Articles which are available for inspection at the address specified under "*Documents Available for Inspection*" below.

5.1 Registration details and AIB HoldCo Memorandum and Articles

AIB HoldCo is a public limited company that was incorporated on 8 December 2016.

The principal object of AIB HoldCo is to act as a holding company and to co-ordinate the administration, finances and activities of any subsidiary companies or associated companies, to do all lawful acts and things whatever that are necessary or convenient in carrying on the business of such a holding company and in particular to carry on in all its branches the business of a management services company, to act as managers and to direct or coordinate the management of other companies or of the business, property and estates of any company or person and to undertake and carry out all such services in connection herewith as may be deemed expedient by AIB HoldCo's Board of Directors and to exercise its powers as a shareholder of other companies.

5.2 Articles

The following is a summary of the principal provisions of the AIB HoldCo Articles and certain provisions of Irish law relating to AIB HoldCo and its securities in effect from the Scheme Effective Time:

5.2.1 Share rights

(a) AIB HoldCo Shares

The following rights attach to the AIB HoldCo Shares:

- (i) the right to receive duly declared dividends, or, where offered by the Directors of AIB HoldCo and with the sanction of an ordinary resolution, the right to receive additional AIB HoldCo Shares in lieu of cash in respect of all or any part of a dividend;
- (ii) the right to attend and speak, in person or by proxy, at general meetings of AIB HoldCo;
- (iii) the right to vote, in person or by proxy, at general meetings of AIB HoldCo having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each AIB HoldCo Share held;
- (iv) the right to appoint a proxy, in the required form, to attend and/or to vote at general meetings of AIB HoldCo;
- (v) the right to receive (by post or electronically), at least 21 days before the annual general meeting of AIB HoldCo (the "AGM"), a copy of the Directors' and auditors' reports accompanied by (i) copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or (ii) such summary financial statements as may be permitted by the Companies Act;
- (vi) the right to receive notice of general meetings of AIB HoldCo; and
- (vii) in a winding-up of AIB HoldCo, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the AIB HoldCo Shares, repayment of the capital paid up on the AIB HoldCo Shares and a proportionate part of any surplus from the realisation of the assets of AIB HoldCo.

(b) Subscriber Shares

The holders of the Subscriber Shares shall not have the right to receive notice of any general meeting of AIB HoldCo or to attend, speak or vote at any such meeting and are not entitled to receive any dividend or distribution. On a return of assets on a winding up of AIB HoldCo, the holders of the Subscriber Shares shall be entitled, in priority to the holders of AIB HoldCo Shares, to repayment of the aggregate nominal value of the Subscriber Shares held by them. The Subscriber Shares shall not be entitled to any further payment on a return of assets on a winding up of AIB HoldCo. Subject to the provisions of the Companies Act, Subscriber Shares may, at any time, be redeemed at par by AIB HoldCo and cancelled. Neither the redemption nor the cancellation of the Subscriber Shares by AIB HoldCo in accordance with the AIB HoldCo Articles shall constitute a variation or abrogation of the rights or privileges attached to the Subscriber Shares, and accordingly the Subscriber Shares or any of them may be so redeemed and cancelled without any consent or sanction on the part of the holders thereof. The rights conferred upon the holders of the Subscriber Shares shall not be deemed to be varied or abrogated by the creation of further shares ranking in priority thereto or *pari passu* therewith.

(c) Preferred shares

Subject to the Companies Act, and without prejudice to any special rights for the time being conferred on the holders of any existing shares or class of shares, any share in AIB HoldCo may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividend, return of capital, voting or otherwise as AIB HoldCo may by ordinary resolution determine or as the Directors of AIB HoldCo may from time to time determine pursuant to any power conferred on them by the AIB HoldCo Articles, and any preference share may be issued on the terms that it is, or at the option of AIB HoldCo is to be liable, to be redeemed on such terms and in such manner as AIB HoldCo may by special resolution determine.

5.2.2 Conversion

AIB HoldCo may by ordinary resolution convert any paid up shares into stock and reconvert any stock into paid up shares of any denomination. The holders of stock may transfer the same or any part thereof, in the same manner, and subject to the same regulations, as and subject to which the shares from which the stock arose might previously to conversion have been transferred or as near thereto as circumstances will admit, but the Directors of AIB HoldCo may from time to time fix the minimum amount of stock transferable, provided that such minimum shall not exceed the nominal amount of the shares from which the stock arose. The holders of stock shall have, according to the amount of stock held by them, the same rights, privileges and advantages in relation to dividends, participation in assets on a winding up, voting at meetings of AIB HoldCo and other matters as if they held the shares from which the stock arose.

5.2.3 Redeemable shares and purchase of own shares

Subject to the provisions of the Companies Act, any shares may be issued on the terms that they are, or are liable at the option of AIB HoldCo or the holder, to be redeemed on such terms and in such manner as may be provided by the AIB

HoldCo Articles, and AIB HoldCo may convert any of its shares into redeemable shares. Subject to the provisions of the Companies Act and to any rights conferred on the holders of any class of shares, AIB HoldCo may purchase all or any of its shares of any class, including any redeemable shares. No purchase by AIB HoldCo of its own shares may be made unless it has been authorised by special resolution of AIB HoldCo. The Directors of AIB HoldCo are not obliged to select the shares to be purchased rateably or in any other particular manner as between the holders of shares of the same class or different classes.

Subject to the provisions of the Companies Act, AIB HoldCo may cancel any shares which it has redeemed or purchased or may hold them as treasury shares and reissue any such treasury shares as shares of any class or classes or cancel them.

5.2.4 Dividends

Subject to the provisions of the Companies Act, AIB HoldCo may by ordinary resolution declare dividends but no dividend shall be payable except out of distributable profits. No dividend shall exceed the amount recommended by the Directors of AIB HoldCo.

No dividend or other monies payable in respect of a share shall bear interest against AIB HoldCo unless otherwise provided by the rights attaching to the share.

Subject to any preferential or other special rights for the time being attached to any class of shares, the income to be distributed by way of dividend is to be applied in payment of dividends upon the shares of AIB HoldCo in proportion to the amounts paid up thereon.

Subject to the provisions of the Companies Act, AIB HoldCo may pay such interim dividends as appear to the Directors of AIB HoldCo to be justified by the income of AIB HoldCo available for distribution.

There are no fixed dates on which entitlements to dividends on AIB HoldCo Shares arise or dividends are paid.

An interim dividend will become a debt payable to AIB HoldCo Shareholders only when it is paid, rather than when the dividend is declared by resolution of the AIB HoldCo and accordingly can be cancelled by AIB HoldCo at any time prior to the time at which the interim dividend is actually paid.

There are no dividend restrictions or specific procedures relevant to the payment of dividends to non-resident AIB HoldCo Shareholders.

The Directors of AIB HoldCo may, with the sanction of an ordinary resolution offer to the holders of AIB HoldCo Shares the right to elect to receive an allotment of additional AIB HoldCo Shares, credited as fully paid, instead of cash in respect of all or part of any cash dividend or dividends specified by such resolution or such part of such dividend or dividends as the Directors of AIB HoldCo may determine.

Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and will cease to remain owing by AIB HoldCo and may be treated by AIB HoldCo as having reverted on forfeiture, to AIB HoldCo.

5.2.5 Liquidation rights

If AIB HoldCo is liquidated voluntarily or compulsorily by order of court, the liquidator may, with the authority of a special resolution, divide among the members in specie or in kind the whole or any part of the assets of AIB HoldCo. The liquidator may determine how such division is to be carried out as between members or classes of members.

5.2.6 Voting rights

Votes at general meetings may be given either personally or by proxy. Voting at any general meeting of AIB HoldCo is by a show of hands unless a poll is properly demanded. Subject to any special rights or restrictions as to voting attached to any class of shares, on a show of hands, every member who is present in person or by proxy and entitled to vote has one vote regardless of the number of shares held by him or her and on a poll, every member who is present in person or by proxy has one vote for each share of which he or she is the holder. A poll may be demanded by the chairman of the meeting. Other than on the election of the chairman or on the adjournment of the meeting, a poll may also be demanded by not less than three members present in person or by proxy or by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or by a member or members holding shares in AIB HoldCo conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

5.2.7 Changes in share capital

AIB HoldCo may, by ordinary resolution, increase its share capital by such sum to be divided into shares of such amounts, and denominations in such currencies as prescribed by the resolution.

AIB HoldCo may also, by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

- (b) subject to the provisions of the Companies Act, sub-divide its shares, or any of them, into shares of smaller amount; or
- (c) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

5.2.8 Capitalisation of reserves

Subject to the AIB HoldCo Articles and the Companies Act, the Directors of AIB HoldCo may with the authority of an ordinary resolution resolve to capitalise all or any part of the undivided profits of AIB HoldCo not required for paying any fixed dividends on any shares entitled to fixed preferential dividends (with or without further participation in profits) and whether or not such undivided profits are available for distribution, or any sum standing to the credit of AIB HoldCo's share premium account or capital redemption reserve. In that case the Directors of AIB HoldCo shall appropriate the sum resolved to be capitalised to the holders of AIB HoldCo Shares on the register of members at the close of business on the date of the resolution (or such other date as may be specified in the resolution or determined as therein provided) in the proportion in which such profits or sum would have been divisible amongst them had the same been applied or been applicable in paying dividends and to apply such profits or sum on their behalf either in or towards paying up the amounts (if any) for the time being unpaid on any AIB HoldCo Shares held by such members or in paying up in full unissued AIB HoldCo Shares.

Furthermore, assuming the Scheme becomes effective and the AIB HoldCo Warrants are issued under the AIB HoldCo Warrant Instrument, if upon exercise of the AIB HoldCo Warrants, the exercise price is less than the nominal value of the AIB HoldCo Warrant Shares, the Directors of AIB HoldCo will be obliged, to the extent required by the AIB HoldCo Warrant Instrument (as to which, see further "-Material Contracts - AIB Bank Warrant Agreement/AIB HoldCo Warrant Instrument" below) to resolve that any sum standing to the credit of any of AIB HoldCo's undistributable reserves (including any share premium account) and the distributable reserves of AIB HoldCo, be capitalised as a new issue of AIB HoldCo Shares issued in accordance with the AIB HoldCo Warrant Instrument to the holder of the AIB HoldCo Warrants ("AIB HoldCo Warrant Shares"). AIB HoldCo Warrant Shares shall be credited as paid up in full as follows:

- (a) the monies received by AIB HoldCo on exercise of the AIB HoldCo Warrants pursuant to the AIB HoldCo Warrant Instrument; and
- (b) such sum standing to the credit of AIB HoldCo's reserves (including any share premium account) as is equal to the nominal value of the AIB HoldCo Warrant Shares less the monies referred to in (a),

subject to AIB HoldCo not being prohibited by law from doing so. Where, however, AIB HoldCo has insufficient reserves to pay up in full any of the AIB HoldCo Warrant Shares referred to above it may be required by the holder of the AIB HoldCo Warrant pursuant to the AIB HoldCo Warrant Instrument to issue his/her/their entitlement of such AIB HoldCo Warrant Shares on the basis that AIB HoldCo shall pay up the issue price of such AIB HoldCo Warrant Shares out of a portion of the available reserves of AIB HoldCo corresponding to the percentage which such AIB HoldCo Warrant Shares corresponds to the total number of AIB HoldCo Warrant Shares which fall to be issued at such time and provided that the holder of the AIB HoldCo Warrants pays up the balance to be paid up on the AIB HoldCo Warrant Shares he or she or they require to be issued to him/her/them. Any capitalisation pursuant to the relevant provision of the AIB HoldCo Articles is deemed to be authorised by the resolution adopting the particular provision of the AIB HoldCo Articles.

5.2.9 Pre-emption rights

AIB HoldCo Shareholders may grant authority to the Directors of AIB HoldCo to issue equity securities in AIB HoldCo. Except as detailed below, shareholders have pre-emption rights to subscribe for those securities on a pro rata basis.

Pursuant to the Companies Act, the authority granted to the Directors of AIB HoldCo to allot such additional securities can be either specific or general, and may be for a fixed term not exceeding five years. The pre-emption rights in relation to such an allotment can be disappplied in any of the following circumstances:

- (a) by shareholders passing a special resolution; or
- (b) where same is provided in the AIB HoldCo Articles.

5.2.10 Lien and forfeiture

AIB HoldCo has a lien on every partly paid share for all amounts payable to AIB HoldCo in respect of that share. The lien extends to all dividends and moneys payable in respect of the share. Any shares subject to a lien may be sold by the Directors of AIB HoldCo in such a manner as they think fit. At least seven days in advance of any such sale, a notice of intention to sell must be served on the member, or other person entitled to the share, and the default in payment must persist. The Directors of AIB HoldCo may, by resolution or instrument under seal, authorise some person to execute a transfer of the shares. The purchaser's name shall be entered on the register of members of AIB HoldCo and the validity of the purchaser's title shall not be impeached by any person aggrieved by the sale.

The net proceeds of the sale shall be applied toward satisfaction of the amount of the lien and any residue shall be paid to the person entitled to the shares at the time of sale.

The Directors of AIB HoldCo may call any monies unpaid on shares and may sell shares on which all or any amounts payable under the terms of issues are not duly paid. If a member fails to pay any call, the Directors of AIB HoldCo may serve a notice on the member requiring the payment of the call with interest by a certain date, not less than seven days following service, and at a certain place. If payment is not made in accordance with the notice, the shares may be forfeited by resolution of the Directors of AIB HoldCo. A forfeiture of shares shall include all unpaid dividends on the forfeited shares. A member whose share has been forfeited shall cease to be a member in respect of the forfeited share but shall remain liable on all calls made, with interest, and not paid at the time of forfeiture.

5.2.11 Form, holding and transfer of AIB HoldCo Shares

AIB HoldCo Shares may be held in either certificated or uncertificated form.

Other than in relation to any AIB HoldCo Shares which are held or to be held in uncertificated form (in respect of which no share certificate shall be issued), every person whose name is entered as a member in the register of members of AIB HoldCo shall be entitled without payment to one certificate for all his or her AIB HoldCo Shares. Existing AIB HoldCo Shares held in uncertificated form are held through CREST (the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by Euroclear).

AIB HoldCo Shares held in certificated form are transferable by instrument in writing in any usual form or any other form which the Directors of AIB HoldCo may approve. The instrument of transfer of any certificated share shall be executed by or on behalf of the transferor and, in cases where the share is not fully paid, by or on behalf of the transferee.

Subject to applicable law and the Listing Rules, the Directors of AIB HoldCo may decline to register any transfer of a partly paid share or any transfer to or by a minor or person of unsound mind.

Subject to any applicable restrictions in the AIB HoldCo Articles, any member may transfer all or any of his or her uncertificated shares by means of a relevant system in the manner provided for in the CREST Regulations and the rules of the relevant system without a written instrument.

Save as set out below, there are no restrictions on the free transferability of the AIB HoldCo Shares set out in the constitutional documents of AIB HoldCo.

Subject to applicable law and the Listing Rules, and, in the case of shares held in uncertificated form, the CREST Regulations, the Directors of AIB HoldCo may decline to register any transfer in the following cases:

- (a) a lien is held by AIB HoldCo over the relevant AIB HoldCo Shares or the AIB HoldCo Shares are partly paid;
- (b) a purported transfer to an infant or a person declared to be mentally disordered and incapable for the time being of dealing with his or her affairs; or
- (c) it is in favour of more than four persons jointly.

The Directors of AIB HoldCo may also decline to register any instrument of transfer of any AIB HoldCo Shares held in certificated form unless: (a) it is lodged at the registered office of AIB HoldCo or at such other place as the Directors of AIB HoldCo may appoint and is accompanied by the certificate of the shares to which it relates and such other evidence as the Directors of AIB HoldCo may reasonably require to prove the title of the transferor; or (b) it is in respect of one class of share only.

In the case of AIB HoldCo Shares held in uncertificated form, transfer of title to such shares shall be registered where such registration is required under the terms of the CREST Regulations, and no transfer of title to such AIB HoldCo Shares shall be registered except in accordance with CREST Regulations.

If the Directors of AIB HoldCo decline to register a transfer of any AIB HoldCo Shares, they shall send to the transferee notice of refusal within two months of the date on which the transfer was lodged (in the case of AIB HoldCo Shares held in certificated form), or of the date on which the instruction by the operator of the relevant system was received by AIB HoldCo (in the case of AIB HoldCo Shares held in uncertificated form).

The rights attaching to AIB HoldCo Shares remain with the transferor until the name of the transferee has been entered on the register of members of AIB HoldCo.

5.2.12 AIB HoldCo Shareholders' meetings

AIB HoldCo must hold its first annual general meeting within 18 months of its date of incorporation. Thereafter, AIB HoldCo must hold a general meeting in each year as its AGM in addition to any other meetings it may convene in that year and no more than 15 months may elapse between one AGM and the next. The Directors of AIB HoldCo may, at any time, call an EGM. EGMs may also be convened on such requisition of AIB HoldCo Shareholders or, in default, may be convened by such requisitionists, as is provided for in the Companies Act.

In the case of an AGM or of an EGM for the passing of a special resolution or the appointment of a Director, at least 21 clear days' notice must be given (however this is 20 working days under the UK Code). In any other case, subject to compliance with the provisions of the Companies Act, at least 14 clear days' notice must be given. A general meeting other than a meeting for the passing of a special resolution may be called on shorter notice, provided that the auditors for the time being of AIB HoldCo and all the members entitled to attend and vote at the meeting agree to the short notice. A resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given, provided that a majority in number of the members having a right to attend and vote thereat agree, being a majority holding not less than 90 per cent. in nominal value of the shares giving that right.

Notice of a meeting is required to be in writing in the manner provided for in the AIB HoldCo Articles to all the members (other than those who, under the provision of the AIB HoldCo Articles or the conditions of issue of the shares held by them, are not entitled to receive the notice), to any other person entitled to such notice under the Companies Act, and to the statutory auditors for the time being of AIB HoldCo. The accidental omission to give notice to, or the non-receipt of notice of a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at the general meeting.

The holders of the AIB HoldCo Shares are entitled to attend any general meeting. The Directors of AIB HoldCo are entitled to attend and speak at general meetings.

5.2.13 Quorum

No business may be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Ten members present in person and entitled to vote at such meeting constitutes a quorum.

5.2.14 Votes required for AIB HoldCo Shareholder action

A simple majority of AIB HoldCo Shareholders may pass an ordinary resolution. To pass a special resolution, a majority of not less than three-quarters of the members entitled to vote at the meeting is required.

5.2.15 Amendments affecting AIB HoldCo Shareholder rights

The AIB HoldCo Articles provide that, whenever the capital of AIB HoldCo is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Companies Act and subject as otherwise provided in the AIB HoldCo Articles, be varied or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class but not otherwise. The provisions of the AIB HoldCo Articles relating to general meetings shall apply to such separate class meetings, except that (other than at an adjourned meeting) the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class, and that any holder of shares present in person or by proxy may demand a poll and on such a poll every holder shall have one vote for every share of the calls held by him or her.

5.2.16 Directors of AIB HoldCo

Subject to the provisions of the Companies Act and the AIB HoldCo Articles and to any directions given pursuant to a special resolution, the Directors of AIB HoldCo are conferred with authority to manage the business of AIB HoldCo, and are entitled to exercise all the powers of AIB HoldCo. The Directors of AIB HoldCo may establish such boards and committees and appoint such executive and administrative officers and attorneys as they consider appropriate, and delegate to them such functions, powers and duties as may seem to the Directors of AIB HoldCo to be requisite or expedient.

Number of Directors of AIB HoldCo

AIB HoldCo may by ordinary resolution reduce the number of Directors of AIB HoldCo and vary the maximum number of Directors of AIB HoldCo. Unless provided otherwise in an ordinary resolution of AIB HoldCo, the minimum number of Directors of AIB HoldCo shall be not less than seven. A Director is not required to hold a share qualification.

Appointment and Retirement of Directors of AIB HoldCo

At each AGM, one third of the Directors of AIB HoldCo, or if their number is not three, or a multiple of three, then not less than one-third shall retire from office. The Directors of AIB HoldCo to retire at each AGM are those longest in office since their last appointment. A retiring Director may be re-appointed. A retiring Director shall act as a Director throughout the meeting at which he or she retires.

A vacant office can be filled by a new and willing Director or, in default, by the retiring Director, if willing to be re-appointed, unless it is resolved not to fill the vacant office, or a vote for re-appointment is lost.

Unless recommended by the Directors of AIB HoldCo, no person other than a retiring Director shall be eligible for appointment as a Director, unless proper written notice shall have been given to AIB HoldCo by a member of the member's intention that such a person be proposed as a Director, together with a written acknowledgment of the proposed candidate's willingness to act as Director. Such notice must be given forty-two days in advance of the meeting. The appointment of any Director in this way shall be decided on a poll unless the chairman directs otherwise.

The Directors of AIB HoldCo may appoint any person as a Director to fill a casual vacancy or as an additional Director. A director so appointed shall hold office until the conclusion of the next AGM, and shall then be eligible for re-election.

Vacation, Disqualification and Removal of Directors of AIB HoldCo

A Director of AIB HoldCo shall be disqualified from office if:

- (a) that Director becomes bankrupt, has a receiving order made against him or her, or makes any arrangement with his or her creditors generally;
- (b) that Director is declared mentally disordered by a court or other competent authority;
- (c) that Director is restricted or prohibited from acting as a Director under the provisions of the Companies Act or any other statute or otherwise by law;
- (d) that Director shall have been absent for more than six months without the permission of the Directors of AIB HoldCo, from meetings of the Directors of AIB HoldCo for six successive months and his or her alternate Director (if any) shall not have attended in his or her stead, and the Directors of AIB HoldCo resolve that his or her office be vacated by reason of his or her absence;
- (e) that Director is convicted of an indictable offence, unless the Directors of AIB HoldCo or court otherwise determine;
- (f) that Director is requested by unanimous resolution of the other Directors of AIB HoldCo to resign at a specially convened meeting attended by all Directors of AIB HoldCo. Seven days written notice of the meeting and the intention to move the resolution to remove the Director, together with the reason for the resolution, and a request to the Director to specify the reason it should not be passed must be given; or
- (g) if that Director reaches the age specified by the Directors of AIB HoldCo. A Director who reaches such age shall be required to relinquish office on the last day of the year in which the Director reaches that age. There is currently no age specified by the Directors of AIB HoldCo for this purpose.

The office of a Director shall be vacated, subject to a right of appointment/re-appointment, if:

- (a) not being a Director holding for term an executive office in his or her capacity as Director that Director resigns his or her office by written notice to the company;
- (b) being a holder of an executive office other than for a fixed term, that Director shall cease to hold such office on retirement or otherwise;
- (c) that Director's tender of resignation is accepted by the Directors of AIB HoldCo; or
- (d) that Director ceases to be a Director pursuant to any provision of the AIB HoldCo Articles.

AIB HoldCo, by ordinary resolution, in accordance with the provisions of the Companies Act, may remove any Director before the expiry of his or her period in office notwithstanding anything in the AIB HoldCo Articles or in any agreement between AIB HoldCo and such Director and may, if thought fit, by ordinary resolution appoint another Director in his or her stead.

Alternate Directors of AIB HoldCo

Any Director may appoint any person to be his or her alternate and may at his or her discretion remove such an alternate Director. If the alternate Director is not already a Director, the appointment, unless previously approved by the AIB HoldCo Board, shall have effect only upon and subject to being so approved.

Every such alternate shall be entitled to notice of meetings of the Directors of AIB HoldCo and to attend and vote at such meetings and to exercise all the powers, rights, duties and authorities of the Director appointing him or her.

Proceedings of the AIB HoldCo Board

The AIB HoldCo Articles entitle the Directors of AIB HoldCo to regulate their meetings as they see fit. The chairman may, and on the request of a Director or the Secretary of AIB HoldCo shall, at any time summon a meeting of the Directors of AIB HoldCo. It shall not be necessary to give notice of a meeting of Directors of AIB HoldCo to any Director for the time being outside Ireland who has not left at AIB HoldCo's registered office an address within Ireland to which any such notice may be delivered.

Questions arising at any meeting of Directors of AIB HoldCo shall be decided by a majority of votes. A Director who is also an alternate Director shall be entitled in the absence of the Director by whom he or she was appointed to a separate vote on behalf of such Director in addition to his or her own vote. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

The quorum necessary for the transaction of the business of the Directors of AIB HoldCo is three or such lesser or higher number as from time to time may be fixed by the Directors of AIB HoldCo. An alternate Director shall be counted in a quorum, provided that, in such circumstances, not less than two individuals shall constitute the quorum.

The Directors of AIB HoldCo may from time to time appoint and remove a chairman or deputy chairman. The chairman shall preside at all meetings of the Directors of AIB HoldCo, or if the chairman is not present at a meeting, or unwilling to preside, the deputy chairman shall preside.

If, in the opinion of the chairman (or, as the case may be, of the deputy chairman), it is necessary in the interests of AIB HoldCo to hold a meeting of the Directors of AIB HoldCo and it is not practicable to have a meeting at which the Directors of AIB HoldCo are physically present, a meeting of Directors of AIB HoldCo may be validly held by telephone (or by some other means of electronic communication which permits all persons who will participate in such a meeting to hear each other) provided:

- (i) notice has been given to all Directors of AIB HoldCo entitled thereto specifying the date and time at which such meeting is to occur together with an agenda for the meeting; and
- (ii) the chairman (or, as the case may be, the deputy chairman) has, within one hour of the specified time, contacted as many Directors of AIB HoldCo as are available to participate in such meeting, and at least such number of Directors of AIB HoldCo as are required to satisfy the quorum.

All acts done at or by any meeting of Directors of AIB HoldCo or of a committee of the Directors of AIB HoldCo, or by any person acting as a Director or officer of AIB HoldCo shall as regards all persons dealing in good faith with AIB HoldCo, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director, committee or officer or in the case of a Director that he or she was disqualified or had vacated office or was not entitled to vote, be as valid as if every such person being a Director had been duly appointed and was qualified and had continued to be a Director and had been entitled to vote and in the case of any officer (not being a Director) that he or she had been duly authorised to so act.

Remuneration

The ordinary fees of the Directors of AIB HoldCo shall be determined from time to time by an ordinary resolution of AIB HoldCo. By way of written resolution of AIB HoldCo members passed on 6 October 2017, subject to and conditional on the Scheme becoming effective, it was resolved that the basic fee permitted to be paid to each non-executive Director of AIB HoldCo shall be fixed at an amount not exceeding €65,000 per annum, together with (a) such special remuneration that the Directors of AIB HoldCo may from time to time determine shall be paid to any non-executive Director of AIB HoldCo, whether in substitution for or in addition to his fees as a non-executive Director, while holding the office of Chairman or Deputy Chairman of AIB HoldCo and/ or (b) such additional remuneration that the Directors of AIB HoldCo may from time to determine shall be paid to any non-executive Director for acting as (i) the Senior Independent Director of AIB HoldCo and/ or (ii) a member and, where applicable, chairman of any committee of the board of directors of AIB HoldCo and/ or (iii) a director of any subsidiary of AIB HoldCo from time to time (and, where applicable, as a member and (as the case may be) chairman of any committee of the board of directors of any such subsidiary). A Director who holds the office of chairman or deputy chairman of the AIB HoldCo Board or who serves on or chairs a committee or who otherwise performs services which, in the opinion of the Directors of AIB HoldCo, are outside the scope of the ordinary duties of a Director, including as a director of a subsidiary entity, other than AIB Bank, may be paid such special remuneration as the Directors of AIB HoldCo may determine. A Director holding an executive office shall receive such remuneration, whether in addition to or in substitution for his or her ordinary remuneration as a Director, as the Directors of AIB HoldCo may determine. The Directors of AIB HoldCo may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors of AIB HoldCo or of committees of Directors of AIB HoldCo or general meetings or otherwise in connection with the discharge of their duties.

The Directors of AIB HoldCo may provide benefits, whether by way of pensions, gratuities or otherwise, for any person who is or was in the employment or service of AIB HoldCo or any company which is a subsidiary of AIB HoldCo or is allied to or associated with AIB HoldCo and to any member of his or her family or any person who is or was dependent on him or her.

Disclosure of interests by Directors of AIB HoldCo

Any Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with AIB HoldCo must declare his or her interest at a meeting of the Directors of AIB HoldCo. This applies unless the interest cannot reasonably be regarded as likely to give rise to a conflict of interest. In relation to a proposed contract, the declaration shall be made at the first meeting during which the question of entering into such contract first arises. If his or her interest then exists, or in any other case, the declaration shall be made at the first meeting of the Directors of AIB HoldCo after he or she becomes so interested.

The AIB HoldCo Articles require that a Director may not vote in respect of any such contract or arrangement or any other proposal whatsoever in which he or she has a material interest. Interests in shares or debentures or other securities of or

otherwise in or through AIB HoldCo are disregarded for the purpose. This prohibition on voting is disapplied in respect of resolutions concerning the following matters (amongst others):

- where a Director is to be given security or indemnified in respect of money lent or obligations incurred by him or her for the benefit of AIB HoldCo or any of its subsidiaries;
- the giving of security or indemnity to a third party in respect of a debt or obligation of AIB HoldCo or any of its subsidiaries for which he or she themselves have assumed responsibility, in whole or in part, under a guarantee or indemnity or by the giving of security;
- any proposal concerning an offer of shares, debentures or securities of or by AIB HoldCo or any of its subsidiaries in which a Director is interested as an underwriter or sub-underwriter;
- regarding any proposal concerning any other company in which a Director is interested, directly or indirectly, provided that he or she does not hold or is not beneficially interested in 1 per cent. or more of any class of the equity share capital of that company (or of any third company through which his or her interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purposes of this Article to be a material interest in all circumstances);
- any proposal concerning the adoption, modification or operation of any superannuation fund or retirement benefits plan under which he or she might benefit and which has been approved by or is subject to and conditional upon approval by the Revenue Commissioners; and
- relating to any other arrangement for the benefit of employees of AIB HoldCo or any of its subsidiaries under which a Director benefits or stands to benefit in a singular manner as the employees concerned and which does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates.

5.2.17 Borrowing powers

The Directors of AIB HoldCo may exercise all the powers of AIB HoldCo to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and, subject to the Companies Act, to issue debentures, debenture stock and other securities, whether outright or as collateral security for any debt, liability or obligation of AIB HoldCo or of any third-party.

5.2.18 Indemnity of officers

Pursuant to the AIB HoldCo Articles, each Director of AIB HoldCo and other officer of AIB HoldCo shall be indemnified out of the assets of AIB HoldCo against any liability incurred by him or her in defending any proceedings, whether civil or criminal, in relation to his or her acts while acting in such office, in which judgment is given in his or her favour, or in which he or she is acquitted, or in connection with any application in which relief is granted to him or her by the court under the Companies Act. In addition, each of the AIB HoldCo Directors has the benefit of an indemnity from AIB HoldCo pursuant to which it agrees to indemnify them against liabilities that they may incur as a result of their lawful actions in connection with the discharge of their duties as officers of AIB HoldCo.

In addition, AIB HoldCo holds insurance cover to protect Directors of AIB HoldCo and Senior Executives against liability arising from legal actions brought against them in the course of their duties, including in connection with the Restructuring Proposals.

5.2.19 Disclosure of holdings exceeding certain percentages

As an Irish incorporated company with ordinary shares admitted to trading on the regulated market of the Irish Stock Exchange (which will be the case assuming Admission occurs), the Transparency Regulations and Rules will apply to AIB HoldCo. The Transparency Regulations and Rules require a person to notify both AIB HoldCo and the Central Bank if the voting rights held by such person as a direct holder of shares or through indirect holdings of voting rights reach, exceed or fall below 3 per cent., and each 1 per cent. threshold thereafter up to 100 per cent. as a result of an acquisition or disposal of voting rights in shares. This notification obligation is also applied to a person who holds, directly or indirectly, financial instruments (which include transferable securities, options futures, swaps, forward rate agreements and any other derivative contracts) giving that person the right to acquire already issued voting shares of the issuer. Under the Transparency Regulations and Rules, certain acquisitions of voting rights may be disregarded.

In addition, the Substantial Acquisition Rules (which will apply to AIB HoldCo from Admission) which prohibit substantial acquisitions of shares in AIB HoldCo except in specified circumstances, require disclosure to the Irish Stock Exchange and the Irish Takeover Panel (the "Takeover Panel") where a shareholder becomes entitled to 15 per cent. or more of the voting rights in AIB HoldCo, or, where a shareholder holds 15 per cent. or more but less than 30 per cent. of the voting rights in AIB HoldCo, where a shareholder's percentage will be increased to or beyond any whole percentage figure.

Pursuant to the Companies Act, AIB HoldCo may also send a notice to any person whom AIB HoldCo knows or has reasonable cause to believe to be interested in AIB HoldCo's shares requiring that person to confirm whether he or she has such an interest and, if so, details of such interest.

Under the AIB HoldCo Articles, the Directors of AIB HoldCo may, by notice in writing, require such member to inform AIB HoldCo in writing not more than 14 days after service of the notice of the capacity in which such member holds any share and, if held otherwise than as beneficial owner, to furnish in writing, so far as it is within the member's knowledge, the name and address of the person on whose behalf the member holds such share or such particulars as will enable or assist in the identification of such person and the nature of the interest of such person in such shares. Failure to respond to such notice within the prescribed period will result in the member not being entitled to attend meetings of AIB HoldCo or to exercise the voting rights attached to such share, and, if the member holds 0.25 per cent. or more of the issued AIB HoldCo Shares, the Directors of AIB HoldCo are entitled to withhold payment of any dividend payable on such shares and the member shall not be entitled to transfer such shares except by sale through a stock exchange to a bona fide unconnected third party. These sanctions shall cease to apply not more than seven days after receipt by AIB HoldCo of notice that the member has sold the shares to an unconnected third party or due compliance to AIB HoldCo's satisfaction with the disclosure notice.

5.2.20 Ownership of AIB HoldCo Shares by non-UK/non-Irish persons

There are no provisions in the AIB HoldCo Articles that restrict non-resident or foreign AIB HoldCo Shareholders from holding AIB HoldCo Shares or from exercising voting rights attaching to AIB HoldCo Shares.

5.2.21 Communications with AIB HoldCo Shareholders

A notice or other document may be served by AIB HoldCo upon any member:

- (a) by handing it to the member or his authorised agent;
- (b) by leaving it at his address as appearing in the register of members;
- (c) by sending it through the post in a prepaid envelope or wrapper addressed to such member at his address as appearing in the register of members;
- (d) through a relevant system, where the notice or document relates to shares held in uncertificated form;
- (e) by sending it, with the consent of the member, by means of electronic mail or other means of electronic communication approved by the AIB HoldCo Directors, with the consent of the member, to the address of the member notified to AIB HoldCo by the member for such purpose (or if not so notified, then to the address of the member last known to AIB HoldCo); or
- (f) where appropriate, by making it available on a website and notifying the member of its availability in accordance with this Article.

In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the register of members in respect of the joint holding and notice so given shall be sufficient notice to all the joint holders.

The AIB HoldCo Articles will provide that AIB HoldCo may cease sending notices by post to members where notices have been returned undelivered twice on two consecutive occasions from such members and, following such second occasion, reasonable enquiries have failed to establish any new address of the registered holder of the shares.

The AIB HoldCo Articles will provide that where an AIB HoldCo Shareholder has previously consented to receipt of notices or documents by means of an electronic communication or using electronic means in respect of his or her or its holding of ordinary shares in AIB Bank, such consent shall be deemed to apply to AIB HoldCo for the purpose of the notice provisions in the AIB HoldCo Articles.

6 Mandatory takeover bids, squeeze-out and sell-out rules, Irish merger control legislation and the Irish CRD IV Regulations

With effect from Admission, other than as provided by the Takeover Bids Regulations, the Takeover Rules, the NPRF Act and the NTMA 2014 Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the AIB HoldCo Shares.

6.1 Mandatory takeover bids

As an Irish incorporated company with ordinary shares admitted to trading on the regulated market of the Irish Stock Exchange (which will be the case in respect of AIB HoldCo assuming Admission occurs), the Takeover Panel will monitor and supervise a takeover bid for AIB HoldCo. The Takeover Rules promulgated by the Takeover Panel regulate acquisitions of AIB HoldCo's securities.

Rule 9 of the Takeover Rules provides that, where a person acquires securities which, when taken together with securities already held by that person and concert parties of that person, amount to 30 per cent. or more of the voting rights in such a company, that person is required under Rule 9 to make a general offer—a "mandatory offer"—to the holders of each

class of equity share capital and also to the holders of transferable voting securities of AIB HoldCo to acquire their securities. The obligation to make a Rule 9 mandatory offer is also imposed on a person who holds securities which, when taken together with securities held by concert parties of that person, confer 30 per cent. or more of the voting rights in a company and who increases that stake by 0.05 per cent. or more in any 12-month period. In either case, the obligation may also be imposed on concert parties of the person concerned. A single holder of securities (including persons regarded as such under the Takeover Rules) who holds securities conferring in excess of 50 per cent. of the voting rights in a company may purchase additional securities without incurring an obligation to make a Rule 9 mandatory offer.

A related rule, Rule 5 of the Takeover Rules, subject to exception, prohibits a person from acquiring securities or rights over securities of a company, such as (from Admission) AIB HoldCo, in respect of which the Takeover Panel has jurisdiction to supervise, if the aggregate voting rights carried by the resulting holdings of securities and by the securities the subject of the resulting holding of rights, if any, would amount to 30 per cent. or more of the voting rights in that company. If a person holds securities or rights over securities which in the aggregate carry 30 per cent. or more of the voting rights, that person is also prohibited from acquiring securities or rights representing 0.05 per cent. or more of the voting rights in a 12-month period. Acquisitions by and holdings of concert parties must be aggregated. Amongst other significant exceptions, the prohibition does not apply to acquisitions of securities or rights over securities by a single holder of securities (including persons regarded as such under the Takeover Rules) who already holds securities, or rights over securities, which represent in excess of 50 per cent. of the voting rights; nor to an acquisition of voting securities from a single holder of securities if it is the only acquisition of voting securities in the company concerned made by the acquirer within any period of seven days.

The Substantial Acquisition Rules, which are also administered by the Takeover Panel, are designed to restrict the speed at which a person may increase a holding of voting securities (or rights over such securities) of a company which is subject to the Takeover Rules, including (from Admission) AIB HoldCo, and prohibit substantial acquisitions of shares in AIB HoldCo except in specified circumstances. A person may not, within any period of seven days, acquire securities or rights over securities if the aggregate voting rights represented by such securities would represent 10 per cent. or more of the voting rights in AIB HoldCo and would, when aggregated with any securities already held by that person and any securities over which rights are already held by that person, carry 15 per cent. or more but less than 30 per cent. of the voting rights in AIB HoldCo. Acquisitions by, and holdings of, concert parties are aggregated.

The terms of the NPRF Act and the NTMA 2014 Act collectively provide that no acquisition by, or on behalf of, the NPRFC, an NPRFC investment vehicle or an ISIF investment vehicle at the direction of the Minister for Finance of shares or securities in a credit institution will constitute an offer, a takeover, the acquisition of control or any other takeover transaction for the purposes of the Takeover Panel Act or the Takeover Rules or a takeover bid or bid.

As at the Latest Practicable Date, there have been no mandatory takeover bids or any public takeover bids by third parties in respect of the share capital of AIB HoldCo or AIB Bank.

6.2 Squeeze-out and sell-out

The Takeover Bids Regulations contain a procedure enabling a bidder for an Irish company that has securities admitted to trading on an EU regulated market, such as AIB HoldCo with effect from Admission, to acquire compulsorily the securities of those holders who have not accepted a general offer—the “squeeze-out” right—on the terms of that general offer.

The main condition that needs to be satisfied before the “squeeze out” right can be exercised is that the bidder, pursuant to acceptance of a bid for the beneficial ownership of all the transferable voting securities (other than securities already in the beneficial ownership of the bidder) in the capital of the company, has acquired, or unconditionally contracted to acquire, securities which amount to not less than nine-tenths of the nominal value of the securities affected and carry not less than nine-tenths of the voting rights attaching to the securities affected.

The Takeover Bids Regulations also provide for rights of “sell-out” for shareholders in Irish companies with securities admitted to trading on an EU regulated market, such as AIB HoldCo with effect from Admission. Holders of securities carrying voting rights in a company who have not accepted a bid by way of general offer for the beneficial ownership of all of the voting securities in such company (other than securities already in the beneficial ownership of the bidder) have a corresponding right to oblige the bidder to buy their securities on the terms of the general offer under which the beneficial ownership of the securities of the assenting security holders was acquired by the bidder. The main condition to be satisfied to enable the exercise of “sell-out” rights is that the bidder has acquired, or unconditionally contracted to acquire, securities which amount to not less than nine-tenths in nominal value of the securities affected and which carry not less than nine-tenths of the voting rights attaching to the securities affected.

The terms of the NPRF Act and the NTMA 2014 Act collectively provide that no acquisition by, or on behalf of, the NPRFC, an NPRFC investment vehicle or an ISIF investment vehicle at the direction of the Minister for Finance of shares or securities in a credit institution will constitute a takeover bid for the purposes of the Takeover Bids Regulations.

6.3 Irish Merger Control Legislation

Under Irish merger control legislation, any person or entity proposing to acquire direct or indirect control of AIB HoldCo through the acquisition of AIB HoldCo Shares or otherwise must, subject to various exceptions and if various financial thresholds are met or exceeded, provide advance notice of such acquisition to the CCPC. The financial thresholds to trigger mandatory notification are, subject to certain exceptions, (i) the aggregate turnover in Ireland of the undertakings involved is not less than €50 million; and (ii) the turnover in Ireland of each of two or more of the undertakings involved is not less than €3 million. Failure to notify when obliged to do so is an offence under the Competition Act 2002 (as amended). The Competition Act 2002, as amended, defines “control” as existing if, by reason of securities, contracts or any other means, decisive influence is capable of being exercised with regard to the activities of an undertaking. Under Irish law, any transaction subject to the mandatory notification obligation set out in the legislation (or any transaction which has been voluntarily notified to the Competition and Consumer Protection Commission) will be void if put into effect before the approval of the Competition and Consumer Protection Commission is obtained or before the prescribed statutory period following notification of such transaction lapses without the Competition and Consumer Protection Commission having made an order (whichever first occurs).

The terms of the NPRF Act and the NTMA 2014 Act collectively provide that certain parts of the Competition Act 2002 and Section 7 of the Financial Support Act do not apply to acquisitions or transfers of an interest in a listed credit institution by or on behalf of the Minister for Finance, or by or on behalf of the NPRFC, the NTMA, an NPRFC investment vehicle or an ISIF investment vehicle at the direction of the Minister for Finance.

6.4 Irish CRD IV Regulations —Notification Requirements

Under the Irish CRD IV Regulations, the proposed acquisition (including, by acquisition of ordinary shares in AIB HoldCo if AIB HoldCo becomes the holding company of AIB Bank and AIB) of any direct or indirect holding of the capital or of the voting rights of a credit institution such as AIB Bank (“Relevant Interests”) which represents a level of 10 per cent. or more of the Relevant Interests is notifiable to the ECB. Any person (including a person acting in concert with one or more persons) that intends, directly or indirectly, to acquire (including, by acquisition of ordinary shares in AIB HoldCo if AIB HoldCo becomes the holding company of AIB Bank) (i) 10 per cent. or more of the issued share capital of AIB Bank; or (ii) such number of ordinary shares as would increase its shareholding to 10 per cent. or more of the issued share capital of AIB Bank, will be required to notify the proposed acquisition to the ECB. Where Relevant Interests representing a level of 10 per cent. or more of total Relevant Interests have been notified and acquired, the proposed acquisition of further Relevant Interests which on acquisition together with existing holdings of Relevant Interests would reach or exceed a level representing 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests is also notifiable to the ECB. A proposed acquisition of Relevant Interests which would reach or exceed a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of total Relevant Interests cannot proceed unless so notified and (i) the prescribed period of time has elapsed without the ECB notifying the proposed acquirer(s) that it opposes the proposed acquisition, or (ii) the ECB has confirmed to the proposed acquirer(s) that it does not oppose the acquisition. Where an acquisition proceeds in default of the above requirements, the exercise of voting rights based on the acquisition concerned is suspended. In turn, a person may not dispose of Relevant Interests representing a level of 10 per cent., 20 per cent., 33 per cent. or 50 per cent. or more of total Relevant Interests without having given prior notice to the ECB. Equivalent regulatory requirements apply under other applicable legislation or regulatory requirements with respect to certain subsidiaries of AIB Bank which are authorised in the United Kingdom or Ireland by the PRA, the FCA or, as applicable, the Central Bank.

7 Directors and Senior Executives

Details of the Directors of AIB HoldCo (who are also the Directors of AIB Bank) and of the Senior Executives and their respective functions and brief biographies are set out in “Part XI: Directors, Senior Executives and Corporate Governance”.

7.1 Directors

In addition to directorships of any AIB company, the following Directors of AIB HoldCo have held, in the past five years, the directorships set out below.

Richard Pym — Chairman (Non-Executive Director)

<u>Company</u>	<u>Status (Current/Previous)</u>
Bradford & Bingley p.l.c.....	Previous
Brighthouse Group p.l.c.	Previous
Caversham Finance Limited.....	Previous
Co-operative Banking Group Limited.....	Previous
Nordax Bank AB (publ)	Previous
Nordax Group AB (publ)	Previous
Nordax Group Holding AB	Previous

Richard Pym — Chairman (Non-Executive Director)

Company	Status (Current/Previous)
Nordax Holding AB	Previous
Landmark Mortgages Limited (formerly NRAM p.l.c.).....	Previous
NRAM Ltd.	Previous
The British Land Company p.l.c.	Previous
The Co-operative Bank p.l.c.....	Previous
UK Asset Resolution Limited	Previous

Simon Ball — Non-Executive Director

Company	Status (Current/Previous)
Commonwealth Games England	Current
Anchura Group Limited	Previous
Anchura Partner Services Ltd.....	Previous
Cable & Wireless Communications Limited	Previous
Tribal Group p.l.c.	Previous

Mark Bourke—Chief Financial Officer (with effect from the Scheme Effective Time)

Company	Status (Current/Previous)
Bumper2Bumper Automotive Limited.....	Previous
IFG Asia Holdings Limited	Previous
IFG Core Ireland Holdings Limited	Previous
IFG Finance Limited	Previous
IFG Group p.l.c.	Previous
IFG Investment and Mortgage Services Limited.....	Previous
IFG Ireland Management Limited.....	Previous
IFG Nominees Limited.....	Previous
IFG Partnership Limited.....	Previous
IFG Pensco Limited	Previous
IFG Properties Limited.....	Previous
IFG Securities Limited	Previous
IFG Treasury Limited.....	Previous
IFG UK Finance Limited	Previous
IFG UK Group Holdings Limited	Previous
IFG UK Holdings Limited	Previous
IPS Pensions Limited	Previous
James Hay Administration Company Limited	Previous
James Hay Holdings Limited	Previous
James Hay WRAP Managers Limited.....	Previous
John Siddal France SAS Limited	Previous
Mortgage and Assurance Services Limited	Previous
Nameridge Limited	Previous
Quigley Consultants Limited.....	Previous
Saunderson House Limited	Previous
The IPS Partnership p.l.c.....	Previous
Title Underwriting Ireland Limited	Previous

Bernard Byrne—Chief Executive Officer (with effect from the Scheme Effective Time)

<u>Company</u>	<u>Status (Current/Previous)</u>
Horizons Education Limited	Current
Institute of Bankers in Ireland	Current
PKH Investments Limited	Current

Thomas (Tom) Foley—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
Intesa San Paolo Life d.a.c	Current
BPV Finance (International) p.l.c.....	Previous

Peter Hagan—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
179 East 70th Street Corporation	Previous
IBRC Real Estate Corp.....	Previous
IBRC Boston Corp.	Previous
IBRC Chicago Corp.	Previous
IBRC New York Corp.	Previous
Mainland Investments Corporation	Previous
Thomas Edison State College Foundation, Inc.	Previous

Carolann Lennon—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
Dublin Institute of Technology (DIT) Foundation	Previous
The Irish Management Institute.....	Previous

Brendan McDonagh—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
Bradford and Bingley p.l.c.	Current
NRAM Limited	Current
UK Asset Resolution Limited	Current
National Treasury Management Agency	Previous
The Bank of N.T. Butterfield & Son Limited.....	Previous

Helen Normoyle—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
Ripley Estates Limited	Current
DFS Trading Limited	Previous
WSN Consulting Limited.....	Previous

James (Jim) O'Hara—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
Decawave Limited.....	Current
Decawave Nominees A Limited.....	Current
Decawave Nominees B Limited	Current
Wisetek Solutions Limited	Current
Enterprise Ireland	Previous

James (Jim) O’Hara—Non-Executive Director

<u>Company</u>	<u>Status (Current/Previous)</u>
Fyffes p.l.c.....	Previous
I.B.A.T. Limited.....	Previous
MpStor Limited.....	Previous

Dr Michael Somers—Deputy Chairman (Non-Executive Director)

<u>Company</u>	<u>Status (Current/Previous)</u>
Fexco Holdings Unlimited Company.....	Current
GANMAC Holdings (BVI) Ireland.....	Current
Goodbody Holdings Unlimited Company.....	Current
Goodbody Stockbrokers Unlimited Company.....	Current
Hewlett-Packard International Bank p.l.c.....	Current
Institute of Directors in Ireland.....	Current
European Investment Bank.....	Previous
Pianora Limited.....	Previous
St. Vincent’s Healthcare Group Limited.....	Previous
Ulysses Securitisation plc.....	Previous
Willis Towers Watson p.l.c.....	Previous
Hewlett-Packard Financial Services Holding Unlimited Company.....	Previous

Catherine Woods—(Non-Executive Director and, with effect from the Scheme Effective Time, Senior Independent Non-Executive Director)

<u>Company</u>	<u>Status (Current/Previous)</u>
Beazley p.l.c.....	Current
Beazley RE d.a.c.....	Current
An Post.....	Previous

7.2 Senior Executives

In addition to positions held in any AIB company, the following Senior Executives have held, in the past five years, the directorships set out below. No senior executive has been a partner in any partnership in the past five years.

Helen Dooley—Group General Counsel

<u>Company</u>	<u>Status (Current/Previous)</u>
The Irish Society for the Prevention of Cruelty to Animals.....	Current

Triona Ferriter—Chief People Officer

<u>Company</u>	<u>Status (Current/Previous)</u>
None.....	N/A

Donal Galvin—Group Treasurer

<u>Company</u>	<u>Status (Current/Previous)</u>
Stormglen Limited.....	Current

Deirdre Hannigan—Chief Risk Officer

<u>Company</u>	<u>Status (Current/Previous)</u>
Vita (Rti).....	Current
GE Capital Emea Services Limited.....	Previous
GE Capital Equipment Finance (Ireland) Limited.....	Previous
GE Capital Limited.....	Previous

Deirdre Hannigan—Chief Risk Officer

Company	Status (Current/Previous)
GE Capital Solutions Europe Limited	Previous
Mercantile Credit Company of Ireland Limited	Previous
Better Finance Limited	Previous

Dr Colin Hunt—Managing Director, WIB

Company	Status (Current/Previous)
Dublin Cemeteries Committee	Current
Aer Lingus Group Designated Activity Company	Previous
Aer Lingus Limited	Previous
Amarenco Solar Ireland Limited	Previous
Carrigroe Retail Limited	Previous
Ggb inBalans BV	Previous
Ggb inBalans Investco Ireland Gp Limited	Previous
Hermes Infrastructure NV (Netherlands)	Previous
Hermes Infrastructure Investco Ireland GP Limited	Previous
Hornsby Schools Designated Activity Company	Previous
Léannta Ppp Investments Limited	Previous
Macquarie Group Investments (UK) Limited	Previous
Mpfi Investments Limited	Previous
Mpfi Investments 1 Limited	Previous
Mpfi Schools 1 (Holdings) Designated Activity Company	Previous
Mpfi Schools 1 Designated Activity Company	Previous
Mpfi Schools 1 Investments Designated Activity Company	Previous
Mpfi Investments 2 Limited	Previous
Nach BV (Belgium)	Previous
Nch Symphony Limited	Previous
Noctua Square Investments (Netherlands)	Previous
Pathglade Limited	Previous
Philanthropy Ireland Company Limited	Previous
Poseidon Investco GP Limited	Previous
Pymble Schools Designated Activity Company	Previous
Reach Out Ireland Company Limited By Guarantee	Previous
Turramurra Designated Activity Company	Previous

Tom Kinsella—Chief Marketing Officer

Company	Status (Current/Previous)
None	N/A

Robert Mulhall—Managing Director, RCB

Company	Status (Current/Previous)
None	N/A

Brendan O'Connor—Managing Director, AIB UK

Company	Status (Current/Previous)
Malin Project Holdings Limited	Previous
Malin Project No. 1 Limited	Previous
Malin Project No. 2 Limited	Previous

Jim O’Keeffe—Head of FSG

<u>Company</u>	<u>Status (Current/Previous)</u>
EJ Developments Sp. Z.o.o.	Current

Tomás O’Midheach—Chief Operating Officer

<u>Company</u>	<u>Status (Current/Previous)</u>
First Merchant Processing (Ireland) d.a.c.	Previous
Zolter Services d.a.c.	Previous

7.3 Directors’ and Senior Executives’ Confirmations

No Director of AIB HoldCo or Senior Executive has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of AIB HoldCo or AIB Bank and which was effected by any member of AIB in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

There are no guarantees provided by any member of AIB for the benefit of the Directors of AIB HoldCo or the Senior Executives.

Save as set out in “—*Related party transactions—Associated Undertakings*” and “—*Transactions with key management personnel*”, there are no loans provided by any member of AIB for the benefit of the Directors of AIB HoldCo or the Senior Executives.

Within the period of five years preceding the date of this Prospectus, none of the Directors of AIB HoldCo or the Senior Executives:

- (a) has had any convictions in relation to fraudulent offences;
- (b) has been a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- (c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management, administration, supervision or conduct of the affairs of a company.

Save as set out below, none of the Directors of AIB HoldCo or Senior Executives has any potential conflicts of interests between their duties to the Company and their private interests or other duties.

Dr Michael Somers joined the AIB Bank Board in January 2010 as a nominee of the Minister for Finance under the NPRF Act. The ordinary shares in the capital of AIB Bank and the 2009 Preference Shares subscribed for by the NPRFC for the NPRF (a fund owned by the Minister for Finance) became assets of the Minister for Finance on 22 December 2014 under the NTMA 2014 Act. The 2009 Preference Shares were redeemed and/or converted into ordinary shares and then cancelled by AIB Bank as part of the 2015 Capital Reorganisation. Prior to the conversion and redemption of the 2009 Preference Shares, Dr Somers was reappointed on 15 December 2015, as Non-Executive Director of AIB Bank for a further period to 31 December 2017. Dr Somers offered himself for re-election, and was re-elected at the 2017 AIB Bank AGM. Nevertheless, Dr Somers continues as a Government appointed Director of AIB Bank and his re-appointment as a Director of AIB Bank and appointment as a Director of AIB HoldCo is in accordance with his existing terms of appointment. Dr Somers is also a director of Goodbody, the Joint Irish Sponsor and Joint UK Sponsor, and its parent companies, Goodbody Holdings UC and Fexco Holdings UC. Dr Somers did not take part in the AIB HoldCo Board’s consideration of the appointment of Goodbody as Joint Irish Sponsor and Joint UK Sponsor.

There is no family relationship between any Directors of AIB HoldCo or the Senior Executives.

8 Directors and Secretary of AIB HoldCo and Senior Executives interests, options and awards

8.1 Directors and Secretary of AIB HoldCo and Senior Executives shareholdings

As at the Latest Practicable Date, the interests (all of which are beneficial unless otherwise stated) of the Directors and Secretary of AIB HoldCo and the Senior Executives, as well as their spouses and minor children, in the share capital of AIB Bank, are as follows:

<u>Directors of AIB HoldCo, Secretary of AIB HoldCo and (AIB Bank) Senior Executives</u>	<u>As at the Latest Practicable Date</u>	
	<u>Number of AIB Bank Ordinary Shares held</u>	<u>Percentage of issued share capital</u>
Simon Ball.....	5,000	0.00000184%
Mark Bourke	2,000	0.00000074%
Bernard Byrne	2,000	0.00000074%
Thomas (Tom) Foley.....	2,501	0.00000092%
Peter Hagan	8,000	0.00000295%
Carolan Lennon	2,000	0.00000074%
Brendan McDonagh	—	—
Helen Normoyle	2,000	0.00000074%
James (Jim) O’Hara.....	—	—
Richard Pym.....	2,000	0.00000074%
Dr Michael Somers.....	—	—
Catherine Woods	24,000	0.00000884%
Sarah McLaughlin	2	—
Helen Dooley.....	—	—
Triona Ferriter	—	—
Donal Galvin	—	—
Deirdre Hannigan	20	—
Dr Colin Hunt.....	—	—
Tom Kinsella.....	—	—
Robert Mulhall	19	—
Brendan O’Connor	17	—
Jim O’Keeffe.....	23	—
Tomas O’Midheach.....	—	—

As at the Latest Practicable Date, no Director of AIB HoldCo, Secretary of AIB HoldCo, Senior Executive or any of their respective spouses or minor children held any interests in the share capital of AIB HoldCo or, save as disclosed immediately above, any other member of the AIB Group.

Assuming there is no change in the interests of such persons as stated in this paragraph between the Latest Practicable Date and the Scheme Record Time, it is expected that the persons listed above will hold the equivalent interests in the share capital of AIB HoldCo immediately following Admission.

8.2 AIB HoldCo Directors’ and Senior Executives’ options and awards

8.2.1 Share options

As at the Latest Practicable Date, neither the Directors of AIB HoldCo nor any Senior Executives held options to subscribe for AIB HoldCo Shares or AIB Bank Shares.

8.2.2 Long-term incentives

AIB does not currently operate a long-term incentives plan.

9 Service agreements, benefits/incentive plans and remuneration

9.1 Remuneration approach

AIB’s remuneration policy is currently governed by the Deed of Covenant (from the Scheme Effective Time), the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister’s Letter, the AIB Bank Relationship Framework (and the

AIB HoldCo Relationship Framework with effect from the Scheme Effective Date) and the Government Guarantee Schemes, further details of which are set out in “Part X: Relationship with Government and State Aid”.

The introduction of CRD III and CRD IV over the last number of years has significantly increased the regulatory focus on remuneration, particularly variable remuneration, across all EU financial institutions. The release of final EBA Guidelines on Sound Remuneration Policies in December 2015 provided institutions with further guidance on the application of CRD IV.

The principal objective of the remuneration policy incorporates AIB’s strategic objective of promoting a truly customer focused culture. The policy further affirms that future variable remuneration schemes will be designed to protect the interests of customers and to reward superior customer outcomes. The design of remuneration practices will reflect the key principles of simplicity, transparency, fairness, performance based, external market alignment and strong risk management.

The policy reflects the key provisions of the recently issued EBA Guidelines as they apply to AIB’s current remuneration practices. In the event of future variable remuneration being introduced, such schemes will be designed to fully comply with national and EU regulatory requirements / guidelines.

9.2 Remuneration of Directors of AIB HoldCo and of AIB Bank and Senior Executives

In the financial year ended 31 December 2016, the aggregate total remuneration paid to the Directors of AIB Bank was €2,326,000 and the total remuneration paid to the Senior Executives was €3,299,921. Under the terms of the Deed of Covenant, the 2010 Placing Agreement, the 2011 Placing Agreement, the Minister’s Letter, the AIB Bank Relationship Framework (and the AIB HoldCo Relationship Framework with effect from the Scheme Effective Time) and the Government Guarantee Schemes, AIB HoldCo and AIB Bank are also required to comply with certain executive pay and compensation arrangements. Details of such restrictions are set out in “Part X: Relationship with Government and State Aid—Governance Restrictions”.

The following table details the total remuneration of the Directors of AIB Bank and Senior Executives in office during the financial year ended 31 December 2016:

Remuneration	2016					
	Directors’ fees, AIB Bank and Irish subsidiary companies ⁽¹⁾	Directors’ fees AIB Group (UK) p.l.c. ⁽²⁾	Salary	Annual taxable benefits ⁽³⁾	Pension contribution ⁽⁴⁾	Total ⁽⁷⁾⁽⁸⁾
						(€)
Executive Directors of AIB Bank						
Mark Bourke	—	—	467,000	30,000	93,000	590,000
Bernard Byrne	—	—	500,000	—	100,000	600,000
			967,000	30,000	193,000	1,190,000
Non-Executive Directors of AIB Bank						
Simon Ball.....	85,000	—	—	—	—	85,000
Thomas (Tom) Foley ⁽²⁾	90,000	40,000	—	—	—	130,000
Peter Hagan	95,000	—	—	—	—	95,000
Carolan Lennon (<i>Appointed 27 October 2016</i>)	13,000	—	—	—	—	13,000
Brendan McDonagh (<i>Appointed 27 October 2016</i>)	15,000	—	—	—	—	15,000
Helen Normoyle	73,000	—	—	—	—	73,000
James (Jim) O’Hara.....	103,000	—	—	—	—	103,000
Richard Pym ^{(1(a))} (<i>Chairman</i>)	365,000	—	—	—	—	365,000
Dr Michael Somers (<i>Deputy Chairman</i>)	111,000	—	—	—	—	111,000
Catherine Woods	146,000	—	—	—	—	146,000
	1,096,000	40,000				1,136,000
Senior Executives⁽⁵⁾⁽⁶⁾	—	—	2,582,055	289,566	428,300	3,299,921
Total	<u>1,096,000</u>	<u>40,000</u>	<u>3,549,055</u>	<u>319,566</u>	<u>621,300</u>	<u>5,625,921</u>

Notes:

- (1) Fees paid to Non-Executive Directors during 2016 were based on the following computations:
 - (a) Mr Pym, Chairman was paid an annual non-pensionable flat fee of €365,000 which includes remuneration for all services as a Director of AIB Bank.
 - (b) All other Non-Executive Directors were paid a basic, non-pensionable fee of €65,000 in respect of their respective service as a Director of AIB Bank and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees of AIB Bank or the board of a subsidiary company, or performing the role of Deputy Chairman or Senior Independent Non-Executive Director of AIB Bank.
- (2) Non-Executive Directors of AIB Bank who also serve as Directors of AIB UK were separately paid a non-pensionable flat fee, agreed and paid by AIB UK, in respect of their service as a Director of that company.
- (3) “Annual taxable benefits” represents a reduced 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 Non-Executive Directors of AIB Bank are non-pensionable.
- (5) Includes remuneration for the Senior Executives set out in “Part XI: Directors, Senior Executives and Corporate Governance—Senior Executives”. Ms Ferriter and Ms Hannigan were appointed in 2017 and accordingly the total remuneration for 2016 does not cover them. Remuneration for Dr Hunt is included from 8 August 2016, his date of appointment.
- (6) Remuneration for Mr O’Connor is converted from pound sterling to euro using the average exchange rate for 2016, which was 0.8196.
- (7) In addition to the amounts shown, Directors of AIB Bank and Senior Executives are reimbursed by AIB for certain expenses which may be chargeable to Irish income tax.
- (8) No bonuses were paid to Directors of AIB HoldCo and Senior Executives in the period.
- (*) All Directors of AIB Bank’s fees are subject to (i) Irish tax and other statutory deductions, including Pay Related Social Insurance, from which non-Irish resident directors can be exempt, and USC, and (ii) the consent/consultation procedure outlined in the AIB Bank Relationship Framework (and, with effect from the Scheme Effective Time, the AIB HoldCo Relationship Framework) specified by the Minister for Finance in respect of the relationship between the Minister for Finance and AIB.

No remuneration was paid to any Director of AIB HoldCo in their capacity as Directors of AIB HoldCo since its incorporation during the year ended 31 December 2016 or to date.

9.3 Executive Directors and Senior Executives

9.3.1 Short-term annual incentives

No annual incentives were or will be awarded to any Executive Director of AIB HoldCo or AIB Bank or Senior Executive in respect of the financial year ended 31 December 2016.

During 2014, the remuneration policy was updated to incorporate the provisions of CRD IV which came into force with effect from 1 January 2014 in the event that AIB were to pay variable remuneration in the future.

9.3.2 Long-term incentives share-based compensation schemes

AIB does not currently operate a long-term incentives plan and any share-based compensation schemes previously operated by AIB have been terminated or are no longer active as described in note 11 of Section B of “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus, which is incorporated by reference.

9.4 Directors’ appointments and employment contracts

The respective dates of appointment of the Directors to the AIB HoldCo Board and to the AIB Bank Board are as follows:

Name	Date First Appointed as a Director of AIB HoldCo ⁽¹⁾	Date First Appointed as a Director of AIB Bank
Mr Simon Ball.....	21 September 2017	13 October 2011
Mr Mark Bourke.....	21 September 2017	29 May 2014
Mr Bernard Byrne.....	21 September 2017	24 June 2011
Mr Thomas (Tom) Foley.....	21 September 2017	13 September 2012
Mr Peter Hagan.....	21 September 2017	26 July 2012
Ms Carolan Lennon.....	21 September 2017	27 October 2016
Mr Brendan McDonagh.....	21 September 2017	27 October 2016
Ms Helen Normoyle.....	21 September 2017	17 December 2015
Mr James (Jim) O’Hara.....	21 September 2017	13 October 2010
Mr Richard Pym.....	21 September 2017	13 October 2014
Ms Catherine Woods.....	21 September 2017	13 October 2010
Dr Michael Somers (Government appointee).....	21 September 2017	14 January 2010

Notes:

(1) Each Director will be a Non-Executive Director until the Scheme Effective Time.

Non-Executive Directors of AIB Bank are generally appointed for a three-year term, with the possibility of renewal for a further three years (subject to annual re-election as described below). It is expected that this will also be the case in respect of appointments to the AIB HoldCo Board. Any additional term beyond six years will be subject to annual review and approval by the respective Boards. Section 2 of “*Part XI: Directors, Senior Executives and Corporate Governance—Board Appointments*” contains further details relating to the appointment of Dr Somers as a Government appointed Director of AIB HoldCo and of AIB Bank. Following appointment, all Directors of AIB HoldCo are required to retire at the next AGM and may go forward for reappointment. Subsequently, all Directors of AIB HoldCo are required to submit themselves for reappointment at intervals of not more than three years. This reappointment obligation also applies to the Directors of AIB Bank and since 2005, all the Executive Directors and Non-Executive Directors of AIB Bank, with the exception of the Government appointees, have retired from office at the AGM of AIB Bank and offered themselves for reappointment. In 2017, Dr Somers, the only Government appointee, was also put forward for reappointment and will continue to be put forward annually during his term of office. Under the terms of the former 2009 Preference Shares, the Government appointee was not required to be put forward for reappointment. Following the conversion and redemption of the 2009 Preference Shares by AIB Bank, the Government appointee is now required to be put forward for reappointment and Dr Somers offered himself for re-election at the 2017 AIB Bank AGM.

9.5 Severance provisions

No Executive Director of AIB HoldCo or AIB Bank is entitled to any non-contractual benefits upon termination of his or her appointment. No Non-Executive Director of AIB HoldCo or AIB Bank is entitled to any benefits upon termination of his or her appointment.

10 Significant shareholdings

10.1 Significant shareholdings in AIB HoldCo

As at the Latest Practicable Date, MFSD Holdings Limited and MFSD Nominees Limited, the subscribers to the constitution of AIB HoldCo each held 20,000 AIB HoldCo Shares. MFSD Holdings Limited and MFSD Nominees Limited are companies owned and controlled by AIB HoldCo’s Irish legal advisers, McCann FitzGerald. Those companies subscribed for shares on incorporation and on 21 February 2017 to allow AIB HoldCo to satisfy the authorised share capital requirements for a public limited company under Irish company law. Subject to, and conditional on, the Scheme becoming effective, the 40,000 authorised and issued AIB HoldCo Shares of €0.625 in the capital of AIB HoldCo will be converted into 40,000 Subscriber Shares (which shares will carry no voting or income rights and have only limited rights on a return of capital) and those 40,000 Subscriber Shares will be redeemed at par and cancelled at an appropriate time (as determined by the Directors) following the Scheme Effective Time.

10.2 Significant shareholdings in AIB Bank

As at the Latest Practicable Date, AIB Bank had been notified of or was otherwise aware of the following AIB Bank Shareholder who was directly or indirectly interested in 3 per cent. or more of the issued AIB Bank Shares:

	As at the Latest Practicable Date	
	AIB Bank Shares	Percentage of issued share capital
Minister for Finance ⁽¹⁾	1,930,436,543	71.1188%

Notes:

(1) The AIB Bank Shares owned by the Minister for Finance comprise assets of the ISIF. Under the NTMA 2014 Act, these AIB Bank Shares are controlled and managed by the NTMA pursuant to directions in writing given to it by the Minister for Finance from time to time. Ownership of the ISIF vests in the Minister for Finance under the NTMA 2014 Act. The AIB Bank Shares owned by the Minister for Finance are registered in the name of a professional nominee for the benefit of the Minister for Finance.

As at the Latest Practicable Date, the Minister for Finance beneficially owns circa 71.1188 per cent. of the issued share capital of AIB Bank and has circa 71.1188 per cent. of the voting rights of AIB Bank. In addition, on 4 July 2017, AIB Bank issued 271,166,685 AIB Bank Warrants to the Minister for Finance to subscribe for ordinary shares in the capital of AIB Bank, representing 9.99 per cent. of the issued share capital of AIB Bank at AIB Bank Admission, subject to adjustment in accordance with the terms of the AIB Bank Warrant Instrument. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument entered into by AIB Bank will be replaced by the AIB HoldCo Warrant Instrument, pursuant to which the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as the existing AIB Bank Warrants (including as concerns any adjustments, required in connection with such replacement under the AIB Bank Warrant Instrument, to the

exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled. Details of the AIB Bank Warrants and the AIB HoldCo Warrants are set out in paragraph 13.4 of “*Part XX: Additional Information*”.

Save as disclosed in this paragraph, neither AIB HoldCo nor AIB Bank is aware of: (i) any other person who as at the Latest Practicable Date, directly or indirectly, has a holding which equals or exceeds 3 per cent. or more of the total voting rights attaching to its issued ordinary share capital.

On the assumption that there has been no change in the shareholdings of AIB Bank’s major shareholder referred to above between the Latest Practicable Date and the Scheme Record Time, it is expected that the person set out above, who notified AIB Bank that they hold more than 3 per cent. of the total issued share capital of AIB Bank as at the Latest Practicable Date, will hold the equivalent percentage of the total share capital of AIB HoldCo immediately following Admission. It is not expected that any other persons or groups will hold more than 3 per cent. of the total share capital of AIB HoldCo immediately following Admission as a result of the Scheme.

There is no differentiation in the voting rights attributable to AIB HoldCo’s voting capital. Each AIB HoldCo Share carries one vote at shareholder meetings and the AIB HoldCo Shares will carry the same voting rights on and from the Scheme Effective Time.

The Subscriber Shares will carry no voting or income rights and have only limited rights on a return of capital.

Save for the Minister for Finance, the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over AIB HoldCo immediately after Admission, nor is it aware of any arrangement, the application of which would, at a subsequent date, result in a change of control over AIB HoldCo.

11 Pension Benefits

AIB provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, AIB contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded as set out in further detail in “—*Retirement benefit obligations*” in note 2 and note 12 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, and note 11 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

11.1 Defined contribution schemes

Defined contribution schemes have a standard employer contribution of 10 per cent. plus an additional matched employer contribution, subject to limits based on age bands, giving a total potential employer contribution of up to 12 per cent., 15 per cent. or 18 per cent.

11.2 Defined benefit schemes

All defined benefit schemes operated by AIB closed to future accrual with effect from 31 December 2013 and employees who were members of a defined benefit scheme (including hybrid arrangements) transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by AIB are the AIB Irish Pension Scheme and the AIB UK Pension Scheme.

Retirement benefits for employees who were still active members of the defined benefit schemes at the date they closed to future accrual are calculated by reference to service and final pensionable salary at 31 December 2013. The final pensionable salary used in the calculation of this benefit for Irish staff is based on their average pensionable salary in the periods between 30 June 2009 and 31 December 2013 for the AIB Irish Pension Scheme and between 31 December 2009 and 31 December 2013 for the AIB UK Pension Scheme. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirements to revalue deferred benefits. There is no link to any future changes in salaries.

11.3 Valuations

Independent actuarial valuations for the AIB Irish Pension Scheme and AIB UK Pension Scheme are carried out on a triennial basis by the Schemes’ actuary, Mercer. The last such valuations of the AIB Irish Pension Scheme and AIB UK Pension Scheme were carried out as at 30 June 2015 and 31 December 2014 respectively using the projected unit credit method. The next actuarial valuations of the AIB Irish Pension Scheme and AIB UK Pension Scheme as at 30 June 2018 and 31 December 2017, must be completed by 31 March 2019 and 31 December 2018 respectively. Actuarial valuations are available for inspection by the members of the schemes.

For further detail regarding AIB’s pensions, including details of scheme assets, see “—*Retirement benefit obligations*” in note 2 and note 12 of Section B of “*Part XVI: Consolidated Historical Financial Information*” of the AIB Bank IPO Prospectus, and note 11 to the condensed interim financial statements of the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein.

12 Principal Subsidiaries

AIB Bank is at present the holding company and principal operating company of AIB. The following table contains a list of the principal subsidiaries of AIB Bank (each of which is considered by AIB Bank to be likely to have a significant effect on the assessment of the assets, the liabilities, the financial position and/or the profits and losses of AIB):

<u>Name</u>	<u>Percentage ownership interest and voting power</u>	<u>Field of activity</u>	<u>Country of incorporation</u>	<u>Registered office</u>
AIB Mortgage Bank	100	Mortgage covered securities	Ireland	Bankcentre, Ballsbridge, Dublin 4
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and trading as First Trust Bank in Northern Ireland	100	Banking and financial services	Northern Ireland	92 Ann Street, Belfast BT1 3HH
EBS d.a.c.....	100	Mortgages and savings	Ireland	The EBS Building, 2 Burlington Road, Dublin 4

With effect from the Scheme Effective Time, AIB HoldCo will be the holding company of AIB Bank.

13 Material Contracts

The following contracts have been entered into by AIB HoldCo or AIB Bank or another member of AIB on or prior to the date of this Prospectus and are or may be material.

13.1 AIB HoldCo Joint Sponsors' Agreement

On 10 October 2017, AIB HoldCo, AIB Bank and the Joint Sponsors entered into a joint sponsors' agreement (the "AIB HoldCo Joint Sponsors' Agreement"). Pursuant to the terms of AIB HoldCo Joint Sponsors' Agreement:

- AIB HoldCo has appointed (i) Morgan Stanley and Goodbody as joint sponsors in connection with the application for the admission of the AIB HoldCo Shares to the premium listing segment of the UK Official List and to trading on the main market for listed securities of the London Stock Exchange, and (ii) Morgan Stanley and Goodbody as joint sponsors in connection with the application for the admission of the AIB HoldCo Shares to the primary listing segment of the Irish Official List and to trading on the main market for listed securities of the Irish Stock Exchange;
- AIB HoldCo and AIB Bank each gave certain customary representations, warranties and undertakings to the Joint Sponsors. In addition, AIB HoldCo and AIB Bank gave certain customary indemnities to the Joint Sponsors pursuant to the AIB HoldCo Joint Sponsors' Agreement. The liability of AIB HoldCo and AIB Bank pursuant to the AIB HoldCo Joint Sponsors' Agreement is unlimited as to time and amount.
- If Admission occurs, AIB HoldCo and AIB Bank have agreed to pay (on a joint and not several basis), and if Admission does not occur AIB Bank alone has agreed to pay, to each of the Joint Sponsors a fee together with certain of the costs, charges, fees and expenses relating to Admission (together with, in each case, any related irrecoverable VAT).

13.2 IPO Underwriting Agreement

On 12 June 2017, AIB Bank, the Minister for Finance, the Directors of AIB Bank and the Underwriters entered into an underwriting agreement (the "IPO Underwriting Agreement"). Pursuant to the terms of the Underwriting Agreement:

- the Minister for Finance agreed, subject to certain conditions, to sell, at the AIB Bank IPO Price, the AIB Bank IPO Shares in connection with the IPO;
- the Underwriters severally agreed, subject to certain conditions, to procure purchasers for (or, failing which, to purchase themselves) the AIB Bank IPO Shares sold to institutional investors;
- the Minister for Finance granted the Over-allotment Option to the Stabilising Manager, pursuant to which the Stabilising Manager elected to purchase additional AIB Bank Shares from the Minister for Finance representing 15 per cent. of the total number of AIB Bank IPO Shares comprised in the AIB Bank IPO (excluding the AIB Bank Shares subject to the Over-allotment Option) at the AIB Bank IPO Price, for the purposes of allowing the Stabilising Manager to cover short positions resulting from over-allotments of AIB Bank Shares made in connection with the AIB Bank IPO and to cover short positions resulting from stabilising transactions;

- AIB Bank paid, on the direction of the Minister for Finance acting in its sole discretion and after consultation with AIB Bank, to the Underwriters a commission of 0.4 per cent. of the amount equal to the AIB Bank IPO Price multiplied by the aggregate number of AIB Bank IPO Shares sold pursuant to the AIB Bank IPO institutional offer;
- AIB Bank agreed to pay certain of the costs, charges, fees and expenses relating to the AIB Bank IPO (together with any related irrecoverable VAT); and
- AIB Bank, the Minister for Finance and the Directors of AIB Bank gave certain customary representations, warranties and undertakings to the Underwriters. In addition, AIB Bank gave certain indemnities to the Underwriters in connection with the AIB Bank IPO. The liability of AIB Bank pursuant to the Underwriting Agreement is unlimited by time and amount. The liability of the Directors of AIB Bank and the Minister for Finance pursuant to the Underwriting Agreement is limited by both time and amount.

13.3 IPO Sponsors' Agreement

On 12 June 2017, AIB Bank, the Directors of AIB Bank, Morgan Stanley and Goodbody entered into a sponsors' agreement in connection with the AIB Bank IPO (the "IPO Sponsors' Agreement"). Pursuant to the terms of the IPO Sponsors' Agreement:

- AIB Bank appointed (i) Morgan Stanley as sponsor in connection with the application for the admission of the AIB Bank Shares to the premium listing segment of the UK Official List and to trading on the main market for listed securities of the London Stock Exchange, and (ii) Goodbody as sponsor in connection with the application for the admission of the AIB Bank Shares to the primary listing segment of the Irish Official List and to trading on the main market for listed securities of the Irish Stock Exchange;
- AIB Bank and the Directors of AIB Bank each gave certain customary representations, warranties and undertakings to Morgan Stanley and Goodbody. In addition, AIB Bank gave certain customary indemnities to Morgan Stanley and Goodbody pursuant to the IPO Sponsors' Agreement. The liability of AIB Bank pursuant to the IPO Sponsors' Agreement is unlimited as to time and amount. The liability of the Directors pursuant to the IPO Sponsors' Agreement is limited as to both time and amount; and
- AIB Bank agreed to pay to each of Morgan Stanley and Goodbody a fee together with certain of the costs, charges, fees and expenses relating to AIB Bank Admission (together with, in each case, any related irrecoverable VAT).

13.4 AIB Bank Warrant Agreement/AIB Bank Warrant Instrument/AIB HoldCo Warrant Instrument

In recognition of the significant financial support provided to AIB by the Government since 2008 and as consideration for its support and participation in the 2015 Capital Reorganisation, AIB Bank received shareholder approval, at the EGM of AIB Bank held on 16 December 2015, to enter into the AIB Bank Warrant Agreement with the Minister for Finance.

In accordance with the terms of the AIB Bank Warrant Agreement, on 4 July 2017, AIB Bank entered into the AIB Bank Warrant Instrument and issued 271,166,685 AIB Bank Warrants to the Minister for Finance to subscribe for AIB Bank Shares, representing 9.99 per cent. of the issued share capital of AIB Bank at AIB Bank Admission. No cash consideration was paid by the Minister for Finance to AIB Bank for the AIB Bank Warrants. The AIB Bank Warrants are capable of assignment or transfer by the Minister for Finance. The exercise price for the AIB Bank Warrants is the Warrant Exercise Price and the AIB Bank Warrants will be capable of exercise by the Minister for Finance during the period commencing on the first anniversary of AIB Bank Admission and ending on the tenth anniversary of AIB Bank Admission. A condition to the exercise of the AIB Bank Warrants is that, on each of the thirty most recent consecutive trading days, the share price of the AIB Bank Shares has reached or exceeded the Warrant Exercise Price, as adjusted. Subject to, and conditional on, the Scheme becoming effective, the AIB Bank Warrant Instrument will be replaced by the AIB HoldCo Warrant Instrument. The replacement of the AIB Bank Warrant Instrument with the AIB HoldCo Warrant Instrument is reflected in a substitution deed entered into on 10 October 2017 between AIB Bank, the Minister for Finance and AIB HoldCo. Pursuant to the AIB HoldCo Warrant Instrument, the Minister for Finance will be issued 271,166,685 AIB HoldCo Warrants to subscribe for AIB HoldCo Shares on the same terms and conditions as the AIB Bank Warrants (including as concerns adjustments to the exercise price and/or the number of AIB HoldCo Shares to be issued per AIB HoldCo Warrant, if exercised), and the AIB Bank Warrants will be cancelled.

The principal rights and conditions attached to the AIB Bank Warrants are contained in the AIB Bank Warrant Instrument. The AIB Bank Warrant Instrument contains customary terms and conditions including customary anti-dilution provisions in favour of the holder of the AIB Bank Warrants. The AIB Bank Warrants are not, and will not, be listed or quoted by AIB Bank or the Minister for Finance on any stock exchange or other market. The AIB HoldCo Warrant Instrument will contain the same terms and conditions.

13.5 AIB HoldCo Relationship Framework

On 12 June 2017, the Minister for Finance specified the AIB Bank Relationship Framework, in relation to AIB Bank, which amended and restated the 2012 Relationship Framework. The Minister for Finance has specified the AIB HoldCo Relationship Framework, in substitution for the AIB Bank Relationship Framework. The AIB HoldCo Relationship Framework will become effective at the Scheme Effective Time, whereupon the AIB Bank Relationship Framework will

terminate. The AIB HoldCo Relationship Framework provides the basis under which the relationship between the Minister for Finance and AIB is governed. Details of the key terms of the AIB HoldCo Relationship Framework are set out in “*Part X: Relationship with Government and State Aid— AIB HoldCo Relationship Framework*”.

13.6 Deed of Covenant

Pursuant to the Deed of Covenant, AIB HoldCo has undertaken to comply with contractual governance obligations currently applicable to AIB Bank under the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister’s Letter. Details of the key terms of the Deed of Covenant are set out in “*Part X: Relationship with Government and state Aid – Governance Restrictions – Contractual – Deed of Covenant.*” The Deed of Covenant will terminate if the Scheme has not become effective by 30 March 2018 (or such later date, if any, as AIB Bank and AIB HoldCo may agree and the Court may allow).

13.7 2010 Placing Agreement

On 23 December 2010, AIB Bank, the Minister for Finance, the NPRFC and the NTMA entered into a placing agreement pursuant to which the NPRFC agreed to subscribe for 675,107,845 new ordinary shares of €0.32 each in the capital of AIB Bank and 10,489,899,564 convertible non-voting shares of €0.32 each in the capital of AIB Bank (“CNV Shares”). The aggregate consideration paid for the subscription for these ordinary shares and CNV Shares was €3.8 billion. The CNV Shares converted into ordinary shares of €0.32 each in the capital of AIB Bank on 7 April 2011. In 2014 the ordinary shares in the capital of AIB Bank held by the NPRFC became the assets of the ISIF, a fund whose assets are owned by the Minister for Finance. As such, references in the 2010 Placing Agreement to the NPRFC shall be read as references to ISIF.

Under the 2010 Placing Agreement, AIB Bank gave certain market standard representations, warranties and indemnities which are customary for an agreement of this nature concerning, among other things, the accuracy of the information and other matters relating to AIB and its business contained in the 2010 Placing Agreement, and agreed to:

- (i) pay to the NPRFC a commission of €3.5 million in respect of the new ordinary shares and €62.5 million in respect of the CNV Shares;
- (ii) pay the costs and expenses of each of the Minister for Finance, the NPRFC and the NTMA for the purposes of the subscription, the disposal of M&T on 4 November 2010 and the disposal of BZWBK to Banco Santander S.A. on 10 September 2010;
- (iii) indemnify and hold harmless each of the Minister for Finance, the NPRFC and the NTMA for losses arising out of or in connection with the subscription or the 2010 Placing Agreement except in the case of (a) the fraud, bad faith or wilful default of the Minister for Finance, the NPRFC or the NTMA, or (b) a decline in the market value of the ordinary shares suffered by the NPRFC not caused by any breach by AIB Bank of its obligations under the 2010 Placing Agreement; and
- (iv) do all necessary acts (at its own expense) to effect and/or facilitate the placing, or the offer to the public, or the admission to trading of the shares that are held by the NPRFC (now the ISIF) and to discharge all expenses of the Minister for Finance, the NPRFC, the NTMA and any other Irish State entity holding the ordinary shares in connection therewith.

Details of the covenants and governance imposed on AIB by the 2010 Placing Agreement are set out in paragraph 7.1.2 of “*Part X: Relationship with Government and State Aid*”.

The Minister for Finance and the NPRFC (now the ISIF) are permitted to transfer their rights and/or obligations under the 2010 Placing Agreement, including by way of assignment, novation and/or contribution, to each other or to any other Irish State entity. AIB Bank is not permitted to assign, novate, transfer or otherwise alienate all or any of its rights, interests and/or obligations under the 2010 Placing Agreement.

Whereas certain powers and functions under the 2010 Placing Agreement and the 2011 Placing Agreement were previously performed by the NTMA under delegated authority from the Minister for Finance, these powers and functions are now exercised by the Minister for Finance directly. The present position in this regard has been reflected in the above description of the provisions of the 2010 Placing Agreement.

13.8 2011 Placing Agreement

On 1 July 2011, AIB Bank, the Minister for Finance, the NPRFC and the NTMA entered into a second placing agreement pursuant to which the NPRFC agreed to subscribe for 500 billion ordinary shares in the capital of AIB Bank for an aggregate subscription price of €5.0 billion. The 2011 Placing Agreement is separate, exclusive and independent of the 2010 Placing Agreement and does not amend the 2010 Placing Agreement in any way. As indicated in the case of the 2010 Placing Agreement above, references to the NPRFC in the 2011 Placing Agreement should be read as references to the ISIF.

Under the 2011 Placing Agreement, AIB Bank gave certain market standard representations, warranties and indemnities which are customary for an agreement of this nature concerning, among other things, the accuracy of the information and other matters relating to AIB and its business contained in the 2011 Placing Agreement, and agreed to:

- (i) pay the costs and expenses of each of the Minister for Finance, the NPRFC and the NTMA for the purposes of the subscription for the 500 billion ordinary shares, the issue of CCNs and the other transactions contemplated in the 2011 Placing Agreement;
- (ii) indemnify and hold harmless each of the Minister for Finance, the NPRFC and the NTMA for losses arising out of or in connection with the subscription or the 2011 Placing Agreement except in the case of (a) the fraud, bad faith or wilful default of the Minister for Finance, the NPRFC or the NTMA, or (b) a decline in the market value of the ordinary shares or the CCNs suffered by the NPRFC not caused by any breach by AIB Bank of its obligations under the 2011 Placing Agreement; and
- (iii) do all necessary acts (at its own expense) to effect and/or facilitate the placing, or the offer to the public, or the admission to trading of the shares that are held by the NPRFC (now the ISIF) and to discharge all expenses of the Minister for Finance, the NPRFC, the NTMA and any other Irish State entity holding the ordinary shares in connection therewith.

Details of the covenants and governance restrictions imposed on AIB by the 2011 Placing Agreement are set out in “*Part X: Relationship with Government and State Aid*” and are substantially similar to the covenants and governance restrictions in the 2010 Placing Agreement.

The Minister for Finance and the NPRFC (now the ISIF) are permitted to transfer their rights and/or obligations under the 2011 Placing Agreement, including by way of assignment, novation and/or contribution, to each other or to or any other Irish State entity. AIB Bank is not permitted to assign, novate, transfer or otherwise alienate all or any of its rights, interests and/or obligations under the 2011 Placing Agreement.

Whereas certain powers and functions under the 2010 Placing Agreement and the 2011 Placing Agreement were previously performed by the NTMA under delegated authority from the Minister for Finance, these powers and functions are now exercised by the Minister for Finance directly. The present position in this regard has been reflected in the above description of the provisions of the 2011 Placing Agreement.

13.9 AIB Bank Registration Rights Agreement

Pursuant to its obligations under the 2011 Placing Agreement, AIB Bank entered into a registration rights agreement with the NPRFC and the Minister for Finance on 1 July 2011, granting customary demand and “piggyback” registration rights in the United States under the Securities Act to the NPRFC and the Minister for Finance with respect to any securities of AIB Bank, including AIB Bank Shares, held by the NPRFC or the Minister for Finance (being Registrable Securities). Pursuant to the AIB Bank Registration Rights Agreement, each of the NPRFC (now the ISIF following the ordinary shares in the capital of AIB Bank held by the NPRFC having become assets of the ISIF in 2014) and the Minister for Finance is permitted to transfer its registration rights to any of its wholly owned, directly or indirectly, entities, as well as to any third-party to whom it transfers not less than US\$50 million in Registrable Securities to the public in the United States or US\$75 million to the public within and outside the United States. In connection with any registered offering of ordinary shares under the Securities Act, any holders of Registrable Securities will have the right to participate in the offering, pursuant to customary “piggyback” registration rights, to the extent that such participation would not prevent successful completion of the offering. In addition, all holders of Registrable Securities have “piggyback” registration rights, on a pro rata basis, in any demand registration made by another holder pursuant to the AIB Bank Registration Rights Agreement.

The Deed of Covenant requires AIB HoldCo to enter into a registration rights agreement with the Minister for Finance on terms not inconsistent with the AIB Bank Registration Rights Agreement in circumstances where the AIB HoldCo Shares are listed on a stock exchange that has registered with the US Securities and Exchange Commission.

13.10 CIFS Scheme, ELG Scheme and NAMA Programme

As part of their accession to the CIFS Scheme as Covered Institutions, each of the AIB CIFS Covered Institutions entered into guarantee acceptance deeds in respect of the CIFS Scheme in favour of the Minister for Finance in or about October and December 2008, whereby each of them consented to all of the terms and conditions of the CIFS Scheme and agreed to indemnify the Minister for Finance against any payments the Minister for Finance was required to make under the CIFS Scheme in respect of their Covered Liabilities.

Pursuant to guarantee acceptance deeds in respect of the ELG Scheme entered into in or about January 2010 and February 2010, the AIB ELG Participating Institutions and EBS, respectively, has each given certain covenants in favour of the Minister for Finance and also given an indemnity for costs incurred by the Minister for Finance in respect of the ELG Scheme.

In February 2010, AIB’s application pursuant to section 62 of the NAMA Act to become a participating institution in NAMA was accepted by the Minister for Finance. The Minister for Finance accepted EBS’ application to become a

participating institution in NAMA in February 2010. As a consequence, AIB, including EBS, is subject to a range of constraints and obligations and is subject to additional powers of (as the case may be) the Central Bank and the Minister for Finance.

Details of the key terms of the CIFS Scheme, the ELG Scheme and the NAMA Act as they affect AIB are set out in “*Part X: Relationship with Government and State Aid—AIB HoldCo Relationship Framework*”.

13.11 Restructuring Plan

Details of the Restructuring Plan are contained in “*Part X: Relationship with Government and State Aid—State Aid*”. The Restructuring Plan Term Sheet contains the terms of the Commitments undertaken by AIB in connection with the decision of the EC of 7 May 2014 to approve the state aid received by AIB (including EBS) as restructuring aid compatible with the internal market pursuant to Article 107(3)(b) of the TFEU. Some of the Commitments have expired whilst the others will expire on 31 December 2017. These commitments which remain operable may restrict AIB’s ability to operate its business as it would otherwise have done so. These commitments relate to: (i) subject to receipt of all regulatory and other approvals, the repayment of state aid prior to the end of the Restructuring Period, (ii) limitation of exposure to Irish sovereign bonds; and (iii) behavioural commitments, which include restrictions on advertising, marketing and sponsorship in Ireland and a ban on discretionary coupon payments on instruments issued prior to 7 May 2014; in each case as further described in “*Part X: Relationship with Government and State Aid—State Aid*” and a commitment to contribute €500,000 per annum for a period of three years from 1 July 2014 to a public awareness campaign to raise awareness and promote customer mobility; (iv) expenditure caps on marketing, advertising and sponsorship, and (v) the imposition of criteria for assessing the most appropriate restructuring solution for non-performing SME loans and loans to corporates.

13.12 AIB HoldCo Initial Subscribers Deed of Release and Indemnity

AIB HoldCo, AIB Bank and MFSD Holding Limited and MFSD Nominees Limited (the latter two entities being the “AIB HoldCo Initial Subscribers”) entered into a deed of release and indemnity dated 21 September 2017 whereby, amongst other things (a) AIB HoldCo agreed to effect the redemption at par and cancellation of the AIB HoldCo Subscriber Shares within 12 months of the date of the deed; (b) AIB HoldCo and the Initial AIB HoldCo Subscribers agreed that the proceeds payable to the Initial AIB HoldCo Subscribers on redemption of certain of the AIB HoldCo Subscriber Shares will be set-off against the amounts owing by the Initial AIB HoldCo Subscribers in connection with their original subscription for the AIB HoldCo Subscriber Shares by way of undertaking to pay, which shall represent satisfaction in full of their respective obligations in connection with such redemption and subscription; and (c) AIB HoldCo and AIB Bank have agreed to release the AIB HoldCo Initial Subscribers from, and indemnify (on a joint and several basis) the AIB HoldCo Initial Subscribers against, any claims or liability arising out of, or in connection with, any action taken or omission made by an AIB HoldCo Initial Subscriber in its capacity as a shareholder of AIB HoldCo or the holding by the AIB HoldCo Initial Subscriber of shares in AIB HoldCo or any action taken or omission made on the part of any AIB HoldCo Initial Subscriber connected to the Scheme.

Outsourcing/Service Agreements

13.13.1 TSYS Payment Processing Agreement

AIB Bank and TSYS entered into a combined settlement services agreement dated 16 December 2011 (as amended), pursuant to which TSYS agreed to provide credit card and debit card payment processing services (the “TSYS Agreement”).

The initial term of the TSYS Agreement will expire in September 2018 in accordance with the terms of the TSYS Agreement and will automatically renew thereafter for two one-year terms unless one party provides the other with written notice of termination 180 days prior to the end of the then current term. Amongst the mutual termination rights of the parties, the TSYS Agreement may be terminated without cause in certain circumstances and may be terminated by either party where a regulatory change materially prevents or impairs either party from meeting its obligations. AIB Bank may terminate its receipt of the debit settlement services and credit settlement services for convenience in certain circumstances and subject to certain conditions.

Subject to certain exclusions and limitations contained in the TSYS Agreement, AIB Bank has warranted its ownership and rights in respect of hardware, software or equipment that is necessary for AIB Bank’s use of the services provided by TSYS and AIB Bank has agreed to indemnify TSYS against certain losses caused by AIB or for which AIB may be responsible, including for (i) a product of AIB infringing any intellectual property rights of any third-party; (ii) acts or omissions of AIB; (iii) claims by customers of AIB for any violation by AIB of their privacy or of laws relating to the use of their data, or for AIB’s unauthorised or fraudulent application of their customer accounts; (iv) failure to comply with certain laws or requirements relating to payment scheme programmes (e.g., Visa, MasterCard and American Express) and AIB credit/debit card portfolios supported by TSYS; and (v) liabilities and claims arising out of the application of the EC (Protection of Employees on Transfer of Undertakings) Regulations 2003 or any applicable national laws implementing the same.

Neither party can assign the TSYS Agreement without the prior written consent of the other party which consent shall not be unreasonably withheld (except that TSYS can assign to an affiliate of TSYS on condition that TSYS guarantees the performance by such affiliate of all TSYS' duties and liabilities under the TSYS Agreement). A change of control is not considered to be an assignment.

13.13.2 SEPA Hosted Services Agreement

AIB Bank and Sentenial entered into an agreement dated 9 April 2012 and an order form dated 19 November 2012 for the provision, maintenance and support of a SEPA solution to enable EBS act as an indirect participant in the SEPA Debit and Credit Transfer payment.

The SEPA Services Agreement continues for an initial term of three years and shall renew for successive periods of one year unless either party serves at least 30 days' notice prior to the expiry of the term. Amongst other mutual termination rights of the parties, Sentenial may immediately terminate the SEPA Services Agreement by written notice to AIB Bank if certain insolvency events occur in respect of AIB Bank. Subject to the payment of a termination fee, AIB Bank may terminate the SEPA Services Agreement (in whole or in part) by written notice to Sentenial at any time. The parties may not assign any of their rights or obligations under the SEPA Services Agreement without the other party's prior written consent.

13.13.3 Master Services Agreement and Transaction Services Agreement relating to Clearing Services

AIB Bank and Banctec entered into a master services agreement and transaction services agreement each dated 18 December 2013, pursuant to which Banctec agreed to provide AIB Bank with domestic and international cheque and drafts clearing processing operations ("Banctec Agreements").

The Banctec Agreements will continue in force for an initial term of six years and will automatically renew for a further two year period unless either party has provided the other with at least 12 months written notice prior to the then-current end of the term that it does not wish to renew.

AIB Bank has the right to terminate the Banctec Agreements for cause in certain defined circumstances and has the right to terminate the transaction services agreement for convenience on at least six months' written notice subject to the payment of any applicable termination compensation. AIB Bank may terminate the master services agreement for convenience without further liability at any time by providing not less than 30 days' prior written notice. Banctec may terminate the Banctec Agreements if AIB Bank fails to make any payments which are due provided that the amount owing exceeds three times the average monthly charges over the preceding 12 month period.

AIB Bank also provided indemnities in favour of Banctec under the Banctec Agreements in relation to certain employment matters. Banctec may not assign the Banctec Agreements without the prior written consent of AIB Bank. AIB Bank is entitled to assign the Banctec Agreements to an affiliate or any entity that acquires the whole or part of AIB Bank's business to which provision of the services relates.

13.13.4 IT Outsourcing Agreements

Between 2013 and 2015, AIB completed an outsourcing programme to leverage the skills and capabilities of external vendors through a small number of global strategic partnerships. AIB Bank entered into the following agreements with each of the following five service providers (each an "IT Outsourcing Supplier"):

- a Master Services Agreement with Wipro Limited and a services order for the provision of IT hosting and storage services and related support services, both dated 8 January 2015. A further services order relating to the provision of IT application development and maintenance services was entered into with Wipro Limited on 29 June 2015;
- a Master Services Agreement with HCL Technologies Limited and a services order for the provision of IT services desk and desktop support services, both dated 2 March 2013;
- a Master Services Agreement with Infosys Limited and a services order for the provision of IT application development and maintenance services, both dated 29 June 2015;
- a Master Services Agreement with Eircom Limited (now trading as Eir) and a services order for the provision of IT telecommunications services and related support services, both dated 8 January 2015; and
- a Master Services Agreement with Integrity Communications Limited and a services order for the provision of IT security services and related support services dated 8 January 2015

(together the "IT Outsourcing Agreements" and each an "IT Outsourcing Agreement").

Each IT Outsourcing Agreement has an initial term of five years and, at the expiry of the initial term, AIB Bank has the right to extend the term for up to two further 12-month periods.

AIB Bank has the right to terminate each IT Outsourcing Agreement for cause in certain defined circumstances, and also for convenience on at least three months' notice at any time subject to the payment of any applicable termination compensation. The IT Outsourcing Suppliers' right to terminate is limited to a situation where AIB Bank fails to make

payment of an undisputed material sum within a specified time frame and an escalation process between the parties has been exhausted. This right of termination is subject to a requirement for the IT Outsourcing Supplier to continue to provide services during an agreed termination assistance period to allow for an orderly transition of services back to AIB Bank or an alternative service provider. Under the terms of the IT Outsourcing Agreements, AIB Bank provided certain general warranties to each IT Outsourcing Supplier, including in relation to the authority to execute and perform its obligations under the Agreements. To the extent that the warranties prove to be untrue or inaccurate, AIB Bank may be liable to an IT Outsourcing Supplier for damages, subject to the exclusions and limitations contained in the IT Outsourcing Agreements. AIB Bank also provided general indemnities in favour of the IT Outsourcing Suppliers in relation to certain employment and intellectual property matters which were given, in some instances, on an unlimited basis.

13.13.5 Service Bureau Agreement

AIB Bank and Bottomline Technologies Limited (“Bottomline”) (formerly EBS and SMA Financial Limited) entered into a service bureau agreement dated 10 September 2009 (as novated and amended) for the provision of a SWIFT access service to EBS (“SWIFT Service Agreement”).

The SWIFT Service Agreement was for an initial period of 36 months and has been renewed thereafter for successive periods of 12 months each. Amongst other mutual termination rights of the parties, Bottomline is entitled to suspend the provision of SWIFT services or to terminate the SWIFT Service Agreement in the event that AIB Bank is in breach of any applicable law or regulation or in the event that Bottomline is required to do so by any law, regulation or regulatory body. Neither of the parties is entitled to assign the SWIFT Service Agreement, in whole or in part, without the prior written consent of the other.

13.13.6 ATM and Secured Cash-In-Transit Agreements

G4S provides armoured transportation services to transport bank notes, coins, currency and cheques (cash-in-transit services) and coin-related services to AIB pursuant to the following agreements:

- an agreement dated 29 November 2010 (as amended) in respect of cash-in-transit services to Dublin city branches of AIB;
- an agreement dated 7 September 2009 (as amended) in respect of cash-in-transit services between AIB’s cash centre in Blarney, Co. Cork and certain AIB branches;
- an agreement dated 12 November 2011 (as amended) in respect of cash-in-transit services between the AIB cash centre and AIB branches located in the West of Ireland; and
- an agreement dated 2 October 2012 (as amended) relating to the supply of coins for AIB’s branches (together, the “CIT Agreements” and each a “CIT Agreement”).

Each CIT Agreement will continue until 30 June 2017, and thereafter, unless terminated earlier by either party in accordance with the CIT Agreement. Either party may terminate the CIT Agreement (in whole or in part) for any reason by giving the other party written notice within the time period specified in each CIT Agreement (which is between 1 and 6 month(s)) served at any time and taking effect at any time on or after the first anniversary of the effective date or the date of expiry of the initial term (as relevant). Amongst other mutual termination rights of the parties, the CIT Agreement may also be terminated for cause by AIB in certain circumstances, including if there is a change of control of G4S to which AIB reasonably objects on the basis of a material impact on the business, commercial arrangements or reputation of AIB, or if a certain percentage (or less) of calls fail to take place. G4S may not assign the CIT Agreement without the prior written consent of AIB. AIB is entitled to assign the CIT Agreement to an affiliate of AIB for the purposes of solvent reconstruction or amalgamation as notified by AIB from time to time without the consent of G4S.

AIB Bank and G4S have also entered into an agreement dated 21 March 2011 (as amended) for the supply of ATM replenishment and first line maintenance services (“ATM Agreement”). The terms of the ATM Agreement that correspond to the terms of the CIT Agreements summarised above are substantially consistent, except that the initial term of ATM Agreement is stated to expire automatically unless it is extended by the parties by written agreement before expiry of the initial term.

13.13.7 AIB Merchant Services Joint Venture Agreement with First Data

First Merchant Processing (Ireland) Limited, trading as AIB Merchant Services, accepts and processes debit and credit card payments pursuant to a joint venture arrangement between AIB and First Data, a provider of card acceptance services, the terms of which are governed by the following agreements:

- a Subscription Agreement between (1) AIB Bank and AIB UK, (2) First Data Corporation and First Data Global Services Limited (“First Data”) and (3) Zolter Services d.a.c (previously Zolter Services Limited) (the “JV Vehicle”) and its subsidiaries First Merchant Processing (Ireland) Limited and First Merchant Processing UK (now dissolved) (the JV Vehicle and First Merchant Processing (Ireland) Limited together the “JV Companies”) dated 14 November

2007, pursuant to which First Data Global Services Limited subscribed for 50.1 per cent. of the shares in the JV Vehicle (together the “JV Parties”) with the remaining 49.9 per cent. being held by AIB Bank;

- a Shareholders’ Agreement between the JV Parties dated 18 January 2008 (as amended and restated in 2010), setting out certain shareholder rights together with the terms upon which the affairs of the JV Companies are to be conducted;
- an Operations Agreement between AIB Bank, AIB UK, the JV Companies and First Data Merchant Services Corporation (“FDMS”) dated 18 January 2008 (as amended and restated in 2010), pursuant to which AIB and FDMS each provide certain merchant payment services to each other and to the JV Companies;
- a Brand Agreement between AIB Bank, AIB UK and the JV Companies dated 31 December 2010, pursuant to which AIB licences certain registered trademarks of AIB Bank, to the JV Companies,

(together the “AIB Merchant Services JV Agreements”).

The Shareholders’ Agreement remains in force unless terminated upon notice served by (i) AIB Bank on or within three months after the 15th or 20th anniversary of the joint venture and thereafter at the end of each subsequent five-year period or (ii) First Data Global Services Limited on or within three months after the 20th anniversary of the joint venture and thereafter at the end of each subsequent five-year period. Among other mutual termination rights of the parties, the Shareholders’ Agreement may also be terminated by AIB Bank or First Data Global Services Limited for material breach, upon an insolvency event, by agreement or upon a change of control. No party to the Shareholders’ Agreement can assign its rights or obligations without the prior written consent of the other parties unless assigning to a transferee of that party’s shares in the JV Vehicle.

The term of the Operations Agreement expires on 18 January 2018 and thereafter will renew for successive periods of five years. AIB Bank, AIB UK or FDMS may immediately terminate the Operations Agreement upon written notice in circumstances where the Shareholders’ Agreement is terminated, upon an insolvency event of another party or for material breach. FDMS may terminate the Operations Agreement in the event of the termination of AIB Bank or AIB UK’s membership in relevant card associations. None of the parties to the Operations Agreement can assign their rights and obligations without the prior written consent of the other parties.

The Brand Agreement automatically terminates upon termination of the Shareholders’ Agreement. AIB Bank or AIB UK can terminate the Brand Agreement in certain specified circumstances, including where the licencees under the agreement do anything to diminish AIB Bank’s rights in the brands licensed or where they do anything inconsistent with AIB Bank’s ownership rights in the brands. The JV Companies can terminate the Brand Agreement immediately by, among other things, giving notice to AIB Bank where AIB Bank commits a material breach of the Brand Agreement or is subject to an insolvency event.

AIB Bank, AIB UK, First Data and FDMS each provide general warranties and indemnities in favour of the other party under the terms of each of the AIB Merchant Services JV Agreements.

14 Related party transactions

The related party transactions which must be disclosed in accordance with the standards adopted pursuant to the EC Regulation (EC) No. 1606/2002 are set out below.

Other than as disclosed below in note 51 of Section B to the condensed consolidated interim financial statements in “Part XVI: Consolidated Historical Financial Information” of the AIB Bank IPO Prospectus and note 41 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, each of which is incorporated by reference herein, no related party transactions were entered into by AIB HoldCo, AIB Bank or any other member of AIB during the years ended 31 December 2016, 2015 and 2014 or the six months ended 30 June 2017 or during the period between 30 June 2017 and the Latest Practicable Date. A number of banking transactions are entered into between AIB Bank and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions and the provision of guarantees on an “arm’s length” basis.

14.1 Associated Undertakings

AIB provides certain banking and financial services for its associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present any other unfavourable features. The amounts outstanding as at the Latest Practicable Date are set out below:

	Associates and joint ventures (€ million)
Loans and advances to customers.....	6
Customer accounts	140

14.2 Government

The Government, as a result of the equity investments in AIB in 2010 pursuant to the 2010 Placing Agreement and in 2011 pursuant to the 2011 Placing Agreement Investment, AIB's participation in the Government Guarantee Schemes and the NAMA Programme, the 2015 Capital Reorganisation and the ongoing relationship between the Minister for Finance and AIB Bank (including the Minister for Finance's holding of 71.1188 per cent. of the issued AIB Bank Shares), is a related party of AIB Bank. Other than as disclosed in note 51 of Section B of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus and note 41 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, each of which are incorporated by reference herein, AIB has not entered into any related party transaction with the Government (which for these purposes are those set out in the standards adopted according to Regulation (EC) 1606/2002) during the period covered by "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus and the AIB Bank 2017 Half Yearly Accounts, each of which are incorporated by reference herein.

14.3 Pension funds

As at the Latest Practicable Date, AIB provided banking and financial services including money transmission services, to various pension schemes operated by AIB for the benefit of its employees (principally the AIB Irish Pension Scheme and the AIB UK Pension Scheme), which are conducted on similar terms to third-party transactions and are not material to AIB.

14.4 Transactions with key management personnel

AIB's key management personnel comprises persons who are or, with effect from the Scheme Effective Date will be, Executive Directors of AIB HoldCo and of AIB Bank, Non-Executive Directors of AIB HoldCo and of AIB Bank and the Senior Executives.

Other than as set out in note 51 of Section B of "Part XVI: Consolidated Historical Financial Information" of the AIB Bank IPO Prospectus and note 41 to the condensed consolidated interim financial statements in the AIB Bank 2017 Half Yearly Accounts, each of which are incorporated by reference herein, no transactions with key management personnel were entered into by AIB during the financial periods ended 31 December 2014, 31 December 2015 or 31 December 2016, or the six-month period ended 30 June 2017. Other than the changes in loans to key management personnel set out below, no transactions with key management personnel were entered into during the period between 30 June 2017 and the Latest Practicable Date.

The aggregate amounts outstanding, and the number of persons concerned, in respect of all loans, quasi-loans and credit transactions between AIB and its key management personnel, as defined above (together with persons connected to the key management personnel) as at the Latest Practicable Date are shown in the table below. Loans to key management personnel (together with persons connected to the key management personnel) are made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with AIB, and do not involve more than the normal risk of collectability or present other unfavourable features.

	<u>Balance as at Latest Practicable Date</u>	<u>Number of persons as at Latest Practicable Date</u>
	(€)	
Key management personnel (together with persons connected to the key management personnel)		
Loans, overdrafts, credit cards.....	4,686,738	25

Since 30 June 2017, there have been no material changes to the terms of loans to key management personnel, including interest rates and collateral, which existed at that time.

Since 30 June 2017, there have been no material changes in guarantees entered into by key management personnel in favour of AIB as existed at that time, and there were no calls on those guarantees since that date.

AIB Bank has not made any provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which, having fallen due on the above loans, has not been paid.

15 Litigation

Neither AIB HoldCo nor AIB Bank nor any other member of AIB is or has been involved in any governmental, legal or arbitration proceedings, nor, so far as AIB Bank HoldCo or AIB Bank is aware, are any such proceedings pending or threatened by or against any member of AIB which may have, or have had in the recent past (covering the 12 months immediately preceding the date of this Prospectus), a significant effect on AIB HoldCo's, AIB Bank's or AIB's financial position or profitability.

16 Property and environmental

AIB operates from an estate of approximately 335 branches/outlets and offices. These are held exclusively in Ireland, the United Kingdom and the United States and include the EBS network of offices. The majority of the estate (branches and offices) are held under short-term commercial leases, with the remainder being held under freehold title. There are also approximately 238 off-site ATMs held under short leases or licences.

AIB's head office estate is largely centred around Dublin city and the greater Dublin area. AIB's headquarters is located at Bankcentre, Ballsbridge, Dublin 4, Ireland. This is a campus-style complex of interlinked office buildings on a site of approximately 14 acres. This complex houses most of AIB's support functions and offers approximately 560,000 sq. ft. of office space, as well as extensive car parking, meeting and staff welfare facilities. Following a 2006 sale and leaseback programme, AIB now leases the majority of AIB Bankcentre campus under four separate lease arrangements.

In Northern Ireland, First Trust Bank is headquartered at First Trust Centre, 92 Ann Street, Belfast. This is held under a freehold/long leasehold title. In the United Kingdom, AIB UK is headquartered at St. Helen's, 1 Undershaft, London, EC3A 8AB. This is held under a short-term lease.

The EBS portfolio is comprised of 58 offices leased or owned by EBS, with a further 17 offices held by tied branch agents.

AIB does not have significant property holdings in the United States. AIB HoldCo is of the opinion that there are currently no actual or potential environmental liabilities that affect AIB's utilisation of any property or other tangible fixed assets.

17 Working Capital

In the opinion of AIB HoldCo, the working capital available to AIB is sufficient for AIB's present requirements, that is, for at least the next 12 months following the date of this Prospectus.

18 No Significant Change

There has been no significant change in the financial or trading position of AIB Bank since 30 June 2017, being the date to which the AIB Bank 2017 Half Yearly Accounts, which are incorporated by reference herein, were prepared. There has been no significant change in the financial or trading position of AIB HoldCo since 30 June 2017, being the date to which the historical financial information of AIB HoldCo set out in "Section C of Part XII : AIB Group plc" of this Prospectus for the period from 8 December 2016 (the date of incorporation of AIB HoldCo) to 30 June 2017, was prepared.

19 Consents

Deloitte is a member firm of the Institute of Chartered Accountants in Ireland and has given and has not withdrawn its written consent to the inclusion of its report set out in Section D of "*Part XII: Selected Consolidated Historical Financial And Operating Information*" and its report in Section B of "*Part XVI: Unaudited Pro Forma Financial Information*" and the inclusion in this Prospectus of the reference to its name, in the form and context in which they appear, and has authorised the contents of its reports for the purposes of Regulation 31 and paragraph 2(2)(f) of Schedule 1 to the Irish Prospectus Regulations and section 1353 of the Companies Act. Deloitte is, and has been throughout the period covered by "*Part XII: Consolidated Historical Financial Information*", the auditor of AIB Bank and AIB HoldCo.

20 Expenses of the Restructuring Proposals

The aggregate expenses of, or incidental to, the Restructuring Proposals incurred and to be borne by AIB are estimated to be approximately €10 million (inclusive of amounts in respect of VAT), which AIB intends to pay out of existing cash resources (to the extent they have not already been paid). No expenses will be directly charged to AIB Bank Shareholders or prospective AIB HoldCo Shareholders in connection with the Restructuring Proposals by AIB.

21 Third-Party Information

Where information has been sourced from a third-party in this Prospectus this information has been accurately reproduced. So far as AIB HoldCo and the Directors of AIB HoldCo are aware and are able to ascertain from information provided by that third-party, no facts have been omitted which would render the reproduced information inaccurate or misleading. All third-party information is generally identified alongside where it is used.

A number of third-party sources generally state that the information they contain has been obtained from sources believed to be reliable. However, these third-party sources also state that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on significant assumptions. As AIB does not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in these third-party sources, AIB is unable to verify such information.

In addition, certain information in this Prospectus, for which no source is given is not based on published statistical data or information obtained from independent third parties. Such information and statements reflect the best estimates of the Directors based upon information obtained from industry and business organisations and associations and other contacts within the banking industry as well as information published by its competitors. Where information contained in this

Prospectus is identified as being the belief of the Directors of AIB HoldCo, such information is based on information obtained from industry and business organisations and associations and other contacts within the banking industry and the business experience of the Directors in the industry and the local markets in which AIB operates and AIB HoldCo's internal analysis of the audited and unaudited AIB Group information.

22 Documents Available for Inspection

Copies of the following documents are available for inspection in physical form during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) for the life in physical form of this Prospectus at AIB HoldCo's registered office at Bankcentre, Ballsbridge, Dublin 4, Ireland and the AIB Group's UK office at St. Helen's, 1 Undershaft, London, EC3A 8AB:

- the AIB Bank Memorandum and Articles;
- the AIB HoldCo Memorandum and Articles;
- a redline comparison of the AIB Bank Memorandum and Articles and the AIB HoldCo Memorandum and Articles;
- the AIB Bank IPO Prospectus which, for the avoidance of doubt, includes the financial statements of AIB for 2016, 2015 and 2014 which are set out in "*Part XVI: Consolidated Historical Financial Information*";
- the AIB Bank 2017 Half Yearly Accounts;
- the Forms of Proxy;
- the Scheme Circular;
- the consent letters referred to under "*—Consents*" above; and
- this Prospectus.

23 Documents Incorporated by Reference

The AIB Bank IPO Prospectus and the AIB Bank 2017 Half Yearly Accounts are available for inspection in accordance with Section 22 (*Documents Available for Inspection*) in this Part XX (*Additional Information*) of this Prospectus. These documents are also available on AIB's website at www.aib.ie/investorrelations.

The table below sets out the various sections of such documents which are incorporated by reference into this Prospectus so as to provide the information required under the EU Prospectus Regulation and to ensure that prospective AIB HoldCo Shareholders and others are aware of all information which, according to the particular nature of AIB HoldCo is necessary to enable prospective AIB HoldCo Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of AIB HoldCo.

Document	Section	Page numbers in such document
AIB Bank IPO Prospectus	<i>Part XVI: Consolidated Historical Financial Information</i>	233-549
AIB Bank IPO Prospectus	<i>Part XIII: Operating and Financial Review;</i>	152-228
AIB Bank IPO Prospectus	<i>Part XVII: Risk Management;</i>	
	<i>Section 2.2.1</i>	555-556
	<i>Section 2.3</i>	557
	<i>Section 2.4</i>	558
	<i>Section 4.7</i>	561
AIB Bank IPO Prospectus	<i>Part XXII: (Definitions) (to the extent these relate to any other section of the IPO Prospectus incorporated by reference herein)</i>	663-687
AIB Bank 2017 Half Yearly Accounts	Incorporated in its entirety	N/A

PART XXI DEFINITIONS

Definitions

The following definitions apply throughout this Prospectus unless the context requires otherwise.

2004 CBI Act	Central Bank and Financial Services Authority of Ireland Act 2004
2009 Preference Shares	the 3,500,000,000 2009 non-cumulative preference shares of €0.01 each in the capital of AIB Bank issued to the NPRFC on 13 May 2009 pursuant to the 2009 Subscription Agreement which subsequently became assets of the ISIF pursuant to section 38 of the NTMA 2014 Act and which subsequently were redeemed and cancelled on 17 December 2015 as part of the 2015 Capital Reorganisation
2009 Preference Shares Investment	the issue of the 2009 Preference Shares to the NPRFC (for the NPRF) on 13 May 2009, which subsequently became assets of the ISIF pursuant to section 38 of the NTMA 2014 Act, and which were subsequently converted and redeemed as part of the 2015 Capital Reorganisation
2009 Subscription Agreement	the subscription agreement entered into on 13 May 2009 between AIB Bank, the Minister for Finance and the NPRFC in connection with the 2009 Preference Shares Investment
2009 Warrants	the 294,251,819 warrants to subscribe for ordinary shares in the capital of AIB Bank issued to the NPRFC on 13 May 2009 pursuant to the 2009 Subscription Agreement and which were cancelled on 23 December 2010
2010 Placing Agreement	the placing agreement dated 23 December 2010 between AIB Bank, the Minister for Finance, the NPRFC and the NTMA
2011 Placing Agreement	the placing agreement dated 1 July 2011 between AIB Bank, the Minister for Finance, the NPRFC and the NTMA
2012 Relationship Framework	the relationship framework specified by the Minister for Finance in relation to AIB Bank on 29 March 2012
2013 CBI Act	Central Bank (Supervision and Enforcement) Act 2013
2014 Capital Reorganisation	the capital reorganisation approved by AIB Bank Shareholders at an EGM held on 19 June 2014 which comprised (i) the subdivision of the then existing ordinary shares in the capital of AIB Bank; (ii) the subsequent cancellation of an amount of € 1,073,944,058 standing to the credit of AIB Bank's share premium account and €3,926,055,941 standing to the credit of AIB Bank's capital redemption reserve account; and (iii) the transfer of these amounts to AIB Bank's revenue reserves
2014 Comprehensive Assessment	the European-wide stress-testing exercise conducted by the EBA and the ECB in conjunction with the Central Bank in October 2014
2015 Capital Reorganisation	the capital reorganisation approved by AIB Bank Shareholders at an EGM held on 16 December 2015 which comprised, among other things, the conversion and redemption of the 2009 Preference Shares, a consolidation of the then existing ordinary shares in the capital of AIB Bank, the entry into the Warrant Agreement and amendments to the memorandum and articles of association of AIB Bank and the redemption and cancellation of the EBS Promissory Note
2017 AIB Bank AGM	the annual general meeting of AIB Bank held on 27 April 2017
ACS Act	the Asset Covered Securities Acts 2001 and 2007, as amended
Admission	the admission of the AIB HoldCo Shares to the Official Lists and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange becoming effective in accordance with the Listing Rules
AGM	annual general meeting
AIB Bank	Allied Irish Banks, p.l.c., a company incorporated and registered in Ireland with registered number 24173, whose registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland

AIB or the AIB Group	(i) with respect to the period prior to the Scheme Effective Time, AIB Bank and its subsidiaries; and (ii) with respect to the period after the Scheme Effective Time, AIB HoldCo and its subsidiaries (including AIB Bank), as the context so requires
AIB Bank 2017 Half Yearly Accounts	the condensed consolidated interim financial statements for AIB for the six months ended 30 June 2017
AIB Bank Admission	the admission on 27 June 2017, in connection with the AIB Bank IPO of the AIB Bank Shares to the Official Lists and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange
AIB Bank Articles	the articles of association of AIB Bank in effect as at the date of this Prospectus
AIB Bank Board	the board of directors of AIB Bank from time to time
AIB Bank Board Audit Committee	the audit committee of the AIB Bank Board
AIB Bank Board Risk Committee	the risk committee of the AIB Bank Board
AIB Bank IPO	the offer and sale of 678,595,310 AIB Bank Shares by the Minister for Finance to institutional and retail investors at the AIB Bank IPO Price (which offer and sale was increased to 780,384,606 AIB Bank Shares on exercise of an over-allotment option), together with the AIB Bank Admission
AIB Bank IPO Price	the price at which the AIB Bank IPO Shares were offered and sold under the AIB Bank IPO, being €4.40
AIB Bank IPO Prospectus	the prospectus published by AIB Bank on 12 June 2017 in connection with the AIB Bank IPO
AIB Bank IPO Shares	the 678,595,310 AIB Bank Shares sold by the Minister for Finance to institutional and retail investors at the AIB Bank IPO Price (which number was increased to 780,384,606 AIB Bank Shares on exercise of an over-allotment option)
AIB Bank Memorandum	the memorandum of association of AIB Bank in effect as at the date of this Prospectus
AIB Bank Memorandum and Articles	the AIB Bank Memorandum and the AIB Bank Articles
AIB Bank Nomination and Corporate Governance Committee .	the nomination and corporate governance committee of the AIB Bank Board
AIB Bank Register of Members	the register of members maintained by AIB Bank pursuant to the AIB Bank Articles and the Companies Act
AIB Bank Registration Rights Agreement	the amended and restated registration rights agreement entered into between AIB Bank, the Minister for Finance and the NPRFC dated 1 July 2011 described in “Part XX: Additional Information—Material Contracts—AIB Bank Registration Rights Agreement”
AIB Bank Relationship Framework ...	the relationship framework specified by the Minister for Finance in relation to AIB Bank on 12 June 2017 amending and restating the 2012 Relationship Framework with effect from AIB Bank Admission on 27 June 2017
AIB Bank Remuneration Committee .	the remuneration committee of the AIB Bank Board
AIB Bank Shareholder	a holder of AIB Bank Shares
AIB Bank Shares	the ordinary shares with a nominal value of €0.625 each in the capital of AIB Bank
AIB Bank Warrant Agreement	the warrant agreement entered into between AIB Bank and the Minister for Finance on 20 November 2015 in respect of the AIB Bank Warrants
AIB Bank Warrant Instrument	the warrant instrument entered into by AIB Bank on 4 July 2017 constituting the

AIB Bank Warrants and providing for the terms of the AIB Bank Warrants

AIB Bank Warrant Share	an ordinary share issued in accordance with the AIB Bank Warrant Instrument to the holder of the AIB Bank Warrants
AIB Bank Warrants	the 271,166,685 warrants issued by AIB Bank to the Minister for Finance on 4 July 2017 to subscribe for AIB Bank Shares (in respect of which the exercise price and the number of AIB Bank Shares per warrant may be adjusted from time to time in accordance with the terms of the AIB Bank Warrant Instrument) representing 9.99 per cent. of the issued ordinary share capital of AIB Bank at AIB Bank Admission
AIB CIFS Covered Institutions	members of AIB Group participating in the CIFS Scheme, being AIB Bank, AIB Group (UK) p.l.c., EBS, EBS Mortgage Bank, AIB Mortgage Bank, AIB Bank (CI) Limited and AIB North America Inc.
AIB ELG Participating Institutions	members of AIB Group participating in the ELG Scheme, being AIB Bank, AIB Group (UK) p.l.c., EBS, AIB North America Inc, and formerly AIB Bank (CI) Limited and AIB International Savings Limited
AIB HoldCo	AIB Group plc, a company incorporated and registered in Ireland with registered number 594283, whose registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland
AIB HoldCo Articles	the articles of association of AIB HoldCo that will become effective at the Scheme Effective Time, as may subsequently be amended from time to time
AIB HoldCo Board	the board of directors of AIB HoldCo from time to time
AIB HoldCo Board Audit Committee	the audit committee of the AIB HoldCo Board
AIB HoldCo Board Risk Committee ..	the risk committee of the AIB HoldCo Board
AIB HoldCo Joint Sponsors’	
Agreement	the sponsor agreement entered into between AIB HoldCo, AIB Bank, and the Joint Sponsors described in “ <i>Part XX: Additional Information—Material Contracts—AIB HoldCo Joint Sponsor Agreement</i> ”
AIB HoldCo Memorandum	the memorandum of association of AIB HoldCo that will become effective at the Scheme Effective Time, as may subsequently be amended from time to time
AIB HoldCo Memorandum and	
Articles	the AIB HoldCo Articles and the AIB HoldCo Memorandum
AIB HoldCo Nomination and	
Corporate Governance Committee ..	the nomination and corporate governance committee of the AIB HoldCo Board
AIB HoldCo Reduction of Capital	the proposed reduction of the capital of AIB HoldCo to create distributable reserves under sections 84 to 86 of the Companies Act, to become effective as soon as a certificate of registration of the Court Order, together with the minute approved by the Court in respect of the reduction of capital, is issued by the Registrar of Companies, which, subject to Court approval, would occur after the Scheme becomes effective
AIB HoldCo Relationship	
Framework	the relationship framework specified by the Minister for Finance in relation to AIB HoldCo and AIB Bank on 10 October 2017 to take effect at the Scheme Effective Time
AIB HoldCo Remuneration	
Committee	the remuneration committee of the AIB HoldCo Board
AIB HoldCo Shareholders	the holders of AIB HoldCo Shares
AIB HoldCo Shares	ordinary shares in the capital of AIB HoldCo having a nominal value of (i) prior to the AIB HoldCo Reduction of Capital becoming effective, €2.47 each and (ii) on and following the AIB HoldCo Reduction of Capital becoming effective, €0.625 each
AIB HoldCo Warrant Instrument	the warrant instrument to be entered into by AIB HoldCo which is to be delivered and to become effective at the Scheme Effective Time by way of deed poll in order to constitute the AIB HoldCo Warrants and provide for the terms of the

AIB HoldCo Warrants

AIB HoldCo Warrant Share	an AIB HoldCo Share issued in accordance with the AIB HoldCo Warrant Instrument to the holder of the AIB HoldCo Warrants
AIB HoldCo Warrants	the 271,166,685 warrants to be issued by AIB HoldCo to the Minister for Finance to subscribe for AIB HoldCo Shares (in respect of which the exercise price and the number of AIB HoldCo Shares per warrant may be adjusted from time to time in accordance with the terms of the AIB HoldCo Warrant Instrument) subject to, and with the benefit of, the terms and conditions set out in the AIB HoldCo Warrant Instrument
AIB Irish Pension Scheme	the AIB Group Irish Pension Scheme, a defined benefit pension scheme operated by AIB in respect of its staff employed in Ireland
AIB UK	AIB Group (UK) p.l.c.
AIB UK Pension Scheme	the AIB Group UK Pension Scheme, a defined benefit pension scheme operated by AIB in respect of its staff employed in the United Kingdom
AML	anti-money laundering
AML Acts	the Criminal Justice (Money Laundering and Terrorist Financing) Acts of 2010 and 2013
Aspire	Aspire Performance Management Programme
ASU	Arrears Support Unit
Auditor	Deloitte, Hardwicke House, Hatch Street, Dublin 2
Banctec	Banctec Limited
Bank of Ireland	the Governor and Company of the Bank of Ireland
Banking Union	all credit institutions, financial holding companies and mixed financial holding companies in the Eurozone and in those other Member States that participate in the EU banking union
Bank Resolution Act	Central Bank and Credit Institutions (Resolution) Act 2011
Bank Secrecy Act	US Bank Secrecy Act of 1970 (31 USC 5311 et seq)
Bankruptcy Act	Bankruptcy Act 1988
BHCA	Bank Holding Company Act of 1956, as amended, of the United States
BMI	Business Monitor International
Board or Board of Directors	the board of directors of AIB HoldCo or AIB Bank, as the context so requires
Brexit	the United Kingdom's withdrawal from the European Union
BPFI	Banking and Payments Federation Ireland
BRRD or the EU Bank Recovery and Resolution Directive	Directive 2014/59 establishing a framework for the recovery and resolution of credit institutions and investment firms
Business Day	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in Dublin and/or London
BZWBK	Bank Zachodni Wielkopolski Bank Kredytowy S.A.
Cancellation Record Time	6:00 p.m. on the last Business Day before the Court Hearing
Cancellation Shares	(i) the AIB Bank Shares in issue at the date of the Scheme Circular; (ii) any AIB Bank Shares issued after the date of the Scheme Circular and before the Scheme Voting Record Time; and (iii) any AIB Bank Shares issued at or after the Scheme Voting Record Time and before the Cancellation Record Time, either on terms that the original or any subsequent holders of such shares shall be bound by the Scheme, or in respect of which the original or any subsequent holders of such shares have agreed in writing to be bound by the Scheme, but excluding the

Excluded Share and the Transfer Shares

CBRA Regulations	the CBRA Regulations 2011 and Central Bank Reform Act 2010 (Sections 20 and 22) (Amendment) Regulations 2015
CBRA Regulations 2011	Central Bank Reform Act 2010 (Sections 20 and 22) Regulations 2011
CCA	Consumer Credit Act 1995
CCMA	Code of Conduct on Mortgage Arrears (2013) issued by the Central Bank
CCNs	the €1.6 billion of contingent capital tier 2 notes issued by AIB Bank to the Minister for Finance on 27 July 2011 and which matured and were repurchased on 28 July 2016
CCPC	Competition and Consumer Protection Commission of Ireland
CCR	the Central Credit Register established under the Credit Reporting Act 2013 and regulated and operated by the Central Bank
Central Bank	Central Bank of Ireland
Central Bank Acts	Central Bank Acts 1942 to 2015
Central Bank Housing Loan Regulations 2015	the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015
CEO	Chief Executive Officer
certificated or in certificated form	a share which is not in uncertificated form
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CIFS Scheme	the credit institutions financial support scheme introduced by the Government on 30 September 2008 pursuant to the Credit Institutions (Financial Support) Scheme 2008, the guarantee under which expired on 29 September 2010
CMA	Competition and Markets Authority
Code of Conduct	the code of conduct in relation to business ethics which applies to all AIB employees that sets out the key standards for behaviour and conduct, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standard of behaviour
Co-Lead Manager	Investec Bank plc (Irish Branch)
Commitments	the commitments in connection with the Restructuring Plan, which Ireland has committed to implement as set out in the Annex to the State Aid Decision
Companies Act or Companies Act 2014	the Companies Act 2014, as amended
Conduct Risk Framework	a framework that is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level, including the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation
Consumer Credit Directive	Directive 2008/48/EC on credit agreements for consumers
Consumer Credit Regulations	European Communities (Consumer Credit Agreements) Regulations 2010, which give effect to the Consumer Credit Directive in Irish law
Consumer Protection Acts	Consumer Protection Acts 2007 and 2014
COO	Chief Operating Officer
Court Hearing	the hearing by the Court to sanction the Scheme (including the related AIB Bank reduction of capital)
Court Meeting	the meeting of the Scheme Shareholders convened by the Court under Section 450 of the Companies Act for the purpose of considering and, if thought fit, approving the Scheme with or without any modification (including any

	adjournment thereof)
Court or High Court	the High Court of Ireland
Court Order	the order or orders of the Court sanctioning the Scheme under Section 453 of the Companies Act and confirming AIB Bank reduction of capital under sections 84 to 86 of the Companies Act, which forms part of it or, where the context may require, either of them
Covered Institutions	certain institutions for whom certain types of liabilities are guaranteed by the Minister for Finance under the CIFS Scheme
Covered Liabilities	certain types of liabilities guaranteed by the Minister for Finance under the CIFS Scheme
CPLRP	Code of Practice on Lending to Related Parties (2010)
CPC	Consumer Protection Code 2012
CRA Regulations	these comprise the following regulations: <ul style="list-style-type: none"> • Credit Reporting Act 2013 (Section 6) (Additional Personal Information) Regulations 2016 • Credit Reporting Act 2013 (Section 11) (Provision of information for Central Credit Register) Regulations 2016 • Credit Reporting Act 2013 (Section 17) (Access to Central Credit Register) Regulations 2016 • Credit Reporting Act 2013 (Section 20) (Verification of Identity of Credit Information Subjects) Regulations 2016 • Credit Reporting Act 2013 (Section 24) (Notices) Regulations 2016
CRD	Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms: Capital adequacy legislation adopted by the EU and implemented by Member States which is designed to ensure the financial soundness of credit institutions and certain investment firms
CRD IV	CRD and CRR
CRD V/BRRD2 Proposals	the proposals published by the EC on 23 November 2016 for amendments to the CRR, the CRD IV, the BRRD, the SRM and the proposed new directive to facilitate the creation of a new asset class of “non-preferred” senior debt
CREST	the system of paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations
CREST Member	a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations)
CREST Regulations	the Companies Act 1990 (Uncertificated Securities) Regulations 1996, including a notification thereof or any regulations in substitution thereof or in addition thereto made under section 1086 of the Companies Act or otherwise for the time being in force or other legislative provisions dealing with the transfer of shares in dematerialised or electronic form and title to shares transferred in such manner
CRO	Chief Risk Officer
CRR	Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms
CSO	Central Statistics Office of Ireland
CTF	counter-terrorist financing
Customer Mobility Package	a package permitting certain of AIB’s competitors to advertise their services to AIB’s customers
Dáil Éireann	the lower house of the Oireachtas (the Irish legislature)

Data Protection Directive	Directive 95/46 on the protection of individuals with regard to the processing of personal data and on the free movement of such data
Deed of Covenant	the deed of covenant entered into on 10 October 2017 between AIB HoldCo, AIB Bank and the Minister for Finance
Delegated Act	Commission Delegated Regulation 2015/61 to supplement the CRR with regard to liquidity coverage requirements for credit institutions
DGSD	Directive 2014/49/EU on deposit guarantee schemes
DGS Regulations	the European Union (Deposit Guarantee Schemes) Regulations 2015
Directors	the Executive Directors and Non-Executive Directors of AIB HoldCo or AIB Bank as the context requires
Distance Marketing of Financial Services Directive	
	Directive 2002/65 concerning the distance marketing of consumer financial services
Distributable Reserves Resolution	Resolution 2 to be proposed at the Extraordinary General Meeting as set out in full in the Notice of Extraordinary General Meeting sent to AIB Bank Shareholders on 10 October 2017
Dividend Rules	the rules made by the Minister for Finance under paragraph 42 of the CIFS Scheme on 28 February 2017 governing the declaration and payment of dividends by institutions covered by the CIFS Scheme, including the AIB CIFS Covered Institutions
DM Regulations	European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004 which give effect in Irish law to the Distance Marketing of Financial Services Directive
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DPA	the Data Protection Acts of 1988 and 2003
DRN	debt relief notice under the Personal Insolvency Act
DSA	debt settlement arrangement under the Personal Insolvency Act
EBA	the European Banking Authority
EBS	EBS d.a.c. (formerly EBS Limited and prior to that EBS Building Society), a company incorporated under the laws of Ireland (registered number 500748) and a wholly-owned subsidiary of AIB Bank
EBS Promissory Note	the promissory note with an initial principal amount of €250 million provided by the Minister for Finance to EBS Building Society on 17 June 2010 which was redeemed and cancelled as part of the 2015 Capital Reorganisation
EC	the Commission of the EU (provided for under the provision of Title III of the Treaty on European Union), which operates as the executive body of the EU
ECB	the European Central Bank
ECB banking authorisation	(a) in the case of a licence granted by the Central Bank under section 9 of the Central Bank Act 1971 prior to 4 November 2014 (including that issued to and held by AIB Bank), such a licence which is deemed in accordance with the SSM Regulation to be an authorisation granted by the ECB under the SSM Regulation; or (b) in any other case, an authorisation granted by the ECB under the SSM Regulation on the application therefore under section 9 of the Central Bank Act 1971;
EEA	European Economic Area, which consists of the Member States, Iceland, Liechtenstein and Norway
EGM	an extraordinary general meeting of AIB Bank or, as applicable, AIB HoldCo
ELG Directions	the directions issued to the AIB ELG Participating Institutions on behalf of the Minister for Finance on 12 November 2012 pursuant to paragraph 22 of the ELG

Scheme

ELG Scheme	the Eligible Liabilities Guarantee Scheme established under the Financial Support Act and by the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009, which expired for new liabilities on 28 March 2013
ELG Scheme Agreements	the eligible liabilities guarantee scheme agreements in respect of the ELG Scheme entered into by AIB with the Irish Department of Finance in January 2010 and February 2010
EMIR Regulations	Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, Central Counterparts and Trade Repositories
E-money Directive	Directive 2009/110 on the taking up, pursuit and prudential supervision of the business of electronic money institutions
E-money Regulations	European Communities (Electronic Money) Regulations 2011 which give effect in Irish law to the E-money Directive
ePrivacy Regulations	the European Communities (Electronic Communications Networks and Services) (Privacy and Electronic Communications) Regulations 2011
Enterprise Securities Market or ESM	the Enterprise Securities Market operated and regulated by the Irish Stock Exchange
ERC	Executive Risk Committee
ESMA APM Guidelines	the guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415)
EU	the European Union
EU MiFID Regulation	Regulation 600/2014 on Markets in Financial Instruments
EU Prospectus Regulation	Commission Regulation (EC) No. 809/2004 of 29 April 2004
EU/IMF Programme	Ireland's bailout programme from the EC, the ECB and the IMF
euro or €	the official currency of the Eurozone
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Eurozone	the eurozone consists of the following 19 EU countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain
Exchange Act	US Exchange Act of 1934
Excluded Share	the AIB Bank Share held by, and registered in the register of members of AIB Bank in the name of, AIB HoldCo as at the date of this Prospectus and that will continue to be so held until the Scheme Effective Time
Executive Directors	the executive directors of AIB HoldCo or AIB Bank as the context requires
Extraordinary General Meeting	the extraordinary general meeting of AIB Bank Shareholders to be held at Ballsbridge Hotel, Pembroke Road, Dublin 4, Ireland on 3 November 2017 at 10:15 a.m., (or as soon thereafter as the Court Meeting, convened for the same date and place, has concluded or been adjourned) or such adjournment thereof
FATCA	Foreign Account Tax Compliance Act of the United States
FATF	Financial Action Task Force
FCA	the Financial Conduct Authority acting in its capacity as the competent authority for listing in the UK for the purposes of part VI of FSMA
FCA Rulebook	the FCA rulebook that provides detailed rules and guidance made by the FCA under the powers given to them by the FSMA
FDMS	First Data Merchant Services Corporation
Financial Support Act	the Credit Institutions (Financial Support) Act 2008
Fitch	Fitch Ratings Limited

Fitness and Probity Standards Code	the Fitness and Probity Standards Code 2011 issued by the Central Bank
FMP	Financial Measures Programme
Forms of Proxy	either or both of the green and purple forms of proxy for use at the Court Meeting and the Extraordinary General Meeting respectively, sent to AIB Bank Shareholders together with the Scheme Circular.
FOS	UK Financial Ombudsman Service
FRB	Federal Reserve Board
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
FSG	Financial Solutions Group
FSMA	the UK Financial Services and Markets Act 2000 (as amended)
FSO	Financial Services Ombudsman
FSU	Financial Services Union
G4S	G4S Cash Solutions Ireland Limited
GDP	gross domestic product
GDPR	Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data
General Bail-In Tool	the power, provided by the BRRD to resolution authorities in circumstances where the credit institution is failing or likely to fail, to write down the claims of unsecured creditors of an institution and convert debt to equity, with, in broad terms, the first losses being taken by shareholders and thereafter by subordinated creditors and then senior creditors, with the objective of recapitalising an institution
Goodbody	Goodbody Stockbrokers UC
Government Guarantee Schemes	the CIFS Scheme and ELG Scheme
Government or Irish Government	the Government of Ireland
Group Level Resolution Authority	the SRB, as AIB's group level resolution authority for the purposes of the BRRD and the EU Single Resolution Mechanism Regulation
GVA	Gross value added
Haven	Haven Mortgages Limited
HMRC	HM Revenue & Customs of the UK
Joint Broker	Goodbody and Morgan Stanley
Joint Financial Advisor	Goodbody and Morgan Stanley
IAS 39	International Accounting Standard 39
IBA	US International Banking Act of 1978
iBB	iBusiness Banking, an online service optimised for AIB's business and corporate customers
IBRC	the Irish Bank Resolution Corporation
ICCL	Investor Compensation Company Limited
IFRS	the International Financial Reporting Standards, as adopted by the EU
IFRS 9	International Financial Reporting Standards 9 Financial Instruments
IMF	the International Monetary Fund
Insolvency Service	the Insolvency Service of Ireland
Interchange Fee Regulation	Regulation 2015/751 on Interchange Fees for Card-Based Payment Transactions

IPO Sponsors' Agreement	the sponsors' agreement entered into on 12 June 2017 by AIB Bank, the Directors of AIB Bank, Morgan Stanley and Goodbody in connection with the AIB Bank IPO
IPO Underwriting Agreement	the underwriting agreement entered into on 12 June 2017 by AIB Bank, the Minister for Finance, the Directors of AIB Bank and the Underwriters in connection with the AIB Bank IPO
IR MiFID I Regulations	the European Communities (Markets in Financial Instruments) Regulations 2007 No.s 1 to 3
IR MiFID II Regulations	the European Union (Markets in Financial Instruments) Regulations 2017
Ireland or Irish State	the Republic of Ireland, and the word "Irish" shall be construed accordingly
Irish Code	the Irish Corporate Governance Annex to the UK Code recognised by the Irish Stock Exchange
Irish CGT	Irish capital gains tax
Irish CRD IV Regulations	European Union (Capital Requirements) Regulations 2014
Irish Life & Permanent	former name of permanent tsb
Irish Listing Rules	the rules of the Irish Stock Exchange
Irish Official List	Official List of the Irish Stock Exchange
Irish Prospectus Law	Chapter 1 of Part 23 of the Companies Act, the Irish Prospectus Regulations and the Irish Prospectus Rules
Irish Prospectus Regulations	the Prospectus (Directive 2003/71 EC) Regulations 2005 which give effect in Irish law to Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading
Irish Prospectus Rules	the prospectus rules and the prospectus handbook issued by the Central Bank from time to time under Section 1363 of the Companies Act
Irish Resident	a resident in Ireland for the purposes of Irish tax
Irish Stock Exchange	the Irish Stock Exchange plc
IRS	U.S. Internal Revenue Service
ISIF	the fund known as the Ireland Strategic Investment Fund (as controlled and managed by the NTMA) established under the NTMA 2014 Act and references to any matter or thing done or an asset held by, on behalf of or for the ISIF, shall encompass a reference to that matter or thing being done by the NTMA, as applicable, or such asset being held for the Minister for Finance
ISIN	international securities identification number
IT	information technology
Joint Irish Sponsor(s)	Goodbody and Morgan Stanley
Joint Sponsors	the Joint Irish Sponsors and the Joint UK Sponsors
Joint UK Sponsor(s)	Morgan Stanley and Goodbody
JST	Joint supervisory team for AIB at the ECB and Central Bank
Latest Practicable Date	the latest practicable date prior to the publication of this Prospectus, being 6 October 2017, unless otherwise stated herein
LCR	Liquidity Coverage Ratio—the ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceed 60 per cent. from 1 January 2015 and 100 per cent. from 1 January 2018.
Leadership Team	the most senior executive committee of AIB, comprising twelve members, and is responsible for the day-to-day management of AIB's operations
Listing Rules	the Irish Listing Rules and the UK Listing Rules
London Stock Exchange	London Stock Exchange plc

M&T	M&T Bank Corporation
MAC	Market Announcements Committee
MAR	the Market Abuse Regulation (EU 596/2014 - 'MAR') and the Market Abuse Directive on criminal sanctions for market abuse (Directive 2014/57/EU or 'CSMAD' or 'MAD II')
MCC 2011	Minimum Competency Code 2011
MCC 2017	Minimum Competency Code 2017
Meetings	the Court Meeting and the Extraordinary General Meeting, and "Meeting" means either of them as the context requires
Member States	member states of the EU
MiFID I Directive	Directive 2004/39 on markets in financial instruments
MiFID II Directive	Directive 2014/65 on markets in financial instruments
Minimum Competency Regulations ...	Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Minimum Competency Regulations 2017
Minimum Funding Standard or MFS	minimum funding standard as construed in accordance with Section 44 of the Pension Act 1990 (as amended)
Minister for Finance	the Minister for Finance, a corporation sole having its address at Department of Finance, Government Buildings, Upper Merrion Street, Dublin 2, Ireland
Minister's Letter	the letter from the Minister for Finance to the board of AIB Bank dated 25 July 2011
MLD3	Directive 2005/60 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing
MLD4	Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing
Monitoring trustee	a trustee appointed to monitor compliance with the state aid commitments
Moody's	Moody's Investor Service Limited
Morgan Stanley	Morgan Stanley & Co. International plc
Mortgage Credit Directive	Directive 2014/17 on Credit Agreements Relating to Residential Immovable Property which was transposed into Irish law with effect from 21 March 2016 by the Mortgage Credit Regulations
Mortgage Credit Regulations	the European Union (Consumer Mortgage Credit Agreements) Regulations 2016
MRA	Material Risk Assessment
MREL	minimum requirement for own funds and eligible liabilities for the purposes of the BRRD
NAMA	the National Asset Management Agency and, where the context permits, other members of NAMA's group, including subsidiaries and associated companies
NAMA Act	the National Asset Management Agency Act 2009
NAMA Assets	such classes of assets, including, but not limited to, land and property development loans and certain associated loans, as shall have been prescribed by the Minister for Finance as necessary for the purposes of the NAMA Act for inclusion in the NAMA Programme
NAMA Participating Institution	a "participating institution" within the meaning of the NAMA Act
NAMA Programme	the programme through which NAMA has acquired NAMA Assets from NAMA Participating Institutions on the terms specified in or pursuant to the NAMA Act
Non-Executive Directors	the non-executive directors of AIB Bank or, if AIB HoldCo becomes the holding company of AIB and the context so requires, AIB HoldCo
Northern Ireland	the counties of Antrim, Armagh, Derry, Down, Fermanagh and Tyrone on the island of Ireland

NPRF	the National Pensions Reserve Fund, a fund owned by the Minister for Finance which was established under the NPRF Act
NPRF Act	the National Pensions Reserve Fund Act 2000
NPRFC	the National Pensions Reserve Fund Commission, as established by the NPRF Act to, <i>inter alia</i> , control, manage and invest the assets of the NPRF (or any replacement successor agency or authority), where references in this Prospectus to the NPRFC are to the NPRFC acting in its capacity as controller and manager of the NPRF
NTMA	the National Treasury Management Agency
NTMA 2014 Act	the National Treasury Management Agency (Amendment) Act 2014
NYDFS	New York State Department of Financial Services
NYBL	New York Banking Law
OECD	the Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control of the United States
Official Lists	the official list maintained by the Irish Stock Exchange and/or (as the context requires) the official list of the FCA
Oireachtas (the Irish legislature)	the national parliament of Ireland, consisting of the President of Ireland, Dáil Éireann and Seanad Éireann
ONS	the United Kingdom's Office for National Statistics
Operational Risk Framework	a framework that sets out the principles, roles and responsibilities, governance arrangements and processes for operational risk management across AIB. The Operational Risk Framework is supported by a suite of operational risk policies
ORC	Operational Risk Committee
Ordinary Share Consolidation	the consolidation of the then existing ordinary shares of €0.0025 each in the capital of AIB Bank into ordinary shares of €0.625 in the capital of AIB Bank, pursuant to the 2015 Capital Reorganisation
O-SII	other systemically important institutions
Overseas Shareholder	a Scheme Shareholder that has a registered address or that is resident in a jurisdiction other than Ireland or the United Kingdom
parent financial holding company	a parent financial holding company for the purposes of CRD IV
Payment Accounts Regulations	European Union (Payment Accounts) Regulations 2016, which give effect in Irish law to the Directive 2014/92 on the comparability of fees related to the payment accounts, payment account switching and access to payment accounts with basic features
Payment Services Regulations	European Communities (Payment Services) Regulations 2009 which give effect in Irish law to Directive 2007/64 on payment services in the internal market
PCAR	the Prudential Capital Assessment Review carried out by the Central Bank, the results of which were published by the Central Bank on 31 March 2011
PFIC	a passive foreign investment company for U.S. federal income tax purposes
permanent tsb	Permanent TSB p.l.c., formerly Irish Life & Permanent
Personal Insolvency Act	Personal Insolvency Act 2012
PIA	personal insolvency arrangement under the Personal Insolvency Act
PLAR	the Prudential Liquidity Assessment Review carried out by the Central Bank, the results of which were published by the Central Bank on 31 March 2011
PRA	UK Prudential Regulation Authority

Pre-Emption Group	a group of members comprising representatives of listed companies, investors and intermediaries established in 2005 (and re-formed in 2015) in the United Kingdom to produce a statement of principles to be taken into account when considering the case for disapplying pre-emption rights
PRIIPs Regulation	Regulation 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)
Prospectus	this document
Prospectus Directive	Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading
Prospectus Directive Regulation	the Commission Regulation (EC) No. 809/2004
PSD	Directive 2007/64/EC on payment services in the internal market
PSD2	Directive 2015/2366 on payment services in the internal market
RCB	AIB's Retail & Commercial Banking segment
Registrable Securities	has the meaning given in " <i>Part X: Relationship with Government and State Aid – 7.1 Governance Restrictions - Contractual – 7.1.5 Registration Rights Agreement</i> "
Registrar	Computershare Investor Services (Ireland) Limited
Registrar of Companies	has the meaning given by the Companies Act
regulated financial service provider ...	has the meaning given by section 2(1) of the Central Bank Act 1942 "(a) a financial services provider whose business is subject to regulation by AIB Bank under this Act or under a designated enactment or a designated statutory instrument, or (b) a financial service provider whose business is subject to regulation by an authority that performs functions in an EEA country that are comparable to the functions performed by AIB Bank under this Act or under a designated enactment or designated statutory instrument, or (bb) a financial service provider whose business is subject to supervision by the ECB under a designated enactment, or (c) in relation to Part VIIB only, any other financial service provider of a class specified in the regulations for the purposes of this paragraph" where "Bank" means the Relevant Banking Regulator
Relevant Banking Regulator	is a reference to: <ul style="list-style-type: none"> (a) subject to paragraph (b) below, the Central Bank; (b) the ECB, but only to the extent that the reference is in respect of functions conferred on the ECB by the SSM Regulation, the SSM Framework Regulation and the European Union (Single Supervisory Mechanism) Regulations 2014
Relevant Competitors	an undertaking which, at the date on which it requests services from AIB: (i) is licensed in Ireland or elsewhere to operate as a credit institution in Ireland; (ii) is not in receipt of state aid (i.e., banks which have received state aid and which are still in their restructuring periods are not considered "Relevant Competitors"; however, banks which have received state aid, but whose restructuring periods have ended, are considered "Relevant Competitors"); and (iii) has, by virtue of all related undertakings, a market share of less than 15 per cent. of stock or flow of the Relevant Product market in which AIB has a market share in excess of 30 per cent. of stock or flow of the Relevant Product market, based on a market share measurement by an independent external research source, including regulatory returns proposed by AIB and approved by the monitoring trustee
Relevant Product	(1) personal current accounts; (2) personal credit cards; (3) business current accounts; (4) business credit cards; (5) mortgages; and (6) SME loans and corporate loans
Resolution Authorities	the SRB, as the Group Level Resolution Authority, and the Bank of England, as the regulatory supervisor of AIB Group (UK) plc

Resolution Tools	the power, provided by the BRRD to resolution authorities in circumstances where the credit institution is failing or likely to fail, to (i) transfer to an investor, shares, other instruments of ownership and/or all specified assets, rights or liabilities of the failing institution; (ii) transfer all or specified assets, rights or liabilities of the failing institution to a bridge institution which is wholly or partially owned by public authorities; (iii) transfer assets, rights or liabilities to a legal entity which is wholly owned by public authorities for the purpose of sale or otherwise ensuring that the business is wound down in an orderly manner, to be applied in conjunction with another resolution tool; or (iv) write down the claims of unsecured creditors of an institution and convert debt to equity, with, in broad terms, the first losses being taken by shareholders and thereafter by subordinated creditors and then senior creditors, with the objective of recapitalising an institution
Resolutions	the Scheme Resolution and the Distributable Reserves Resolution
Restricted Jurisdiction	in the context of the Scheme, jurisdictions outside Ireland and the United Kingdom in respect of which the AIB Bank Board considers that the distribution of the Scheme Circular or other Scheme documentation into such jurisdictions may infringe the laws of such jurisdiction or that to seek legal advice in relation thereto would be unduly onerous having regard (without limitation) to the cost and inconvenience of obtaining such advice and complying with any requirements that might be contained in such advice, or that the distribution of the Scheme Circular or Scheme documentation into any such jurisdiction might require the AIB Group to observe any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of the AIB Bank Board, it would be unable to comply or which it regards as unduly onerous having regard (without limitation) to the cost and inconvenience of observing such consent or effecting such registration, filing or other formality
Restructuring Period	the period of the Restructuring Plan which runs from 7 May 2014 to 31 December 2017
Restructuring Plan	the restructuring plan approved by the European Commission on 7 May 2014 in respect of the state aid granted to AIB and EBS
Restructuring Plan Term Sheet	the term sheet which sets out the terms for the restructuring of AIB which Ireland has committed to implement in accordance with the Restructuring Plan, and which forms part of the State Aid Decision
Restructuring Proposals	collectively, the Scheme, Admission and the AIB HoldCo Reduction of Capital
Revenue Commissioners	the office of the Revenue Commissioners of Ireland
Revised CGC Code	the Corporate Governance Requirements for Credit Institutions 2015 issued by the Central Bank
Revised Wire Transfer Regulation	Regulation (EC) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006
RTS	regulatory technical standards
S&P	Standard & Poor's Credit Market Services Europe Limited
SBCI	Strategic Business Corporation of Ireland
Scheme	the scheme of arrangement proposed to be made under Part 9 of Chapter 1 of the Companies Act between AIB Bank and the holders of the Scheme Shares, as set out in Part III of the Scheme Circular, and the related AIB Bank reduction of capital under sections 84 to 86 of the Companies Act, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by AIB Bank and AIB HoldCo
Scheme Circular	the document sent to AIB Bank Shareholders setting out, amongst other things, the Scheme and notices convening the Court Meeting and the Extraordinary General Meeting
Scheme Effective Date	the date on which the Scheme becomes effective in accordance with clause 6 of the Scheme, expected to be 8 December 2017

Scheme Effective Time	the time on the Scheme Effective Date, expected to be 8 December 2017, at which the Court Order and a copy of the minute required by section 86 of the Companies Act are registered by the Registrar of Companies
Scheme Record Time	6:00 p.m. on the Scheme Effective Date
Scheme Resolution	Resolution 1 to be proposed at the Extraordinary General Meeting as set out in full in the Notice of Extraordinary General Meeting sent to AIB Bank Shareholders on 10 October 2017
Scheme Shareholder	a registered holder of Scheme Shares
Scheme Shares	the Cancellation Shares and (if any) the Transfer Shares
Scheme Voting Record Time	6:00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6:00 p.m. on the day which is two days before the date of such adjourned Court Meeting
SDRT	United Kingdom stamp duty reserve tax
Seanad Éireann	the upper house of the Oireachtas (the Irish legislature)
Secretary	in relation to a company, the company secretary of that company
Securities Act	US Securities Act of 1933
Senior Executives	senior managers of AIB within the meaning of paragraph 14.1(d) of Annex I of the EU Prospectus Regulation and with effect from the Scheme Effective Time, will include such persons in their capacity as senior managers of AIB HoldCo
Sentential	Sentential Limited
Services Package	a package permitting certain of AIB's competitors to have access to certain of AIB's services and market information
SFS	standard financial statement
Shareholders	the holders of ordinary shares in AIB Bank or, if AIB HoldCo becomes the holding company of AIB and the context so requires, AIB HoldCo
Single Resolution Mechanism or SRM	Single Resolution Mechanism—a framework for the orderly resolution of failing banks. The SRM applies to credit institutions (including their parent holding companies which would include AIB HoldCo if the Scheme becomes effective) covered by the SSM
Single Resolution Board or SRB	a Single Resolution Board, the EU resolution authority which, together with the national resolution authorities, forms the SRM under the EU Single Resolution Mechanism Regulation
SME	small- and medium-sized enterprises
SME Regulations	the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015
SMRT	Sustainable Mortgage Resolution Template return made to the Relevant Banking Regulator in respect of mortgages secured on properties located within Ireland
Special Investment Shares	the special investment shares in EBS pursuant to Section 18 (1A) of the Building Societies Act 1989 (which special investments shares were converted into ordinary shares on conversion of EBS to a limited company and acquired by AIB Bank on 1 July 2011)
SREP	Supervisory Review and Evaluation Process undertaken by the competent authorities for the purposes of the CRR
SRM Regulation	Regulation 806/2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a SRM and a Single Resolution Fund
SRR	special resolution regime

SSM	Single Supervisory Mechanism—a system of financial supervision comprising the ECB and the national competent authorities of participating EU countries which in Ireland is the Central Bank. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe
SSM Framework Regulation	Regulation 468/2014 of the European Central Bank establishing the framework for cooperation within the SSM between the European Central Bank and national competent authorities and with national designated authorities
SSM Regulation	Council Regulation 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
State	the Republic of Ireland
State Aid Decision	the European Commission Decision of 7 May 2014 reference C(2014) 2638 made in connection with the Restructuring Plan
State Agreements	the agreements and arrangements entered into between AIB Bank and/or AIB HoldCo and the Minister for Finance and/or any other State agency or entity, including without limitation the Deed of Covenant, the 2010 Placing Agreement, the 2011 Placing Agreement and the Minister’s Letter (and any amendments of those agreements or arrangements made in accordance with their terms)
State Entity	any of the Minister for Finance, the NTMA (as controller and manager of the ISIF), any minister or department of the Irish Government or any other entity or agency of or related to the Irish Government
Statement of Principles on Disapplying Pre-Emption Rights	the “Statement of Principles on Disapplying Pre-Emption Rights” most recently published by the Pre-Emption Group in March 2015
Subscriber Shares	shares of €0.625 each in the capital of AIB HoldCo, that from the Scheme Effective Time will have the rights set out in the AIB HoldCo Articles, as described at paragraph 9.3 of Part VI of this Prospectus
Substantial Acquisition Rules	Takeover Panel Act, Substantial Acquisition Rules, 2007
SVR	standard variable interest rate
Takeover Bids Regulations	the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, which give effect in Irish law to Directive 2004/25 on takeover bids
Takeover Panel	the Irish Takeover Panel, established under the Irish Takeover Panel Act 1997 (as amended)
Takeover Panel Act	the Irish Takeover Panel Act 1997
Takeover Rules	Takeover Panel Act, Takeover Rules, 2013
TFEU	the Treaty on the Functioning of the European Union
Tracker Mortgage Examination	the Central Bank’s examination of tracker mortgage related issues across lenders that offered tracker interest rate mortgages to their customers in the Irish market (including AIB Bank and certain Irish subsidiaries of AIB Bank)
Transfer Shares	any AIB Bank Shares issued at or after the Cancellation Record Time and at or before the Scheme Record Time, excluding for the avoidance of doubt the Excluded Share and the Cancellation Shares
Transparency Regulations and Rules .	the Transparency (Directive 2004/109/EC) Regulations 2007 and the related rules made by the Central Bank under section 1383 of the Companies Act
Treasury Shares	ordinary shares in the capital of AIB HoldCo or AIB Bank that have been purchased by AIB HoldCo or AIB Bank (in each case as the context requires) but not cancelled
Troika	the EC, the ECB and the IMF
TSYS	Total Systems Services, Inc.

TSYS Agreement	the combined settlement services agreement dated 16 December 2011 (as amended), pursuant to which TSYS agreed to provide credit card and debit card processing services
UK Authorities	HM Treasury, Bank of England and the PRA
UK Code	the UK Corporate Governance Code published by the UK Financial Reporting Council and dated September 2014, as amended from time to time
UK Government	the Government of the United Kingdom of Great Britain and Northern Ireland
UK Listing Rules	the Listing Rules of the London Stock Exchange made by the FCA
UK Money Laundering Regulations 2017	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
UK Official List	Official List of the FCA
UK Prospectus Rules	the Prospectus Rules made by the FCA
uncertificated or in uncertificated form	a share which is for the time being recorded on the register of members of the relevant company as being held in uncertificated form
Underwriters	the underwriters of the AIB Bank IPO namely, J & E Davy, Deutsche Bank AG, Merrill Lynch International, Citigroup Global Markets Limited, Goldman Sachs International, Goodbody Stockbrokers UC, J.P. Morgan Securities plc, UBS Limited and Investec Bank plc (Irish Branch)
Underwriting Agreement	the underwriting agreement entered into between AIB Bank, the Directors of AIB Bank, the Minister for Finance, and the Underwriters described in “ <i>Part XX: Additional Information—Material Contracts—Underwriting Agreement</i> ”
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States or US	the United States of America, its territories and possessions, any state in the United States of America, the District of Columbia and all other areas subject to the jurisdiction of the United States of America
U.S. Holder	a beneficial owner of AIB Bank Shares or AIB HoldCo Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes
UTCCR	European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 to 2014 which give effect under Irish law to Council Directive 93/13/EEC on unfair terms in consumer contracts
VAT	Value added tax—within the EU, such taxation as may be levied in accordance with Directive 2006/112 on the common system of value added tax and, outside the EU, any similar taxation levied by reference to added value or sales
Volcker Rule	final rules implementing Section 619 of Dodd-Frank
Warrant Exercise Price	the exercise price for the AIB Bank Warrants, being €8.80 per ordinary share of AIB Bank (200 per cent. of the AIB Bank IPO Price), which price may be adjusted in accordance with the terms of the AIB Bank Warrant Instrument
Warrant Notice	the notice issued by the Minister for Finance to AIB Bank on 26 April 2017 pursuant to, and in accordance with, the AIB Bank Warrant Agreement, finalising the terms of the AIB Bank Warrants and the AIB Bank Warrant Instrument
WIB	AIB’s Wholesale, Institutional & Corporate Banking segment
Wire Transfer Regulation	Regulation (EC) No. 1781/2006 on information accompanying transfer of funds

Write-Down Tool..... in relation to the BRRD and the SRM Regulation, a statutory write-down and conversion power which gives the resolution authority the power to write down or to convert into equity AIB HoldCo's capital instruments if certain conditions are met

A reference to (i) any enactment, statute, act, statutory instrument, regulation, order, decree, regulatory notice, code of conduct, directions or other legislative measure under the laws of Ireland or the laws of any other jurisdiction, (ii) an EU directive, EU regulation or any other legislative measure made under EU law or applying in respect of the EEA, (iii) any treaty, international agreement or other international legal act whether between Member States of the EU; the EEA or otherwise, or (iv) a provision of any of the foregoing measures referred to at or contemplated by (i) to (iii) above (in this paragraph, a ("Legal Measure") is to that Legal Measure as extended, amended or replaced as of the date of this Prospectus or to any other date indicated and includes any other Legal Measure that is to be read as one therewith.

PART XXII
GLOSSARY OF TECHNICAL TERMS

The following explanations are not intended as technical definitions but, rather, are intended to assist the reader in understanding terms used in this Prospectus:

Asset backed securities	asset backed securities are securities that represent an interest in an underlying pool of referenced assets. They are typically structured in tranches of differing credit qualities. Some common types of asset backed securities are those backed by credit card receivables, home equity loans and car loans. Asset backed securities which are backed by an underlying pool of residential mortgage loans are referred to as RMBS
ACS	asset covered securities issued in accordance with the Asset Covered Securities Acts 2001 and 2007
ALCo	Asset and Liability Committee
APR	annual percentage rate
Arrears	arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue
AT1	regulatory capital which qualifies as additional tier 1 for the purpose of the CRR
AT1 Notes	the €500 million perpetual contingent temporary write-down AT1 securities issued by AIB Bank on 3 December 2015
ATM	automated teller machine
Banking book	a regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on an available for sale or hold to maturity basis
Basel II	the second of the Basel Accords; an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations
Basel III	the third of the Basel Accords; an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations
Basis point	0.01 per cent., so 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities
Basis risk	a type of market risk that refers to the possibility that the change in the price of an instrument (e.g., asset, liability, derivative, etc.) may not match the change in price of the associated hedge, resulting in losses (or gains) arising in AIB's portfolio of financial instruments
Buy-to-let	a residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out
CCLs	cash and cheque lodgement machines
CET1	common equity tier 1 for the purposes of the CRR
CET1 Capital	capital which qualifies as CET1 for the purposes of the CRR
CET1 Ratio	a measurement of a bank's CET1 Capital as a percentage of its total risk-weighted assets

Collectively assessed	in relation to an impaired loan, an impairment assessment on a collective basis for portfolios of impaired loans that are not considered individually significant for specific provisioning. In addition, portfolios of performing loans are assessed on a collective basis to estimate the amount of losses incurred, but which have yet to be individually identified (IBNR provisions)
Commercial property	commercial property refers to the following property segments: <ul style="list-style-type: none"> • apartment complexes; • develop to sell; • office projects; • retail projects; • hotels; and • selective mixed-use projects and special purpose properties
Concentration risk	concentration risk is the risk of loss from lack of diversification; investing too heavily in one industry, one geographic area, one type of security or one customer
Core Tier 1 Capital	called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank (this concept has been replaced by CET1 under CRD IV)
Credit risk	the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation
Credit risk spread	Credit risk spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality
Criticised loans	loans requiring additional management attention over and above that normally required for the loan type
Customer accounts	a liability of AIB where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured
Debt securities	assets on AIB's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings
Debt securities in issue	liabilities of AIB which are represented by transferable certificates of indebtedness of AIB to the bearer of the certificates
Default	when a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged, it can lead to loan impairment. Default is also used in a Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside
Deposit Guarantee Scheme	a statutory deposit protection scheme, established in 2016, requiring credit institutions to pay an annual contribution calculated based on their covered deposits and degree of risk
Directive on Unfair Commercial Practices	Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market
DWT	dividend withholding tax in Ireland
EBITDA	earnings before interest, tax, depreciation and amortisation

Economic capital	the amount of capital which AIB needs to protect against extreme losses from a material risk it is running (e.g., Credit risk, market risk). It is based on internally developed calculation methodologies and estimates, as opposed to regulatory capital, which uses a methodology determined by the Basel Accord and imposed by the Relevant Banking Regulator
EL	expected loss—the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period
Equity Transaction	has the meaning given in “ <i>Part X: Relationship with Government and State Aid – 7.1 Governance Restrictions – Contractual - 7.1.1 Deed of Covenant</i> ”
Eurosystem	the central banking system of the Eurozone comprising the ECB and the national central banks of the Eurozone Member States
Exposure at default or EAD	exposure at default is the expected or actual amount of exposure to the borrower at the time of default
Forbearance	forbearance is the term that is used when repayment terms of a loan contract have been renegotiated in order to make repayment terms more manageable for borrowers. Forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB include: interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising Arrears amounts and related interest
foundation IRB	the foundation IRB approach to credit risk measurement under the CRR
fully loaded basis	refers, in the context of regulatory capital measures, to the calculation of regulatory capital and regulatory capital ratios without applying the transitional requirements set out in Part Ten of the CRR.
FTE	full-time equivalent in relation to employee status
Guarantee	an undertaking by a member of AIB/other party to pay a creditor should a debtor fail to do so
Home State	an EEA Member State where a credit institution is authorised for the purposes of CRD IV
Host State	an EEA Member State where a credit institution is not authorised but has a branch or provides services on a cross border basis, for the purposes of CRD IV
HQLA	high quality liquid assets as used in calculating capital ratios
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process—AIB’s own assessment, through an examination of its risk profile from regulatory and Economic capital perspectives, of the levels of capital that it needs to hold
ILAAP	Internal Liquidity Adequacy Assessment Process
Impaired loans	loans are typically internally reported as impaired when interest thereon is 91 days or more past due or where a provision exists in anticipation of loss, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs), will be made within a reasonable and identifiable time period, either from realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest, is adequately secured. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income
IRB	the Internal Ratings-Based approach which allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for Credit risk across different asset classes. The relevant risk components are: PD; LGD; and EAD
IRS	Internal Revenue Service of the United States

Leverage Ratio	to prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduced a non-risk-based Leverage Ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of Tier 1 Capital to total exposures for the purposes of the CRR. Total exposures for this purpose include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure
LGD	Loss Given Default is the expected or actual loss in the event of default, expressed as a percentage of "Exposure at default"
Liquidity risk	the risk that AIB does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows
Loan to deposit ratio	this is the ratio of loans and receivables compared to Customer accounts as presented in the statement of financial position
Local banking authorisation	Local Banking Authorisation is: <ul style="list-style-type: none"> (a) in the case of a licence granted by the Central Bank under section 9 of the Central Bank Act 1971 prior to 4 November 2014 (including that issued to and held by AIB Bank), such a licence, which is deemed under the SSM Regulation to be an authorisation granted by the ECB under the SSM Regulation; (b) an authorisation granted by the ECB under the SSM Regulation from 4 November 2014 on application therefore under section 9 of the Central Bank Act 1971; or (c) an authorisation granted by the Central Bank under section 9A of the Central Bank Act 1971
LTI	Loan-to-income ratio, calculated as the total loans to income
LTV	Loan-to-value, an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan-carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance
MARP	AIB's Mortgage Arrears Resolution Process
MARS	AIB's Mortgage Arrears Resolution Strategy
MREL	minimum requirement for own funds and eligible liabilities.
Net interest income	the amount of interest received or receivable on assets net of interest paid or payable on liabilities
Net interest margin or NIM	net interest margin is a measure of the difference between the interest income generated on average interest-earning financial assets (lendings) and the amount of interest paid on average interest-bearing financial liabilities (borrowings) relative to the amount of interest-earning assets
Non-performing exposures or NPEs ...	defined by the EBA as being material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due
Non-performing loans or NPLs	loans which qualify as non-performing exposures as defined by the EBA
NPS	net promoter score—a measurement tool that tracks customers' loyalty and advocacy
NSFR	net stable funding ratio—the ratio of available stable funding to required stable funding over a one-year time horizon

Operational risk	the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk—the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk
PCA	principal components analysis is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is “de-meanned”: adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (>95 per cent.) of yield curve movements can be explained using just three principal components (i.e., a parallel change, a rotation and a change of the curvature). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios
PD	probability of Default, the likelihood that a borrower will Default on an obligation to repay
PDH	principal dwelling home
PFIC	passive foreign investment company, for US federal income tax purposes
PPI	payment protection insurance
RAROC	risk adjusted return on capital
RAS	risk appetite statement
RCA	risk and control assessment, which is the process for the ongoing identification and evaluation of Operational Risks and related mitigating controls across AIB
Relevant Territory	a territory that has signed a double taxation agreement with Ireland
Risk Weighted Assets	Assets or exposures that are not components of, or deducted from, Total Capital and which are risk weighted under the CRR
RMBS	residential mortgage-backed securities are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property
Securitisation	securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flow, into securities that can be issued and traded in the capital markets
SEPA	Single European Payments Area, the EU payments integration initiative’s single payment market
Single Resolution Fund or SRF	the Single Resolution Fund is established by the SRM Regulation, and is composed of contributions from credit institutions and certain investment firms in the 19 participating Member States within Banking Union. Where necessary, the SRF may be used to ensure the efficient application of resolution tools and the exercise of the resolution powers conferred to the SRB by the SRM Regulation
SLO	Subordinated liabilities order on 14 April 2011, following an application by the Minister for Finance under Section 29 of the Credit Institutions (Stabilisation) Act 2010, the High Court issued a SLO in relation to all outstanding subordinated liabilities and other capital instruments, with the consent of AIB. The High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of certain subordinated liabilities and other capital instruments

SPE	special purpose entity is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle)
SPV	a special purpose vehicle is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPV for management or use by the SPV to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPE (special purpose entity)
Tier 1 Capital	regulatory capital which qualifies as tier 1 capital for the purposes of and as determined in accordance with the CRR
Tier 1 Ratio	the ratio of Tier 1 Capital to risk weighted assets, each as determined in accordance with CRR, expressed as a percentage
Tier 2 Capital	regulatory capital which qualifies as tier 2 capital for the purposes of and as determined in accordance with the CRR
TLAC	total loss-absorbing capacity
TLTRO II	the Targeted Long Term Refinancing Operation II
Top-up	a further loan extended to an existing borrower
Total Capital	Tier 1 Capital plus Tier 2 Capital
Total Capital Ratio	the ratio of Total Capital to risk weighted assets, each as determined on a consolidated basis, and in accordance with CRR, expressed as a percentage
Total Leverage Ratio	Tier 1 Capital divided by the sum of all exposure values of assets and off-balance sheet items not deducted to determine Tier 1 Capital, each as determined on a consolidated basis, in accordance with the CRR, expressed as a percentage
Total Risk Weighted Assets	the total exposure in respect of risk weighted assets each as determined on a consolidated basis and in accordance with the CRR
Tracker mortgage	a mortgage with a variable interest rate which tracks the ECB rate, at an agreed margin above the ECB rate and will increase or decrease following an ECB rate movement
Transactional NPS	a measure of a customers' perception of a recent transaction they have completed based on their feedback on that transaction/journey. Transactional NPS score is an amalgamation of the 17 transaction journey types through which customers engage with AIB
transitional basis	refers, in the context of regulatory capital measures, to the application of the transitional provisions set out in Part Ten of CRR in the calculation of regulatory capital and regulatory capital ratios
TRIM	Targeted Review of Internal Models
USC	universal social charge tax rate introduced by the Irish Government in 2011
WRC	Workplace Relations Committee of Ireland
Vulnerable loans	loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources for repayment

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