



Compliance with the European Union (Capital Requirements) Regulations 2014

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

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

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

Regulation 84 of CRD requires institutions to explain, on their website, how they comply with the requirements of Regulations 76 to 83 of CRD, which relate primarily to governance, remuneration, and reporting and which are dealt with in dedicated sections below.

This document sets out how AIB complies with these Regulations. For the purpose of this report the “Group” comprises AIB Group plc, Allied Irish Banks, p.l.c., and its subsidiaries.

1. Governance

Corporate Governance Arrangements and Practices

The Group’s Governance Framework (the “Framework”) underpins effective decision-making and accountability and is the basis on which the Group conducts its business and engages with customers and other stakeholders. It ensures that organisational and control arrangements are appropriate to the governance of the Group’s strategy and operations and the mitigation of related material risks. The Framework encompasses AIB Group plc and its subsidiaries (collectively referred to as “AIB Group” or the “Group”).

The Framework takes account of the many statutory and regulatory obligations that apply to the Group, including various corporate governance codes, regulations and best practice standards and guidelines, Irish company law, the Listing Rules of the Main Securities Market of Euronext Dublin and the London Stock Exchange, the UK Corporate Governance Code 2018 and in, relation to the UK businesses, UK company law. Further detail on the Group’s governance practices is available on <http://aib.ie/investorrelations>.

The Group’s governance arrangements include:

- a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors, to oversee the operations of the Group, led by a Chair who has the relevant qualifications, expertise and background to effectively discharge that role;
- a Chief Executive Officer (“CEO”) to whom the Board has delegated responsibility for the day-to-day running of the Group, the selection, motivation and direction of senior executive management, and for the operational management, compliance and performance of all the Group’s businesses;
- a clear organisational structure with well defined, transparent and consistent lines of responsibility;

- a framework and policy architecture which comprises a comprehensive and coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
- effective structures and processes to identify, manage, monitor and report the risks to which the Group is or might be exposed, including a three lines of defence risk governance model; and
- adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, human resource policies and practices, including remuneration, that are consistent with and promote sound and effective risk management.

The Board

The Group is headed by an effective Board which is collectively responsible for the long term, sustainable success of the Group, generating value for shareholders and contributing to wider society. The Board, including the Chief Executive Officer, is supported by the Executive Committee, being the most senior management committee of the Group. The Executive Committee has primary responsibility for the day-to-day operations of, and the development of strategy for, the Group.

The Board is responsible for corporate governance, encompassing the leadership, direction and control of the Group. It assesses the basis on which the Group generates and preserves value over the long term and is accountable to shareholders for financial performance. The Board is also responsible for approving high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume in order to achieve its strategic objectives, and maintaining an appropriate system of internal controls. The Board supports, and strives to operate in accordance with, the Group's purpose and values at all times and challenges Management as to whether the purpose, values and strategic direction of the Group align with its desired culture, or if they do not, whether there are options to mitigate negative stakeholder impacts.

While arrangements have been made by the Directors for delegation of the management, organisation and administration of the Group's affairs, certain matters are reserved specifically for decision by the Board. The schedule of matters reserved for the Board is reviewed at least annually to ensure that it remains relevant. The following matters are specifically reserved for decision by the Board:

- the establishment of any sub-committees of the Board and approval of their terms of reference.
- the appointment of the Chair of the Board, Non-Executive and Executive Directors, the Chief Executive Officer ("the CEO") and the Group Company Secretary;
- the endorsement of the appointment of people who may have a material impact on the risk profile of the Company;
- to the appointment or removal of Heads of Control Functions;
- setting the company's purpose and values and monitoring alignment between values, culture and strategy;
- setting the culture of the Group ensuring it is effective and that there is a commitment to high standards and values with consumers at the heart of decision-making;
- approval of the Group's strategic, investment and financial plans, including operating and capital budgets.
- approval of major acquisitions and disposals;
- any decision for the Group to deal in its own securities and the treatment of treasury shares;
- approve the operational risk plan, which forms part of the annual Risk Plan and the risk objectives for the on-going management of material risks for the Group including,

- inter alia, liquidity risk to include targets for the liquidity management of the Group, as well as risk appetite limits and designated risk frameworks and policies;
- approval of expenditure in excess of €20 million in accordance with the Board-approved delegated authority framework;
 - approval of the amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Group
 - the provision of any guarantee, indemnity or security by any Group company or a sum exceeding €100m other than as part of a credit transaction which is approved in accordance with the credit approval process;
 - approval of financial statements and any significant change in accounting policies;
 - approval of the preliminary announcements of interim and full year financial results;
 - approval of the statutory Annual Financial Report, Half-Yearly Financial Report and other published financial statements and information of the Company;
 - approval of all circulars to shareholders;
 - approval of entry into any related party transactions subject to shareholder approval under the applicable Listing Rules;
 - approval of all Class 2 transactions under the applicable Listing Rules and any decision to recommend Class 1 transactions to shareholders;
 - convening a general meeting to allow shareholders to vote on any matter reserved specifically for shareholder approval, as determined under relevant legislation and / or the Listing Rules;
 - approval of dividend policy, the declaration of any interim dividends and any decision to recommend a final dividend to shareholders.

Division of Responsibilities

The Board ensures a clear division of responsibilities between the Chair, who is responsible for the overall leadership of the Board and for ensuring its effectiveness, and the CEO, who manages and leads the business.

The Chair leads the Board, setting its agenda, ensuring Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors and ensuring the on-going training and development of all Directors, and reviewing the performance of individual Directors.

The Deputy Chair deputises for the Chair and is available to the Directors for consultation and advice.

The CEO manages the Group on a day-to-day basis and makes decisions on matters affecting the operation, performance and strategy of the Group's business. The Executive Committee assists and advises the CEO in reaching decisions on the Group's strategy, governance and internal controls, performance and risk management.

No one individual has unfettered powers of decision. Key roles and responsibilities and a formal schedule of matters specifically reserved for Board decision are clearly defined, documented and communicated to key stakeholders via the Group's website at <https://aib.ie/investorrelations/about-aib/corporategovernance>. The Board is supported in executing its duties by a number of Board and Advisory Committees.

As an integral component of the Board, Independent Non- Executive Directors represent a key layer of oversight, scrutinising the performance of Management in meeting agreed objectives and monitoring against performance. They bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the Management and of the Group. They constructively challenge and help develop proposals on strategy and other key matters.

Directors' Terms of Appointment, Time Commitment and Other Directorships

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. Copies of Directors' letters of appointment are available to shareholders for inspection at the Annual General Meeting and at the Registered Office during business hours on request from the Group Company Secretary.

Non-Executive Directors are required to devote such time as is necessary for the effective discharge of their duties. The estimated minimum time commitment set out in the terms of appointment is 30 to 60 days per annum including attendance at Committee meetings.

Before being appointed, Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chair and the Group Company Secretary, and, in certain cases the Board as a whole and/or the Central Bank of Ireland, must be sought.

Sufficient time commitment is noted as being a key criteria for the ongoing suitability of members of the Board. AIB conducts regular time commitment reviews and Directors are required to confirm that they continue to have sufficient time to discharge their duties. The Nomination & Corporate Governance Committee reviews the time commitment of Non-Executive Directors on an annual basis.

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

Director's Induction, Professional Development and Continuous Education

The Board's professional development and continuous education programme continued in 2020 albeit in a virtual setting with a number of training sessions held during the year. Training topics included BCBS 239 Regulation, Internal Rating Based Models, Cyber Security Strategy, Resolution Planning, Safety and Wellbeing, Anti-Money Laundering and Fraud, Regulatory Accounting requirements, Directors' Duties and the Market Abuse Regulations. Directors also have access to an online Corporate Governance Library and a suite of AIB Group specific online training courses.

A structured induction programme is ready to be delivered on the appointment of any incoming Director to include a series of meetings with senior management, relevant briefings together with any specific additional training identified during the course of the appointment of the individual.

Code of Conduct and Conflicts of Interest Policy for Directors

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

The Board-approved Code of Conduct and Conflicts of Interest Policy sets out how actual, potential or perceived conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Group and its stakeholders. Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Fitness & Probity

AIB complies with the continuing obligations under the Central Bank of Ireland's Fitness & Probity regime. Directors are asked to attest to their ongoing fitness and probity on a periodic basis. Directors are also asked to notify AIB of any changes in circumstances, material developments in relation to their compliance with the Fitness & Probity Standards or any other relevant information which AIB might reasonably expect Directors to disclose.

Nomination and Corporate Governance Committee (the "Committee")

The Committee is comprised of three Non-Executive Directors all of whom are deemed to be independent and its composition is fully compliant with CRD IV.

A full overview of the responsibilities of the Committee are set out in its Terms of Reference. Included among these are the following:

- to support and advise the Board in fulfilling its oversight responsibilities in relation to the composition of the Board by ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors to include leading the process for nominations and appointments to the Board and Board Committees as appropriate and making recommendations in this regard to the Board for its approval;
- to support and advise the Board fulfilling its oversight responsibilities in relation to the composition of the Group's Executive Committee and the composition of the boards of its licensed subsidiaries; and
- to keep Board governance arrangements, corporate governance compliance and related policies under review and make appropriate recommendations to the Board to ensure corporate governance practices are consistent with best practice corporate governance standards.

The Committee's Terms of Reference can be found on the Group's website at: <https://aib.ie/investorrelations/about-aib/corporate-governance>.

With regard to succession planning and composition, the Committee is tasked with considering the Board and Board Committees' collective skillset, suitability and composition and assessing the collective suitability of the Board and the independence of individual Directors against certain criteria, including whether Directors were demonstrably independent and free of relationships and other circumstances that could affect their judgement, and whether they met criteria set out in applicable Irish and UK codes, standards and regulations.

Board Effectiveness

The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted once every three years. The Chair of the Board leads the annual review of the Board's effectiveness and that of its Committees and individual Directors with the support of the Nomination and Corporate Governance Committee.

The objective of these evaluations is to review the Board's composition, expertise, diversity and how effectively members work together to achieve objectives.

Board Appointments

The review of the appropriateness of the composition of the Board and Board Committees is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having regard to the collective skills, experience, independence and knowledge of the Board along with its diversity requirements and in accordance with the Group's Policy for the Assessment of Suitability of Members of the Board and the Board Diversity Policy

In addressing appointments to the Board, a role profile for the proposed new Director is prepared by the Group Company Secretary on the basis of the criteria laid down by the Nomination and Corporate Governance Committee (the “Committee”), taking into account the existing skills and expertise of the Board and the anticipated time commitment required. The services of experienced third party professional search firms are retained for Non-Executive Director appointments where required and deemed necessary by the Committee. In all recruitment activity, the Group ensures a formal and rigorous process..

Prior to recommendations for appointment of a given candidate, a comprehensive due diligence process is undertaken, which includes the candidate’s self-certification of probity and financial soundness, external references and external checks. The due diligence process enables the Committee to satisfy itself as to the candidate’s independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Committee.

The Relationship Framework specified by the Minister for Finance (the “Minister”), which governs the relationship between AIB and the Minister, on behalf of the Irish State as shareholder, requires the Board to consult with the Minister before appointing, reappointing or removing the Chair or Chief Executive Officer and in respect of any other proposed Board appointments. A Board-approved Policy for the Assessment of the Suitability of Members of the Board, which outlines the Board appointment process, is in place, and is in accordance with applicable joint guidelines issued by the European Securities and Markets Authority and European Banking Authority.

Diversity

Employee diversity and inclusion in the Group is addressed through policy, practices and values which recognise that a productive workforce comprises of different work styles, cultures, generations, genders and ethnic backgrounds. The Group opposes all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of the Group’s values is overseen by the Board.

The Board recognises and embraces the benefits of diversity amongst its own Members, including diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time.

Whilst the Board recognises that the diversity is wider than gender, in order to achieve its objective to build a diverse Board, it has set measurable targets and objectives around the under-represented gender in its Board Diversity Policy in compliance with CRD Regulation 76(4)(a)(iv). The Board Diversity Policy and monitoring of performance relative to targets set out therein is a matter for the Committee, which discusses progress. A copy of the Board Diversity Policy is available on the Group’s website at <https://aib.ie/investorrelations/about-aib/corporate-governance>.

At 31 December 2020, the percentage of females on the Board stood at 56 per cent and thus exceeded the target of 30% set out in the Policy.

In terms of implementation of the Board Diversity Policy, the Committee reviews and assesses the Group Board composition and has responsibility for leading the process for identifying and nominating, for approval by the AIB Group Board, candidates for appointment as directors. In reviewing AIB Group Board composition, balance and appointments, the Committee considers candidates on merit against objective criteria and with due regard for the benefits of diversity, in order to maintain an appropriate range and balance of skills, experience and background on the Board and in consideration of the Group’s future strategic plans. Where external search firms are engaged to assist in a candidate search, they will be requested to aim for a fair representation of both genders to be included in the initial list of potential candidates so that

the Committee have a balanced list from which to select candidates for interview. All director search processes during 2020 were conducted in line with the Policy.

2. Remuneration

Remuneration policy and governance

The Group's remuneration practices operate under a number of constraints arising from State ownership, principally under the terms of Placing and Subscription Agreements entered between the Group and the Irish State and through commitments provided by the Group to the Minister for Finance in respect of remuneration practices. These constraints cover the remuneration of directors, employees and service providers across the Group.

The AIB Group Remuneration Policy sets the framework for all remuneration policies, procedures and practices for all employees and directors of AIB Group. Further details in respect of the operation of the Group's remuneration policies and practices are outlined in the 2020 Annual Financial Report which is available on the Group's website at <https://aib.ie/investorrelations>. The Remuneration Policy is governed by the Remuneration Committee (the "Committee") on behalf of the Board. The Remuneration Committee is responsible for determining the Remuneration Policy and for overseeing its implementation. The Committee oversees the operation and effectiveness of the Remuneration Policy, including the process for the identification of Material Risk Takers. The Committee's governance role in this respect is outlined in its Terms of Reference. The Committee's responsibilities include oversight of the design, implementation and operation of remuneration policies and practices for all Directors and employees with specific reference to Executive and Non-Executive Directors, the Chief Executive Officer, ExCo Members, Heads of Control Functions, the Group Company Secretary and Material Risk Takers. The Group's remuneration philosophy aims to ensure that remuneration is aligned with performance and that employees are rewarded fairly and competitively for their contribution to the Group's future success and growth. AIB is committed to a simple, transparent and affordable reward structure which is fair, performance based, externally aligned and risk aligned. The scope of the Remuneration Policy includes all financial benefits available to all employees and directors of AIB Group and extends to all areas, including all individual subsidiaries, entities, branches and to all employees of the Group, including at consolidated and sub-consolidated levels.

The Remuneration Committee further ensures that the Remuneration Policy and practices, are subject to a review at least annually, taking into account the alignment of remuneration to the Bank's culture for all employees and executive directors. The annual review is informed by appropriate input from the Group's risk, compliance and internal audit functions to ensure that remuneration policies and practices are operating as intended, are consistently applied across the Group and are compliant with regulatory requirements. The Remuneration Policy and the Committee's Terms of Reference have been updated to incorporate amendments relating to the UK Corporate Governance Code 2018. The Group acknowledges the implementation of the Shareholder Rights Directive II ("SRD II") in Ireland, and has complied with same to the extent applicable. The constraints on variable remuneration mean that some of the requirements of both the Code and of SRD II are not applicable to the Group at this time. This is something the Group will continue to keep under review.

The Remuneration Policy is designed to reflect the relevant provisions of EU and national regulations, notably the Capital Requirements Directive ("CRD IV") and European Banking Authority ("EBA") Guidelines on sound remuneration policies. In the absence of variable incentive schemes, there was little scope in practice to apply the provisions of the EBA Guidelines pertaining to variable remuneration. The Remuneration Policy incorporates the provisions of the EBA Guidelines in relation to the ongoing design, implementation and governance of remuneration.

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further details in relation to the Group's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those employees whose professional activities are considered to have a material impact on the Group's risk profile and the key components of the Group's remuneration structure. The Group's 2020 Pillar 3 Report is available on the Group's website at <https://aib.ie/investorrelations>.

The Group maintains a list of employees whose professional activities have a material impact on the Group's risk profile ("Material Risk Takers"). The Group compiles the list of Material Risk Takers in accordance with the criteria set out in EU Commission Delegated Regulation (EU) No. 604/2014 and the Group's agreed process for the identification of Material Risk Takers across the Group. The purpose of this process is to define the criteria by which staff in the Group are assessed as Material Risk Takers and also to set out the key responsibilities and governance requirements in compliance with CRD IV and the EBA Guidelines on sound remuneration policies. The list of Material Risk Takers is prepared using a combination of qualitative and quantitative criteria in accordance with the relevant EU regulations and guidelines together with additional criteria specific to AIB's structure, business activities and risk profile. The process forms an addendum to the Remuneration Policy and is subject to annual review in conjunction with the Group's Remuneration Policy. The list of Material Risk Takers is reviewed annually by the Remuneration Committee. Further details in relation to the composition and remuneration of Material Risk Takers are set out in the remuneration disclosures of the Group's Pillar 3 Report.

Group Risk provide an assessment of the risks impacting the Group and performance against the Group's Risk Appetite Statement to ensure that the Remuneration Policy is aligned with the Bank's risk profile. The Group Chief Risk Officer reviews the list of Material Risk Takers in conjunction with Group Reward and provides the Committee with an annual assessment of the risks facing the Group to ensure that policies and practices are consistent with and promote sound and effective risk management.

The Remuneration Committee is supported in its work by PricewaterhouseCoopers as its external remuneration consultants. Aside from their work supporting the Committee, PricewaterhouseCoopers provide a range of consultancy services to the Group and may, from time to time, provide services to individual directors as part of directorship or executive roles held outside of the Group.

Remuneration Committee

The Remuneration Committee is comprised of three Non-Executive Directors all of whom are deemed to be independent and its composition is fully compliant with CRD IV.

A full overview of the responsibilities of the Committee are set out in its Terms of Reference and include responsibility:

- to oversee the design and implementation of the Group's overall Remuneration Policy for employees and directors, designed to support the long term business strategy, values and culture of the Group as well as to promote effective risk management and comply with applicable legal and regulatory requirements;
- to oversee the operation of Group-wide remuneration policies and practices for all employees, with specific reference to Executive Directors, the Chief Executive Officer, Group Executive Committee Members, Heads of Control Functions and Material Risk Takers; and
- to perform any other functions appropriate to a Remuneration Committee or assigned to it by the Board.

The Committee discharges its responsibility whilst operating under the principle that no individual shall be involved in deciding their own remuneration. The Committee's Terms of Reference can be found on the Group's website at: <https://aib.ie/investorrelations/about-aib/corporate-governance>.

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

In order to ensure that remuneration policies and practices are consistent with, and promote, sound and effective risk management, common membership between the Remuneration Committee and the Board Risk Committee is maintained.

3. Reporting

Regulation 77: Country-by-country reporting

AIB will meet its reporting obligations in accordance with this Regulation. AIB's country-by-country report for 2019 can be found in the Results Centre under Financial Information on AIB's website at <https://aib.ie/investorrelations>. Details of AIB's country-by-country report for the financial year ended 31 December 2020 will be available in the Results Centre under Financial Information on AIB's website at <https://aib.ie/investorrelations> before the end of 2021.

Regulation 78: Public disclosure of return on assets

AIB will meet its reporting obligations in accordance with this Regulation. Details of the return on average total assets can be found on page 78 of the AIB Group plc Annual Financial Report 2020, which is available on AIB's website at <https://aib.ie/investorrelations>.