Annual Financial Report 2016

For the financial year ended
31 December 2016

Allied Irish Banks, p.l.c

AIB Description

AIB is a financial services group operating mainly in the Republic of Ireland and the UK. We provide a broad range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland. Our business has been restructured in recent years and is now a customer focused, profitable and lower risk institution. We are well positioned to continue to support the Irish economy while generating sustainable shareholder returns.

Contents

Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as ‘aim’, ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘may’, ‘could’, ‘will’, ‘seek’, ‘continue’, ‘should’, ‘assume’, or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group’s future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in the Principal risks and uncertainties on pages 50 to 58 in the 2016 Annual Financial Report. In addition to matters relating to the Group’s business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 50 to 58 of the 2016 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

2016 Financial Highlights

2015 Financial Highlights

Profitable and Efficient

Net interest margin(1)
2.25%
1.97%

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

Cost income ratio(2)
52%
49%

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

Profit before tax
€ 1,682m
€ 1,914m

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

Return on equity(3)
11.1%
12.4%

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

Franchise Growth

New lending(4)
€ 8.7bn
€ 8.5bn

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

Mortgage market share
36%
34%

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

Net promoter score(5)
45
36

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

Strong Balance Sheet

CET1

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

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

Earning loans
€ 56.1bn
€ 57.0bn

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

Impaired loans
€ 9.1bn
€ 13.1bn

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

Customer accounts
€ 63.5bn
€ 63.4bn

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

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

(2) Before bank levies, regulatory fees and exceptional items. Cost income ratio including these items was 54% in 2016 (2015: 64%). Exceptional items are detailed on page 30.

(3) Return on average ordinary shareholders' equity.

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

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

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

Chairman’s Statement

Richard Pym
Chairman

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

It is thus with great pleasure that the Board can now propose to declare a modest dividend for the financial year ending December 2016. Once the accounts are received at the AGM in April and subject to shareholder approval, a dividend of €250 million will be paid on 9 May to shareholders on the register on the record date of 24 March. This is the clearest possible demonstration of the financial recovery of the bank. The dividend has been set at a level which the Board feels is sustainable and offers prospects for growth. However, the Board will be very prudent and recognises the inherent financial risks in the business, particularly the continued high level of impaired loan balances. These have fallen from €29 billion in 2013 to €9 billion today, but are still high compared to other major European banks. Addressing this disparity is an objective for the next few years and there are no easy solutions given the depth of the previous financial crisis and the challenges of navigating through the legal system when we need to exercise security.

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

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

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

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

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

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

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

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

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

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

Richard Pym

Richard Pym
Chairman
1 March 2017

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

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

Chief Executive's Review

Bernard Byrne
Chief Executive Officer

Introduction

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

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

Our 2016 performance confirms that this has occurred.

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

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

Financial performance

In the year, our profit before tax was c. €1.7 billion. Our results continue to show strong underlying sustainable profitability of c. €1 billion. There are also some significant one off credits, arising in the main from provision write backs as we continue to resolve the legacy impaired loan portfolios and a one off credit from the disposal of our equity interest in Visa Europe. Our net interest margin (NIM) at 2.25% (exit Quarter 4 NIM of 2.42%) is 28bps favourable to the prior year. Combined with the strengthening and simplification of our capital we are well positioned for the future, with a robust fully loaded CET1 ratio of 15.3% (transitional 19.0%).

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

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

Impaired loan balances reduced by €4.0 billion year on year to €9.1 billion and by c. €20 billion since 2013. The impaired loan balances are €5.0 billion net of specific provision cover of 44%. We have made significant progress but need to move these balances to more normalised European peer levels and this remains an area of continued focus. We maintain good momentum in the resolution of these difficult cases and our restructuring activity supports the adequacy of our provision levels. We continue to work hard to achieve satisfactory outcomes for our customers and the bank.

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

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

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

Strategic Priorities

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

1. Customer First

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

Personal Customers

Servicing our customers' needs

How our customers interact with us on a daily basis has changed significantly over recent years and we continue to adapt our services and how we organise ourselves to meet this change. Customers expect banking to be easy. This is mainly driven by technology because it is transforming the way banks and customers engage and now, more than ever, customers connect with us when they are 'on the go' – through smartphones, laptops and other mobile devices. We see this as an opportunity and we are continuing to invest heavily in technology, delivering resilience, agility and a simple and efficient operating model focused, ultimately, on delivering for our customers.

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

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

Propositions that meet our customers' needs

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

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

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

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

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

Business and corporate customers

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

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

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

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

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

AIB UK customers

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

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

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

Tracking our progress

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

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

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

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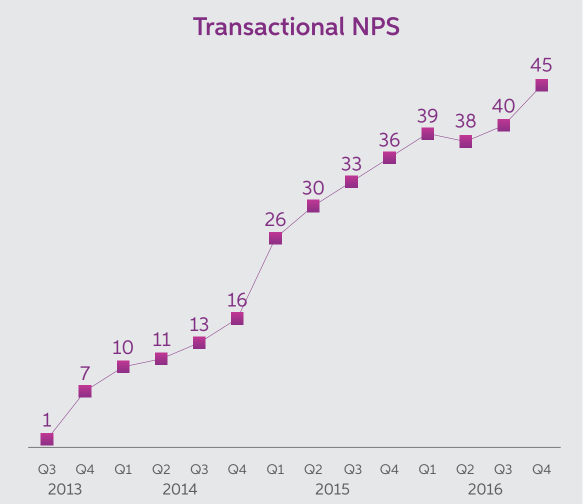
*The Net Promoter Score or NPS is a measurement program that tracks customers’ loyalty and advocacy and ranges from -100 to +100. Transactional NPS is an average NPS for 17 key customer journeys.

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



Legacy challenges

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

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

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

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

2. Simple and Efficient

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

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

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

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

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

3. Risk and Capital Management

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

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

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

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

One area of volatility over the past few years has been the movement in the accounting estimate of the deficit on our defined benefit (DB) pension schemes. While movements in long term discount rates and inflation assumptions are important in this regard, so too is the assumption around long term increases in pensions in payment. In 2012 the Board instigated a five year moratorium on any increases to pensions arising under the DB scheme. As this arrangement expires, the Board has now put in place a formal annual process that allows it to consider, every year, what discretionary increase in pensions in payment it should fund for that year. For 2017 this remains at zero and this will be reviewed again by the Board in 2018 and then again every year thereafter.

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

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

4. Talent and Culture

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

At a Leadership Team level, we have a diversified group of highly skilled senior executives. Some have long standing experience of financial services, the banking industry and AIB, whilst others bring a depth and breadth of non-banking related knowledge. This mix of skillsets complement each other and ensure that diverse views are aired and considered when decisions are being made.

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

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

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

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

Our market position

When we think about how strong our market position is, we consider a significant number of factors. For example, how clearly defined is the market, how many customers do we have in that market and how active are these customers? When it comes to considering credit we think about the size of our current lending to each sector in the market and our share of the flow of new business. We measure the level of approvals and drawdowns but focus on the movements in balance sheet and the size of the overall commitment.

Thus when it comes to Personal, Business and Corporate markets in Ireland we are satisfied that we are the number one bank. This is because we have more customers and more balance sheet commitment in Ireland than any other provider in the marketplace.

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

Strong market share positions in retail and business banking - stock

#1 Mortgages

#1 Personal Main Current Accounts

#1 Personal Loans

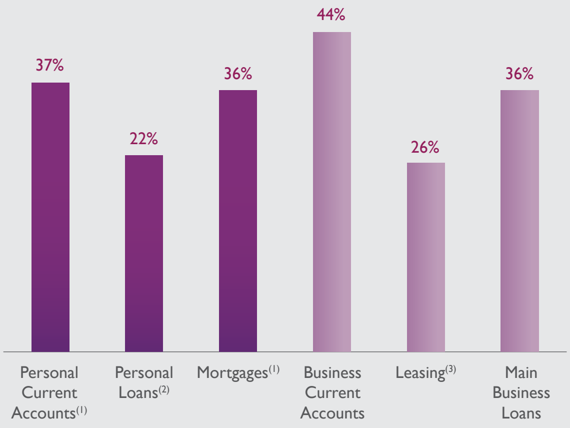
#1 Personal Credit Cards(4)

#1 Business Main Current Accounts

#2 Business Main Loans

#1 Business Main Leasing

#2 Business Credit Cards



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

(1) New lending flow 2016

(2) Amongst banks; excludes car finance

(3) Main business leasing agreement

(4) Joint number 1 position

Outlook and priorities for 2017

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

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

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

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

The return of AIB to private ownership over time is something we believe will benefit the business as we face into these challenges. It will, of course, also aid in ensuring further significant repayments to the State. There has been increased commentary on the topic of an Initial Public Offering (IPO) in recent months and we view the recent State appointment of Global Coordinators as a positive development. Clearly, the timing of any IPO is a matter for the Government. We are ready to play our part in the execution of any transaction and, in the normal course of business, we continue to actively engage with the market and potential investors.

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

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

B Byrne

Bernard Byrne
Chief Executive Officer
1 March 2017

Governance at a Glance

Our Governance Framework

AIB's Governance Framework reflects best practice standards, guidelines and statutory obligations and ensures our organisation and control arrangements provide appropriate governance of the Group's strategy, operations and mitigation of related material risks.

The Framework underpins effective decision making and accountability and is the basis on which we conduct our business and engage with our customers and stakeholders.

The Board and its Committees

Supported by the Governance Framework, the Board oversees:

- Strategic and operational planning;
- Risk management and compliance;
- Financial management and external reporting; and
- Succession planning and culture.

The Board is supported in its endeavours by a number of Board Committees which consider, in greater depth than would be practicable at Board meetings, matters within the Board's responsibilities.

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

The Chief Executive Officer

The Board delegates to the Chief Executive Officer (CEO) responsibility for strategy formulation and execution, and the day-to-day running of the business ensuring an effective organisation structure, the appointment, motivation and direction of Senior Executive Management and the operational management of the Group's businesses.

The Leadership Team

The Leadership Team is the most senior executive committee of the Bank. The Leadership Team, under the stewardship of the CEO, has responsibility for the day-to-day management of the Group's operations. It assists and advises the CEO in reaching decisions on and delivery of the Group's strategy, governance, internal controls, performance and risk management.

Sustainable Banking

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

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

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

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

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

2016: A Foundation Year

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

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

Sustainability at the Heart of Governance

Sustainable Business Advisory Committee

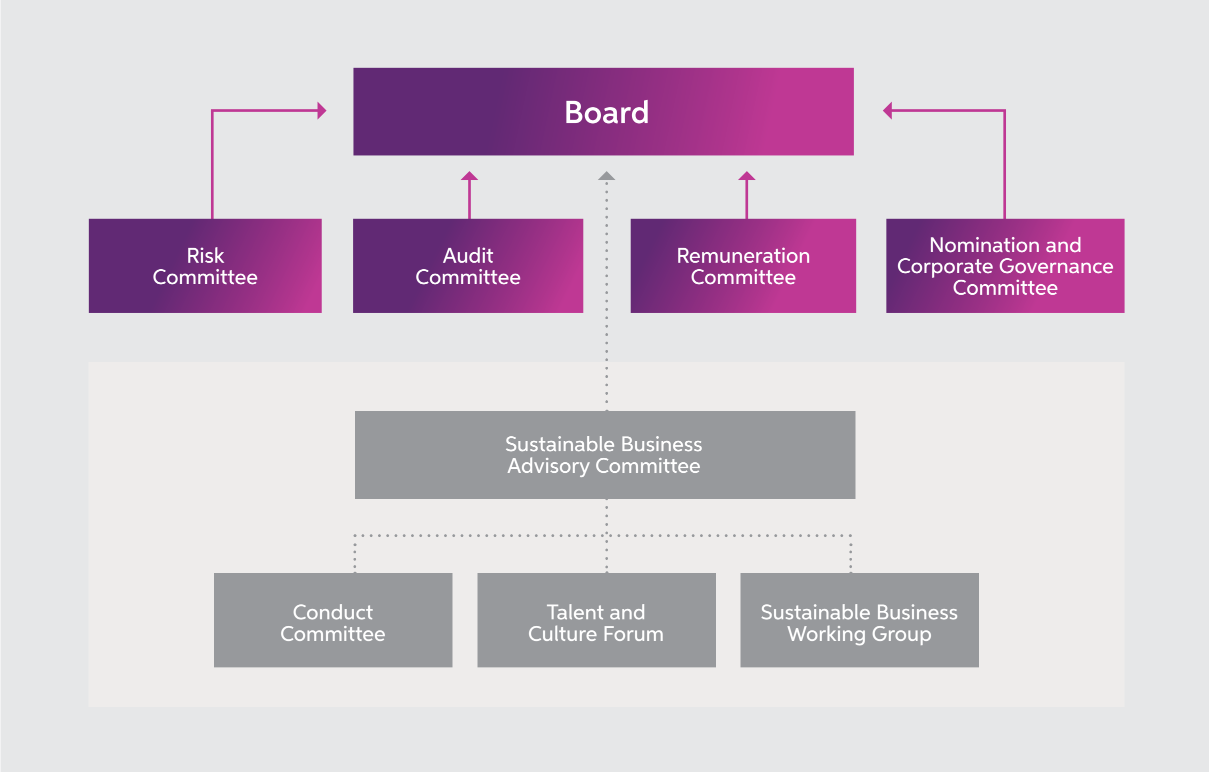
In order to give our sustainability efforts a proper focus, the Board approved the establishment of the Sustainable Business Advisory Committee (SBAC). The SBAC is chaired by Helen Normoyle, an independent non-executive AIB Board member.

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

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

Office of Sustainable Business

The Office of Sustainable Business (OSB) was established in January 2016 to advise and support AIB's Leadership Team and the SBAC on sustainability issues. It provides guidance to policy and framework owners on aligning to sustainability standards and in 2016 it developed the bank's first materiality evaluation of key sustainability issues.



Our materiality index

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

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

We conducted this materiality exercise in accordance with independent advisors KPMG and the core approach of the Global Reporting Initiative (GRI), an international leader in sustainability reporting. GRI provides the world's most widely used standards on sustainability reporting and disclosure, helping organisations communicate the impact of their business on critical sustainability issues ranging from climate change to corruption.

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

Group	Most material issues	
C Customer First	• Tailored and flexible products • Pricing of products and services • Responsible products and service	• Regaining trust • Customer led innovation • Products and service transparency
E Employees	• Diversity and equality • Health and safety • Employee pay	• Talent retention • Employee engagement • Executive pay
G Governance & Stability	• Service and product accessibility • Sustainable supply chain • Tax policy and fair tax payments • Business ethics • Environment, society and governance (ESG) integration into lending • Financial literacy	• Financial inclusion • Profitability and financial stability • Organisational governance • Effective risk management • Stable IT systems and platforms • Customer privacy, data security • Compliance with law
B Business Leadership	• Influence on communities • Environmental footprint • Climate risk analysis • Stimulating economic growth	• Investment in climate resilient solutions • Leadership and vision • Lending to SMEs

Drawing on the 32 issues above that were identified through our materiality exercise, the below sample of figures offers further insight into the topics of most concern to consumers – both sustainability factors important to them, and business practices they consider critical for banks.

Sustainability Factors Important to Consumers

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

Business Practices Consumers Consider Critical for Banks

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

Setting Goals and Operating Transparently

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

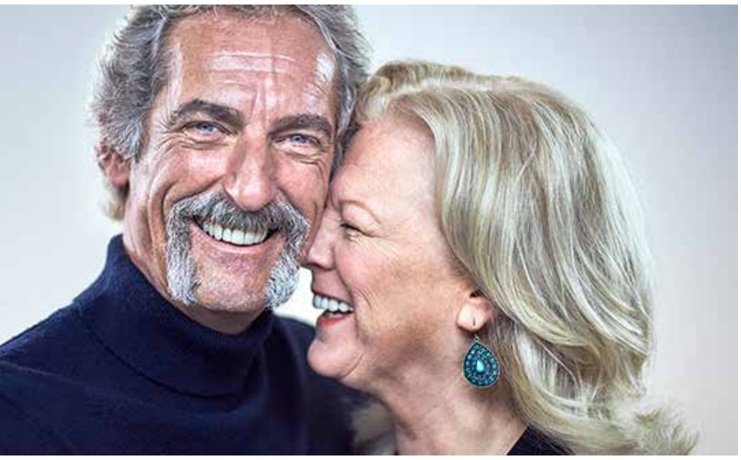
As such, the next step in our sustainability journey is to produce a full sustainability report later this year, published in accordance with the GRI standards. Going one step further, we will then use our key performance indicators (KPIs) to measure our progress, benchmarking our goals against ISO 26000,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

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

Customers

Backing homes

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



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

Backing brave: SMEs and start-ups

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

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

Backing job creation

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

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

Employees

iConnect

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

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

Towards a more diverse workplace

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

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

Governance & Stability

Profitability

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

Inclusive finance

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

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

IT stability

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

Our supplier impact

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

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

Number of suppliers per region (2016)

Ireland	1,673
UK	867
Rest of the world	257

Value of supplier contracts

Ireland	€625m
UK	€175m
Rest of the world	€80m

Business Leadership

Our local markets

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

Backing our communities

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

Dogs for the Disabled in Blarney

Mini-marathon runners in Greystones

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

Social and educational responsibility

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

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

Working with the environment

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

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

Our footprint per employee

Water Consumption	Energy Consumption	Waste Production	Greenhouse Gas Emissions (Scope 1, 2 & 3)
20.5 Cubic metres	**5861** kWh	**.315** tonnes	**2.27** tCO2eq* *1 tCO2eq is equal to one tonne of carbon dioxide

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

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

Promoting renewable energy

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

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

Our Next Steps to Sustainable Banking

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

Business review

Business review - 1. Operating and financial review

Basis of presentation

The following operating and financial review is prepared in line with how the Group's performance is reported to management and the Board. Profit from continuing operations before exceptional items excludes exceptional items that management believe obscure the underlying performance trends in the business. Exceptional items are presented separately and a reconciliation of the items classified as exceptional is included below. Percentages presented throughout this report are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers.

Summary income statement(1)	2016 € m	2015 € m	% change
Net interest income	2,013	1,927	4
Business income	493	533	*-8*
Other items	124	163	*-24*
Other income	617	696	*-11*
Total operating income	2,630	2,623	-
Personnel expenses	(717)	(725)	*-1*
General and administrative expenses	(566)	(493) (2)	*15*
Depreciation, impairment and amortisation	(94)	(74)	*27*
Total operating expenses	(1,377)	(1,292)	*7*
Operating profit before bank levies, regulatory fees and provisions	1,253	1,331	*-6*
Bank levies and regulatory fees	(112)	(71) (2)	*58*
Writeback of provisions for impairment on loans and receivables	294	925	*-68*
Writeback/(provisions) for liabilities and commitments	2	(2)	-
Writeback of provisions for impairment on financial investments available for sale	2	-	-
Total writeback of provisions	298	923	*-68*
Operating profit	1,439	2,183	*-34*
Associated undertakings	35	25	*40*
Profit on disposal of property	-	3	-
Profit on disposal of business	1	-	-
Profit from continuing operations before exceptional items	1,475	2,211	*-33*
Restitution and restructuring expenses	(58)	(250)	-
Gain on transfer of financial instruments	17	5	-
Profit on disposal of Visa Europe	272	-	-
Termination benefits	(24)	(37)	-
Other exceptional items	-	(15) (2)	-
Total exceptional items	207	(297)	-
Profit before taxation from continuing operations	1,682	1,914	*-12*
Income tax charge from continuing operations	(326)	(534)	*-39*
Profit for the year	1,356	1,380	*-2*

Operating contribution before bank levies, regulatory fees and provisions by segment	€ m	€ m	% change
AIB Ireland	1,096	1,048	*5*
AIB UK	171	177	*-3*
Group & International	(14)	106	-
Operating profit before bank levies, regulatory fees and provisions	1,253	1,331	*-6*

[1] The impact of currency movements is calculated by comparing the results for the current reporting period to results for the comparative period retranslated at exchange rates for the current reporting period. This impact is set out in the following pages.

[2] Other regulatory fees previously presented within general and administrative expenses and exceptional items of € 3 million have been represented as bank levies and regulatory fees for 2015.

Overview of results

	2016 Performance	Outlook
Net interest income €2,013m ↑ €1,927m	Net interest income rose by 4% driven by an increase of 28bps in NIM(1) to 2.25% as spread between assets and liabilities widened, in particular from redemption of legacy instruments, and the improved profile of average customer loans.	Positive NIM(1) trajectory to continue with Q4 2016 exit NIM of 2.42%.
Other income €617m ↓ €696m	Net fee and commission income is in line with the previous year reflecting the stable nature of this income stream. Movements in longer term customer derivative positions resulted in lower net trading income. Lower profits on AFS disposals were partly offset by higher income from the realisation/re-estimation of cashflows on loans and receivables previously restructured.	Continued stability of net fee and commission income is expected, with net trading income dependent on future market volatility and interest rate movements, and other items dependent on once off activity.
Operating expenses €1,377m ↑ €1,292m	Operating expenses are in line with expectations. Factors impacting costs include outsourcing for future resilience, salary inflation, business initiatives for growth and efficiency, continued investment in loan restructuring operations and impact of increased regulatory compliance.	Investment programme of € 870 million from 2015 - 2017 is expected to deliver additional efficiencies and productivity enhancements from further simplification and digitalisation. Continued focus achieving a sustainable cost income ratio of below 50% in the medium term.
Bank levies and regulatory fees €112m ↑ €71m	Bank levies and regulatory fees in 2016 of € 112 million relating to the Irish bank levy of € 60 million, the Deposit Guarantee Scheme ("DGS") of € 35 million (€ 8 million relates to DGS legacy fund) and the Single Resolution Fund ("SRF") of € 18 million.	The Irish bank levy is expected to be lower by € 12 million in 2017 due to revised legislation.
Writeback of provisions for impairment on loans and receivables €294m ↓ €925m	The Group continues to make good progress on case by case restructuring of customers in difficulty. Net credit writeback for the year included a new to impaired charge of € 281 million.	Pace and quantum of writebacks are moderating as the primary restructuring period is concluding, with higher number of complex cases at lower value.
Total exceptional items €207m ↑ (€297m)	Total exceptional items in 2016 were a net credit of € 207 million compared to a net charge of € 297 million in 2015. The increase was mainly due to a profit on the disposal of the equity interest in Visa Europe of € 272 million in H1 2016. For further detail on exceptional items see page 30.	
Profit before tax €1,682m ↓ €1,914m	The Group performed strongly in 2016, with a profit before tax of € 1,682 million, benefitting from net credit provision writebacks of € 294 million (€ 925 million net writeback in 2015).	Organic capital accretion from proven sustainable profit supporting growth.

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(1) Net interest margin ("NIM") excluding eligible liabilities guarantee ("ELG") charge.

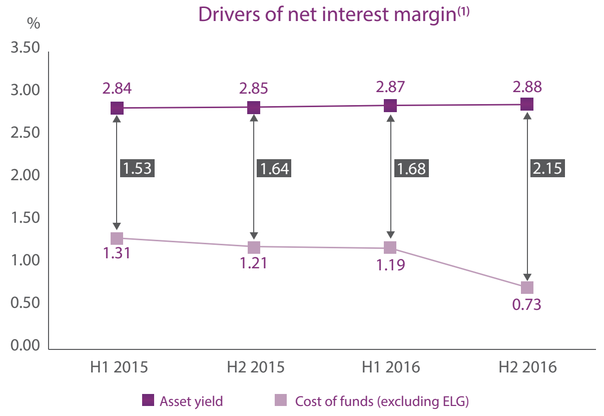
Business review - 1. Operating and financial review

Net interest income

Net interest income	Net interest margin excluding ELG
€2,013m	**2.25%**
€1,927m	1.97%

Net interest income	**2016 € m**	2015 € m	% *change*
Net interest income	**2,013**	1,927	*4*
Average interest earning assets	**90,181**	99,272	*-9*
	%		% change
NIM excluding ELG	**2.25**	1.97	0.28
NIM	**2.23**	1.94	0.29

Net interest income
€2,013m €1,927m Net interest income increased by € 86 million (+4%) compared to 2015, excluding the impact of currency movements underlying net interest income increased by € 117 million.


Drivers of net interest margin[1]

Net interest income increase was driven by a significant reduction in the cost of funds while marginally growing the average asset yield. The yield gap between assets and liabilities has widened by 62 bps from half year ending June 2015 to half year ending December 2016.

Growth in average asset yield combined with a reduction in average interest earning assets

€2,590m €2,821m

Net increase of average asset yield

The 2016 average asset yield of 287 bps was 3 bps higher than 2015. Although individual interest yields decreased in 2016 compared to 2015, the mix of assets changed to a higher percentage in customer loans with the reduction of lower yielding NAMA senior bonds. Yields on loans and receivables to customers remained stable with mortgage rate reductions offset by the run off of lower yielding tracker loans (average volume € 1.3 billion lower than 2015). The mortgage rate reductions were part of the multi-proposition mortgage approach, underpinning the Group's strategic focus on customers. Yields on financial investments available for sale reduced through the mix of sales, maturities and purchases and the lower market rate environment. NAMA senior bonds yields, linked to market interest rates, reduced year on year.

Lower average interest earning assets

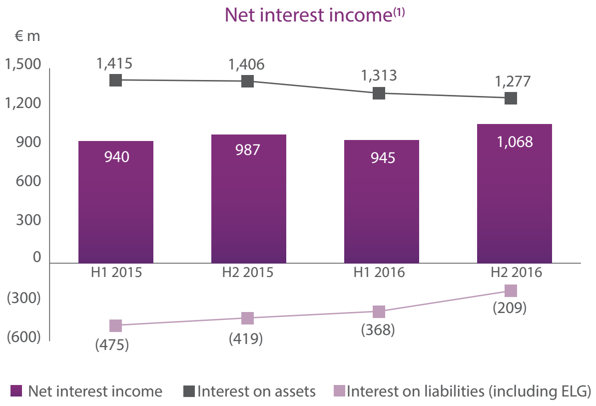
Average interest earning assets of € 90.2 billion in 2016 reduced from € 99.3 billion in 2015 mainly due to redemptions of NAMA senior bonds of € 4.0 billion and lower loans and receivables to customers of € 2.8 billion driven by restructuring activity on impaired loans. Further decreases were from reduction in financial investments of € 1.3 billion to align with liquidity requirements and lower other interest earning assets of € 1.1 billion due to a reduction in loans and receivables to banks.

Significant reductions in funding costs.

€560m €864m The reduction in cost of funds was driven by a lower funding requirement from lower assets and lower average yields. The 2016 average yield of 97 bps reduced from 126 bps in 2015 as a result of the redemption of Contingent Capital Notes in July 2016, the continued downward deposit pricing actions and the positive mix impact from a reduction in high interest bearing corporate and treasury deposits to an increase in non interest bearing retail current accounts. The European Central Bank ("ECB") moved the main refinancing operations rate to nil and short term Euribor rates moved further into negative territory during 2016 positively impacting funding costs.

Reduction in ELG charge

€17m €30m The ELG charge reduced by € 13 million compared to 2015. As existing liabilities that are covered by the scheme mature, the ELG charges will reduce. The total liabilities guaranteed under the ELG scheme at 31 December 2016 amounted to € 1.1 billion (€ 1.8 billion at 31 December 2015).


Net interest income[1]

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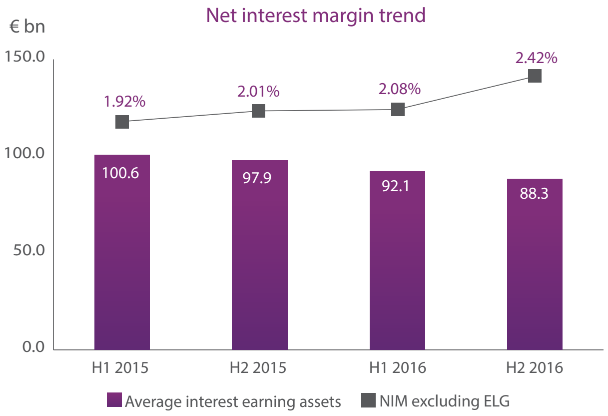
[1] Represents interest income or expense recognised net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.

Net interest margin ("NIM")

Net interest margin excluding ELG
2.25% 1.97%

The Group NIM has continued in a positive trajectory throughout 2016.



Structural factors impacting 2016 NIM:

Contingent capital notes:

- Fully redeemed in July 2016
- 30 bps positive impact on Q4 2016 exit NIM of 2.42%.

NAMA senior bonds:

- Low yielding assets continued to be redeemed.
- These bonds are expected to be fully redeemed by the end of 2017.
- 2016 NIM excluding ELG and NAMA senior bonds was 2.33%.

The table below provides a summary of the Group's average balance sheet, volumes and yields.

Average balance sheet[1]

	Year ended 31 December 2016			Year ended 31 December 2015		
Assets	**Average balance €m**	**Interest[2] €m**	**Average rate %**	Average balance €m	Interest[2] €m	Average rate %
Loans and receivables to customers	**62,116**	**2,248**	**3.62**	64,868	2,363	3.64
NAMA senior bonds	**3,644**	**11**	**0.30**	7,614	31	0.41
Financial investments available for sale	**14,925**	**182**	**1.22**	19,503	398	2.04
Financial investments held to maturity	**3,419**	**131**	**3.83**	106	4	3.76
Other interest earning assets	**6,077**	**18**	**0.30**	7,181	25	0.36
Average interest earning assets	**90,181**	**2,590**	**2.87**	99,272	2,821	2.84
Non interest earning assets	**8,005**			7,557		
Total assets	**98,186**	**2,590**		106,829	2,821	
Liabilities & equity						
Deposits by banks	**9,728**	**(13)**	**(0.13)**	15,734	4	0.03
Customer accounts	**38,894**	**324**	**0.83**	43,777	490	1.12
Subordinated liabilities	**1,629**	**199**	**12.22**	1,625	278	17.10
Other debt issued	**7,474**	**50**	**0.67**	7,475	92	1.23
Average interest earning liabilities	**57,725**	**560**	**0.97**	68,611	864	1.26
Non interest earning liabilities	**28,056**			25,985		
Equity	**12,405**			12,233		
Total liabilities & equity	**98,186**	**560**		106,829	864	
Net interest income excluding ELG		**2,030**	**2.25**		1,957	1.97
Eligible liabilities guarantee ("ELG")		**(17)**	**(0.02)**		(30)	(0.03)
Net interest income including ELG		**2,013**	**2.23**		1,927	1.94

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[1] Differences on the Average balance sheet to note 56 of the consolidated financial statements include:
a) the cost of ELG in interest within liabilities and equity.
b) other interest earning assets are split into Trading portfolio financial assets less liabilities and Loans and receivables to banks.

[2] Interest on any assets or liabilities in hedge relationships include the net interest on the related derivatives. Please note 2015 comparative has been restated to reflect the same.

Business review - 1. Operating and financial review

Other income

Other income
€617m
€696m

Business income
€493m
€533m

Other items
€124m
€163m

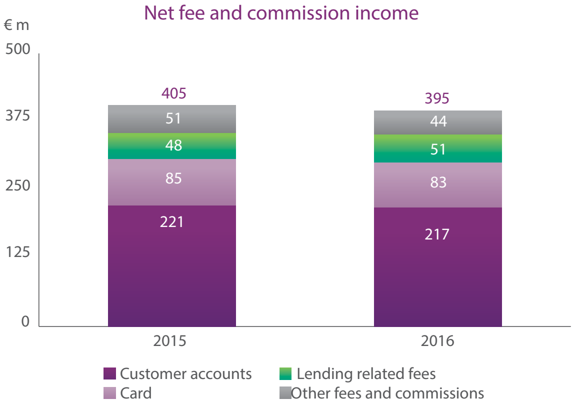
Other income	**2016 € m**	2015 € m	% *change*
Net fee and commission income	**395**	405	*-2*
Dividend income	**26**	26	*-*
Net trading income	**68**	87	*-22*
Miscellaneous business income	**4**	15	*-73*
Business income	**493**	533	*-8*
Net profit on disposal of AFS securities	**31**	85	*-64*
Effect of acceleration of the timing of cash flows on NAMA senior bonds	**10**	6	*67*
Settlements and other gains	**83**	72	*15*
Other items	**124**	163	*-24*
Other income	**617**	696	*-11*

Other income
€617m €696m

Other income reduced by € 79 million (-11%) compared to 2015, excluding the impact of currency movements underlying other income reduced by € 71 million.

Decline in other income was driven by reduced levels of AFS disposals and movement of valuations on long-term derivatives as net fee and commission income remained stable.

Business income
€493m €533m



Net fee and commission income

€395m €405m Net fee and commission income of € 395 million in 2016 was stable excluding the impact of currency movements. The reduced card income in 2016 from the impact of the changes in EU fee regulation on interchange rates was somewhat offset by increase in card spend and lending related fees.

Card spend increased by 9% year on year with the corresponding transaction activity increasing by 17%. This reflects the rise in smaller value transactions completed through point of sale and contactless.

Dividend income

€26m €26m Dividend income of € 26 million was in line with 2015. € 25 million was received on NAMA subordinated bonds in both years.

Net trading income

€68m €87m The reduction in net trading income was mainly due to movement in valuations on the Group's long term customer derivative positions. Following fluctuation in long term sterling interest rates and interest rate volatility throughout 2016, the position reversed by the year end, with a net positive movement of € 1 million overall. This compares to a positive movement in 2015 of € 17 million. The customer foreign exchange business income was flat in 2016 compared to 2015, notwithstanding the negative impact on this activity related to the UK referendum to exit the European Union.

Other items
€124m €163m

Net profit on disposal of AFS securities

€31m €85m Net profit of € 31 million in 2016 from the disposal of available for sale securities. Sales and purchases of AFS are managed in line with liquidity requirements.

Acceleration of the timing of cash flows on NAMA senior bonds

€10m €6m A gain of € 10 million was recognised on NAMA senior bonds reflecting accelerated repayments following redemptions of € 3.8 billion in 2016.

Settlements and other gains

Settlements and other gains	**2016 € m**	2015 € m
Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured[1]	**85**	45
Fair value gain on equity warrants	**3**	8
Net gain on buyback of debt securities in issue	**1**	8
Income on settlement of claims	**-**	38
Loss on disposal of loans	**(6)**	(27)
Settlements and other gains	**83**	72

€83m €72m

The realisation/re-estimation of cash flows on loans and receivables previously restructured resulted in income received of € 85 million in 2016.

The loss on disposal of loans of € 6 million mainly related to the completion of loan disposals in the UK, process began in 2015 with a reported loss of € 39 million. 2015 also included profit of € 12 million on disposal of corporate loans.

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[1] For further detail please see pages 143 to 144.

Total operating expenses

Total operating expenses[1]
€1,377m
€1,292m

Cost income ratio[1]
52%
49%

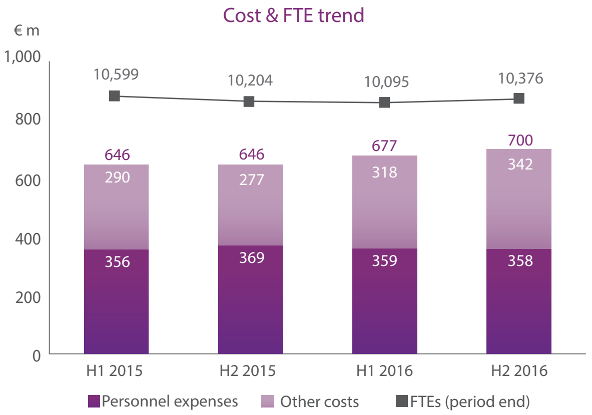
Operating expenses	**2016 € m**	2015 € m	*% change*
Personnel expenses	**717**	725	*-1*
General and administrative expenses	**566**	493	*15*
Depreciation, impairment and amortisation	**94**	74	*27*
Total operating expenses before exceptional items	**1,377**	1,292	*7*
Staff numbers at period end (FTE)[2]	**10,376**	10,204	*2*
Average staff numbers (FTE)[2]	**10,226**	10,663	*-4*

Total operating expenses[1] **€1,377m** €1,292m Total operating expenses increased by € 85 million (+7%) compared to 2015, excluding the impact of currency movements underlying operating expenses increased by € 105 million.

From 2012 to 2015 the Group underwent a structured cost reduction programme and achieved a 26% (€ 450 million) reduction in the period. The increased cost base in 2016 compared to 2015 was due to selective outsourcing and the impact of the € 870 million investment programme.

Outsourcing partnerships increase reliability, resilience and quality of IT infrastructures and other enterprise services. This strategic resourcing model has enabled the Group to focus and invest in its core banking activities.

The investment programme is primarily focused on transforming the customer experience, simplifying internal processes and improving efficiency. The programme also includes investment on regulatory requirements and the sustainment and maintenance of legacy systems.



Personnel expenses

€717m €725m Personnel expenses decreased by € 8 million compared to 2015 due to lower average staff numbers offset by salary increases based on the recommendation of the Workplace Relations Commission.

Average staff numbers of 10,226 reduced by 437 (-4%) mainly due to the severance scheme in 2015 and 2016 and continued selective outsourcing. Staff numbers throughout 2016 increased as the Group continued to invest in its loan restructuring operations and responded to increasing regulatory compliance requirements.

General and administrative expenses

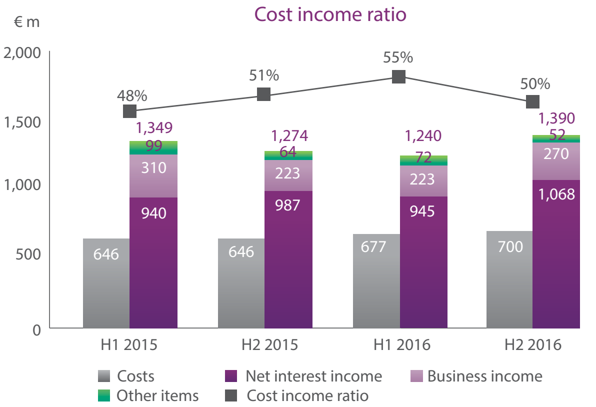
€566m €493m The increase of € 73 million (+15%) compared to 2015 was mainly due to increased costs relating to selective outsourcing, marketing and spend on the investment programme.

Depreciation, impairment and amortisation

€94m €74m The charge increased by € 20 million (+27%) compared to 2015 due to asset investments now in use in the business.

Cost income ratio[1] **52%** 49% Costs of € 1,377 million and income € 2,630 million resulted in a ratio[1] of 52% in 2016 compared to 49% in 2015 driven by the increase in costs in 2016.

The cost income ratio of 52% is in line with the Group's expectations, it is on track to achieve a sustainable cost income ratio of less than 50% in the medium term.



Strategic investment programme

The Group continues to invest in line with the strategic agenda and is delivering on growth, efficiencies and customer satisfaction. To date the Group has invested € 606 million[3] (€ 313 million in 2015 and € 293 million in 2016), of which 78% is asset creation.

Proven return from the investment to date has been captured in improved Transactional Net Promoter Scores of 45 (+29 v Q4 2014), increased market share (Mortgage Market Share for new lending 36%, + 3% v 2014), enhanced offerings and services through technology and increased customer interaction and digital engagement.

[1] Before bank levies, regulatory fees and exceptional items. Cost income ratio including these items was 54% in 2016 (2015: 64%).
[2] Staff numbers quoted in the commentary above are on a full time equivalent ("FTE") basis.
[3] Income statement impact of this investment spend is reflected in operating expenses and in exceptional items for strategic elements.

Business review - 1. Operating and financial review

Net credit provision writeback

€294m €925m The overall net credit provision writeback of € 294 million in 2016 compared to an overall net credit provision writeback of € 925 million in 2015.

Specific net writeback

Income statement specific provisions net writeback of € 171 million:

- € 281 million new to impaired charge in line with 2015.

- € 452 million writeback of provisions (net of top-ups) which amounted to 3.5% of the opening impaired loan balance. Key drivers of the writeback include:
  - increased security values and improved cashflows due to the stronger economic environment,
  - cases cured from impairment, and
  - execution of additional security at fulfilment.

As the primary restructuring period concludes net writebacks reduced from € 789 million in 2015. The impairment provisions remain dependent on significant levels of future collateral realisations.

IBNR net writeback

The overall net credit provision IBNR writeback of € 123 million in 2016 compared to an overall net credit provision IBNR writeback of € 417 million in 2015. The release primarily reflects the improved earning portfolio and associated probability of default as a result of observed trends in the improved economic environment.

See the Risk management section on page 98 for more detail.

Bank levies and regulatory fees

€112m €71m

Bank levies and regulatory fees	**2016 € m**	2015 € m
Irish bank levy	**(60)**	(60)
Deposit Guarantee Scheme	**(35)**	1
Single Resolution Fund/BRRD	**(18)**	(8)
Other regulatory fees	**1**	(4)
Bank levies and regulatory fees	**(112)**	(71)

Irish bank levy € 60 million in line with 2015.
Deposit Guarantee Scheme ("DGS") was newly established in 2016. Fee includes claim on the DGS legacy fund of € 8 million (2015: credit € 1 million).
Single Resolution Fund ("SRF") contribution of € 18 million in 2016. A contribution of € 8 million under the Bank Recovery and Resolution Directive was paid in 2015.

Associated undertakings

€35m €25m Income from associated undertakings increased by € 10 million compared to 2015, mainly due to a reversal of an impairment in, and share of income from, AIB's share in associate Aviva Health(1) totalling € 9 million and higher income from AIB Merchant Services of € 1 million.

Income tax

€326m €534m The effective rate was 19% compared with 28% (or 14% in 2016 compared with 15% in 2015 if the impact of changes in UK legislation restricting the use of tax losses is excluded – the impact was UK deferred tax expense of € 92 million and € 242 million respectively). The effective tax rate is influenced by the geographic mix of profits which are taxed at different rates. Deferred Tax Assets ("DTA") in respect of accumulated tax losses continue to be recognised in full on the basis that it is expected that tax losses will be utilised in full against future profit, subject to specific exceptions e.g. AIB Group (UK) p.l.c. These exceptions are set out in note 32 to the consolidated financial statements.

Total exceptional items

€207m (€297m) Total exceptional items net credit of € 207 million in 2016 compared to a net charge of € 297 million in 2015.

Total exceptional items	**2016 € m**	2015 € m
Restitution and restructuring expenses	**(58)**	(250)
Gain on transfer of financial instruments	**17**	5
Profit on disposal of Visa Europe	**272**	-
Termination benefits	**(24)**	(37)
Other exceptional items	**-**	(15)
Total exceptional items	**207**	(297)

Restitution and restructuring expenses include costs associated with restitution, transformation, reorganisation, certain provisions for liabilities and write off of intangible assets. No further provision was required in 2016 for customer redress in relation to the examination of tracker mortgage related issues as requested by the Central Bank of Ireland in 2015 (2015 € 190 million).

Gain on transfer of financial instruments: valuation adjustments on previous transfers of financial assets to NAMA.

Profit on disposal of Visa Europe resulted from the acquisition of Visa Europe by Visa Inc.

Termination benefits: the cost of the voluntary severance programme.

Other exceptional items: capital reorganisation costs and other related items.

Return on average ordinary shareholders' equity

11.1% 12.4% Profit attributable to ordinary shareholders increased to € 1.3 billion in 2016 from € 1.1 billion (2015 is after the deduction of dividends on the 2009 preference shares) while average ordinary shareholders' equity increased from € 8.9 billion in 2015 to € 11.9 billion in 2016 driven by the partial conversion of 2009 preference shares in December 15 and increase in retained profit.

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(1)Aviva Undershaft Five Limited previously known as Aviva Health Group Ireland Limited.

Assets

Earning loans
€56.1bn
€57.0bn

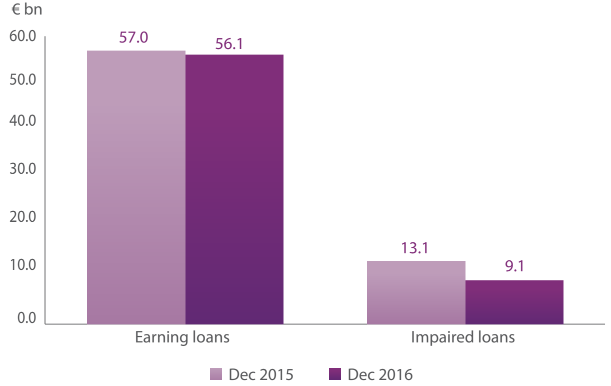
Impaired loans
€9.1bn
€13.1bn

New lending
€8.7bn
€8.5bn

Provisions
€4.6bn
€6.9bn

Assets	31 Dec 2016 € bn	31 Dec 2015 € bn	% change
Gross loans to customers	**65.2**	70.1	*-7*
Provisions	**(4.6)**	(6.9)	*-33*
Net loans to customers	**60.6**	63.2	*-4*
Financial investments available for sale	**15.4**	16.5	*-7*
Financial investments held to maturity	**3.4**	3.5	*-3*
NAMA senior bonds	**1.8**	5.6	*-68*
Other assets	**14.4**	14.3	1
Total assets	**95.6**	103.1	*-7*

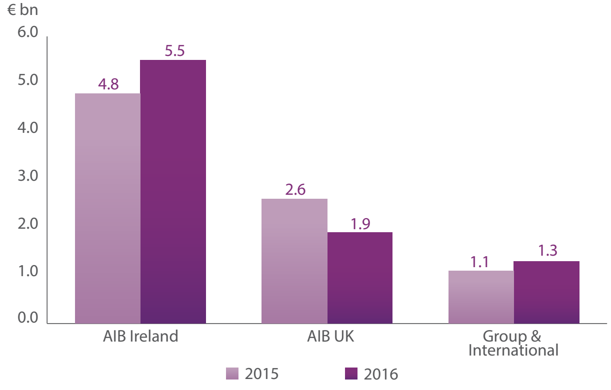
Earning and impaired loans trend



Earning loans
€56.1bn €57.0bn

Earning loans, excluding the reduction of € 1.5 billion due to the impact of currency movements, increased € 0.6 billion compared to December 2015. High quality new lending of € 8.7 billion has led the growth in the earning book. The movement also includes € 1.5 billion of loans upgraded to earning in the period. This growth is offset by redemptions of € 9.1 billion and new to impaired of € 0.8 billion. Redemptions of € 9.1 billion were consistent with rate of redemptions in 2015, when compared to opening stock.

New lending trend



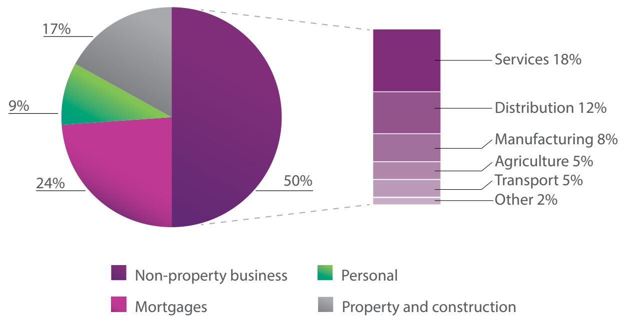
New lending
€8.7bn €8.5bn

New lending of € 8.7 billion in 2016, € 0.2 billion higher (+2%) compared to 2015, € 0.5 billion higher excluding the impact of currency movement. Strong momentum across key sectors and increase in market share led to new lending in AIB Ireland of € 5.5 billion up 16%, including mortgage lending up 22% (mortgage market share up 2% to 36%) and other lending up 13%.

AIB UK was down 29% at € 1.9 billion (down 20% excluding the impact of currency movements). Uncertainty around the outcome of the UK referendum and the impact of its subsequent decision to exit the European Union has had a negative impact on the level of new business activity in the market in 2016.

Group & International was up 16% at € 1.3 billion compared to 2015 which includes syndicated and international lending in the US and Europe.

New lending 2016 by sector



The chart above represents the split of new lending by sector for 2016.

Impaired loans
€9.1bn €13.1bn

Impaired loans, excluding the reduction of € 0.2 billion due to the impact of currency movements, have reduced by € 3.8 billion to € 9.1 billion since 31 December 2015 and down € 20.3 billion from 31 December 2012. This reduction reflects the continued implementation of sustainable restructure solutions for customers and improved economic conditions. New to impaired loans in 2016 were € 0.8 billion.

Restructuring

Restructuring loans of customers in difficulty continues to be a key focus for the Group. Treatment strategies, as described on pages 73 to 75 of this report, are in place for customers who are experiencing financial difficulties. The approach is one of structured engagement with customers to assess their long term levels of sustainable debt. This restructuring engagement with customers resulted in c. € 1.5 billion of loans restructured out of impairment during the year with a further € 1.8 billion of impaired loans written off (including non-contracted write-offs).

Assets *(continued)*

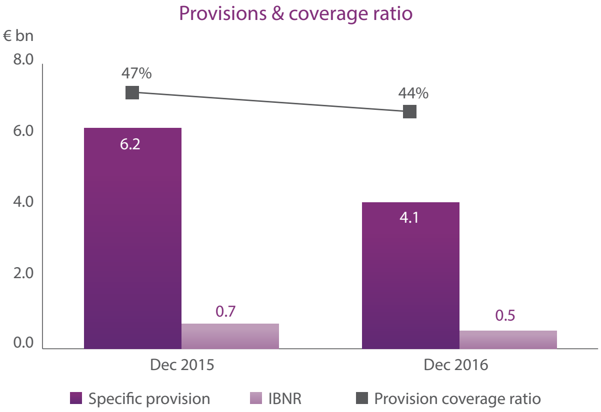
There are c. € 0.7 billion of impaired mortgages that are in forbearance which are currently performing in accordance with agreed forbearance sustainable solutions and continued compliance to terms over a period of 12 months will result in an upgrade out of impairment.

While there is a continued focus on the restructuring of loans of customers in difficulty the primary restructuring period is concluding.

Provisions
€4.6bn €6.9bn

Balance sheet provisions have reduced by € 2.3 billion mainly due to the utilisation of provisions as part of sustainable restructure solutions for customers.

Specific impairment provisions as a percentage of impaired loans reduced to 44% at 31 December 2016 compared to 47% at 31 December 2015. The reduction primarily occurred in individually assessed loans, with cover reducing from 51% at 31 December 2015 to 47% at 31 December 2016 driven by restructures, writebacks, and write-offs of loans. IBNR provisions of € 0.5 billion were held at 31 December 2016 compared to € 0.7 billion at 31 December 2015. The level of IBNR continues to reflect a conservative estimate of unidentified incurred loss within the portfolio.



The table below sets out the asset quality by sector for a range of credit metrics. Further details of the risk profile of the Group and non performing disclosures are available in the Risk management section on pages 83 to 126.

Loan book sectoral profile **31 December 2016**	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**
Loans and receivables to customers[1]	**35.2**	**3.1**	**9.4**	**17.5**	**65.2**
Of which: Impaired	**4.6**	**0.4**	**2.7**	**1.4**	**9.1**
Balance sheet provisions (specific + IBNR)	**2.0**	**0.3**	**1.5**	**0.8**	**4.6**
Specific provisions / Impaired loans (%)	**38%**	**58%**	**50%**	**51%**	**44%**
Total provisions / Total loans (%)	**6%**	**9%**	**15%**	**5%**	**7%**
12 months to 31 December 2016	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	**(110)**	**(11)**	**(74)**	**24**	**(171)**
Total impairment (credit)/charge	**(111)**	**(22)**	**(145)**	**(16)**	**(294)**
31 December 2015	**€ bn**	**€ bn**	**€ bn**	**€ bn**	**€ bn**
Loans and receivables to customers[1]	36.8	3.5	11.5	18.3	70.1
Of which: Impaired	6.0	0.7	4.3	2.1	13.1
Balance sheet provisions (specific + IBNR)	2.3	0.5	2.7	1.3	6.9
Specific provisions / Impaired loans (%)	34%	70%	57%	55%	47%
Total provisions / Total loans (%)	6%	15%	23%	7%	10%
12 months to 31 December 2015	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	(204)	(5)	(216)	(83)	(508)
Total impairment (credit)/charge	(478)	(8)	(214)	(225)	(925)

[1] The table above has been extracted from the Credit Risk tables in the Risk management section. Loans and receivables to customers include unearned income and deferred costs.

Assets *(continued)*

Net loans to customers

€60.6bn €63.2bn Net loans of € 60.6 billion, excluding the impact of currency movements, reduced by € 1.0 billion due to reduction in net impaired loans of € 1.8 billion driven by restructuring activity and redemptions partly offset by € 0.8 billion increase in net earning loans.

Summary of movement in Loans to customers

The table below sets out the movement in loans to customers from 1 January 2016 to 31 December 2016.

Loans to customers	Earning loans € bn	Impaired loans € bn	Gross loans € bn	Specific provisions € bn	IBNR provisions € bn	Net loans € bn
Opening balance (1 January 2016)	57.0	13.1	70.1	(6.2)	(0.7)	63.2
New lending volumes	8.7	-	8.7	-	-	8.7
New impaired loans[1]	(0.8)	0.8	-	(0.3)	-	(0.3)
Restructures, write-offs and disposals	1.5	(3.3)	(1.8)	2.1	-	0.3
Redemptions of existing loans	(9.1)	(0.9)	(10.0)	-	-	(10.0)
Foreign exchange movements	(1.5)	(0.2)	(1.7)	0.1	-	(1.6)
Other movements	0.3	(0.4)	(0.1)	0.2	0.2	0.3
Closing balance (31 December 2016)	56.1	9.1	65.2	(4.1)	(0.5)	60.6

Financial investments Available for Sale ("AFS")

€15.4bn €16.5bn AFS assets which are held for liquidity and investment purposes have reduced by € 1.1 billion during 2016, consistent with plans to reduce overall AFS holdings in line with liquidity requirements.

Debt securities reduced by € 0.9 billion mainly due to sales, maturities and redemptions of € 3.1 billion offset by purchases of € 2.5 billion.
Equity securities reduced by € 0.2 billion following disposal of the equity interest in Visa Europe. As part of the proceeds the Group now holds preferred stock at a fair value of € 70 million in Visa Inc. as at 31 December 2016.

Further detail in respect of AFS is available in note 27 to the consolidated financial statements.

Financial investments Held to Maturity ("HTM")

€3.4bn €3.5bn AFS assets were reclassified to financial investments held to maturity during 2015 following a review of strategy in relation to securities holdings and a commitment to long term (to maturity) investment in selected Irish Government Bonds. There have been no further additions to the held to maturity category during 2016.

NAMA senior bonds

€1.8bn €5.6bn NAMA senior bonds have reduced by € 3.8 billion since 31 December 2015 following redemptions in the period. Redemptions of low yielding NAMA senior bonds have improved the Group's overall net interest margin. NAMA senior bonds are expected to be fully redeemed by the end of 2017.

Other assets

€14.4bn €14.3bn Other assets of € 14.4 billion comprised:

- cash and loans to banks of € 7.9 billion were € 0.6 billion higher than December 2015. 2016 includes cash and balances with Central Banks at € 6.5 billion, and loans and receivables to banks at € 1.4 billion.
- deferred taxation of € 2.8 billion, reduced by € 0.1 billion from December 2015.
- derivative financial instruments of € 1.8 billion, € 0.1 billion higher than December 2015.
- the remaining assets of € 1.9 billion down 21% from € 2.4 billion at December 2015 mainly due to the receipt of proceeds from disposal in 2015 of a UK loan portfolio.

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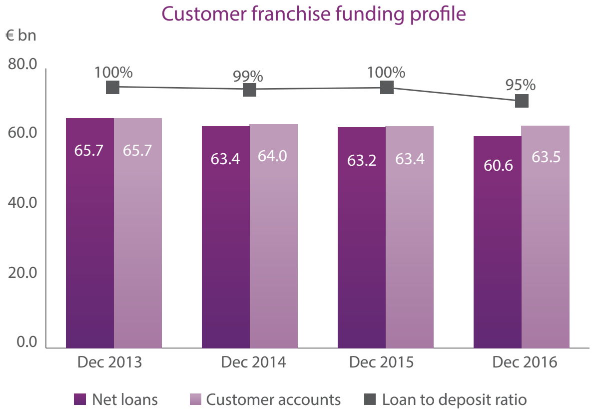
[1] New to impaired includes re impaired loans.

Liabilities & equity

Customer accounts	Equity
€63.5bn	**€13.1bn**
€63.4bn	€12.1bn

Liabilities & equity	**31 Dec 2016 € bn**	31 Dec 2015 € bn	% *change*
Customer accounts	**63.5**	63.4	-
Monetary authority funding	**1.9**	2.9	*-34*
Other market funding	**5.8**	11.0	*-47*
Debt securities in issue	**6.9**	7.0	*-1*
Other liabilities	**4.4**	6.7	*-34*
Total liabilities	**82.5**	91.0	*-9*
Equity	**13.1**	12.1	*8*
Total liabilities & equity	**95.6**	103.1	*-9*
	%	%	*change*
Loan to deposit ratio	**95**	100	*-5*

Customer accounts
€63.5bn €63.4bn Customer accounts increased by € 0.1 billion to € 63.5 billion. Excluding the reduction of € 1.8 billion due to the impact of currency movements, customer accounts increased € 1.9 billion. The mix profile continued to change in 2016 with an increase of € 4.7 billion in current accounts partly 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. The loan to deposit ratio remained strong at 95% at 31 December 2016.



Monetary authority funding

€1.9bn €2.9bn Monetary authority funding of € 1.9 billion at 31 December 2016 reduced by € 1.0 billion (-34%) since 31 December 2015 as the overall funding requirement reduced. In 2016 the existing € 1.9 billion Targeted Long Term Refinancing Operation ("TLTRO") was replaced with TLTRO II facility, extending the term of the funding out to 4 years with an option to redeem after 2 years.

Other market funding

€5.8bn €11.0bn Other market funding reduced by € 5.2 billion (-47%) to December 2016 due to reduced funding requirement following NAMA senior bond repayments and a reduction in available for sale securities and customer loans. This was mainly done through a € 5.2 billion reduction in repos.

Debt securities in issue

€6.9bn €7.0bn € 1.0 billion Asset Covered Securities ("ACS") issuance in January 2016 offset by € 1.0 billion in ACS and senior debt maturities (€ 0.5 billion each).

Other liabilities

€4.4bn €6.7bn Other liabilities of € 4.4 billion comprised:

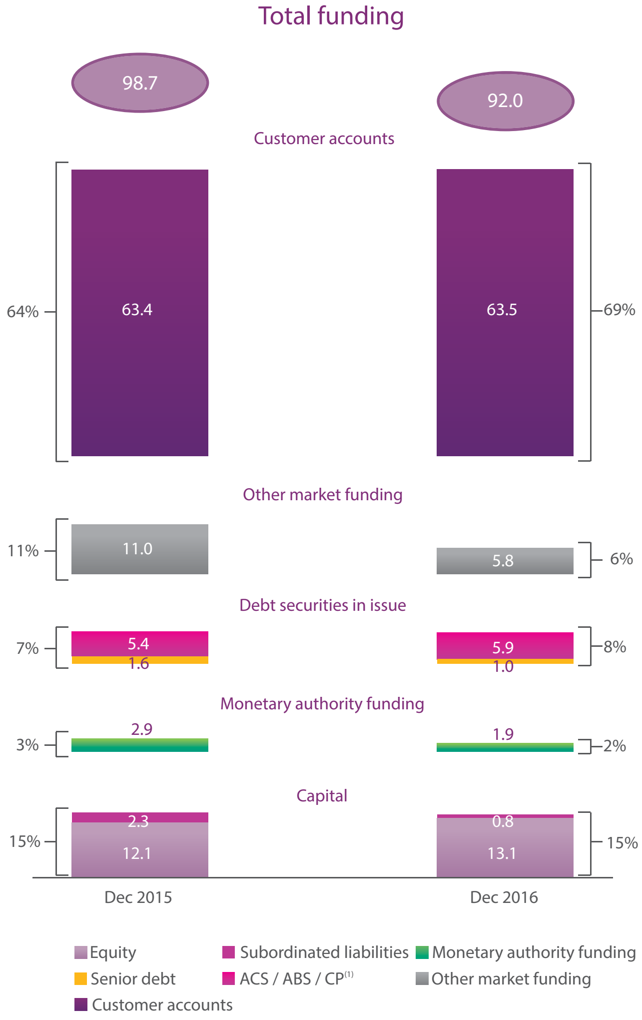
- Subordinated liabilities
  €0.8bn €2.3bn Subordinated liabilities of € 0.8 billion reduced 65% from € 2.3 billion in 2015 due to maturity of € 1.6 billion contingent capital notes in July 2016.
- Derivative financial instruments
  €1.6bn €1.8bn Derivative financial instruments of € 1.6 billion decreased 11% from € 1.8 billion in 2015.
- Retirement benefit liabilities
  €0.2bn €0.4bn For detail on movement on retirement benefit see note 12 page 272 of this report.
- Remaining liabilities
  €1.8bn €2.3bn Remaining liabilities of € 1.8 billion were 22% lower compared to December 2015.

Equity
€13.1bn €12.1bn Equity of € 13.1 billion as at 31 December 2016 increased by € 1.0 billion compared to € 12.1 billion as at 31 December 2015. The table below sets out the movements in the year.

Equity	**€ bn**
Opening balance (1 January 2016)	**12.1**
Profit for the period	**1.4**
Other comprehensive income:	
Retirement benefit schemes	**0.1**
Cash flow hedging reserves	**0.1**
Available for sale securities reserves	**(0.4)**
Other	**(0.2)**
Closing balance (31 December 2016)	**13.1**

Liabilities & equity *(continued)*

Funding



The Group has a robust funding structure underpinned by a stable low cost customer deposit base. The total funding was € 92.0 billion at 31 December 2016, details of split in above.

Qualifying liquid assets

At 31 December 2016, the Group held € 30 billion (2015: € 34 billion) in qualifying liquid assets/contingent funding of which € 12 billion was not available due to repurchase, secured loan and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2016, the Group liquidity pool was € 18 billion (2015: € 16 billion). During 2016, the liquidity pool ranged from € 16 billion to € 20 billion and the average balance was € 18 billion. For further detail on funding see pages 146 to 158.

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[1] Asset covered securities ("ACS"), asset backed securities ("ABS") and commercial paper ("CP").

Business review - 1. Operating and financial review

Segment overview

In 2016, the Group reported through the following key segments: AIB Ireland, AIB UK, and Group & International. This reflected a customer focused, profitable and low risk enterprise that was well positioned to support the economic recovery in Ireland while seeking to generate sustainable shareholder returns. The segments were originally formed to combine customer groups with similar needs into geographical franchises able to deliver co-ordinated services.

From the 1st of January 2017, following realignment of Leadership Team responsibilities the Group will be managed going forward through the following business segments: Retail & Commercial Banking ('RCB'), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. For business overview through this lens see pages 416 to 432.

Segment allocations

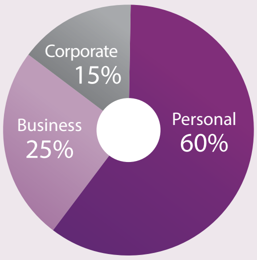
The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in Group & International. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

In 2016, the funding and liquidity allocation methodology has been refined to more accurately reflect each segment's funding profile. The performance in 2015 has been presented on this revised allocation methodology.

AIB Ireland

Financial metrics		% of Group[1]
Total operating income	**€1,924m**	**73%**
Net loans	**€48.9bn**	**81%**
New lending	**€5.5bn**	**63%**
Total operating expenses	**€828m**	**60%**

% of segment income

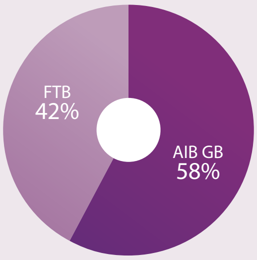


Net loans by sector	
Personal	**5%**
Mortgages	**63%**
Property & construction	**13%**
Non-property business	**19%**

AIB UK

Financial metrics		% of Group[1]
Total operating income	**£255m**	**12%**
Net loans	**£7.5bn**	**15%**
New lending	**£1.5bn**	**22%**
Total operating expenses	**£115m**	**10%**

% of segment income

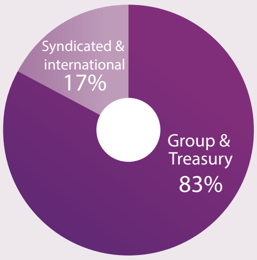


Net loans by sector	
Personal	**2%**
Mortgages	**19%**
Property & construction	**27%**
Non-property business	**52%**

Group & International

Financial metrics		% of Group[1]
Total operating income	**€396m**	**15%**
Net loans	**€2.9bn**	**4%**
New lending	**€1.3bn**	**15%**
Total operating expenses	**€410m**	**30%**

% of segment income



Net loans by sector	
Personal	**-**
Mortgages	**-**
Property & construction	**1%**
Non-property business	**99%**

[1] Percentages calculated using the euro equivalent balances for each financial metric.

AIB Ireland

AIB Ireland comprises Personal, Business and Corporate Banking. It is the leading franchise bank across key segments and products in the domestic market and is well positioned for growth.

Personal offers a comprehensive suite of personal lending, mortgages, savings, deposit, credit card, insurance and financial planning products via the branch network, online, mobile and direct channels. Our multi-brand approach via AIB, EBS and Haven offers choice to mortgage customers and allows us to tailor propositions.

Business is committed to actively supporting entrepreneurs, early start-ups and established SMEs via a sector-led approach, flexible digital and self-service channels, and timely credit decisions.

Corporate develops strong relationships with corporate customers by providing sectoral expertise, tailored financial solutions and a premium customer service. This includes property lending.

AIB Ireland's loan restructuring activity is managed through a workout unit. These loans are reported through their respective customer segment, Personal, Business and Corporate.

AIB Ireland at a glance

2.3m

Ireland's leading financial services group with over 2.3 million customers.

45

Transactional NPS has increased by 29 points, to 45 at Q4 2016, since Q4 2014 reflecting the continued enhancement of the customer experience.

1.1m

Ireland's largest internet bank with over 1.1 million active users.

652,000

Ireland's largest mobile bank with more than 652,000 active customers.

297

Ireland's leading distribution network through 297 locations and a further c. 1,100 locations through the An Post network.

36%

Ireland's largest provider of new mortgage lending drawdowns in 2016. Gaining a further 2% of the market with a market share of 36%.

€1,096m

Operating contribution before bank levies, regulatory fees and provisions of € 1,096 million in 2016 (up 5% compared to 2015).

€828m

Operating expenses of € 828 million in 2016 up 10% compared to 2015. Costs are in line with expectations and reflect spend on business investment.

€5.5bn

New lending of € 5.5 billion in 2016 (up 16% compared to 2015). Mortgages € 2.0 billion (up 22%), Other Personal € 0.7 billion (up 36%), Corporate € 1.6 billion (up 8%). Business € 1.2 billion (up 9%).

€279m

Total net provision writeback of € 279 million in 2016, reduced compared to € 901 million in 2015, as the primary restructuring period is concluding.

Financial performance

AIB Ireland contribution statement	2016 € m	2015 € m	% *change*
Net interest income	**1,458**	1,360	*7*
Other income	**466**	443	*5*
Total operating income	**1,924**	1,803	*7*
Total operating expenses	**(828)**	(755)	*10*
Operating contribution before bank levies, regulatory fees and provisions	**1,096**	1,048	*5*
Total net writeback of provisions	**279**	901	*-69*
Operating contribution	**1,375**	1,949	*-29*
Associated undertakings	**31**	21	*48*
Contribution before disposal of property	**1,406**	1,970	*-29*
Profit on disposal of property	**-**	3	*-*
Contribution before exceptional items	**1,406**	1,973	*-29*

AIB Ireland contribution statement	€ m	€ m	% *change*
Personal	**691**	694	-
Business	**209**	211	-1
Corporate	**196**	143	*37*
Operating contribution before bank levies, regulatory fees and provisions	**1,096**	1,048	*5*

Net interest income

€1,458m €1,360m Net interest income increased by € 98 million (+7%) compared to 2015 due to continued reductions in the cost of funds partly offset by mortgage rate reductions. Net average loans balances also reduced on the period as net impaired loans reduced by € 2.8 billion partly offset by increase in earning balances of €1.1 billion.

Other income

€466m €443m Other income increased by € 23 million (5%) compared to 2015. Net fee and commission income remained stable excluding the impact of the card interchange while the increase was attributable to higher gains on the realisation/ re-estimation of cashflows on loans previously restructured.

Total operating expenses

€828m €755m Costs have increased due to increased average salary costs, cost of regulatory compliance, marketing and spend on investment programme, including depreciation on assets now in use. AIB Ireland also includes the costs for the workout unit for loan restructuring as sustainable customer solutions are worked through.

Total net writeback of provisions

€279m €901m Further progress has been made on case by case restructuring of customers in difficulty. Lower writebacks in 2016 as the pace and quantum of writebacks moderate, and the primary restructuring period is concluding.

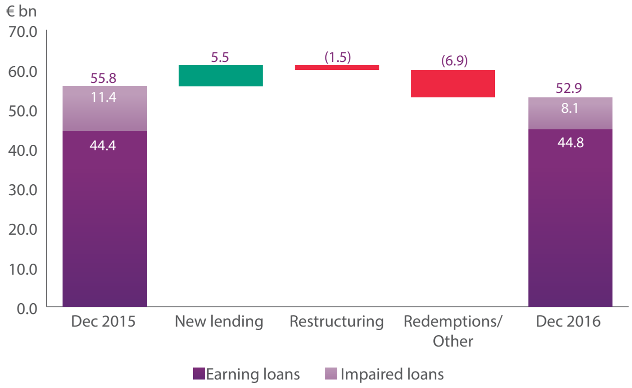
AIB Ireland *(continued)*

AIB Ireland balance sheet metrics	**31 Dec 2016 € bn**	31 Dec 2015 € bn	*% change*
Personal	**36.2**	37.4	*-3*
Business	**9.3**	10.3	*-10*
Corporate	**7.4**	8.1	*-9*
Gross loans	**52.9**	55.8	*-5*
Personal	**34.0**	34.5	*-1*
Business	**7.7**	7.9	*-3*
Corporate	**7.2**	7.7	*-6*
Net loans	**48.9**	50.1	*-2*
Personal	**28.8**	27.8	*4*
Business	**13.9**	12.4	12
Corporate	**9.4**	10.0	*-6*
Customer accounts	**52.1**	50.2	*4*
	%		% change
Personal	**118**	124	-6
Business	**55**	64	-9
Corporate	**77**	77	-
Loan to deposit ratio	**94**	100	-6

Gross loans

€52.9bn €55.8bn Gross loans in AIB Ireland of € 52.9 billion reduced by € 2.9 billion (-5%) since 31 December 2015 as new lending of € 5.5 billion was offset by redemptions/other of € 6.9 billion and the impact of loan restructuring of € 1.5 billion.

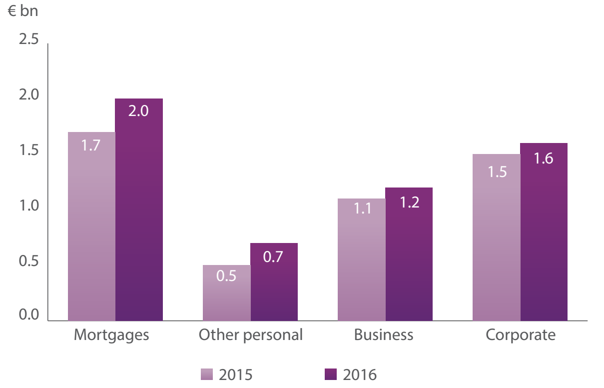
Gross loans movement



Earning loans

€44.8bn €44.4bn Earning loans of € 44.8 billion increased € 0.4 billion since 31 December 2015 as new lending and loans upgraded to earning were ahead of repayments/other in each customer segment. Earning loans represents 85% of gross loans at 31 December 2016, up from 80% as at 31 December 2015 as the quality of the book continues to improve.

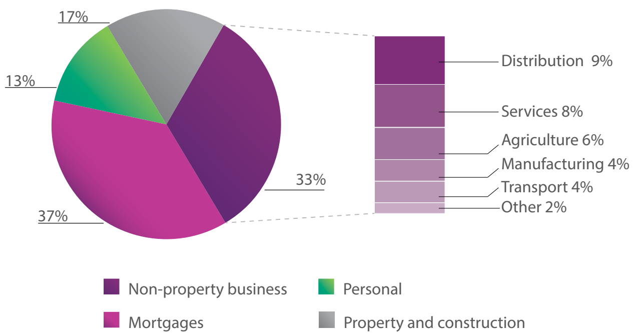
New lending trend



New lending

€5.5bn €4.8bn New lending was up € 0.7 billion (+16%) compared to 2015. Strong mortgage lending of € 2.0 billion was up 22%, with a gain in market share to 36% (2% higher than 34% in 2015). Personal lending was up € 0.2 billion (+36%) compared to 2015 and other lending was also up 8% as demand for credit increased.

New lending 2016 by sector



The chart above represents the split of new lending by sector for 2016. Business and corporate lending are split between property and construction and non-property business.

Impaired loans

€8.1bn €11.4bn Impaired loans have reduced from € 11.4 billion to € 8.1 billion at 31 December 2016 as AIB Ireland has made further progress in restructuring customers in financial difficulty, notwithstanding new to impaired loans of € 0.7 billion in the same period. There is a specific provision coverage ratio of 43% on the impaired loans of € 8.1 billion as at 31 December 2016.

Customer accounts

€52.1bn €50.2bn Customer accounts increased by € 1.9 billion (+4%) since 31 December 2015 with growth in current accounts across all business segments of € 3.9 billion offset by a reduction in deposits of € 2.0 billion.

Business review - 1. Operating and financial review

AIB UK

AIB UK comprises of two trading entities operating in two distinct markets with different economies and operating environments: Allied Irish Bank (GB) ("AIB GB") which offers full banking services to predominantly business customers across Great Britain; and First Trust Bank ("FTB") which offers full banking services to business and personal customers across Northern Ireland. Both entities are supported by a single operations function.

AIB GB is a long established specialist Business Bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 business centres in key cities across Great Britain, providing a full clearing and day-to-day transactional banking service to customers.

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.

AIB UK at a glance

363,000
AIB UK services over 363,000 customers in Northern Ireland and Great Britain.

50(1)
A distribution network of 50 locations throughout Northern Ireland (30 branches and 5 business offices) and Great Britain (15 business centres).

86,000
Over 86,000 active internet banking users.

50,000
More than 50,000 active customers using the mobile banking app.

£140m
Operating contribution before bank levies, regulatory fees and provisions of £ 140 million in 2016 (up 9% compared to 2015).

£115m
Operating expenses of £ 115 million in 2016 (broadly in line with 2015).

£1.5bn
New lending of £1.5 billion in 2016 (down 20% compared to 2015). AIB GB £ 1.3 billion down 19% and FTB £ 0.2 billion down 33%.

£30m
Total net provision writeback of £ 30 million in 2016, as a result of continued restructuring activity.

Financial performance

AIB UK contribution statement	2016 £ m	2015 £ m	% *change*
Net interest income	**201**	207	*-3*
Other income	**54**	36	*50*
Total operating income	**255**	243	*5*
Total operating expenses	**(115)**	(114)	*1*
Operating contribution before bank levies, regulatory fees and provisions	**140**	129	*9*
Bank levies and regulatory fees	**1**	(3)	*-*
Total net writeback of provisions	**30**	32	*-6*
Operating contribution	**171**	158	*8*
Associated undertakings	**3**	3	*-*
Contribution before disposal of business	**174**	161	*8*
Profit on disposal of business	**1**	-	*-*
Contribution before exceptional items	**175**	161	*9*
Contribution before exceptional items €m	**214**	220	*-3*

AIB UK contribution statement	£ m	£ m	% *change*
AIB GB	**86**	82	*5*
First Trust Bank	**54**	47	*15*
Operating contribution before bank levies, regulatory fees and provisions	**140**	129	*9*

Net interest income

£201m £207m Net interest income decreased by £ 6 million (-3%) compared to 2015 due to the disposal of a loan portfolio of £ 0.5 billion in the second half of 2015 and the impact of a reduction in the Bank of England Base Rate in August 2016.

Other income

£54m £36m Net fee and commission income was in line with 2015, with an increase in lending fees, partly offset by reduced transaction fees. Other items in 2016 included a loss of £ 3 million relating to the final settlement of UK loan disposals at the end of 2015 (loss of £ 29 million in 2015).

Total operating expenses

£115m £114m Total operating expenses of £ 115 million in 2016, broadly in line with 2015.

Total net writeback of provisions

£30m £32m Total net writeback of provisions of £ 30 million in 2016 compared to £ 32 million for 2015 as a result of continued restructuring activity.

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(1) FTB is transitioning to a network of 15 branches and 6 business centres in 2017. This will be complemented by a new partnership agreement with the Post Office in Northern Ireland.

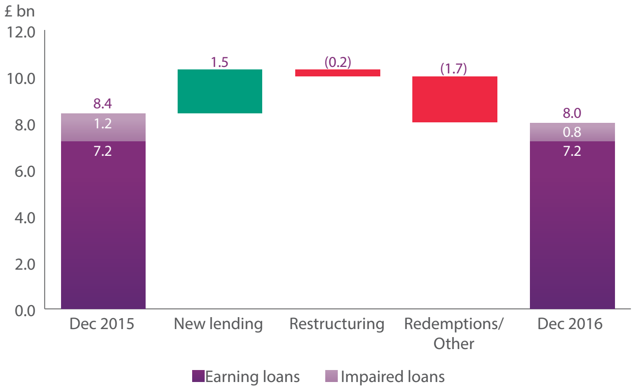
AIB UK *(continued)*

AIB UK balance sheet metrics	**31 Dec 2016 £ bn**	31 Dec 2015 £ bn	% *change*
AIB GB	**5.2**	5.3	-2
FTB	**2.8**	3.1	*-10*
Gross loans	**8.0**	8.4	*-5*
AIB GB	**5.1**	5.1	-
FTB	**2.4**	2.5	*-4*
Net loans	**7.5**	7.6	*-1*
AIB GB	**4.7**	4.8	-2
FTB	**4.2**	3.8	*11*
Customer accounts	**8.9**	8.6	*3*
	%		% change
AIB GB	**109**	106	3
FTB	**57**	66	-9
Loan to deposit ratio	**84**	88	-4

Gross loans

£8.0bn £8.4bn Gross loans in AIB UK of £ 8.0 billion reduced by £ 0.4 billion (-5%) since 31 December 2015 as new lending of £ 1.5 billion was offset by redemptions/other of £ 1.7 billion and the impact of loan restructuring of £ 0.2 billion.

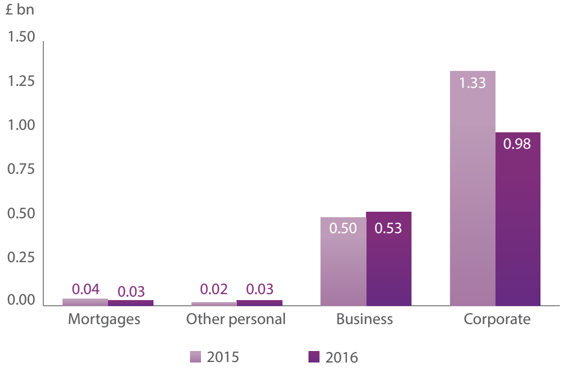
Gross loans movement



Earning loans

£7.2bn £7.2bn Earning loans of £ 7.2 billion were in line with 31 December 2015 as new lending was offset by redemptions. Earning loans represents 90% of gross loans at 31 December 2016, up from 85% as at 31 December 2015 as the quality of the book improves.

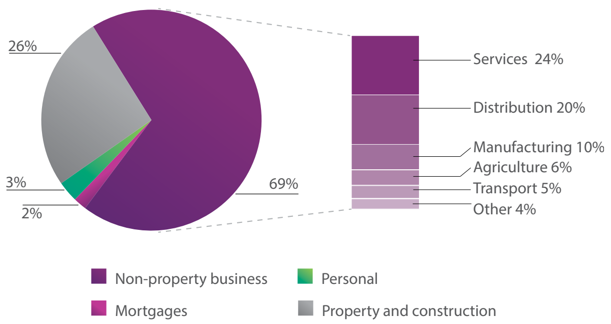
New lending trend



New lending

£1.5bn £1.9bn New lending of £ 1.5 billion in 2016, AIB GB at £ 1.3 billion and FTB at £ 0.2 billion, was £ 0.4 billion lower than 2015 due to reduction of £ 0.4 billion in corporate lending.

New lending 2016 by sector



Business and corporate lending are split between property and construction and non-property business in the chart above. Non-property business lending contributed to 69% of all new lending in AIB UK in 2016.

New business was written across a range of key sectors in both AIB GB and FTB and the developing sector strategies will build on the momentum developed through 2016.

Impaired loans

£0.8bn £1.2bn Impaired loans of £ 0.8 billion at 31 December 2016 have reduced from £ 1.2 billion at 31 December 2015 due to repayments and write-offs in the period.

Customer accounts

£8.9bn £8.6bn Customer accounts were £ 8.9 billion at 31 December 2016 and increased by £ 0.3 billion since 31 December 2015 with an increase in current accounts partly offset by a reduction in deposits.

Group & International

Group & International includes syndicated and international lending in the United States of America and Europe. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs). Certain overheads related to these activities are managed and reported in the Group & International segment.

Financial performance

Group & International contribution statement	**2016 € m**	2015 € m	% *change*
Net interest income	**310**	282	*10*
Other income	**86**	203	*-58*
Total operating income	**396**	485	*-18*
Total operating expenses	**(410)**	(379)	*8*
Operating contribution before bank levies, regulatory fees and provisions	**(14)**	106	-
Bank levies and regulatory fees	**(113)**	(67)	*69*
Total provisions	**(18)**	(22)	*-18*
Operating contribution	**(145)**	17	-
Associated undertakings	**-**	1	-
Contribution before exceptional items	**(145)**	18	-

Net interest income

€310m €282m Net interest income of € 310 million in 2015 was € 28 million (+10%) higher than 2015 due to lower funding costs and growth in the syndicated and international portfolio new lending volumes. These positive impacts were partly offset by lower income on NAMA senior bonds due to ongoing repayments of the portfolio and lower income from the securities portfolio due to the sale and maturity of legacy high yielding assets.

Other income

€86m €203m The decrease in other income was due to a reduction in business income of € 21 million and other items of € 94 million. Business income reduced mainly due to the movement in valuations on the Group's sterling derivative positions.

Other items	**2016 € m**	2015 € m
Net profit on disposal of AFS securities	**31**	77
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**10**	6
Settlements and other gains	**(1)**	51
Other items	**40**	134

Other items are set out in the table above. Settlements and other gains included € 38 million income on settlement of claims in 2015.

Total operating expenses

€410m €379m Total operating expenses increased by € 31 million (+8%) compared to 2015 reflecting the impact of salary inflation and costs relating to outsourcing initiatives partly offset by reduced staff numbers. This is also impacted by investment in business initiatives which are ongoing, including depreciation on assets now live.

Bank levies and regulatory fees

€113m €67m Bank levies and regulatory fees of € 113 million for 2016 related to the Irish bank levy € 60 million, Deposit Guarantee Scheme ("DGS") € 35 million (fee includes claim on the DGS legacy fund of € 8 million) and € 18 million for the Single Resolution Fund.

Group & International balance sheet metrics	**31 Dec 2016 € bn**	31 Dec 2015 € bn	% *change*
Gross loans	**3.0**	2.8	*7*
Net loans	**2.9**	2.8	*4*
Financial investments available for sale	**15.4**	16.5	*-7*
Financial investments held to maturity	**3.4**	3.5	*-3*
NAMA senior bonds	**1.8**	5.6	*-68*
Customer accounts	**1.0**	1.5	*-33*

Gross loans

€3.0bn €2.8bn Gross loans of € 3.0 billion increased by € 0.2 billion (7%) since 31 December 2015 due to new lending of € 1.3 billion partly offset by repayments. Syndicated and international lending delivers strong returns including a low cost income ratio.

Financial investments available for sale

€15.4bn €16.5bn AFS assets which are held for liquidity and investment purposes, were € 15.4 billion at 31 December 2016 and have decreased from € 16.5 billion during 2016 mainly due to sales/maturities of € 3.5 billion partly offset by purchases of € 2.5 billion, consistent with plans to reduce overall AFS holdings in line with liquidity requirements.

NAMA senior bonds

€1.8bn €5.6bn NAMA senior bonds reduced by € 3.8 billion during the year due to redemptions. NAMA senior bonds are expected to be fully redeemed by the end of 2017.

Customer accounts

€1.0bn €1.5bn Customer accounts of € 1.0 billion reduced by € 0.5 billion (-33%) since 31 December 2015 of which € 0.3 billion related to a reduction in repos and € 0.2 billion in treasury deposits.

Business review - 2. Capital management

Objectives*

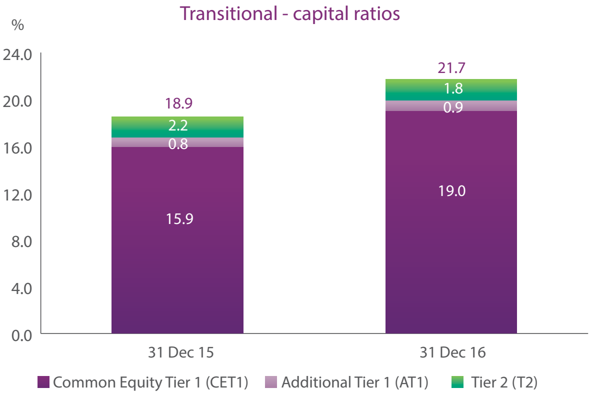
The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

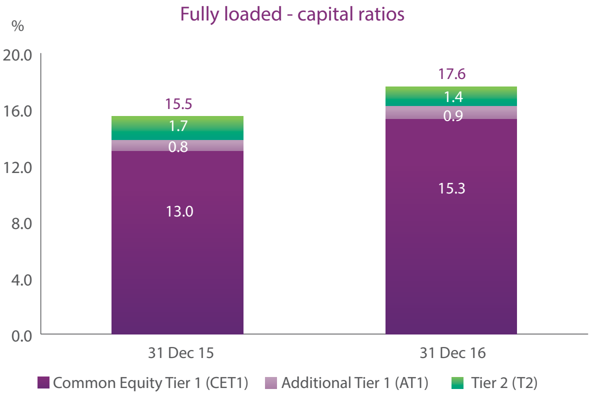
The Group does this through an annual Internal Capital Adequacy Assessment Process ("ICAAP") and quarterly stress tests, which are both subject to supervisory review and evaluation. These are AIB's main capital management tools and give a clear picture of the Group's capital and material risks. The key stages in the ICAAP process are as follows:

- a Risk Appetite Statement is reviewed and approved by the Board annually;
- business strategy is set consistent with risk appetite which underpins the annual financial planning process;
- performance against plan and risk appetite is monitored monthly;
- material risk assessment identifies all relevant (current and anticipated) risks and identifies those that require capital adequacy assessment;
- financial planning drives the levels of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
- stress testing is applied to capital plans and to all material risks in order to assess the resilience of the Group and inform capital needs as they arise; and
- the final stage of the ICAAP is the creation of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. This is fully integrated with the Group's financial planning process and ensures that the Group has adequate capital resources in excess of minimum regulatory capital requirements and internal capital requirements.

Performance during 2016

AIB's capital ratios improved in 2016 primarily due to profit for the period and a reduction in risk weighted assets ("RWAs"). The 2016 ratios are significantly in excess of regulatory requirements.





*Forms an integral part of the audited financial statements

Business review - 2. Capital management

Regulatory capital and capital ratios

	CRD IV transitional basis		**CRD IV fully loaded basis**	
	31 December 2016 € m	31 December 2015 € m	**31 December 2016 € m**	31 December 2015 € m
Equity	**13,148**	12,148	**13,148**	12,148
Less: Additional Tier 1 Securities	**(494)**	(494)	**(494)**	(494)
Proposed ordinary dividend	**(250)**	–	**(250)**	–
Regulatory adjustments:				
Goodwill and intangibles	**(392)**	(292)	**(392)**	(292)
Cash flow hedging reserves	**(460)**	(354)	**(460)**	(354)
Reversal of fair value of contingent capital instrument	**–**	(46)	**–**	–
Available for sale securities reserves	**(445)**	(1,250)	**–**	–
Pension	**(140)**	(91)	**(126)**	(153)
Deferred tax	**(610)**	(317)	**(3,050)**	(3,171)
Expected loss deduction	**(28)**	–	**(46)**	–
Other	**(22)**	(19)	**(16)**	(9)
	(2,097)	(2,369)	**(4,090)**	(3,979)
Total common equity tier 1 capital	**10,307**	9,285	**8,314**	7,675
Additional tier 1 capital				
Additional Tier 1 Securities	**494**	494	**494**	494
Expected loss deduction	**(9)**	–	**–**	–
Total additional tier 1 capital	**485**	494	**494**	494
Total tier 1 capital	**10,792**	9,779	**8,808**	8,169
Tier 2 capital				
Subordinated debt	**783**	973	**783**	973
Credit provisions	**200**	287	**–**	20
Expected loss deduction	**(9)**	–	**–**	–
Other	**6**	9	**–**	–
Total tier 2 capital	**980**	1,269	**783**	993
Total capital	**11,772**	11,048	**9,591**	9,162
Risk weighted assets				
Credit risk	**48,843**	53,596	**49,027**	54,105
Market risk	**288**	457	**288**	457
Operational risk	**3,874**	3,139	**3,874**	3,139
Credit valuation adjustment	**1,225**	1,352	**1,225**	1,352
Other	**5**	5	**5**	5
Total risk weighted assets	**54,235**	58,549	**54,419**	59,058
	%	%	**%**	%
Common equity tier 1 ratio	**19.0**	15.9	**15.3**	13.0
Tier 1 ratio	**19.9**	16.7	**16.2**	13.8
Total capital ratio	**21.7**	18.9	**17.6**	15.5

Capital ratios at 31 December 2016

Transitional ratio

The Common Equity Tier 1 (CET1) transitional ratio increased to 19.0% at 31 December 2016 from 15.9% at 31 December 2015. The increase in the CET1 ratio was broadly driven by profit retained and a reduction in risk weighted assets ("RWAs"), partially offset by a proposed ordinary dividend payment of € 250 million.

CET1 capital increased by € 1,022 million to € 10,307 million at 31 December 2016. This consisted of an increase in shareholders' equity of € 1,000 million and positive regulatory adjustments of € 272 million partially offset by a proposed ordinary dividend payment of € 250 million.

The increase in shareholders' equity of € 1,000 million consisted of profit for the period of € 1,356 million offset by negative other comprehensive income of € 319 million and a distribution paid on the Additional Tier 1 instrument of € 37 million.

Negative other comprehensive income was driven by a reduction in available for sale securities reserves of € 359 million during the year (€ 195 million of which related to the realisation of the unrealised gain at 31 December 2015 in Visa Europe). There was also a revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulting in a net reduction in foreign currency translation reserves of € 168 million. This was partially offset by a net actuarial gain of € 103 million in retirement benefit schemes and an increase in the cash flow hedge reserve of € 106 million. The net actuarial gain arises through a combination of a) the gain arising from a change to the actuarial assumption of the nature and extent of any obligation to fund discretionary increases in pensions in payment in the Group's main Irish schemes which has been assessed following a review by the Board, including actuarial and external legal advice; b) the strong return on schemes' assets; c) the actuarial losses arising from significant reduction in discount rates; and d) the asset ceiling/minimum funding restrictions applying to certain Irish schemes. See page 272 for further details.
Regulatory adjustments increased by € 272 million. On 1 October 2016, Regulation (EU) 2016/445 removed a national derogation to exclude unrealised gains or losses on sovereign portfolios classified as available for sale ("AFS") in transitional CET1 capital. Of the positive regulatory adjustment in relation to AFS of € 805 million in the period, € 634 million related to AFS debt securities primarily due to the removal of this derogation with the remainder relating to AFS equity securities. This has been partially offset by (i) the deduction of the deferred tax asset ("DTA") relating to unutilised tax losses increasing by € 293 million as the phase-in rate increases from 10% to 20% in 2016, (ii) an increase of € 49 million in the pension deduction, (iii) an increase of € 100 million in intangible assets and (iv) the removal of an additional € 106 million in relation to the cash flow hedge reserve.

The CET1 transitional ratio, at 19.0%, is significantly in excess of the Single Supervisory Mechanism's minimum CET1 regulatory requirement of 9.0%.

The transitional tier 1 capital ratio increased to 19.9% at 31 December 2016 from 16.7% at 31 December 2015. The increase in the ratio is driven by the CET1 and RWAs movements outlined above.

There was a decrease in transitional tier 2 capital of € 289 million which was driven by the redemption of the contingent capital instrument in July 2016 and the reduction in adjustments for credit provisions.

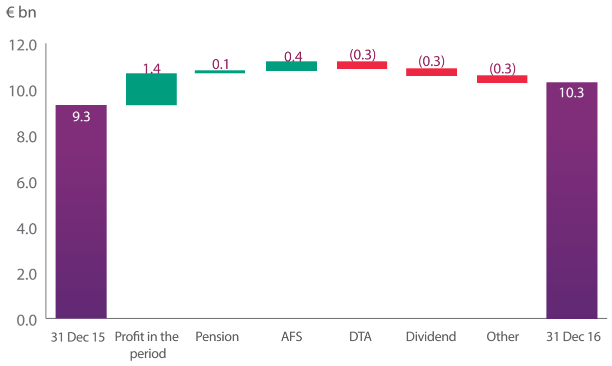
The transitional capital ratio increased from 18.9% at December 2015 to 21.7% at 31 December 2016.

Risk weighted assets

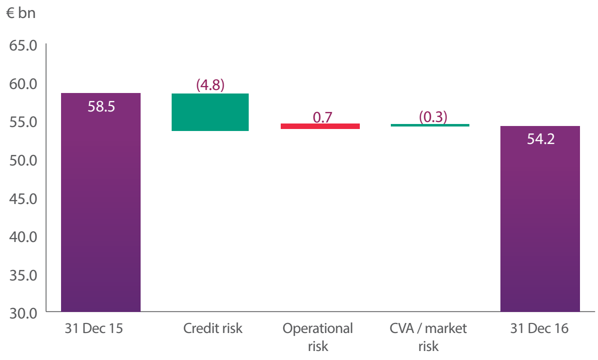
RWAs reduced by € 4.3 billion during 2016. Credit risk RWAs reduced by € 4.8 billion, while market risk and credit valuation adjustment ("CVA") RWAs decreased by € 0.2 billion and € 0.1 billion respectively. These decreases have been partially offset by increases in operational risk RWAs of € 0.7 billion (reflecting the increased levels of income in the annual calculation).

The reduction in credit risk RWAs was partly driven by foreign exchange movements of € 1.7 billion. Positive grade migration in portfolios, where AIB uses its own credit models to measure RWAs, drove a decrease of € 1.4 billion with loan redemptions, asset sales and other balance sheet reductions driving a decrease of € 8.3 billion. These were partially offset by new drawdowns which accounted for an increase in RWAs of € 6.6 billion.

Transitional CET1 - capital movements



Risk weighted assets (transitional) - movements



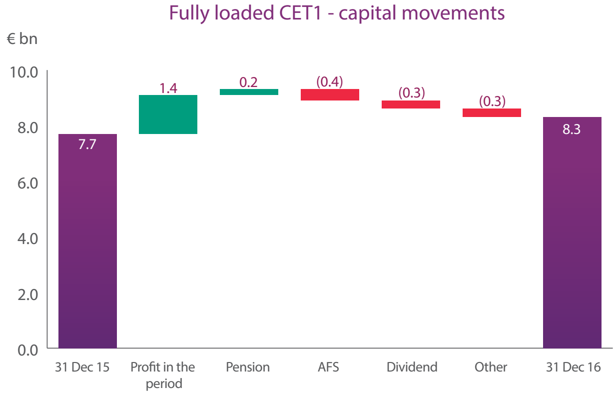
Business review - 2. Capital management

Fully loaded ratio

The fully loaded CET1 ratio increased to 15.3% at 31 December 2016 from 13.0% at 31 December 2015. The increase in the CET1 ratio was broadly driven by profit retained and a reduction in RWAs, partially offset by a proposed ordinary dividend payment of €250 million.

CET1 capital increased by €639 million to €8,314 million at 31 December 2016. This was primarily driven by:

- profit for the period of €1,356 million;
- a net actuarial gain in retirement benefit schemes for the period of € 103 million as previously described;
- the reduction in the available for sale securities reserves of € 359 million (€ 195 million relating to the realisation of the unrealised gain at 31 December 2015 in Visa Europe);
- revaluation of foreign exchange reserves in the Group, held primarily as a structural hedge for the capital ratio, resulted in a net reduction in the foreign currency translation reserves of € 168 million; and
- the proposed payment of an ordinary dividend of € 250 million and a distribution paid on the Additional Tier 1 instrument of € 37 million.



There was a decrease in fully loaded tier 2 capital of € 210 million which was driven by the redemption of the Contingent Capital Notes in July 2016 and the reduction in adjustments for credit provisions.

The fully loaded total capital ratio increased to 17.6% at 31 December 2016 from 15.5% at 31 December 2015.

The fully loaded CET1 ratio of 15.3% compares to 19.0% on a transitional basis at 31 December 2016. This reflects a difference of € 1,993 million in the amounts qualifying as CET1. The main drivers of this difference are:

- the full deduction of the DTA for unutilised tax losses of € 3,050 million. Under transitional rules, the phasing in deduction of the DTA increased to 20% in 2016 amounted to € 610 million; and
- the AFS reserves of € 1,113 million comprising unrealised gains in sovereign debt securities and equity securities are included in the fully loaded position, while € 668 million is included on a transitional basis at 31 December 2016.

Leverage ratio

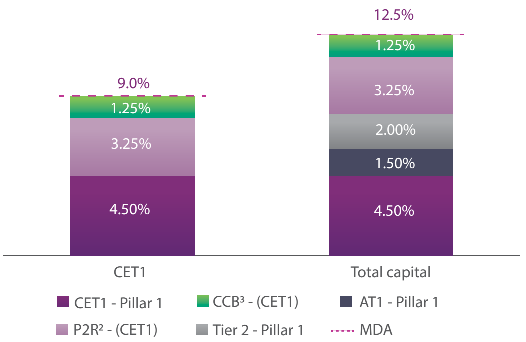
The leverage ratio is defined as tier 1 capital divided by a leverage ratio exposure. Based on full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 9.2% at 31 December 2016 (7.9% at 31 December 2015).

Supervisory review and evaluation process

On an annual basis, AIB Group 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 European Central Bank's ("ECB") Supervisory Review and Evaluation Process ("SREP") the outcome of which is communicated to AIB management.

AIB's minimum requirement set by the ECB for the transitional CET1 ratio is 9.0% and the minimum requirement for the transitional total capital ratio is 12.5% for 2017. This requirement excludes Pillar 2 guidance ("P2G") that is not publicly disclosed. The transitional CET1 and total capital ratios at 31 December 2016 were 19.0% and 21.7% respectively. Based on these ratios, AIB has a very significant buffer over maximum distributable amount[1] ("MDA") trigger levels.

2017 - SREP composition



AIB has been designated as an Other Systemically Important Institution ("O-SII"). A buffer for O-SII will be applied at 0.5% from 2019, rising to 1.5% by 2021.

Dividends

The Board proposes to pay an ordinary dividend of € 250 million out of full year 2016 profits. This is subject to the approval of shareholders at the Annual General Meeting in April 2017.

Repayment of capital to the Irish State

AIB paid € 1.76 billion to the Irish Government in July 2016 in relation to the Contingent Capital Notes (€ 1.6 billion principal plus € 160 million coupon).

Ratings

In September 2016, Moody's upgraded AIB's long-term rating to Baa3 (investment grade) from Ba1 both with a positive outlook. The ratings action was driven by an improving operating environment, which led to an increase in the macro profile of Ireland under Moody's banking methodology, as well as favourable developments in other credit fundamentals, notably asset quality.

In August 2016, S&P reaffirmed AIB's long-term rating at BB+ with a positive outlook. S&P noted that the positive outlook highlighted the potential that S&P could revise upward its anchor for commercial banks in Ireland to reflect the decreasing macroeconomic risks they face in their domestic market.

In December 2016, Fitch affirmed AIB's rating at BB+ with a positive outlook. Fitch noted that this took account of AIB's strong domestic franchise, strengthened capitalisation, normalised funding and liquidity profiles and improving asset quality. Fitch noted that the UK's decision to leave the European Union could be a negative for the Irish economy. The extent of this impact, however, will only become clear over time as EU-UK negotiations develop.

	31 December 2016		
AIB long-term ratings	**Moody's**	**S&P**	**Fitch**
Long-term	**Baa3**	**BB+**	**BB+**
Outlook	**Positive**	**Positive**	**Positive**

	31 December 2015		
AIB long-term ratings	Moody's	S&P	Fitch
Long-term	Ba1	BB+	BB+
Outlook	Positive	Positive	Positive

In January 2017, S&P upgraded AIB's long term rating by one notch to BBB- (investment grade) with a stable outlook. This was driven by what S&P considers brisk economic growth in the Irish economy and the sustained recovery in property prices feeding through to the creditworthiness of AIB.

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[1] "MDA trigger level represents the ratio below which restrictions on paying dividends, inter alia, would be imposed.

[2] Capital Conservation Buffer ("CCB") rises to 2.5% by 2018.

[3] Pillar 2 Requirement ("P2R") is the capital buffer applied by the ECB following the SREP.

EBA 2016 stress test

The Group was subject to the 2016 EU-wide stress test conducted by the European Banking Authority ("EBA"), in co-operation with the Central Bank of Ireland, the ECB, the European Commission ("EC") and the European Systemic Risk Board ("ESRB"). The stress test was conducted on a Static Balance Sheet basis where the stress test was based on how the balance sheet as at 31 December 2015 would perform over three years under both baseline and adverse macroeconomic scenarios. Under the stress test, AIB's projected CET 1 under the adverse scenario was 7.4% on a transitional basis and 4.3% on a fully loaded basis.

The stress test does not reflect current or future improved financial performance. The results are incorporated into the Pillar 2 guidance received as part of the SREP. AIB had no required capital actions following the stress test and as noted on page 44, AIB's capital ratios increased during 2016 on both a fully loaded and transitional basis.

Risk management

(1)The credit risk disclosures in this section are aligned with the Central Bank of Ireland ('Central Bank') guidelines issued in December 2011 and May 2013 respectively.

Risk management – 1. Principal risks and uncertainties

Introduction

The Group is exposed to a number of material risks and in order to minimise these risks the Group has implemented comprehensive risk management strategies. Further detail on the overall governance and organisation framework through which the Group manages and seeks to mitigate risk, is described in 'Risk management – 2. Framework'. More detailed disclosures in respect of the Group's individual material risks is included in 'Risk management – 3. Individual risk types'.

Although the Group invests substantial time and effort in its risk management strategies and techniques, there is a risk that these may fail to adequately mitigate the risks in some circumstances, particularly if confronted with risks that were not identified or anticipated.

The principal risks and uncertainties facing the Group fall under the following broad categories:
- Macro-economic and geopolitical risks;
- Regulatory and legal risks; and
- Risks relating to business operations, governance and internal control systems.

This list of principal risks and uncertainties should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

Macro-economic and geopolitical risk

The Group's business may be adversely affected by deterioration of the Irish economy, the economy of the United Kingdom or the global economy

Deterioration in the performance of the Irish economy or in the European Union ("EU"), the United Kingdom ("UK") and/or other relevant economies has the potential to adversely affect the Group's overall financial condition and performance. Such deterioration could result in reductions in business activity, lower demand for the Group's products and services, reduced availability of credit, increased funding costs, and decreased asset values.

Deterioration in the economic and market conditions in which the Group operates could negatively impact on the Group's income, and may put additional pressure on the Group to more aggressively manage its cost base. This may have negative consequences for the Group to the extent that strategic investments are de-scoped or de-prioritised, and may serve to increase operational risk. Market conditions are also impacted by the competitive environment in which the Group operates.

The Group's financial planning process evaluates the impact of economic and market conditions on the Group's capital, funding and profitability under both forecast and stress scenarios. Additionally, sensitivity analysis is used to evaluate the impact of individual risk drivers. Performance against the Group's financial plan is monitored by Management and the Board on a monthly basis.

Geopolitical developments, particularly in Europe and the United States, may have a negative impact on global economic growth, disrupt markets and adversely affect the Group

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.

In particular, 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 a country were to exit the eurozone, it may lead to that country subsequently leaving the EU, which could contribute to the potential break-up of the EU, and otherwise give rise to further uncertainty and adversely impact the overall economic climate.

The emergence of anti-EU and anti-establishment political parties and a rise in protectionist sentiment across the EU may also give rise to further political instability and uncertainty, particularly in light of upcoming elections in France, the Netherlands and Germany in 2017.

The UK's vote to withdraw from the EU has resulted in significant volatility within the European political environment, as described in further detail hereunder.

In addition, Northern Ireland is experiencing significant political uncertainty, which may continue following the elections. If an arrangement cannot be agreed, the current political structures in Northern Ireland may be subject to significant change. 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 the Group, given its operations there.

In the United States of America ("USA"), 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 USA and the EU and may have an impact on economic conditions generally.

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 the Group's business, financial condition, results of operations and prospects.The Group closely monitors global activities and developments particularly in the UK, EU and eurozone. Furthermore, the Group's stress testing framework evaluates its risk profile under a range of scenarios. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

The UK's exit from the EU could lead to a deterioration in market and economic conditions in the UK and Ireland, which could adversely affect the Group's business, financial condition, results of operations and prospects

In a referendum on the UK's membership of the EU held on 23 June 2016, a majority voted in favour of the UK's withdrawal from the EU ("Brexit"). Following a vote in parliament in February 2017 approving such a measure, the UK Government is expected to trigger the official process for withdrawing from the EU under Article 50 of the Treaty of the European Union, which will lead to a process of negotiation that will determine the future terms of the UK's relationship with the EU. The impacts of a UK exit from the EU on the UK economy and trade is unknown but may have negative consequences for the Group both in terms of its UK and Irish operations and impacts on the UK and Irish economies.

The legal and regulatory position of the Group's operations in the UK may also become uncertain. If UK regulatory capital rules diverge from those of the EU, as a result of future changes in EU law which are not mirrored by the UK or vice versa, the Group's regulatory burden may increase, which likely would increase compliance costs. Depending on the nature of the agreement reached between the UK and the EU on migration and immigration (if any), the UK's exit from the EU could also result in restrictions on mobility of personnel and could create difficulties for the Group in recruiting and retaining qualified employees, both in the UK and Ireland. In addition, financial institutions and other financial operations currently based in the UK may seek to relocate some operations to Ireland. This may result in heightened competition for suitably qualified employees, which could adversely affect the Group's ability to attract and retain employees. Accordingly, if the UK exits the EU, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group closely monitors activities and developments in the UK, EU and eurozone. Furthermore, the Group's stress testing framework evaluates its risk profile under a range of scenarios , including the risk of protracted and unfavourable Brexit outcomes. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

The Group 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 the Group's businesses. In addition to the credit exposures arising from loans to individuals, SMEs and corporates, the Group also has exposure to credit risk arising from loans to financial institutions, its trading portfolio, available for sale and held to maturity portfolios, derivatives and from off-balance sheet guarantees and commitments. Due to the nature of its business, the Group has extensive exposure to the Irish 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 could have a disproportionate impact on the Group. If the Group is unable to manage its credit risk effectively, its business, results of operations, financial condition and prospects could be materially adversely affected.

The Group's credit risk management operates under a Board approved framework and suite of policies. The Group's Credit Committee ("GCC") monitors credit risk. The Group's Credit Risk function provides second line assurance, defining the credit risk framework and monitoring compliance with this framework. The Group internal Audit function provides third line assurance on credit risk.

Constraints on the Group's access to funding, including a loss of confidence by depositors or curtailed access to wholesale funding markets, may result in the Group being required to seek alternative sources of funding

Conditions could arise which would constrain funding or liquidity opportunities for the Group. Currently, the Group funds its activities primarily from customer deposits. However, a loss of confidence by depositors in the Group, the Irish banking industry or the Irish economy, could lead to losses of funding or liquidity resources over a short period of time. Concerns around debt sustainability and sovereign downgrades in the eurozone could impact the Group's deposit base and could impede access to wholesale funding markets, impacting the ability of the Group to issue debt securities to the market.

A stable customer deposit base and asset deleveraging have allowed the Group to materially reduce its funding from the European Central Bank ("ECB"). This, in turn, has allowed an increase in unencumbered high quality liquid assets. The Group has also identified certain management and mitigating actions which could be considered on the occurrence of a liquidity stress event. However, in the unlikely event that the Group exhausted these sources of liquidity it would be necessary to seek alternative sources of funding from monetary authorities.

The Group’s funding and liquidity risk management operates under a Board approved framework and policy. The Group’s Asset and Liability Committee (ALCo) reviews the Group’s funding and liquidity risk position and makes decisions on the management of the Group’s assets and liabilities. The Group’s Treasury and Capital & Liquidity functions actively manage funding and liquidity risk – proposing and executing funding strategy and managing liquidity risk on a day to day basis. The Group’s Financial Risk function provides second line assurance on funding and liquidity risk, defining the funding and liquidity control framework and monitoring adherence to this framework. The Group’s internal Audit function provides third line assurance on funding and liquidity risk.

The Group is exposed to market risks

The following market risks arise in the normal course of the Group's banking business; interest rate risk, credit spread risk (including sovereign risk), basis risk and foreign exchange risk.

The Group's earnings are exposed to interest rate risk including basis risk i.e. an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics. The persistence of exceptionally low interest rates for an extended period could adversely impact the Group’s earnings through the compression of net interest margin. Widening credit spreads could adversely impact the value of the Group’s available for sale bond positions.

Trading book risks predominantly result from supporting client businesses with small residual discretionary positions remaining. Credit valuation adjustments (“CVA”) and funding valuation adjustments (“FVA”) to derivative valuations arising from customer activity have potentially the largest trading book derived impact on earnings.

Changes in foreign exchange rates, particularly, the euro-sterling rate, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of the Group’s non-Irish subsidiaries. Any failure to manage market risks to which the Group is exposed could have a material adverse effect on its business, financial conditions and prospects.

The Group’s market risk management operates under a Board approved framework and policy. The Group’s Asset and Liability Committee (ALCo) reviews the Group’s market risk position and makes decisions on the management of the Group’s assets and liabilities. The Group’s Treasury function actively manages market risk – proposing and executing market risk strategy and managing market risk on a day to day basis. The Group’s Capital and Liquidity function is responsible for making strategic asset and liability management recommendations to ALCo. The Group’s Financial Risk function provides second line assurance on market risk, defining the market risk control framework and monitoring adherence to this framework. The Group’s Internal Audit function provides third line assurance on market risk

Regulatory and legal risks

The BRRD and the SRM Regulation provide for resolution tools that may have a material adverse effect on the Group

The BRRD establishes a European framework dealing with resolution mechanisms, loss absorbency and bail-in rules. The SRB has been established to exercise a centralised power of resolution in the eurozone and any other participating Member States. From 1 January 2016, the SRB became principally responsible for determining the Group’s resolution strategy.

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 so as 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 BRRD also equips the resolution authority with certain resolution powers (the “Resolution Tools”) in circumstances where the credit institution is failing or is likely to fail.

Amongst other provisions, the BRRD introduces a statutory write-down and conversion power to write down or to convert into equity the Group’s capital instruments if certain conditions are met.

In drawing up the Group's resolution plan, the SRB would identify any material impediments to the Group's resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments.

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

On 3 February 2017, AIB announced that it had been notified by the Single Resolution Board that the preferred resolution strategy for AIB consists of a single point of entry bail-in at a group holding company level, which would require the establishment of a holding company directly above Allied Irish Banks, p.l.c. Under a single point of entry resolution strategy with bail-in at Group holding company level, the holding company would issue external equity and debt instruments that would be expected to be eligible for minimum requirements for own funds and eligible liabilities (“MREL”) purposes, whereas customer accounts would continue to be held in regulated operating companies below the holding company level.

The changes to be implemented in respect of the SRM Regulation and the BRRD may have an effect on the Group’s business, financial condition or prospects. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements.

The Group continues to actively engage with the Resolution Authorities as they develop their resolution plan.

The Group is required to comply with a wide range of laws and regulations. If the Group fails to comply with these laws and regulations, it could become subject to regulatory actions

The Group must comply with numerous laws, accounting standards and regulations such as detailed and emerging prudential regulatory requirements in the form of CRR/CRD IV, BRRD, EBA and CBI requirements.

- New accounting standards, for example, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement, will change the classification and measurement of certain financial assets, the recognition and the financial impact of impairment and hedge accounting;
- Contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- Regulatory actions pose a number of risks to the Group, 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. In addition, the Group may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Group's business. The Group needs to be aware of and comply with new regulation as it emerges and existing regulation as it evolves. All of these issues could have a negative effect on the Group's reputation and the confidence of its customers in the Group as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy.
- The Group is also subject to substantial and changing prudential regulation, including requirements to maintain adequate capital resources and liquidity and to satisfy specified capital, liquidity and leverage ratios, as well as changes in accounting standards that impact the Group'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.
- The Group 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 the Group's resources, particularly during a period of significant organisational transformation.

Furthermore, the laws and regulations to which the Group is subject may change, including as a result of changes in interpretation or practice by courts, regulators or other authorities, resulting in higher compliance costs and resource commitments, and/or a failure by the Group to implement the necessary changes to its business within the time period specified.

In addition, differing regulatory regimes across the jurisdictions in which the Group operates, including Ireland, the United Kingdom and the United States, may result in non-compliance and/or may entail additional compliance costs.

The Group adopts a systematic approach to the identification, assessment, transposition, control and monitoring of new or changing laws and regulatory requirements. Once implemented, a compliance monitoring team tests the adequacy of, and adherence to, the control environment.

The Group 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

The Group is subject to laws aimed at preventing money laundering, anti-corruption and the financing of terrorism. Monitoring compliance with anti-money laundering ("AML") and anti-corruption and sanctions rules can put 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 intrusive, resulting in several landmark fines against financial institutions. In addition, the Group 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 the Group has policies and procedures that it believes are sufficient to comply with applicable anti-money laundering, 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 the Group's employees, agents, third party suppliers or other related persons for which the Group might be held responsible. Any such events may have severe consequences, including litigation, sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

AIB has established robust control frameworks to identify and comply with the AML, sanctions and anti-bribery laws that apply to all of its business operations. Key aspects include comprehensive Group Policies and standards, detailed customer on-boarding and ongoing due diligence requirements, ongoing transaction monitoring and automated screening of the customer base and payments against relevant official sanctions lists, together with escalation protocols and staff training programmes.

The Group's financial results may be negatively impacted by changes to accounting standards

The Group reports its results of operations and financial position in accordance with IFRS. 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 the Group's regulatory capital and ratios by requiring the recognition of additional provisions for loss on certain assets.

The Group 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 the Group's reported results of operations, financial position and regulatory capital in the future. For example, IFRS 9 *Financial Instruments,* which will replace IAS 39 when adopted, will require the Group 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. It is not currently possible to estimate the precise financial effects of this new standard on the Group's results of operations, although it is expected that IFRS 9 will have a significant impact for the Group, as is the case for the banking industry as a whole. The introduction of IFRS 9 may also affect the Group's capital position.

The Group mitigates this risk by holding capital resources in excess of minimum regulatory and internal requirements, to act as a buffer against volatility and unexpected events.

Risk of litigation arising from the Group's activities

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which the Group may be involved are subject to many uncertainties, and the outcomes of such disputes are often difficult to predict, particularly in the early stages of a case or investigation.

Adverse regulatory action or adverse judgements in litigation could result in a monetary fine or penalty, adverse monetary judgement or settlement and/or restrictions or limitations on the Group's operations or result in a material adverse effect on the Group's reputation.

The Group has a centralised legal team under the Group General Counsel and relevant internal and external legal expertise is retained to mitigate associated risks, as appropriate.

The Group 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

The future budgetary and taxation policy of Ireland and other measures adopted by the Irish Government or the UK Government may have an adverse impact on borrowers' ability to repay their loans and, as a result, the Group's business.

Furthermore, some measures may directly impact the financial performance of the Group through the imposition of measures such as the bank levy introduced by the Irish Government in Budget 2014 and which the Irish Government announced during Budget 2016 would be extended to 2021. The annual levy paid by the Group in 2016 amounted to € 60 million.

In addition, the UK Government introduced legislation restricting 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 the Group's deferred tax asset for the year ended 31 December 2015. This was subsequently further reduced to 25 per cent, effective 1 April 2016.The impact associated with these and any future changes in budgetary and taxation policies globally could have a material adverse effect on the Group's financial position.

In addition, multi-national 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 ("BEPS") 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. If these types of arrangements continue to be challenged, this could result in companies relocating from Ireland to or deciding to invest in other jurisdictions, which could have an adverse impact on the Irish economy.

The Group assesses this risk by undertaking sensitivity analysis in its financial planning process, and monitoring financial performance against the Group's financial plan on a monthly basis.

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 Group's customers, delays in the Group's recoveries in its mortgage portfolio and increased impairments

Legislation and regulations have been introduced to the Irish mortgage market which may affect the Group's customers' attitudes towards their debt obligations, and hence their interactions with the Group in relation to their mortgages.

There is a risk that legislation and regulations such as the Personal Insolvency Act and the Code of Conduct on Mortgages Arrears ("CCMA") will result in changes in customers' attitudes towards their debt obligations. Customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. This could result in delays in the Group's recoveries in respect of its mortgage portfolio and increased impairments, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Irish Government policy in relation to mortgages is continuing to evolve. It is possible that further changes in legislation or regulation could be introduced, or the way in which they are applied by the courts. The Government may seek to influence how credit institutions set interest rates on mortgages, may amend the Personal Insolvency Act to reduce the entitlements currently afforded to mortgage holders thereunder or may enact other legislation or introduce further regulation that affects the rights of lenders in other ways which could have a material adverse effect on the Group's business, financial condition and prospects.

The Group actively engages with all relevant industry and government stakeholders highlighting, as appropriate, the intended and unintended consequences of any proposed regulatory or legislative changes including its impacts on customers, the Group and the industry as a whole.

The Group 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

The Group is exposed to conduct risk, which the Group defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of the Group's business may be determined by 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. If the Group fails to comply with any relevant laws or regulations, it may suffer reputational damage and may be subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. The Group's practices may also be challenged under current regulations and standards.

In addition, the Group 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 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 the Group in a short period of time and/or without transitional arrangements. If the Group is unable to manage these risks, its business, results of operations, financial condition and prospects could be materially adversely affected.

The Group has a mature Conduct Risk Framework, aligned with the Group Strategy, which is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level by way of two key fora:

- Group Conduct Committee: provides the Group Leadership team oversight of conduct through promoting and supporting a customer centric culture and also oversees the key conduct Risk Appetite metrics for Complaints Management & Product Reviews.
- Group Product & Proposition Committee: focus is exclusively in product oversight and management including overseeing a rolling programme of product reviews.

Risks relating to business operations, governance and internal control systems

The Group's strategy may not be optimal and/or not successfully implemented

The Group has identified several strategic objectives for its business. There can be no assurance that the Group's strategy is the optimal strategy for delivering returns to shareholders. The various elements of the Group's strategy may be individually unnecessary or collectively incomplete. The Group's strategy may also prove to be based on flawed assumptions regarding the pace and direction of future change across the banking sector. Finally, the Group may not be successful in implementing its strategy in a cost effective manner. The Group'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.

The entry of bank and non-bank competitors into the Group's markets may put additional pressure on the Group's income streams and, consequently, have an adverse impact on its financial performance.

The Group mitigates this risk by monitoring its performance against its strategic objectives on a regular basis, by periodically reviewing the competitive landscape and by benchmarking its performance to peers.

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

The Group 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 financial crisis, if an inappropriate culture develops, then a strategy or course of action could be adopted that results in poor customer outcomes. If the Group is unable to maintain an appropriate culture, this could have a negative impact on the Group's business, result of operations, financial condition and prospects.

The Group monitors the evolving culture through a staff engagement programme, iConnect and through the performance management system. As a result, initiatives continue to be undertaken at team level to improve the way we do things and from which we continuously identify opportunities to evolve our culture at Group level as a competitive advantage.

Damage to the Group's brand or reputation could adversely affect its relationships with customers, staff, shareholders and regulators

Management aims to ensure that the Group's brands, which include the AIB and EBS brands in Ireland, the AIB 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, easy to use and providing an exceptional customer experience. The Group'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 investigations, inquiries, litigation, actual or perceived misconduct or poor market practice in relation to customer related issues could damage the Group's brands and/or reputation. Any damage to the Group's brands and/or reputation could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group'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 the Group's business

The Group is exposed to a number of material risks, such as business risk, capital adequacy risk, funding and liquidity risk, credit risk, market risk, pension risk, regulatory compliance risk, operational risk, restructure execution risk, model risk and conduct risk. Although the Group invests substantially in its risk management strategies and techniques, there is a risk that these fail to fully mitigate the risks in some circumstances. Furthermore, Senior Management are required to make complex judgements and there is a risk that the decisions made by Senior Management may not be appropriate or yield the results expected or that Senior Management may be unable to recognise emerging risks in order to take appropriate action in a timely manner.

The Group mitigates this risk by regularly reviewing the design and operating effectiveness of its risk management policies and methodologies. These reviews are supplemented in some instances by external review and validation.

The Group uses risk measurement or quantum of valuation 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

The Group 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. The Group 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 ("IFRS"). Since the Group 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 the Group'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. If the Group's models do not accurately estimate its exposure to various risks, it may experience unexpected losses. The Group 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 the Group'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.

The Group mitigates this risk through the review and monitoring of the design and operating effectiveness of the Model Risk Framework and supporting policies. These reviews are supplemented in some instances by external review and validation.

The Group has a relatively 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

The Group has a relatively 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. The Group has been proactive in managing its criticised loans, in particular through restructuring activities and the development of a MARS, which built on and formalised the MARP introduced in order to comply with the Central Bank's CCMA. The Group has reduced the level of criticised loans, however, there can be no assurance that the Group will continue to be successful in reducing the level of its criticised loans.

The monitoring of such loans can be time consuming and typically requires case-by-case resolution, which may divert resources from other areas of the Group's business.

The Group's ability to manage criticised loans may be adversely affected by changes in the regulatory regime or changes in government policy.

The Group has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage criticised loans. The Group regularly reviews these credit policies as well as the performance of criticised loans against financial plans.

The Group faces operational risks – including people, cyber, outsourcing, process and systems risks

Operational risk which is the risk arising from inadequate or failed internal processes, people and systems, or from external events.

One of the Group's key operational risks is people risk. The Group's efforts to restore and sustain the stability of its business on a long-term basis depend, in part, on the availability of skilled management and the continued service of key members of staff.

Under the terms of the recapitalisation of the Group by the Irish Government, the Group is required to comply with certain executive pay and compensation arrangements. As a result of these restrictions, and in the increasingly competitive markets in Ireland and the UK, the Group may not be able to attract, retain and remunerate highly skilled and qualified personnel. Failure by the Group to staff its day-to-day operations appropriately or failure to attract and appropriately develop, motivate and retain highly skilled and qualified personnel could have an adverse effect on the Group's results, financial condition and prospects. In addition, 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.

The Group's business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, which often includes personal customer data. Any weakness in these systems or processes including failure of third party processes infrastructure and services on which the Group relies could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes during the affected period and/or expose the Group to investigative or enforcement actions by the relevant regulatory authorities. In addition, any breach in security of the Group's systems (for example from increasingly sophisticated cybercrime attacks), could disrupt its business, result in the disclosure of confidential information or create significant financial and/or legal exposure and the possibility of damage to the Group's reputation and/or brand.

The proper functioning of information technology ("IT") and communications systems and its related operational processes are critical to the Group'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.

The Group 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 the Group or renew their licences with the Group, the Group's business could be disrupted and it could incur unforeseen costs.

Furthermore, the Group 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.

The Group mitigates its operational risks by having detailed risk assessment and internal control requirements in relation to the management of its key people, process and systems risk, and through comprehensive and robust business continuity management arrangements.

The Group may have insufficient capital to meet increased minimum regulatory requirements

The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the SSM. As a result of these requirements banks in the EU have been, and could continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected and/or that losses on the Group'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 to increase significantly, there is a risk that the Group's capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements. In particular, capital levels may be negatively affected by volatility arising from the defined benefit pension schemes and the AFS portfolio values.

This risk is mitigated by evaluating the adequacy of the Group'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 and is undertaken bi-annually.

The Group is subject to the risk that the funding position of its defined benefit pension schemes could deteriorate, requiring it to make additional contributions

The Group 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. In relation to these schemes, the Group faces the risk that the funding position of the schemes will deteriorate. This may require it to make additional contributions above what is already planned to cover its pension obligations towards current and former employees. Furthermore, IAS pension deficits as reported are a deduction from capital under CRD IV. Accordingly, any increase in the Group's pension deficit may adversely affect its capital position.

The Group 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 "MFS") requirements of the AIB Irish Pension Scheme. For its defined benefit schemes in the UK, the Group established an asset backed funding vehicle to provide the required regulatory funding. 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.

There has been a change to the actuarial assumption of the nature and extent of any obligation to fund discretionary increases to pensions in payment in the Group's main Irish schemes. This has been assessed following a review by the Board, having considered actuarial and external legal advice. Although the Group is confident of its assessment, it may be subject to risk of challenge, however, the Group will robustly defend any such challenge, legal or otherwise.

Deferred tax assets that are recognised by the Group may be affected by changes in tax legislation, the interpretation of such legislation or relevant practices. The recognition of deferred tax asset is dependent on future taxable profit being available against which the unused tax losses recognised can be utilised.

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 decrease in the Group'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. This legislation has adversely affected the value of the Group'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 the Group's deferred tax assets, which could adversely affect the Group's business, results of operations, financial condition and prospects. There is also a risk that the generation of future taxable profits in Ireland or in the UK, supporting the current level of deferred tax assets, may not arise or be generated beyond a period where the Group believes that it can assess the likelihood of profits arising as more likely than not.

The capital adequacy rules under CRD IV, also require the Group, 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 10 years, although this phasing may be subject to change. Because of these new rules, the Group may be required to hold more capital in the transitional period.

The Group monitors this risk by regularly reviewing the basis for recognition of its deferred tax assets.

Risk management – 2. Framework

Introduction

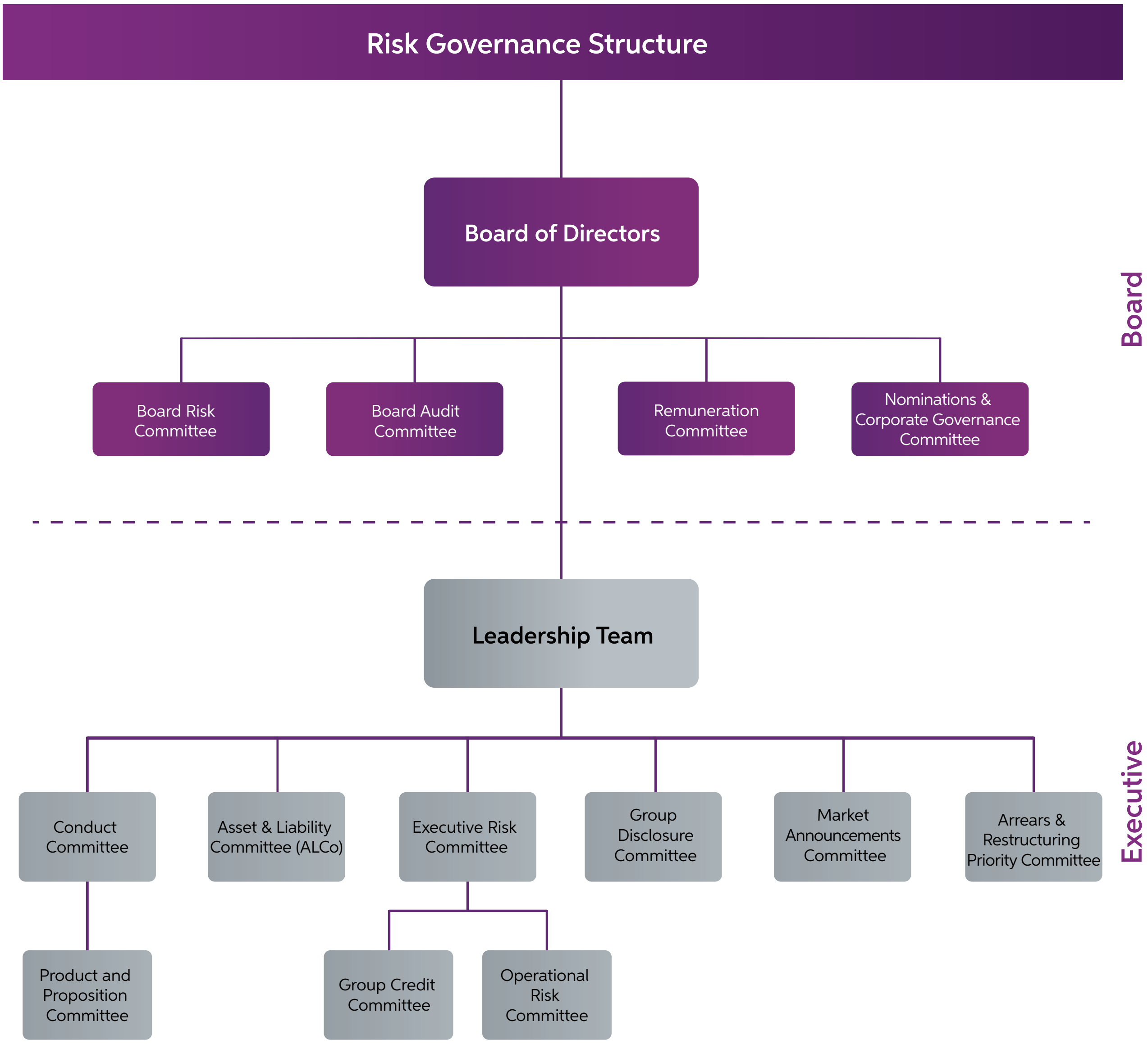
The principal risks and uncertainties to which the Group is exposed are set out in the previous section. The governance and organisation framework through which the Group manages and seeks to mitigate these risks, is described below.

2.1 Risk management framework

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase cash flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations. AIB 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 Board (or Board delegation) are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. The core aspects of the Group's risk management approach are described below.

2.2 Risk identification and assessment

The Group 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 facing the Group 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 the Group's risk profile and emerging risks is presented to each Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") meeting.


Risk Governance Structure

Board of Directors

Board Risk Committee

Board Audit Committee

Remuneration Committee

Nominations & Corporate Governance Committee

Board

Leadership Team

Conduct Committee

Asset & Liability Committee (ALCo)

Executive Risk Committee

Group Disclosure Committee

Market Announcements Committee

Arrears & Restructuring Priority Committee

Product and Proposition Committee

Group Credit Committee

Operational Risk Committee

Executive

Risk management – 2. Framework

2.3 Risk appetite

The Group's risk appetite is defined as the amount of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives and ambition. The Group Risk Appetite Statement ("RAS") is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives.

The Group RAS is reviewed and approved by the Board at least annually and as required, in alignment with the business and financial planning process. The Group RAS is cascaded down to the Group licensed subsidiaries and significant business areas to ensure it is embedded throughout the Group.

While the Board approves the Group RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. The Group's risk profile is measured against its risk appetite and adherence to the Group RAS is reported on a monthly basis to the ERC and BRC. Should any breaches of Group RAS limits arise, these, together with associated management action plans, are escalated to the Board for review, and also reported to the Central Bank of Ireland ("CBI")/Joint Supervisory Team ("JST"), in line with the provisions of its Corporate Governance Code.

Risk appetite is embedded within the Group in a number of ways, including, alignment with risk frameworks and policies, segment and subsidiary risk appetite statements, delegated authorities and limits and new product approval processes. Extensive communication and cascade of key aspects of the Group's risk appetite framework, as relevant, serve to ensure that risk appetite drives strategy and informs day to day decision making.

2.4 Risk governance

2.4.1 Risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group 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, headed by the Group Chief Risk Officer ("CRO") together with the Compliance function provide the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function, under the Head of Group Internal Audit ("GIA"), which provides independent assurance to the Board Audit Committee on the effectiveness of the system of internal control.

2.4.2 Committees with risk management responsibilities

The Board has delegated a number of risk governance responsibilities to various committees and key officers. The diagram on the previous page summarises the current risk committee structure of the Group.

The role of the Board, the Board Audit Committee, and the BRC is set out in Governance and Oversight – Corporate Governance report on pages 185 to 189. The Leadership Team comprises the Senior Executive managers of the Group who manage the strategic business risks of the Group. It establishes the business strategy and risk appetite within which the Group operates.

The role of the ERC is to foster risk governance within the Group, to ensure that risks within the Group are appropriately managed and controlled, and to evaluate the Group's risk appetite against the Group's strategy. It is a sub-committee of the Leadership Team chaired by the Chief Financial Officer ("CFO") and its membership includes the CRO and Chief Operating Officer ("COO") and the heads of significant business areas.

The ERC's principal duties and responsibilities include reviewing the effectiveness of the Group's risk frameworks and policies, monitoring and reviewing the Group'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 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 the Group; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; the approval of credit inputs to credit decisioning models, as well as the review and approval of other credit related matters as they occur. Principal responsibilities of the ORC is to provide oversight to ERC in relation to the current and potential future operational risks/ profile facing the Group and operational risk strategy in that regard. It reviews, approves and recommends, as appropriate, to ERC, BRC and Board, the Operational Risk Framework and all other operational policies and standards. ORC is also responsible for reviewing key operational risk assessments and mandating related action plans, where required.

The role of the Group Conduct Committee is to promote a sustaining customer centric culture through the oversight of conduct across the Group's operations including in Republic of Ireland, the UK and the USA 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 ("CMO") who is responsible for ensuring a consistent approach to conduct risk management across the Group.

The Conduct Committee's principal duties include monitoring of the Group's conduct profile to ensure it remains within risk appetite, approving and monitoring of the effectiveness of the Group Conduct Risk Framework as well as review and approval of other conduct related matters including conduct training programmes. The Conduct Committee acts as a parent to the Group Product and Proposition Committee, which has delegated authority for the approval of the launch of products, propositions and oversight of the Group's overall product portfolio.

The role of the ALCo is to act as the Group'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 and the heads of significant business areas. ALCo is tasked with decision-making in respect of the Group's balance sheet structure, including capital, liquidity, funding, interest rate risk in the Banking Book ("IRRBB") 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, ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital ('IRB models'), and for the calculation of expected and unexpected credit losses and stress testing. In addition, ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing and review and analysis of risk adjusted returns on capital ("RAROC").

The role of the Market Announcements Committee ("MAC") is to act as an advisory committee to the CEO and CFO in determining on a timely basis the treatment of material information relating to the Group and its impacted subsidiary entities in order to comply with insider information disclosure obligations under the Market Abuse Regulation ("MAR"), the Central Bank of Ireland'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 Committee also ensures that the Group issues an interim announcement in circumstances where an obligation to disclose insider information has arisen under MAR but where the Group 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, the Director of Corporate Affairs and Strategy and the Group Treasurer.

The Group Disclosure Committee is responsible for reviewing the Group 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 the Group conform to the highest standards in financial reporting.

The Arrears & Restructuring Priority Committee ("ARPC") is a sub-committee of the Leadership Team and was established in 2016 to take all decisions and actions required or deemed necessary, or to establish the basis on which such decisions and actions are taken, to execute the Group's restructuring strategy.

Risk management – 3. Individual risk types

3.1 Credit risk

Credit risk is the risk that the Group 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 the Group 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.

Credit risk organisation and structure

The Group'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. The Group Risk Appetite Statement ("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 the Group's approved risk appetite. The Group's risk appetite for credit risk is reviewed and approved annually.

AIB operates credit approval criteria which:
- Includes a clear indication of the Group's target market(s), in line with Group and segment risk appetite statements;
- Requires 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
- Enforces 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, 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 AIB 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 the Group's written policies and guidelines. All exposures above certain levels require approval by the Group Credit Committee ("GCC") and/or 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.

Measurement of credit risk

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which the Group 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 obligations;
- Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his 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.

3.1 Credit risk

Measurement of credit risk *(continued)*

To calculate PD, the Group 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 on-going 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 probability of default 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 decisioning 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' earnings before interest, tax, depreciation and amortisation ("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. In AIB, 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 estimated 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.

The Group'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 on-going review in order to ensure that the Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

Use of PD, LGD, and EAD within regulatory capital and impairment provisioning

At 31 December 2016, the Group used a combination of Standardised and Internal Ratings Based ("IRB") approaches for the calculation of regulatory capital. Under the Standardised approach, regulatory risk weightings are determined on a fixed percentage basis, depending on the portfolios, as specified in the relevant regulations. The Group has regulatory approval to use certain of its internal credit models in the calculation of its capital requirements. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and Advanced IRB for retail exposures. At 31 December 2016, 43% (31 December 2015: 43%) of credit risk weighted assets were calculated using internal credit models.

The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate PD estimates into between 9 and 16 grades in addition to the category of default. In all cases, impaired exposures and exposures 90 days or more past due are considered to be in default.

3.1 Credit risk

Measurement of credit risk *(continued)*

Non-retail

For non-retail exposures, the Foundation IRB approach is used for sovereign, bank, corporate, commercial, 'not for profit' and project finance portfolios. The Foundation IRB approach is used where banks use their own estimate of PD and regulatory estimates of LGD and EAD. To calculate PD, the Group assesses the quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration.

Retail

For retail exposures, the Advanced IRB approach is adopted for Republic of Ireland residential mortgages (excluding EBS mortgages) where the Group uses its own estimates of PD, LGD and EAD. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources.

The Group has a formalised governance framework around the internal ratings process. Each rating model is subject to an annual validation process, undertaken by an independent validation team.

The table below shows the distribution of outstanding non-defaulted credit exposures to customers in terms of EAD, PD, LGD and EL by IRB portfolios at 31 December 2016 and 2015:

				2016
	EAD € m	**Average PD %**	**Average LGD %**	**EL[1] € m**
Residential mortgages				
Owner-occupier	**15,455**	**0.80**	**27.10**	**47**
Buy-to-let	**2,526**	**1.08**	**29.44**	**17**
	17,981	**0.84**	**27.43**	**64**
Corporate	**6,987**	**0.73**	**45.26**	**27**
SME	**3,127**	**4.81**	**45.00**	**69**
Total	**28,095**	**1.26**	**33.82**	**160**

				2015
	EAD € m	Average PD %	Average LGD %	EL[1] € m
Residential mortgages				
Owner-occupier	15,439	1.08	27.30	63
Buy-to-let	2,999	2.21	29.97	42
	18,438	1.26	27.74	105
Corporate	6,422	1.04	45.26	34
SME	3,017	5.61	45.00	76
Total	27,877	1.68	33.64	215

[1] EL has been applied following the outcome of the 2013 Balance Sheet Assessment by the CBI.

The reduction in the average PD for the owner-occupier and the buy-to-let portfolios is due to the non-default population having a lower recent history of poor account behaviour performance than was previously observed. This has resulted in positive grade migration on this portion of the portfolio in the 12 months to 31 December 2016. The reduction in PD for the corporate portfolio primarily reflects growth in the international lending portfolio and growth in the AIB Ireland corporate portfolio and the reduction in the number of cases in the watch list grades.

For financial reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the reporting date based on objective evidence of impairment, accordingly, these will differ from amounts calculated from expected loss models.

3.1 Credit risk

Measurement of credit risk *(continued)*

Control mechanisms for rating systems

The Group ALCo approves all material risk rating models, model development, model implementation and all associated polices. The Group mitigates model risk for IRB portfolios as follows:

- The Group has specific policies relating to 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.

Credit risk principles and policy*

The Group implements and operates policies covering the identification, assessment, approval, monitoring, control and reporting of credit risk. The Credit Risk Framework sets out, at a high level, how the Group identifies, assesses, approves, monitors, reports and controls credit risk. It contains minimum standards that are applied across the Group to provide a common and consistent approach to the management of credit risk.

More detailed policies, standards and guidelines provide more explicit instructions for applying these minimum standards to specific products, business lines, market segments, processes and roles. These are reviewed at least annually. Policy exceptions must be approved and reported. In circumstances where a breach occurs, it must be reported to Senior Management and the Credit Risk function to assess any required remedial action. Credit Risk monitors credit performance trends, reviews and challenges exceptions to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows the Group to take early and proactive mitigating actions for any potential areas of concern. The more significant credit policies are approved by the Board.

Credit concentration risk*

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to the Group's capital, total assets, earnings or overall risk level to threaten its ability to deliver its core objectives. Credit policy is aligned to the Group's risk appetite and restricts exposure to certain high risk countries and more vulnerable sectors. Exposures are monitored to prevent excess concentration of risk. The Board approved Large Exposures and Approval Authorities Policy sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking into account features such as security, default risk and term. Concentration risk to sectors and movements in such concentrations are monitored regularly to prevent excessive concentration of risk, guide risk appetite and limit setting, identify unwanted concentrations, and provide an early warning indicator for potential excesses. Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within the Group and in turn facilitate appropriate management action and decision making.

Country risk*

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable/unwilling to fulfil or are precluded from fulfilling their obligations to the Group due to economic or political circumstances. These are managed in line with the Country Policy limits which define maximum credit risk appetite for those countries through direct sovereign bond exposure, interbank exposure as well as corporate and equity exposures. Exposures against limits are monitored on an on-going basis and reported in line with processes detailed in the Country Exposure Policy.

Credit risk on derivatives*

The credit risk on derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB to meet customer needs, to reduce interest rate risk, currency risk, and in some cases credit risk and also for proprietary trading purposes. Risks associated with derivatives are managed from a credit, market and operational perspective. The total credit exposure consists partly of the current replacement cost and partly of the potential future exposure. The potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract. The Group uses a simulation tool to estimate possible changes in future market values and computes the credit exposure to a high level of statistical significance. Exposures against limits are monitored on an on-going basis.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

Credit risk assurance and review*

The credit management process is underpinned by an independent system of review. Assessment of the effectiveness of risk management practices and adherence to risk controls is carried out by Credit Risk and Credit Review teams who facilitate a wide range of assurance and review work. This includes cyclical credit reviews, non-standard reviews, and bespoke assignments, including impairment adequacy reviews, as required. This provides Executive and Senior Management with assurance and guidance on credit quality, effectiveness of credit risk controls as well as the robustness of impairment provisions.

Stress testing and scenario analysis*

The credit portfolio is subjected to stress testing and scenario analysis. Events are modelled at a Group wide level, at a segment and business unit level and by rating model and portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Maximum exposure to credit risk from on balance sheet and off balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount, and for financial guarantees and similar contracts granted, it is the maximum amount the Group would have to pay if the guarantees were called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2016 and 2015:

			2016			2015
	Amortised cost[1]	**Fair value[2]**	**Total**	Amortised cost[1]	Fair value[2]	Total
Maximum exposure to credit risk*	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Balances at central banks[3]	**5,921**	**–**	**5,921**	4,415	–	4,415
Items in course of collection	**134**	**–**	**134**	153	–	153
Derivative financial instruments	**–**	**1,814**	**1,814**	–	1,698	1,698
Loans and receivables to banks	**1,399**	**–**	**1,399**	2,339	–	2,339
Loans and receivables to customers	**60,639**	**–**	**60,639**	63,240	–	63,240
NAMA senior bonds	**1,799**	**–**	**1,799**	5,616	–	5,616
Financial investments available for sale[4]	**–**	**14,832**	**14,832**	–	15,708	15,708
Financial investments held to maturity	**3,356**	**–**	**3,356**	3,483	–	3,483
Included elsewhere:						
Trade receivables	**90**	**–**	**90**	539	–	539
Accrued interest	**340**	**–**	**340**	399	–	399
	73,678	**16,646**	**90,324**	80,184	17,406	97,590
Financial guarantees	**910**		**910**	1,375		1,375
Loan commitments and other credit related commitments	**10,289**	**–**	**10,289**	9,747	–	9,747
	11,199	**–**	**11,199**	11,122	–	11,122
Total	**84,877**	**16,646**	**101,523**	91,306	17,406	108,712

[1]All amortised cost items are 'loans and receivables' or 'financial investments held to maturity' per IAS 39 definitions.

[2]All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as 'fair value through profit or loss'.

[3]Included within cash and balances at central banks of € 6,519 million (31 December 2015: € 4,950 million).

[4]Excluding equity shares of € 605 million (31 December 2015: € 781 million).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants*

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan. However, AIB uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are described below under the section on Collateral. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

Occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

The Group enters into netting agreements for derivatives with certain counterparties, to ensure that in the event of default, all amounts outstanding with those counterparties will be settled on a net basis. Derivative transactions with wholesale counterparties are typically collateralised under a Credit Support Annex in conjunction with the International Swaps and Derivatives Association ("ISDA") Master Agreement.

The Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit rating. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units in each segment are required to have an approved bank or country limit prior to granting any credit facility, or approving any obligation or commitment which has the potential to create interbank or country exposure.

Collateral

Credit risk mitigation may include a requirement to obtain collateral as set out in the Group's lending policies. Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. The Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and receivables are:
- Charges over business assets such as premises, inventory and accounts receivables;
- Mortgages over residential and commercial real estate; and
- Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and receivables is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

Collateral is not usually held against loans and receivables to financial institutions, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement.

Methodologies for valuing collateral

As property loans represent a significant concentration within the Group's loans and receivables portfolio, some key principles have been applied in respect of property collateral held by the Group.

In accordance with the Group's policy and guidelines on Property Collateral Valuation, the Group uses a number of methods to assist in reaching appropriate valuations for property collateral held. These include:
- Use of independent professional valuations;
- Use of internally developed residual value methodologies; and
- Application of local knowledge in respect of the property and its location.

Use of independent professional valuations represent circumstances where external firms are engaged to provide formal written valuations in respect of the property. Up to date external independent professional valuations are sought in accordance with the Group's Property Valuation Policy. Historic valuations are also used as benchmarks to compare against current market conditions and assess house price reductions from peak. Available market indices for relevant assets, e.g. residential and investment property are also used in valuation assessments.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

The residual value analysis methodology assesses the value of the land or property asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered in this methodology include: (i) the development potential given the location of the asset; (ii) its current or likely near term planning status; (iii) levels of current and likely future demand; (iv) the relevant costs associated with the completion of the project; and (v) expected market prices of completed units. If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project, a residual value methodology is used. When, in the opinion of the Group, the land is not likely to be developed or it is non-commercial to do so, agricultural/green field values may be applied. Alternative use value (subject to planning permission) would also be considered.

Application of local market knowledge represents circumstances where the local bank staff, familiar with the property concerned and with local market conditions, and with knowledge of recent completed transactions, provide indications of the likely realisable value and a potential timeline for realisation. Current yields are applied to current rentals in valuing investment property.

When assessing properties that are used for operational business or trading purposes, these are generally valued by applying a multiple to stabilised EBITDA, e.g. hotels and nursing homes. For licensed premises, these are valued by applying a multiple to stabilised net turnover (average over three years).

When assessing the value of residential properties, recent transactional analysis of comparable sales in the area combined with the Central Statistics Office (”CSO”) Residential Property Price index in the Republic of Ireland are used.

For non-mortgage lending, where collateral is taken, it will typically include a charge over the business assets such as stock and debtors. In some cases, a charge over property collateral or a personal guarantee supported by a lien over personal assets may also be taken. Where cash flows arising from the realisation of collateral held are included in impairment assessments, in many cases management rely on valuations or business appraisals from independent external professionals.

Property collateral is reviewed on a regular basis in accordance with the Property Valuation policy.

Applying one or a combination of the above methodologies, in line with the Group’s Valuation Policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency and availability of such up-to-date valuations remain a key factor within impairment provisions determination. Additionally, all relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at is therefore, a function of the nature of the asset, e.g. unserviced land in a rural area will most likely suffer a greater reduction in value if purchased at the height of a property boom than a fully let investment property with strong lessees.

When assessing the level of impairment provision required for property loans, apart from the value to be realised from the collateral, other cash flows, such as recourse to other assets or sponsor support, are also considered, where available. The other key driver is the time it takes to receive the funds from the realisation of collateral. While this depends on the type of collateral and the stage of its development, the period of time to realisation is typically one to five years but sometimes this time period is exceeded. These estimates are periodically reassessed on a case by case basis.

The value of collateral is assessed at origination of the loan or in the case of criticised loans, when testing for impairment. However, as the Group does not capture collateral values on its loan systems, it is not possible to quantify the fair value of collateral for non-impaired loans on an on-going basis at a portfolio level. It should be noted that when testing a loan for impairment, the present value of future cash flows, including the value of collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Therefore, for non-mortgage impaired loans, the net exposure after provision would be indicative of the fair value.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

In assessing the value of collateral for collectively provided impaired mortgage loans in the Republic of Ireland, the Group has used a house price fall from peak of 40% Dublin and 44% non-Dublin as a base (2015: 41% and 42% respectively). This reflects a collateral value buffer against the latest available CSO residential property price index which at 31 December 2016 showed a 33% and a 37% fall from peak for Dublin and non-Dublin respectively (2015: 35% Dublin and 36% non-Dublin).

In 2016, the CSO moved to an enhanced estimation methodology for compiling movements in property prices. AIB's buffer to the latest available CSO index remained unchanged at 10% throughout 2016.

Collateral for the residential mortgage portfolio

For residential mortgages, the Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The Group adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 December 2016 is based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (United Kingdom) to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 68.

Loans and receivables to customers – residential mortgages

The following table shows the fair value of collateral held for the Group's residential mortgage portfolio at 31 December 2016 and 2015:

				2016				2015
	Neither past due nor impaired € m	**Past due but not impaired € m**	**Impaired € m**	**Total € m**	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Fully collateralised[1]								
Loan-to-value ratio:								
Less than 50%	**7,797**	**234**	**430**	**8,461**	7,116	237	525	7,878
50% - 70%	**7,804**	**225**	**553**	**8,582**	6,858	235	709	7,802
71% - 80%	**4,077**	**110**	**356**	**4,543**	4,109	114	466	4,689
81% - 90%	**3,364**	**83**	**374**	**3,821**	3,616	114	533	4,263
91% - 100%	**2,308**	**99**	**423**	**2,830**	2,634	101	619	3,354
	25,350	**751**	**2,136**	**28,237**	24,333	801	2,852	27,986
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**3,760**	**144**	**1,786**	**5,690**	4,631	206	2,356	7,193
Total collateral value	**29,110**	**895**	**3,922**	**33,927**	28,964	1,007	5,208	35,179
Gross residential mortgages	**29,730**	**933**	**4,576**	**35,239**	29,796	1,056	5,966	36,818
Statement of financial position specific provisions			**(1,728)**	**(1,728)**			(2,045)	(2,045)
Statement of financial position IBNR provisions				**(274)**				(277)
Net residential mortgages			**2,848**	**33,237**			3,921	34,496

[1]The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at each financial year end.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Loans and receivables to customers - other

In addition to the credit risk mitigants outlined on the previous page, the Group holds reverse repurchase agreements amounting to Nil (2015: € 226 million) in its loans and receivables portfolio for which it had accepted collateral with a fair value of Nil (2015: € 222 million).

Derivatives

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2016 amounted to € 1,814 million (2015: € 1,698 million) and those with negative fair value are reported as liabilities which at 31 December 2016 amounted to € 1,609 million (2015: € 1,781 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 971 million at 31 December 2016 (2015: € 1,052 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2016, € 487 million (2015: € 514 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 322 million (2015: € 201 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 44 to the consolidated financial statements). Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and receivables to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 31 December 2016, repurchase agreements amounted to Nil (2015: € 648 million) for which the Group had accepted collateral with a fair value of Nil (2015: € 737 million).

NAMA senior bonds

NAMA senior bonds, which at 31 December 2016 had a carrying value of € 1,799 million (2015: € 5,616 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale

At 31 December 2016, government guaranteed senior bank debt which amounted to € 190 million (2015: € 174 million) was held within the available for sale portfolio.

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*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Credit risk monitoring*

To manage credit risk effectively, the Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios. It is the Group's practice to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk, at a portfolio level is monitored and reported regularly to Senior Management and the Board Risk Committee. Credit managers pro-actively manage the Group's credit risk exposures at a transaction and relationship level. Monitoring is done through credit exposure and excess management, regular review of accounts, being up to date with any developments in customer business, obtaining updated financial information and monitoring of covenant compliance. This is reported on a quarterly basis to Senior Management and includes information and detailed commentary on loan book growth, quality of the loan book and loan impairment provisions including individual large impaired exposures.

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on any exceptions to credit policy is presented and reviewed on a monthly basis. The Group allocates significant resources to ensure on-going monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly.

As a matter of policy, all facilities granted to corporate and wholesale customers are subject to a review on, at least, an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes. Once an account has been placed on a watch list, or early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected.

Criticised borrowers are tested for impairment at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile. In addition, assessment for impairment is required for all cases where borrowers are 90 days past due as a result of payment arrears or on receipt of a forbearance request.

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which the Group has granted a concession, whether temporarily or permanently are set out below. The Group employs a dedicated approach to loan workout and to monitoring and proactively managing impaired loans. Specialised teams focus on managing the majority of criticised loans. Specialist recovery functions deal with customers in default, collection or insolvency. Their mandate is to maximise return on impaired debt and to support customers in difficulty. Whilst the basic principles for managing weaknesses in corporate, commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The Group uses a range of initiatives to support customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in the family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Mortgage portfolio

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty. This builds on and formalises the Group's Mortgage Arrears Resolution Process ("MARP").

The strategy is built on three key factors:
i) Segmentation – identifying customers in difficulty;
ii) Sustainability – customer assessment; and
iii) Suitable Treatment – identifying solutions.

The core objectives are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes the following longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

Low fixed interest rate sustainable solution – This solution aims to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest repayments on their mortgage based on the current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to the prevailing market rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay the full capital and agreed interest throughout;

Split mortgages – A split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest, and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date. This solution may also include an element of debt write-off;

Negative equity trade down – This solution allows a customer to sell his/her house and subsequently purchase a new property and transfer the negative equity portion of the original property to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his/her current financial and other circumstances;

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt write-off; and

Positive equity sustainable solution – This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as split loans due to positive equity.

Credit policies are in place which outline the principles and processes underpinning the Group's approach to mortgage forbearance.

Non-mortgage portfolio

The Group has also developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. This approach is based on customer affordability and applying the following core principles:
- Customers must be treated objectively and consistently;
- Customer circumstances and debt obligations must be viewed holistically; and
- Solutions will be provided where customers are cooperative, and are willing but unable to pay.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Non-mortgage portfolio *(continued)*

The restructuring process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The process broadly moves from an initial customer disclosure stage, through to engagement and analysis, through to an initial proposal from the Group, followed by credit approval, documentation and drawdown. The commercial aspects of this process require that customer affordability is viewed holistically, to include all available sources of finance for debt repayment, including unencumbered assets.

The debt solutions provided allow the customer to enter into a performance based arrangement, typically over a five year period, which will be characterised by the disposal of non-core assets, contribution of unencumbered assets, and contribution toward residual debt from available cash flow. This process may result in debt write-off, where applicable.

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. This may result in the downgrading of the credit grade assigned and if a loss is deemed to be incurred, this will result in a specific impairment provision. Loans to which forbearance have been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

Types of forbearance include: temporary arrangements (such as placing the facility on interest only); permanent sustainable solutions including fundamental restructures (which may include an element of potential debt write down); part capital/interest basis for a period of time; extension of the facility term; split loans; and in some cases, a debt for equity swap or similar structure.

See accounting policy (t) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

The effectiveness of the forbearance measures over the lifetime of the arrangements are subject to on-going management and review. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for the Group and the borrower.

Further details on forbearance are set out in 'Risk management 3.2 Additional credit risk information – Forbearance'.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit risk management

Loan loss provisioning

The Group's provisioning policy requires that impairment be recognised promptly and consistently across the different loan portfolios. A financial asset is considered to be impaired, and therefore, its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows that can be reliably estimated.

Impairment provisions are calculated on individual loans and receivables and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

The identification of loans for assessment as impaired is facilitated by the Group's credit rating systems. As described previously, changes in the variables which drive the borrower's credit rating may result in the borrower being downgraded. This in turn influences the management of individual loans with special attention being paid to lower quality or criticised loans, i.e. in the Watch, Vulnerable or Impaired categories. The credit rating of an exposure is one of the key factors used to determine if a case should be assessed for impairment.

It is the Group's policy to provide for impairment promptly and consistently across the loan book. All business areas formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a quarterly basis. Loans are tested for impairment on receipt of a forbearance request and/or when accounts reach 90 days past due.

The following are triggers to prompt/guide Case Managers regarding the requirement to assess for impairment:

Mortgage portfolio triggers

- Deterioration in the debt service capacity.
- A material decrease in rents received on a buy-to-let property.

Commercial property triggers

- A material decrease in the property value.
- A material decrease in estimated future cash flows.
- The lack of an active market for the assets concerned.
- The absence of a market for refinancing options.

Small Medium Enterprises ("SME") portfolio triggers

- Trading losses or a material weakening in trade which leads to concerns over the ability of the business to meet scheduled debt service.
- Diversion of cash flows from earning assets to support non-earning assets.
- A material decrease in turnover or the loss of a major customer.
- A default or breach of contract.

In addition, the following factors are taken into consideration when assessing whether a loss event has occurred:

- Loss of a significant tenant/material reduction in rental income;
- Significant financial difficulty;
- Decrease in cash flow;
- Lack of objective evidence to prove the viability of the business;
- Material damage and loss to a firm's assets and/or production capacity;
- Loss of critical staff;
- Material increase in costs;
- Market/customer forced reduction in prices with no commensurate increase in volumes;
- Planned sale of property asset did not take place;
- Loss of employment;
- Disappearance of an active market for refinancing or sale of assets;
- Net worth; and
- Country risk.

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Specific provisions*

Specific impairment provisions arise when the recovery of a loan or group of loans is in doubt based on impairment triggers as outlined above and an assessment that all the estimated future cash flows either from the loan itself or from the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision is the difference between the present value of estimated future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s).

When raising specific impairment provisions, AIB divides its impaired portfolio into two categories, namely 'Individually significant' and 'Individually insignificant'.

The individually significant threshold is € 1,000,000 for AIB Ireland by customer connection, € 1,000,000 for EBS d.a.c. and £ 500,000 for AIB UK. The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.

Individually significant loans and receivables*

Within AIB, all loans that are considered individually significant are assessed on a case-by-case basis throughout the period for any objective evidence that the loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Group Property Valuation Guidelines as described on pages 69 to 71. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of the borrower including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

Within EBS, principal dwelling home ("PDH") loans greater than € 1,000,000 are assessed and provided for through an automated process as opposed to individual assessments. The process takes into consideration collateral values and any costs in obtaining and selling associated collateral.

Individually insignificant loans and receivables*

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant. This applies for customer connections with balances less than € 1,000,000 for AIB Ireland and for EBS d.a.c., and £ 500,000 for AIB UK.

Individually insignificant – Mortgage portfolio (Republic of Ireland)*

The individually insignificant mortgage provisioning methodology applies to both owner-occupier and buy-to-let exposures.

For individually insignificant mortgages, specific impairment provisions are calculated using an individually insignificant and IBNR mortgage provisioning model. The methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. The methodology is regularly reviewed and updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The model parameters were refined during the year based on additional data sets.

Key model parameters at 31 December 2016 for owner-occupier mortgages are as follows: cure (14%) and disposal/forbearance (86%) (31 December 2015: cure 6% and disposal/forbearance 94%).

The corresponding buy-to-let model parameters at 31 December 2016 are as follows: cure (7%) and disposal/forbearance (93%) (31 December 2015: cure 3.5% and disposal/forbearance 96.5%).

The cure rate parameter in the individually insignificant model reflects the percentage of loans which were defaulted but have exited default after a 12 month satisfactory performance and no loss to the Group.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Individually insignificant – Mortgage portfolio (Republic of Ireland)* *(continued)*

The modelled loss is calculated on a case by case basis, by subtracting the net present value of the modelled recovery amount from the current loan balance. The model parameters are determined from observed data where possible. Where not directly observable, related measures are used to infer the parameter where possible; otherwise, it is based on expert judgement. The relevant model parameters include: percentage of forced disposals; costs and time to dispose (voluntary and forced); house price fall from peak; loss rate on advanced forbearance; and haircut on sale (voluntary and forced).

The model parameters are reviewed at the Group Credit Committee on a quarterly basis. The main parameter changes for the year to 31 December 2016 were increases in the probabilities of disposal and cure, changes in the CSO index and in the property market fall from peak, increases in disposal haircuts and recovery periods.

Individually insignificant – Non-mortgage portfolio (Republic of Ireland)*

The non-mortgage individually insignificant and IBNR model takes into consideration underlying security in determining the appropriate provision cover rate for impaired exposures. The specific provision for impaired cases is calculated using a LGD model which differentiates loss based on loan size, product type and sector.

Individually insignificant – Mortgage and non-mortgage portfolio (United Kingdom)*

For individually insignificant mortgages, specific impairment provisions are calculated based on a model which assumes that the outcome for all impaired loans is repossession. The individually insignificant non-mortgage specific provisions are calculated based on recovery rates observed over the past 4 years.

Incurred but not reported ("IBNR") provisions*

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date and are not permitted for losses that are expected to occur as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date. The estimation of IBNR also takes into consideration re-default and execution risk for restructured loans.

Provisioning statistical models are used to determine the appropriate level of IBNR provisions for a portfolio/group of exposures with similar risk characteristics. A non-mortgage model as described above estimates IBNR losses taking into consideration the following:

- historical loss experience (loss emergence rates based on historic grade migration experience or probability of default) in portfolios of similar credit risk characteristics (for example, by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (emergence period);
- loss given default rates based on historical loan loss experience, adjusted for current observable data;
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios, e.g. non-impaired forborne mortgages and restructured loans.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Republic of Ireland residential mortgage portfolio – IBNR

The residential mortgage portfolio IBNR is calculated using the individually insignificant and IBNR mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio as at 31 December 2016 and 2015:

						2016
	Owner-occupier			**Buy-to-let**		
	Exposure €m	**Average PD %**	**Average LGD %**	**Exposure €m**	**Average PD %**	**Average LGD %**
Good upper[1]	**15,050**	**0.5**	**13.8**	**1,203**	**2.1**	**19.7**
Good lower[1]	**8,191**	**1.7**	**15.4**	**1,212**	**6.1**	**24.9**
Watch[1]	**1,913**	**12.6**	**17.2**	**327**	**22.9**	**27.4**
Vulnerable[1]	**407**	**35.3**	**15.6**	**152**	**37.3**	**26.2**
Included in the above are the following sub portfolios which carry a higher level of IBNR:						
Cured	**860**	**25.7**	**17.6**	**212**	**41.6**	**31.3**
Forborne – non-impaired	**2,828**	**10.0**	**16.6**	**571**	**17.0**	**28.7**

						2015
	Owner-occupier			Buy-to-let		
	Exposure €m	Average PD %	Average LGD %	Exposure €m	Average PD %	Average LGD %
Good upper[1]	14,168	0.6	17.3	1,160	1.2	17.6
Good lower[1]	8,073	2.8	18.6	1,312	4.4	21.2
Watch[1]	2,286	10.7	19.8	414	16.8	23.0
Vulnerable[1]	534	55.7	19.4	216	56.7	21.9
Included in the above are the following sub portfolios which carry a higher level of IBNR:						
Cured	1,251	23.6	19.9	394	34.4	24.6
Forborne – non-impaired	2,446	13.6	18.9	617	22.1	23.5

[1] For definition – see page 123.

The parameters for Cured and Forborne non-impaired, are as follows:
Average PD and LGD are based on the PDs and LGDs, weighted by the EAD for all owner-occupier and buy-to-let loans included in the individually insignificant and IBNR mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR provisions.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Republic of Ireland non-mortgage portfolio – IBNR

The non-mortgage portfolio IBNR which, excludes credit card portfolios, is calculated using the individually insignificant and IBNR non-mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for this portfolio at 31 December 2016 and 2015:

	2016			2015		
	Exposure € m	**Average PD %**	**Average LGD %**	Exposure € m	Average PD %	Average LGD %
Good upper(1)	**79**	**0.1**	**45.8**	103	0.1	45.3
Good lower(1)	**5,919**	**0.5**	**38.6**	5,940	1.1	45.9
Watch(1)	**654**	**2.8**	**37.1**	1,155	4.3	38.1
Vulnerable(1)	**3,165**	**7.7**	**33.3**	3,057	12.3	37.4
Included within the above are:						
> 90 days past due but not impaired	**333**	**10.3**	**33.4**	375	12.0	36.8
Cured in the past 12 months	**390**	**10.8**	**33.5**	591	11.3	32.6

(1)For definition – see page 123.

The IBNR for the portfolio is calculated as PD multiplied by LGD multiplied by Exposure (adjusted for the Emergence Period) with the PD and LGD coming from statistical models.

The IBNR for some larger exposures continues to be calculated based on the “average annual loss rate” for each homogeneous pool, suitably adjusted where appropriate for any factors currently affecting the portfolio, which may not have been a feature in the past. Credit card provisions (specific and IBNR) are calculated on a custom built provisioning model.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Emergence period*

The emergence period is key to determining the level of IBNR provisions. Emergence periods are determined by:

- assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan and requiring a provision; and
- taking into account current credit management practices, historic evidence of assets moving from 'good' to 'bad' and actual case studies.

Emergence periods are reflective of the characteristics of the particular portfolio and are estimated based on historic loan loss experience supported by back-testing, and as appropriate, individual case sampling.

Emergence periods are reviewed on at least an annual basis. At 31 December 2016, there was no change made to the Republic of Ireland emergence period for the mortgage (12 months) and non-mortgage (8 months) portfolios. The emergence period for credit cards and corporate portfolios, also remained at 3 and 6 months respectively.

The average emergence period for UK mortgages is 12 months with the non-mortgage emergence period ranging from between 3 to 8 months.

Approval process*

The Group operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities and referred to Area Credit Committee level, as required. These committees are chaired by a designated Credit Risk representative as outlined in the terms of reference for Credit Committees (approved by ERC), where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of the segment authorities are approved by the Group Credit Committee and the Board (where applicable). Segment impairments and provisions are ultimately reviewed by the Group Credit Committee as part of the quarterly process.

The valuation assumptions and approaches used in determining the impairment provisions required are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by segment and Group Senior Management.

Write-offs*

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of the security held. Partial write-offs including non-contracted write-offs may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as impaired. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the revised agreement and subsequent satisfactory performance.

Reversals of impairment*

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision amount. The writeback is recognised in the income statement.

Impact of changes to key assumptions and estimates on impairment provisions*

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables. A significant judgemental area is the calculation of individually insignificant and IBNR impairment provisions which are subject to estimation uncertainty.

The methods involve the use of historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors not being fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience.

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*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning *(continued)*

Impact of changes to key assumptions and estimates on impairment provisions* *(continued)*

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in light of differences between loss estimates and actual loss experience. For example, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are subjective and sensitive to the risk factors, in particular, to changes in economic and credit conditions across a number of geographical areas.

Given the relative size of the Republic of Ireland mortgage portfolio, the key variables include house price fall from peak of 40% Dublin and 44% non-Dublin which determines the collateral value supporting loans in the mortgage portfolio and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status) (2015: 41% and 42% respectively).

A 1% favourable change in the cure rate used for the Republic of Ireland collective mortgage provision model would result in a reduction in impairment provisions of 0.5% (blended rate of owner-occupier/buy-to-let) or c. € 7 million (2015: 1% and € 14 million).

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the house price fall from peak assumption used for the Republic of Ireland collective mortgage provision model for 31 December 2016 is estimated to result in movements in provisions of c. € 19 million (€ 16 million specific provision and € 3 million IBNR) (2015: € 20 million (€ 16 million specific and € 4 million IBNR)).

A 1% change in the haircut on disposal for Dublin properties would result in a movement in provisions of c. € 5 million (€ 4 million specific provisions and € 1 million IBNR) (2015: € 5 million (€ 4 million specific and € 1 million IBNR)). A similar 1% change in the haircut on disposal for properties outside of Dublin would result in a movement in provisions of c. € 12 million (€ 10 million specific provisions and € 2 million IBNR) (2015: € 12 million (€ 10 million specific and € 2 million IBNR)) .

An increase in the assumed repossession rate of 1% for the Republic of Ireland collective mortgage provision model would result in an increase in provisions of 0.7% (blended rate of owner-occupier/buy-to-let) or c. € 10 million (2015: 0.6% and € 9 million).

For € 4.4 billion of the total impaired loans (€ 1.1 billion mortgages and € 3.3 billion non-mortgages) for which systemised cash flows are available, changes in interest rates and cash flow timing would have the following impact:

- If interest rates increased by 1%, this would have an impact on the discounting effect, resulting in an increase in impairment provisions of € 40 million (€ 16 million mortgages and € 24 million non-mortgages) (2015: € 49 million (€ 18 million mortgages and € 31 million non-mortgages)).
- If anticipated cash receipt timelines moved out by 1 year, the impact on impairment provisioning would be an increase of € 56 million (€ 18 million mortgages and € 38 million non-mortgages) (2015: € 77 million (€ 24 million mortgages and € 53 million non-mortgages)). .

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Republic of Ireland mortgage portfolio, the emergence period remains at 12 months; a decrease of one month in the loss emergence period would result in a decrease of c. € 14 million in IBNR provisions (2015: € 19 million).

In the Republic of Ireland non-mortgage portfolio, an increase of one month in the loss emergence period for IBNR provisions would result in an increase of c. € 22 million (2015: € 27 million).

For the Republic of Ireland non-mortgage portfolio, the impact to impairment provisions of a 1% favourable change in the average PD would be a decrease in impairment provisions of c. € 26 million (2015: € 18 million).

For the Republic of Ireland collective mortgage provision model, the impact to impairment provisions of a 1% favourable change in the average PD would be a decrease in impairment provisions of c. € 57 million (2015: € 41 million).

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3.1 Credit risk – Credit profile of the loan portfolio

AIB Group's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The following tables show for the financial years ended 31 December 2016 and 2015 loans and receivables to customers by industry sector and geography(1):

(i) Total loans and receivables to customers;
(ii) Impaired loans and receivables to customers; and
(iii) Provisions for impairment on loans and receivables to customers.

					2016
	Total		Analysed geographically(1)		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers*	€ m	%	€ m	€ m	€ m
Agriculture	1,773	2.7	1,680	93	–
Energy	459	0.7	276	182	1
Manufacturing	2,029	3.1	1,508	464	57
Property and construction	9,394	14.4	6,894	2,500	–
Distribution	5,439	8.3	4,279	1,160	–
Transport	1,405	2.2	1,062	343	–
Financial	684	1.1	484	200	–
Other services	5,706	8.8	3,269	2,375	62
Personal:					
Residential mortgages	35,239	54.0	33,444	1,795	–
Other	3,100	4.7	2,870	230	–
Gross loans and receivables	65,228	100.0	55,766	9,342	120
Analysed as to:					
Neither past due nor impaired	54,265				
Past due but not impaired	1,827				
Impaired – provisions held	9,136				
	65,228				
Provisions for impairment	(4,589)				
Total statement of financial position	60,639				

(1)Based on booking office.

The credit portfolio is diversified within each of its geographic markets by spread of locations, industry classification and individual customer. At 31 December 2016, residential mortgages in the Republic of Ireland (51%) and property and construction (11%) represent the largest concentrations within the portfolio (2015: 49% and 12% respectively). No other industry or loan category in any geographic market accounts for more than 10% of the Group's total loan portfolio.

Loans booked in the Republic of Ireland include c. € 2.1 billion US syndicated and international debt and € 0.6 billion European syndicated and international debt which is described on page 122 of this report (2015: € 1.8 billion and € 0.3 billion respectively).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

					2015
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers*	€ m	%	€ m	€ m	€ m
Agriculture	1,795	2.6	1,691	104	–
Energy	339	0.5	237	101	1
Manufacturing	2,107	3.0	1,511	521	75
Property and construction	11,532	16.4	8,089	3,443	–
Distribution	5,831	8.3	4,430	1,401	–
Transport	1,239	1.8	910	329	–
Financial	1,102	1.6	796	302	4
Other services	5,888	8.4	3,283	2,563	42
Personal:					
Residential mortgages	36,818	52.5	34,456	2,362	–
Other	3,512	4.9	3,156	356	–
Gross loans and receivables	70,163	100.0	58,559	11,482	122
Analysed as to:					
Neither past due nor impaired	55,060				
Past due but not impaired	2,018				
Impaired – provisions held	13,085				
	70,163				
Unearned income	(139)[2]				
Deferred costs	48[2]				
Provisions for impairment	(6,832)				
Total statement of financial position	63,240				

[1] Based on booking office.

[2] In 2016, unearned income and deferred costs have been allocated to the relevant sectors.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

				2016
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
Impaired loans and receivables to customers*	€ m	€ m	€ m	€ m
Agriculture	**121**	**117**	**4**	**–**
Energy	**32**	**31**	**1**	**–**
Manufacturing	**76**	**60**	**16**	**–**
Property and construction	**2,724**	**2,174**	**550**	**–**
Distribution	**681**	**606**	**75**	**–**
Transport	**38**	**14**	**24**	**–**
Financial	**144**	**135**	**9**	**–**
Other services	**312**	**246**	**66**	**–**
Personal:				
Residential mortgages	**4,576**	**4,382**	**194**	**–**
Other	**432**	**386**	**46**	**–**
Total	**9,136**	**8,151**	**985**	**–**

				2015
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
Impaired loans and receivables to customers*	€ m	€ m	€ m	€ m
Agriculture	171	166	5	–
Energy	38	37	1	–
Manufacturing	162	122	40	–
Property and construction	4,308	3,295	1,013	–
Distribution	1,071	875	196	–
Transport	60	36	24	–
Financial	147	135	12	–
Other services	464	393	71	–
Personal:				
Residential mortgages	5,966	5,711	255	–
Other	698	631	67	–
Total	13,085	11,401	1,684	–

[1] Based on booking office.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

				2016
	Total	Analysed geographically(1)		
Provisions for impairment on loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	**40**	**37**	**3**	**–**
Energy	**11**	**10**	**1**	**–**
Manufacturing	**53**	**44**	**9**	**–**
Property and construction	**1,350**	**1,020**	**330**	**–**
Distribution	**305**	**276**	**29**	**–**
Transport	**34**	**11**	**23**	**–**
Financial	**94**	**91**	**3**	**–**
Other services	**180**	**154**	**26**	**–**
Personal:				
Residential mortgages	**1,728**	**1,647**	**81**	**–**
Other	**252**	**218**	**34**	**–**
Specific	**4,047**	**3,508**	**539**	**–**
IBNR	**542**			
Total	**4,589**			

				2015
	Total	Analysed geographically(1)		
Provisions for impairment on loans and receivables to customers*	€ m	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	76	73	3	–
Energy	15	15	–	–
Manufacturing	102	78	24	–
Property and construction	2,475	1,790	685	–
Distribution	551	458	93	–
Transport	57	33	24	–
Financial	60	56	4	–
Other services	291	252	39	–
Personal:				
Residential mortgages	2,045	1,930	115	–
Other	486	436	50	–
Specific	6,158	5,121	1,037	–
IBNR	674			
Total	6,832			

(1)Based on booking office.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and receivables to customers by segment showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

				2016				2015
Gross loans and receivables to customers*	**AIB Ireland € m**	**AIB UK € m**	**Group & International € m**	**Total € m**	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Residential mortgages:								
Owner-occupier	**28,631**	**1,564**	**–**	**30,195**	28,880	2,048	–	30,928
Buy-to-let	**4,813**	**231**	**–**	**5,044**	5,576	314	–	5,890
	33,444	**1,795**	**–**	**35,239**	34,456	2,362	–	36,818
Other personal	**2,870**	**230**	**–**	**3,100**	3,156	356	–	3,512
Property and construction	**6,864**	**2,492**	**38**	**9,394**	8,055	3,443	34	11,532
Non-property business	**9,761**	**4,800**	**2,934**	**17,495**	10,223	5,292	2,786	18,301
Total	**52,939**	**9,317**	**2,972**	**65,228**	55,890	11,453	2,820	70,163
Analysed as to asset quality[1]								
Satisfactory	**36,168**	**7,363**	**2,931**	**46,462**	34,461	8,132	2,757	45,350
Watch	**2,469**	**532**	**–**	**3,001**	3,277	986	17	4,280
Vulnerable	**6,168**	**461**	**–**	**6,629**	6,781	667	–	7,448
Impaired	**8,134**	**961**	**41**	**9,136**	11,371	1,668	46	13,085
Total criticised loans	**16,771**	**1,954**	**41**	**18,766**	21,429	3,321	63	24,813
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**32**	**21**	**1**	**29**	38	29	2	35
Impaired loans/total loans	**15**	**10**	**1**	**14**	20	15	2	19
Impairment provisions – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**3,504**	**516**	**27**	**4,047**	5,109	1,027	22	6,158
IBNR	**475**	**56**	**11**	**542**	596	71	7	674
Total impairment provisions	**3,979**	**572**	**38**	**4,589**	5,705	1,098	29	6,832
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**43**	**54**	**66**	**44**	45	62	48	47
Total provisions/impaired loans	**49**	**60**	**93**	**50**	50	66	63	52
Total provisions/total loans	**8**	**6**	**1**	**7**	10	10	1	10

Income statement – impairment (credit)/charge	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**(154)**	**(31)**	**14**	**(171)**	(487)	(30)	9	(508)
IBNR	**(121)**	**(6)**	**4**	**(123)**	(405)	(14)	2	(417)
Total impairment (credit)/charge	**(275)**	**(37)**	**18**	**(294)**	(892)	(44)	11	(925)
	%	**%**	**%**	**%**	%	%	%	%
Impairment (credit)/charge/ average loans	**(0.50)**	**(0.37)**	**0.65**	**(0.44)**	(1.52)	(0.35)	0.50	(1.26)

[1] Satisfactory: 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 page 64.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Gross loans and receivables to customers reduced by 7% or € 4.9 billion in 2016. While there was an increase in the level of new lending to € 8.7 billion in the year, this was offset by loan redemptions of € 10.0 billion, restructures and write-offs of € 1.8 billion and a currency impact and other movements of € 1.8 billion.

The following summarises the key points affecting the credit profile of the loan portfolio:

- The Group is predominantly Republic of Ireland and United Kingdom focused with most sectors experiencing improved trading conditions due to a stronger economic environment. The Group has material concentrations in residential mortgages (54% of gross loans) and property and construction (14%). In addition, there is a non-property business lending portfolio (27%) which is spread across a number of sub-sectors and a personal loan portfolio (5%).
- Improved demand for credit resulted in new lending of € 8.7 billion in 2016 (2015: € 8.5 billion) spread across most sectors and included € 2.0 billion mortgage and € 3.5 billion non-mortgage in AIB Ireland, € 1.9 billion in AIB UK and € 1.3 billion in Group & International.
- Continued progress in working with customers to restructure facilities, resulting in the quantum of impaired loans reducing by € 4 billion in the year (a decrease of 30%). The reduction reflects restructuring activity, write-offs (including non-contracted write-offs), redemptions and repayments due to customer asset sales.
- As a result of the restructuring activity and the reduction in impaired loans, the overall credit quality profile has shown a significant improvement and criticised loans (including impaired) have reduced from 35% of total loans at 31 December 2015 down to 29% as at 31 December 2016.
- A net writeback of impairment provisions of € 294 million in 2016 compared to a writeback of € 925 million in 2015. The key drivers of the net writeback continues to be writebacks due to restructuring activity, offset by provisions on newly impaired loans and that has remained consistent with 2015 levels.

Restructuring*

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Customer treatment strategies, as described on pages 73 to 75 are in place for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt

A non-retail customer in difficulty typically has exposures across a number of asset classes, including owner-occupier and buy-to-let mortgages, SME debt and associated property exposures. The aim is to apply the treatment strategies at a customer level to deliver a holistic solution which prioritises owner-occupier and viable SME debt. Each case requires an in-depth review of cash flows and security, updated for current valuations and business performance. This process may result in writebacks or top-ups of provisions across asset classes or for the customer as a whole. Write-offs may also be a feature of this process.

This restructuring engagement with customers resulted in c. € 1.5 billion of loans restructured out of impairment during the year with a further € 1.8 billion of impaired loans written off (including non-contracted write-offs) (2015: € 3.4 billion and € 3.4 billion respectively).

Provision writebacks*

There was a total provision net writeback of € 294 million in 2016 compared to a provision net write back of € 925 million in 2015. Specific provision writebacks (net of top-ups) during the year were € 452 million (equivalent to c. 3.5% of opening impaired loans) (2015: € 789 million and 3.6%). These writebacks were split into mortgages € 205 million (2015: € 294 million); other personal € 53 million (2015: € 47 million); property and construction € 143 million (2015: € 270 million); and non-property business lending € 51 million (2015: € 178 million). These writebacks were partially offset by specific provisions amounting to € 281 million on newly impaired loans (2015: € 281 million).

The key drivers of these writebacks include:

- increased security values and improved business cash flows due to the stronger economic environment;
- cases cured from impairment without loss; and
- additional security from the customer as part of the restructuring process.

The repayment of impaired loans remains dependent on significant levels of future collateral realisations in the near to medium term.

The IBNR provisions released during the year amounted to € 123 million (2015: € 417 million). The release was mainly driven by a reduction in the probability of default as a result of recent observed default data.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality

Credit quality in the portfolio continues to improve. Criticised loans, including impaired, decreased by € 6.0 billion or 24%, and as a % of total loans have decreased from 35% at 31 December 2015, to 29% at 31 December 2016. The improving credit quality is driven by the level of new business in the year combined with the reduction in the criticised portfolio arising out of the restructuring process.

Residential mortgages

At 31 December 2016, residential mortgages accounted for 54% of gross loans and receivables to customers (€ 35.2 billion), with the loans mainly located in the Republic of Ireland (95%) (see page 101) and the remainder in the United Kingdom (see page 110). The portfolio consists of 86% owner-occupier loans and 14% buy-to-let.

In the Republic of Ireland, total loans in arrears by value decreased by 18% during 2016, a decrease of 17% in the owner-occupier portfolio and a decrease of 21% in the buy-to-let portfolio. By number of customers, these decreases were 15%, 16% and 13% respectively. This decrease in arrears can be mainly attributed to the restructuring of the portfolio and the improving economic conditions. The reduction in arrears was evident in both early arrears (less than 90 days past due) and late arrears (greater than 90 days past due).

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 101 to 109 and the United Kingdom mortgage portfolio on pages 110 to 116.

Other personal

At 31 December 2016, the other personal portfolio amounted to € 3.1 billion (5% of gross loans and receivables to customers). 93% of loans relate to AIB Ireland with the remainder of loans relating to AIB UK. The portfolio comprises € 2.2 billion in loans and overdrafts and € 0.9 billion in credit card facilities. Strong levels of new lending at € 0.7 billion were observed and was due to both the improved economic environment and an expanded product offering, and was offset by loan redemptions and repayments. As a percentage of loans in the other personal portfolio, the satisfactory element increased to 73% (2015: 65%).

Further detailed disclosures in relation to the other personal portfolio are provided on pages 117 and 118.

Property and construction

At 31 December 2016, the property and construction portfolio amounted to € 9.4 billion (14% of gross loans and receivables to customers). 73% of loans relate to AIB Ireland and 27% to AIB UK. The portfolio comprises of 77% investment loans (€ 7.2 billion), 16% land and development loans (€ 1.5 billion) and 7% other property and construction loans (€ 0.7 billion). Overall, the portfolio reduced by € 2.1 billion or 19% during 2016. This reduction is due primarily to the continuing impact of restructuring and to write-offs, amortisations and repayments resulting from asset disposals by customers and which was offset by new business written of c. €1.4 billion. Activity in the sector has been underpinned by improved economic performance and increased investment spending which has had a positive impact on the residential and commercial land and development market.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 119 and 120.

Non-property business

At 31 December 2016, the non-property business portfolio amounted to € 17.5 billion (27% of gross loans and receivables to customers). 56% of loans relate to AIB Ireland, 27% to AIB UK and with the remainder of 17% to Group & International. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and syndicated and international lending exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (13% of the portfolio), licensed premises (3% of the portfolio), retail/wholesale (13% of the portfolio) and other services (33% of the portfolio). As a percentage of the portfolio satisfactory loans and receivables increased from 75% at 31 December 2015 to 80% at 31 December 2016 continuing the positive trend experienced in 2015. The level of criticised loans reduced by 22%, mainly due to a reduction of € 0.7 billion in impaired loans.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 121 and 122.

3.1 Credit risk – Credit profile of the loan portfolio

Impairment provisions

Specific impairment provisions as a percentage of impaired loans decreased from 47% at 31 December 2015 to 44% at 31 December 2016. This was mainly driven by restructures, writebacks, and write-offs of loans (partially or fully) with higher provision cover, which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.5 billion were held at 31 December 2016 compared to € 0.6 billion at 31 December 2015. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

The income statement provision writeback of € 294 million in 2016 compared to a provision writeback of € 925 million in 2015. Income statement specific provisions included € 281 million from new impairments and a € 452 million writeback of provisions (net of top-ups) as described above.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The following table profiles the asset quality of the Group's loans and receivables at 31 December 2016 and 2015:

					2016
Asset quality*	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Neither past due nor impaired	**29,730**	**2,498**	**6,308**	**15,729**	**54,265**
Past due but not impaired	**933**	**170**	**362**	**362**	**1,827**
Impaired – provisions held	**4,576**	**432**	**2,724**	**1,404**	**9,136**
Gross loans and receivables	**35,239**	**3,100**	**9,394**	**17,495**	**65,228**
Specific provisions	**(1,728)**	**(252)**	**(1,350)**	**(717)**	**(4,047)**
IBNR provisions	**(274)**	**(38)**	**(99)**	**(131)**	**(542)**
Total provisions for impairment	**(2,002)**	**(290)**	**(1,449)**	**(848)**	**(4,589)**
Gross loans and receivables less provisions	**33,237**	**2,810**	**7,945**	**16,647**	**60,639**

					2015
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired	29,796	2,665	6,819	15,780	55,060
Past due but not impaired	1,056	149	405	408	2,018
Impaired – provisions held	5,966	698	4,308	2,113	13,085
Gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Specific provisions	(2,045)	(486)	(2,475)	(1,152)	(6,158)
IBNR provisions	(277)	(49)	(174)	(174)	(674)
Total provisions for impairment	(2,322)	(535)	(2,649)	(1,326)	(6,832)
Gross loans and receivables less provisions	34,496	2,977	8,883	16,975	63,331
Unearned income					(139)(1)
Deferred costs					48(1)
Net loans and receivables					63,240

(1)In 2016, unearned income and deferred costs have been allocated to the relevant sectors.

Gross loans and receivables to customers reduced by 7% to € 65.2 billion in 2016. The reduction was due to restructuring, provision write-offs of € 1.8 billion and customer repayments including asset sales. The satisfactory portfolio grew by 2.5% in the year (including currency movements).

3.1 Credit risk – Credit profile of the loan portfolio

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following table analyses gross loans and receivables to customers by contractual residual maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 2% of the portfolio at 31 December 2016, are classified as repayable within one year. 8% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters.

							2016
	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Republic of Ireland	**4,734**	**51,032**	**55,766**	**12,838**	**9,260**	**33,668**	**55,766**
United Kingdom	**793**	**8,549**	**9,342**	**1,858**	**3,603**	**3,881**	**9,342**
Rest of the World	**–**	**120**	**120**	**11**	**109**	**–**	**120**
Total	**5,527**	**59,701**	**65,228**	**14,707**	**12,972**	**37,549**	**65,228**

							2015
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Republic of Ireland	5,047	53,512	58,559	16,380	8,977	33,202	58,559
United Kingdom	949	10,533	11,482	2,721	3,829	4,932	11,482
Rest of the World	–	122	122	15	107	–	122
Total	5,996	64,167	70,163	19,116	12,913	38,134	70,163

3.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers*

							2016
Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Agriculture	**40**	**7**	**2**	**7**	**8**	**31**	**95**
Energy	**6**	**–**	**1**	**–**	**–**	**–**	**7**
Manufacturing	**8**	**1**	**–**	**2**	**–**	**2**	**13**
Property and construction	**144**	**28**	**25**	**28**	**38**	**99**	**362**
Distribution	**72**	**12**	**3**	**7**	**8**	**26**	**128**
Transport	**4**	**1**	**1**	**–**	**–**	**3**	**9**
Financial	**1**	**1**	**–**	**–**	**–**	**–**	**2**
Other services	**40**	**20**	**2**	**15**	**8**	**23**	**108**
Personal:							
Residential mortgages	**469**	**131**	**72**	**62**	**63**	**136**	**933**
Credit cards	**27**	**5**	**3**	**–**	**–**	**–**	**35**
Other	**55**	**15**	**11**	**12**	**15**	**27**	**135**
	866	**221**	**120**	**133**	**140**	**347**	**1,827**
Segment							
AIB Ireland	**792**	**188**	**103**	**124**	**134**	**339**	**1,680**
AIB UK	**74**	**33**	**17**	**9**	**6**	**8**	**147**
Group & International	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	866	**221**	**120**	**133**	**140**	**347**	**1,827**
As a percentage of	**%**	**%**	**%**	**%**	**%**	**%**	**%**
total gross loans	**1.33**	**0.34**	**0.18**	**0.20**	**0.21**	**0.53**	**2.80**

							2015
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	55	21	2	8	5	39	130
Energy	1	–	–	–	–	2	3
Manufacturing	29	2	–	1	1	2	35
Property and construction	127	54	15	54	45	110	405
Distribution	63	14	10	13	6	31	137
Transport	4	–	–	–	–	2	6
Financial	3	1	1	1	1	1	8
Other services	30	20	7	11	8	13	89
Personal:							
Residential mortgages	536	151	86	73	65	145	1,056
Credit cards	30	5	3	2	1	–	41
Other	40	19	6	12	7	24	108
	918	287	130	175	139	369	2,018
Segment							
AIB Ireland	808	249	112	142	130	358	1,799
AIB UK	110	38	18	33	9	11	219
Group & International	–	–	–	–	–	–	–
	918	287	130	175	139	369	2,018
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.31	0.41	0.18	0.25	0.20	0.53	2.88

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers* *(continued)*

At 31 December 2016, loans past due but not impaired reduced by € 0.2 billion to € 1.8 billion or 2.8% of total loans and receivables to customers (2015: € 2.0 billion or 2.9%).

Residential mortgage loans which were past due but not impaired at 31 December 2016, amounted to € 0.9 billion. This represents 51% of total loans which were past due but not impaired (2015: € 1.1 billion or 52%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the improving economic environment.

Property and construction loans which were past due but not impaired represent a further 20% or € 0.4 billion of total loans which were past due but not impaired (2015: 20% or € 0.4 billion), with other personal at 9% or € 0.2 billion (2015: 7% or € 0.1 billion).

All loans are tested for impairment when they reach 90 days past due to determine if a loss event has occurred and if an impairment provision is required.

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3.1 Credit risk – Credit profile of the loan portfolio

Impaired loans for which provisions are held*

The following table shows impaired loans which are assessed for impairment either individually or collectively with the relevant specific impairment provisions at 31 December 2016 and 2015:

							2016
		Impaired loans				**Specific impairment provisions**	
	Gross loans and receivables € m	**Individually assessed € m**	**Collectively assessed € m**	**Total € m**	**% of total gross loans**	**Total € m**	**% of impaired loans**
Retail							
Residential mortgages	**35,239**	**1,298**	**3,278**	**4,576**	**13**	**1,728**	**38**
Other personal	**3,100**	**258**	**174**	**432**	**14**	**252**	**58**
Total retail	**38,339**	**1,556**	**3,452**	**5,008**	**13**	**1,980**	**40**
Commercial							
Property and construction	**9,394**	**2,570**	**154**	**2,724**	**29**	**1,350**	**50**
Non-property business	**17,495**	**1,176**	**228**	**1,404**	**8**	**717**	**51**
Total commercial	**26,889**	**3,746**	**382**	**4,128**	**15**	**2,067**	**50**
Total	**65,228**	**5,302**	**3,834**	**9,136**	**14**	**4,047**	**44**
Specific impairment provisions at 31 December 2016		**2,470**	**1,577**	**4,047**			
		%	**%**	**%**			
Specific provision cover percentage		**47**	**41**	**44**			

							2015
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total gross loans	Total € m	% of impaired loans
Retail							
Residential mortgages	36,818	1,914	4,052	5,966	16	2,045	34
Other personal	3,512	358	340	698	20	486	70
Total retail	40,330	2,272	4,392	6,664	17	2,531	38
Commercial							
Property and construction	11,532	3,950	358	4,308	37	2,475	57
Non-property business	18,301	1,632	481	2,113	12	1,152	55
Total commercial	29,833	5,582	839	6,421	22	3,627	56
Total	70,163	7,854	5,231	13,085	19	6,158	47
Specific impairment provisions at 31 December 2015		3,975	2,183	6,158			
		%	%	%			
Specific provision cover percentage		51	42	47			

Specific impairment provisions as a percentage of impaired loans have decreased from 47% at 31 December 2015 to 44% at 31 December 2016. The reduction principally occurred in individually assessed loans, with cover reduced from 51% at 31 December 2015 to 47% at 31 December 2016 driven by restructures, writebacks, and write-offs of loans (partially or fully). The higher provision cover on these restructured and written off loans had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through restructuring agreements with customers and also where further recovery is considered unlikely.

For residential mortgages, specific provisions as a percentage of impaired loans increased from 34% to 38%. The increase in cover reflects a higher concentration of loans in the legal process, which take longer to resolve and typically require higher provision cover.

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Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Movements on impairment provisions*

The following table sets out the movements on the Group impairment provisions for the financial years ended 31 December 2016 and 2015:

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
At 1 January	**2,322**	**535**	**2,649**	**1,326**	**6,832**
Exchange translation adjustments	**(28)**	**(10)**	**(73)**	**(19)**	**(130)**
Credit to income statement – customers(1)	**(111)**	**(22)**	**(145)**	**(16)**	**(294)**
Amounts written off(2)	**(181)**	**(213)**	**(985)**	**(450)**	**(1,829)**
Recoveries of amounts written off in previous years(2)	**–**	**–**	**3**	**7**	**10**
At 31 December 2016	**2,002**	**290**	**1,449**	**848**	**4,589**
Total provisions are split as follows:					
Specific	**1,728**	**252**	**1,350**	**717**	**4,047**
IBNR	**274**	**38**	**99**	**131**	**542**
	2,002	**290**	**1,449**	**848**	**4,589**
Amounts include:					
Loans and receivables to customers *(note 24 to the consolidated financial statements)*					**4,589**
					4,589

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2015 Total € m
At 1 January	3,427	768	5,652	2,559	12,406
Exchange translation adjustments	16	2	102	11	131
Credit to income statement – customers(1)	(478)	(8)	(214)	(225)	(925)
Amounts written off(2)	(643)	(226)	(2,738)	(986)	(4,593)
Disposals	–	(1)	(159)	(35)	(195)
Recoveries of amounts written off in previous years(2)	–	–	6	2	8
At 31 December 2015	2,322	535	2,649	1,326	6,832
Total provisions are split as follows:					
Specific	2,045	486	2,475	1,152	6,158
IBNR	277	49	174	174	674
	2,322	535	2,649	1,326	6,832
Amounts include:					
Loans and receivables to customers *(note 24 to the consolidated financial statements)*					6,832
					6,832

(1)Geographic split: Republic of Ireland a credit of € 262 million (2015: a credit of € 885 million); United Kingdom a credit of € 32 million (2015: a credit of € 40 million).

(2)For geographical and sector split, see page 99.

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3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provisions/writeback of provisions split between individually significant, individually insignificant and IBNR for loans and receivables for the financial years ended 31 December 2016 and 2015 :

	2016*			
	AIB Ireland € m	**AIB UK € m**	**Group & International € m**	**Total € m**
Specific provisions – Individually significant loans and receivables	**(142)**	**(26)**	**14**	**(154)**
– Individually insignificant loans and receivables	**(12)**	**(5)**	**–**	**(17)**
IBNR	**(121)**	**(6)**	**4**	**(123)**
Total provision for impairment (credit)/charge on loans and receivables to customers	**(275)**	**(37)**	**18**	**(294)**
Writeback of provisions for impairment on financial investments available for sale				**(2)**
Writeback of provisions for liabilities and commitments				**(2)**
Total				**(298)**

	2015*			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Specific provisions – Individually significant loans and receivables	(620)	(22)	9	(633)
– Individually insignificant loans and receivables	133	(8)	–	125
IBNR	(405)	(14)	2	(417)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(892)	(44)	11	(925)
Writeback of provisions for liabilities and commitments				(11)
Total				(936)

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3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

The following table analyses by segment the income statement impairment provisions/writeback of provisions for the financial years ended 31 December 2016 and 2015:

			2016*			2015*
	Residential mortgages € m	**Other € m**	**Total € m**	Residential mortgages € m	Other € m	Total € m
AIB Ireland	**(109)**	**(166)**	**(275)**	(463)	(429)	(892)
AIB UK	**(2)**	**(35)**	**(37)**	(15)	(29)	(44)
Group & International	**–**	**18**	**18**	–	11	11
Total	**(111)**	**(183)**	**(294)**	(478)	(447)	(925)

The following table analyses by segment the income statement impairment provisions/writeback of provisions as a percentage of average loans and receivables to customers expressed as basis points ("bps") for the financial years ended 31 December 2016 and 2015:

			2016			2015
	Residential mortgages bps	**Other bps**	**Total bps**	Residential mortgages bps	Other bps	Total bps
AIB Ireland	**(32)**	**(80)**	**(50)**	(131)	(182)	(152)
AIB UK	**(10)**	**(44)**	**(37)**	(59)	(29)	(35)
Group & International	**–**	**65**	**65**	–	50	50
Total	**(31)**	**(59)**	**(44)**	(126)	(125)	(126)

Writebacks decreased from a net writeback of € 925 million in 2015, to a net writeback of € 294 million in 2016. The writeback comprised € 171 million in specific provision writebacks and a release of IBNR provisions of € 123 million (31 December 2015: € 508 million net writeback in specific provisions and release of IBNR provisions of € 417 million).

The specific provision writeback of € 171 million can be split into € 281 million new impairment provisions and a € 452 million writeback (net of top-ups). New impairment provisions have remained consistent (2015: € 281 million) and reflect the improved economic conditions. The key drivers of the total writebacks were the writeback of provisions due to restructuring activity offset by provisions on newly impaired loans.

In AIB Ireland, the 2016 income statement provision writeback of € 275 million comprises a specific provision writeback of € 154 million and an IBNR release of € 121 million. This compares to an income statement specific provision writeback of € 487 million and an IBNR release of € 405 million for 2015. The writeback was primarily due to the positive impact of debt restructuring activities and continued low levels of new impairments.

In AIB UK, the 2016 income statement provision writeback of € 37 million comprises a specific provision writeback of € 31 million and an IBNR release of € 6 million. This compares to a specific provision writeback of € 30 million and an IBNR release of € 14 million in 2015.

The impairment provision charge in Group & International of € 18 million compares to a provision charge of € 11 million in 2015.

The IBNR released in 2016 was € 123 million (2015: € 417 million). The release was mainly driven by a reduction in the probability of default in the portfolio reflecting the improved economic environment.

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*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans written off and recoveries of previously written off loans

The following table analyses loans written off and recoveries of previously written off loans by geography and industry sector for the financial years ended 31 December 2016 and 2015:

	Loans written off		Recoveries of loans previously written off	
	2016 € m	2015 € m	**2016 € m**	2015 € m
IRELAND				
Agriculture	**47.4**	74.2	**0.1**	–
Energy	**9.8**	24.8	**–**	–
Manufacturing	**29.0**	38.7	**0.1**	0.3
Property and construction	**719.8**	2,218.9	**1.0**	3.2
Distribution	**169.0**	536.2	**–**	0.1
Transport	**16.6**	13.6	**0.1**	0.1
Financial	**1.6**	28.5	**0.6**	–
Other services	**114.8**	135.7	**5.1**	1.3
Personal – Residential mortgages	**160.7**	604.3	**–**	–
– Other	**208.8**	214.0	**–**	0.2
	1,477.5	3,888.9	**7.0**	5.2
UNITED KINGDOM				
Agriculture	**0.2**	3.7	**–**	–
Energy	**–**	–	**–**	–
Manufacturing	**11.4**	9.4	**1.8**	–
Property and construction	**264.8**	518.6	**1.6**	3.2
Distribution	**43.1**	61.4	**–**	–
Transport	**0.1**	0.1	**–**	–
Financial	**1.6**	0.3	**–**	–
Other services	**5.7**	59.8	**–**	–
Personal – Residential mortgages	**20.2**	38.7	**–**	–
– Other	**4.5**	11.6	**–**	–
	351.6	703.6	**3.4**	3.2
TOTAL	**1,829.1**	4,592.5	**10.4**	8.4

Write-offs in 2016, as a percentage of gross loans and receivables at 1 January 2016, were 2.6% compared to 6.1% in 2015. These include all write-offs, both full and partial and write-offs not contracted with customers of c. € 0.6 billion.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Residential mortgages

Residential mortgages amounted to € 35.2 billion at 31 December 2016, with the majority (95%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 36.8 billion at 31 December 2015, of which 94% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 30.2 billion and buy-to-let € 5 billion (2015: owner-occupier € 30.9 billion and buy-to-let € 5.9 billion).

Statement of financial position provisions of € 2.0 billion were held at 31 December 2016, split € 1.7 billion specific and € 0.3 billion IBNR (2015: € 2.3 billion, split € 2.0 billion specific and € 0.3 billion IBNR).

There was an impairment provision credit of € 111 million to the income statement in 2016 comprising a € 110 million specific writeback and a € 1 million IBNR release (2015: € 478 million provision credit comprising € 204 million specific writeback and a € 274 million IBNR release).

This section provides the information listed below in relation to residential mortgages.

Republic of Ireland residential mortgages – pages 101 to 109

- Credit profile
- Origination profile
- Loan-to-value profile:
    - Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages
    - Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were neither past due nor impaired
    - Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- Republic of Ireland residential mortgages that were past due but not impaired
- Collateral value of Republic of Ireland residential mortgages that were past due but not impaired
- Republic of Ireland residential mortgages that were impaired
- Republic of Ireland properties in possession
- Repossessions disposed of

United Kingdom (“UK”) residential mortgages – pages 110 to 116

- Credit profile
- Origination profile
- Loan-to-value profile:
    - Actual and weighted average indexed loan-to-value ratios of UK residential mortgages
    - Loan-to-value ratios of UK residential mortgages *(index linked)* that were neither past due nor impaired
    - Loan-to-value ratios of UK residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- UK residential mortgages that were past due but not impaired
- Collateral value of UK residential mortgages that were past due but not impaired
- UK residential mortgages that were impaired
- UK properties in possession
- Repossessions disposed of

Residual debt, which is now unsecured following the disposal of property on which the residential mortgage was secured, is included in the residential mortgage portfolio and as such, is included in the tables within this section.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio showing impairment provisions for the financial years ended 31 December 2016 and 2015:

			2016*			2015*
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	**28,631**	**4,813**	**33,444**	28,880	5,576	34,456
In arrears (>30 days past due)[1]	**3,176**	**1,649**	**4,825**	4,032	2,154	6,186
In arrears (>90 days past due)[1]	**3,042**	**1,593**	**4,635**	3,876	2,098	5,974
Of which impaired	**2,898**	**1,484**	**4,382**	3,713	1,998	5,711
Statement of financial position specific provisions	**1,042**	**605**	**1,647**	1,159	771	1,930
Statement of financial position IBNR provisions	**160**	**106**	**266**	188	76	264
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**35.9**	**40.8**	**37.6**	31.2	38.6	33.8
Income statement (credit)/charge	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**(50)**	**(61)**	**(111)**	(89)	(106)	(195)
Income statement IBNR provisions	**(27)**	**29**	**2**	(232)	(36)	(268)
Total impairment (credit)	**(77)**	**(32)**	**(109)**	(321)	(142)	(463)

[1] Includes all impaired loans whether past due or not.

*Forms an integral part of the audited financial statements.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages *(continued)*

Residential mortgages in the Republic of Ireland amounted to € 33.4 billion at 31 December 2016 compared to € 34.5 billion at 31 December 2015. The decrease in the portfolio was observed mainly in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in 2016 were € 2.0 billion, of which 97% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 68.4%.

The split of the residential mortgage portfolio is 86% owner-occupier and 14% buy-to-let and comprised 35% tracker rate, 55% variable rate and 10% fixed rate mortgages. The proportion of the total residential mortgage portfolio in negative equity decreased from 24% at 31 December 2015 to 20% at 31 December 2016 reflecting the increase in residential property prices in Ireland during 2016 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from € 1.5 billion to € 1.0 billion.

Residential mortgage arrears

Total loans in arrears by value decreased by 18% during 2016, a decrease of 17% in the owner-occupier portfolio and a decrease of 21% in the buy-to-let portfolio in the year. By number of customers, these decreases were 15%, 16% and 13% respectively. These decreases in arrears can be mainly attributed to restructuring activity and improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due). The amount of loans which were new into arrears for the first time in 2016 fell by 38% compared to 2015.

Total loans in arrears greater than 90 days at 7.2% as at 31 December 2016 decreased from 8.2% at 31 December 2015 and remain below the industry average of 8.9%(1). For the owner-occupier portfolio, loans in arrears greater than 90 days at 5.4% were below the industry average of 7.6%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 18.8% exceeded the industry average of 16.2%.

Forbearance

Residential mortgages subject to forbearance measures increased by € 0.5 billion from 31 December 2015 to € 5.9 billion at 31 December 2016, compared to a decrease of € 0.1 billion from 2014 to 2015, and is significantly impacted by a change in the definition of forbearance (page 133). A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Details of forbearance measures are set out in Section 3.2 pages 131 to 144.

Impairment provisions

Impaired loans decreased from € 5.7 billion at 31 December 2015 to € 4.4 billion at 31 December 2016, mainly due to restructuring, write-offs and repayments through customer asset sales. The level of newly impaired loans declined by 23% in 2016 compared to 2015.

There was a specific provision writeback of € 111 million in 2016 compared to a € 195 million writeback in 2015. This can be split into a charge for new impairments of € 88 million and a writeback of provisions (net of top-ups) of € 199 million. The writeback was mainly due to the impact of restructuring, loans curing from impairment, and changes in a number of assumptions in the mortgage model (possession and cure rates). The specific provision cover level increased from 34% at 31 December 2015 to 38% at 31 December 2016. The increase was mainly driven by individually assessed buy-to-let loans, updated for higher property valuations and the impact of restructuring.

An IBNR charge in 2016 of € 2 million compares to a release of € 268 million in 2015 mainly due to changes in the mortgage model parameters and a reduction in probability of default for the portfolio.

Specific provisions of € 0.8 billion were held against the forborne impaired portfolio of € 2.3 billion providing cover of 35%. In relation to the non-impaired forborne portfolio of € 3.5 billion, of which € 0.4 billion is on an interest only arrangement, IBNR impairment provisions of € 0.1 billion were held at 31 December 2016.

(1)Source: Central Bank of Ireland (“CBI”) Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2016, based on numbers of accounts.

3.1 Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages by year of origination

The following table profiles the Republic of Ireland total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2016 and 2015:

	2016*				2015*			
	Total		Impaired		Total		Impaired	
Republic of Ireland	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	2,948	95	436	14	4,502	118	642	22
1997	2,267	40	171	6	2,561	54	244	10
1998	2,834	73	258	12	3,127	91	343	16
1999	3,785	135	339	25	4,171	164	474	33
2000	4,816	223	474	35	5,196	261	615	46
2001	5,424	316	494	41	6,218	364	664	55
2002	9,052	629	863	83	9,738	724	1,090	113
2003	12,809	1,076	1,370	156	13,728	1,225	1,792	212
2004	17,612	1,836	2,164	307	18,768	2,065	2,657	384
2005	24,780	2,972	3,446	550	26,086	3,310	4,250	707
2006	32,290	4,736	5,307	988	34,317	5,214	6,593	1,296
2007	32,049	4,861	5,300	993	33,353	5,294	6,586	1,281
2008	30,557	4,684	4,124	774	31,756	5,102	5,217	1,025
2009	19,973	2,823	1,657	278	20,962	3,068	2,145	366
2010	13,916	1,955	584	97	14,598	2,111	753	124
2011	4,218	578	87	14	4,443	626	98	15
2012	6,196	889	17	4	6,465	961	23	5
2013	5,338	779	6	1	5,560	845	6	1
2014	7,409	1,138	14	2	7,642	1,207	5	–
2015	10,178	1,636	7	2	10,343	1,652	1	–
2016	11,669	1,970	–	–	–	–	–	–
Total	260,120	33,444	27,118	4,382	263,534	34,456	34,198	5,711

The majority (€ 17.3 billion or 52%) of the € 33.4 billion residential mortgage portfolio originated between 2005 and 2008, of which 19% (€ 3.3 billion) was impaired at 31 December 2016. This cohort was impacted by reduced household income and increased unemployment rates in those years, and where property prices had decreased from a peak in 2007. 13% of the residential mortgage portfolio was originated before 2005 of which 15% was impaired at 31 December 2016, while the remaining 35% of the portfolio was originated since 2009 or after, of which 3% was impaired at 31 December 2016

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index in the Republic of Ireland for October 2016. The CSO Residential Property Price Index for October 2016 reported that national residential property prices were 31.5% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 8.6% for the twelve months to October 2016.

Actual and weighted average indexed loan-to-value ratios of Republic of Ireland residential mortgages

The following table profiles the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2016 and 2015:

						2016*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**6,806**	**23.8**	**1,036**	**21.5**	**7,842**	**23.5**
50% to 70%	**7,189**	**25.1**	**996**	**20.7**	**8,185**	**24.5**
71% to 80%	**3,862**	**13.5**	**489**	**10.2**	**4,351**	**13.0**
81% to 90%	**3,217**	**11.2**	**461**	**9.6**	**3,678**	**11.0**
91% to 100%	**2,236**	**7.8**	**484**	**10.0**	**2,720**	**8.1**
101% to 120%	**3,147**	**11.0**	**618**	**12.8**	**3,765**	**11.3**
121% to 150%	**1,642**	**5.7**	**377**	**7.8**	**2,019**	**6.0**
Greater than 150%	**387**	**1.4**	**258**	**5.4**	**645**	**1.9**
Unsecured	**145**	**0.5**	**94**	**2.0**	**239**	**0.7**
Total	**28,631**	**100.0**	**4,813**	**100.0**	**33,444**	**100.0**
Weighted average indexed loan-to-value(1):						
Stock of residential mortgages at financial year end		**72.4**		**81.9**		**73.8**
New residential mortgages issued during the year		**68.8**		**56.4**		**68.4**
Impaired residential mortgages		**103.4**		**101.2**		**102.7**

						2015*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
Less than 50%	6,171	21.4	991	17.8	7,162	20.8
50% to 70%	6,284	21.8	1,047	18.8	7,331	21.3
71% to 80%	3,896	13.5	540	9.7	4,436	12.9
81% to 90%	3,520	12.2	543	9.7	4,063	11.8
91% to 100%	2,588	8.9	622	11.2	3,210	9.3
101% to 120%	3,548	12.3	841	15.1	4,389	12.7
121% to 150%	2,327	8.0	553	9.9	2,880	8.3
Greater than 150%	436	1.5	359	6.4	795	2.3
Unsecured	110	0.4	80	1.4	190	0.6
Total	28,880	100.0	5,576	100.0	34,456	100.0
Weighted average indexed loan-to-value(1):						
Stock of residential mortgages at financial year end		76.1		87.4		77.9
New residential mortgages issued during year		71.1		59.1		70.7
Impaired residential mortgages		101.4		104.8		102.6

(1)Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

18% of the total owner-occupier and 26% of the total buy-to-let mortgages were in negative equity at 31 December 2016 (excluding unsecured) compared to 22% and 31% respectively at 31 December 2015. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 74% at 31 December 2016 compared to 78% at 31 December 2015, with the reduction driven primarily by the amortisation of the portfolio and the increase in property prices in the year.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio *(continued)*

Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the Republic of Ireland residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2016 and 2015:

						2016*
	Owner-occupier		**Buy-to-let**		**Total**	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**6,395**	**25.5**	**819**	**26.5**	**7,214**	**25.6**
50% to 70%	**6,697**	**26.7**	**741**	**24.0**	**7,438**	**26.4**
71% to 80%	**3,553**	**14.2**	**352**	**11.4**	**3,905**	**13.9**
81% to 90%	**2,919**	**11.6**	**315**	**10.2**	**3,234**	**11.5**
91% to 100%	**1,917**	**7.7**	**298**	**9.6**	**2,215**	**7.8**
101% to 120%	**2,527**	**10.1**	**332**	**10.7**	**2,859**	**10.2**
121% to 150%	**989**	**4.0**	**143**	**4.6**	**1,132**	**4.0**
Greater than 150%	**61**	**0.2**	**83**	**2.7**	**144**	**0.5**
Unsecured	**11**	**0.0**	**10**	**0.3**	**21**	**0.1**
Total	**25,069**	**100.0**	**3,093**	**100.0**	**28,162**	**100.0**

						2015*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
Less than 50%	5,678	23.3	766	23.0	6,444	23.2
50% to 70%	5,672	23.2	757	22.7	6,429	23.2
71% to 80%	3,513	14.4	373	11.2	3,886	14.0
81% to 90%	3,101	12.7	336	10.1	3,437	12.4
91% to 100%	2,147	8.8	365	10.9	2,512	9.0
101% to 120%	2,768	11.3	416	12.5	3,184	11.5
121% to 150%	1,444	5.9	198	5.9	1,642	5.9
Greater than 150%	89	0.4	114	3.4	203	0.7
Unsecured	11	0.0	11	0.3	22	0.1
Total	24,423	100.0	3,336	100.0	27,759	100.0

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2016 (excluding unsecured) decreased to 15% compared to 18% at 31 December 2015, reflecting residential property price increases during the year, coupled with amortisation of the loan portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of Republic of Ireland residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the Republic of Ireland residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2016 and 2015:

								2016*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	**308**	**10.1**	**188**	**11.8**	**496**	**10.7**	**7,842**	**23.5**
50% to 70%	**366**	**12.0**	**231**	**14.5**	**597**	**12.9**	**8,185**	**24.5**
71% to 80%	**240**	**7.9**	**125**	**7.8**	**365**	**7.9**	**4,351**	**13.0**
81% to 90%	**247**	**8.1**	**134**	**8.4**	**381**	**8.2**	**3,678**	**11.0**
91% to 100%	**268**	**8.8**	**159**	**10.0**	**427**	**9.2**	**2,720**	**8.1**
101% to 120%	**550**	**18.1**	**274**	**17.2**	**824**	**17.8**	**3,765**	**11.3**
121% to 150%	**610**	**20.1**	**226**	**14.2**	**836**	**18.0**	**2,019**	**6.0**
Greater than 150%	**323**	**10.6**	**173**	**10.9**	**496**	**10.7**	**645**	**1.9**
Unsecured	**130**	**4.3**	**83**	**5.2**	**213**	**4.6**	**239**	**0.7**
Total	**3,042**	**100.0**	**1,593**	**100.0**	**4,635**	**100.0**	**33,444**	**100.0**

								2015*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	385	9.9	198	9.4	583	9.7	7,162	20.8
50% to 70%	493	12.7	260	12.4	753	12.6	7,331	21.3
71% to 80%	314	8.1	153	7.3	467	7.8	4,436	12.9
81% to 90%	351	9.1	190	9.1	541	9.1	4,063	11.8
91% to 100%	380	9.8	241	11.5	621	10.4	3,210	9.3
101% to 120%	690	17.8	403	19.2	1,093	18.3	4,389	12.7
121% to 150%	822	21.2	348	16.6	1,170	19.6	2,880	8.3
Greater than 150%	343	8.9	236	11.2	579	9.7	795	2.3
Unsecured	98	2.5	69	3.3	167	2.8	190	0.6
Total	3,876	100.0	2,098	100.0	5,974	100.0	34,456	100.0

The proportion of residential mortgages (excluding unsecured) that was greater than 90 days past due and/or impaired and in negative equity at 31 December 2016 (47%) decreased compared to 31 December 2015 (48%). This reflects the increase in residential property prices during the year.

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*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio at 31 December 2016 and 2015:

	2016*			2015*		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**25,069**	**3,093**	**28,162**	24,423	3,336	27,759
Past due but not impaired	**664**	**236**	**900**	744	242	986
Impaired - provisions held	**2,898**	**1,484**	**4,382**	3,713	1,998	5,711
Gross residential mortgages	**28,631**	**4,813**	**33,444**	28,880	5,576	34,456
Provisions for impairment	**(1,202)**	**(711)**	**(1,913)**	(1,347)	(847)	(2,194)
	27,429	**4,102**	**31,531**	27,533	4,729	32,262

The percentage of the portfolio which is neither past due nor impaired increased at 31 December 2016 to 84% from 81% at 31 December 2015.

Republic of Ireland residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for a forbearance measure. Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2016 and 2015:

	2016*			2015*		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**386**	**71**	**457**	425	86	511
31 - 60 days	**96**	**26**	**122**	103	35	138
61 - 90 days	**38**	**30**	**68**	53	21	74
91 - 180 days	**34**	**25**	**59**	42	22	64
181 - 365 days	**35**	**26**	**61**	37	24	61
Over 365 days	**75**	**58**	**133**	84	54	138
Total past due but not impaired	**664**	**236**	**900**	744	242	986
Total gross residential mortgages	**28,631**	**4,813**	**33,444**	28,880	5,576	34,456

Loans past due but not impaired at 31 December 2016 decreased by 9% when compared to 31 December 2015, driven by the improved economic environment and continued increased focus on the management of early arrears.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Collateral value of Republic of Ireland residential mortgages that were past due but not impaired

The following table profiles the collateral value of Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2016 and 2015:

			2016*			2015*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
1 - 30 days	**372**	**68**	**440**	409	82	491
31 - 60 days	**91**	**25**	**116**	99	29	128
61 - 90 days	**37**	**29**	**66**	50	19	69
91 - 180 days	**33**	**24**	**57**	40	21	61
181 - 365 days	**34**	**25**	**59**	37	22	59
Over 365 days	**73**	**53**	**126**	83	49	132
Total	**640**	**224**	**864**	718	222	940

The collateral value for the past due but not impaired portfolio was 96% of the outstanding loan balances at 31 December 2016, an increase from 95% at 31 December 2015.

Republic of Ireland residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired at 31 December 2016 and 2015:

			2016*			2015*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Not past due	**584**	**263**	**847**	966	453	1,419
1 - 30 days	**133**	**46**	**179**	189	50	239
31 - 60 days	**63**	**26**	**89**	87	37	124
61 - 90 days	**53**	**19**	**72**	65	28	93
91 - 180 days	**138**	**44**	**182**	163	80	243
181 - 365 days	**173**	**83**	**256**	234	137	371
Over 365 days	**1,754**	**1,003**	**2,757**	2,009	1,213	3,222
Total impaired	**2,898**	**1,484**	**4,382**	3,713	1,998	5,711
Total gross residential mortgages	**28,631**	**4,813**	**33,444**	28,880	5,576	34,456

Impaired loans decreased by € 1.3 billion during 2016 due to restructuring, cures and write-offs. In addition, the rate of new impairment continued to slow significantly compared to 2015 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2016, € 0.8 billion or 19% was not past due (2015: € 1.4 billion or 25%), of which € 0.7 billion was subject to forbearance measures at 31 December 2016 (2015: € 1.0 billion).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages – properties in possession[1]

The Group seeks to avoid repossession through working with customers, but where agreement cannot be reached, it proceeds to repossession of the property or the appointment of a receiver, using external agents to realise the maximum value as soon as is practicable. Where the Group believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

The number (stock) of properties in possession at 31 December 2016 and 2015 is set out below:

	2016*		2015*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	691	172	623	156
Buy-to-let	104	24	91	21
Total	795	196	714	177

[1] The number of residential properties in possession relates to those held as security for residential mortgages only.

The increase in the stock of residential properties in possession in 2016 relates to the addition of 273 properties (2015: 523 properties), partly offset by the disposal of 187 properties (2015: 439 properties). In addition, a further 5 properties that were classified as voluntary surrenders at 31 December 2015 have been removed from the reported stock as the customers have re-engaged with the Group or repaid the outstanding balances during the year. The increase in stock from 2015 is due to the continued focus on engagement with customers.

Republic of Ireland residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2016 and 2015:

					2016*
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	170	42	20	2	24
Buy-to-let	17	4	2	–	2
Total	187	46	22	2	26

					2015*
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1]- € m
Owner-occupier	390	108	46	4	66
Buy-to-let	49	12	5	–	7
Total	439	120	51	4	73

[1] Before specific impairment provisions.

The disposal of 187 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 26 million at 31 December 2016 (before specific impairment provisions) and compares to 2015 when 439 residential properties were disposed of resulting in a total loss of € 73 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom ("UK") residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions for the financial years ended 31 December 2016 and 2015:

			2016*			2015*
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	1,564	231	1,795	2,048	314	2,362
In arrears (>30 days past due)(1)	181	34	215	253	47	300
In arrears (>90 days past due)(1)	169	33	202	230	45	275
Of which impaired	161	33	194	212	43	255
Statement of financial position specific provisions	62	19	81	90	25	115
Statement of financial position IBNR provisions	7	1	8	12	1	13
Provision cover percentage	%	%	%	%	%	%
Specific provisions/impaired loans	38.6	56.1	41.5	42.4	57.8	45.0

			2016*			2015*
Income statement charge/(credit)	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	(1)	2	1	(7)	(2)	(9)
Income statement IBNR provisions	(3)	–	(3)	(5)	(1)	(6)
Total impairment charge/(credit)	(4)	2	(2)	(12)	(3)	(15)

(1)Includes all impaired loans whether past due or not.

The UK mortgage portfolio is predominantly based in Northern Ireland (73% of total) with the remainder located in Great Britain. The UK mortgage portfolio has decreased in sterling terms by c.11% on the financial year end December 2015. However, due to the impact of currency movements, the portfolio has decreased by c.24% in euro terms.

UK economic growth for 2016 is estimated at 2% with consumer spending and business investment holding up despite the sharp fall in sterling. Household finances have continued to benefit from low interest rates, low unemployment rates, modest earnings growth and low inflation. The housing and mortgage market has been impacted by tax and regulatory change, despite which a modest increase in demand has been evidenced nationally.

The domestic economic factors have had a positive impact on mortgage arrears in general. Total loans in arrears in AIB UK of greater than 90 days have improved to 11.2% (2015: 11.6%).

Statement of financial position specific provisions of € 81 million were held at 31 December 2016 and provided cover of 42% for impaired loans (2015: € 115 million, providing cover of 45%).

Statement of financial position IBNR provisions of € 8 million were held at 31 December 2016, down from € 13 million at 31 December 2015, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

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3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages by year of origination

The following table profiles the UK total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2016 and 2015:

	2016*				2015*			
	Total		Impaired		Total		Impaired	
United Kingdom	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	**1,208**	**28**	**34**	**2**	1,466	43	35	2
1997	**360**	**7**	**2**	**–**	403	11	5	–
1998	**345**	**9**	**13**	**–**	387	12	12	–
1999	**665**	**21**	**45**	**2**	736	30	34	2
2000	**703**	**22**	**27**	**1**	793	30	30	1
2001	**720**	**27**	**65**	**3**	835	38	55	3
2002	**1,204**	**53**	**70**	**3**	1,319	73	76	4
2003	**1,655**	**92**	**121**	**6**	1,806	124	136	8
2004	**1,881**	**122**	**160**	**10**	2,059	165	151	11
2005	**2,559**	**199**	**267**	**22**	2,789	270	288	31
2006	**3,437**	**345**	**344**	**38**	3,732	463	401	55
2007	**3,053**	**437**	**413**	**75**	3,277	570	461	104
2008	**1,202**	**167**	**108**	**23**	1,307	222	110	23
2009	**547**	**52**	**26**	**4**	616	71	25	5
2010	**273**	**28**	**14**	**5**	311	39	11	6
2011	**136**	**11**	**4**	**–**	159	15	4	–
2012	**146**	**15**	**1**	**–**	170	21	1	–
2013	**283**	**29**	**1**	**–**	303	42	1	–
2014	**383**	**58**	**–**	**–**	402	74	–	–
2015	**234**	**39**	**1**	**–**	241	49	–	–
2016	**207**	**34**	**–**	**–**	–	–	–	–
Total	**21,201**	**1,795**	**1,716**	**194**	23,111	2,362	1,836	255

The majority (€ 1.1 billion or 64%) of the € 1.8 billion residential mortgage book in the UK was originated between 2005 and 2008, of which 14% (€ 0.2 billion) was impaired at 31 December 2016 driven by reduced household income and reflecting the decrease in property prices since their peak in 2007. 21% of the residential mortgage portfolio was originated before 2005 of which 7% was impaired at 31 December 2016, while the remaining 15% of the portfolio was originated since 2009 of which 3% was impaired at 31 December 2016.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Nationwide House Price Index ("HPI") in the UK for Quarter 3 2016. The index for Quarter 3 2016 reported that house prices across the UK increased by 5.3% for the twelve months to the end of Quarter 3 2016.

In Northern Ireland (which includes 73% of the UK residential mortgage portfolio), the Nationwide HPI for Quarter 3 2016 reported an increase of 2.4% for the twelve months to the end of Quarter 3 2016.

Actual and weighted average indexed loan-to-value ratios of United Kingdom residential mortgages

The following table profiles the UK residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2016 and 2015:

						2016*
	Owner-occupier		**Buy-to-let**		**Total**	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**556**	**35.6**	**63**	**27.4**	**619**	**34.5**
50% to 70%	**360**	**23.0**	**37**	**15.9**	**397**	**22.1**
71% to 80%	**171**	**10.9**	**21**	**9.0**	**192**	**10.7**
81% to 90%	**119**	**7.6**	**24**	**10.2**	**143**	**7.9**
91% to 100%	**89**	**5.7**	**21**	**9.0**	**110**	**6.1**
101% to 120%	**116**	**7.4**	**29**	**12.7**	**145**	**8.1**
121% to 150%	**88**	**5.6**	**17**	**7.3**	**105**	**5.9**
Greater than 150%	**40**	**2.6**	**8**	**3.7**	**48**	**2.7**
Unsecured	**25**	**1.6**	**11**	**4.8**	**36**	**2.0**
Total	**1,564**	**100.0**	**231**	**100.0**	**1,795**	**100.0**
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at financial year end		**67.6**		**75.7**		**68.6**
New residential mortgages issued during the year		**72.0**		**69.7**		**72.0**
Impaired residential mortgages		**108.1**		**114.7**		**109.0**

						2015*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	634	30.9	82	26.3	716	30.3
50% to 70%	431	21.1	40	12.9	471	20.0
71% to 80%	231	11.3	22	7.0	253	10.7
81% to 90%	177	8.6	23	7.2	200	8.5
91% to 100%	118	5.8	26	8.2	144	6.1
101% to 120%	172	8.4	47	14.9	219	9.3
121% to 150%	164	8.0	51	16.3	215	9.1
Greater than 150%	90	4.4	8	2.5	98	4.1
Unsecured	31	1.5	15	4.7	46	1.9
Total	2,048	100.0	314	100.0	2,362	100.0
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at financial year end		73.4		81.3		74.4
New residential mortgages issued during the year		60.6		50.7		60.5
Impaired residential mortgages		117.8		111.3		116.9

[(1)] Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

16% of the total owner-occupier and 24% of the total buy-to-let mortgages were in negative equity at 31 December 2016 (excluding unsecured), compared to 21% and 34% respectively at 31 December 2015, driven primarily by the increase in property prices in 2016, coupled with amortisation of the loan portfolio. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 68.6% at 31 December 2016 compared to 74.4% at 31 December 2015, partially reflecting the increase in residential property prices in the period.

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3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the UK residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2016 and 2015:

						2016*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**523**	**38.1**	**60**	**30.9**	**583**	**37.2**
50% to 70%	**332**	**24.1**	**34**	**17.5**	**366**	**23.3**
71% to 80%	**153**	**11.1**	**19**	**9.8**	**172**	**11.0**
81% to 90%	**108**	**7.9**	**22**	**11.2**	**130**	**8.3**
91% to 100%	**74**	**5.4**	**19**	**9.6**	**93**	**5.9**
101% to 120%	**101**	**7.4**	**27**	**13.7**	**128**	**8.2**
121% to 150%	**68**	**5.0**	**13**	**6.8**	**81**	**5.2**
Greater than 150%	**14**	**1.0**	**1**	**0.5**	**15**	**0.9**
Total	**1,373**	**100.0**	**195**	**100.0**	**1,568**	**100.0**

						2015*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	592	33.4	80	30.0	672	33.0
50% to 70%	392	22.1	37	14.0	429	21.1
71% to 80%	203	11.5	20	7.7	223	10.9
81% to 90%	159	9.0	20	7.4	179	8.8
91% to 100%	103	5.8	19	7.1	122	6.0
101% to 120%	147	8.3	43	16.2	190	9.3
121% to 150%	132	7.4	43	16.3	175	8.6
Greater than 150%	44	2.5	3	1.3	47	2.3
Total	1,772	100.0	265	100.0	2,037	100.0

Residential mortgages that were neither past due nor impaired and in negative equity at 31 December 2016 decreased in comparison to 31 December 2015, partially reflecting the increase in residential property prices in the year. 14% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2016 compared to 20% at 31 December 2015.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the UK residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2016 and 2015:

								2016*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	25	15.0	3	8.1	28	13.9	619	34.5
50% to 70%	26	15.3	2	6.3	28	13.8	397	22.1
71% to 80%	15	8.6	1	3.5	16	7.7	192	10.7
81% to 90%	9	5.6	1	3.7	10	5.2	143	7.9
91% to 100%	12	7.0	2	5.3	14	6.8	110	6.1
101% to 120%	13	7.9	2	7.1	15	7.8	145	8.1
121% to 150%	19	11.1	3	9.3	22	10.8	105	5.9
Greater than 150%	25	15.0	8	23.0	33	16.3	48	2.7
Unsecured	25	14.5	11	33.7	36	17.7	36	2.0
Total	169	100.0	33	100.0	202	100.0	1,795	100.0

								2015*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	25	11.0	2	5.1	27	10.0	716	30.3
50% to 70%	26	11.3	3	6.0	29	10.4	471	20.0
71% to 80%	25	10.9	1	2.8	26	9.6	253	10.7
81% to 90%	13	5.8	3	6.1	16	5.8	200	8.5
91% to 100%	12	5.2	7	15.0	19	6.8	144	6.1
101% to 120%	24	10.3	3	6.8	27	9.8	219	9.3
121% to 150%	30	13.0	7	15.7	37	13.5	215	9.1
Greater than 150%	44	19.2	4	9.5	48	17.6	98	4.1
Unsecured	31	13.3	15	33.0	46	16.5	46	1.9
Total	230	100.0	45	100.0	275	100.0	2,362	100.0

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity (excluding unsecured loans) at 31 December 2016, decreased in comparison to 31 December 2015, driven by a decrease in the amount of loans greater than 90 days past due and/or impaired coupled with an increase in property prices in the year.

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*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of United Kingdom residential mortgages

The following table profiles the asset quality of the UK residential mortgage portfolio at 31 December 2016 and 2015:

			2016*			2015*
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**1,373**	**195**	**1,568**	1,772	265	2,037
Past due but not impaired	**30**	**3**	**33**	64	6	70
Impaired - provisions held	**161**	**33**	**194**	212	43	255
Gross residential mortgages	**1,564**	**231**	**1,795**	2,048	314	2,362
Provisions for impairment	**(69)**	**(20)**	**(89)**	(102)	(26)	(128)
	1,495	**211**	**1,706**	1,946	288	2,234

United Kingdom residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically for more than 90 days, or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events (‘impairment triggers’) such as a request for forbearance. Loans are deemed impaired where the expected future cash flows either from the loan itself or from associated collateral will not be sufficient to repay the loan and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles UK residential mortgages that were past due but not impaired at 31 December 2016 and 2015:

			2016*			2015*
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**10**	**2**	**12**	23	2	25
31 - 60 days	**8**	**1**	**9**	12	1	13
61 - 90 days	**4**	**–**	**4**	11	1	12
91 - 180 days	**3**	**–**	**3**	7	2	9
181 - 365 days	**2**	**–**	**2**	4	–	4
Over 365 days	**3**	**–**	**3**	7	–	7
Total	**30**	**3**	**33**	64	6	70

Collateral value of United Kingdom residential mortgages that were past due but not impaired

The following table profiles the collateral value of UK residential mortgages that were past due but not impaired at 31 December 2016 and 2015:

			2016*			2015*
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**10**	**2**	**12**	23	2	25
31 - 60 days	**7**	**1**	**8**	11	1	12
61 - 90 days	**3**	**–**	**3**	11	1	12
91 - 180 days	**3**	**–**	**3**	7	1	8
181 - 365 days	**2**	**–**	**2**	4	–	4
Over 365 days	**3**	**–**	**3**	6	–	6
Total	**28**	**3**	**31**	62	5	67

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages that were impaired

The following table profiles the UK residential mortgages that were impaired at 31 December 2016 and 2015:

	2016*			2015*		
United Kingdom	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	**26**	**3**	**29**	17	3	20
1 - 30 days	**7**	**1**	**8**	3	1	4
31 - 60 days	**5**	**–**	**5**	5	1	6
61 - 90 days	**2**	**–**	**2**	4	1	5
91 - 180 days	**8**	**2**	**10**	15	2	17
181 - 365 days	**17**	**3**	**20**	31	12	43
Over 365 days	**96**	**24**	**120**	137	23	160
Total impaired	**161**	**33**	**194**	212	43	255
Total gross residential mortgages	**1,564**	**231**	**1,795**	2,048	314	2,362

As at 31 December 2016, the level of residential mortgages that were impaired was 10.8%, and has remained constant compared to 31 December 2015.

United Kingdom residential mortgages – properties in possession[(1)]

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property.

The number (stock) of properties in possession at 31 December 2016 and 2015 is set out below:

	2016*		2015*	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**37**	**9**	46	14
Buy-to-let	**11**	**2**	19	3
Total	**48**	**11**	65	17

(1) The number of residential properties in possession relates to those held as security for residential mortgages only.

The stock of residential properties continued to decrease in 2016, and has reduced from 65 properties at December 2015 to 48 properties.

United Kingdom residential mortgages – repossessions disposed of

The disposal of 60 residential properties in possession resulted in a loss on disposal of € 5 million before specific impairment provisions (2015: disposal of 119 properties resulting in a loss on disposal of € 15 million). Losses on the sale of properties in possession are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Other personal

The following table analyses other personal lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

	2016*				2015*			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Analysed as to asset quality								
Satisfactory	2,091	161	–	2,252	2,051	247	–	2,298
Watch	110	10	–	120	137	23	–	160
Vulnerable	283	13	–	296	336	20	–	356
Impaired	386	46	–	432	632	66	–	698
Total criticised loans	779	69	–	848	1,105	109	–	1,214
Total gross loans and receivables	2,870	230	–	3,100	3,156	356	–	3,512
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	27	30	–	27	35	31	–	35
Impaired loans/total loans	13	20	–	14	20	19	–	20
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	218	34	–	252	437	49	–	486
IBNR	34	4	–	38	44	5	–	49
Total impairment provisions	252	38	–	290	481	54	–	535
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	56	74	–	58	69	74	–	70
Total provisions/impaired loans	65	83	–	67	76	82	–	77
Total provisions/total loans	9	17	–	9	15	15	–	15
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(9)	(2)	–	(11)	(7)	2	–	(5)
IBNR	(9)	(2)	–	(11)	(7)	4	–	(3)
Total impairment (credit)/charge	(18)	(4)	–	(22)	(14)	6	–	(8)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(0.60)	(1.06)	–	(0.63)	(0.40)	1.52	–	(0.19)

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Other personal

The other personal lending portfolio at € 3.1 billion reduced by € 0.4 billion during 2016 and comprises € 2.2 billion in loans and overdrafts and € 0.9 billion in credit card facilities.

An increase in demand for personal loans was observed during the year and was due to both the improved economic environment and an expanded service offering, including on-line approval through internet, mobile and telephone banking applications. The strong level of new lending is offset by redemptions and repayments.

The portfolio experienced a € 0.4 billion reduction in criticised loans in 2016, of which € 0.2 billion was written off. At 31 December 2016, € 0.8 billion or 27% of the portfolio was criticised of which impaired loans amounted to € 0.4 billion (2015: € 1.2 billion or 35% and € 0.7 billion).

At 31 December 2016, the specific provision cover decreased from 70% to 58%, driven by the write-off of impaired balances with a high provision cover and which were predominately low value retail loans on which recovery options had been exhausted. The income statement provision writeback of € 22 million compares to an € 8 million writeback in 2015.

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*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

The following table analyses property and construction lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

	2016*				2015*			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Investment:								
Commercial investment	4,665	1,533	–	6,198	5,154	1,453	–	6,607
Residential investment	818	233	–	1,051	1,002	456	–	1,458
	5,483	1,766	–	7,249	6,156	1,909	–	8,065
Land and development								
Commercial development	424	20	–	444	583	69	–	652
Residential development	800	277	–	1,077	1,142	758	–	1,900
	1,224	297	–	1,521	1,725	827	–	2,552
Contractors	157	170	38	365	174	227	34	435
Housing associations	–	259	–	259	–	480	–	480
Total gross loans and receivables	6,864	2,492	38	9,394	8,055	3,443	34	11,532
Analysed as to asset quality								
Satisfactory	2,756	1,643	38	4,437	2,435	1,683	34	4,152
Watch	249	129	–	378	486	487	–	973
Vulnerable	1,685	170	–	1,855	1,839	260	–	2,099
Impaired	2,174	550	–	2,724	3,295	1,013	–	4,308
Total criticised loans	4,108	849		4,957	5,620	1,760	–	7,380
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	60	34	–	53	70	51	–	64
Impaired loans/total loans	32	22	–	29	41	29	–	37
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	1,020	330	–	1,350	1,790	685	–	2,475
IBNR	84	15	–	99	151	23	–	174
Total impairment provisions	1,104	345	–	1,449	1,941	708	–	2,649
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	47	60	–	50	54	68	–	57
Total provisions/impaired loans	51	63	–	53	59	70	–	61
Total provisions/total loans	16	14	–	15	24	21	–	23
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(64)	(10)	–	(74)	(187)	(29)	–	(216)
IBNR	(67)	(4)	–	(71)	22	(20)	–	2
Total impairment (credit)	(131)	(14)	–	(145)	(165)	(49)	–	(214)
	%	%	%	%	%	%	%	%
Impairment (credit)/average loans	(1.72)	(0.48)	–	(1.38)	(1.71)	(1.13)	–	(1.54)

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

The property and construction sector amounted to 14% of total loans and receivables compared to 16% as at 31 December 2015. The portfolio is comprised of 77% investment loans (€ 7.2 billion), 16% land and development loans (€ 1.5 billion) and 7% other property and construction loans (€ 0.6 billion). AIB UK accounts for 27% of the total property and construction portfolio.

Overall, the portfolio reduced by € 2.1 billion or 19% during 2016. This reduction was due principally to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers. Impaired loans in this portfolio have reduced by € 1.6 billion in 2016, with specific provisions reducing by € 1.1 billion.

There was a writeback of specific provisions net of top-ups of € 143 million (c. 3% of opening impaired loans) mainly due to the improved economic environment and the restructuring process described on page 88. This was partially off-set by provisions for new impairments which amounted to € 69 million.

Investment

Investment property loans amounted to € 7.2 billion at 31 December 2016 (2015: € 8.1 billion) of which € 6.2 billion related to commercial investment. The reduction was largely as a result of loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs. € 5.5 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland and € 1.8 billion in the United Kingdom.

2016 saw strong investor interest in Irish commercial property with overseas capital continuing to play an important role, accounting for c. 64% of total investment in the Irish investment market in the year to 30 September 2016. The retail sector continues to be the most sought after asset class followed by the office sector which is principally focused in Dublin.

€ 3.8 billion or 52% of the investment property portfolio was criticised at 31 December 2016 compared with € 4.9 billion or 61% at 31 December 2015. Included in criticised loans was € 1.8 billion loans which were impaired (31 December 2015: € 2.4 billion) and on which the Group had € 0.8 billion in statement of financial position specific provisions, providing cover of 44% (2015: € 1.2 billion and 49%). Total impairment provisions as a percentage of total loans is 12%, down from 16% at 31 December 2015. The impairment writeback to the income statement was € 67 million on the investment property element of the property and construction portfolio compared to a writeback of € 140 million in 2015.

Land and development

At 31 December 2016, land and development loans amounted to € 1.5 billion (2015: € 2.6 billion). € 1.2 billion of this portfolio related to loans in AIB Ireland and € 0.3 billion in AIB UK.

The development land market in 2016 saw strong activity, continuing the momentum of 2015, with a number of large transactions occurring throughout the year.

€ 1.1 billion of the land and development portfolio was criticised at 31 December 2016 (2015: € 2.2 billion), including € 0.8 billion of loans which were impaired (2015: € 1.8 billion) and on which the Group had € 0.5 billion in statement of financial position specific provisions, providing cover of 61% (2015: 68%). The impairment writeback of € 79 million to the income statement compares to a writeback of € 74 million in 2015.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

The following table analyses non-property business lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

				2016*				2015*
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Agriculture	1,660	94	19	1,773	1,681	104	10	1,795
Distribution:								
Hotels	1,483	791	37	2,311	1,458	855	43	2,356
Licensed premises	541	–	–	541	594	101	63	758
Retail/wholesale	1,715	364	260	2,339	1,959	436	–	2,395
Other distribution	142	–	106	248	144	9	169	322
	3,881	1,155	403	5,439	4,155	1,401	275	5,831
Other services	2,215	2,368	1,123	5,706	2,492	2,569	827	5,888
Other	2,005	1,183	1,389	4,577	1,895	1,218	1,674	4,787
Total gross loans and receivables	9,761	4,800	2,934	17,495	10,223	5,292	2,786	18,301
Analysed as to asset quality								
Satisfactory	6,893	4,184	2,893	13,970	6,576	4,510	2,723	13,809
Watch	351	296	–	647	567	299	17	883
Vulnerable	1,325	149	–	1,474	1,347	149	–	1,496
Impaired	1,192	171	41	1,404	1,733	334	46	2,113
Total criticised loans	2,868	616	41	3,525	3,647	782	63	4,492
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	29	13	1	20	36	15	2	25
Impaired loans/total loans	12	4	1	8	17	6	2	12
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	619	71	27	717	952	178	22	1,152
IBNR	91	29	11	131	137	30	7	174
Total impairment provisions	710	100	38	848	1,089	208	29	1,326
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	52	42	66	51	55	53	48	55
Total provisions/impaired loans	60	58	93	60	63	62	63	63
Total provisions/total loans	7	2	1	5	11	4	1	7
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	30	(20)	14	24	(98)	6	9	(83)
IBNR	(47)	3	4	(40)	(152)	8	2	(142)
Total impairment (credit)/charge	(17)	(17)	18	(16)	(250)	14	11	(225)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(0.17)	(0.31)	0.65	(0.08)	(2.36)	0.27	0.51	(1.24)

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Non-property business *(continued)*

The non-property business portfolio comprises of Small Medium Enterprises ("SME") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers who are impacted by global economies. There was increased activity across most sub-sectors in the portfolio due to increased credit demand across all segments resulting in new lending of c. € 4.4 billion in 2016. However, this was more than offset by amortisation, restructuring activity and sterling depreciation, resulting in a reduction of € 0.8 billion in the portfolio (4% reduction). The portfolio amounted to 27% of total loans and receivables as at 31 December 2016. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations.

Satisfactory loans and receivables increased in 2016, continuing the positive trend experienced in 2015, with new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The level of criticised loans reduced from € 4.5 billion at 31 December 2015 to € 3.5 billion at 31 December 2016, mainly due to a reduction of € 0.7 billion in impaired loans as a result of significant restructuring.

The following are the key themes within the main sub-sectors of the non-property business portfolio:

- The agriculture sub-sector (10% of the portfolio) continued to perform well in 2016 - with the dairy sector recovering as milk prices increased in the second half of the year;
- The hotels sub-sector comprises 13% of the portfolio. This sector continued to perform well in 2016, helped by a stronger local economy and increased number of tourists. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for available properties;
- The licensed premises sub-sector comprises 3% of the portfolio. This sector continues to perform strongly in key urban centres, but outside the main cities, trading performance continues to show some weakness;
- The retail/wholesale sub-sector (13% of the portfolio) continued to improve in 2016 due to the stronger economic environment, nevertheless, there is still stress in the sub-sector, particularly in rural areas; and
- The other services sub-sector comprises 33% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector performed well in 2016 with an increase in drawdowns.

In the table on the preceding page, there is a category of "Other" totalling € 4.6 billion (26% of the portfolio). This category includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

2016 was another year of strong economic growth in the Republic of Ireland. Notwithstanding this improved economic performance and a positive outlook, there are still challenges in the domestic market, and in particular, the heightened economic uncertainty and increased foreign exchange volatility that have followed the outcome of the Brexit referendum in 2016.

The UK had another year of economic growth, though, following the outcome of the Brexit referendum in June 2016, there is increased uncertainty going into 2017.

Group & International business segment includes € 2.8 billion (2015: € 2.2 billion) in syndicated and international lending exposures. The Group has specialised lending teams which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. Loans originated by these teams, reported on the basis of the booking office are Ireland € 2.7 billion and Rest of the World € 0.1 billion.

At 31 December 2016, 99.8% of the syndicated and international lending portfolio is in a satisfactory grade, with € 6 million or 0.2% classified as impaired. 76% of the customers in this portfolio are domiciled in the USA, 5% in the UK, and 19% in the Rest of the World (2015: 85% in the USA, 4% in the UK and 11% in the Rest of the World respectively). The largest sub-sectors within the portfolio include business services, telecoms, manufacturing, healthcare, pharmaceuticals and media.

The income statement provision writeback in 2016 was € 16 million compared to a writeback of € 225 million in 2015.

IBNR provisions reduced from € 174 million to € 131 million, or from 1.1% to 0.8% of non-impaired loans and receivables, in line with improved impairment trends.

The specific provision cover decreased from 55% at 31 December 2015 to 51% at 31 December 2016 impacted by writebacks and write-offs of provisions for loans with higher provision cover.

Specific provisions on new impairments amounted to € 75 million (2015: € 95 million) and were off-set by a writeback (net of top-ups) of € 51 million (2015: € 178 million) . The writeback amounted to c. 2% of opening impaired loans and was driven by the improved economic environment and the restructuring assessment process described on page 88.

3.1 Credit risk – credit profile of the loan portfolio

Large exposures

The Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2016, the Group's top 50 exposures amounted to € 4.5 billion, and accounted for 6.9% (2015: € 4.8 billion and 6.9%) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to € 83 million (2015: € 266 million). No single customer exposure exceeded regulatory requirements. In addition, the Group holds NAMA senior bonds amounting to € 1.8 billion (2015: € 5.6 billion).

Credit ratings

Internal credit ratings*

The Group uses various rating tools in managing its credit risk. The role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail on pages 63 to 67. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired, and are defined on page 64.

For reporting purposes loans and receivables to customers are categorised into:
- Neither past due nor impaired;
- Past due but not impaired; and
- Impaired.

Neither past due nor impaired are those loans that are neither contractually past due and/or have not been categorised as impaired by the Group.

Past due but not impaired are those loans where a contractually due payment has not been made. 'Past due days' is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded. This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

Impaired loans are defined as follows: 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 assets (a 'loss event') and that loss event (or events) has an impact such that the present value of estimated 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.

Loans that are neither past due nor impaired are further classified into 'Good upper, Good lower, Watch and Vulnerable', which are defined as follows:

Good upper:	Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.
Good lower:	Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.
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.

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3.1 Credit risk – credit profile of the loan portfolio

Credit ratings *(continued)*

Internal credit ratings of loans and receivables to customers*

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2016 and 2015 is set out below:

					2016
	Residential mortgages € m	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Neither past due nor impaired					
Good upper	**15,937**	**229**	**199**	**1,545**	**17,910**
Good lower	**9,811**	**1,970**	**4,190**	**12,347**	**28,318**
Watch	**1,575**	**96**	**357**	**612**	**2,640**
Vulnerable	**2,407**	**203**	**1,562**	**1,225**	**5,397**
Total	**29,730**	**2,498**	**6,308**	**15,729**	**54,265**
Past due but not impaired					
Good upper	**5**	**3**	**1**	**1**	**10**
Good lower	**50**	**50**	**47**	**77**	**224**
Watch	**281**	**24**	**21**	**35**	**361**
Vulnerable	**597**	**93**	**293**	**249**	**1,232**
Total	**933**	**170**	**362**	**362**	**1,827**
Total impaired	**4,576**	**432**	**2,724**	**1,404**	**9,136**
Total gross loans and receivables	**35,239**	**3,100**	**9,394**	**17,495**	**65,228**
Impairment provisions					**(4,589)**
Total					**60,639**

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	14,894	203	122	1,167	16,386
Good lower	10,106	2,048	3,980	12,507	28,641
Watch	1,972	131	912	836	3,851
Vulnerable	2,824	282	1,806	1,270	6,182
Total	29,796	2,664	6,820	15,780	55,060
Past due but not impaired					
Good upper	5	2	–	2	9
Good lower	86	45	50	133	314
Watch	292	29	61	47	429
Vulnerable	673	74	293	226	1,266
Total	1,056	150	404	408	2,018
Total impaired	5,966	698	4,308	2,113	13,085
Total gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Unearned income					(139)(1)
Deferred costs					48(1)
Impairment provisions					(6,832)
Total					63,240

(1)In 2016, unearned income and deferred costs have been allocated to the relevant asset classes.

The above table shows reductions in “criticised” grade categories across all asset classes compared to December 2015. The increase in “good” grade categories was driven by new lending partially offset by pay-downs. Loans reduced in total by € 4.9 billion (a decrease of 7%) representing a net increase in "good" loans of € 1.1 billion and a decrease in “criticised” (watch, vulnerable and impaired) of € 6.0 billion.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings *(continued)*

Non-performing exposures to customers

The internal credit ratings profile of loans and receivables to customers on the table above sets out the basis on which the Group manages its credit portfolio. In addition, the Group's off–balance sheet commitments are set out in note 45 to the financial statements analysed by their internal ratings profile. For regulatory reporting purposes, the Group discloses details of its non-performing exposures which are set out in the table below. Non-performing exposures include a) loans and receivables to customers and b) off-balance sheet commitments such as loan commitments and financial guarantee contracts. In some respects, loans and receivables as reported in non-performing exposures overlap with the tables reported above, i.e. impaired loans (page 95) and greater than 90 days past due but not impaired (page 93). However, the category below 'Neither past due nor impaired and/or less than 90 days past due' will contain elements of the satisfactory portfolio, and the 'watch' and 'vulnerable' categories as set out above. All exposures categorised as non-performing have been tested for impairment.

A profile of non-performing loans and receivables to customers by asset class together with the total outstanding value for non-performing off-balance sheet commitments at 31 December 2016 and 2015 is set out below:

					2016
	Residential mortgages € m	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Total gross loans and receivables	**35,239**	**3,100**	**9,394**	**17,495**	**65,228**
(a) 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	**6,679**	**661**	**4,214**	**2,518**	**14,072**
Non-performing loans as % of total gross loans	**19%**	**21%**	**45%**	**14%**	**22%**

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
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	7,810	880	6,113	3,165	17,968
Non-performing loans as % of total gross loans	21%	25%	53%	17%	26%

(b) Total non-performing off-balance sheet commitments amounted to € 321 million (2015: € 399 million).

Non-performing exposures as defined by the EBA are:
- Material exposures which are more than 90 days past-due; and or,
- 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 of the number of days past due.

Non-performing loans in the table above include:
- Impaired loans;
- Loans that are greater than 90 days past due and not impaired;
- Loans that are deemed unlikely to repay without realisation of the underlying collateral; and
- Certain other loans including those that have previously received a forbearance solution and that are required to remain as non-performing for a probation period, as defined under regulatory and EBA Implementing Technical Standards.

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings *(continued)*

External credit ratings of financial assets*

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity shares) and financial investments available for sale (excluding equity shares) and financial investments held to maturity at 31 December 2016 and 2015 is set out below:

					2016
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,901**	**–**	**2,440**	**446**	**7,787**
A+/A/A-	**847**	**27**	**10,456**[1]	**–**	**11,330**
BBB+/BBB/BBB-	**186**	**19**	**2,028**	**–**	**2,233**
Sub investment	**11**	**21**	**–**	**–**	**32**
Unrated	**5**	**–**	**–**	**–**	**5**
Total	**5,950**	**67**	**14,924**[2]	**446**	**21,387**

					2015
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,963	–	2,758	328	8,049
A/A-	1,258	–	14,716(1)	–	15,974
BBB+/BBB/BBB-	166	–	2,317	1	2,484
Sub investment	549	86	–	–	635
Unrated	3	1	–	–	4
Total	6,939	87	19,791(2)	329	27,146

(1)Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A at 31 December 2016 i.e. the external rating of the Sovereign (31 December 2015: A-).

(2)Includes supranational banks and government agencies.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments available for sale

The following table analyses the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses at 31 December 2016 and 2015:

	2016*			2015*		
Debt securities	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m
Irish Government securities	5,114	458	(13)	5,406	587	–
Euro government securities	2,706	148	(6)	3,033	140	(3)
Non Euro government securities	230	8	(1)	245	7	(1)
Supranational banks and government agencies	1,719	64	(1)	2,008	78	–
Collateralised mortgage obligations	433	–	(8)	328	–	(3)
Other asset backed securities	12	–	–	1	–	–
Euro bank securities	4,551	102	(1)	4,600	81	(8)
Euro corporate securities	47	–	–	30	–	–
Non Euro corporate securities	20	3	–	57	3	(2)
Total debt securities	14,832	783	(30)	15,708	896	(17)
Equity securities[1]	605	448	(2)	781	696	(2)
Total financial investment available for sale	15,437	1,231	(32)	16,489	1,592	(19)

[1]Includes NAMA subordinated bonds with a fair value of € 466 million (2015: € 432 million) of which unrealised gains amount to € 419 million (2015: € 385 million).

The following table categorises AIB Group's available-for-sale debt securities by contractual residual maturity and weighted average yield at 31 December 2016 and 2015:

	2016							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
Irish Government securities	1,209	3.9	2,548	4.4	1,029	1.2	328	1.3
Euro government securities	174	1.5	837	1.8	1,695	1.5	–	–
Non Euro government securities	9	2.6	137	2.5	84	0.8	–	–
Supranational banks and government agencies	265	1.5	1,247	1.0	127	1.7	80	2.2
Collateralised mortgage obligations	–	–	–	–	–	–	433	1.9
Other asset backed securities	–	–	–	–	–	–	12	0.2
Euro bank securities	155	0.8	3,431	0.8	965	0.5	–	–
Euro corporate securities	3	–	20	0.3	24	1.2	–	–
Non Euro corporate securities	–	–	–	–	20	5.4	–	–
Total	1,815	3.1	8,220	2.1	3,944	1.2	853	1.7

	2015							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
Irish Government securities	816	8.1	3,889	4.1	414	1.8	287	2.1
Euro government securities	–	–	687	1.6	2,346	1.5	–	–
Non Euro government securities	–	–	136	2.0	109	0.8	–	–
Supranational banks and government agencies	–	–	1,545	1.1	437	1.3	26	2.0
Collateralised mortgage obligations	–	–	–	–	–	–	328	1.6
Other asset backed securities	–	–	–	–	–	–	1	0.1
Euro bank securities	–	–	3,602	0.9	998	0.8	–	–
Euro corporate securities	–	–	20	4.1	10	2.8	–	–
Non Euro corporate securities	1	–	35	5.2	21	5.9	–	–
Total	817	8.1	9,914	2.3	4,335	1.3	642	1.8

3.1 Credit risk – Financial investments available for sale

The following tables analyse the available for sale portfolio by geography at 31 December 2016 and 2015:

Government securities	2016* Irish Government € m	2016* Euro government € m	2016* Non Euro government € m	2015* Irish Government € m	2015* Euro government € m	2015* Non Euro government € m
Republic of Ireland	**5,114**	**–**	**–**	5,406	–	–
Italy	**–**	**928**	**–**	–	1,164	–
France	**–**	**269**	**–**	–	275	–
Spain	**–**	**1,100**	**–**	–	1,153	–
Netherlands	**–**	**254**	**–**	–	260	–
Germany	**–**	**93**	**–**	–	96	–
Austria	**–**	**30**	**–**	–	30	–
United Kingdom	**–**	**–**	**76**	–	–	89
Finland	**–**	**–**	**–**	–	–	–
Slovakia	**–**	**32**	**–**	–	55	–
Czech Republic	**–**	**–**	**36**	–	–	36
Poland	**–**	**–**	**89**	–	–	120
Saudi Arabia	**–**	**–**	**29**	–	–	–
	5,114	**2,706**	**230**	5,406	3,033	245

Asset backed securities	2016* Total € m	2015* Total € m
United States of America	**433**	328
Spain	**–**	1
Ireland	**12**	–
	445	329

Bank securities	2016* Euro € m	2016* Non Euro € m	2015* Euro € m	2015* Non Euro € m
Republic of Ireland	**471**	**–**	483	–
France	**569**	**–**	777	–
Netherlands	**712**	**–**	496	–
United Kingdom	**443**	**–**	446	–
Australia	**315**	**–**	347	–
Sweden	**394**	**–**	376	–
Canada	**661**	**–**	667	–
Finland	**234**	**–**	244	–
Norway	**300**	**–**	318	–
Belgium	**297**	**–**	282	–
Germany	**31**	**–**	49	–
Denmark	**57**	**–**	76	–
New Zealand	**24**	**–**	16	–
Switzerland	**18**	**–**	23	–
Luxembourg	**25**	**–**	–	–
	4,551	**–**	4,600	–

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments available for sale

Debt securities

Debt securities available for sale ("AFS") decreased from a fair value of € 15.7 billion at 31 December 2015 to € 14.8 billion at 31 December 2016. Sales, maturities and redemptions of € 3.1 billion (nominal € 3.5 billion) were offset by purchases of € 2.5 billion (nominal € 2.4 billion).

Within the AFS portfolio, Irish Government securities reduced by € 0.3 billion and euro government securities reduced by € 0.3 billion as these holdings had moved to record low yields against a backdrop of ECB quantitative easing. Re-investment in US asset backed securities (€ 0.2 billion) was deemed to offer better relative value returns.

The decrease in fair value of the overall portfolio was due to net sales of € 0.6 billion.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 31% (2015: 29%); AA: 18% (2015: 17%); A: 37% (2015: 38%); BBB: 13% (2015: 15%); and sub investment grade 1% (2015: 1%).

Republic of Ireland securities

The fair value of Irish debt securities amounted to € 5.6 billion at 31 December 2016 (2015: € 5.9 billion) and consisted of sovereign debt € 5.1 billion (2015: € 5.4 billion), senior unsecured bonds of € 0.2 billion (2015: € 0.2 billion) and covered bonds of € 0.3 billion (2015: € 0.3 billion).

United Kingdom securities

The fair value of United Kingdom securities amounted to € 0.5 billion at 31 December 2016 (2015: € 0.6 billion) and consisted of sovereign debt € 0.1 billion (2015: € 0.1 billion), senior unsecured bonds of € 0.1 billion (2015: € 0.1 billion) and covered bonds of € 0.3 billion (2015: € 0.4 billion).

Euro government securities

The fair value of government securities denominated in euros (excluding those issued by the Irish Government) decreased by € 0.3 billion to € 2.7 billion (2015: € 3.0 billion). This decrease was largely due to net sales and maturities and included reductions in Italian government securities of € 0.2 billion.

Bank securities

At 30 December 2016, the fair value of bank securities of € 4.5 billion (2015: € 4.6 billion) included € 3 billion in covered bonds (2015: € 3.2 billion), € 1.3 billion in senior unsecured bank debt (2015: € 1.2 billion) and € 0.2 billion in government guaranteed senior bank debt (2015: € 0.2 billion). The bank debt was diversified across banks in 15 countries with the largest exposures being to Dutch banks (€ 0.7 billion) and Canadian banks (€ 0.7 billion).

Asset backed securities

Asset backed securities increased to € 0.4 billion (2015: € 0.3 billion). This was due to purchases of AAA rated US collateralised mortgage obligations.

Equity securities

Equity securities held as AFS decreased by € 176 million with the decrease being primarily attributable to the disposal of AIB's holding in Visa Europe which was held at a fair value of € 294 million at 31 December 2015. Consideration for the disposal comprised cash of € 207 million and preferred stock in Visa Inc. with a fair value of € 65 million. This holding in Visa Inc. preferred stock had a fair value of € 70 million at 31 December 2016.

The fair value of the NAMA subordinated bonds increased to € 466 million at 31 December 2016 (2015: € 432 million) i.e. from 91.81% to 99.02% of nominal. A dividend amounting to € 25 million was received on these bonds in 2016.

Other

In addition to Irish Government securities outlined above, the Group holds NAMA senior debt amounting to € 1.8 billion (2015: € 5.6 billion), which is guaranteed by the Irish Government. However, this is classified as loans and receivables to customers and accounted for at amortised cost.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments held to maturity

In December 2015, following a Board decision to reduce the AFS portfolio, € 3.5 billion (€ 2.9 billion nominal) in Irish Government securities were transferred to a new held to maturity ("HTM") portfolio. The transfer covered a range of issues with maturities ranging from 2018 to 2030. The reclassification reflects the Group's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was c. € 0.5 billion. This unrealised gain is being amortised to interest income using the effective income method over the remaining life of the bonds. There are no immediate plans to increase this portfolio.

	2016* € m	2015* € m
At 1 January	**3,483**	–
Transfers from available for sale securities *(note 27 to the consolidated financial statements)*	**–**	3,487
Amortisation of fair value gain	**(127)**	(4)
At 31 December	**3,356**	3,483

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3.2 Additional credit risk information – Forbearance*

The Group's forbearance initiatives are detailed on pages 73 to 75 in the 'Risk management' section of this report.

The following table sets out the risk profile of loans and receivables to customers analysed as to non-forborne and forborne at 31 December 2016:

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	15,364	228	199	1,544	17,335
Good lower	9,099	1,695	4,150	12,195	27,139
Watch	1,236	74	293	529	2,132
Vulnerable	903	77	479	459	1,918
Total	26,602	2,074	5,121	14,727	48,524
Past due but not impaired	414	109	203	231	957
Impaired	2,236	302	2,124	954	5,616
Total	2,650	411	2,327	1,185	6,573
Total non-forborne loans and receivables to customers	29,252	2,485	7,448	15,912	55,097
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	573	1	–	1	575
Good lower	712	275	40	152	1,179
Watch	339	22	64	83	508
Vulnerable	1,504	126	1,083	766	3,479
Total	3,128	424	1,187	1,002	5,741
Past due but not impaired	519	61	159	131	870
Impaired	2,340	130	600	450	3,520
Total	2,859	191	759	581	4,390
Total forborne loans and receivables to customers	5,987(1)	615	1,946	1,583	10,131
Total gross loans and receivables to customers	35,239	3,100	9,394	17,495	65,228
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.4	6.5	3.0	3.5	2.9

(1)Republic of Ireland: € 5,931 million and United Kingdom: € 56 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 132 to 139 and further detail on the non-mortgage forbearance portfolio is included on pages 140 to 144.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy (f) 'Interest income and expense recognition' in note 1 to the consolidated financial statements and is included in 'Interest and similar income' in the Income Statement. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas, the net carrying value after specific provisions is used for impaired forborne loans.

Interest income on overall impaired loans amounted to € 140 million in 2016 (2015: € 244 million). At 31 December 2016, the net carrying value of impaired loans was € 5,089 million (2015: € 6,927 million) which included forborne impaired mortgages of € 1,535 million (2015: € 1,600 million) and forborne impaired non-mortgages of € 680 million (2015: € 623 million).

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne at 31 December 2015:

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	14,326	203	122	1,166	15,817
Good lower	9,483	1,849	3,892	12,334	27,558
Watch	1,571	105	813	733	3,222
Vulnerable	1,588	134	482	501	2,705
Total	26,968	2,291	5,309	14,734	49,302
Past due but not impaired	581	95	245	300	1,221
Impaired	3,737	476	3,668	1,500	9,381
Total	4,318	571	3,913	1,800	10,602
Total non-forborne loans and receivables to customers	31,286	2,862	9,222	16,534	59,904
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	568	–	–	1	569
Good lower	623	199	88	173	1,083
Watch	401	26	99	103	629
Vulnerable	1,236	148	1,324	769	3,477
Total	2,828	373	1,511	1,046	5,758
Past due but not impaired	475	55	159	108	797
Impaired	2,229	222	640	613	3,704
Total	2,704	277	799	721	4,501
Total forborne loans and receivables to customers	5,532(1)	650	2,310	1,767	10,259
Total gross loans and receivables to customers	36,818	3,512	11,532	18,301	70,163
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.5	6.4	3.1	3.7	3.1

(1)Republic of Ireland: € 5,481 million and United Kingdom: € 51 million.

Republic of Ireland residential mortgages

The Group has a Mortgage Arrears Resolution Strategy (“MARS”) for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group’s Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Further details on MARS together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out on page 74.

In the following forbearance tables, temporary forbearance solutions (e.g. interest only, reduced payment) are included in the forbearance stock for as long as they are active, but are removed from the forbearance stock when the temporary agreement with the customer expires.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

The following table analyses the movements in the stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages at 31 December 2016 and 2015:

	2016		2015	
Republic of Ireland owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**29,514**	**3,995**	27,714	3,830
Additions	**3,805**	**537**	6,778	952
Expired arrangements	**(3,217)**	**(450)**	(4,095)	(578)
Payments	**–**	**(216)**	–	(199)
Interest	**–**	**101**	–	102
Closed accounts[1]	**(869)**	**(67)**	(824)	(58)
Advanced forbearance arrangements - valuation adjustments	**–**	**(6)**	–	(17)
Write-offs[2]	**(15)**	**(6)**	(34)	(37)
Transfer between owner-occupier and buy-to-let	**(6)**	**1**	(25)	–
Adoption of EBA forbearance definition	**653**	**385**	–	–
At 31 December	**29,865**	**4,274**	29,514	3,995

	2016		2015	
Republic of Ireland buy-to-let	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**7,826**	**1,486**	7,936	1,740
Additions	**659**	**104**	1,868	289
Expired arrangements	**(1,359)**	**(250)**	(1,198)	(240)
Payments	**–**	**(113)**	–	(123)
Interest	**–**	**29**	–	43
Closed accounts[1]	**(692)**	**(86)**	(640)	(82)
Advanced forbearance arrangements - valuation adjustments	**–**	**(1)**	–	(2)
Write-offs[2]	**(26)**	**(16)**	(165)	(139)
Transfer between owner-occupier and buy-to-let	**6**	**(1)**	25	–
Adoption of EBA forbearance definition	**3,095**	**505**	–	–
At 31 December	**9,509**	**1,657**	7,826	1,486

	2016		2015	
Republic of Ireland – Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**37,340**	**5,481**	35,650	5,570
Additions	**4,464**	**641**	8,646	1,241
Expired arrangements	**(4,576)**	**(700)**	(5,293)	(818)
Payments	**–**	**(329)**	–	(322)
Interest	**–**	**130**	–	145
Closed accounts[1]	**(1,561)**	**(153)**	(1,464)	(140)
Advanced forbearance arrangements - valuation adjustments	**–**	**(7)**	–	(19)
Write-offs[2]	**(41)**	**(22)**	(199)	(176)
Adoption of EBA forbearance definition	**3,748**	**890**	–	–
At 31 December	**39,374**	**5,931**	37,340	5,481

[1] Accounts closed during year due primarily to customer repayments and redemptions.

[2] Includes contracted and non-contracted write-offs in 2016 and 2015.

The stock of loans subject to forbearance measures increased by € 0.5 billion from 31 December 2015 to € 5.9 billion at 31 December 2016 driven by a € 0.9 billion adjustment due to the adoption of a definition of forbearance as prescribed by the EBA which is mainly a reflection of the requirement to apply a probation period to loans subject to forbearance, which was not applied under the previous definition used.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Under the previous definition used, and which was prescribed by the Central Bank of Ireland, loans subject to temporary forbearance measures (e.g. interest only, payment moratoriums) remained in the forbearance stock only for the period of their temporary arrangement, whilst loans subject to permanent forbearance measures (e.g. term extension, arrears capitalisations) remained in the forbearance stock for a period of five years.

Under the EBA definition, loans subject to forbearance measures remain in the forbearance stock for a period of 2 years from the date the forborne loan was considered ”performing”.

Prior to the application of the EBA definition, there was a € 0.4 billion reduction in forborne loans driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions) and reflecting improving customer ability to meet their mortgage terms. Due to the significant levels of restructuring activity completed in 2014 and 2015, the pace of growth in advanced forbearance solutions slowed in 2016.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

The following table further analyses by type of forbearance, (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures in the Republic of Ireland at 31 December 2016 and 2015:

						2016
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	5,214	796	2,587	417	2,627	379
Reduced payment (greater than interest only)	1,030	213	629	139	401	74
Payment moratorium	1,526	241	247	33	1,279	208
Fundamental restructure	2	–	–	–	2	–
Restructure	303	38	200	25	103	13
Arrears capitalisation	13,494	1,888	5,093	766	8,401	1,122
Term extension	1,857	212	336	36	1,521	176
Split mortgages	3,066	474	646	97	2,420	377
Voluntary sale for loss	510	28	241	21	269	7
Low fixed interest rate	1,163	182	170	29	993	153
Positive equity solutions	1,453	157	61	6	1,392	151
Other	247	45	35	9	212	36
Total forbearance	29,865	4,274	10,245	1,578	19,620	2,696

						2016
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,990	412	1,034	223	956	189
Reduced payment (greater than interest only)	770	175	414	92	356	83
Payment moratorium	307	40	191	25	116	15
Fundamental restructure	1,195	169	378	53	817	116
Restructure	804	72	703	59	101	13
Arrears capitalisation	3,015	564	1,736	321	1,279	243
Term extension	619	110	137	38	482	72
Split mortgages	138	37	85	28	53	9
Voluntary sale for loss	303	25	110	20	193	5
Low fixed interest rate	8	1	–	–	8	1
Positive equity solutions	27	3	1	–	26	3
Other	333	49	257	42	76	7
Total forbearance	9,509	1,657	5,046	901	4,463	756

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*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

						2016
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	7,204	1,208	3,621	640	3,583	568
Reduced payment (greater than interest only)	1,800	388	1,043	231	757	157
Payment moratorium	1,833	281	438	58	1,395	223
Fundamental restructure	1,197	169	378	53	819	116
Restructure	1,107	110	903	84	204	26
Arrears capitalisation	16,509	2,452	6,829	1,087	9,680	1,365
Term extension	2,476	322	473	74	2,003	248
Split mortgages	3,204	511	731	125	2,473	386
Voluntary sale for loss	813	53	351	41	462	12
Low fixed interest rate	1,171	183	170	29	1,001	154
Positive equity solutions	1,480	160	62	6	1,418	154
Other(1)	580	94	292	51	288	43
Total forbearance	39,374	5,931	15,291	2,479	24,083	3,452

(1)Included in Other are: € 54 million relating to forbearance solutions whereby it has been agreed that the customers will dispose of the relevant assets but this has not yet completed; € 25 million relating to negative equity trade downs; and € 6 million relating to affordable mortgage solutions whereby customers agree to pay an amount that is affordable.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

						2015
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	2,017	338	909	165	1,108	173
Reduced payment (greater than interest only)	754	157	454	107	300	50
Payment moratorium	426	61	133	18	293	43
Arrears capitalisation	15,664	2,122	7,184	1,032	8,480	1,090
Term extension	4,850	510	444	49	4,406	461
Split mortgages	2,872	450	1,169	177	1,703	273
Voluntary sale for loss	453	24	244	17	209	7
Low fixed interest rate	1,241	195	108	20	1,133	175
Positive equity solutions	1,221	134	96	11	1,125	123
Other[1]	16	4	–	–	16	4
Total forbearance	29,514	3,995	10,741	1,596	18,773	2,399

						2015
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,321	291	539	127	782	164
Reduced payment (greater than interest only)	646	158	327	74	319	84
Payment moratorium	256	34	181	26	75	8
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	3,190	657	2,095	443	1,095	214
Term extension	931	128	138	24	793	104
Split mortgages	30	5	14	2	16	3
Voluntary sale for loss	240	24	104	20	136	4
Low fixed interest rate	9	2	1	–	8	2
Positive equity solutions	19	2	3	–	16	2
Total forbearance	7,826	1,486	3,501	732	4,325	754

						2015*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	3,338	629	1,448	292	1,890	337
Reduced payment (greater than interest only)	1,400	315	781	181	619	134
Payment moratorium	682	95	314	44	368	51
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	18,854	2,779	9,279	1,475	9,575	1,304
Term extension	5,781	638	582	73	5,199	565
Split mortgages	2,902	455	1,183	179	1,719	276
Voluntary sale for loss	693	48	348	37	345	11
Low fixed interest rate	1,250	197	109	20	1,141	177
Positive equity solutions	1,240	136	99	11	1,141	125
Other[1]	16	4	–	–	16	4
Total forbearance	37,340	5,481	14,242	2,328	23,098	3,153

[1] Includes 15 negative equity trade downs (€ 4 million).

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at €1 billion accounted for 17% of the total forbearance portfolio as at 31 December 2016, compared to 15% (€ 840 million) as at 31 December 2015. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often includes a term extension). Permanent forbearance solutions are reported within the stock of forbearance for 5 years, and therefore, represent in some cases forbearance solutions which were agreed up to 5 years ago. They include loans where a subsequent interest only or other temporary arrangement had expired at 31 December 2016, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solutions at 31 December 2016, accounting for 41% by value of the total forbearance portfolio (2015: 51%). While actually decreasing year on year, a high proportion of the arrears capitalisation portfolio (44% by value) is impaired or 90 days in arrears at 31 December 2016, a decrease from 53% at 31 December 2015. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from impairment, as described above.

The Group’s processes for assessing customers and agreeing sustainable forbearance solutions have significantly improved over the last 3 years with the development of a suite of advanced forbearance products. This is reflected in the performance of the forbearance portfolio where the proportion of the portfolio being 90 days in arrears and/or impaired remained at 42% at 31 December 2016 in line with the 31 December 2015, despite the inclusion of a € 0.4 billion net increase in forborne stock due to the adoption of a forbearance definition prescribed by the EBA as noted on page 134.

Residential mortgages subject to forbearance measures – past due but not impaired

All loans that are assessed for a forbearance solution are tested for impairment either individually or collectively, irrespective of whether such loans are past due or not. Where the loans are deemed not to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired at 31 December 2016 and 2015:

			2016			2015
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	**194**	**46**	**240**	199	49	248
31 – 60 days	**60**	**18**	**78**	52	22	74
61 – 90 days	**24**	**10**	**34**	25	11	36
91 – 180 days	**20**	**19**	**39**	17	10	27
181– 365 days	**24**	**20**	**44**	19	9	28
Over 365 days	**50**	**29**	**79**	40	18	58
Total past due but not impaired	**372**	**142**	**514**	352	119	471

Loans subject to forbearance and past due but not impaired increased by € 43 million in 2016 with later arrears (greater than 90 days in arrears) increasing by € 49 million. The proportion of the portfolio past due but not impaired increased slightly to 8.7% at 31 December 2016 (2015: 8.6%).

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures – impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2016 and 2015:

			2016			2015
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**491**	**179**	**670**	736	229	965
1 – 30 days	**116**	**36**	**152**	146	29	175
31 – 60 days	**51**	**20**	**71**	62	17	79
61 – 90 days	**43**	**14**	**57**	41	14	55
91 – 180 days	**102**	**31**	**133**	96	31	127
181 – 365 days	**127**	**60**	**187**	97	57	154
Over 365 days	**554**	**493**	**1,047**	342	318	660
Total impaired	**1,484**	**833**	**2,317**	1,520	695	2,215

Impaired loans subject to forbearance increased by € 0.1 billion in 2016. Statement of financial position specific provisions of € 0.8 billion were held against the forborne impaired portfolio at 31 December 2016 (2015: € 0.6 billion), providing cover of 35% (2015: 28.4%), while the income statement specific provision writeback was € 101 million for the year (2015: € 120 million).

Within the impaired portfolio of € 2.3 billion at 31 December 2016, € 0.7 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over a period of 12 months will result in an upgrade out of impairment. The remaining € 1.6 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain a satisfactory performance for at least 12 months before being considered for upgrade out of impairment.

Residential mortgages subject to forbearance measures by indexed loan-to-value ratios

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to-value ratios at 31 December 2016 and 2015:

			2016			2015
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	**728**	**235**	**963**	703	195	898
50% – 70%	**875**	**266**	**1,141**	805	242	1,047
71% – 80%	**505**	**143**	**648**	449	128	577
81% – 90%	**470**	**159**	**629**	454	135	589
91% – 100%	**398**	**162**	**560**	398	156	554
101% – 120%	**693**	**287**	**980**	627	272	899
121% – 150%	**483**	**191**	**674**	481	201	682
Greater than 150%	**73**	**137**	**210**	54	133	187
Unsecured	**49**	**77**	**126**	24	24	48
Total forbearance	**4,274**	**1,657**	**5,931**	3,995	1,486	5,481

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2016 was 29% of the owner-occupier portfolio (2015: 29%) and 37% of the buy-to-let portfolio (2015: 41%), due primarily to the continued increase in property prices in 2016 and loan repayments.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage

The following table analyses, at 31 December 2016, the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding residential mortgages which are analysed on page 133:

Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
At 1 January	646	2,182	1,679	4,507
Additions	169	337	276	782
Fundamental restructures - valuation adjustments	(10)	(53)	(23)	(86)
Write-offs	(82)	(130)	(105)	(317)
Expired arrangements	(53)	(83)	(129)	(265)
Closed accounts	(15)	(43)	(35)	(93)
Other movements	(47)	(348)	(136)	(531)
At 31 December	608	1,862	1,527	3,997

United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
At 1 January	4	128	88	220
Additions	5	20	11	36
Expired arrangements	(1)	(39)	(29)	(69)
Exchange translation adjustments	(1)	(17)	(12)	(30)
Other movements	–	(8)	(2)	(10)
At 31 December	7	84	56	147

Total	Other personal € m	Property and construction € m	Non-property business € m	2016 Total € m
At 1 January	650	2,310	1,767	4,727
Additions	174	357	287	818
Fundamental restructures - valuation adjustments	(10)	(53)	(23)	(86)
Write-offs	(82)	(130)	(105)	(317)
Expired arrangements	(54)	(122)	(158)	(334)
Closed accounts	(15)	(43)	(35)	(93)
Exchange translation adjustments	(1)	(17)	(12)	(30)
Other movements	(47)	(356)	(138)	(541)
At 31 December	615	1,946	1,583	4,144

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table analyses, at 31 December 2015, the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding residential mortgages which are analysed on page 133:

				2015
Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	693	1,976	1,514	4,183
Additions	230	1,026	757	2,013
Fundamental restructures - valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(167)	(29)	(216)
Expired arrangements	(151)	(129)	(270)	(550)
Closed accounts	(72)	(430)	(226)	(728)
Other movements	(24)	(56)	(49)	(129)
At 31 December	646	2,182	1,679	4,507

				2015
United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	15	374	162	551
Additions	1	31	25	57
Write-offs	–	(10)	(8)	(18)
Expired arrangements	(1)	(161)	(83)	(245)
Closed accounts	–	(11)	–	(11)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(1)	(14)	(3)	(18)
At 31 December	4	128	88	220

				2015
Total	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	708	2,350	1,676	4,734
Additions	231	1,057	782	2,070
Fundamental restructures - valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(177)	(37)	(234)
Expired arrangements	(152)	(290)	(353)	(795)
Closed accounts	(72)	(441)	(226)	(739)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(25)	(70)	(52)	(147)
At 31 December	650	2,310	1,767	4,727

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table sets out an analysis of non-mortgage forbearance solutions at 31 December 2016:

						2016
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	58	29	6	23	15	65
Reduced payment (greater than interest only)	25	16	–	9	6	63
Payment moratorium	109	107	–	2	1	59
Arrears capitalisation	17	4	1	12	5	41
Term extension	141	130	1	10	6	56
Fundamental restructure	48	36	3	9	4	46
Restructure	187	123	8	56	25	45
Asset disposals	25	11	6	8	4	55
Other	5	4	–	1	1	78
Total	615	460	25	130	67	51
Property and construction						
Interest only	235	57	9	169	54	32
Reduced payment (greater than interest only)	90	62	3	25	11	43
Payment moratorium	8	4	2	2	1	73
Arrears capitalisation	44	18	1	25	12	46
Term extension	193	97	–	96	39	41
Fundamental restructure	829	702	34	93	29	31
Restructure	355	201	9	145	63	43
Asset disposals	141	110	4	27	11	41
Other	51	26	7	18	13	69
Total	1,946	1,277	69	600	233	39
Non-property business						
Interest only	191	107	7	77	37	48
Reduced payment (greater than interest only)	64	37	2	25	14	57
Payment moratorium	17	14	1	2	1	50
Arrears capitalisation	42	18	1	23	11	47
Term extension	202	118	2	82	23	28
Fundamental restructure	448	416	7	25	12	49
Restructure	530	304	36	190	86	45
Asset disposals	33	21	1	11	8	75
Other	56	36	5	15	8	54
Total	1,583	1,071	62	450	200	45
Total non-mortgage forbearance	4,144	2,808	156	1,180	500	42

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following table sets out an analysis of non-mortgage forbearance solutions at 31 December 2015:

						2015
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	71	36	3	32	20	63
Reduced payment						
(greater than interest only)	14	10	1	3	2	62
Payment moratorium	51	49	–	2	2	74
Arrears capitalisation	23	3	1	19	8	42
Term extension	123	114	1	8	6	69
Fundamental restructure	49	47	1	1	1	59
Restructure	304	146	7	151	113	75
Other	15	8	1	6	4	71
Total	650	413	15	222	156	70
Property and construction						
Interest only	203	88	6	109	59	54
Reduced payment						
(greater than interest only)	38	20	4	14	5	39
Payment moratorium	5	2	–	3	2	74
Arrears capitalisation	43	13	1	29	15	53
Term extension	207	160	1	46	14	30
Fundamental restructure	1,089	1,032	28	29	17	58
Restructure	556	250	17	289	176	61
Other	169	34	14	121	85	70
Total	2,310	1,599	71	640	373	58
Non-property business lending						
Interest only	188	73	8	107	58	54
Reduced payment						
(greater than interest only)	37	22	2	13	8	59
Payment moratorium	14	12	–	2	1	33
Arrears capitalisation	64	10	1	53	37	70
Term extension	154	104	1	49	17	34
Fundamental restructure	498	490	4	4	1	27
Restructure	617	314	28	275	166	60
Other	195	84	1	110	35	32
Total	1,767	1,109	45	613	323	52
Total non-mortgage forbearance	4,727	3,121	131	1,475	852	58

The Group has treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long term levels of sustainable and unsustainable debt. Further information on non-mortgage forbearance is included on pages 74 and 75.

Non-retail customers in difficulty typically have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

At 31 December 2016, non-mortgage loans subject to forbearance amounted to € 4.1 billion, of which € 1.2 billion is impaired with specific provision cover of 42%. The majority of these forborne loans are in property and construction (€ 1.9 billion) and non-property business (€ 1.6 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 1.3 billion in total) includes long term solutions where customers have been through a full review, have proven sustainable cash flows/repayment capacity (through business cash flow and/or asset sales) and their debt has been restructured. Loans to borrowers that are fundamentally restructured typically result in the original loans together with any related impairment provision being derecognised and new facilities being classified as loans and receivables and recognised on day 1 at fair value ("main" and "secondary") and being graded as "vulnerable".

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial. During 2016, approximately € 0.2 billion of main facilities were recognised following the derecognition of c. € 0.6 billion of impaired loans with related impairment provisions of c. € 0.4 billion.

While the new facilities are subject to legal agreements, the repayment conditions attaching to each facility are different and usually customer specific. Depending on the co-operation of the customer and the repayment of the main facilities, additional cash flows over the initial cash flow estimation may subsequently arise. This could occur where the disposal of collateral is at higher values than originally expected, stronger trading performance or new sources of income. There are incentives from a customer perspective to meet the repayment terms of the main facility as in doing so would result in some cases where the secondary facilities would be contractually written off.

As part of its ongoing monitoring of fundamental restructure loans, AIB keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainties involved in the crystallisation of future additional cash flows (in excess of the initial estimation) through asset sales over an extended period against a backdrop of a changing property market (in the case of property-related lending) that would be applied to secondary facilities. In the case of other lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain. In this regard, income of € 82 million was recognised in 2016 (2015: € 43 million) on these facilities.

At 31 December 2016, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 1.5 billion (2015:€ 1.8 billion).

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:
- Buy-to-let € 169 million which have associated contractual secondary facilities of € 204 million (2015: € 185 million and € 215 million respectively).
- Property and construction of € 809 million which has associated contractual secondary facilities of € 2,129 million (2015: € 1,089 million and € 2,013 million respectively).

These are further analysed as:
  - Commercial real estate primary facilities of € 703 million which have associated contractual secondary facilities of € 1,237 million (2015: € 927 million and € 1,224 million respectively).
  - Land and development primary facilities of € 106 million which have associated contractual secondary facilities of € 892 million (2015: € 162 million and € 789 million respectively).

Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 496 million which have associated secondary facilities of € 778 million (2015: € 547 million and € 753 million respectively).

The 'Restructure' category (€ 1.1 billion) includes some longer term/permanent solutions where the existing customer debt was deemed to be sustainable post restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a 'Fundamental restructure' following a full review of sustainable repayment capacity.

The remaining forbearance categories include borrowers who have received a term extension and borrowers that have been afforded temporary forbearance measures which, depending on performance may in time move out of forbearance or qualify for a more permanent forbearance solution.

During 2016 the stock of non-mortgage forbearance loans reduced by € 583 million with new forborne borrowers (€ 818 million) being offset by reductions due to expired and closed forbearance arrangements and repayments.

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3.3 Restructure execution risk

There is a restructure execution risk that the Group's restructuring activity programme for customers in difficulties will not be executed in line with management's expectations.

The Group 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. The Group 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 to explore appropriate solutions. By continuing to work together in this process, the Group and the customer can find a mutually acceptable and alternative way forward. These plans, if successfully completed, will materially change the make-up of the Group's operations. It will improve the Group's asset quality, lower its overall risk profile, and strengthen its solvency.

However, as the Group 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 customers re-defaulting, post restructure.

The Group has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage and to assist with the restructuring of problem loans. The Group regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio.

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Funding and liquidity risk is measured and controlled using a range of metrics and methodologies including Liquidity Stress Testing and ensuring adherence to limits based on the regulatory defined liquidity ratios, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The simulated survival period is a key risk metric and is controlled using Board approved limits. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

Risk management and mitigation

The Group's Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and has a decision making and risk governance mandate in relation to the Group's strategic balance sheet management including the management of funding and liquidity risk. The ALCo is responsible for approving the liquidity risk management control structures, for approving liquidity risk limits, for monitoring adherence to these limits and making decisions on risk positions where necessary and for approving liquidity risk measurement methodologies.

The Group operates a three lines of defence model for risk management. In terms of Funding and Liquidity Risk the first line comprises the Capital and Liquidity and Treasury functions. The Group's Capital and Liquidity unit, reporting to the CFO, is the owner of the Group's Funding and Liquidity plan which sets out the strategy for funding and liquidity management for the Group and is responsible for the management of the Group's liquidity gap and the efficient management of the liquidity buffer. This involves the identification, measurement and reporting of funding and liquidity risk, the valuation of financial assets for collateral and the application of behavioural adjustments to assets and liabilities.

The Group's Treasury function is responsible for the day to day management of liquidity to meet payment obligations, execution of wholesale funding requirements in line with the Funding and Liquidity Plan and the management of the foreign exchange funding gap.

First line management of funding and liquidity risk consists of:
- firstly, through the Group's 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 1 month. Monitoring ratios also apply to longer periods for long term funding stability;
- secondly, the Group aims to maintain a stock of high quality liquid assets 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.

The Financial Risk function, reporting to the CRO, provides second line assurance. Financial Risk is responsible for exercising independent risk oversight and control over the Group's funding and liquidity management. Financial Risk provides oversight on the effectiveness of the risk and control environment. It proposes and maintains the Funding and Liquidity Framework and Policy as the basis of the Group's control architecture for funding and liquidity risk activities, including the annual agreement of funding and liquidity risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the Group's liquidity risk methodologies.

Group Internal Audit provides third line assurance on Funding and Liquidity Risk.

The Group's Internal Liquidity Adequacy Assessment Process ("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 the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement.

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3.4 Funding and liquidity risk

Risk monitoring and reporting*

The Group funding and liquidity position is reported regularly to Treasury, Finance and Risk, ALCo, the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC"). In addition, the Leadership Team and the Board are briefed on funding and liquidity on an on-going basis.

At 31 December 2016, the Group held € 30 billion (2015: € 34 billion) in qualifying liquid assets/contingent funding of which € 12 billion (2015: € 18 billion) was not available due to repurchase, secured loan and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2016, the Group liquidity pool was € 18 billion (2015: € 16 billion). During 2016, the liquidity pool ranged from € 16 billion to € 20 billion and the average balance was € 18 billion.

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool at 31 December 2016 and 2015:

				2016*
		Liquidity pool available	**High Quality Liquid Assets (HQLA)**	
	Liquidity pool € bn	**(ECB eligible) € bn**	**Level 1 € bn**	**Level 2 € bn**
Cash and deposits with central banks	**1.9**	**–**	**3.9**[(1)]	**–**
Total government bonds	**9.0**	**8.9**	**8.9**	**–**
Other:				
Covered bonds	**1.8**	**1.7**	**1.4**	**0.4**
Other including NAMA senior bonds	**5.0**	**4.9**	**1.4**	**0.1**
Total other	**6.8**	**6.6**	**2.8**	**0.5**
Total	**17.7**	**15.5**	**15.6**	**0.5**

				2015*
		Liquidity pool available	High Quality Liquid Assets (HQLA)	
	Liquidity pool € bn	(ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	0.6	–	3.2[(1)]	–
Total government bonds	6.2	6.1	6.2	–
Other:				
Covered bonds	1.2	1.1	1.2	–
Other including NAMA senior bonds	8.0	7.7	4.3	–
Total other	9.2	8.8	5.5	–
Total	16.0	14.9	14.9	–

(1)For LCR purposes, assets outside the Liquidity function's control can qualify as High Quality Liquid Assets ("HQLA") in so far as they match outflows in the same jurisdiction. For the Group, this means that UK HQLA can qualify up to the amount of the 30 day UK outflows under LCR but are not included in the Group's calculation of available QLA stocks.

Liquidity pool by currency

	EUR € bn	**GBP € bn**	**USD € bn**	**Other € bn**	**Total € bn**
Liquidity pool at 31 December 2016	**17.3**	**0.1**	**0.3**	**–**	**17.7**
Liquidity pool at 31 December 2015	15.9	–	0.1	–	16.0

Level 1 - HQLA include amongst others, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated covered bonds, other very highly rated sovereign bonds and unencumbered cash at central banks.
Level 2 - HQLA include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

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3.4 Funding and liquidity risk

Management of the Group liquidity pool*

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk function. These pool assets primarily comprise of government guaranteed bonds. AIB's liquidity buffer increased in 2016 by € 2 billion which was predominantly due to a decrease in the funding requirement following a reduction in customer loans.

Other contingent liquidity*

AIB has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group's liquidity pool. However, these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or outright sale.

Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework and ILAAP. The Group 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 the Group's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of the Group's liquidity position, within the Group's pre-defined liquidity risk tolerance levels.

The Group has established the Contingency Funding Plan ("CFP") which is designed to ensure that the Group 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 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 the Group's Recovery Plan in relation to funding and liquidity.

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the SSM/CBI and also with the requirements of local regulators in jurisdictions in which it operates.

The Group 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 128% as at 31 December 2016 (31 December 2015: 116%). The minimum LCR requirement in 2016 was 70%, rising to 100% by 1 January 2018. AIB Group has fully complied with the requirement.

The minimum NSFR requirement is scheduled to be introduced by 1 January 2018 at 100%. At 31 December 2016, the Group had an estimated NSFR of 119% (31 December 2015: 111%).

In addition, the Group is required to carry out liquidity stress testing capturing firm-specific, systemic risk events and a combination of both. AIB adheres to this requirement.

3.4 Funding and liquidity risk

Liquidity risk

The LCR table below has been produced in line with the 2014 Basel Committee on Banking Supervision ("BCBS") LCR disclosure standards. All figures included in the table are averages of the 12 month ends LCRs from January to December 2016.

	2016		2015	
	Total unweighted value (average) € m	**Total weighted value (average) € m**	Total unweighted value (average) € m	Total weighted value (average) € m
High Quality Liquid Assets ("HQLA")				
Total HQLA		**16,251**		15,322
Cash outflows				
Retail deposits and deposits from small business customers, of which:				
Stable deposits	**20,716**	**1,035**	19,865	993
Less stable deposits	**11,738**	**1,690**	10,869	1,711
Unsecured wholesale funding of which:				
Operational deposits (all counterparties) and deposits in networks of co-operative banks	**–**	**–**	–	–
Non-operational deposits (all counterparties)	**16,880**	**8,162**	15,885	8,131
Unsecured debt	**369**	**369**	404	404
Secured wholesale funding	**–**	**140**	–	438
Additional requirements, of which:				
Outflows related to derivative exposures and other collateral requirements	**401**	**401**	452	452
Outflows related to loss of funding on debt products	**220**	**220**	71	71
Credit and liquidity facilities	**10,012**	**887**	9,564	969
Other contractual funding obligations	**–**	**–**	–	–
Other contingent funding obligations	**1,415**	**1,110**	1,326	1,326
Total cash outflows		**14,014**		14,495
Cash inflows				
Secured lending (reverse repos)	**37**	**–**	756	42
Inflows from fully performing exposures	**1,736**	**692**	1,999	788
Other cash inflows	**123**	**144**	252	252
Total cash inflows	**1,896**	**836**	3,007	1,082
		€ m		€ m
Total HQLA		**16,251**		15,322
Total net cash outflows		**13,178**		13,413
		%		%
Liquidity coverage ratio (average)		**123(1)**		114(1)

The month-end LCR ranged from 118% to 129% and was 128% as at 31 December 2016. The average HQLA for the year ended 31 December 2016 was € 16,251 million of which government securities constituted c. 71%. The outflows related to derivative exposures and undrawn commitments constituted c. 0.2% and 6% respectively of average cash outflows of € 14,014 million. Average inflows from assets were € 836 million.

(1)LCR = Total HQLA/total net cash outflows

3.4 Funding and liquidity risk

Funding structure*

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to further enhance and strengthen the wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

	31 December 2016		31 December 2015	
Sources of funds	**€ bn**	**%**	€ bn	%
Customer accounts	**63.5**	**69**	63.4	64
Deposits by central banks and banks – secured	**7.0**	**8**	13.4	14
– unsecured	**0.7**	**1**	0.5	–
Certificates of deposit and commercial paper	**0.2**	**–**	0.1	–
Asset covered securities ("ACS")	**5.2**	**5**	4.7	5
Asset backed securities ("ABS")	**0.5**	**1**	0.6	–
Senior debt	**1.0**	**1**	1.6	2
Capital	**13.9**	**15**	14.4	15
Total source of funds	**92.0**	**100**	98.7	100
Other	**3.6**		4.4	
	95.6		103.1	

The following table analyses average deposits by customers for 2016 and 2015:

	Year to 2016	Year to 2015
Customer accounts	**Total € m**	Total € m
Current accounts	**27,003**	23,753
Deposits:		
Demand	**12,076**	11,165
Time	**22,294**	27,711
Repurchase agreements	**525**	1,219
Total	**61,898**	63,848

Current accounts include both interest bearing and non-interest bearing cheque accounts raised through the Group's branch network in the Republic of Ireland, Northern Ireland and Great Britain.

Demand deposits attract interest rates which vary from time to time in line with movements in market rates and according to size criteria. Such accounts are not subject to withdrawal by cheque or similar instrument and have no fixed maturity dates.

Time deposits are generally larger, attract higher rates of interest than demand deposits and have predetermined maturity dates.

The following table analyses customer deposits by currency at 31 December 2016 and 2015:

	31 December 2016	2015
Customer deposits by currency	**Total € m**	Total € m
Euro	**50,220**	49,190
US dollar	**1,887**	1,223
Sterling	**11,294**	12,717
Other currencies	**101**	253
Total	**63,502**	63,383

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3.4 Funding and liquidity risk

Funding structure *(continued)*

Customer deposits represent the largest source of funding for the Group. The core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK provide a stable and reasonably predictable source of funds. Customer accounts have broadly remained flat with a slight increase of € 0.1 billion in 2016. This was mainly due to an increase in Euro and USD deposits with underlying growth in GBP deposits of € 0.5 billion offset by a fall in the value of GBP of € 1.9 billion over the course of the year. The Group’s loan to deposit ratio at 31 December 2016 was 95% (2015: 100%).

The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

The Group participates in CBI/ECB operations, the funding from which amounted to € 1.9 billion at 31 December 2016 (2015: € 2.9 billion). The Group early matured the legacy € 1.9 billion in the Targeted Longer-Term Refinancing Operations I (“TLTRO I”) facility and re-invested in the TLTRO II facility to lock in low cost term funding for the extended period.

In the 12 months to 31 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 bps. The Group did not issue senior debt in 2016 and outstanding senior debt decreased from € 1.6 billion at 31 December 2015 to € 1.0 billion at 31 December 2016 due to contractual maturities.

A final regulatory decision on future Minimum Required Eligible Liabilities (“MREL”), specific to AIB is expected in 2017. In advance of this, the Group has considered a pathway to MREL compliance in the Group’s funding and liquidity strategy.

The management of stable retail funds is paramount to the Group's overall funding and liquidity strategy and will be a key factor in the Group's capacity for future asset growth.

Composition of wholesale funding*

At 31 December 2016, total wholesale funding outstanding was € 15 billion (2015: € 23 billion). € 8 billion of wholesale funding matures in less than one year (2015: € 16 billion). € 7 billion of wholesale funding had a residual maturity of over one year (2015: € 7 billion) including € 1.9 billion of TLTRO II drawings.

Outstanding wholesale funding comprised € 13 billion of secured funding (2015: € 19 billion) and € 2 billion of unsecured funding (2015: € 4 billion).

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3.4 Funding and liquidity risk

Composition of wholesale funding* *(continued)*

	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	2016 Total € bn
Deposits by central banks and banks	3.1	2.5	0.2	–	5.8	–	1.9	–	7.7
Certificate of deposits and commercial paper	–	0.2	–	–	0.2	–	–	–	0.2
Senior debt	–	–	–	–	–	0.5	0.5	–	1.0
ACS/ABS	–	0.4	1.7	–	2.1	0.6	1.2	1.8	5.7
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	0.8	0.8
Total 31 December 2016	3.1	3.1	1.9	–	8.1	1.1	3.6	2.6	15.4
Of which:									
Secured	2.4	2.9	1.9	–	7.2	0.6	3.1	1.8	12.7
Unsecured	0.7	0.2	–	–	0.9	0.5	0.5	0.8	2.7
	3.1	3.1	1.9	–	8.1	1.1	3.6	2.6	15.4

	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	2015 Total € bn
Deposits by central banks and banks	5.9	5.7	0.2	1.9	13.7	0.2	–	–	13.9
Certificate of deposits and commercial paper	–	0.1	–	–	0.1	–	–	–	0.1
Senior debt	–	–	–	0.6	0.6	–	1.0	–	1.6
ACS/ABS	–	–	–	0.5	0.5	2.3	0.8	1.7	5.3
Subordinated liabilities and other capital instruments	–	–	–	1.5	1.5	–	–	0.8	2.3
Total 31 December 2015	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2
Of which:									
Secured	5.4	5.7	0.2	2.4	13.7	2.5	0.8	1.7	18.7
Unsecured	0.5	0.1	–	2.1	2.7	–	1.0	0.8	4.5
	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2

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3.4 Funding and liquidity risk

Currency composition of wholesale debt*

At 31 December 2016, 93% (2015: 97%) of wholesale funding was in euro with the remainder held mainly in GBP and USD. AIB manages cross-currency refinancing risk to foreign exchange cash-flow limits.

					2016
	EUR € bn	**GBP € bn**	**USD € bn**	**Other € bn**	**Total € bn**
Deposits by central banks and banks	**7.0**	**0.3**	**0.4**	**–**	**7.7**
Certificate of deposits and commercial paper	**–**	**–**	**0.2**	**–**	**0.2**
Senior debt	**1.0**	**–**	**–**	**–**	**1.0**
ACS/ABS	**5.6**	**0.1**	**–**	**–**	**5.7**
Subordinated liabilities and other capital instruments	**0.8**	**–**	**–**	**–**	**0.8**
Total funding	**14.4**	**0.4**	**0.6**	**–**	**15.4**
% of total funding	**%**	**%**	**%**	**%**	**%**
	93.5	**2.6**	**3.9**	**–**	**100**

					2015
	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Deposits by central banks and banks	13.3	0.2	0.4	–	13.9
Certificate of deposits and commercial paper	0.1	–	–	–	0.1
Senior debt	1.6	–	–	–	1.6
ACS/ABS	5.2	0.1	–	–	5.3
Subordinated liabilities and other capital instruments	2.3	–	–	–	2.3
Total funding	22.5	0.3	0.4	–	23.2
% of total funding	%	%	%	%	%
	97	1	2	–	100

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The asset encumbrance disclosure has been produced in line with the 2014 European Banking Authority ("EBA") Guidelines complemented by EBA clarifications on the disclosure of encumbered and unencumbered assets.

The ability to encumber certain pools of assets is an important element of the Group's funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding the Group's NAMA senior bonds and financial investments available for sale portfolios. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c. The Group has seen a downward trend in asset encumbrance in recent years, this trend is expected to continue over the coming years.

The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage asset backed covered securities ("ACS"). In addition, the Group uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, the mortgage banks and the securitisation vehicles repo bonds centrally for liquidity management purposes. Bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between the parent company and other Group entities (e.g. EBS Limited, and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

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3.4 Funding and liquidity risk

Encumbrance *(continued)*

The following table analyses total assets by encumbered assets and unencumbered assets at 31 December 2016 and 2015:

				2016
			Unencumbered assets	
	Assets	**Encumbered assets**	**Readily available**	**Not readily available and not available for collateral**
	€ m	**€ m**	**€ m**	**€ m**
Loans and receivables to banks	**1,399**	**1,287**	**101**	**11**
Loans and receivables to customers	**60,639**	**11,848**	**9,632**	**39,159**
NAMA senior bonds	**1,799**	**542**	**1,257**	**–**
Financial investments available for sale:				
Debt securities	**14,832**	**5,762**	**9,070**	**–**
Equity securities	**605**	**–**	**–**	**605**
Financial investments held to maturity	**3,356**	**238**	**3,118**	**–**
Other	**12,992**	**457**	**–**	**12,535**
Total	**95,622**	**20,134**	**23,178**	**52,310**

				2015
			Unencumbered assets	
	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral
	€ m	€ m	€ m	€ m
Loans and receivables to banks	2,339	1,518	173	648
Loans and receivables to customers	63,240	13,487	9,217	40,536
NAMA senior bonds	5,616	1,240	4,376	–
Financial investments available for sale:				
Debt securities	15,708	9,227	6,481	–
Equity securities	781	–	–	781
Financial investments held to maturity	3,483	1,570	1,913	–
Other	11,955	222	2,953	8,780
Total	103,122	27,264	25,113	50,745

The Group had an encumbrance ratio of 21% at 31 December 2016 (2015: 26%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility. At 31 December 2016 € 9,632 million of residential loan mortgages are unencumbered but are regarded by the Group as readily available as they are held in covered bond and securitisation structures (2015: € 9,217 million). The remaining loan assets in this category amounting to € 39,159 million, whilst unencumbered, are not regarded as being available in support of liquidity management at present (2015: € 40,536 million). Other assets such as deferred tax assets, derivative assets, property, plant and equipment are not regarded as encumberable.

Asset encumbrance of loans and receivables to customers

Loans and receivables to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions. All other loans and receivables are conservatively classified as not readily available, however, a proportion would be suitable for use in secured funding structures. The potential for the creation of such funding structures is continually under review.

3.4 Funding and liquidity risk

Encumbrance *(continued)*

The following table analyses the asset encumbrance of loans and receivables to customers at 31 December 2016 and 2015:

				2016
	Assets[1]	**Externally issued notes**	**Other secured funding**	**Retained notes[5]**
	€ bn	**€ bn**	**€ bn**	**€ bn**
Mortgages (residential mortgage backed securities)	**20.7**	**5.7[2]**	**1.8[3]**	**3.3**
Other	**0.8**	**–**	**–**	**–**
Total	**21.5**	**5.7**	**1.8**	**3.3**

				2015
	Assets[1]	Externally issued notes	Other secured funding	Retained notes[5]
	€ bn	€ bn	€ bn	€ bn
Mortgages (residential mortgage backed securities)	21.4	5.4[2]	3.2[3]	3.1
Retail and SME (credit card issuance)	0.3	–	0.2[4]	–
Other	1.0	–	–	–
Total	22.7	5.4	3.4	3.1

[1] Loans and receivables which are both encumbered and readily available for encumbrance.

[2] Mortgage covered securities issued by the Group and held by third parties

[3] Mortgage covered securities issued and retained by the Group which were used in secured transactions at the reporting date.

[4] Funding arising from securitisation of credit card receivables.

[5] Mortgage covered securities retained by the Group and not used in secured transactions at the reporting date, were available as collateral.

AIB issues asset backed securities (“ABS”), covered bonds and other similar secured instruments that are secured primarily over customer loans and receivables. Notes issued under these programmes are also used in repurchase agreements with market counterparties and in central bank facilities.

In addition to securities already in issue at 31 December 2016, the Group had excess collateral within its asset backed funding programmes that could readily be used to issue additional bonds of € 3.2 billion (2015: € 2.9 billion).

Interbank repurchase agreements and ECB refinancing operations

The following table analyses the interbank repurchase agreements and ECB refinancing operations as at 31 December 2016 and 2015:

				2016				2015
	Less than 1 month € bn	**1 month to 3 months € bn**	**Over 3 months € bn**	**Total € bn**	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn
Highly liquid	**3**	**2**	**–**	**5**	5	6	–	11
Less liquid	**–**	**–**	**2**	**2**	1	–	2	3
Maturity profile	**3**	**2**	**2**	**7**	6	6	2	14

Credit ratings

In September 2016, Moody’s upgraded the ratings on AIB’s short term and long term deposits in addition to the ratings on its issued debt securities. In January 2017, S&P upgraded AIB’s long term credit rating. The Group is now rated as Investment grade from S&P and Moody’s.

The Group’s debt ratings as at 31 January 2017 for all debt/deposits not covered by the ELG scheme are as follows:

- S&P long-term "BBB-" and short-term "A-3" – effective 13 January 2017;
- Fitch long-term "BB+" and short-term "B"; and
- Moody's long-term "Baa2" for deposits and "Baa3" for senior unsecured debt and short-term “Prime 2” for deposits and "Prime 3" for senior unsecured debt.

Bank and sovereign rating downgrades have the potential to adversely affect the Group’s liquidity position and this has been factored into the Group’s stress tests.

3.4 Funding and liquidity risk

Financial assets and financial liabilities by contractual residual maturity*

The following table sets out financial assets and financial liabilities by contractual residual maturity at 31 December 2016 and 2015:

						2016
	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial assets						
Derivative financial instruments[1]	**–**	**124**	**226**	**470**	**994**	**1,814**
Loans and receivables to banks[2]	**1,387**	**11**	**1**	**–**	**–**	**1,399**
Loans and receivables to customers[2]	**11,112**	**899**	**2,696**	**12,972**	**37,549**	**65,228**
NAMA senior bonds[3]	**–**	**1,799**	**–**	**–**	**–**	**1,799**
Financial investments available for sale[4]	**–**	**53**	**1,761**	**8,221**	**4,797**	**14,832**
Financial investments held to maturity	**–**	**–**	**–**	**2,113**	**1,243**	**3,356**
Other financial assets	**–**	**430**	**–**	**–**	**–**	**430**
	12,499	**3,316**	**4,684**	**23,776**	**44,583**	**88,858**
Financial liabilities						
Deposits by central banks and banks	**333**	**5,349**	**150**	**1,900**	**–**	**7,732**
Customer accounts	**42,437**	**12,133**	**5,959**	**2,870**	**103**	**63,502**
Trading portfolio financial liabilities[5]	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments[1]	**–**	**74**	**112**	**589**	**834**	**1,609**
Debt securities in issue	**–**	**546**	**1,744**	**2,815**	**1,775**	**6,880**
Subordinated liabilities and other capital instruments	**–**	**–**	**–**	**–**	**791**	**791**
Other financial liabilities	**442**	**–**	**–**	**–**	**–**	**442**
	43,212	**18,102**	**7,965**	**8,174**	**3,503**	**80,956**

						2015
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	62	96	659	881	1,698
Loans and receivables to banks[2]	1,654	685	–	–	–	2,339
Loans and receivables to customers[2]	15,270	1,086	2,760	12,913	38,134	70,163
NAMA senior bonds[3]	–	5,616	–	–	–	5,616
Financial investments available for sale[4]	1	–	816	9,914	4,977	15,708
Financial investments held to maturity	–	–	–	2,204	1,279	3,483
Other financial assets	–	938	–	–	–	938
	16,925	8,387	3,672	25,690	45,271	99,945
Financial liabilities						
Deposits by central banks and banks	290	11,471	1,902	200	–	13,863
Customer accounts	37,632	14,666	7,436	3,596	53	63,383
Trading portfolio financial liabilities[5]	–	86	–	–	–	86
Derivative financial instruments[1]	–	85	74	737	885	1,781
Debt securities in issue	–	100	1,055	4,125	1,721	7,001
Subordinated liabilities and other capital instruments	–	–	1,524	–	794	2,318
Other financial liabilities	456	–	–	–	–	456
	38,378	26,408	11,991	8,658	3,453	88,888

[1] Shown by maturity date of contract.

[2] Shown gross of provisions for impairment, unearned income and deferred costs.

[3] New notes will be issued at each maturity date, with the next maturity date being 1 March 2017. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

[4] Excluding equity shares.

[5] Trading portfolio financial liabilities are shown in the above table based on their contractual maturity. However, in the 'Undiscounted contractual maturity' table trading portfolio liabilities are shown in the 'on demand' bucket reflecting their nature.

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3.4 Funding and liquidity risk

Financial liabilities by undiscounted contractual maturity*

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect the inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2016 and 2015:

						2016
	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial liabilities						
Deposits by central banks and banks	**333**	**5,345**	**150**	**1,900**	**–**	**7,728**
Customer accounts	**42,453**	**12,217**	**6,065**	**2,921**	**106**	**63,762**
Derivative financial instruments	**–**	**76**	**334**	**809**	**486**	**1,705**
Debt securities in issue	**–**	**579**	**1,864**	**3,004**	**1,808**	**7,255**
Subordinated liabilities and other capital instruments	**–**	**–**	**31**	**130**	**1,019**	**1,180**
Other financial liabilities	**442**	**–**	**–**	**–**	**–**	**442**
	43,228	**18,217**	**8,444**	**8,764**	**3,419**	**82,072**

						2015
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	290	11,470	1,909	201	–	13,870
Customer accounts	37,660	14,752	7,564	3,784	55	63,815
Trading portfolio financial liabilities(1)	86	–	–	–	–	86
Derivative financial instruments	–	107	309	912	543	1,871
Debt securities in issue	–	125	1,205	4,414	1,766	7,510
Subordinated liabilities and other capital instruments	–	–	1,791	124	963	2,878
Other financial liabilities	456	–	–	–	–	456
	38,492	26,454	12,778	9,435	3,327	90,486

(1)Shown as 'on demand' reflecting their nature but by contractual maturity in the 'Financial assets and financial liabilities by contractual residual maturity' table.

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3.4 Funding and liquidity risk

Financial liabilities by undiscounted contractual maturity* *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects that most guarantees it provides will expire unused.

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

						2016
	Payable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Contingent liabilities	**910**	**–**	**–**	**–**	**–**	**910**
Commitments	**10,289**	**–**	**–**	**–**	**–**	**10,289**
	11,199	**–**	**–**	**–**	**–**	**11,199**

						2015
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	1,375	–	–	–	–	1,375
Commitments	9,747	–	–	–	–	9,747
	11,122	–	–	–	–	11,122

3.5 Capital adequacy risk

Capital adequacy risk is defined as the risk that the Group breaches or may breach regulatory capital ratios and internal targets. The key material risks impacting on the capital adequacy position of the Group 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 Group level by an evaluation of the adequacy of the Group's capital under both forecast and stress conditions as part of the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process includes the identification and evaluation of potential capital mitigants. Further details of the Group's capital position and the management thereof can be found in the capital management section of the Business review.

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3.6 Market risk*

Market risk 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 the Group. The Group is primarily exposed to market risk through the interest rate and credit spread factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors.

The Group assumes market risk as a result of its banking and trading book activities.

Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the trading or available for sale ("AFS") securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The AFS bond portfolio is the principal source of credit spread risk.

Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates. Changes in interest rates impact the underlying value of the Group's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Group's net interest income (NII) through interest-sensitive income and expense effects.

The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in the Group's treasury function.

The Group's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function which operates within the Capital and Liquidity unit in Finance. Treasury also has a mandate to trade on its own account in selected wholesale markets. The trading strategies employed by Treasury are desk and market specific with risk tolerances approved on an annual basis through the Group's Risk Appetite process.

Risk identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the VaR metric, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data. The Group's VaR models are regularly back-tested to ensure robustness. In addition to VaR, Capital at Risk ("CaR") is also measured to a one(1) year time horizon, a 99% confidence level and a longer set of data.

Risk management and mitigation

The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and makes decisions on the management of the Group's assets and liabilities (including the management of capital, funding and liquidity, and net interest margin) and on the management of market risks (including structural foreign exchange hedging). ALCo monitors the Group's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement.

The Group operates a three lines of defence model for risk management. In terms of Market risk, the first line comprises the Capital and Liquidity and Treasury functions.

The Group's Capital and Liquidity unit, reporting to the CFO, is responsible for the identification and the transfer of market risk to Treasury, and making structural market risk management recommendations to ALCo. This function is also responsible for reporting the Group's aggregate market risk profile and managing the Group's financial instruments valuation processes.

The Financial Risk function, reporting to the Chief Risk Officer ("CRO") provides second line assurance. Financial Risk is responsible for exercising independent risk oversight and control over the Group's market risk. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the market risk measurement methodologies.

(1)The Capital at Risk on core trading book positions is assessed using a ten day horizon.

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3.6 Market risk*

Risk management and mitigation

Group Internal Audit provides third line assurance on market risk.

Market risk in the Group is transferred to and managed by Treasury, subject to Capital and Liquidity review and oversight by the Group ALCo. Treasury proactively manages the market risk on the Group's balance sheet, as well as providing risk management solutions to the core retail and corporate customers. Within Treasury, credit spread risk on the available for sale ("AFS") portfolio, IRRBB and trading risk are managed by distinct front office teams.

Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk in the banking book and credit spread risk in the banking book. The Board approved limits are supplemented by a range of ALCo approved limits which include VaR limits, nominal and sensitivity limits and stop loss limits. Treasury documents an annual Market Risk Strategy and Appetite statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with the Group's strategic business plan.

Market risk is managed subject to the Market Risk Management Framework and its associated policies. Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

Risk monitoring and reporting

On a daily basis, front office and risk functions receive a range of valuation, sensitivity and market risk risk measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile. Market risk exposures are reported to the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

The following table sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

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3.6 Market risk*

The following table sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed at 31 December 2016 and 2015:

2016

		Market risk measures		
	Carrying amount € m	**Trading portfolios € m**	**Non-trading portfolios € m**	**Risk factors**
Assets subject to market risk				
Cash and balances at central banks	**6,519**	**–**	**6,519**	**Interest rate, foreign exchange**
Trading portfolio financial assets	**1**	**1**	**–**	**Equity**
Derivative financial instruments	**1,814**	**800**	**1,014**	**Interest rate, foreign exchange, credit spreads, equity**
Loans and receivables to banks	**1,399**	**–**	**1,399**	**Interest rate, foreign exchange**
Loans and receivables to customers	**60,639**	**–**	**60,639**	**Interest rate, foreign exchange**
NAMA senior bonds	**1,799**	**–**	**1,799**	**Interest rate**
Financial investments available for sale	**15,437**	**–**	**15,437**	**Interest rate, credit spreads, equity**
Financial investments held to maturity	**3,356**	**–**	**3,356**	**Interest rate, credit spreads**
Liabilities subject to market risk				
Deposits by central banks and banks	**7,732**	**–**	**7,732**	**Interest rate, foreign exchange**
Customer accounts	**63,502**	**–**	**63,502**	**Interest rate, foreign exchange**
Derivative financial instruments	**1,609**	**861**	**748**	**Interest rate, foreign exchange, credit spreads, equity**
Debt securities in issue	**6,880**	**–**	**6,880**	**Interest rate, credit spreads**
Subordinated liabilities and other capital instruments	**791**	**–**	**791**	**Interest rate, credit spreads**

2015

		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	4,950	–	4,950	Interest rate, foreign exchange
Trading portfolio financial assets	1	1	–	Equity
Derivative financial instruments	1,698	877	821	Interest rate, foreign exchange, credit spreads, equity
Loans and receivables to banks	2,339	–	2,339	Interest rate, foreign exchange
Loans and receivables to customers	63,240	–	63,240	Interest rate, foreign exchange
NAMA senior bonds	5,616	–	5,616	Interest rate
Financial investments available for sale	16,489	–	16,489	Interest rate, credit spreads, equity
Financial investments held to maturity	3,483	–	3,483	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	13,863	–	13,863	Interest rate, foreign exchange
Customer accounts	63,383	–	63,383	Interest rate, foreign exchange
Trading portfolio financial liabilities	86	86	–	Interest rate, credit spreads
Derivative financial instruments	1,781	933	848	Interest rate, foreign exchange, credit spreads, equity
Debt securities in issue	7,001	–	7,001	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	2,318	–	2,318	Interest rate, credit spreads

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3.6 Market risk*

Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2016 and 2015 is illustrated in the following table. The table sets out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The table shows the sensitivity of the statement of financial position at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below.

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3.6 Market risk* – Interest rate sensitivity *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2016 Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	11	–	11
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	1	1
Loans and receivables to banks	1,008	2	–	–	–	–	–	–	389	–	1,399
Loans and receivables to customers	53,209	6,094	1,623	904	854	872	737	1,008	(4,662)	–	60,639
NAMA senior bonds	–	1,799	–	–	–	–	–	–	–	–	1,799
Financial investments available for sale	367	540	1,743	1,175	2,935	2,053	1,602	4,417	605	–	15,437
Financial investments held to maturity	–	–	–	788	533	791	–	1,244	–	–	3,356
Other assets	5,921	–	–	–	–	–	–	–	6,259	800	12,980
Total assets	60,505	8,435	3,366	2,867	4,322	3,716	2,339	6,669	2,602	801	95,622
Liabilities											
Deposits by central banks and banks	5,990	1,742	–	–	–	–	–	–	–	–	7,732
Customer accounts	26,085	3,034	5,995	1,776	340	445	66	13	25,748	–	63,502
Debt securities in issue	399	216	1,675	500	565	1,250	500	1,775	–	–	6,880
Subordinated liabilities and other capital instruments	–	–	–	–	–	750	–	41	–	–	791
Other liabilities	–	–	–	–	–	–	–	–	2,708	861	3,569
Equity	–	–	–	–	–	–	–	–	13,148	–	13,148
Total liabilities and equity	32,474	4,992	7,670	2,276	905	2,445	566	1,829	41,604	861	95,622
Derivatives affecting interest rate sensitivity	14,316	1,876	(3,594)	(2,559)	1,803	(3,348)	(3,505)	(4,989)	–	–	
Interest sensitivity gap	13,715	1,567	(710)	3,150	1,614	4,619	5,278	9,829	(39,002)	(60)	
Cumulative interest sensitivity gap	13,715	15,282	14,572	17,722	19,336	23,955	29,233	39,062	60	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	11,963	(30)	(683)	2,097	1,373	4,304	4,971	9,007	(30,970)	(25)	
Cumulative interest sensitivity gap	11,963	11,933	11,250	13,347	14,720	19,024	23,995	33,002	2,032	2,007	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	(474)	962	(29)	201	(84)	75	71	57	(2,149)	(11)	
Cumulative interest sensitivity gap	(474)	488	459	660	576	651	722	779	(1,370)	(1,381)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	2,272	607	1	852	325	240	236	765	(6,426)	(30)	
Cumulative interest sensitivity gap	2,272	2,879	2,880	3,732	4,057	4,297	4,533	5,298	(1,128)	(1,158)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(46)	28	1	–	–	–	–	–	543	6	
Cumulative interest sensitivity gap	(46)	(18)	(17)	(17)	(17)	(17)	(17)	(17)	526	532	

3.6 Market risk* – Interest rate sensitivity *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2015 Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	8	–	8
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	1	1
Loans and receivables to banks	1,344	497	–	–	–	–	–	–	498	–	2,339
Loans and receivables to customers	56,381	7,047	2,077	940	1,006	554	843	1,303	(6,911)	–	63,240
NAMA senior bonds	–	5,616	–	–	–	–	–	–	–	–	5,616
Financial investments available for sale	388	588	816	2,410	1,531	3,172	1,902	4,901	781	–	16,489
Financial investments held to maturity	–	–	–	–	823	557	824	1,279	–	–	3,483
Other assets	4,415	–	–	–	–	–	–	–	6,654	877	11,946
Total assets	62,528	13,748	2,893	3,350	3,360	4,283	3,569	7,483	1,030	878	103,122
Liabilities											
Deposits by central banks and banks	5,980	5,872	1,902	–	–	–	–	–	109	–	13,863
Customer accounts	26,289	4,213	7,486	2,393	663	303	126	3	21,907	–	63,383
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	86	86
Debt securities in issue	446	290	1,000	1,675	500	565	1,250	1,275	–	–	7,001
Subordinated liabilities and other capital instruments	–	–	1,524	–	–	–	750	44	–	–	2,318
Other liabilities	–	–	–	–	–	–	–	–	3,390	933	4,323
Equity	–	–	–	–	–	–	–	–	12,148	–	12,148
Total liabilities and equity	32,715	10,375	11,912	4,068	1,163	868	2,126	1,322	37,554	1,019	103,122
Derivatives affecting interest rate sensitivity	11,997	591	(2,092)	(2,554)	(1,062)	398	(1,649)	(5,629)	–	–	
Interest sensitivity gap	17,816	2,782	(6,927)	1,836	3,259	3,017	3,092	11,790	(36,524)	(141)	
Cumulative interest sensitivity gap	17,816	20,598	13,671	15,507	18,766	21,783	24,875	36,665	141	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	13,549	494	(6,176)	1,732	3,342	2,514	2,864	11,055	(30,110)	(108)	
Cumulative interest sensitivity gap	13,549	14,043	7,867	9,599	12,941	15,455	18,319	29,374	(736)	(844)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	137	1,074	(188)	–	(1)	174	–	72	(969)	(11)	
Cumulative interest sensitivity gap	137	1,211	1,023	1,023	1,022	1,196	1,196	1,268	299	288	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,326	1,205	(578)	104	(82)	329	228	663	(5,951)	(27)	
Cumulative interest sensitivity gap	4,326	5,531	4,953	5,057	4,975	5,304	5,532	6,195	244	217	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(196)	9	15	–	–	–	–	–	506	5	
Cumulative interest sensitivity gap	(196)	(187)	(172)	(172)	(172)	(172)	(172)	(172)	334	339	

3.6 Market risk*

Market risk profile

The table below shows the sensitivity of the Group's banking book to an immediate and sustained 100 basis point ("bp") movement in interest rates in terms of the impact on net interest income over a twelve month period.

	31 December	
Sensitivity of projected net interest income to interest rate movements	**2016 € m**	2015 € m
+ 100 basis point parallel move in all interest rates	**110**	99
– 100 basis point parallel move in all interest rates	**(110)**	(99)[1]

[1] In 2015, an assumption was made that market interest rates would not fall below 0.50%. The figure reported in 2015 was negative € 45 million under this assumption. In 2016, this assumption has been removed and the results in the table above reflect the impact of the full 100 bps move.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously and in a parallel manner. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises Treasury's interest rate VaR profile to a 95% confidence level with a one day holding period. AIB recognises the limitations of VaR models, and supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

	VaR (trading book)		**VaR (banking book)**		**Total VaR**	
	2016 € m	2015 € m	**2016 € m**	2015 € m	**2016 € m**	2015 € m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.3	**3.2**	2.7	**3.2**	2.7
High	**1.1**	1.1	**4.3**	3.6	**5.2**	5.2
Low	**–**	–	**2.5**	1.3	**2.5**	1.3
At 31 December	**0.1**	1.1	**4.1**	3.0	**5.2**	2.9

The following table sets out the VaR for foreign exchange rate and equity risk for the financial years ended 31 December 2016 and 2015:

	Foreign exchange rate risk		**Equity risk**	
	VaR (trading book)		**VaR (trading book)**	
	2016 € m	2015 € m	**2016 € m**	2015 € m
1 day holding period:				
Average	**0.04**	0.07	**0.05**	0.04
High	**0.13**	0.16	**0.35**	0.10
Low	**0.01**	0.02	**0.01**	0.01
At 31 December	**0.03**	0.05	**0.04**	0.02

The low level of VaR in the trading book throughout 2016 is as a result of very small discretionary positions managed by Treasury. The higher banking book interest rate VaR is as a result of a more substantial level of interest rate existing in the Group's banking book.

*Forms an integral part of the audited financial statements

3.6 Market risk*

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of the Group's consolidated capital ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in 'other comprehensive income' in the financial statements. The ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis points sensitivities using scenario analysis. The amount of structural foreign exchange risk is not material to the Group.

In 2016, the Group reduced its capital ratio sensitivity to the euro sterling exchange rate by converting a portion of its euro capital to sterling. The sensitivity of the Group's CET1 ratio to a 10% devaluation of the euro against the US dollar and pound sterling is illustrated in the table below.

The table below shows the sensitivity of the Group's fully loaded CET1 ratio to a hypothetical and sustained movement in GBP/EUR and USD/EUR foreign exchange rates.

Sensitivity of CET 1 fully loaded capital to foreign exchange movements	31 December 2016	 2015
+ 10% move in GBP and USD FX rates	**(0.17%)**	(0.34%)
– 10% move in GBP and USD FX rates	**0.16%**	0.33%

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange movements moving in the same direction and at the same time.

3.7 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 and property, continuity and resilience, information and security and outsourcing.

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 the Group. 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.

Risk identification and assessment

Risk and Control Assessment ("RCA") is a core process in the identification and assessment of operational risk across the Group. The process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and is recorded on Shield (the 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 and testing to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to the more significant risks.

Risk management and mitigation

Each business area is primarily responsible for managing its own risks. The Operational Risk 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 the Group.

*Forms an integral part of the audited financial statements

3.7 Operational risk* *(continued)*

An important element of the Group's operational risk framework is the on-going monitoring of risks, control deficiencies and weaknesses, including the tracking of operational risk events. AIB also requires all business areas to undertake risk assessments and establish appropriate internal controls in order to ensure that all components, taken together, deliver the control objectives of key risk management processes. The role of operational risk is to review operational risk management activities across the Group including setting policy and promoting best practice disciplines, augmented by an independent assurance process. The operational risk function is accountable to the Chief Risk Officer and to the Board through the Board Risk Committee, Executive Risk Committee and the Operational Risk Committee.

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; 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.

Risk monitoring and reporting

The primary objective of the operational risk management reporting and control process within the Group is to provide timely and 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 the Group. The reporting of operational incidents and trend data, as required, at the Executive Risk and Board Risk Committees supports these two objectives. In addition, the Board, Group Audit Committee and the Executive Risk Committee 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.

3.8 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 the Group may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of the Group's operating markets. Regulatory Compliance work closely with management in assessing compliance risks and provide 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 the Group cause poor and unfair outcomes for its customers or market instability. A mature Conduct Risk Framework, aligned with the Group Strategy, is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level. This includes the embedding of a customer centric culture aligned to Group's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

The Group's regulators have defined consumer protection principles in conduct of business regulations. These principles are embedded in the Group'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.

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 legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions, with emerging prudential regulations being monitored by the Compliance Upstream unit. Regulatory Compliance undertakes a periodic detailed assessment of the key conduct of business

*Forms an integral part of the audited financial statements

3.8 Regulatory compliance risk and conduct risk* *(continued)*

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 SARTs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Board Risk Committee, approves the Group's compliance policy and its mandate for the Regulatory Compliance function.

The Board is responsible for ensuring that the Group complies with its regulatory responsibilities. The 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 the Group's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover certain consequences of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

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 Group Internal Audit and/or Operational Risk.

Risk prioritised annual compliance monitoring plans are prepared with monitoring undertaken on both 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 Regulatory Compliance.

Regulatory Compliance report to the Group General Counsel and independently to the Board, through the Board Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

3.9 Culture risk

Culture risk is the risk that intentional or unintentional behaviours or actions taken by employees which are not conducive with the overall strategy, culture and values of AIB Group will adversely impact business performance or prospects.

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 we communicate this from the top and throughout the Group. In this way, AIB has embedded a set of customer centric Brand Values. These values drive and influence activities of all staff, guiding our dealings with customers, each other and all stakeholders. The Brand Values are embedded within the Group's framework, from the way we recruit, promote, reward and manage our people.

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. These frameworks describe for staff the standards we apply that translate into how we behave.

How we all live up to our 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 the Group's strategic ambitions. Aspire allows all staff to create goals that are clear on “What” they will achieve and that “How” they behave will be important to deliver these goals. This means that AIB stands out from its peers in embracing the right behaviours and outcomes with equal weighting, in achieving its strategic ambition.

*Forms an integral part of the audited financial statements

3.9 Culture risk *(continued)*

AIB has made significant steps in increasing engagement and awareness of our risk management activities throughout the Group by embedding the Risk Appetite Statement in policies and frameworks of the Group. The Risk Appetite Statement contains clear statements of intent as to our attitude to taking and managing risk, including culture risk. It ensures we monitor and report against certain culture metrics in measuring culture risk and tracking cultural change.

We closely monitor our evolving culture at a Group level through our 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 we do things and from which we continuously identify opportunities to evolve our culture at 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 fostering an open and receptive cultural environment.

3.10 Business risk

Business risk is defined as the risk that external and internal factors impact on the Group's performance and the achievement of its strategic objectives. External factors include the macro-economic, geo-political and competitive environment. Internal factors include plan delivery, cost management and execution/change management.

Competition risk, which is a component of business risk, is the risk that the actions of competitors or new entrants to the market impair the Group's competitive position, threaten the viability of its business model or even its ability to survive.

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 the Group's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long-term strategy of the Group.

The Group 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 annually.

The Group's business and financial planning process supports the Group's strategy. Every year, the Group 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 P&L, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The Group plan is supported by detailed business unit plans. Each business unit plan is aligned to the Group 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.

Risk management and mitigation

At a strategic level, the Group 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 Group and to facilitate formulation and review of Leadership Team performance scorecards.

3.10 Business risk *(continued)*

Risk monitoring and reporting

Performance against plan is monitored at segment level on a monthly basis and reported to senior management teams within the business. At an overall Group level, performance against Plan is monitored as part of the CFO Report which is discussed at Leadership Team and Board on a monthly basis. Risk profile against risk appetite measures, some of which would reference performance against Plan, is monitored by the CRO and reported on a monthly basis to the Executive Risk Committee, Leadership Team and Board.

3.11 Pension risk*

Pension risk is the risk that:

- The funding position of the Group's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its funding obligations to the pension;
- The capital position of the Group is negatively affected. Deficits recorded under International Financial Reporting Standards ("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.

The Group maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 12 to the consolidated financial statements. These defined benefit schemes were closed to future accrual from the 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 Group Irish Pension Scheme. In the United Kingdom, the Group has established an asset backed funding vehicle to provide the required regulatory funding to the UK Scheme.

While the Group 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 Group's main Irish schemes in 2016. This has been reassessed following a review by the Board, having considered actuarial and external legal advice. Although the Group is confident of its assessment, it may be subject to risk of challenge, however, the Group will robustly defend any such challenge, legal 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.

3.12 Model risk

Model risk is the risk of potential adverse consequences from decisions based on incorrect or misused model outputs and reports. The responsibilities and accountabilities in relation to the governance of model risk is outlined in the Group's Model Risk Framework.

The Group mitigates model risk by having policies and standards in place in relation to model development, operation and validation. In addition, 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.

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*Forms an integral part of the audited financial statements

Governance and oversight

Governance and oversight – The Board

Board of Directors

Non-Executive Chairman

Richard Pym, CBE

Age: 67

Appointed: 13/10/2014 (Chairman Designate)
01/12/2014 (Chairman)

Background and experience:

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

Committee memberships:

Chairman of the Nomination and Corporate Governance Committee
Remuneration Committee

Non-Executive Directors

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

Age: 74

Appointed: 14/01/2010 as a Nominee of the Minister for Finance under the Government's National Pensions Reserve Fund Act 2000 (as amended)
14/06/2010 (Deputy Chairman)

Background and experience:

Dr Somers is former Chief Executive Officer of the National Treasury Management Agency. He is Chairman of Goodbody Stockbrokers, a Non-Executive Director of Fexco Holdings Limited, Hewlett-Packard International Bank plc, the Institute of Directors, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the Audit Committee of the European Investment Bank and Director of the European Investment Bank and former Member of the EC Monetary Committee.

Dr Somers was Chairman of the group that drafted the National Development Plan 1989-1993 and of the European Community Group that established the European Bank for Reconstruction and Development. He was formerly a member of the Council of the Dublin Chamber of Commerce and a Non-Executive Director of St. Vincent's Healthcare Group Limited and Willis Group Holdings plc.

Committee memberships:

Board Risk Committee
Nomination and Corporate Governance Committee

Non-Executive Directors

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

Age: 54
Appointed: 13/10/2010

Background and experience:

Ms Woods is a Non-Executive Director of AIB Mortgage Bank and EBS d.a.c. She was appointed Senior Independent Non-Executive Director in January 2015. She has been a Director of Beazley Re DAC since July 2015 and became a Director of Beazley plc in January 2016. She is a former Vice President and Head of the JPMorgan European Banks Equity Research Team, where her mandates included the recapitalisation of Lloyds of London and the re-privatisation of Scandinavian banks. Ms Woods is a former Chairman of EBS d.a.c., former Director of An Post, a former member of the Electronic Communications Appeals Panel and a former Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband Scheme.

Committee memberships:

Chairman of the Board Audit Committee
Board Risk Committee
Nomination and Corporate Governance Committee

Simon Ball, B.Sc (Econ), FCA

Age: 56
Appointed: 13/10/2011

Background and experience:

Mr Ball has previously held roles as Chairman of Anchura Group Limited and Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc and has served as Group Finance Director of 3i Group plc and the Robert Fleming Group. He has held a series of senior finance and operational roles at Dresdner Kleinwort Benson and was Director General, Finance, for HMG Department for Constitutional Affairs. He is currently a member of the Board of Commonwealth Games England.

Committee memberships:

Board Risk Committee
Remuneration Committee
Nomination and Corporate Governance Committee

Tom Foley, B.Comm, FCA

Age: 63
Appointed: 13/09/2012

Background and experience:

Mr. Foley is a Non-Executive Director of EBS d.a.c. since November 2012 and AIB Group (UK) p.l.c. since April 2015. He is a Non-Executive Director of Intesa SanPaolo Life d.a.c. Mr Foley is a former Executive Director of KBC Bank Ireland, former CEO of KBC Homeloans and has held a variety of senior management and board positions with KBC in Corporate, Treasury and Personal Banking in Ireland and the UK. He was a member of the Nyberg Commission of Investigation into the Banking Sector during 2010 and 2011 and the Department of Finance Expert Group on Mortgage Arrears and Personal Debt during 2010. Mr Foley is a former Non-Executive Director of BPV Finance (International) plc. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank.

Committee memberships:

Board Audit Committee
Remuneration Committee

Governance and oversight – The Board

Non-Executive Directors

Peter Hagan, B.Sc, Dip BA

Age: 68
Appointed: 26/07/2012

Background and experience:

Mr Hagan is former Chairman and CEO of Merrill Lynch's US commercial banking subsidiaries and was also a Director of Merrill Lynch International Bank (London), Merrill Lynch Bank (Swiss), ML Business Financial Services, FDS Inc and The Thomas Edison State College Foundation. Over a period of 35 years he has held senior positions in the international banking industry, including as Vice Chairman and Representative Director of the Aozora Bank (Tokyo). During 2011 and until September 2012, he was a Director of each of the US subsidiaries of IBRC. He is at present a consultant in the fields of financial service litigation and regulatory change. He is currently a Director of 179 East 70th Corp.

Committee memberships:

Chairman of the Board Risk Committee
Board Audit Committee

Carolan Lennon, B.Sc, MBA

Age: 50
Appointed: 27/10/2016

Background and experience:

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

Committee membership:

None

Helen Normoyle, BBS

Age: 49
Appointed: 17/12/2015

Background and experience:

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

Committee membership:

Chairman of the Board Sustainable Business Advisory Committee

Non-Executive Directors

Jim O'Hara

Age: 66
Appointed: 13/10/2010

Background and experience:

Mr O'Hara is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel's technology and manufacturing group in Ireland. He is currently Chairman of a number of indigenous technology start-up companies. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland and Fyffes plc.. Mr O'Hara joined the Board in October 2010 and has been a member of the Audit Committee, Remuneration Committee and Nomination and Corporate Governance Committee since January 2011, and was appointed Chairman of the Remuneration Committee in July 2012. He was appointed Non-Executive Director of EBS d.a.c. in June 2012.

Committee memberships:

Chairman of the Remuneration Committee
Board Audit Committee
Nomination and Corporate Governance Committee
Board Sustainable Business Advisory Committee

Brendan McDonagh, BBS, MA, FCIM

Age: 58
Appointed: 27/10/2016

Background and experience

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

Committee membership:

Board Risk Committee

Governance and oversight – The Board

Executive Directors

Bernard Byrne, FCA – Chief Executive Officer

Age: 48

Appointed: 24/06/2011

Background and experience:

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

Committee membership:

None

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

Age: 50

Appointed: 29/05/2014

Background and experience:

Mr Bourke joined AIB in April 2014 as Chief Financial Officer and member of the Leadership Team and was co-opted to the Board on 29 May 2014. He joined AIB from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mr Bourke began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute.

Committee membership:

None

Governance and oversight – The Leadership Team

The Leadership Team is the Bank's most senior executive committee. The membership comprises the two Executive Directors and the heads of the businesses and support and control functions, biographies for whom are included below⁽¹⁾. The Chief Risk Officer role is currently subject to an executive search.

Helen Dooley, LLB – Group General Counsel

Age: 48
Appointed: 10/10/2012

Background and experience:

Ms Dooley was appointed to her current role as Group General Counsel and a member of the Bank's Executive Leadership Team in October 2012. In June 2014 she also assumed responsibility for the Compliance function. 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 d.a.c. including Head of Regulatory Compliance 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

Age: 46
Appointed: 03/01/2017

Background and experience:

Ms Ferriter joined AIB in January 2017 as Chief People Officer and a member of the Bank's Executive 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

Age: 44
Appointed: 28/04/2016

Background and experience:

Mr Galvin joined AIB in 2013 as Head of Treasury and was appointed to the Bank's Executive Leadership Team as Group Treasurer in 2016. He has worked in domestic and international financial markets for the past twenty 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 & Asian Global Financial Markets business, as well as leading Rabobank's Global Client Structured Products division.

(1)Mr Dominic Clarke, Chief Risk Officer, resigned from the Group with effect from 8 January 2017.

Governance and oversight – The Leadership Team

Colin Hunt, Ph.D – Managing Director, Wholesale Institutional & Corporate Banking

Age: 46
Appointed: 08/08/2016

Background and experience:

Dr Hunt joined AIB as Managing Director, Wholesale & Institutional Banking Division and a member of the Bank's Executive 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 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, B.Comm, FMII, CBD – Chief Marketing Officer

Age: 47
Appointed: 02/11/2015

Background and experience:

Mr Kinsella joined AIB in November 2012 as Group Marketing Director and was appointed to his current role as Chief Marketing Officer and a member of the Bank's Executive Leadership Team in November 2015. In his role, he is responsible for ensuring that all parts of the organisation are mobilised around providing a great customer experience, in order to realise AIB's objective of becoming a truly customer focused bank. Prior to AIB, he worked in a variety of senior marketing roles in Diageo, working across a wide variety of brands both globally and domestically.

Robert Mulhall, B.Sc, MA, QFA, CFA – Managing Director, Retail & Commercial Banking Ireland

Age: 43
Appointed: 19/10/2015

Background and experience:

Mr Mulhall was appointed Managing Director of AIB's Retail & Commercial Banking Ireland (formerly known as Retail, Corporate and Business Banking) in October 2015. His career in AIB has spanned almost 20 years and covered a variety of roles up to senior executive management level in areas including Digital Channels Innovation, Retail Banking Distribution, Customer Relationship Management, Business Intelligence, Strategic Marketing, Strategy Development, Operations and Sales Management. Coupled with his AIB career, he also held the position of Managing Director, Distribution & Marketing Consulting, and Financial Services with Accenture in North America from 2013 to 2015. In this capacity he brought his industry experience to build a rapidly growing consulting practice in the fast moving and innovative areas of Financial Services in North America.

Brendan O'Connor, BA, MBA – Managing Director, AIB Group (UK) p.l.c.

Age: 51
Appointed: 15/02/2013

Background and experience:

Mr O'Connor joined AIB in 1984 and has held a number of senior roles throughout the organisation both in New York and Dublin including Head of AIB Global Treasury Services, Head of Corporate Banking International and Head of AIB Business Banking. Mr O'Connor joined the Bank's Executive Leadership Team in February 2013 as Head of Financial Solutions Group. He was appointed to his current role of Managing Director, AIB Group (UK) p.l.c. in October 2015.

Jim O'Keeffe, BA, H.Dip – Head of Financial Solutions Group

Age: 49
Appointed: 02/11/2015

Background and experience:

Mr O'Keeffe is a graduate of University College Cork and 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 Financial Solutions Group and a member of the Bank's Executive Leadership Team in November 2015.

Tomás O'Midheach, B.Comm, MBS, FCCA – Chief Operating Officer

Age: 47
Appointed: 01/02/2016

Background and experience:

Mr O'Midheach was appointed to the role of Chief Operating Officer in February 2016. He has over 22 years experience in the financial services industry. His banking experience has spanned many diverse areas of banking including Finance, Data, Customer Analytics, Direct Channels and Digital. Mr O'Midheach spent 11 years with Citibank in the UK, Spain and Dublin where he held several senior positions in Finance. He joined AIB in June 2006 to head up a finance operating model transformation and has since held a number of senior executive positions including Head of Direct Channels & Analytics and Chief Digital Officer.

Governance and oversight – Group Directors' report *for the financial year ended 31 December 2016*

The Directors of Allied Irish Banks, p.l.c. ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2016. A Statement of the Directors' responsibilities is shown on page 213.

Results

The Group's profit attributable to the ordinary shareholders of the Company amounted to € 1,356 million and was arrived at as shown in the consolidated income statement on page 221.

Dividend

There was no dividend paid to ordinary shareholders in 2016. The Board is recommending a dividend of € 0.0921 per share payable on 9 May 2017 to shareholders on the Company's register of members at the close of business on 24 March 2017.

Going concern

The financial statements for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance including the possible fallout from Brexit.

In addition, the Directors have considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 50 to 58 in the 'Risk management' section of this report.

The Directors believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Group's regulatory capital resources are detailed on pages 43 to 48.

The Group funding and liquidity profile is outlined on pages 146 to 158. In relation to funding and liquidity, the Directors are satisfied, based on AIB's position in the market place that in all reasonable circumstances required liquidity and funding would be available to the Group during the period of assessment.

Accordingly, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Directors Compliance Statement

As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The Directors confirm that:

(a) a compliance policy statement (as defined in section 225(3)(a)) has been drawn up setting out the Company's policies, which, in the in the Directors' opinion, are appropriate to ensure compliance with the Company's relevant obligations;

(b) appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and

(c) a review of those arrangements or structures has been conducted in the financial year to which this report relates.

Capital

Information on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in the Schedule on pages 182 to 184 and in note 40 to the consolidated financial statements.

Accounting policies

The principal accounting policies, together with the basis of preparation of the financial statements, are set out in note 1 to the consolidated financial statements.

Review of principal activities

The statement by the Chairman on pages 4 and 5, the review by the Chief Executive Officer on pages 6 to 13 and the operating and financial review on pages 24 to 42 contain an overview of the development of the business of the Company during the year, of recent events, and of likely future developments.

Directors

Following due process and consideration, including in relation to the independence criteria under the Central Bank's 2015 Requirements and the UK Code, the following Board changes occurred with effect from the dates shown:

- Ms Carolan Lennon was appointed Independent Non-Executive Director on 27 October 2016.
- Mr Brendan McDonagh was appointed Independent Non-Executive Director on 27 October 2016;

The names of the Directors, together with a short biographical note on each Director, are shown on pages 172 to 176.

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company, and information on these is set out on pages 183 and 184.

Directors' and Secretaries' Interests in the Share Capital

The interests of the Directors and Secretaries in the share capital of the Company are shown in the Directors' Remuneration report on page 207.

Directors' Remuneration

The Company's policy with respect to Directors' remuneration is included in the Directors' Remuneration report on page 203. Details of the total remuneration of the Directors in office during 2016 and 2015 are shown in the Remuneration report on pages 205 and 206.

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital was notified to the Company at 21 December 2015:

- Ireland Strategic Investment Fund 99.9%.

Corporate Governance

The Directors' Corporate Governance report is set out on pages 185 to 189 and forms part of this report. Additional information, being disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Group Directors' report on pages 182 to 184.

In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on pages 190 to 193.

Political Donations

The Directors have satisfied themselves that there were no political contributions during the year that require disclosure under the Electoral Act 1997.

Accounting Records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records include the use of appropriate systems and procedures, incorporating those set out within 'Internal controls' in the Governance and oversight section on pages 208 and 209, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at Bankcentre, Ballsbridge, Dublin 4, Ireland; at the principal offices of the Company's main subsidiary companies, as shown on page 439 and at the Company's other principal offices, as shown on those pages.

Principal Risks and Uncertainties

Information concerning the principal risks and uncertainties facing the Company, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), is set out in the 'Risk management' section on pages 50 to 58.

Branches outside the State

The Company has established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulations 1993), in the United Kingdom, the Grand Cayman Islands and the United States of America.

Disclosure Notice under Section 33AK of the Central Bank Act 1942

The Company did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2016.

Auditors

The Auditors, Deloitte, were appointed on 20 June 2013 following Shareholder approval at the 2013 Annual General Meeting on that date, and have signified willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Statement of relevant audit information

Each of the persons who is a Director at the date of approval of this report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

Other information

Other information relevant to the Director's Report may be found in the following pages of the Report:

	Page
2016 Financial Highlights	3
Financial risk management objectives and policies of the Group and the Company	50 to 170
Non-adjusting events after the reporting period	354

The Directors' Report for the year ended 31 December 2016 comprises these pages and the sections of the Report referred to under 'Other information' above, which are incorporated into the Directors' Report by reference.

Richard Pym

Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

1 March 2017

Governance and oversight – Schedule to the Group Directors' report

for the financial year ended 31 December 2016

Additional information required to be contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position as of 31 December 2016.

Capital Structure

The authorised share capital of the Company is € 2,500,000,000 divided into 4,000,000,000 Ordinary Shares of € 0.625 each ('Ordinary Shares'). The issued share capital of the company is 2,714,381,238 Ordinary Shares.

Rights and Obligations of Each Class of Share

The following rights attach to Ordinary Shares:

- The right to receive duly declared dividends in cash, or where offered by the Directors, by allotment of additional Ordinary Shares.
- The right to attend and speak, in person or by proxy, at general meetings of the Company.
- The right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held.
- The right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company.
- The right to receive, (by post or electronically), at least twenty-one days before the Annual General Meeting, a copy of the Directors' and Auditors' reports accompanied by 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 such summary financial statements as may be permitted by the Companies Act.
- The right to receive notice of general meetings of the Company.
- In a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

There is attached to the Ordinary Shares an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and if such shareholder holds any share other than as beneficial owner to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice), fails to furnish the Company with the information required within the time specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

Restrictions on the Transfer of Shares

Save as set out below, there are no limitations in Irish law or in the Company's Constitution on the holding of the Ordinary Shares and there is no requirement to obtain the approval of the Company, or of other holders of the Ordinary Shares, for a transfer of Ordinary Shares.

The Ordinary Shares are, in general, freely transferable but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases:

(i) a lien held by the Company on the shares;
(ii) in the case of a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or
(iii) in the case of a single transfer of shares which is in favour of more than four persons jointly.

Ordinary Shares held in certificated form are transferable upon production to the Company's Registrars of the Original Share certificate and the usual form of stock transfer duly executed by the holder of the shares.

Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system which enables title to the Ordinary Shares to be evidenced and transferred without a written instrument and in accordance with the Companies Act 2014.

The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the Register of Members of the Company.

Exercise of Rights of Shares in Employees' Share Schemes

The AIB Approved Employees' Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme.

Deadlines for exercising Voting Rights

Voting rights at general meetings of the Company are exercised when the Chairman puts the resolution at issue to the vote of the meeting. A vote decided by a show of hands is taken forthwith. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith and a poll on any other question is taken either immediately, or at such time (not being more than thirty days from the date of the meeting at which the poll was demanded or directed) as the Chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than forty-eight hours before the time appointed for taking the poll.

Rules Concerning Amendment of the Company's Constitution

As provided in the Companies Act 2014, the Company may, by special resolution, alter or add to its Constitution. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than twenty-one clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than twenty- one clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety per cent in nominal value of the shares giving that right.

Rules Concerning the Appointment and Replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than forty-two days before the date of the general meeting, written notice by a shareholder, duly qualified to be present and vote at the meeting, of the intention to propose the person for appointment and notice in writing signed by the person to be proposed of willingness to act, if so appointed, shall have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in general meeting) and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One-third of the Directors for the time being (or if their number is not three or a multiple of three, not less than one-third), are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  - if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his or her creditors generally;
  - if found to be mentally disordered in accordance with law;
  - if the person be prohibited or restricted by law from being a Director;
  - if, without prior leave of the Directors, he or she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his or her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he or she be convicted of an indictable offence;
  - if he or she be requested, by resolution of the Directors, to resign his or her office as Director on foot of a unanimous resolution (excluding the vote of the Director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefor has been given to the Director; or
  - if he or she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches the specified age continues in office until the last day of the year in which he or she reaches that age.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Company's Constitution, if:
  - not being a Director holding for a fixed term an executive office in his or her capacity as a Director, if he or she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
  - the Director tenders his or her resignation to the Directors and the Directors resolved to accept it; or
  - he or she ceases to be a Director pursuant to any provision of the Company's Constitution.
- Notwithstanding anything in the Company's Constitution or in any agreement between the Company and a Director,

the Company may, by Ordinary Resolution of which extended notice has been given in accordance with the Companies Act, remove any Director before the expiry of his or her period of office.

- The Minister for Finance has power to nominate such number of Non-Executive Directors equal to either (a) 25 per cent of the Directors when the total number of Directors is 15 or less or (b) 4 Directors where the total number of Directors is 16, 17 or 18.

The Powers of the Directors Including in Relation to the Issuing or Buying Back by the Company of its Shares

Under the Company's Constitution, the business of the Company is to be managed by the Directors who may exercise all the powers of the Company subject to the provisions of the Companies Act, the Constitution of the Company and to any directions given by special resolution of a general meeting. The Company's Constitution further provides that the Directors may make such arrangement as may be thought fit for the management, organisation and administration of the Company's affairs including the appointment of such executive and administrative officers, managers and other agents as they consider appropriate and delegate to such persons (with such powers of sub-delegation as the Directors shall deem fit) such functions, powers and duties as the Directors may deem requisite or expedient.

Pursuant to resolution of the shareholders, in accordance with the provisions of the Companies Act, the Directors are unconditionally authorised until 16 December 2020 to exercise all the powers of the Company to allot relevant securities up to the aggregate nominal amount of € 1,191,314,686. By such authority, the Directors may make offers or agreements which would, or might, require the allotment of such securities after 16 December 2020.

Governance and oversight – Corporate Governance report

Corporate Governance arrangements and practices

AIB's Governance Framework (the 'Framework') encompasses the leadership, direction and control of AIB and its subsidiaries (collectively referred to as 'AIB', the 'Group' or the 'Company'). The Framework reflects best practice standards, guidelines and statutory obligations and ensures that organisation and control arrangements are appropriate to governance of the Group's strategy, operations and mitigation of related material risks. The Framework underpins effective decision making and accountability and is the basis on which the Group conducts its business and engages with customers and stakeholders.

The Framework reflects Irish company law, various corporate governance codes and regulations, the Listing Rules of the Enterprise Securities Market of the Irish Stock Exchange, European Banking Authority ("EBA") Guidelines, Basel Committee on Banking Supervision Guidelines on Corporate Governance Principles for Banks, and other relevant EU best practice guidelines and, in relation to the UK businesses, UK company law. Further detail on AIB's governance practices is available on http://investorrelations.aib.ie.

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;
- a Chief Executive Officer to whom the Board has delegated responsibility for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of Senior Executive Management, and for the operational management, compliance and performance of all the Group's businesses;
- an Executive Leadership Team comprising strong and diverse management capabilities;
- a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- a well-documented and executed delegation of authority framework;
- 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;
- adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, and remuneration policies and practices which are consistent with and promote sound and effective risk management; and
- strong and functionally independent internal and external audit functions.

AIB is subject to the provisions of the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the '2015 Requirements' which is available on www.centralbank.ie), including compliance with requirements which specifically relate to 'high impact institutions' and additional corporate governance obligations on credit institutions which are deemed significant for the purposes of the European Union (Capital Requirements) Regulations 2014 ('CRD') [S.I. 158/2014].

The 2015 Requirements impose minimum core standards upon all credit institutions licensed or authorised by the Central Bank of Ireland (the 'Central Bank'). The Directors believe that the Company materially complied with the 2015 Requirements throughout 2016. Following changes to the Boards of AIB's three material Irish licensed subsidiaries during 2016, applications for appointments to the subsidiary Boards are under consideration by the Central Bank to ensure compliance with the relevant 2015 Requirements.

The Company has also adopted the provisions of the UK Corporate Governance Code ('the 2014 UK Code' which is available on www.frc.org.uk), including a number of the new provisions contained in the April 2016 revised UK Code (the 2016 UK code') earlier than formally expected. The Directors believe the Company complied fully with the provisions of the 2014 UK Code, during the financial year ended 31 December 2016, other than in the following instances:

- provision B.7.1 which requires that all Directors should be subject to annual election by shareholders; Dr Michael Somers was appointed Non-Executive Director in 2010 as a nominee of the Minister for Finance under the Irish Government's National Pensions Reserve Fund Act 2000 (as amended), the terms of which do not require him to stand for election or regular re-election by shareholders;
- provision D.2.2 with regard to the 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 capital agreements with the Irish Government and the Relationship Framework agreed with the Minister, neither the Committee nor the Board has autonomy in that regard.

The Board of Directors

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group, and is accountable to shareholders for financial performance.

While arrangements have been made by the Directors for delegation of the management, organisation and administration of the Company's affairs, the following matters are specifically reserved for decision by the Board:

- to retain primary responsibility for corporate governance within the Company at all times and oversee the efficacy of governance arrangements;
- to determine the Company's strategic objectives and policies, and to ensure that the necessary financial and human resources and operational capabilities are in place for the Company to meet its objectives;
- to approve the annual financial plan, interim and annual financial statements, operating and capital budgets, major acquisitions and disposals, and risk appetite limits, designated frameworks and relevant policies;

- to appoint the Chairman of the Board, Board Directors, Chief Executive Officer and Members of the Leadership Team, to address related succession planning, and to approve, where appropriate, the removal of persons in charge of Control Functions;
- to endorse the appointment of people who may have a material impact on the risk profile of the Company and monitor on an ongoing basis their appropriateness for the role;
- to render an account of the Company's activities to its shareholders;
- to protect the assets of the Company taking into account the interests of the shareholders and the employees in general with appropriate regard for the interests of other stakeholders; and
- to put in place and monitor procedures designed to ensure that the Company complies with the law and good corporate citizenship.

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

Specifically the Board:
- sets the Group’s Risk Appetite, incorporating risk limits;
- approves designated Risk Frameworks, incorporating risk strategies, policies, and principles;
- approves stress testing and capital plans under the Group’s Internal Capital Adequacy Assessment Process (“ICAAP”); and
- approves other high-level risk limits as required by Credit, Capital, Liquidity and Market policies.

The Board receives regular updates on the Group’s risk profile through the Chief Risk Officer’s monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Board Risk Committee’s activities is detailed on pages 194 to 197.

AIB has received significant support from the Irish State (‘the State’) in the context of the financial crisis because of its systemic importance to the Irish financial system, as a result of which the State holds c.99.9% of the issued ordinary shares of the Company. The relationship between AIB and the State as shareholder is governed by a Relationship Framework. Within the Relationship Framework, with the exception of a number of important items requiring advanced consultation with or approval by the State, the Board retains responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group. The Relationship Framework is available on the Group’s website at http://investorrelations.aib.ie.

The names of the Directors, with brief biographical notes, are shown on pages 172 to 176.

Chairman

The Chairman’s responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non- Executive Directors, ensuring the proper induction of new Directors, the on-going training and development of all Directors, and reviewing the performance of individual Directors.

Mr Richard Pym was appointed Chairman Designate on 13 October 2014 and assumed the role of Non-Executive Chairman with effect from 1 December 2014. In addition to his role as Chairman, Mr Pym is Chairman of the Nomination and Corporate Governance Committee and a Member of the Remuneration Committee.

Mr Pym was formerly Chairman and Director of Nordax Bank AB (publ); he stood down from these roles on 15 October 2015 and 11 May 2016 respectively. He stood down from his position as Chairman of UK Asset Resolution Ltd (‘UKAR’) on 5 June 2016, remaining as a Director of UKAR, and related companies Bradford & Bingley plc and NRAM Limited, until he retired from these roles on 26 July 2016. Mr Pym currently has no other external directorship commitments. Mr Pym’s biographical details are available on page 172.

The role of the Chairman is separate from the role of the Chief Executive Officer, with clearly-defined responsibilities attaching to each; these are set out in writing and agreed by the Board.

Deputy Chairman

Dr Michael Somers was appointed as Deputy Chairman in June 2010. In addition to this role, Dr Somers is a Member of the Nomination and Corporate Governance Committee and the Board Risk Committee. Dr Somers was Chairman of the Board Risk Committee from 10 November 2010 until 27 January 2016. Dr Somers’ biographical details are available on page 172.

Senior Independent Non-Executive Director

The Senior Independent Non-Executive Director is available to shareholders if they have concerns which contact through the normal channels of Chairman or Chief Executive Officer have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate. Ms Catherine Woods was appointed Senior Independent Non-Executive Director with effect from 30 January 2015.

In addition to her role as Senior Independent Non-Executive Director, Ms Woods is Chairman of the Board Audit Committee and Member of the Board Risk Committee and the Nomination and Corporate Governance Committee. Ms Woods’ biographical details are available on page 173.

Independent Non-Executive Directors

As an integral component of the Board, Independent Non- Executive Directors represent a key layer of oversight of the activities of the Company. It is essential for Independent Non- Executive Directors to bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the management and of the Company. Biographical details for each of the Independent Non-Executive Directors are available on pages 172 to 175.

Executive Directors

Executive Directors have executive functions in the Company in addition to their Board duties. The role of Executive Directors, led by the Chief Executive Officer, is to propose strategies to the Board and following challenging Board scrutiny, to execute the agreed strategies to the highest possible standards. Biographical details for each of the Executive Directors are available on page 176.

Chief Executive Officer

The Chief Executive Officer is responsible for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of Senior Executive Management, and for the operational management of all the Group's businesses. Mr Bernard Byrne was appointed Chief Executive Officer on 29 May 2015.

Leadership Team

The Leadership Team is the most senior executive committee of the Group and is accountable to the Chief Executive Officer. Subject to financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the Board, the Leadership Team under the stewardship of the Chief Executive Officer has responsibility for the day-to-day management of the Group's operations. It assists and advises the Chief Executive Officer in reaching decisions on the Group's strategy, governance and internal controls, and performance and risk management.

Joint Group Company Secretaries

The Directors have access to the advice and services of the joint Group Company Secretaries who are responsible for advising the Board through the Chairman on all governance matters, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Group Company Secretaries facilitate information flows within the Board and its Committees and between Senior Executive Management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. Mr David O'Callaghan was Company Secretary until 27 October 2016, at which point Mr Robert Bergin and Ms Sarah McLaughlin were appointed as joint Group Company Secretaries.

Board Meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided with relevant papers in advance of the meetings to enable them to consider the agenda items, and are encouraged to participate fully in the Board's deliberations.

The Board held 14 scheduled meetings and 2 additional out-of-course meetings during 2016. Attendance at Board meetings and meetings of Committees of the Board is reported on below. During 2016, the Non-Executive Directors met on occasion in the absence of the Executive Directors, in accordance with good governance standards. A number of Non-Executive Directors of Allied Irish Banks, p.l.c. are also Non-Executive Directors of the Company's major regulated subsidiary companies, namely AIB Group (UK) p.l.c., AIB Mortgage Bank and EBS d.a.c.

Board Membership

It is the policy of the Board that a majority of the Directors should be Non-Executive. At 31 December 2016, there were 10 Non-Executive Directors and 2 Executive Directors. The Board deems the appropriate number of Directors to meet the requirements of the business to be between 10 and 14.

There is a procedure in place to enable the Directors to take independent professional advice, at the Group's expense. The Group holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Balance and Independence

Responsibility has been delegated by the Board to the Nomination and Corporate Governance Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong and effective leadership and appropriate challenge to executive management.

The independence of each Director is considered by the Nomination and Corporate Governance Committee prior to appointment and reviewed annually thereafter. In reviewing the independence of Directors, the Committee considers the independence criteria contained in the 2015 Requirements and the 2014 UK Code.

The Board has determined that all Non-Executive Directors in office at 31 December 2016, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Ms Carolan Lennon, Mr Brendan McDonagh, Ms Helen Normoyle, Mr Jim O'Hara, Mr Richard Pym, Dr Michael Somers and Ms Catherine Woods are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. In 2011, the Central Bank of Ireland confirmed that Dr Somers should be considered independent for the purposes of the 2015 Requirements.

Notwithstanding Dr Somers' designation as non-independent under the 2014 UK Code arising from his appointment by the Irish State as shareholder, the Board is satisfied that Dr Somers exercises independence of thought and action in fulfilling his duties as a Non-Executive Director.

Conflicts of Interest

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 Company and its stakeholders.

Executive Directors, as employees of AIB, are also subject to the organisation's Code of Conduct and Conflicts of Interests Policy for employees.

Performance Evaluation

There is a formal process in place for the annual evaluation of the Board's own performance and that of its principal Committees and individual Directors. In accordance with the 2015 Requirements and the 2014 UK Code, an external evaluation is conducted at least every three years, with internal evaluations in the intervening years. The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board and its Committees are as a whole effective in discharging their responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

An external independent evaluation was conducted by Boardroom Review Limited during 2014, with internal evaluations undertaken during 2015 and 2016. The self-evaluation process, led by the Chairman and supported by the Company Secretary, included the completion of questionnaires including written evaluations by each Director (covering areas such as Board composition, Board meetings and the effectiveness thereof, information quality and flows, and Board priorities), one to one discussions between the Chairman and each Director, and Board discussion of the outcome of the evaluation process and agreed actions.

On reviewing the outcome of the 2016 internal evaluation process, the Board concluded that each individual Director continued to make a valuable contribution to the deliberations of the Board and demonstrated continuing commitment to the role, and that the recommendations identified during the previous evaluation processes had been adequately addressed.

The Board agreed on its priority areas of focus for the year ahead, which included development of people, talent and culture, the appropriateness of the current Board skillset and experience, including in the context of succession planning, and initiatives for (a) continuing to improve the quality of information provided to the Board, (b) a more forward looking approach in the development of the Group's strategy, and (c) enhancing the professional development and training provided to Directors. In addition, during the evaluation, the Directors noted the continued application of the Government remuneration restrictions and the risk to the Group of management attrition. An external Board evaluation will be conducted during 2017.

Attendance at Board and Committee meetings is one of a number of important factors considered in evaluating Directors' performance, and a table showing each Board Member's attendance at such meetings is shown below and separately within the commentary on each of the Board Committees on subsequent pages.

As part of the process, the Chairman meets annually with each Director to review their performance. These reviews include discussion of, inter alia, the Director's individual contributions and performance at the Board and relevant Board Committees, the conduct of Board meetings, the performance of the Board as a whole and its committees, compliance with Director-specific provisions of the relevant Central Bank Code, the requirements of the Central Bank's Fitness and Probity Regulations, and other specific matters which the Chairman and/or Directors may wish to raise.

Separately, during 2016, the Senior Independent Non-Executive Director led an evaluation of the Chairman's performance with the other Directors for consideration by the Board and the Chairman.

Attendance at Board and Board Committee Meetings

Name	Board (scheduled)		Board (out of course)		Board Audit Committee		Board Risk Committee		Remuneration Committee		Nomination and Corporate Governance Committee	
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Richard Pym	14	14	2	2					6	6	7	7
Simon Ball	14	14	2	2			9	9	6	6	7	7
Mark Bourke	14	14	2	2								
Bernard Byrne	14	14	2	2								
Tom Foley	14	14	2	2	7	7			6	6		
Peter Hagan	14	14	2	2	7	7	9	9	2	2	1	1
Carolan Lennon *(appointed 27 October 2016)*	4	4	1	1								
Brendan McDonagh *(appointed 27 October 2016)*	4	4	1	1			1	1				
Helen Normoyle	14	14	2	2								
Jim O'Hara	14	14	2	1	7	7			6	6	7	5
Dr Michael Somers	14	14	2	2			9	9			7	7
Catherine Woods	14	13	2	2	7	6	9	9			1	1

Column A indicates the number of scheduled meetings held during 2016 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2016.

Terms of appointment

Non-Executive Directors are generally appointed for a three year term, with the possibility of renewal for a further three years on the recommendation of the Nomination and Corporate Governance Committee. Any additional term beyond six years will be subject to annual review and approval by the Board.

Dr Michael Somers was appointed Non-Executive Director in 2010 as a nominee of the Minister for Finance under the Irish Government's National Pensions Reserve Fund Act 2000 (as amended) for a three year term to 31 December 2012.
Dr Somers was reappointed a Non-Executive Director, under the same regime, 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 a Non-Executive Director for a further two year period from December 2015, on foot of a direction to the National Treasury Management Agency by the Minister for Finance pursuant to section 43(1) of the National Treasury Management (Amendment) Act 2014.

Following appointment, in accordance with the requirements of the Company's Constitution, Directors are required to retire at the next Annual General Meeting ('AGM'), and may go forward for reappointment, and are subsequently required to make themselves available for reappointment at intervals of not more than three years. Since 2005, all Directors have retired from office at each AGM and have offered themselves for reappointment with the exception of Directors appointed by the Government. Under the terms of the Government's capital agreements, Government appointed Directors are not, and have not been, required to stand for election or regular re-election by shareholders.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. A copy of the Directors' letters of appointment are available to members of the Company for inspection during business hours on request from the Group Company Secretaries.

Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments before appointment. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chairman and the Group Company Secretaries, and, in certain cases, the Central Bank, must be sought.

Induction and professional development

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

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually. Each Committee operates under terms of reference approved by the Board. The minutes of all meetings of Board Committees are circulated to all Directors, for information and are formally noted by the Board. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The terms of reference of the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are available on Group's website at http://investorrelations.aib.ie.

During 2016, the Board established a Sustainable Business Advisory Committee, comprising of Non-Executive Directors and senior executive management members, to support the execution of the Group's sustainable business strategy, which includes the development and safeguarding of the Group's 'social license to operate', such that AIB plays its part in helping its customers prosper as an integral component of the Group's business and operations. Further details in relation to related activities are available on pages 16 to 22.

In carrying out their duties, Board Committees are entitled to take independent professional advice, at the Group's expense, where deemed necessary or desirable by the Committee Members.

Reports from the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are presented on the following pages.

Governance and oversight – Report of the Board Audit Committee

Letter from Catherine Woods, Chairman of the Board Audit Committee

Dear Shareholder,
On behalf of the Board Audit Committee (the "Committee"), I am pleased to introduce the Board Audit Committee Report (the "Report") on the Committee's activities for the financial year ended 31 December 2016.

The Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in relation to:

- the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practices;
- the effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems;
- the effectiveness of the Group's Code of Conduct and the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- the independence and performance of the Internal and External Auditors.

The Committee recognises and acknowledges the vital role that it has in ensuring that AIB operates a strong control environment. At the end of 2015, the Committee decided to focus on proactively discussing control issues on a thematic and holistic basis rather than only dealing with individual control issues reactively. To that end, in conjunction with the Group Head of Internal Audit, we identified seven key themes for focused attention, responsibility for each of which was assigned to a specific member of the executive leadership team. During 2016, the Management owner presented plans and progress in relation to enhancement of the control environment in connection with each identified theme. In addition, Group Internal Audit regularly informed the Committee of its assessment of the underlying risk and management progress on each of the seven themes. The themes in 2016 were as follows:

- Compliance Risk Management including Anti Money Laundering;
- Key person/Succession/Handover;
- IT Governance Change and Third Party Management;
- Conduct;
- Oversight of subsidiaries including focus on the UK and the New York Branch;
- Assurance Framework for Prudential Regulatory Reporting; and
- Credit.

I am pleased to report that management has fully adopted this approach and tangible progress has been made in each of the seven themes. There has been a notable decrease in audit issues identified throughout the course of audit reviews across the majority of the themes. As we look to 2017, with significant improvement made on many of these themes, we intend to transition focus on these areas back into the business as usual control and review activities and introduce new relevant themes for the Committee's attention at the appropriate juncture during the year.

One of the key Committee activities is consideration of significant matters relating to the Company's annual accounts. During the course of 2016, we considered the 2015 full year and 2016 half-year accounts and related accounting considerations.

One of the most important issues considered by the Committee is in relation to credit provisions. We spent a considerable amount of our time during 2016 reviewing and challenging the process and key judgements underlying the credit provisions made on a quarterly basis. The risk function reported on the results of its regular assurance process in relation to credit decisioning and the governance supporting the credit provisioning process. Group Internal Audit also reviewed specific areas, at our request.

We discussed with management and the External Auditor the key accounting decisions, risks and significant management judgements underlying the financial statements. We also discussed the findings of the External Auditors and, where applicable, other experts in ensuring that disclosures in the accounts in relation to significant management judgements and estimates were transparent and appropriate.

The Committee considered the recent audit reform introduced by the European Union(1) and made any necessary enhancements to internal policy. The audit reform introduced the mandatory rotation of statutory audit firms every 10 years for Public Interest Entities, which includes AIB as a credit institution. The Committee had pre-empted this when, in 2013, we tendered for a new statutory auditor which resulted in the appointment of Deloitte as the Company's statutory auditor.

As a Committee, we regularly review our whistleblowing, or "speak up" policy, as it is known internally, and related procedures. We strongly encourage our employees to use both the established internal and independent external channels to report any apparent wrongdoing or shortcoming in our commitment to our customers. We treat any such reports with the utmost respect and confidentiality, and investigate any allegations swiftly and thoroughly. A number of investigations were launched during 2016 and a full report was made in each instance to the Committee and Regulators, as appropriate. I am

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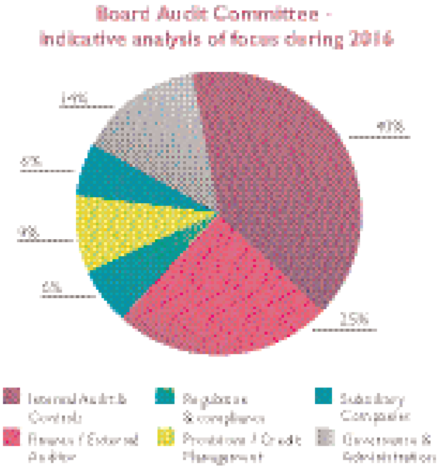
(1) (Statutory Audits) (Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No 537/2014) Regulations 2016

pleased to report that management has responded in an appropriate manner and have implemented any necessary changes to behaviours, policies and procedures across the Group.

AIB remains committed to addressing the legacy issues and control failings of the past and the Committee has been focused on returning the Group to a more normalised control environment. To that end, there was a step-change during 2016 as the Committee decided to eliminate the historic concept of risk-accepted internal audit issues as a category, as any historic risk-accepted issues had been addressed. The number of overdue internal audit issues were reduced to single digits and management consistently closed new issues on time. Furthermore, management awareness ratings evidently improved during 2016 and are continually tracked through the executive leadership team scorecard. The control environment rating being applied to audit reviews is now within the normal industry range.

The Committee has had a full and busy agenda during 2016. The pie chart below illustrates approximately how we spent our time in Committee meetings during the year.



The Members of the Committee, and a record of their meeting attendance during 2016, are outlined in the full Report below.

I and each of the Committee Members met with representatives of the Company's Regulators, the Central Bank of Ireland and European Central Bank, on a one to one basis on a number of occasions during the year. It is worth noting that the regulatory agenda is becoming increasingly heavy and the Committee remains focused on regulatory matters, along with our colleagues on the Board Risk Committee. Following an assessment of each Committee's responsibilities it was agreed that oversight of Compliance activities was better placed with the Board Risk Committee and this transition occurred during 2016.

The Committee members held private meetings both before and after the Committee meetings and also met confidentially with the Group Head of Internal Audit, the External Auditor and members of management including the Chief Risk Officer and Chief Financial Officer ("CFO") during 2016.

I also carried on my practice of meeting with the CFO, Group Head of Internal Audit and other members of the executive leadership team, as appropriate, on a regular basis throughout the year.

As Committee Chairman, I reported after each Committee meeting to the Board on the principal matters discussed to ensure all Directors were fully informed of the Committee's work.

I would like to personally thank each of my fellow Committee members for their unwavering support and for the personal dedication and commitment which they have demonstrated throughout 2016.

Catherine Woods

Catherine Woods
Committee Chairman

Governance and oversight – Report of the Board Audit Committee

Report of the Board Audit Committee

Membership and meetings

The Board Audit Committee comprises 4 Independent Non-Executive Directors. The Board is satisfied that the Committee is appropriately constituted in the context of the UK Code and other requirements regarding recent and relevant financial experience and competence. Mr Peter Hagan and Ms Catherine Woods are also Members of the Board Risk Committee, the common membership of which is considered to facilitate effective governance across all finance and risk issues. Biographical details of each of the Members are outlined on pages 173 to 175.

A total of 7 scheduled meetings of the Committee were held during 2016. Meetings are attended by the Chief Financial Officer and relevant Internal Audit, Finance, Legal and Compliance executives along with the Auditors. At least twice during the year the Committee meets in private session with the Auditors and separately with Internal Audit management.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Ms Catherine Woods (Chairman), Mr Tom Foley, Mr Peter Hagan, Mr Jim O'Hara

Member attendance during 2016:

	A	B
Tom Foley	7	7
Peter Hagan	7	7
Jim O'Hara	7	7
Catherine Woods	7	6

Column A indicates the number of Committee meetings held during 2016 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2016.

Performance Evaluation

An internal performance evaluation of the Committee was conducted during 2016. Overall the review concluded that the Committee continued to operate effectively. The outcome of the evaluation was shared with the Board.

Role and responsibilities

The Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. The terms of references are available on the Group's website at http://investorrelations.aib.ie.

Activities

The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the past year in the discharge of its responsibilities.

The Committee:

- reviewed the Group's 2015 annual and 2016 interim financial statements prior to approval by the Board; details of the significant considerations in relation to the 2015 annual accounts were outlined in the 2015 Annual Financial Report;
- in reviewing the Group's annual and interim financial statements considered the Group's accounting policies and practices; the minutes ofthe Group Disclosure Committee (an Executive Committee whose role is to ensure the compliance of AIB Group financial information with legal and regulatory requirements prior to external publication); effectiveness of internal controls; and the findings, conclusions and recommendations of the Auditors and Group Internal Auditor;
- in the context of reviewing the financial statements, engaged with Management in respect of accounting matters, and considered matters where Management judgement was important to the results and financial position of the Group, the most significant of which related to:
  - the level of provisions for impairment on loans and receivables and other liabilities and commitments as at 31 December 2016;
  - the accounting considerations and treatments relating to engagement with customers in financial difficulty and associated loan restructuring activity;
  - Management's assessment of the appropriateness of preparing the financial statements of the Group for the financial year ended 31 December 2016 on a going concern basis;
  - the basis of recognition of deferred tax assets in Ireland and the UK;
  - in early 2017, the Board Audit Committee considered the key judgement regarding the potential funding of discretionary increases to pensions in payment in the Group's main Irish schemes. The Committee considered the relevant documentation and recommended a process to the Board for the making of this decision annually.
  - retirement benefit obligations and related accounting treatment and disclosure requirements. This was particularly relevant in light of the change in actuarial assumption with regard to funding of discretionary increases of pensions in payment in the Group's main Irish schemes.

  In addressing these issues, the Committee considered the appropriateness of Management's judgements and estimates. The Auditors were present during such discussion and, where appropriate, the views of the Auditors on Management's approach were sought. The Committee satisfied itself that Management's estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards. A detailed analysis of the significant matters is provided in note 2 to the consolidated financial statements;

- provided advice to the Board in respect of the Annual Financial Report, confirming that the Committee is satisfied that the Annual Financial Report for the financial year ended 31 December 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the Auditors;
- satisfied itself through regular reports from the Group Head of Internal Audit, the Chief Financial Officer, the Chief Risk Officer and the Auditors that the system of internal controls over financial reporting was effective;
- received regular updates from Group Internal Audit, including reports detailing Internal Audit reports issued during the previous period, control issues identified and related remediating actions;
- received rolling updates from human resources senior management regarding the operation of the Speak-Up process, through which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- reviewed the minutes of all meetings of subsidiary companies' Audit Committees, requesting and receiving further clarification on issues when required, and met with, and received annual reports from, the AIB UK Audit Committee chairman; and
- held formal confidential consultations during the year separately with the Auditors, the Chief Risk Officer and the Group Head of Internal Audit, in each case with only Non-Executive Directors present.

Internal Audit

The Committee provides assurance to the Board regarding the independence and performance of the Group Internal Audit function. The Committee considered and approved the annual audit plan and the adequacy of resources allocated to the function. Throughout the year, the Chairman of the Committee met with Group Internal Audit management between scheduled meetings of the Committee to discuss forthcoming agendas for Committee meetings and material issues arising, and the Committee met with the Group Head of Internal Audit in confidential session once during 2016, in the absence of Management. The Group Head of Internal Audit has unrestricted access to the Chairman of the Board Audit Committee.

The Committee is responsible for making recommendations in relation to the Group Head of Internal Audit, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Head of Internal Audit's independence.

External Audit

Deloitte were appointed Auditors by shareholders at the Company's AGM in 2013 following a competitive tender process which was overseen by the Members of the Board Audit Committee.

The Committee provided oversight in relation to the Auditors' effectiveness and relationship with the Group, including agreeing the Auditors' terms of engagement, remuneration, and monitoring the independence and objectivity of the Auditors. To help ensure the objectivity and independence of the Auditors, the Committee policy on the engagement of the Auditors to supply non-audit services outlines the types of non-audit service for which the use of the Auditors is pre-approved, for which specific approval from the Committee is required before they are contracted, and from which the Auditor is excluded. That Policy was updated to ensure compliance with the EU Audit Reform during 2016. (see note16 to the consolidated financial statements). Further detail can be found on the Group's website at http://investorrelations.aib.ie

The Committee considered the detailed audit plan in respect of the annual and interim financial statements, and the Auditors' findings, conclusions and recommendations arising from the half-yearly and annual audits. The Committee, through consideration of the work undertaken, confidential discussions with the Auditors, feedback received from Management in respect of the audit process, and through its annual evaluation of the Committee's effectiveness, which incorporated questions regarding the external audit process, satisfied itself with regard to the Auditors' effectiveness, independence and objectivity.

The Committee met with the Auditors in confidential session twice during 2016, in the absence of Management, and the Committee Chairman met with the Auditors between scheduled meetings of the Committee to discuss material issues arising.

On the basis of all of the above, and the Committee's determination of the Auditors' effectiveness, independence and objectivity, the Committee recommend that Deloitte should be reappointed as the Auditors at the Annual General Meeting on 27 April 2017.

Governance and oversight – Report of the Board Risk Committee

Letter from Peter Hagan, Chairman of the Board Risk Committee (since 28 January 2016)

Dear Shareholder,

On behalf of the Board Risk Committee ("the Committee"), I am pleased to report on the Committee's activities during the financial year ended 31 December 2016.

I would like to start by expressing my gratitude to Dr Michael Somers, who led this Committee for five years before passing the Chairmanship to me at the beginning of 2016. Michael has remained on the Committee and his advice has been invaluable.

This year, we were also pleased to welcome Mr Brendan McDonagh to the Committee, whose extensive experience in international banking has enabled him to fully contribute to our deliberations from the outset, and whose skill set complements well the expertise of both Ms Catherine Woods and Mr Simon Ball, who remain members of the Committee.

While the Committee has a wide range of responsibilities, its primary roles and responsibilities are:

- providing oversight and advice to the Board in relation to current and potential future risks facing the Group and risk strategy in that regard, including the Group's risk appetite and tolerance;
- ensuring the effectiveness of the Group's risk management infrastructure;
- compliance with relevant laws, regulation obligations and relevant codes of conduct;
- monitoring and reviewing the Group's risk profile, risk trends, risk concentrations and risk policies;
- considering and acting upon the implications of reviews of risk management undertaken by Group Internal Audit and/or external third parties.

The responsibilities of the Committee are discharged through its meetings, and through commissioning, receiving and considering reports from the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer and the Group Head of Internal Audit, all of whom attend meetings of the Committee. Other individuals including the Chairman of the Bank's UK Subsidiary and members of Senior Management, including the Chief Compliance Officer, also attend meetings by invitation, as and when appropriate.

The work of the Committee contributes to the Group's success; however, it is Management's commitment to a responsible risk culture across the organisation that has enabled our decisions to be rapidly implemented.

Historically credit risk was the principal focus of the Committee. However, in recent years other elements of risk including Compliance, Conduct, and Market risk have occupied an increasing portion of the Committee's agenda. Among other concerns, the Brexit vote in the UK and the election of President Trump in the US have created a less certain environment which the Group must navigate. Implications of this new political landscape range from the potential impact on the Irish economy in the event that a border with Northern Ireland is implemented to the possible loss of senior staff as UK based banks move functions from London to Dublin.

Risk culture across the Group was further enhanced this year through the delivery of an extensive Risk Appetite Embedding Programme which was delivered to Senior Management and staff across the organisation.

Key areas of focus for the Committee during 2016 included consideration of:

- the risk appetite statement and the ongoing monitoring of performance against agreed risk metrics;
- the review of risk related policies and frameworks;
- the Group's capital and liquidity position, with particular reference to the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP");
- updates received on significant credit activity across the organisation.

Throughout the reporting period, through discussion and deliberation with Management, the Committee satisfied itself that the key risks facing the organisation were being appropriately managed with relevant mitigants in place and appropriate actions taken, where necessary.

Further detail on the Committee's activities, Members of the Committee and their record of attendance at meetings during 2016, are outlined in the full report below.

To ensure that all Directors are aware of the Committee's work, I provided an update to the Board following each meeting on the key topics considered by the Committee. I am satisfied that the skills and experience of the Committee Members enables the Committee to provide the independent risk oversight it is tasked with, while maintaining a constructive relationship with Management.

The Committee's focus in 2017 will be to ensure that your Group's risk culture, policies, procedures and management controls are sufficiently robust to support its ongoing financial progress through the political, regulatory and structural changes underway.

I wish to express my gratitude to my fellow Members for their contribution to the effective working of the Committee during the year.

Peter Hagan,
Committee Chairman

Governance and oversight – Report of the Board Risk Committee

Report of the Board Risk Committee

Membership and meetings

The Board Risk Committee comprises five independent Non-Executive Directors whom the Board has determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Board Risk Committee with the risk related considerations of the Board Audit Committee, Mr Peter Hagan and Ms Catherine Woods are also members of the Board Audit Committee. This common membership provides effective oversight across relevant risk and finance issues. In addition, to ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Board Risk Committee and the Remuneration Committee is maintained. When Mr Peter Hagan stepped down as a Member of the Remuneration Committee on 28 January 2016, common membership continued through the appointment to the Remuneration Committee of Mr Simon Ball. Biographical details of each of the Members are outlined on pages 172 to 175.

The Committee met on nine occasions during 2016. All meetings are attended by the Auditors, the Chief Financial Officer, the Chief Risk Officer, the Chief Credit Officer, the Group Head of Internal Audit and on occasion by the Chief Executive Officer, with the exception of the meeting which took place in the Group's New York Office in October, which was attended by the Chief Risk Officer and the Group Head of Internal Audit. Other senior executives also attended by invitation, where appropriate. During 2016, the Chief Risk Officer had unrestricted access to the Chairman of the Board Risk Committee and met on two occasions in confidential session with the Committee, in the absence of other management. Since the resignation of Mr Dominic Clarke in January 2017, necessary arrangements have been implemented to adequately cover the responsibilities of the Chief Risk Officer, pending the appointment of a successor to the role.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Peter Hagan, Chairman (with effect from 28 January 2016), Mr Simon Ball, Dr Michael Somers (Chairman up to 27 January 2016), Ms Catherine Woods and Mr Brendan McDonagh (with effect from 27 October 2016).

Member attendance during 2016:

	A	B
Simon Ball	9	9
Peter Hagan	9	9
Dr Michael Somers	9	9
Catherine Woods	9	9
Brendan McDonagh	1	1

Column A indicates the number of Committee meetings held during 2016 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2016.

Performance Evaluation

An internal evaluation of the Committee's performance was conducted in 2016. While identifying some areas for potential enhancement, the overall results concluded that the Committee continued to operate in an effective manner and had made improvements in a number of areas as identified in the 2015 evaluation process.

Role and responsibilities

The Board Risk Committee assists the Board in proactively fostering sound risk governance within the Group through ensuring that risks are appropriately identified and managed, and that the Group's strategy is informed by, and aligned with, the Board approved risk appetite. The Committee's Terms of Reference are available on the Group's website at http://investorrelations.aib.ie.

Activities

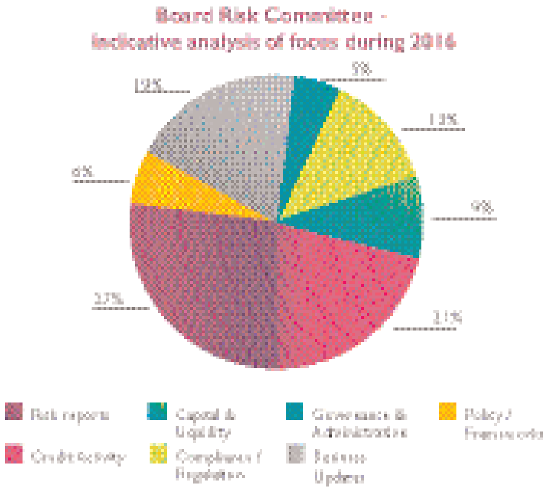
The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

- the Group's risk management infrastructure including actions taken to strengthen the Group's risk management governance, people skills and system capabilities;
- monthly reports from the Chief Risk Officer which provide an overview of key risks including funding and liquidity, capital adequacy, credit risk, market risk, regulatory risk, business risk, conduct risk, cyber risk and related mitigants;
- periodic reports and presentations from Management and the Chief Credit Officer regarding the credit quality, performance, provision levels and outlook of key credit portfolios within the Group;
- items of a risk and compliance related nature, including:
  (a) governance and organisational frameworks;
  (b) the risk appetite framework and risk appetite statement;
  (c) the funding and liquidity policy, strategy and related stress tests;
  (d) risk frameworks and policies, including those relating to
    (i) credit and credit risk,
    (ii) capital management,
    (iii) financial risk, including market risk, and
    (iv) conduct risk;
  (e) capital planning, including consideration of the Group ICAAP and ILAAP reports and related firm wide stress test scenarios; and
  (f) macro-economic scenarios for financial planning;
- reports from Management on a number of specific areas in order to ensure that appropriate Management oversight and control was evident, including:
  (a) Anti-Money Laundering/Financial Sanctions policies and frameworks;
  (b) significant operational risk events and potential risks;
  (c) credit risk performance and trends, including regular updates on significant credit transactions;
  (d) structure and operation of the Compliance function; and
  (e) regulatory developments, including business preparedness.

Activities *(continued)*

- Recovery and Resolution planning, and;
- Management's plans and progress in meeting actions required under the Central Bank of Ireland's Risk Mitigation Programme.

The Committee has had a full and busy agenda during 2016. The pie chart below illustrates approximately how the Committee spent its time in Committee meetings during the year.



Governance and oversight – Report of the Nomination and Corporate Governance Committee

Letter from Richard Pym, Chairman of the Nomination and Corporate Governance Committee

Dear Shareholder,

On behalf of the Nomination and Corporate Governance Committee (the 'Committee'), I am pleased to introduce the Report on the Committee's activities for the financial year ended 31 December 2016.

The Members of the Committee and a record of their meeting attendance during 2016 are outlined in the full report below.

The Nomination and Corporate Governance Committee has oversight responsibility for:

- reviewing the size, structure and composition of the Board, including its numerical strength, the ratio of executive to Non-Executive Directors, the balance of skills, knowledge and experience of individual Members of the Board and of the Board collectively, and the diversity and service profiles of the Directors, and making recommendations to the Board with regard to any changes considered appropriate;
- identifying persons who, having regard to the criteria laid down by the Board, appear suitable for appointment to the Board, evaluating the suitability of such persons and making recommendations to the Board;
- reviewing the size, structure, composition, diversity and skills of the Board Committees and subsidiary company Boards and the independence of Non-Executive Directors;
- reviewing Board and Senior Executive succession planning;
- reviewing and assessing the adequacy of the Company's corporate governance policies and practices.

Discharge of these responsibilities during 2016 was supported by meetings with and the receipt of reports from the Group Company Secretary and various other members of Senior Executive Management, including the Deputy Chief People Officer and the Chief Executive Officer, who attend Committee meetings by invitation.

Key areas of focus for the Nomination and Corporate Governance Committee during 2016 included:

- the search for new Non-Executive Directors with particular skill sets identified by the Board, resulting in the subsequent appointments of Ms Carolan Lennon and Mr Brendan McDonagh on 27 October 2016;
- consideration of appointments to the Leadership Team, and Leadership Team succession planning;
- Board composition, including in relation to skillset, experience and diversity, and Board succession planning; and
- the Group's compliance with corporate governance requirements and related policies and practices.

With regard to gender diversity and the underrepresentation of females on the Board, I am pleased to report that, during October 2016, the Board achieved its aim to ensure that the percentage of females on the Board reached or exceeded 25 per cent. The search for Board candidates will continue to be conducted, and nominations/appointments made, with due regard to the benefits of diversity on the Board. However, all appointments to the Board are ultimately based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board. It is intended that, henceforth, the percentage of females on the Board will remain at or exceed 25 per cent.

New Non-Executive Directors are required by our Regulator to have very detailed knowledge of banking in general, and of AIB in particular, before they are approved to join the Board. Quite obviously not everyone is an expert banker and achieving this regulatory hurdle prior to appointment is a tough ask. We do want to continue to attract candidates for some Board roles from diverse and non-banking backgrounds to challenge us in the Boardroom. What is important is to maintain a balance of skills on the Board and to create an environment where different knowledge and perspective can be brought to bear on a decision in open debate.

The Committee has continued to grapple with the issue of management succession. The Government restrictions applicable to bailed-out banks mean that whenever we recruit externally, the pool of willing candidates is small. However, the Committee is delighted that we have maintained a strong and effective management team whose success and progress is evident in the results for 2016. More detail on the Committee's activities is outlined in the Committee's full report.

As Committee Chairman, I reported after each Committee meeting to the Board on the principal matters discussed to ensure all Directors were fully informed of the Committee's work. I would like to extend my appreciation to my colleagues on the Committee for their effective contribution to the Committee's performance during 2016. Finally, I would like to welcome Ms Catherine Woods to the Committee, having been appointed to the Committee on 27 October 2016.

Richard Pym

Richard Pym,
Committee Chairman

Report of the Nomination and Corporate Governance Committee

Membership and meetings

The Nomination and Corporate Governance Committee currently comprises 5 Independent Non-Executive Directors whom the Board has determined have the collective skills and experience to enable the Committee to discharge its responsibilities.
Mr Peter Hagan stood down as a Member of the Committee on 28 January 2016 upon appointment as Chairman of the Board Risk Committee. Ms Catherine Woods was appointed to the Committee on 27 October 2016 reflecting her role as Senior Independent Director. Biographical details of each of the Members are outlined on pages 172 to 175.

The Committee met on 7 occasions during 2016. The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Richard Pym (Chairman), Mr Simon Ball, Mr Peter Hagan (Member to 28 January 2016), Mr Jim O'Hara, Dr Michael Somers, Ms Catherine Woods (Member from 27 October 2016)

Member attendance during 2016:

	A	B
Richard Pym	7	7
Simon Ball	7	7
Jim O'Hara	7	5
Dr Michael Somers	7	7
Ms Catherine Woods	1	1
Former member:		
Peter Hagan	1	1

Column A indicates the number of Committee meetings held during 2016 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2016.

Performance Evaluation

An internal performance evaluation of the Committee was conducted during 2016. Overall, the review concluded that the Committee continued to operate effectively. The outcome of the evaluation was shared with the Board.

Role and responsibilities

The Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. The terms of reference are available on the Group's website at http://investorrelations.aib.ie.

Activities

The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the past year in the discharge of its responsibilities.
The Committee:

- lead the search for new Non-Executive Directors with specific skill sets for appointment to the Board;
- considered Board skills and succession planning;
- considered the mandate and composition of each of the Board Committees;
- recommended to the Board appointments to key executive positions;
- considered the composition of the Boards of the Group's material licensed subsidiaries;
- reviewed the schedule of matters reserved for the Board;
- reviewed the independence of individual Directors and the Board;
- monitored progress against the Board Diversity Policy and related targets;
- considered compliance with the Central Bank of Ireland and UK Corporate Governance Codes and other corporate governance requirements.

Board appointments

The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having regard to the collective skills, experience and diversity requirements of the Board.

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 Board or the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required.

The services of experienced third party professional search firms are retained for Non-Executive Director appointments at the discretion of the Nomination and Corporate Governance Committee. The typical process involves a series of meetings and interviews with potential candidates, at different stages in the process by the Chairman and Members of the Committee. A comprehensive due diligence process is undertaken which includes candidates' self-certification of probity and financial soundness and external checks involving a review of various publicly available sources. The due diligence process facilitates the Committee in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Committee.

The Relationship Framework specified by the Minister for Finance, which governs the relationship between the Company and the State as shareholder, requires the Board to obtain the written consent of the Minister in accordance with a pre-determined consent/consultation procedure ('the procedure') before appointing, reappointing or removing the Chairman or Chief Executive Officer, and to consult with the Minister in accordance with the procedure in respect of all other Board appointments proposed. A Board-approved Policy for the Assessment of the Suitability of Members of the Board, which outlines the board appointments process, is in place, in accordance with European Banking Authority Guidelines. Merc Partners were retained to assist with our Non-Executive Director searches during 2016. Merc Partners have no other connection with AIB, other than to provide executive recruitment services. Open advertising was not used in 2016 for Non-Executive Board positions as the Committee believes that targeted recruitment, based on the agreed role and skills profile specification, is the optimal way of recruiting for these positions.

Diversity

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

The Board recognises and embraces the benefits of diversity among its own Members, including diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time. To this end, the Board approved a Board Diversity Policy during February 2015 which stated that the Board’s aim, with regard to gender diversity, was to ensure that the percentage of females on the Board reached or exceeded 25 per cent by the end of 2016 and thereafter. That target was achieved during October 2016 and the Policy was updated to state the Board’s aim to ensure that the percentage of females on the Board remained at or exceeded 25 per cent. A copy of the Board Diversity Policy is available on the Group’s website at http://investorrelations.aib.ie

The Nomination and Corporate Governance Committee is responsible for developing measurable objectives to effect the implementation of this Policy and for monitoring progress towards achievement of the objectives. The Policy and performance relative to the target is reviewed annually by the Committee in conjunction with Board succession and skills planning.

Governance and oversight – Report of the Remuneration Committee

Letter from Jim O'Hara, Chairman of the Remuneration Committee

Dear Shareholder,

As Chairman of the Remuneration Committee ("the Committee"), I am pleased to introduce this report on the Committee's activities during 2016.

The Remuneration Committee has responsibility for:

- recommending Group remuneration policies and practices to the Board;
- the remuneration of the Chairman of the Board (which matter is considered in his absence);
- determining the remuneration of the Chief Executive Officer, other Executive Directors, and the other members of the Leadership Team, under advice to the Board;
- reviewing the remuneration components of Identified Staff, who are individuals classified by AIB as 'material risk takers' in accordance with the Remuneration Guidelines of the European Banking Authority ("EBA");
- performance-related and share-based incentive schemes, when appropriate.

AIB's Remuneration Policy continues to be governed by the Subscription and Placing Agreements in place with the Irish State and encompasses all financial benefits available to employees across the Group. Given these arrangements, we are unable to implement a competitive market driven compensation and benefit structure, within the EBA framework, to retain and incentivise our key executives. This is a key risk for the future stability and performance of the Group.

The Committee's responsibilities are discharged through regular meetings which consider relevant submissions and reports from Senior Management and ongoing interaction and consultation with the Chief People Officer.

Mr Dave Keenan acted in the role of Deputy Chief People Officer following the resignation of the previous Chief People Officer in February 2016. Following an extensive internal and external search, Ms Triona Ferriter was appointed to the role of Chief People Officer on 3 January 2017.

During 2016, key areas of focus for the Committee included:

- the remuneration of newly appointed members of the Leadership Team;
- the 2015 Annual Financial Report remuneration disclosures and the 2015 Remuneration Disclosure Report;
- ongoing compliance with relevant statutory and regulatory remuneration requirements and guidelines;
- the overall reward strategy for the Group;
- consideration of the resignation of certain senior executives.

The Members of the Committee, and their record of attendance at meetings during 2016, are outlined in the full Committee report below, along with further detail on the Committee's activities during 2016.

As Chairman, I have ensured that all Directors are kept up to date on the work of the Committee through the provision of periodic updates at Board meetings. I would like to acknowledge the valuable input of my colleagues on the Committee to its effective operation and thank them for their endeavours during 2016.

Jim O'Hara
Committee Chairman

Governance and oversight – Report of the Remuneration Committee

Report of the Remuneration Committee

Membership and Meetings

The Remuneration Committee comprises 4 Independent Non-Executive Directors whom the Board is satisfied possess the required knowledge and experience to enable the Committee to operate effectively. 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, with Mr Simon Ball having been a member of both Committees during 2016.

Biographical details of each of the Members are outlined on pages 172 to 175.

The Committee met on six occasions during 2016. Meetings are attended by the Chief Executive Officer, the Chief People Officer/ Deputy Chief People Officer, the Head of Pensions and Reward and, where relevant, by other Senior Management on the invitation of the Chairman.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Jim O'Hara (Chairman), Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan (Member to 28 January 2016), Mr Richard Pym.

Member attendance during 2016:	**A**	**B**
Simon Ball	6	6
Tom Foley	6	6
Jim O'Hara	6	6
Richard Pym	6	6
Former member:		
Peter Hagan	2	2

Column A indicates the number of Committee meetings held during 2016 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2016.

Performance Evaluation

An internal evaluation of the Committee's performance was conducted in 2016. While identifying some areas for potential enhancement, the overall results concluded that the Committee continued to operate in an effective manner.

Role and responsibilities

The Committee's primary responsibilities are described in its terms of reference which are reviewed annually with any proposed amendments submitted to the Board for approval. A copy of the terms of reference is available on the Group's website at http://investorrelations.aib.ie

Directors' remuneration

Details of the total remuneration of the Directors in office during 2016 and 2015 are shown in the Directors' Remuneration report on the following pages 205 and 206.

Governance and oversight – Corporate Governance Remuneration statement

Remuneration Policy and Governance

The Remuneration Policy provides the overall framework under which all remuneration policies and practices are applied across the Group. The Board recognises the need to embed the right skill sets and customer centric employee behaviours which drive the achievement of sustainable growth for all stakeholders. The Remuneration Policy is therefore designed to foster a truly customer focused culture; to create long term sustainable value for our customers and stakeholders; to attract, develop and retain the best people and to safeguard the Group's capital, liquidity and risk positions. The scope of the Remuneration Policy includes all financial benefits available to employees and extends to all areas of the Group.

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

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Remuneration Committee's governance role in this respect is outlined in the Committee's Terms of Reference which were reviewed by the Committee in 2016.

Remuneration Constraints

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

European Banking Authority (EBA) Guidelines

In December 2015, the EBA issued its final guidelines on sound remuneration policies which take effect from 1 January 2017. The Remuneration Policy was updated to reflect the key provisions of the guidelines as they apply to the Group's current remuneration practices and also to set out the key functional responsibilities in relation to the ongoing design, implementation and governance of the Remuneration Policy.

AIB's remuneration policies and practices, while implemented in accordance with the constraints outlined above, comply with the remuneration provisions of the EBA Guidelines and, additionally, the Senior Managers Regime in respect of the Group's UK activities. There was no scope in practice to implement the principles of incentive schemes as outlined in the EBA Guidelines.

Disclosure

AIB publishes its Remuneration Disclosure Report as part of the Group's Pillar 3 Disclosures. The Disclosure Report provides additional details in relation to AIB's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those staff whose professional activities are considered to have a material impact on AIB's risk profile and the key components of AIB's remuneration structure. This is available on the Group website.

In accordance with EBA remuneration benchmarking requirements, AIB is further required to disclose remuneration data in respect of Identified Staff and High Earners (those earning above €1 million) to the Central Bank of Ireland. AIB continued to comply with these reporting requirements during 2016.

Identified Staff and Risk Appetite

AIB maintains a list of those staff whose professional activities are considered to have a material impact on the Group's risk profile ("Identified Staff"). During 2016, AIB undertook a detailed review of the identification process which sets out the design criteria by which employees are assessed as Identified Staff in compliance with CRD IV and the EBA Guidelines. The identification process was reviewed and approved by the Remuneration Committee and forms an addendum to the Remuneration Policy.

During 2016, a programme of communication to embed the concept of Risk Appetite was launched and cascaded throughout the Group. This was further supplemented by an on-line Risk Appetite training module for completion by all employees while at least one role specific risk objective is mandatory for inclusion in each employee's performance management plan.

Remuneration Strategy

The Board recognises the need to attract, retain and embed the right skill sets and behaviours which reflect AIB's customer centric brand values and which will enable AIB to deliver long term sustainable growth. The Board aims to provide fair and competitive remuneration consistent with the terms of the State Agreements and within the parameters of AIB's Risk Appetite Statement.

Individual remuneration across the Group continues to be principally comprised of base salary, allowances and employer pension contributions. Following the closure of all defined benefit schemes to future accrual on 31 December 2013, all employees were migrated to a defined contribution scheme.

Remuneration is closely monitored in line with financial performance, budgetary parameters and the constraints arising under State Agreements. Increases in base salary are performance based, determined by performance against each individual's objectives which, in turn, reflect AIB's strategy, goals and values. Such increases may arise following the annual pay review process, through promotion and, in exceptional cases, through out-of-course increases to ensure that business critical staff and key skills are retained in light of restructuring or employee departures.

Following recommendations issued by the Workplace Relations Commission in May 2016, AIB introduced a performance based pay matrix as part of the annual pay review process. The matrix comprised pay increases ranging from 0% to 3% based on each employee's individual performance rating for 2015 and was implemented with effect from 1 April 2016. The increase was paid to eligible employees in June 2016.

The remuneration of the Chief Executive Officer, Executive Directors and Leadership Team Members is determined and approved by the Group Remuneration Committee on behalf of the Board. There were no bonuses paid or awarded to the Chief Executive Officer, Executive Directors, Leadership Team or Identified Staff during 2016.

AIB does not currently operate and there were no general bonus schemes, long-term incentive plans or share incentive schemes in operation in 2016.

Directors' remuneration*

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

Remuneration	Directors' fees Parent and Irish subsidiary companies(1) € 000	Directors' fees AIB Group (UK) p.l.c.(2) € 000	Salary € 000	Annual taxable benefits(3) € 000	Pension contribution(4) € 000	2016 Total € 000
Executive Directors						
Mark Bourke			467	30	93	590
Bernard Byrne			500	–	100	600
			967	30	193	1,190
Non-Executive Directors						
Simon Ball	85					85
Tom Foley(2)	90	40				130
Peter Hagan	95					95
Carolan Lennon *(Appointed 27 October 2016)*	13					13
Brendan McDonagh *(Appointed 27 October 2016)*	15					15
Helen Normoyle	73					73
Jim O'Hara	103					103
Richard Pym(1(a)) *(Chairman)*	365					365
Dr Michael Somers *(Deputy Chairman)*	111					111
Catherine Woods	146					146
	1,096	40				1,136
Former Directors						
Declan Collier(2)		56				56
Stephen L Kingon(2) *(Resigned 31 October 2016)*		47				47
Anne Maher(5)	39					39
David Pritchard(2) *(Resigned 29 February 2016)*		16				16
Other(6)						13
Total						2,497

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

(a) Mr. Richard Pym, Chairman, was paid a non-pensionable flat fee of € 365,000, which includes remuneration for all services as a Director of Allied Irish Banks, p.l.c.;

(b) All other Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of € 65,000 and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or the board of a subsidiary company or performing the role of Deputy Chairman, Senior Independent Non-Executive Director;

(2)Current or former Non-Executive Directors of Allied Irish Banks, p.l.c. who also serve as Directors of AIB Group (UK) plc ("AIB UK") are separately paid a non-pensionable flat fee, which is independently agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Messrs. Foley, Collier, Kingon and Pritchard earned fees as quoted during 2016;

(3)'Annual Taxable Benefits' represents a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits;

(4)'Pension Contribution' represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Chairman, Deputy Chairman and Non-Executive Directors are non-pensionable;

(5)Ms. Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted; and

(6)'Other' represents the payment of pensions to former Directors or their dependants granted on an ex-gratia basis and are fully provided for in the Statement of Financial Position.

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

						2015
Remuneration	Directors' fees Parent and Irish subsidiary companies[(1)] € 000	Directors' fees AIB Group (UK) p.l.c.[(2)] € 000	Salary € 000	Annual taxable benefits[(3)] € 000	Pension contribution[(4)] € 000	Total € 000
Executive Directors						
Mark Bourke			450	30	90	570
Bernard Byrne			479	12	96	587
David Duffy *(Resigned 29 May 2015)*			177	3	27	207
			1,106	45	213	1,364
Non-Executive Directors						
Simon Ball	80					80
Tom Foley	90	31				121
Peter Hagan	95					95
Helen Normoyle	3					3
(Appointed 17 December 2015)						
Jim O'Hara	100					100
Richard Pym	365					365
(Chairman)						
Dr Michael Somers	120					120
(Deputy Chairman)						
Catherine Woods	143					143
	996	31				1,027
Former Directors						
Declan Collier		61				61
Stephen L Kingon		63				63
Anne Maher	39					39
David Pritchard		110				110
Other						10
Total						2,674

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

Interests in shares

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

Ordinary shares	31 December 2016	1 January 2016**
Directors:		
Simon Ball	–	–
Mark Bourke	–	–
Bernard Byrne	–	–
Tom Foley	1	1
Peter Hagan	–	–
Carolan Lennon	–	–
Brendan McDonagh	–	–
Helen Normoyle	–	–
Jim O'Hara	–	–
Richard Pym	–	–
Dr Michael Somers	–	55
Catherine Woods	–	–
Company Secretaries:		
Sarah McLaughlin *(from 27 October 2016)*	2	2
Robert Bergin *(from 27 October 2016)*	–	–
David O'Callaghan *(to 27 October 2016)*	31	31

**or date of appointment, if later

The following table sets out the beneficial interests of the Directors and Leadership Team (Senior Executive Officers) members of AIB as a group (including their spouses and minor children) at 31 December 2016:

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Leadership Team members of AIB as a group	64	***

***The total shares in issue at 31 December 2016, was 2,714,381,238.

Directors' remuneration* *(continued)*

Share options

No share options were granted or exercised during 2016 and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Joint Company Secretaries at 31 December 2016.

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Joint Company Secretaries at 31 December 2016.

Apart from the interests set out above, the Directors and Joint Company Secretaries in office at 31 December 2016, and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the Directors' and Joint Company Secretaries' interests shown above between 31 December 2016 and 2 March 2017.

The year-end closing price, on the Enterprise Securities Market of the Irish Stock Exchange, of the Company's ordinary shares was € 5.00 per share. The price ranged from € 4.70 to € 10.25 during the year.

Service contracts

There are no service contracts in force for any Director with the Company or any of its subsidiaries.

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*Forms an integral part of the audited financial statements

Governance and oversight – Viability statement / Internal controls

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code published in April 2016, the Directors have assessed the viability of the Group taking into account its current position and the principal risks facing the Group over the next three years to 31 December 2019. The Directors concluded that a three year time span was an appropriate period for the annual assessment given that this is the key period of focus within the Group's strategic planning process. The strategic plan is considered annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing the Group.

The assessment considered the current financial performance, funding and liquidity management and capital management of the Group, as set out in the Business review section on pages 23 to 42 and the governance and organisation framework through which the Group manages and seeks, where possible, to mitigate risk, as described on pages 59 to 61. A robust assessment of the principal risks facing the Group including those that would threaten the business operations, governance and internal control systems was also undertaken and considered, the details of which are included on pages 50 to 61.

The Directors have a reasonable expectation, taking into account the Group's current position, and subject to the identified principal risks, that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Internal controls

Directors' Statement on Risk Management and Internal Controls

The Board of Directors is responsible for the effective management of risks and opportunities and for the system of internal controls in the Group. The Group operates a continuous risk management process which identifies and evaluates the key risks facing the Group and its subsidiaries. The system of internal controls is designed to ensure that there is thorough and regular evaluation of the nature and extent of risks and the ability of the Group to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting, which provides reasonable, but not absolute, assurance against material misstatement, error, loss or fraud. This process includes an assessment of the effectiveness of internal controls, which was in place for the full year under review up to the date of approval of the accounts, and which accords with the Central Bank of Ireland's 2015 Corporate Governance requirements for Credit Institutions and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal controls is based on the following:

Board governance and oversight

- The Board reviews the effectiveness of the system of internal controls on a continuous basis supported by a number of sub-committees including a Board Risk Committee ("BRC"), a Board Audit Committee ("BAC"), a Remuneration Committee and a Nomination and Corporate Governance Committee.
- The BRC is responsible for fostering sound risk governance within the Group, ensures risks within the Group are appropriately identified, managed and controlled and ensures that the Group's strategy is informed by, and aligned with, the Group's Risk Appetite Statement.
- The BAC reviews various aspects of internal control, including the design and operating effectiveness of the financial reporting framework, the Group's statutory accounts and other published financial statements and information. It also ensures that no restrictions are placed on the scope of the statutory audit or the independence of the Internal Audit and Regulatory Compliance functions.
- The BAC's review of the Business Governance Assurance process at regular intervals throughout the year forms an integral part of its assessment of the internal control environment.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the BAC and BRC.
- AIB's remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are to ensure that remuneration policies and practices are consistent with and promote effective risk management.
- The Nomination and Corporate Governance Committee's responsibilities include, amongst others, recommending candidates to the Board for appointment as Directors and reviewing the size, structure and composition of the Board and the Board Committees.

Executive risk management and controls

- At the executive level, a Leadership Team is in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.
- The Group operates a 'three lines of defence' framework in the delineation of accountabilities for risk governance.
- The Executive Risk Committee ("ERC") which is a sub-committee of the Leadership Team reviews the effectiveness and application of the Group's risk frameworks and policies, risk profile, risk concentrations and adherence to Board approved risk appetite and limits.
- The Group Asset and Liability Committee is a sub-committee of the Leadership Team and acts as the Group's strategic balance sheet management forum that combines a business decisioning and risk governance mandate.

Governance and oversight – Internal controls

Internal controls *(continued)*

- There is a centralised risk control function headed by the CRO who is responsible for ensuring that risks are identified, measured, monitored and reported on, and for reporting on risk mitigation actions.
- The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
- The Group's risk profile is measured against its risk appetite on a monthly basis and exceptions are reported to the ERC and BRC through the monthly CRO report. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/SSM.
- The centralised Credit function is headed by a Chief Credit Officer who reports to the CRO.
- There is an independent Compliance function which provides advisory services to the Group and which monitors and reports on conduct of business and financial crime compliance and forthcoming regulations across the Group, and on Management's focus on compliance matters.
- There is an independent Group Internal Audit function which is responsible for independently assessing the effectiveness of the Group's corporate governance, risk management and internal controls and which reports directly to the Chairman of the BAC.
- AIB employees who perform Pre-Approved Controlled functions/Controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.

For further information, on the Risk management framework of the Group, see pages 59 to 61 of this report.

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, the relevant Leadership Team member is required to attend the relevant Board forum to provide an explanation of the issue and to present a proposed remediation plan. Agreed remediation plans are tracked to conclusion, with regular status updates provided to the relevant Board forum.

Given the work of the Board, BRC, BAC and representations made by the Leadership Team during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the Group's risk management and internal control framework have been taken, or are currently being undertaken.

Taking this and all other information into consideration as outlined above, the Board is satisfied that there has been an effective system of control in place throughout the year.

Code of conduct

The Group has adopted a 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 is understood and that all employees act in accordance with it. The Code of Conduct is reviewed and re-launched annually.

The Code of Conduct is supported by the Group's Speak-Up policy which encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external. One such channel includes a confidential external helpline. Employees are assured that if they raise a concern in good faith, the Group will not tolerate any victimisation or unfair treatment of the employee as a result.

The Protected Disclosure Act 2014 (Republic of Ireland) came into law 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 2013) and the recommendations of the UK Whistleblowing Commission (2013). The Speak-Up policy is reviewed at least annually to ensure that it continues to address all legislative requirements within the jurisdictions in which the Group operates and continues to promote industry practice.

The Code of Conduct and supporting policies are subject to annual review and update to the Board.

Governance and oversight – Other governance information

Relations with shareholders

The Group has a number of procedures in place to allow its shareholders and other stakeholders to stay informed about matters affecting their interests. In addition to this Annual Financial Report, which is available on the Group's website at http://investorrelations.aib.ie and sent in hard copy to those shareholders who request it, the following communication tools are used by the Group:

Shareholders' Report

The Shareholders' Report ('the Report') is a summary version of AIB's Annual Financial Report. This Report, which covers AIB's performance in the previous year, is sent to shareholders who have opted to receive it instead of the full Annual Financial Report. This summary report does not form part of the Annual Financial Report and is referred to for reference purposes only.

Website

The Group's website, http://investorrelations.aib.ie, contains, for the years since 2000, the Annual Financial Report, the Interim Report/Half-yearly Financial Report, and the Annual Report on Form 20-F for relevant years. In accordance with the Transarency (Directive 2004/109/EC)(Amendment)(No.2) Regulations 2015, this and all future Annual and Half-Yearly Financial Reports will remain available to the public for at least ten years. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F were combined. The Group's presentation to fund managers and analysts of annual and interim financial results are also available on the Group's website. None of the information on the Group's website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

All shareholders are invited to attend the AGM and to participate in the proceedings. At the AGM, it is practice to give a brief update on the Group's performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against, and withheld, on each resolution, including proxies lodged, are subsequently published on Group's website. Proxy forms provide the option for shareholders to direct their proxies to withhold their vote. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairmen of the Board Committees are available to answer questions about the Committees' activities. A help desk facility is available to shareholders attending. The Company's 2016 AGM is scheduled to be held on 27 April 2017, at the RDS Concert Hall, Merrion Road, Ballsbridge, Dublin 4 and it is intended that Notice of the Meeting will be posted to shareholders at least 20 working days before the meeting, in accordance with UK Code requirements.

Governance and oversight – Supervision and Regulation

Throughout 2016, the Group continued to work with its regulators, which include the European Central Bank ("ECB"); the Central Bank of Ireland ("CBI"), the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"); the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve Bank of New York in the United States of America ("USA"), to focus on ensuring compliance with existing regulatory requirements together with the management of regulatory change.

Current climate of regulatory change

The level of regulatory change remained high in 2016 as the regulatory landscape for the banking sector continued to evolve.

The Group is committed to proactively identifying regulatory obligations arising in each of the Group's operating markets in Ireland, the UK and the USA and ensuring the timely implementation of regulatory change.

Throughout 2016, cross-functional programmes were put in place to ensure that the Group met its new regulatory requirements. In particular, the Group focused on the EU directive on credit agreements for consumers relating to residential immovable property (known as the Mortgage Credit Directive); the EU directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (the "4th AML Directive"); the recast EU directive on payment services in the internal market (known as PSD2); the EU directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (known as the Payment Account Directive); the Market Abuse Regulation and EU Directive on Criminal Sanctions for Market Abuse (together known as MAD2); and the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) Lending to Small and Medium-Sized Enterprises Regulations (known as the SME Regulations).

The level of regulatory change is expected to remain high in 2017. In particular, the Group will focus on the implementation of PSD2; the EU directive on security of network and information systems; the EU General Data Protection Regulation; the 4th AML Directive; the ECB Regulation on the collection of granular credit and credit risk data (known as the AnaCredit Regulation) and the Credit Reporting Act 2013 with regard to the central credit register.

United Kingdom

During 2016, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focused on this throughout 2017.

Regulatory change horizon – UK

AIB Group (UK) p.l.c. is subject to the European Regulation described under "Current climate of regulatory change" above and works closely with Group to ensure the requirements are implemented compliantly taking into consideration UK regulatory guidance. The approach to implementation of European Regulation will be reviewed in light of Brexit and any impact which Brexit might have on applicability of such regulation to AIB Group (UK) p.l.c.

As further regulatory reforms continue to emerge from the regulators, AIB Group (UK) p.l.c. will continue to focus on the management of regulatory change and its compliance obligations.

In particular, AIB Group (UK) p.l.c. is focused on the Senior Managers Regime ("SMR") which came into force on 7 March 2016. The SMR replaced the Approved Persons Regime and is designed to promote a clear allocation of responsibilities to senior managers and enhance their individual accountability. The Certification Regime, which in practice covers the next layers of management, along with those who advise customers on regulated products, will be fully implemented in March 2017.

In addition, AIB Group (UK) p.l.c will focus on the implementation of the retail banking market investigation order (2017) (the "Order"). The Order will provide for remedies to market-wide issues identified as part of the Competition and Markets Authority's Retail Banking Market Investigation into the Personal Current Accounts and SME Banking markets in the UK.

United States

Compliance with federal and state banking laws and regulations

During 2016, AIB's state-licensed branch in New York continued to prioritise compliance with its regulatory obligations in the USA and will remain focused on this throughout 2017. In particular, it will continue to monitor ongoing business activities with regard to the Dodd Frank Act 2010. In addition, particular focus will be given to the new Transaction Monitoring and Filtering Programme Regulation and new Cybersecurity Regulation from the NYSDFS.

Financial statements

Statement of Directors' responsibilities

The following statement which should be read in conjunction with the statement of Auditors' responsibilities set out with their Audit Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Financial Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and in the case of the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014. The Directors have also elected to prepare the Group financial statements in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB").

In preparing both the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and IFRSs issued by the IASB; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and corporate governance that comply with that law and Enterprise Securities Market ("ESM") Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirm, to the best of their knowledge and belief, that:

- they have complied with the above requirements in preparing the financial statements;
- the Group financial statements, prepared in accordance with IFRSs as issued by the IASB and as adopted by the EU, give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2016;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board

Richard Pym

Richard Pym
Chairman

B Byrne

Bernard Byrne
Chief Executive Officer

1 March 2017

Independent Auditors’ Report

Independent Auditors’ Report to the members of Allied Irish Banks, p.l.c.

Opinion on the financial statements of Allied Irish Banks, p.l.c.

In our opinion:

- **the financial statements give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 December 2016 and of the Group’s profit for the financial year then ended;**
- **the Group and Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

The financial statements that we have audited comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company statement of financial position;
- the consolidated and Parent Company statement of cash flows;
- the consolidated and Parent Company statement of changes in equity; and
- the related notes 1 to 59 and a to ak.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: – Loan impairment and restructuring; – Deferred tax; – IT controls; – Retirement benefit obligations; and – Conduct risk provisions. Our key risks are consistent with our prior year assessment.
Materiality	The materiality that we used in the current year was €66 million which was determined on the basis of a range of 4-8% of profit before tax (“PBT”). Materiality is 4% of the Group’s 2016 PBT.
Scoping	We focused our group audit scope primarily on the audit work in four legal entities all of which were subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group’s operations in those entities. These audits and specified audit procedures covered over 95% of the Group’s net assets.
Significant changes in our approach	In the prior year we used shareholders’ equity as our basis for determining materiality. This was due to the high levels of volatility in the income statement. With the income statement volatility reducing we have determined, in our professional judgement, Group PBT to be one of the principal benchmarks within the financial statements relevant to members of the Parent Company in assessing financial performance.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 180 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 50 to 58 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification in note 2 of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Director's explanation on page 208 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Loan impairment and restructuring

Risk description

The risk that provisions for impairment of loans and receivables do not represent an appropriate estimate of the losses incurred. This includes the risk that the estimate of cash flows on restructuring cases is not appropriately measured. The determination of appropriate provisions requires a significant amount of management judgment and relies on available data.

Please also refer to page 190 (Board Audit Committee Report), page 243 (Accounting Policy – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates and Note 25 – Provisions for impairment on loans and receivables.

Loan impairment and restructuring *(continued)*

How the scope of our audit responded to the risk	We undertook an assessment of the provisioning practices to compare them with the requirements of IFRS. We have evaluated the design and tested the operating effectiveness of controls over impairment identification and calculation. We have evaluated the design and tested the operating effectiveness of controls over credit management processes, new lending, restructuring transactions and front line credit monitoring and assessment. Furthermore, we have evaluated the design and tested the operating effectiveness of controls in the operations over collective and latent models, including source data and calculations, and the work of the credit review function. In examining both the sample loan cases and the models we challenged management on the judgments made regarding the application of triggers, status of restructures, collateral valuation and realisation time frames; and examined the credit risk functions analysis of data at a portfolio level. We tested samples of the data used in the models, management adjustments, together with the calculations involved and the output from the models. Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines derived from benchmark data, external expert reports on borrowers' business plans and enterprise valuations. This allowed us to determine whether appropriate valuation methodologies were employed and assess the objectivity of the external experts used.

Deferred tax

Risk description	The risk relates to the incorrect recognition or measurement of deferred taxation. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used. The assessment of the conditions for the recognition of a deferred tax asset is a critical judgment, given the inherent uncertainties associated with projecting profitability over a long time period. Please refer to page 190 (Board Audit Committee Report), page 236 (Accounting Policy – Deferred taxation), Note 2 – Critical accounting judgements and estimates and Note 32 - Deferred taxation.
How the scope of our audit responded to the risk	We have evaluated the design of controls over the preparation of financial plans and budgets. We reviewed the financial plans and the model used by management to assess the likelihood of future profitability and challenged management's assessment of a range of positive and negative evidence for the projection of long-term future profitability. We compared management's assumptions to industry norms and other economic metrics. We reviewed management's analysis of their consideration of the "more likely than not" test and reviewed the sensitivity analysis disclosed.

IT controls

Risk description	The Group's IT environment is complex, with financial accounting systems dependent on IT. Financial reporting processes and controls are dependent on the Group's IT environment and related controls. There is a risk that if controls are not operating as designed in respect of IT security, change management and user access over significant IT applications, this could lead to failure of other controls or errors within the financial reporting process. Please refer to page 190 (Board Audit Committee Report) and page 185 (Corporate Governance report).
How the scope of our audit responded to the risk	We have evaluated the design and tested the operating effectiveness of IT controls that are critical to financial reporting, including those relating to system access, IT operations and program change, including other controls that mitigate deficiencies, where relevant.

Retirement benefit obligations

Risk description	The risk is that the recognition and measurement of retirement benefit liabilities are inappropriate. There is a high degree of estimation and judgement in the calculation of retirement benefit liabilities. Material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pensions in payment increases and inflation rates. Please refer to page190 (Board Audit Committee Report), page 235 (Accounting Policy – Employee benefits), Note 2 – Critical accounting judgements and estimates and Note 12 Retirement benefits.
How the scope of our audit responded to the risk	We have utilised Deloitte pension actuaries as part of our team to assist us in evaluating the appropriateness of actuarial assumptions with particular focus on discount rates, pensions in payment increases and inflation rates. Our work included discussions with Management and their advisors to understand the processes and assumptions used in calculating retirement benefit liabilities. We benchmarked assumptions used against market data where available.

Conduct risk provisions

Risk description	The risk that the recognition, measurement and disclosure of provisions in respect of allegations of mis-selling of financial products, allegations of overcharging and breach of contract and/or regulation are inappropriate. Please refer to page 190 (Board Audit Committee Report), page 248 (Accounting Policy – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates and Note 38 – Provisions for liabilities and commitments.
How the scope of our audit responded to the risk	We have evaluated the design and tested operating effectiveness of the Group's controls over the identification and measurement of the provision and the disclosure of exposures. We challenged the assumptions, regarding the interpretation of contract terms, the numbers of customers affected and the costs arising from the issue, used in the provisioning models. We met with Group General Counsel and Group compliance and reviewed the correspondence with regulators and legal advice.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee, which is discussed on page 190.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

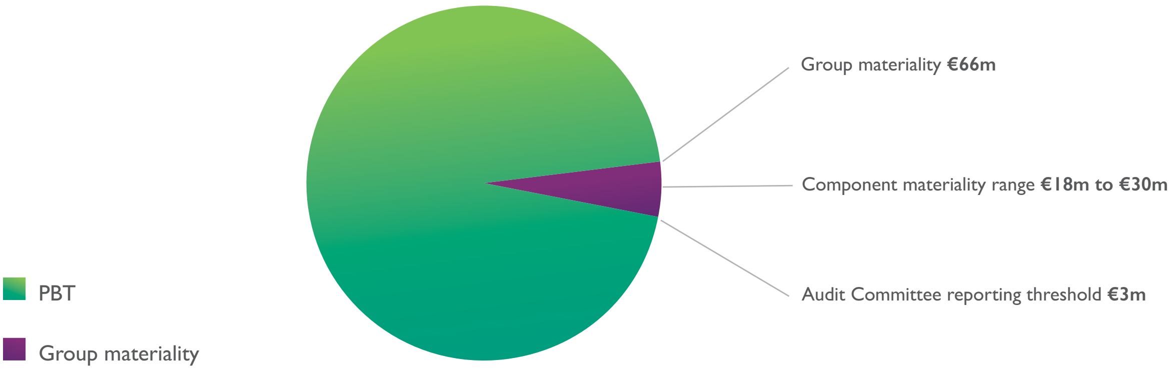
Independent Auditors' Report

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	€ 66 million (2015: € 60 million)
Basis for determining materiality	Group materiality is set within a range of 4-8% of Group PBT. Materiality is 4% of the Group's 2016 PBT. For each component, we allocated a materiality that is less than 50% of group materiality.
Rationale for the benchmark applied	In the prior year we used a measure of shareholders' equity as our basis for determining materiality. This was due to the high levels of volatility in the income statement. With the income statement volatility reducing we have determined, in our professional judgement, Group PBT to be one of the principal benchmarks within the financial statements relevant to members of the Parent Company in assessing financial performance.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of € 3 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or auditors within Deloitte network firms operating under our instruction ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

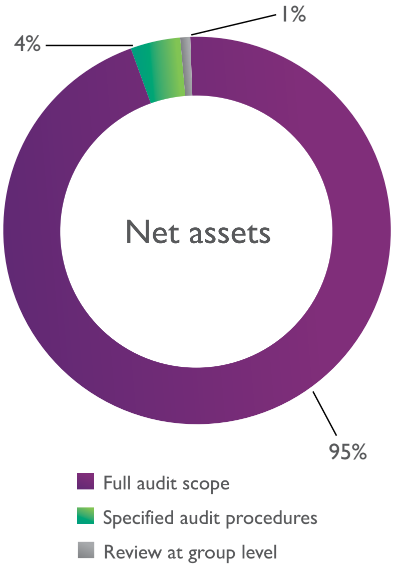
Based on that assessment, we focused our group audit scope primarily on the audit work in the four legal entities as disclosed in note 46 to the consolidated financial statements, all of which are subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 95% of the Group's net assets.

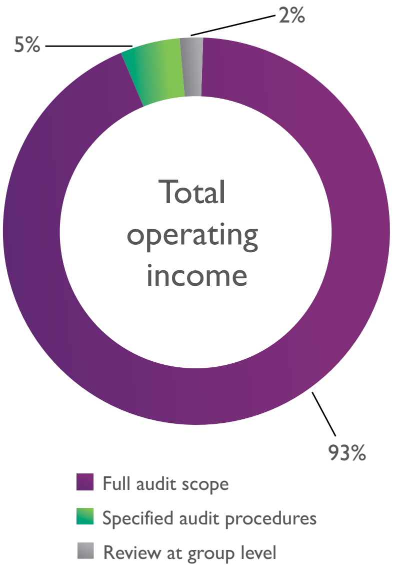
We also tested the consolidation process and carried out analytical procedures to assess there were no additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

An overview of the scope of our audit *(continued)*

The group audit team sent component auditors detailed instructions on audit procedures to be undertaken and the information to be reported back to the group audit team. Regular contact was maintained throughout the course of the audit with key component auditors which included holding group planning meetings, maintaining communications on the status of the audits and continuing with a programme of planned visits designed so that the group audit team met each significant component audit team during the year.

The levels of coverage of key financial aspects of the Group by type of audit procedures as set out below:





Opinion on other matters prescribed by the Companies Act 2014

Directors' Report and Corporate Governance Statement

In our opinion, the information given in the Directors' Report is consistent with the financial statements. Based on the work undertaken in the course of the audit the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the financial reporting is consistent with the financial statements and has been prepared in accordance with section 1373 Companies Act 2014. Based on our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in this information. In our opinion, the information required pursuant to section 1373(2) (a), (b), (e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Adequacy of explanations received and accounting records

Under the Companies Act 2014 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Matters on which we are required to report by exception

Directors' remuneration

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

Corporate Governance Statement

We agreed to review the parts of the Corporate Governance Statement for compliance with the following provisions of Section C "Accountability" of the UK Corporate Governance Code: C1.1; C.2.1 and C3.1 – C3.7.

Matters on which we are required to report by exception *(continued)*

Our duty to read other information in the Annual Financial Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Financial Report is:

- materially inconsistent with the information in the audited financial statements;
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between the knowledge acquired during our audit and the Directors' statement that they consider the Annual Financial Report is fair, balanced and understandable and whether the Annual Financial Report appropriately discloses those matters that we communicated to the Board Audit Committee which we consider should have been disclosed.

We have nothing to report arising from these matters.

Respective responsibilities of Directors and Auditor

As detailed in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Parent Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, as a result of fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies with our audit of the financial statements, we consider the implications for our report.

Gerard Fitzpatrick
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Dublin

1 March 2017

Deloitte.

Consolidated income statement

for the financial year ended 31 December 2016

	Notes	2016 € m	2015 € m
Continuing operations			
Interest and similar income	4	**2,611**	2,821
Interest expense and similar charges	4	**(598)**	(894)
Net interest income		**2,013**	1,927
Dividend income	5	**26**	26
Fee and commission income	6	**430**	449
Fee and commission expense	6	**(35)**	(44)
Net trading income	7	**71**	95
Profit/(loss) on disposal/transfer of loans and receivables	8	**11**	(22)
Other operating income	9	**403**	197
Other income		**906**	701
Total operating income		**2,919**	2,628
Administrative expenses	10	**(1,462)**	(1,604)
Impairment and amortisation of intangible assets	30	**(70)**	(39)
Depreciation of property, plant and equipment	31	**(39)**	(35)
Total operating expenses		**(1,571)**	(1,678)
Operating profit before provisions		**1,348**	950
Writeback of provisions for impairment on loans and receivables	25	**294**	925
Writeback of provisions for impairment on financial investments available for sale	13	**2**	–
Writeback of provisions for liabilities and commitments	38	**2**	11
Operating profit		**1,646**	1,886
Associated undertakings	29	**35**	25
Profit on disposal of property	14	**–**	3
Profit on disposal of business	15	**1**	–
Profit before taxation from continuing operations		**1,682**	1,914
Income tax charge from continuing operations	17	**(326)**	(534)
Profit after taxation from continuing operations attributable to owners of the parent		**1,356**	1,380
Basic earnings per share			
Continuing operations	18(a)	**48.6c**	44.0c
Diluted earnings per share – adjusted			
Continuing operations	18(b)	**47.9c**	43.0c

Consolidated statement of comprehensive income

for the financial year ended 31 December 2016

	Notes	2016 € m	2015 € m
Profit for the year		**1,356**	1,380
Other comprehensive income – continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net change in property revaluation reserves		**(1)**	–
Net actuarial gains in retirement benefit schemes, net of tax	17	**103**	743
Total items that will not be reclassified subsequently to profit or loss		**102**	743
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	17	**(168)**	31
Net change in cash flow hedges, net of tax	17	**106**	(29)
Net change in fair value of available for sale securities, net of tax	17	**(359)**	103
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(421)**	105
Other comprehensive income for the year, net of tax from continuing operations		**(319)**	848
Total comprehensive income for the year from continuing operations attributable to owners of the parent		**1,037**	2,228

Consolidated statement of financial position

as at 31 December 2016

	Notes	2016 € m	2015 € m
Assets			
Cash and balances at central banks	50	**6,519**	4,950
Items in course of collection		**134**	153
Disposal groups and non-current assets held for sale	20	**11**	8
Trading portfolio financial assets	21	**1**	1
Derivative financial instruments	22	**1,814**	1,698
Loans and receivables to banks	23	**1,399**	2,339
Loans and receivables to customers	24	**60,639**	63,240
NAMA senior bonds	26	**1,799**	5,616
Financial investments available for sale	27	**15,437**	16,489
Financial investments held to maturity	28	**3,356**	3,483
Interests in associated undertakings	29	**65**	70
Intangible assets	30	**392**	289
Property, plant and equipment	31	**357**	344
Other assets		**248**	785
Current taxation		**13**	35
Deferred tax assets	32	**2,828**	2,897
Prepayments and accrued income		**444**	503
Retirement benefit assets	12	**166**	222
Total assets		**95,622**	103,122
Liabilities			
Deposits by central banks and banks	33	**7,732**	13,863
Customer accounts	34	**63,502**	63,383
Trading portfolio financial liabilities	35	**–**	86
Derivative financial instruments	22	**1,609**	1,781
Debt securities in issue	36	**6,880**	7,001
Current taxation		**18**	31
Deferred tax liabilities	32	**81**	–
Other liabilities	37	**973**	1,108
Accruals and deferred income		**484**	653
Retirement benefit liabilities	12	**158**	368
Provisions for liabilities and commitments	38	**246**	382
Subordinated liabilities and other capital instruments	39	**791**	2,318
Total liabilities		**82,474**	90,974
Equity			
Share capital	40	**1,696**	1,696
Share premium	40	**1,386**	1,386
Reserves		**9,572**	8,572
Total shareholders' equity		**12,654**	11,654
Other equity interests	42	**494**	494
Total equity		**13,148**	12,148
Total liabilities and equity		**95,622**	103,122

Richard Pym	**Bernard Byrne**	**Mark Bourke**	**Sarah McLaughlin**
Chairman	Chief Executive Officer	Chief Financial Officer	Company Secretary
1 March 2017			

Consolidated statement of cash flows

for the financial year ended 31 December 2016

	Notes	2016 € m	2015 € m
Cash flows from operating activities			
Profit before taxation for the year from continuing operations		**1,682**	1,914
Adjustments for:			
– Non-cash and other items	50	**(266)**	(875)
– Change in operating assets	50	**6,507**	4,230
– Change in operating liabilities	50	**(4,588)**	(5,353)
– Taxation paid		**(106)**	(9)
Net cash inflow/(outflow) from operating activities		**3,229**	(93)
Cash flows from investing activities			
Purchase of financial investments available for sale	27	**(2,477)**[1]	(4,270)
Proceeds from sales and maturity of financial investments available for sale		**3,386**[2]	4,624[3]
Additions to property, plant and equipment	31	**(55)**	(89)
Disposal of business	15	**1**	–
Disposal of property, plant and equipment		**1**	16
Additions to intangible assets	30	**(173)**	(156)
Dividends received from associated undertakings	29	**40**	24
Net cash inflow from investing activities		**723**	149
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	42	**–**	494
Net proceeds on issue of € 750 million Tier 2 Notes due 2025	39	**–**	750
Redemption of 2009 Preference Shares	40	**–**	(1,700)
Redemption of Contingent Capital Notes	39	**(1,600)**	–
Distribution paid on other equity interests	19	**(37)**	–
Dividends paid on 2009 Preference Shares	19	**–**	(446)
Interest paid on subordinated liabilities and other capital instruments		**(191)**	(160)
Net cash outflow from financing activities		**(1,828)**	(1,062)
Change in cash and cash equivalents		**2,124**	(1,006)
Opening cash and cash equivalents		**5,672**	6,384
Effect of exchange translation adjustments		**(632)**	294
Closing cash and cash equivalents	50	**7,164**	5,672

(1)Excludes non-cash acquisition of € 65 million.

(2)Excludes non-cash disposal consideration of € 84 million.

(3)Transfer from financial investments available for sale to financial investments held to maturity of € 3,487 million not reflected in cash flows (note 28).

Consolidated statement of changes in equity

for the financial year ended 31 December 2016

	Attributable to equity holders of parent										
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € m
At 1 January 2016	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	12,148
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	1,356	–	1,356
Other comprehensive income *(note 17)*	–	–	–	–	–	(1)	(359)	106	103	(168)	(319)
Total comprehensive income for the year	–	–	–	–	–	(1)	(359)	106	1,459	(168)	1,037
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions *(note 43)*	–	–	–	(361)	–	–	–	–	361	–	–
Distribution on other equity interests	–	–	–	–	–	–	–	–	(37)	–	(37)
Total contributions by and distributions to owners of the Group	–	–	–	(361)	–	–	–	–	324	–	(37)
At 31 December 2016	1,696	1,386	494	1,199	14	15	1,113	460	7,323	(552)	13,148

Consolidated statement of changes in equity

for the financial year ended 31 December 2015

	Attributable to equity holders of parent												
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2015	1,344	1,752	–	1,958	–	17	1,369	383	5,621	(415)	(462)	5	11,572
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	1,380	–	–	–	1,380
Other comprehensive income *(note 17)*	–	–	–	–	–	–	103	(29)	743	31	–	–	848
Total comprehensive income for the year	–	–	–	–	–	–	103	(29)	2,123	31	–	–	2,228
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group													
Capital contributions *(note 43)*	–	–	–	(398)	–	–	–	–	398	–	–	–	–
Dividend on 2009 Preference Shares	–	–	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	–	–	5	–	–	(5)	–
Cancellation of treasury shares	–	–	–	–	–	–	–	–	(462)	–	462	–	–
Issue of Additional Tier 1 Securities	–	–	494	–	–	–	–	–	–	–	–	–	494
Other movements	–	–	–	–	–	(1)	–	–	1	–	–	–	–
Capital reorganisation (note 40)													
2009 Preference Shares – conversion	(21)	–	–	–	–	–	–	–	–	–	–	–	(21)
2009 Preference Shares – redemption	(14)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,700)
	(35)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,721)
Ordinary shares issued on conversion of 2009 Preference Shares	21	–	–	–	–	–	–	–	–	–	–	–	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	366	(366)	–	–	–	–	–	–	–	–	–	–	–
Dividend paid on 2009 Preference Shares to date of conversion/redemption	–	–	–	–	–	–	–	–	(166)	–	–	–	(166)
Total contributions by and distributions to owners of the Group	352	(366)	494	(398)	14	(1)	–	–	(2,204)	–	462	(5)	(1,652)
At 31 December 2015	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	–	–	12,148

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1 Accounting policies

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1 Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the financial statements of Allied Irish Banks, p.l.c. and its subsidiary undertakings, collectively referred to as the 'Group', where appropriate, including certain special purpose entities and are prepared to the end of the financial period. The Group is and has been primarily involved in retail and corporate banking.

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Standards as adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2016. The consolidated financial statements also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and the Asset Covered Securities Acts 2001 and 2007. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described.

(c) Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Financial review and the Risk management sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of judgements and 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's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 256 to 260.

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

Adoption of new accounting standards

During the financial year to 31 December 2016, the Group adopted amendments to standards and interpretations which had an insignificant impact on these annual financial statements.

1 Accounting policies *(continued)*

(d) Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);
(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;
(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures*.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Business combinations

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

- the acquisition date fair value of assets transferred by the Group;
- liabilities incurred by the Group to the former owners of the acquiree; and
- the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

Goodwill is measured as the excess of the sum of:

- the fair value of the consideration transferred;
- the amount of any non-controlling interests in the acquiree; and
- the fair value of the acquirer's previously held equity interest in the acquiree, if any; less
- the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets.

For changes in the Group's interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses or investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy (ab) 'Equity' - capital contributions). On impairment of the subsidiary in the parent company's separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves. The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

Associated undertakings

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it can be clearly demonstrated that this is not the case.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group's share of the results of associated undertakings after tax reflects the Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of the Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is, therefore, not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

1 Accounting policies *(continued)*

(e) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest.

(f) Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Interest income and expense presented in the consolidated income statement includes:

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on financial investments available for sale on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

1 Accounting policies *(continued)*

(g) Dividend income

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for equity securities.

(h) Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided unless they have been included in the effective interest rate calculation. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised as the service is provided except for arrangement fees where it is likely that the facility will be drawn down and which are included in the effective interest rate calculation.

(i) Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes.

1 Accounting policies *(continued)*

(j) Employee benefits

Retirement benefit obligations

The Group provides employees with post-retirement benefits mainly in the form of pensions.

The Group 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, the Group 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.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are accounted for as a negative past service cost. These are recognised in the income statement.

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

Remeasurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

In early 2017, the Board reassessed its obligation to fund increases in pensions in payment. The Board confirmed that funding of increases in pensions in payment is a decision to be made by the Board each year where increases are discretionary. This was based on actuarial and external legal advice obtained. In previous years, the assumption for increases in pensions in payment was determined based on the long term inflation rate when arriving at the present value of the defined benefit obligation.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in profit or loss when they are incurred.

The cost of the Group’s defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans is charged within personnel expenses.

1 Accounting policies *(continued)*

(j) Employee benefits *(continued)*

Termination benefits

Termination benefits are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which includes the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

(k) Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

(l) Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that sufficient taxable profits will be available to allow all of the asset to be recovered.

The tax effects of income tax losses available for carry forward are recognised as an asset to the extent that it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

1 Accounting policies *(continued)*

(m) Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; available for sale financial assets; and financial investments held to maturity.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established.

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category can have two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or qualify as financial guarantee contracts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are initially recognised at fair value adjusted for direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a recycling adjustment. Assets reclassified from the held for trading category are recognised at fair value.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. If the Group was to sell other than an insignificant amount of held to maturity assets, the remainder would be required to be reclassified as available for sale. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and are carried on an amortised cost basis using the effective interest method.

Any available for sale financial investments reclassified into the held to maturity category are transferred at fair value and are subsequently carried at amortised cost using the effective interest rate method. Unrealised gains or losses held in equity in respect of such reclassified assets are amortised to the income statement using the effective interest rate method.

Parent Company financial statements: Investment in subsidiary and associated undertakings

The Company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

Dividends from a subsidiary or an associated undertaking are recognised in the income statement when the Company's right to receive the dividend is established.

1 Accounting policies *(continued)*

(n) Financial liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or remeasurement of a financial liability is recognised in profit or loss.

Issued financial instruments are classified as equity when the Group has no contractual obligation to transfer cash, or other financial assets or to issue a variable number of its own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown as a deduction from the proceeds of issue, net of tax.

(o) Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

(p) Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

1 Accounting policies *(continued)*

(p) Determination of fair value of financial instruments *(continued)*

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and ask prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an ‘over the counter’ basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks (‘contributors’) publish bid and ask levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group’s valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

1 Accounting policies *(continued)*

(p) Determination of fair value of financial instruments *(continued)*

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Transfers between levels of the fair value hierarchy

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

(q) Sale and repurchase agreements (including stock borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them (‘repos’). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell (‘reverse repos’), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

(r) NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA. In addition, on the acquisition of EBS and the Anglo deposit business in 2011, NAMA bonds were part of the acquired assets. These bonds are designated as loans and receivables and are separately disclosed in the statement of financial position as ‘NAMA senior bonds’.

The bases for measurement, interest recognition and impairment are the same as those for loans and receivables (see accounting policies (f), (t) and (m)).

At initial recognition, the bonds were measured at fair value. The bonds carry a guarantee of the Irish Government, however, they are not marketable instruments. The only secondary market activity in the instruments is their sale and repurchase (‘repo’) to the European Central Bank (“ECB”) within the regular Eurosystem open market operations. The bonds are not traded in the market and there are no comparable bonds trading in the market.

The fair value on initial recognition was determined using a valuation technique. The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the instruments which market participants would factor into an appropriate valuation technique; determining the cash flows generated by the instruments including cash flows from assumed repo transactions; identifying a risk free discount rate; and applying an appropriate credit spread.

On an on-going basis and in accordance with IAS 39, AG8, the Group reviews its assumptions as regards the amount and timing of expected cash flows based on experience to date and other relevant information. The revised cash flows are discounted at the bonds’ original effective interest rate. Any difference between the revised discounted cash flows and the previous carrying value is recognised as ‘other operating income’ in the income statement.

1 Accounting policies *(continued)*

(s) Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements, currency swaps and options, and equity index options are used for trading purposes while interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

Hedging

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, the Group designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
– hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or
– hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

1 Accounting policies *(continued)*

(s) Derivatives and hedge accounting *(continued)*

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale financial assets, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

1 Accounting policies *(continued)*

(t) Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the reporting date ('a loss event'), and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i adverse changes in the payment status of borrowers in the portfolio; and
    ii national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics under the collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

Collective evaluation for impairment

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Collateralised financial assets – Repossessions

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. AIB will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

Past due loans

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. ‘Past due days’ is a term used to describe the cumulative numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower:

- has breached an advised limit;
- has been advised of a limit lower than the then current outstandings; or
- has drawn credit without authorisation.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Financial investments available for sale

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had previously been recognised in other comprehensive income is recognised in the income statement as a reclassification adjustment. Reversals of impairment of equity securities are not recognised in the income statement and increases in the fair value of equity securities after impairment are recognised in other comprehensive income.

In the case of debt securities classified as available for sale, impairment is assessed on the same criteria as for all other debt financial assets. Impairment is recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the income statement. Any subsequent increase in the fair value of an available for sale debt security is included in other comprehensive income unless the increase in fair value can be objectively related to an event that occurred after the impairment was recognised in the income statement, in which case the impairment loss or part thereof is reversed.

Loans renegotiated and forbearance

From time to time, the Group will modify the original terms of a customer’s loan either as part of the on-going relationship with the customer or arising from changes in the customer’s circumstances such as when that customer is unable to make the agreed original contractual repayments.

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk sections 3.1 and 3.2.

A request for a forbearance solution acts as a trigger for an impairment test. All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Group continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some individually assessed mortgage and non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelve months, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in the Group's collective assessment for IBNR provisions.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement. Interest accrues on the new loan based on the current market rates in place at the time of the renegotiation.

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

Occasionally, the Group may temporarily amend the contractual repayments terms on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39 paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement.

However, where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

1 Accounting policies *(continued)*

(u) Collateral and netting

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and receivables to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

(v) Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees') and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. In its normal course of business, Allied Irish Banks, p.l.c. (the parent company) issues financial guarantees to other Group entities. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the year-end reporting date. Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

1 Accounting policies *(continued)*

(w) Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic lives.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years(1)
Office properties	up to 15 years(1)
Computers and similar equipment	3 – 7 years
Fixtures and fittings and other equipment	5 – 10 years

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

(1)Subject to the maximum remaining life of the lease.

(x) Intangible assets

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

(y) Impairment of property, plant and equipment, goodwill and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

1 Accounting policies *(continued)*

(z) Disposal groups and non-current assets held for sale

A non-current asset or a disposal group comprising assets and liabilities is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of IAS 39 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement, to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

(aa) Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. The present value of provisions is included in other liabilities.

When a decision is made that a leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

1 Accounting policies *(continued)*

(ab) Equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, deferred shares and preference shares of the entity.

Share premium

When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are charged, net of tax, to the share premium account.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. Dividends declared after the end of the reporting date are disclosed in note 58.

Dividends on preference shares accounted for as equity are recognised in equity when approved for payment by the Board of Directors.

Other equity interests

Other equity interests relate to Additional Tier 1 Perpetual Contingent Temporary Write-down Securities (AT1s) issued on 3 December 2015 which are accounted for as equity instruments in the statement of financial position (note 42). Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

Other capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Revaluation reserves

Revaluation reserves represent the unrealised surplus, net of tax, which arose on revaluation of properties prior to the implementation of IFRS at 1 January 2004.

Capital redemption reserves

In 2015, the capital redemption reserves arose from the redemption of 2,140 million 2009 Preference Shares whereby on redemption, the nominal value of shares redeemed was transferred from the share capital account to the capital redemption reserve account. In addition, the nominal value of treasury shares cancelled was transferred from the share capital to the capital redemption reserve account.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of available for sale financial investments at fair value.

In addition, unrealised gains/losses on financial assets transferred from available for sale to held to maturity are held in this caption. Unrealised gains or losses held in equity in respect of such reclassified assets are amortised to the income statement using the effective interest rate method.

Cash flow hedging reserves

Cash flow hedging reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

1 Accounting policies *(continued)*

(ab) Equity *(continued)*

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 43). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and (d) non-refundable receipts from the Irish Government and the NPRFC(1).

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely non-cash in nature. In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, this excess was accounted for as a non-distributable capital contribution. However, according as NAMA repays these bonds, the proceeds received will be deemed to be distributable and the relevant amount will be transferred from the capital contribution account to revenue reserves.

AIB issued contingent convertible capital notes to the Irish Government (note 39) where the proceeds of issue amounting to €1.6 billion exceeded the fair value of the instruments issued. This excess was accounted for as a capital contribution and was treated as distributable when the fair value adjustment on the notes amortised to the income statement. These notes were repaid in full on 28 July 2016.

The non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC(1) are distributable. These are included in revenue reserves.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from share premium and capital redemption reserves following Irish High Court approval. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

The foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

Treasury shares

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Share based payments reserves

The share based payment expense charged to the income statement is credited to the share based payment reserve over the vesting period of the shares and options. Upon grant of shares and exercise and lapsing of options, the amount in respect of the award credited to the share based payment reserves is transferred to revenue reserves.

(ac) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

(1)Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

1 Accounting policies *(continued)*

(ad) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Leadership Team. The Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes

The following new standards and amendments to existing standards which have been approved by the IASB, but not early adopted by the Group, will impact the Group's financial reporting in future periods. The Group is currently considering the impacts of these new standards and amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below:

Amendments to IAS 7 *Statement of Cash Flows*

The amendments to IAS 7 *Statement of Cash Flows*, which were issued in January 2016, require that the following changes in liabilities arising from financing activities be disclosed to the extent necessary:

- Changes from financing cash flows;
- Changes arising from obtaining or losing control of subsidiaries or other businesses;
- The effect of changes in foreign exchange rates; and
- Other changes.

It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the definition.

These amendments are not expected to have a significant impact on AIB Group.

The amendments are subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments in *Recognition of Deferred Tax Assets for Unrealised Losses,* which were issued in January 2016, clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

These amendments are not expected to have a significant impact on AIB Group.

The amendments are subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2017.

Annual improvements to IFRSs 2014 - 2016 Cycle/Other

The IASB has published a number of minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2014-2016 cycle. Whilst these have not yet been endorsed by the EU, they are expected to be effective from 1 January 2018 apart from the amendment to IFRS 12 'Disclosure of Interests in Other Entities' which is effective from 1 January 2017. These amendments are expected to have an insignificant effect on the financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 Interpretation on *'Foreign Currency Transactions and Advance Consideration'* which was issued in December 2016 clarifies the requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Effective date: Annual periods beginning on or after 1 January 2018.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31.

IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitative disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

A Group-wide project has been rolled out where the various types of revenue streams have been identified and analysed. However, due to the nature of these revenue streams, no significant change to the Group's financial statements has been highlighted as a result of the analysis. Accordingly, it is expected that any impact will be minimal, although not yet quantified.

On transition, while the Group will apply this standard retrospectively, it will exercise certain practical expedients as allowed by the standard. Prior periods will not be restated and the opening balance of retained earnings will be adjusted for any prior period impacts. Additionally, for contracts completed before the earliest period presented, AIB will not be restating the opening balance of retained earnings.

Effective date: Annual periods beginning on or after 1 January 2018.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* was issued in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes a revised classification and measurement model, a forward looking 'expected credit loss' impairment methodology and modifies the approach to hedge accounting. Unless early adopted, the standard is effective for accounting periods beginning 1 January 2018. The key changes under the standard are:

Classification and measurement

- Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income and fair value through profit and loss;
- A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI");
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision;
- There is no separation of an embedded derivative where the instrument is a financial asset;
- Equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss;

Impairment

- Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required;
- The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit loss;
- The assessment of credit risk, and the estimation of expected credit loss, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current

Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 9 *Financial Instruments*

Impairment

conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss should take into account the time value of money. As a result, the recognition and measurement of impairment is more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss and the population of financial assets to which lifetime expected credit loss applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Financial liabilities

- The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income;

Hedge accounting

- The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Assessment of IFRS 9 impacts

A Group-wide Programme, led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9.

The governance structure includes a Steering Committee mandated to oversee implementation in accordance with the standard, a Technical Approval Group to approve key accounting policy change decisions and a Process and Data Group to approve operating model specifications.

Detailed planning was completed during 2015 and the design phase commenced thereafter. The Programme is structured with various work streams responsible for designing and implementing the end state process and reporting model, technical accounting interpretations, building and validating IFRS 9 provision models and assessing data and systems requirements.

Classification and measurement

Classification and measurement of financial assets is not expected to result in any significant changes for the Group.
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 FVOCI;
- debt securities classified as held to maturity under IAS 39 will be measured at amortised cost;
- all equity securities will continue to be measured at fair value, however, for individual securities, it has yet to be decided if the fair value movements will be presented in profit or loss or in other comprehensive income.

The business model assessment which has been carried out on the portfolio at 31 December 2015 is not expected to change the current measurement basis at the Group level.

In relation to SPPI testing which is being carried out on the financial instruments portfolio, it is expected that a small number of instruments, mainly loans and receivables to customers, will fail the SPPI test. Accordingly, such instruments will be measured at fair value through profit or loss in accordance with IFRS 9. Fair value movements on these instruments will be shown in profit or loss. The impact on transition to this new measurement basis is not expected to be significant.

The classification of financial liabilities is largely unchanged under IFRS 9. Given that the Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 9 *Financial Instruments*

Impairment

To date the Programme has focused on designing and documenting accounting policy changes, identifying and remediating data gaps, developing risk modelling options and methodologies for the calculation of the impairment allowance. The Programme's focus is now on building impairment models, validating outputs, testing policy proposals and processes which are being developed, and setting up processes for 'business as usual ' under the new standard.

The impairment models will impact on IT, risk management and financial reporting systems. Significant progress has been made in ensuring business readiness for all such systems.

Due to the complexity of decisions required around several aspects of the impairment requirements of IFRS 9, and the interdependencies of variables within the models and the dynamic nature of some of those variables, it is considered premature at this stage to quantify the impacts of impairment under IFRS 9 with any degree of accuracy. However, it is expected that this information will be available in the 2017 Annual Financial Report.

Hedge accounting

IFRS 9 includes an accounting policy choice which allows entities remain with IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. AIB Group will exercise this policy choice and continue to account under IAS 39. However, it will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

Initial application/disclosures/other

The Group will apply the various provisions of IFRS 9 with effect from 1 January 2018, however, prior periods will not be restated. Any difference between the previous carrying amount under IAS 39 and the carrying amount at the date of initial application of IFRS 9 on 1 January 2018, will be recognised in opening retained earnings (or other component of equity as appropriate) at 1 January 2018.

A significant suite of reporting requirements are being developed for statutory, regulatory and management reporting in line with the requirements of IFRS 9 and the various regulatory bodies. In so far as possible, definitions of data items within reports are being aligned so as to assist comparability.

Furthermore, briefings to the business and various stakeholders throughout the Group have taken place and will continue throughout 2017 on the impacts of IFRS 9 and its consequences for the Group.

Effective date: Annual periods beginning on or after 1 January 2018.

IFRS 16 *Leases*

IFRS 16 *Leases*, which was issued in January 2016, replaces IAS 17 *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

These amendments will impact AIB Group as it has leased as lessee a number of properties which are currently classified as operating leases. AIB is currently assessing the impact of IFRS 16, however, it is not yet practicable to quantify its effects.

This standard is subject to EU endorsement.

Effective date: Annual periods beginning on or after 1 January 2019.

2 Critical accounting judgements and 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.

The accounting policies that are deemed critical to AIB's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Going concern

The financial statements for the financial year ended 31 December 2016 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2017 to 2019 approved by the Board in December 2016, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance including the possible fallout from Brexit.

Loan impairment

AIB's accounting policy for impairment of financial assets is set out in accounting policy (t) in note 1. The provisions for impairment on loans and receivables at 31 December 2016 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements.

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and when appropriate, loans are transferred to specialist units to help avoid default, or where in default, to help minimise loss. The credit rating triggers the impairment assessment and if relevant the raising of specific provisions on individual loans where there is doubt about their recoverability.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by credit and risk management on a regular basis. All AIB segments assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate Group levels being approved by the Audit Committee and the Board.

Key assumptions underpinning the Group's estimates of collective and IBNR provisioning are back tested with the benefit of experience and revisited for currency on a regular basis.

After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, the Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

Specific provisions

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in the financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. Specific provisions are created for cases that are individually significant (i.e. above certain thresholds), and also

2 Critical accounting judgements and estimates *(continued)*

Specific provisions *(continued)*

collectively for assets that are not individually significant.

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment provisions. As this process is model driven, the total amount of the Group's impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. For further details please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 81 and 82 of the Risk management section of this report.

The property and construction loan portfolio continues to have a high level of provisions following the downturn in both the Irish and UK economies. While collateral values have stabilised and recovered somewhat, market activity remains low relative to normalised levels. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a high degree of uncertainty.

Incurred but not reported provisions

Incurred but not reported ("IBNR") provisions are also maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in credit management; procedures, processes and policies; levels of credit management skills; local and international economic climates; portfolio sector profiles/industry conditions; and current estimates of loss in the portfolio.

The total amount of impairment loss in the Group's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to a greater element of estimation due to the speed of change in the economies in which the Group operates. For further details of the potential impact of an increase in the emergence period, please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 81 and 82 of the Risk management section of this report.

Forbearance

The Group's accounting policy for forbearance is set out in accounting policy (t) 'Impairment of financial assets' in note 1 which incorporates forbearance.

The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions and on the future cash flows arising from restructured loans. Further information on forbearance strategies is set out in the 'Risk management' section of this report.

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (l) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 32.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long-term future profitability because of the period over which recovery extends.

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:
- the financial support provided to the Irish State under the EU/IMF programme and the fact that Ireland successfully exited the three-year bailout programme in December 2013;
- the financial support provided by the Irish Government to AIB as agreed with the EU/IMF from 2009 to 2011;
- the Irish Government's committed support to AIB and its nomination of the Group as one of two pillar banks in the smaller reconstructed Irish banking sector;
- the absence of any expiry dates for Irish and UK tax losses;
- the non-enduring nature of the loan impairments at levels which resulted in losses in prior years; and
- external forecasts for Ireland, and the UK economies which indicate continued economic recovery through the period of the medium-term financial plan. This is evident in a levelling off of bad debts growth, reductions in unemployment and increased spending.

The Board considered negative evidence and the inherent uncertainties in any long-term financial assumptions and projections, including:
- the absolute level of deferred tax assets compared to the Group's equity;
- the reduced size of the Group's operations following re-structuring;
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
- potential instability in the eurozone and global economies over an extended period; and
- recent taxation changes (including Bank Levy and changes to the UK tax rates and the utilisation of deferred tax assets) and the likelihood of future developments and their impact on profitability and utilisation.

The Group's strategy and its medium term financial plan targeted a return to profitability by 2014 and growth in profitability thereafter. The return to profitability objective was realised in 2014 and has continued to date. Growth thereafter has been reaffirmed in the annual planning exercise covering the period 2017 to 2019 undertaken by the Group in the second half of 2016. Growth assumptions and profitability levels underpinning the plan are within market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2017 to 2019. Assuming a sustainable market return on equity (c.8.5%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take in excess of 20 years for the deferred tax asset (€ 3 billion) to be utilised. Furthermore, under this scenario, it is expected that 52% (2015: 60%) of the deferred tax asset will be utilised within 15 years with 83% (2015: 92%) utilised within 20 years.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further 4 years. The Group's analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

Notwithstanding the absence of any expiry date for tax losses in the UK, AIB has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not.

Furthermore, legislation enacted in the UK in the past two years affected both the quantum of carried forward tax losses that could be utilised against future profits and the tax rate at which they will reverse. This legislation has resulted in the deferred tax asset reducing by € 92 million.

However, for certain other subsidiaries and branches, the Group has also concluded that it is more likely than not that there will be insufficient profits to support the recognition of deferred tax assets. The amount of recognised deferred tax assets arising from unused tax losses amounts to € 3,050 million of which € 2,928 million relates to Irish tax losses and € 122 million relates to UK tax losses. IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Determination of fair value of financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy (p) in note 1. The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives and contingent capital instruments, the income statement.

NAMA senior bonds designation and valuation

The Group's accounting policy for NAMA senior bonds is set out in accounting policy (r) in note 1. These bonds are separately disclosed in the statement of financial position.

NAMA senior bonds are designated as loans and receivables as they meet the criteria to be so designated.

The bases for measurement, interest recognition and impairment for NAMA senior bonds are the same as those for loans and receivables (see accounting policy numbers (m). (f) and (t) in note 1). There is no active market for the NAMA senior bonds, accordingly, the fair value at initial recognition was determined using a valuation technique.

The absence of quoted prices in an active market required an increased use of management judgement in the estimation of fair value. This judgement included, but was not limited to: evaluating available market information; determining the cash flows generated by the instruments and their expected timing; identifying a risk free discount rate and applying an appropriate credit spread.

The valuation technique and critical assumptions used were subject to internal review and approval procedures. While the Group believes its estimates of fair value are appropriate, the use of different measurements, valuation techniques or assumptions could have given rise to the NAMA senior bonds being measured at a different valuation at initial recognition, with a consequent impact on the income statement.

AIB continually reviews its assumptions as to the expected timing of future cash flows based on its experience of repayments to date, as required by IAS 39, AG8. If the revised assumptions when reassessed prove to be different, this will impact the carrying value and income statement in future periods.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables (accounting policy (t) in note 1).

Retirement benefit obligations

The Group's accounting policy for retirement benefit schemes is set out in accounting policy (j) in note 1.

The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. All defined benefit schemes were closed to future accrual with effect from 31 December 2013.

Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

2 Critical accounting judgements and estimates *(continued)*

Retirement benefit obligations *(continued)*

In calculating the scheme liabilities, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group's Actuary which include price inflation, pensions in payment increases and the longevity of scheme members. The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used.

In early 2017 the Group, having taken actuarial and external legal advice, the Board has determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually for the Group's main Irish schemes. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Bank's financial circumstances and ability to pay; the views of the Trustees; the Bank's commercial interests and any competing obligations to the State. In early 2017, the Board implemented this process and made a decision not to provide any funding for any discretionary increases in pensions in payment for the coming year.

The assumptions adopted for the Group's defined benefit schemes are set out in note 12 to the financial statements, together with a sensitivity analysis of the schemes' liabilities to changes in those assumptions.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number (aa) 'Non-credit risk provisions' in note 1.

The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the Group's liabilities and commitments are shown in note 38 to the financial statements.

The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and thereby, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. This process will, of its nature, require significant management judgement and will require revisions to earlier judgements and estimates as matters progress towards resolution. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns.

At 31 December 2015, the Group provided € 190 million for redress to customers. This provision related to the expected outflow for compensation/refunds of interest to customers in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect. The provision covered various compensations and costs arising from this issue.

Considerable progress was made throughout 2016 in identifying impacted customers and in calculating and making redress. However, this process is on-going and work is expected to extend into the second six months of 2017. To date € 93 million of the provision has been utilised covering both redress and costs leaving a residual provision of € 97 million at 31 December 2016.

Validation of the examination process is being undertaken by the Group, however, the resultant final redress is subject to independent third party assurance and also subject to assessment and challenge by the CBI.

Given the uncertainty attaching to certain of the assumptions and judgements underpinning the above provisions, it is possible that the eventual outcome may differ from the current estimates with a resultant charge/credit to the income statement in future periods.

Basis of consolidation

For third party acquisitions, assets acquired and liabilities assumed are measured at their acquisition date fair values. Where these acquisitions relate to the acquisition of a business between entities under the control of the Irish Government, assets acquired and liabilities assumed are measured at their carrying value in the books of the transferor at the date of transfer, adjusted for any differences in accounting policies.

3 Segmental information

During 2016, the Group reported through the segments set out below which reflect the internal reporting structure used by management to assess performance and allocate resources:

- **AIB Ireland;**
- **AIB UK; and**
- **Group & International.**

AIB Ireland

AIB Ireland comprises Personal, Business and Corporate Banking. It is the leading franchise bank across key segments and products in the domestic market and is well positioned for growth.

Personal offers a comprehensive suite of personal lending, mortgages, savings, deposit, credit card, insurance and financial planning products via the branch network, online, mobile and direct channels. Our multi-brand approach via AIB, EBS and Haven offers choice to mortgage customers and allows us to tailor products to meet their needs.

Business is committed to actively supporting entrepreneurs, early start-ups and established SMEs via a sector-led approach, flexible digital and self-service channels, and timely credit decisions.

Corporate (including property) develops strong relationships with corporate customers by providing sectoral expertise, tailored financial solutions and a premium customer service.

AIB UK

AIB UK comprises of two trading entities operating in two distinct markets with different economies and operating environments: Allied Irish Bank (GB) ("AIB GB") which offers full banking services to predominantly business customers across Great Britain; and First Trust Bank ("FTB") which offers full banking services to business and personal customers across Northern Ireland. Both entities are supported by a single operations function.

AIB GB is a long established specialist Business Bank, supporting businesses in Great Britain for over 40 years. It operates out of 15 business centres in key cities across Great Britain, providing a full clearing and day-to-day transactional banking service to customers.

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.

Group & International

Group & International includes syndicated and international lending in the United States of America and Europe. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs). Certain overheads related to these activities are managed and reported in the Group & International segment.

Segment allocations

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 Group & International. Funding and liquidity charges are based on each segment's funding requirements and the Group'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 requirement.

In 2016, the funding and liquidity allocation methodology has been refined further to more accurately reflect each segment's funding cost. The financial year segment performance to December 2015 has been presented on this revised allocation methodology. Applying the methodology to the segment performance as reported in Annual Financial Report 2015, results in a decrease in net interest income of € 85 million in AIB Ireland, a decrease in net interest income of € 12 million in AIB UK offset by an increase in net interest income of € 97 million in Group & International.

3 Segmental information *(continued)*

							2016
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	Bank levies and regulatory fees[1] € m	Exceptional items[2] € m	Total € m
Operations by business segment							
Net interest income	1,458	245	310	2,013	–	–	2,013
Other income	466	65	86	617	–	289[3]	906
Total operating income	1,924	310	396	2,630	–	289	2,919
Personnel expenses	(454)	(84)	(179)	(717)	–	(25)[4][5]	(742)
General and administrative expenses	(311)	(53)	(202)	(566)	(112)	(42)[5][6]	(720)
Depreciation, impairment and amortisation	(63)	(2)	(29)	(94)	–	(15)	(109)
Total operating expenses	(828)	(139)	(410)	(1,377)	(112)	(82)	(1,571)
Operating profit/(loss) before provisions	1,096	171	(14)	1,253	(112)	207	1,348
Bank levies and regulatory fees	–	1	(113)	(112)	112	–	–
Writeback/(provisions) for impairment on loans and receivables	275	37	(18)	294	–	–	294
Writeback/(provisions) for liabilities and commitments	4	–	(2)	2	–	–	2
Writeback of provisions for impairment on financial investments available for sale	–	–	2	2	–	–	2
Total writeback/(provisions)	279	37	(18)	298	–	–	298
Operating profit/(loss)	1,375	209	(145)	1,439	–	207	1,646
Associated undertakings	31	4	–	35	–	–	35
Profit on disposal of business	–	1	–	1	–	–	1
Profit/(loss) before taxation from continuing operations	1,406	214	(145)	1,475	–	207	1,682

[1] In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 24.

[2] Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[3] Gain on disposal of financial instruments;

[4] Termination benefits;

[5] Restitution and restructuring expenses; and

[6] Other exceptional items.

For further information on these items see page 25.

3 Segmental information *(continued)*

							2015
	AIB Ireland	AIB UK	Group & International	Total	Bank levies and regulatory fees[1]	Exceptional items[2]	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	1,360	285	282	1,927	–	–	1,927
Other income	443	50	203	696	–	5[3]	701
Total operating income	1,803	335	485	2,623	–	5	2,628
Personnel expenses	(462)	(96)	(167)	(725)	–	(38)[4][5]	(763)
General and administrative expenses	(251)	(59)	(183)	(493)	(71)	(277)[5][6]	(841)
Depreciation, impairment and amortisation	(42)	(3)	(29)	(74)	–	–	(74)
Total operating expenses	(755)	(158)	(379)	(1,292)	(71)	(315)	(1,678)
Operating profit/(loss) before provisions	1,048	177	106	1,331	(71)	(310)	950
Bank levies and regulatory fees	–	(4)	(67)	(71)	71	–	–
Writeback/(provisions) for impairment on loans and receivables	892	44	(11)	925	–	–	925
Writeback/(provisions) for liabilities and commitments	9	–	(11)	(2)	–	13[5]	11
Total writeback/(provisions)	901	44	(22)	923	–	13	936
Operating profit/(loss)	1,949	217	17	2,183	–	(297)	1,886
Associated undertakings	21	3	1	25	–	–	25
Profit on disposal of property	3	–	–	3	–	–	3
Profit/(loss) before taxation from continuing operations	1,973	220	18	2,211	–	(297)	1,914

[1] In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 24. In 2015, a payment of € 4 million was made to the FSCS in the UK relating to a Deposit Guarantee Scheme and a refund of € 1 million was received from Irish legacy deposit protection fund. These amounts were reclassified from 'Other general and administrative expenses' to 'Bank levies and regulatory fees'.

[2] Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[3] Gain on transfer of financial instruments;

[4] Termination benefits;

[5] Restitution and restructuring expenses; and

[6] Other exceptional items.

For further information on these items see page 25.

3 Segmental information *(continued)*

Other amounts – statement of financial position

				2016
	AIB Ireland € m	**AIB UK € m**	**Group & International € m**	**Total € m**
Loans and receivables to customers	**48,960**	**8,745**	**2,934**	**60,639**
Customer accounts	**52,134**	**10,350**	**1,018**	**63,502**

				2015
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Loans and receivables to customers	50,077	10,343	2,820	63,240
Customer accounts	50,250	11,665	1,468	63,383

				2016
Geographic information - continuing operations(1)(2)	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Gross external revenue	**2,399**	**509**	**11**	**2,919**
Inter-geographical segment revenue	**188**	**(185)**	**(3)**	**–**
Total revenue	**2,587**	**324**	**8**	**2,919**

				2015
Geographic information - continuing operations(1)(2)	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	2,218	397	13	2,628
Inter-geographical segment revenue	(43)	47	(4)	–
Total revenue	2,175	444	9	2,628

Revenue from external customers comprises interest and similar income and interest expense and similar charges (note 4), and all other items of income (notes 5 to 9).

				2016
Geographic information	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Non-current assets(3)	**717**	**31**	**1**	**749**

				2015
Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets(3)	608	24	1	633

(1)The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.

(2)For details of significant geographic concentrations, see the Risk management section.

(3)Non-current assets comprise intangible assets and property, plant and equipment.

4 Net interest income

	2016 € m	2015 € m
Interest on loans and receivables to customers	**2,248**	2,363[1]
Interest on loans and receivables to banks	**18**	24
Interest on trading portfolio financial assets	**–**	1
Interest on NAMA senior bonds	**11**	31
Interest on financial investments available for sale	**182**	398[1]
Interest on financial investments held to maturity	**131**	4
	2,590	2,821
Negative interest on liabilities	**21**	–
Interest and similar income	**2,611**	2,821
Interest on deposits by central banks and banks	**8**	4
Interest on customer accounts	**341**	520[1]
Interest on debt securities in issue	**50**	92[1]
Interest on subordinated liabilities and other capital instruments	**199**	278
	598	894
Negative interest on assets	**–**	–
Interest expense and similar charges	**598**	894
Net interest income	**2,013**	1,927

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense, rather than as offset against interest income. Likewise, negative interest on financial liabilities has been presented as interest income.

Interest income reported above, calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to € 140 million (2015: € 244 million).

Included within interest expense is a charge of € 17 million (2015: a charge of € 30 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Cash flow hedges

Interest income includes a credit of € 193 million (2015: a credit of € 150 million) transferred from other comprehensive income in respect of cash flow hedges.

Interest expense includes a charge of € 75 million (2015: a charge of € 86 million) transferred from other comprehensive income in respect of cash flow hedges.

Fair value hedges

Interest received/paid on fair value hedges is now included within interest income/expense on the underlying hedged items as follows:

- financial investments available for sale – a charge of € 124 million (2015: a charge of € 116 million);
- customer accounts – a credit of € 4 million (2015: a credit of € 19 million);
- debt securities in issue – a credit of € 125 million (2015: a credit of € 115 million); and
- subordinated liabilities and other capital instruments – a credit of € 2 million (2015: Nil).

[1] In 2015, the net interest received on fair value hedges amounting to € 18 million was reported in 'Interest and similar income' as part of loans and receivables to customers. To better reflect the nature of the transactions, this has now been reallocated to interest income/expense on the underlying hedged items as set out above.

5 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to € 26 million (2015: € 26 million). € 25 million of this dividend income was received on NAMA subordinated bonds (2015: € 25 million).

6 Net fee and commission income

	2016 **€ m**	2015 € m
Retail banking customer fees	**364**	381
Credit related fees	**41**	38
Insurance commissions	**25**	30
Fee and commission income	**430**	449
Fee and commission expense[1]	**(35)**	(44)
	395	405

[1] Fee and commission expense includes ATM expenses of € 5 million (2015: € 6 million) and credit card commissions of € 18 million (2015: € 28 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income or interest expense and similar charges (note 4).

7 Net trading income

	2016 **€ m**	2015 € m
Foreign exchange contracts	**55**	41
Interest rate contracts and debt securities[1]	**13**	52
Credit derivative contracts	**–**	(6)
Equity securities, index contracts and warrants[2]	**3**	8
	71	95

[1] Includes a gain of € 1 million (2015: gain of € 17 million) in relation to XVA adjustments.

[2] € 3 million (2015: € 8 million) mark to market gain on equity warrants

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2015: Nil).

8 Profit/(loss) on disposal/transfer of loans and receivables

The following table sets out details of the profit/(loss) on disposal/transfer of loans and receivables:

	2016 **€ m**	2015 € m
Loss on disposal of loans and receivables to customers	**(6)**	(27)
Gain on transfer of loans and receivables to NAMA	**17**	5
Total	**11**	(22)

NAMA finalised certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in a net release of provisions in the current year as set out above.

9 Other operating income

	2016 € m	2015 € m
Profit on disposal of available for sale debt securities	**90**	158
Loss on termination of hedging swaps(1)	**(59)**	(81)
Profit on disposal of available for sale equity securities	**272(2)**	8
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds (note 26)	**10**	6
Net gains on buy back of debt securities in issue	**1**	8
Realisation/re-estimation of cash flows on restructured loans	**85**	45
Miscellaneous operating income(3)	**4**	53
	403	197

(1)The majority of the loss on termination relates to the disposal of available for sale debt securities. In addition, it includes a € 2 million charge transferred from other comprehensive income in respect of cash flow hedges (2015: € 5 million).

(2)€ 272 million relates to the disposal of the equity interest in Visa Europe and comprises € 207 million for the cash and deferred cash component and € 65 million being the fair value of preferred stock acquired in Visa Inc.

(3)Miscellaneous operating income includes:
- Foreign exchange gains € 1 million (2015: a gain of € 15 million).
- Income on settlement of claims of Nil (2015: € 38 million).

10 Administrative expenses

	2016 € m	2015 € m
Personnel expenses:		
Wages and salaries	**563**	562
Termination benefits(1)	**24**	37
Retirement benefits(2) (note 12)	**79**	106
Social security costs	**59**	58
Other personnel expenses(3)	**17**	–
Total personnel expenses	**742**	763
General and administrative expenses:		
Bank levies and regulatory fees	**112**	71(4)
Other general and administrative expenses	**608**	770
Total general and administrative expenses	**720**	841
	1,462	1,604

(1)At 31 December 2016, a charge of € 24 million (2015: € 37 million) was made to the consolidated income statement in respect of termination benefits arising from the voluntary severance programme in operation in the Group.

(2)Comprises a charge of € 2 million relating to defined benefit expense (2015: charge of € 21 million), a defined contribution expense charge of € 71 million (2015: € 79 million) and a long term disability payments expense charge of € 6 million (2015: € 6 million (note 12)).

(3)Other personnel expenses include staff training, recruitment and various other staff costs.

(4)In 2015, € 3 million reclassified from 'Other general and administrative expenses'.

Personnel expenses of € 22 million (2015: € 34 million) were capitalised as part of the cost of intangible assets.

11 Share-based compensation schemes

The Group previously operated a number of share-based compensation schemes as outlined in this note on terms approved by the shareholders. The share-based compensation schemes which AIB Group operated in respect of ordinary shares in Allied Irish Banks, p.l.c., were:

(i) The AIB Group Share Option Scheme;
(ii) Employees' Profit Sharing Schemes; and
(iii) AIB Group Performance Share Plan 2005.

(i) AIB Group Share Option Scheme

Options were last granted under this scheme in 2005. This scheme terminated in April 2015 with all outstanding options either being forfeited or lapsed.

(ii) Employees' Profit Sharing Schemes

The Company operates the **'AIB Approved Employees' Profit Sharing Scheme 1998'** ('the Scheme') on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued. The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008.

(iii) AIB Group Performance Share Plan 2005

This plan terminated in April 2015 and there were no awards of performance shares in the year to 31 December 2015.

Income statement expense

The total expense arising from share-based payment transactions amounted to Nil for the financial year ended 31 December 2016 (2015: Nil).

12 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

On 1 January 2014, all Group staff transferred to defined contribution ("DC") schemes with a standard employer contribution of 10% plus an additional matched employer contribution, subject to limits based on age bands of 12%, 15% or 18%.

The total cost in respect of the Irish DC scheme, the EBS DC scheme and the UK DC scheme for 2016 was € 71 million (2015: € 79 million). The cost in respect of defined contributions is included in administrative expenses (note 10).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual with effect from 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme').

Retirement benefits for the defined benefit schemes 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 staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

In the main Irish Scheme, there are 16,736 members comprising 3,913 pensioners and 12,823 deferred members as at 31 December 2016. Within the deferred members, there are over 1,890 members who are currently employed by AIB Group; who had joined the Group prior to December 1997 and were not part of a hybrid pension arrangement. The hybrid pension arrangement was introduced in December 2007 and staff who joined from December 1997 had the option at that time to switch to the hybrid arrangement. Staff joining after December 2007 automatically joined the hybrid arrangement up until the defined benefit schemes closed on 31 December 2013. Over 8,330 members have benefits accrued from 2007 to 2012 under the hybrid arrangements.

In addition, there are over 270 members of the EBS Defined Benefit Schemes who are currently employed by AIB Group.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Minimum Funding Standard ("MFS") to have a funding plan in place and approved by the Pensions Authority. The objective of an MFS funding plan is to set out the necessary corrective action to restore the funding of the scheme over a reasonable time period and enable the scheme to meet the MFS, together with the additional risk reserve requirements, at a future date.

The AIB MFS funding proposal, which was agreed in 2013 under these regulatory requirements with the Pensions Authority and Trustee of the Irish Scheme, has contributions amounting to € 80 million remaining at 31 December 2016.

12 Retirement benefits *(continued)*

Funding of increases in pensions in payment for the defined benefit scheme

The Board has determined that the funding of discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Bank's financial circumstances and ability to pay; the views of the Trustees; the Bank's commercial interests and any competing obligations to the State. The Bank completed this process for 2017 and after carefully considering all the relevant interests and factors decided that funding of discretionary increases to pensions in payment was not appropriate for 2017. In accordance with the process as outlined, the Board will make its next decision on the funding of discretionary increases to pensions in payment for the Group's main Irish schemes for 2018 in early 2018.

The actuarial assumption for discretionary increases in pensions in payment has changed in line with the process outlined above from the long term inflation rate. This is reported as a remeasurement gain as part of changes to financial assumptions and included in 'Other comprehensive income' – see page 272 for further information.

A sensitivity analysis demonstrating the impact on the schemes' liabilities of a future discretionary increase to pensions in payment as at 31 December 2016 is as follows:

Percentage Increase for one year	Impact on schemes' liabilities
%	€ m
0.0	–
0.5	12
1.0	23

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the pension risk to which the Group is exposed is set out in the Risk section on page 170 of this report.

Valuations

Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes were carried out as at 30 June 2015 and 31 December 2014 respectively using Projected Unit Method. The next actuarial valuations of the Irish and UK schemes as at 30 June 2018 and 31 December 2017, will be completed by 31 March 2019 and 31 December 2018 respectively. Actuarial valuations are available for inspection by the members of the schemes.

Contributions

The total contributions to all the defined benefit pension schemes operated by the Group in the year ended 31 December 2017 are estimated to be € 64 million. Payments in the year to 31 December 2016 amounted to € 59 million, of which € 40 million related to the Irish scheme, as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

12 Retirement benefits *(continued)*

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes at 31 December 2016 and 2015. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	**2016** **%**	2015 %
Irish scheme		
Rate of increase of pensions in payment	**0.00(1)**	1.45(2)
Discount rate	**1.90**	2.70
Inflation assumptions	**1.25(3)**	1.50
UK scheme		
Rate of increase of pensions in payment	**3.20**	3.00
Discount rate	**2.70**	3.90
Inflation assumptions (RPI)	**3.20**	3.00
Other schemes		
Rate of increase of pensions in payment	**0.00 – 3.20**	0.00 – 3.00
Discount rate	**1.90 – 4.15**	2.70 – 4.35
Inflation assumptions	**1.70 – 3.20**	1.50 – 3.00

(1) Having taken actuarial and external legal advice, the Board has determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. The assumption in relation to discretionary pension increases has, therefore, been removed in relation to the Group's main Irish schemes. The assumption for 2015 was made prior to the Group undertaking this detailed review, including obtaining the actuarial and external legal advice. The Board has decided that there would be nil funding for discretionary increases in pensions in payment in the Group's main Irish pension schemes in the coming year.

[(2) Nil for the next 2 years and 1.50% per annum thereafter.

(3) Due to the non-funding of pension increases, the inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date only, resulting in a reduction in both the duration to which it applies and the rate.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2016 and 2015 are shown in the following table:

		Life expectancy - years			
		Irish scheme		**UK scheme**	
		2016	2015	**2016**	2015
Retiring today age 63					
	Males	**24.9**	24.8	**25.7**	25.6
	Females	**27.0**	26.8	**27.9**	27.8
Retiring in 10 years at age 63					
	Males	**26.1**	26.0	**26.8**	26.7
	Females	**28.2**	28.1	**29.1**	29.0

The mortality assumptions for the Irish and UK schemes were updated in 2015 to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2016 is assumed to live on average for 24.9 years for a male (25.7 years for the UK scheme) and 27 years for a female (27.9 years for the UK scheme). There will be variation between members but these assumptions are expected to be appropriate for all members. The table also shows the life expectancy for members aged 53 on 31 December 2016 who will retire in ten years. Younger members are expected to live longer in retirement than those retiring now, reflecting a decrease in mortality rates in future years due to advances in medical science and improvements in standards of living.

12 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2016 and 2015:

	2016				2015		
	Defined benefit obligation € m	**Fair value of scheme assets € m**	**Asset ceiling/ minimum funding[1] € m**	**Net defined benefit (liability) asset € m**	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit (liability) asset € m
At 1 January	**(6,343)**	**6,197**		**(146)**	(7,071)	6,007	(1,064)
Included in profit or loss							
Past service cost	**–**	**–**		**–**	(1)	–	(1)
Interest (cost) income	**(178)**	**177**		**(1)**	(177)	158	(19)
Administration costs	**–**	**(1)**		**(1)**	–	(1)	(1)
	(178)	**176**		**(2)**	(178)	157	(21)
Included in other comprehensive income							
Remeasurements (loss) gain:							
– Actuarial (loss) gain arising from:							
– Experience adjustments	**79**	**–**		**79**	(60)	–	(60)
– Changes in demographic assumptions	**(10)**	**–**		**(10)**	(10)	–	(10)
– Changes in financial assumptions	**(160)**	**–**		**(160)**	863	–	863
– Return on scheme assets excluding interest income	**–**	**470**		**470**	–	53	53
– Asset ceiling/minimum funding adjustments			**(252)**	**(252)**			
				127[2]			846[2]
Translation adjustment on non-euro schemes	**198**	**(228)**		**(30)**	(87)	95	8
	107	**242**	**(252)**	**97**	706	148	854
Other							
Contributions by employer	**–**	**59**		**59**	–	84	84
Benefits paid	**261**	**(261)**		**–**	200	(199)	1
	261	**(202)**		**59**	200	(115)	85
At 31 December	**(6,153)**	**6,413**	**(252)**	**8**	(6,343)	6,197	(146)

Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	**159**	203
– Other schemes	**7**	19
Total retirement benefit assets	**166**	222
Retirement benefit liabilities		
– Irish scheme	**(80)**	(293)
– EBS scheme	**(56)**	(55)
– Other schemes	**(22)**	(20)
Total retirement benefit liabilities	**(158)**	(368)
Net pension surplus/(deficit)	**8**	(146)

Impact of changes in actuarial assumptions included in 'Other comprehensive income' before taxation	**€ m**
Discount rates: (Irish schemes – € 840 million; UK scheme – € 335 million; Other – € 2 million)	**(1,177)**
Pensions in payment assumptions (€ 1,017 million); asset ceiling/minimum funding (negative € 252 million)	**765**
Return on scheme assets excluding interest income	**470**
Other	**69**
Total	**127[2]**

[1] In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

[2] After tax € 103 million (2015: € 743 million) see page 277.

12 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets 31 December 2016 and 2015:

	2016 **€ m**	2015 € m
Cash and cash equivalents	**344**	169
Equity instruments		
Quoted equity instruments:		
Basic materials	**73**	62
Consumer goods	**198**	206
Consumer services	**160**	166
Energy	**174**	91
Financials	**342**	330
Healthcare	**156**	172
Industrials	**190**	178
Technology	**178**	169
Telecoms	**53**	53
Utilities	**49**	47
Total quoted equity instruments	**1,573**	1,474
Unquoted equity instruments	**11**	10
Total equity instruments	**1,584**	1,484
Debt instruments		
Quoted debt instruments		
Corporate bonds	**1,055**	1,021
Government bonds	**1,078**	1,031
Total quoted debt instruments	**2,133**	2,052
Unquoted debt instruments		
Corporate bonds	**54**	53
Total debt instruments	**2,187**	2,105
Real estate(1)(2)	**304**	255
Derivatives(2)	**(26)**	14
Investment funds		
Quoted investment funds		
Alternatives	**24**	14
Bonds	**333**	421
Cash	**9**	23
Equity	**94**	91
Fixed interest	**95**	95
Forestry	**36**	36
Liability driven	**810**	728
Multi-asset	**222**	318
Property	**1**	1
Total quoted investment funds	**1,624**	1,727
Total investment funds	**1,624**	1,727
Mortgage backed securities(2)	**391**	434
Structured debt	**5**	9
Fair value of scheme assets	**6,413**	6,197

(1)Located in Europe.

(2)A quoted market price in an active market is not available.

12 Retirement benefits *(continued)*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme at 31 December 2016.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase € m	Decrease € m	Increase € m	Decrease € m
Discount rate (0.25% movement)	(198)	212	(66)	71
Inflation (0.25% movement)	57	(54)	66	(62)
Future mortality (1 year movement)	120	(120)	41	(41)

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2016 is 19 years and of the UK scheme at 31 December 2016 is 20 years.

Asset-liability matching strategies

The Irish Scheme continues to review its investment strategies which includes a consideration of the nature and duration of its liabilities. The current Minimum Funding Standard regulatory funding plan requires that the scheme's investment strategy takes account of the liabilities by the completion of the plan in 2018. The UK scheme has already implemented a de-risking strategy that has resulted in a significant investment in liability matching assets. This strategy includes the elimination of all equity investments and the investment of all assets in a combination of corporate bonds, sovereign bonds and liability matching instruments.

Funding arrangements and policy

In addition to the funding arrangement set out in 'Regulatory framework' on page 269, AIB executed a series of agreements on 22 October 2013 to give effect to an asset backed funding plan for the UK Scheme which replaced the previous funding plan. The asset backed funding plan grants the UK Scheme annual payments from 1 April 2016 to 31 December 2032. Based on the results of the December 2014 valuation, the asset backed funding plan will pay the UK Scheme £19.1 million in 2017 (2016: £ 14 million). In addition, if the 31 December 2032 actuarial valuation of the scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £ 60 million (note 47).

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long term absence from work. In 2016, the Group contributed € 6 million (2015: € 6 million) towards insuring this benefit. This amount is included in administrative expenses (note 10).

13 Writeback of provisions for impairment on financial investments available for sale

	2016 **€ m**	2015 € m
Debt securities *(note 27)*	**2**	–
	2	–

14 Profit on disposal of property

The sale of properties surplus to requirements in 2016 gave rise to profit on disposal of Nil (2015: € 3 million).

15 Profit on disposal of business

Profit on disposal of business amounted to € 1 million (2015: Nil).

16 Auditors' fees

The disclosure of Auditors' fees is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of fees paid/payable to the Group Auditors only (Deloitte Ireland) for services to the parent company in the categories set out below. All years presented are on that basis.

	2016 **€ m**	2015 € m
Auditors' fees *(excluding VAT)*:		
Audit of Group financial statements	**2.0**	3.4(1)
Other assurance services	**0.7**	4.7(2)
Other non-audit services	**1.9**	2.1
Taxation advisory services	**–**	–
	4.6	10.2

Included in the above are amounts paid to the Group Auditors, for services provided to other Group companies:

- audit € 0.3 million (2015: € 0.3 million);
- other assurance services € 0.08 million (2015: € 0.07 million); and
- other non–audit services € 0.15 million (2015 Nil).

Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. These fees include assignments where the Auditors, in Ireland, provides assurance to third parties.

The Group policy on the provision of non-audit services to the parent and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Board Audit Committee of the engagement of the Auditors for non-audit work.

The Board Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows fees paid to overseas auditors (excluding Deloitte Ireland):

	2016 **€ m**	2015 € m
Auditors' fees excluding Deloitte Ireland *(excluding VAT)*(3)	**0.54**	1.9

(1)Includes fee related to the audit of the Half-Yearly Financial Report 2015.

(2)In anticipation of an application to list on the Main Securities Market of the Irish Stock Exchange, Deloitte have been appointed as Reporting Accountant for the Group. Work commenced during 2015 and fees paid are included in "Other assurance services".

(3)In conjunction with the Prudential Regulatory Authority in the UK, Deloitte LLP were appointed to undertake a Section 166 Review in AIB Group (UK) p.l.c. in 2012. During 2016, € 0.15 million (2015: € 1.3 million) was paid to Deloitte LLP as this review has continued.

17 Taxation

	2016 € m	2015 € m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the year	(98)	(12)
Adjustments in respect of prior years	–	1
	(98)	(11)
Foreign tax		
Current tax on income for the year	(32)	(8)
Adjustments in respect of prior years	16	(2)
	(16)	(10)
	(114)	(21)
Deferred taxation		
Origination and reversal of temporary differences	(28)	(26)
Adjustments in respect of prior years	5	(11)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(97)	(234)
Impact of change in tax legislation on deferred tax asset[1]	(92)	(242)
	(212)	(513)
Total tax charge for the year	(326)	(534)
Effective tax rate	19.4%	27.9%

Factors affecting the effective tax rate

The following table explains the difference between the tax charge that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2016		2015	
	€ m	%	€ m	%
Profit before tax from continuing operations	1,682		1,914	
Tax charge at standard corporation tax rate in Ireland of 12.5%	(210)	12.5	(239)	12.5
Effects of:				
Foreign profits taxed at other rates	(15)	0.9	(21)	1.1
Expenses not deductible for tax purposes	(23)	1.4	(20)	1.1
Exempted income, income at reduced rates and tax credits	1	(0.1)	1	(0.1)
Share of results of associates shown post tax in the income statement	3	(0.2)	4	(0.2)
Income taxed at higher rates	(63)	3.7	(25)	1.3
(Deferred tax assets not recognised)/reversal of amounts previously not recognised	60	(3.6)	43	(2.2)
Other differences	2	(0.1)	–	–
Change in tax rates[1]	(10)	0.6	(23)	1.2
Adjustments to tax charge in respect of prior years	21	(1.2)	(12)	0.6
Impact of change in tax legislation on deferred tax asset[1]	(92)	5.5	(242)	12.6
Tax charge	(326)	19.4	(534)	27.9

[1] See note 32 'Deferred taxation'.

17 Taxation *(continued)*

Analysis of selected other comprehensive income

	2016			2015		
Continuing operations	**Gross €m**	**Tax €m**	**Net €m**	Gross €m	Tax €m	Net €m
Property revaluation reserves						
Net change in property revaluation reserves	**–**	**(1)**	**(1)**	–	–	–
Total	**–**	**(1)**	**(1)**	–	–	–
Retirement benefit schemes						
Actuarial gains in retirement benefit schemes	**127**	**(24)**	**103**	846	(103)	743
Total	**127**	**(24)**	**103**	846	(103)	743
Foreign currency translation reserves						
Change in foreign currency translation reserves	**(168)**	**–**	**(168)**	31	–	31
Total	**(168)**	**–**	**(168)**	31	–	31
Cash flow hedging reserves						
Fair value (gains) transferred to income statement	**(116)**	**15**	**(101)**	(59)	7	(52)
Fair value gains taken to other comprehensive income	**235**	**(28)**	**207**	30	(7)	23
Total	**119**	**(13)**	**106**	(29)	–	(29)
Available for sale securities reserves						
Fair value (gains) transferred to income statement	**(362)**	**99**	**(263)**	(166)	17	(149)
Fair value gains taken to other comprehensive income	**(116)**	**20**	**(96)**	352	(100)	252
Total	**(478)**	**119**	**(359)**	186	(83)	103

18 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held, as appropriate.

The calculation of the weighted average number of ordinary shares in issue for the year ended 31 December 2015 was adjusted for the share consolidation which occurred on 21 December 2015 with a consequent adjustment to the calculation of diluted earnings per share in respect of the number of ordinary shares that would be issuable on conversion of the contingent capital notes ("CCNs").

On 17 December 2015, AIB issued 155,147 million ordinary shares of € 0.0025 each nominal value to the NTMA (for the ISIF) on conversion of 2,140 million 2009 Preference Shares (see note 40).

The diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held as appropriate, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	**2016 € m**	2015 € m
Profit attributable to equity holders of the parent from continuing operations	**1,356**	1,380
Distribution on other equity interests	**(37)**	–
Dividends on the 2009 Preference Shares	**–**	(446)[(1)]
Profit attributable to ordinary shareholders of the parent from continuing operations	**1,319**	934
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,714.4**	2,119.3
Earnings per share from continuing operations – basic	**EUR 48.6c**	EUR 44.0c

(b) Diluted – adjusted	**2016 € m**	2015 € m
Profit attributable to ordinary shareholders of the parent from continuing operations (note 18 (a))	**1,319**	934
Dilutive effect of CCN's interest charge	**157**	252
Adjusted profit attributable to ordinary shareholders of the parent from continuing operations	**1,476**	1,186
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,714.4**	2,119.3
Dilutive effect of CCNs	**365.5**	640.0
Potential weighted average number of shares	**3,079.9**	2,759.3
Earnings per share from continuing operations - diluted	**EUR 47.9c**	EUR 43.0c

(1) Includes the annual dividend to 13 May 2015 and a dividend paid for the period from 13 May 2015 to 17 December 2015 i.e. date of conversion/redemption of the 2009 Preference Shares.

- In July 2011, AIB issued € 1.6 billion in contingent capital notes ("CCNs"). These notes were mandatorily redeemable and convertible into 640 million new AIB ordinary shares, (note 40), if the Core Tier 1 capital ratio fell below 8.25%. These incremental shares have been included in calculating the diluted per share amounts in both 2016 and 2015 because they were potentially dilutive. On 28 July 2016, AIB redeemed the CCNs at their nominal amount. Accordingly, in computing diluted earnings per share – adjusted for 2016, the amount convertible to AIB ordinary shares has been included on a time apportioned basis up to the date of redemption.

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

19 Distributions on equity shares and other equity interests

	2016 **€ m**	2015 € m
Other equity interests – distribution	**37**	–
2009 Preference shares – dividends paid	**–**	446
	37	446

A distribution amounting to € 37 million was paid on the Additional Tier 1 securities during 2016 (note 42).

A dividend amounting to € 280 million was paid in May 2015 on the 2009 Preference shares and a dividend amounting to € 166 million was paid in December 2015 on the conversion/redemption of the 2009 Preference shares.

No dividends were paid on the ordinary shares in either 2016 or 2015. Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend, when it has been declared by the Board of Directors and paid in the period. Dividends declared after the balance sheet date are disclosed in note 58.

20 Disposal groups and non-current assets held for sale

	2016 **€ m**	2015 € m
Total disposal groups and non-current assets held for sale	**11**	8

Disposal groups and non-current assets held for sale comprise property surplus to requirements and repossessed assets.

21 Trading portfolio financial assets

	2016 **€ m**	2015 € m
Equity shares	**1**	1
	1	1
Of which unlisted:		
Equity shares	**1**	1
	1	1

22 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate, equity and credit exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

The following table presents the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2016 and 2015:

	2016 **€ m**	2015 € m
Interest rate contracts[1]		
Notional principal amount	**64,882**	70,300
Positive fair value	**1,692**	1,540
Negative fair value	**(1,485)**	(1,622)
Exchange rate contracts[1]		
Notional principal amount	**4,968**	6,805
Positive fair value	**73**	67
Negative fair value	**(79)**	(64)
Equity contracts[1]		
Notional principal amount	**1,036**	2,398
Positive fair value	**49**	91
Negative fair value	**(45)**	(89)
Credit derivatives[1]		
Notional principal amount	**–**	340
Positive fair value	**–**	–
Negative fair value	**–**	(6)
Total notional principal amount	**70,886**	79,843
Total positive fair value[2]	**1,814**	1,698
Total negative fair value	**(1,609)**	(1,781)

[1] Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

[2] At 31 December 2016, 64% of fair value relates to exposures to banks (2015: 69%).

22 Derivative financial instruments *(continued)*

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk management section.

The following table analyses the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	2016				2015			
	< 1 year € m	**1 < 5 years € m**	**5 years + € m**	**Total € m**	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**21,833**	**27,243**	**21,810**	**70,886**	23,196	34,912	21,735	79,843
Positive fair value	**350**	**470**	**994**	**1,814**	158	659	881	1,698

AIB Group has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		**Positive fair value**	
	2016 € m	2015 € m	**2016 € m**	2015 € m
Republic of Ireland	**68,605**	77,071	**1,334**	1,273
United Kingdom	**2,007**	2,428	**460**	402
United States of America	**274**	344	**20**	23
	70,886	79,843	**1,814**	1,698

22 Derivative financial instruments *(continued)*

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing and by the use of Credit Support Annexes and ISDA Master Netting Agreements. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, future, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

Derivative prices fluctuate in value as the underlying interest rate or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of financial position items, the appreciation or depreciation of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, forward rate agreements, futures, options and currency swaps, as well as other contracts. The notional principal and fair value amounts for instruments held for risk management purposes entered into by the Group at 31 December 2016 and 2015, are presented within this note.

22 Derivative financial instruments *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2016 and 2015. A description of how the fair values of derivatives are determined is set out in note 49.

	2016			2015		
	Notional principal amount	**Fair values**		Notional principal amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	**10,387**	**614**	**(668)**	15,114	661	(716)
Cross-currency interest rate swaps	**455**	**52**	**(50)**	432	56	(55)
Interest rate options bought and sold	**613**	**1**	**(4)**	670	2	(3)
Total interest rate derivatives – OTC	**11,455**	**667**	**(722)**	16,216	719	(774)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	**1,470**	**10**	**(15)**	100	–	–
Total interest rate derivatives – OTC – central clearing	**1,470**	**10**	**(15)**	100	–	–
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	**2,182**	**1**	**–**	2,184	–	–
Total interest rate derivatives – exchange traded	**2,182**	**1**	**–**	2,184	–	–
Total interest rate derivatives	**15,107**	**678**	**(737)**	18,500	719	(774)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	**4,961**	**73**	**(79)**	6,736	66	(64)
Currency options bought and sold	**7**	**–**	**–**	69	1	–
Total foreign exchange derivatives	**4,968**	**73**	**(79)**	6,805	67	(64)
Equity derivatives – OTC						
Equity warrants	**2**	**2**	**–**	2	2	–
Equity index options bought and sold	**1,034**	**47**	**(45)**	2,396	89	(89)
Total equity derivatives	**1,036**	**49**	**(45)**	2,398	91	(89)
Credit derivatives – OTC						
Credit derivatives	**–**	**–**	**–**	340	–	(6)
Total credit derivatives	**–**	**–**	**–**	340	–	(6)
Total derivatives held for trading	**21,111**	**800**	**(861)**	28,043	877	(933)

22 Derivative financial instruments *(continued)*

	2016			2015		
	Notional principal amount	**Fair values Assets**	**Fair values Liabilities**	Notional principal amount	Fair values Assets	Fair values Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	**14,523**	**227**	**(387)**	16,503	321	(424)
Total derivatives designated as fair value hedges – OTC	**14,523**	**227**	**(387)**	16,503	321	(424)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	**1,218**	**23**	**(2)**	–	–	–
Total interest rate fair value hedges – OTC – central clearing	**1,218**	**23**	**(2)**	–	–	–
Total derivatives designated as fair value hedges	**15,741**	**250**	**(389)**	16,503	321	(424)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**24,704**	**619**	**(254)**	32,872	475	(319)
Cross currency interest rate swaps	**2,589**	**130**	**(61)**	2,371	24	(105)
Total interest rate cash flow hedges – OTC	**27,293**	**749**	**(315)**	35,243	499	(424)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	**6,741**	**15**	**(44)**	54	1	–
Total interest rate cash flow hedges – OTC – central clearing	**6,741**	**15**	**(44)**	54	1	–
Total derivatives designated as cash flow hedges	**34,034**	**764**	**(359)**	35,297	500	(424)
Total derivatives held for hedging	**49,775**	**1,014**	**(748)**	51,800	821	(848)
Total derivative financial instruments	**70,886**	**1,814**	**(1,609)**	79,843	1,698	(1,781)

22 Derivative financial instruments *(continued)*

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

	Within 1 year **€ m**	**Between 1 and 2 years** **€ m**	**Between 2 and 5 years** **€ m**	**More than 5 years** **€ m**	**2016** **Total** **€ m**
Forecast receivable cash flows	**35**	**19**	**65**	**169**	**288**
Forecast payable cash flows	**66**	**51**	**72**	**52**	**241**

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	2015 Total € m
Forecast receivable cash flows	27	26	155	233	441
Forecast payable cash flows	5	12	44	63	124

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

	Within 1 year **€ m**	**Between 1 and 2 years** **€ m**	**Between 2 and 5 years** **€ m**	**More than 5 years** **€ m**	**2016** **Total** **€ m**
Forecast receivable cash flows	**35**	**19**	**65**	**169**	**288**
Forecast payable cash flows	**85**	**68**	**94**	**64**	**311**

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	2015 Total € m
Forecast receivable cash flows	27	26	155	233	441
Forecast payable cash flows	29	31	78	84	222

For AIB Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges at 31 December 2016 is Nil (2015: Nil).

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and the receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges at 31 December 2016 was a gain of € 106 million (2015: a charge of € 29 million).

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily, available for sale securities and fixed rate liabilities. The fair values of financial instruments are set out in note 49. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 31 December 2016 is negative € 179 million (2015: negative € 147 million) and the net mark to market on the related hedged items at 31 December 2016 is positive € 176 million (2015: positive € 146 million).

Netting financial assets and financial liabilities

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

Details on offsetting financial assets and financial liabilities are set out in note 44.

23 Loans and receivables to banks

	2016 € m	2015 € m
Funds placed with central banks	**587**	779
Funds placed with other banks	**812**	1,560
	1,399	2,339
Amounts include:		
Reverse repurchase agreements	**–**	648

Loans and receivables to banks by geographical area[1]

	2016 € m	2015 € m
Republic of Ireland	**269**	1,030
United Kingdom	**1,127**	1,305
United States of America	**3**	4
	1,399	2,339

(1)The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and receivables to banks include cash collateral of € 494 million (2015: € 475 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties (note 44). There were no reverse repurchase agreements outstanding at 31 December 2016.

Under reverse repurchase agreements, the Group accepted collateral that it was permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted of non-government securities (bank bonds) with a fair value of Nil (2015: € 737 million). The fair value of collateral sold or repledged amounted to Nil (2015: € 43 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

24 Loans and receivables to customers

	2016 **€ m**	2015 € m
Loans and receivables to customers	**63,975**	68,578
Reverse repurchase agreements	**–**	226
Amounts receivable under finance leases and hire purchase contracts *(see below)*	**1,173**	1,049
Unquoted debt securities	**80**	219
Provisions for impairment *(note 25)*	**(4,589)**	(6,832)
	60,639	63,240
Of which repayable on demand or at short notice	**11,112**	15,270
Amounts include:		
Due from associated undertakings	**–**	–

The unwind of the discount on the carrying amount of impaired loans amounted to € 140 million (2015: € 244 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of Nil (2015: € 222 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral. In addition, loans and receivables to customers include cash collateral amounting to € 11 million (2015: € 73 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, refer to 'Risk management – 3.1 and 3.2'.

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements and hire purchase agreements involving vehicles, plant, machinery and equipment:

	2016 **€ m**	2015 € m
Gross receivables		
Not later than 1 year	**472**	447
Later than one year and not later than 5 years	**757**	653
Later than 5 years	**21**	14
	1,250	1,114
Unearned future finance income	**(81)**	(69)
Deferred costs incurred on origination	**4**	4
Total	**1,173**	1,049
Present value of minimum payments		
Not later than 1 year	**457**	434
Later than one year and not later than 5 years	**698**	604
Later than 5 years	**18**	11
Present value of minimum payments	**1,173**	1,049
Provision for uncollectible minimum payments receivable(1)	**27**	58
Net investment in new business	**668**	593

(1)Included in the provisions for impairment on loans and receivables (note 25).

25 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables. Further information on provisions for impairment is disclosed in the 'Risk management' section of this report.

	2016 € m	2015 € m
At 1 January	**6,832**	12,406
Exchange translation adjustments	**(130)**	131
Credit to income statement – customers	**(294)**	(925)
Amounts written off	**(1,829)**	(4,593)
Disposals	**–**	(195)
Recoveries of amounts written off in previous years	**10**	8
At 31 December	**4,589**	6,832
Total provisions are split as follows:		
Specific	**4,047**	6,158
IBNR	**542**	674
	4,589	6,832
Amounts include:		
Loans and receivables to customers *(note 24)*	**4,589**	6,832
	4,589	6,832

26 NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The senior bonds carry a guarantee of the Irish Government with interest payable semi-annually each March and September at a rate of six month Euribor, subject to a 0% floor. The bonds were issued on 1 March 2010 and all bonds issued on, or after, 1 March in any year will mature on or prior to 1 March in the following year. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

The following table provides a movement analysis of the NAMA senior bonds:

	2016 € m	2015 € m
At 1 January	**5,616**	9,423
Amortisation of discount	**11**	21
Repayments	**(3,838)**	(3,834)
Acceleration/re-estimation of the timing of cash flows	**10**	6
At 31 December	**1,799**	5,616

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. The assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in 2016, a gain of € 10 million has been recognised following the acceleration of repayments by NAMA (2015: a gain of € 6 million). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'.

The estimated fair value of the bonds at 31 December 2016 is € 1,807 million (2015: € 5,626 million). The nominal value of the bonds is € 1,805 million (2015: € 5,643 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A (2015: A–) i.e. the external rating of the Sovereign.

At 31 December 2016, € 729 million (2015: € 1,257 million) of NAMA senior bonds were pledged to central banks and banks (note 33).

27 Financial investments available for sale

The following table sets out at 31 December 2016 and 2015, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

2016

	Fair value €m	**Unrealised gross gains €m**	**Unrealised gross losses €m**	**Net unrealised gains/ (losses) €m**	**Tax effect €m**	**Net after tax €m**
Debt securities						
Irish Government securities	**5,114**	**458**	**(13)**	**445**	**(55)**	**390**
Euro government securities	**2,706**	**148**	**(6)**	**142**	**(18)**	**124**
Non Euro government securities	**230**	**8**	**(1)**	**7**	**(1)**	**6**
Supranational banks and government agencies	**1,719**	**64**	**(1)**	**63**	**(8)**	**55**
Collateralised mortgage obligations	**433**	**–**	**(8)**	**(8)**	**4**	**(4)**
Other asset backed securities	**12**	**–**	**–**	**–**	**–**	**–**
Euro bank securities	**4,551**	**102**	**(1)**	**101**	**(13)**	**88**
Euro corporate securities	**47**	**–**	**–**	**–**	**–**	**–**
Non Euro corporate securities	**20**	**3**	**–**	**3**	**–**	**3**
Total debt securities	**14,832**	**783**	**(30)**	**753**	**(91)**	**662**
Equity securities						
Equity securities – NAMA subordinated bonds	**466**	**419**	**–**	**419**	**(52)**	**367**
Equity securities – other	**139**	**29**	**(2)**	**27**	**(5)**	**22**
Total equity securities	**605**	**448**	**(2)**	**446**	**(57)**	**389**
Total financial investments available for sale	**15,437**	**1,231**	**(32)**	**1,199**	**(148)**	**1,051**

2015

	Fair value €m	Unrealised gross gains €m	Unrealised gross losses €m	Net unrealised gains/ (losses) €m	Tax effect €m	Net after tax €m
Debt securities						
Irish Government securities	5,406	587	–	587	(73)	514
Euro government securities	3,033	140	(3)	137	(17)	120
Non Euro government securities	245	7	(1)	6	(1)	5
Supranational banks and government agencies	2,008	78	–	78	(10)	68
Collateralised mortgage obligations	328	–	(3)	(3)	1	(2)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	4,600	81	(8)	73	(9)	64
Euro corporate securities	30	–	–	–	–	–
Non Euro corporate securities	57	3	(2)	1	–	1
Total debt securities	15,708	896	(17)	879	(109)	770
Equity securities						
Equity securities – NAMA subordinated bonds	432	385	–	385	(48)	337
Equity securities – other	349	311	(2)	309	(98)	211
Total equity securities	781	696	(2)	694	(146)	548
Total financial investments available for sale	16,489	1,592	(19)	1,573	(255)	1,318

27 Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale	**2016** **Debt securities** **€ m**	**Equity securities** **€ m**	**Total** **€ m**	2015 Debt securities € m	Equity securities € m	Total € m
At 1 January	**15,708**	**781**	**16,489**	19,772	413	20,185
Exchange translation adjustments	**(1)**	**–**	**(1)**	27	–	27
Purchases/acquisitions	**2,463**	**79**	**2,542**	4,257	13	4,270
Sales/disposals	**(3,100)**	**(277)**	**(3,377)**	(4,296)	(8)	(4,304)
Maturities	**(93)**	**–**	**(93)**	(323)	–	(323)
IAS 39 reclassifications out[1] *(note 28)*	**–**	**–**	**–**	(3,487)	–	(3,487)
Writeback of provisions for impairment	**2**	**–**	**2**	–	–	–
Amortisation of discounts net of premiums	**(110)**	**–**	**(110)**	(97)	–	(97)
Movement in unrealised gains/(losses)	**(37)**	**22**	**(15)**	(145)	363	218
At 31 December	**14,832**	**605**	**15,437**	15,708	781	16,489
Of which:						
Listed	**14,832**	**–**	**14,832**	15,708	–	15,708
Unlisted	**–**	**605**	**605**	–	781	781
	14,832	**605**	**15,437**	15,708	781	16,489

[1] Irish Government securities with a carrying value of € 3,487 million were reclassified from financial investments available for sale to financial investments held to maturity in 2015.

27 Financial investments available for sale *(continued)*

The following table sets out at 31 December 2016 and 2015, an analysis of the securities portfolio with unrealised losses, distinguishing between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months:

						2016
			Fair value			**Unrealised losses**
	Investments with unrealised losses of less than 12 months € m	**Investments with unrealised losses of more than 12 months € m**	**Total € m**	**Unrealised losses of less than 12 months € m**	**Unrealised losses of more than 12 months € m**	**Total € m**
Debt securities						
Irish Government securities	**286**	**–**	**286**	**(13)**	**–**	**(13)**
Euro government securities	**294**	**–**	**294**	**(6)**	**–**	**(6)**
Non Euro government securities	**30**	**–**	**30**	**(1)**	**–**	**(1)**
Supranational banks and government agencies	**75**	**–**	**75**	**(1)**	**–**	**(1)**
Collateralised mortgage obligations	**182**	**229**	**411**	**(4)**	**(4)**	**(8)**
Euro bank securities	**152**	**–**	**152**	**(1)**	**–**	**(1)**
Total debt securities	**1,019**	**229**	**1,248**	**(26)**	**(4)**	**(30)**
Equity securities						
Equity securities – other	**6**	**16**	**22**	**–**	**(2)**	**(2)**
Total	**1,025**	**245**	**1,270**	**(26)**	**(6)**	**(32)**

						2015
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Euro government securities	471	–	471	(3)	–	(3)
Non Euro government securities	43	–	43	(1)	–	(1)
Collateralised mortgage obligations	241	65	306	(2)	(1)	(3)
Euro bank securities	1,241	–	1,241	(8)	–	(8)
Non Euro corporate securities	–	1	1	–	(2)	(2)
Total debt securities	1,996	66	2,062	(14)	(3)	(17)
Equity securities						
Equity securities – other	5	18	23	–	(2)	(2)
Total	2,001	84	2,085	(14)	(5)	(19)

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. A writeback of impairment losses of € 2 million on debt securities (2015: Nil) has been recognised as set out in note 13.

28 Financial investments held to maturity

	2016 € m	2015 € m
Government bonds	**3,356**	3,483
Total financial investments held to maturity	**3,356**	3,483

Analysis of movements in financial investments held to maturity	2016 € m	2015 € m
At 1 January	**3,483**	–
IAS 39 reclassifications in 2015 *(note 27)*	**–**	3,487
Amortisation of fair value gain	**(127)**	(4)
At 31 December	**3,356**	3,483

Following a review of the Group's investment strategy, a decision was taken to reclassify a portfolio of Irish Government securities to held to maturity from the available for sale asset portfolio. Government bonds with a fair value of € 3,487 million were reclassified from available for sale to held to maturity in 2015. The reclassification reflects the Group's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was € 549 million. This unrealised gain is being amortised to interest income using the effective income method over the remaining life of the bonds.

Financial investments held to maturity are listed on a recognised stock exchange. Their maturity profile is set out in 'Risk management' 3.3 Liquidity risk.

29 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings as follows:

Income statement	2016 € m	2015 € m
Share of results of associated undertakings(1)	**27**	25
Reversal of impairment of associated undertakings(2)	**8**	–
	35	25

Share of net assets including goodwill	2016 € m	2015 € m
At 1 January	**70**	69
Income for the year	**27**	25
Dividends received from associates(3)	**(40)**	(24)
Reversal of impairment of associated undertakings	**8**	–
At 31 December(4)	**65**	70
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**65**	70
Of which listed on a recognised stock exchange	**–**	–

(1)Includes profit: AIB Merchant Services € 22 million (2015: € 21 million); Aviva Undershaft Five Limited € 5 million (2015: € 4 million); and other associates Nil (2015: Nil).

(2)Reversal of impairment of associated company: Aviva Undershaft Five Limited € 8 million (2015: Nil).

(3)Includes dividends received from: AIB Merchant Services € 16 million (2015: € 19 million); Aviva Undershaft Five Limited € 24 million (2015: € 4 million).

(4)Includes the Group's investments in AIB Merchant Services and Aviva Undershaft Five Limited. Aviva Undershaft Five Limited previously known as Aviva Health Group Ireland Limited, with a carrying value of € 2 million, is in the process of being liquidated at 31 December 2016.

29 Interests in associated undertakings *(continued)*

The following is the principal associate company of the Group at 31 December 2016 and 2015:

Name of associate	**Principal activity**	**Place of incorporation and operation**	**Proportion of ownership interest and voting power held by the Group at**	
			2016 **%**	2015 %
Zolter Services d.a.c. trading as AIB Merchant Services	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park Clonskeagh, Dublin 4 Ireland	**49.9**	49.9

All of the associates are accounted for using the equity method in these consolidated financial statements.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates at 31 December 2016 or 2015.

Change in the Group's ownership interest in associates

There was no change in the ownership interest in associates.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

Notes to the consolidated financial statements

30 Intangible assets

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2016 Total € m
Cost					
At 1 January	293	479	120	3	895
Additions	18	41	114	–	173
Transfers in/(out)	–	61	(61)	–	–
Exchange translation adjustments	–	(1)	–	–	(1)
At 31 December	311	580	173	3	1,067
Amortisation/impairment					
At 1 January 2016	266	337	–	3	606
Amortisation for the year	13	42	–	–	55
Impairment for the year	8	3	4	–	15
Exchange translation adjustments	–	(1)	–	–	(1)
At 31 December	287	381	4	3	675
Carrying value at 31 December	24	199	169	–	392

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2015 Total € m
Cost					
At 1 January	286	442	40	3	771
Additions	15	47	94	–	156
Transfers in/(out)	–	14	(14)	–	–
Amounts written off [(1)]	(8)	(25)	–	–	(33)
Exchange translation adjustments	–	1	–	–	1
At 31 December	293	479	120	3	895
Amortisation/impairment					
At 1 January	264	333	–	3	600
Amortisation for the year	10	29	–	–	39
Impairment for the year	–	–	–	–	–
Amounts written off[(1)]	(8)	(25)	–	–	(33)
Exchange translation adjustments	–	–	–	–	–
At 31 December	266	337	–	3	606
Carrying value at 31 December	27	142	120	–	289

[(1)] Relates to assets which are no longer in use with a Nil carrying value.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 52.

31 Property, plant and equipment

						2016
	Property			Equipment	Assets	Total
	Freehold € m	Long leasehold € m	Leasehold under 50 years € m	€ m	under construction € m	
Cost						
At 1 January	217	91	121	491	25	945
Transfers in/(out)	3	2	7	4	(16)	–
Additions	1	–	6	35	13	55
Disposals	–	–	–	(1)	–	(1)
Exchange translation adjustments	(4)	(1)	(2)	(5)	(1)	(13)
At 31 December	217	92	132	524	21	986
Depreciation/impairment						
At 1 January	73	34	82	412	–	601
Transfers in/(out)	(4)	2	–	2	–	–
Depreciation charge for the year	6	2	7	24	–	39
Disposals	–	–	–	(1)	–	(1)
Exchange translation adjustments	(3)	(1)	(2)	(4)	–	(10)
At 31 December	72	37	87	433	–	629
Carrying value at 31 December	145	55	45	91	21	357

						2015
	Property			Equipment	Assets	Total
	Freehold € m	Long leasehold € m	Leasehold under 50 years € m	€ m	under construction € m	€ m
Cost						
At 1 January	174	88	119	473	8	862
Transfers in/(out)	1	1	2	1	(5)	–
Additions	41	2	5	19	22	89
Disposals	–	–	–	(2)	–	(2)
Amounts written off[(1)]	–	–	(6)	(2)	–	(8)
Exchange translation adjustments	1	–	1	2	–	4
At 31 December	217	91	121	491	25	945
Depreciation/impairment						
At 1 January	68	32	80	392	–	572
Depreciation charge for the year	4	2	7	22	–	35
Disposals	–	–	–	(2)	–	(2)
Amounts written off[(1)]	–	–	(6)	(2)	–	(8)
Exchange translation adjustments	1	–	1	2	–	4
At 31 December	73	34	82	412	–	601
Carrying value at 31 December	144	57	39	79	25	344

[(1)] Relates to assets which are no longer in use with a Nil carrying value.

The carrying value of property occupied by the Group for its own activities was € 242 million (2015: € 237 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by AIB Group had a carrying value of € 3 million (2015: € 3 million).

Future capital expenditure in relation to both property plant and equipment and intangible assets is set out in note 52.

32 Deferred taxation

	2016 € m	2015 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	–	1
Retirement benefits	27	15
Assets leased to customers	6	9
Unutilised tax losses	3,050	3,201
Other	22	50
Total gross deferred tax assets	3,105	3,276
Deferred tax liabilities:		
Cash flow hedges	(67)	(54)
Retirement benefits	(40)	–
Amortised income on loans	(12)	(18)
Assets used in business	(12)	(14)
Available for sale securities	(161)	(280)
Other	(66)	(13)
Total gross deferred tax liabilities	(358)	(379)
Net deferred tax assets	2,747	2,897
Represented on the statement of financial position as follows:		
Deferred tax assets	2,828	2,897
Deferred tax liabilities	(81)	–
	2,747	2,897

For each of the years ended 31 December 2016 and 2015, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2016 € m	2015 € m
At 1 January	2,897	3,576
Exchange translation and other adjustments	(19)	20
Deferred tax through other comprehensive income	81	(186)
Income statement – Continuing operations *(note 17)*	(212)	(513)
At 31 December	2,747	2,897

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 ‘Critical accounting judgements and estimates’ on pages 257 to 259. Information on the regulatory capital treatment of deferred tax assets is included in ‘Principal risks and uncertainties’ on page 58.

At 31 December 2016, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,747 million (2015: € 2,897 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provisions for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 31 December 2016 of € 2,651 million (2015: € 2,722 million) are expected to be recovered after more than 12 months.

For AIB’s principal UK subsidiary, the Group has concluded that the recognition of deferred tax assets be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its profits arising as being more likely than not.

32 Deferred taxation *(continued)*

With effect from 1 April 2015, legislation was introduced in the UK whereby only 50% of a bank's annual trading profits can be sheltered by unused tax losses arising before that date, accordingly, the Group's UK deferred tax asset was reduced by € 242 million in 2015.

Furthermore, in November 2015, UK legislation was enacted to reduce the UK corporation tax rate to 19% from April 2017 with a further reduction to 18% from April 2020.

In addition, an 8% corporation tax surcharge was introduced which applies to banking profits from January 2016, subject to an annual exemption for the first £ 25 million of profits. Taxable profits for the purpose of the surcharge cannot be reduced by pre-2016 tax losses.

Effective from 1 April 2016, UK legislation further reduced the amount of annual taxable profits a bank can shelter with unused tax losses arising before 1 April 2015 from 50% to 25% and resulted in a reduction of € 92 million in the UK deferred tax asset. In addition, the legislation provided that the UK corporation tax rate will reduce to 17% from 1 April 2020.

These changes have been reflected in the carrying value of deferred tax assets and liabilities at 31 December 2016 and 2015.

For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

The Group has not recognised deferred tax assets in respect of; Irish tax on unused tax losses of € 122 million (2015: € 305 million); overseas tax (UK and USA) on unused tax losses of € 3,315 million (2015: € 3,475 million); and foreign tax credits for Irish tax purposes of € 3 million (2015: € 3 million). Of these tax losses totalling € 3,437 million for which no deferred tax is recognised: € 33 million expire in 2032; € 42 million in 2033; € 27 million in 2034; and € 5 million in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (31 December 2015: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2015: Nil).

Analysis of income tax relating to total comprehensive income

				2016
	Gross	**Tax**	**Net of tax**	**Net amount attributable to owners of the parent**
	€ m	**€ m**	**€ m**	**€ m**
Profit for the year	1,682	(326)	1,356	1,356
Exchange translation adjustments	(168)	–	(168)	(168)
Net change in cash flow hedge reserves	119	(13)	106	106
Net change in fair value of available for sale securities	(478)	119	(359)	(359)
Net actuarial gains in retirement benefit schemes	127	(24)	103	103
Net change in property revaluation reserves	–	(1)	(1)	(1)
Total comprehensive income for the year	1,282	(245)	1,037	1,037
Attributable to:				
Owners of the parent	1,282	(245)	1,037	1,037

32 Deferred taxation *(continued)*

Analysis of income tax relating to total comprehensive income

				2015
	Gross € m	Tax € m	Net of tax € m	Net amount attributable to owners of the parent € m
Profit for the year	1,914	(534)	1,380	1,380
Exchange translation adjustments	31	–	31	31
Net change in cash flow hedge reserves	(29)	–	(29)	(29)
Net change in fair value of available for sale securities	186	(83)	103	103
Net actuarial gains in retirement benefit schemes	846	(103)	743	743
Total comprehensive income for the year	2,948	(720)	2,228	2,228
Attributable to:				
Owners of the parent	2,948	(720)	2,228	2,228

33 Deposits by central banks and banks

	2016 **€ m**	2015 € m
Central banks		
Eurosystem refinancing operations[1]	**1,900**	2,900
Other borrowings	**12**	50
	1,912	2,950
Banks		
Securities sold under agreements to repurchase	**4,973**	10,153
Other borrowings – secured	**150**	350
– unsecured	**697**	410
	5,820	10,913
	7,732	13,863
Amounts include:		
Due to associated undertakings	**–**	–

[1] Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

Securities sold under agreements to repurchase (note 47) and Eurosystem refinancing operations, with the exception of € 1.9 billion funded through the ECB two year Targeted Long Term Refinancing Operation II ("TLTRO II") mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. Repurchase agreements with ECB are completed under a Master Repurchase Agreement.

In addition, the Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil (2015: Nil).

Deposits by central banks and banks include cash collateral of € 268 million (2015: € 182 million) received from derivative counterparties in relation to net derivative positions (note 44) and also from repurchase agreement counterparties.

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

			2016			2015
	Central banks **€ m**	**Banks** **€ m**	**Total** **€ m**	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**3,293**	**5,239**	**8,532**	5,357	10,829	16,186
Of which:						
Government securities[1]	**498**	**3,891**	**4,389**	20	8,364	8,384
Other securities	**2,795**[2]	**1,348**	**4,143**	5,337[2]	2,465	7,802

[1] Includes NAMA senior bonds.

[2] The Group has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

(b) At 31 December 2015, the Group had securitised credit card receivables with a carrying value of € 292 million as described in note 47. Funding received from external investors was included above in 'Other borrowings - secured' and was secured on both existing and future credit card receivables. This securitisation structure was terminated in November 2016.

34 Customer accounts

	2016 € m	2015 € m
Current accounts	**29,721**	25,955
Demand deposits	**12,663**	11,698
Time deposits	**20,496**	24,825
Securities sold under agreements to repurchase[1]	**622**	905
	63,502	63,383
Of which:		
Non-interest bearing current accounts	**25,748**	21,907
Interest bearing deposits, current accounts and short-term borrowings	**37,754**	41,476
	63,502	63,383
Amounts include:		
Due to associated undertakings	**271**	201

(1The Group pledged government available for sale securities with a fair value of € 220 million (2015: € 627 million) and non-government available for sale securities with a fair value of € 420 million (2015: € 302 million) as collateral for these facilities and providing access to future funding facilities (see note 44 for further information).

Customer accounts include cash collateral of € 60 million received from derivative counterparties in relation to net derivative positions (note 44).

At 31 December 2016, the Group's five largest customer deposits amounted to 3% (2015: 5%) of total customer accounts.

35 Trading portfolio financial liabilities

	2016 € m	2015 € m
Debt securities:		
Government securities	**–**	86
	–	86

For contractual residual maturity see 'Risk management' – 3.4 Liquidity risk.

36 Debt securities in issue

	2016 € m	2015 € m
Bonds and medium term notes:		
European medium term note programmes	**1,000**	1,555
Bonds and other medium term notes	**5,733**	5,346
	6,733	6,901
Other debt securities in issue:		
Commercial paper	**147**	100
	6,880	7,001

Debt securities issued during the year amounted to € 1,389 million (2015: € 3,522 million) of which: € 1,000 million relates to a covered bond issuance (2015: € 1,500 million); Nil relates to an EMTN bond issuance (2015: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 1,509 million (2015: € 4,397 million) of which € 9 million (2015: € 129 million) related to securities repurchased as part of a debt buyback programme.

37 Other liabilities

	2016 € m	2015 € m
Notes in circulation	**366**	425
Items in transit	**122**	163
Creditors	**10**	10
Fair value of hedged liability positions	**146**	203
Other	**329**	307
	973	1,108

38 Provisions for liabilities and commitments

							2016
	Liabilities and charges	**NAMA[1] provisions**	**Onerous[2] contracts**	**Legal claims**	**Other[3] provisions**	**Voluntary severance scheme**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January	**49**	**39**	**13**	**32**	**249**	**–**	**382**
Transfers in	**–**	**(12)**	**–**	**–**	**–**	**–**	**(12)**
Exchange translation adjustments	**–**	**–**	**(1)**	**(1)**	**(6)**	**–**	**(8)**
Charged to income statement	**2[4]**	**14[1]**	**4**	**6**	**56**	**–**	**82**
Released to income statement	**(4)[4]**	**(31)[1]**	**(2)**	**(4)**	**(15)**	**–**	**(56)**
Provisions utilised	**–**	**(8)**	**(2)**	**(1)**	**(131)**	**–**	**(142)**
At 31 December	**47**	**2**	**12**	**32**	**153**	**–**	**246[5]**

							31 December 2015
	Liabilities and charges	NAMA[1] provisions	Onerous[2] contracts	Legal claims	Other[3] provisions	Voluntary severance scheme	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	60	33	51	32	81	1	258
Transfers in	–	14	–	–	–	–	14
Exchange translation adjustments	–	–	3	–	4	–	7
Charged to income statement	11[4]	7[1]	–	4	201	4	227
Released to income statement	(22)[4]	(12)[1]	(11)	(3)	(9)	–	(57)
Provisions utilised	–	(3)	(30)	(1)	(28)	(5)	(67)
At 31 December	49	39	13	32	249	–	382[5]

Provisions for customer redress and related matters (included in 'Other provisions')

In December 2015, the Central Bank of Ireland ("CBI"), requested the Irish banking industry, including AIB, to conduct a broad examination of tracker mortgage related issues, comprising of a review of mortgage loan books (including both PDH and Buy-to-let properties and loans that have been redeemed and/or sold), to assess compliance with both contractual and regulatory requirements. In situations where customer detriment is identified from this examination, AIB is required to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'.

At 31 December 2015, the Group had provided € 190 million for customer redress. This provision related to the expected outflow for compensation/refunds of interest to customers in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably expect. The provision covered various compensations and costs arising from this issue.

Considerable progress was made throughout 2016 in identifying impacted customers and in calculating and making redress. To date € 93 million of the provision has been utilised covering both redress and related costs leaving a residual provision of € 97 million at 31 December 2016 (€ 40 million for customer redress and € 57 million for various ancillary external costs and other matters).

Given that the grounds on which the provisions have been estimated could prejudice the position of the Group, further information as required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed.

[1] NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA.

[2] Provisions for the unavoidable costs expected to arise from the closure of properties which are surplus to requirements.

[3] Includes € 139 million (2015: € 232 million) provisions for customer restitution. These relate to redress provisions under the CBI "Principles for Redress" (see above), payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance, and other miscellaneous provisions.

[4] Included in writeback of provisions for liabilities and commitments in income statement.

[5] The total provisions for liabilities and commitments expected to be settled within one year amount to € 141 million (2015: € 290 million).

39 Subordinated liabilities and other capital instruments

	2016 € m	2015 € m
Allied Irish Banks, p.l.c.		
€ 1.6bn Contingent Capital Tier 2 Notes due 2016		
Proceeds of issue	**1,600**	1,600
Fair value adjustment on initial recognition	**(447)**	(447)
Amortisation	**447**	371
	1,600	1,524
Redemption	**(1,600)**	–
	–	1,524
Dated loan capital – European Medium Term Note Programme:		
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	**750**	750
€ 500m Callable Step-up Floating Rate Notes due October 2017		
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	**8**	8
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	**32**	35
£ 500m Callable Fixed/Floating Rate Notes due March 2025		
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	**1**	1
	791	794
	791	2,318

Maturity of dated loan capital	2016 € m	2015 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**791**	794

€ 1.6bn Contingent Capital Tier 2 Notes due 2016

On 26 July 2011, AIB issued € 1.6 billion in nominal value of Contingent Capital Tier 2 Notes (‘CCNs’) to the Minister for Finance of Ireland (‘the Minister’) for cash consideration of € 1.6 billion. The fair value of these notes at initial recognition was € 1,153 million with € 447 million being accounted for as a capital contribution from the Minister (note 51 (f)). Interest was payable annually in arrears on the nominal value of the notes at a fixed rate of 10% per annum. The CCNs were unsecured and subordinated obligations of AIB. The notes matured on 28 July 2016 and were redeemed at their nominal value of € 1.6 billion.

39 Subordinated liabilities and other capital instruments *(continued)*

Dated loan capital

The dated loan capital in this section, issued under the European Medium Term Note Programme, is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

(a) € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, AIB issued € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020.

These notes mature on 26 November 2025 but can be redeemed in whole, but not in part, at the option of AIB on the optional redemption date on 26 November 2020, subject to the approval of the Financial Regulator, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 4.125%, payable annually in arrears on 26 November each year. The interest rate will be reset on 26 November 2020 to Eur 5 year Mid Swap rate plus the initial margin of 395 basis points.

(b) Other dated subordinated loan capital

Following the liability management exercises in 2011 and the Subordinated Liabilities Order (“SLO”) in April 2011, residual balances remained on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan agreements. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of AIB. These instruments will amortise to their nominal value in the period to their maturity in 2035.

40 Share capital

	2016		2015	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,714.4**	**1,696**	2,714.4	1,696

2016

There were no movements in the ordinary share capital in the financial year to 31 December 2016.

2015

Capital reorganisation

Ordinary shares and 2009 Preference shares

Arising from, inter alia, a requirement to return State aid to the Irish Government in line with AIB's obligations under the EU Restructuring Plan, to create a sound and sustainable capital base on which to grow its business and to meet regulatory requirements under CRD IV and the BRRD, AIB implemented a number of measures in order to reorganise its capital following resolutions passed at the EGM of shareholders held on 16 December 2015 ('the EGM'). These measures impacted ordinary share capital, 2009 Preference Share capital, share premium and revenue reserves and are outlined below under the following key steps:

- 2009 Preference Share conversion;
- 2009 Preference Share redemption;
- Ordinary share consolidation; and
- Changes to authorised share capital.

2009 Preference Shares

On 13 May 2009, AIB issued 3,500 million non-cumulative redeemable preference shares to the Minister for Finance for a subscription price of € 3.5 billion (nominal price of € 0.01 per share). The shares carried a fixed non-cumulative dividend at a rate of 8% per annum, payable annually in arrears at the discretion of AIB. On 13 May 2015, this dividend, amounting to € 280 million was paid in cash.

Under the terms of the agreement with the Minister for Finance, these 2009 Preference Shares were redeemable at the option of AIB from distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital (now CET 1) which if redeemed more than five years after issue, at a price of € 1.25 per share i.e. a 25 per cent step up on the subscription price.

On 20 November 2015, in connection with the Capital Reorganisation, the 2009 Preference Share Conversion and Redemption Agreement was made between AIB, the Minister for Finance and the NTMA and was approved at the EGM held on 16 December 2015. Under this agreement, AIB agreed to convert 2,140 million of the 2009 Preference Shares into ordinary shares at their subscription price of € 2,140 million plus a 25 per cent step up (€ 2,675 million in total).

On 17 December 2015, in accordance with the terms of the 2009 Preference Shares in the Constitution of the Company, AIB redeemed the remaining 2009 Preference Shares (1,360 million shares) for cash at their subscription price of € 1,360 million plus the 25 per cent step up (total € 1,700 million).

40 Share capital *(continued)*

2009 Preference Share conversion

For the purpose of converting € 2,675 million into ordinary shares, AIB and the Minister for Finance agreed a fair value of € 0.01724176 per € 0.0025 ordinary share. This required 155,146,574,363 ordinary shares to satisfy the conversion.

In order to convert the 2009 Preference Shares of € 0.01 per share (paid up to € 1.00, inclusive of premium paid upon issue) into ordinary shares of € 0.0025 each, each converting preference share was sub-divided into four 2009 Preference Shares of € 0.0025 each which resulted in 8,560 million new 'sub-divided Preference shares' in issue.

Each sub-divided Preference Share was re-designated as one ordinary share of € 0.0025 in part satisfaction for the conversion. This re-designation of the 2009 Preference Shares to ordinary shares amounted to € 21.4 million.

In addition, bonus ordinary shares with a nominal value € 0.0025 were issued to the NTMA for the residual number of shares due on conversion. The number of bonus shares was calculated as the total entitlement in respect of converting shares i.e. 155,146,574,363 less the number of shares re-designated from 2009 Preference Shares to ordinary shares i.e. 146,586,574,363 shares.

The bonus shares issue resulted in a transfer of the nominal value of each ordinary share issued from share premium to ordinary share capital which totalled € 366 million.

The effective date for the 2009 Preference Share conversion was 17 December 2015.

2009 Preference Share redemption

Immediately following the conversion on 17 December 2015 of 2,140 million of the 2009 Preference Shares into ordinary shares, AIB redeemed the remaining 1,360 million of the 2009 Preference Shares (nominal value of € 13.6 million) at a price equal to 125 per cent of the subscription price per share on issue. Total cost of redemption was € 1,700 million. This transaction was reflected as a reduction in revenue reserves and, in accordance with the Companies Act 2014, the nominal value of the shares redeemed was transferred from the share capital account to capital redemption reserves.

Dividend paid on conversion/redemption

A dividend for the period from the last dividend payment date of 13 May 2015 up to the date of conversion/redemption of the 2009 Preference Shares, amounting to € 166 million, was paid in cash to the NTMA (for the ISIF) on 17 December 2015.

Ordinary share consolidation

At 17 December 2015, following the issue of ordinary shares to the NTMA (for the ISIF) on conversion of the 2009 Preference Shares as outlined above, the total number of ordinary shares with a nominal value of €0.0025 per share in issue amounted to 678,585,019,800 (after deduction of 35,680,114 treasury shares which were cancelled on 17 December 2015 (note 41)).

A Consolidation Resolution, passed at the EGM, resolved that all ordinary shares with a nominal value of € 0.0025 ('existing ordinary shares') be consolidated so that for every 250 shares held by a shareholder, that shareholder will hold one 'new' ordinary share with a nominal value of € 0.625 after the consolidation. In addition, where residual fractions remained following the division of a shareholder's holding into 'new ordinary shares', the shareholding was rounded up by the allotment of new shares to shareholders by way of bonus issue to ensure that no fractions remained following consolidation.

On 21 December 2015, AIB allotted 10,289,700 ordinary shares with a nominal value of € 0.0025 per share (total € 25,724) as bonus shares on the rounding up of shareholdings resulting in a transfer from share premium account to ordinary share capital.

The total number of new shares of nominal value € 0.625 each arising from consolidation amounted to 2,714,381,238 (€ 1,696 million) which was effective on 21 December 2015.

The rights attaching to the 'new ordinary shares' are identical in all respects to the 'existing ordinary shareholders' including voting and dividend rights and rights on a return of capital.

Changes to authorised share capital

All authorised but unissued 2009 Preference Shares and authorised but unissued sub-divided 2009 Preference Shares were cancelled following the conversion/redemption of the 2009 Preference Shares and the completion of the ordinary share consolidation.

In addition, the authorised share capital of the Company was increased by the creation of such new ordinary shares of € 0.625 each as was necessary to result in the authorised share capital being 4,000 million shares (€ 2,500 million).

40 Share capital *(continued)*

Movements in share capital

The following tables show the movements in share capital in the statement of financial position during the financial year:

Issued share capital	**2016 € m**	2015 € m
At 1 January:		
Ordinary shares	**1,696**	1,309
Preference shares	**–**	35
	1,696	1,344
2009 Preference Shares subdivision into € 0.0025 each nominal for conversion to ordinary shares	**–**	(21)
2009 Preference Shares redemption for cash	**–**	(14)
	–	(35)
Ordinary shares issued on conversion of 2009 Preference Shares	**–**	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	**–**	366
Consolidation of ordinary shares of nominal value € 0.0025 each into ordinary shares of nominal value € 0.625 each	**–**	1,696
Cancellation of ordinary shares of nominal value € 0.0025 each	**–**	(1,696)
At 31 December	**1,696**	1,696
Of which:		
Ordinary shares	**–**	1,696
2009 Preference Shares	**–**	–
	1,696	1,696

Share premium	**2016 € m**	2015 € m
At 1 January	**1,386**	1,752
Bonus ordinary shares issued on conversion of 2009 Preference Shares	**–**	(366)
At 31 December	**1,386**	1,386

Structure of the Company's share capital as at 31 December 2016	**Authorised share capital %**	**Issued share capital %**
Class of share		
Ordinary share capital	**100**	**100**

The following table shows the Group's capital resources at 31 December 2016 and 2015:

Capital resources	**2016 € m**	2015 € m
Equity	**13,148**	12,148
Contingent capital notes *(note 39)*	**–**	1,524
Dated capital notes *(note 39)*	**791**	794
Total capital resources	**13,939**	14,466

41 Own shares

Following approval by the Board on 17 December 2015, AIB cancelled all its outstanding treasury shares and in accordance with Section 106 of the Companies Act 2014, the nominal value of the shares cancelled, amounting to € 89,200, was transferred from the ordinary share capital account to the capital redemption reserve account. The balance on the treasury shares account was transferred to revenue reserves account.

The company did not reissue any ordinary shares from its pool of treasury shares since 2008.

Employee share schemes and trusts

In the past, the Group sponsored a number of employee share schemes whereby purchases of shares were made in the open market to satisfy commitments under the various schemes.

At 31 December 2016, 5,820 shares (2015: 5,820 shares) were held by trustees with a carrying value of € 23 million (2015: € 23 million), and a market value of € 0.029 million (2015: € 0.039 million). The carrying value is deducted from revenue reserves while the shares continue to be held by the Group.

42 Other equity interests

	2016 € m	2015 € m
At 1 January	**494**	–
Additional Tier 1 securities issued	**–**	500
Transaction costs(1)	**–**	(6)
At 31 December	**494**	494

(1)Taxation Nil.

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

On 3 December 2015, as part of its capital reorganisation, AIB issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as equity in the statement of financial position, are included in AIB's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Interest on the securities, at a fixed rate of 7.375% per annum, is payable semi-annually in arrears on 3 June and 3 December, commencing on 3 June 2016. On the first reset date on 3 December 2020, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year rate plus a margin of 7.339%. AIB has sole and absolute discretion at all times to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. In addition, there are certain limitations on the payment of interest if such payments are prohibited under Irish banking regulations or regulatory capital requirements, if AIB has insufficient reserves available for distribution or if AIB fails to satisfy the solvency condition as defined in the securities' terms. Any interest not paid on an interest payment date by reason of the provisions as to cancellation of interest or by reason of the solvency condition set out in the terms and conditions, will not accumulate or be payable thereafter.

The securities are perpetual securities with no fixed redemption date. AIB may, in its sole and full discretion, redeem all (but not some only) of the securities 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 Single Supervisory Mechanism/Central Bank of Ireland who has set out certain conditions in relation to redemption, purchase, cancellation and modification of these securities. In addition, the securities are redeemable at the option of AIB for certain regulatory or tax reasons.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares) and with the holders of preference shares, if any, which have a preferential right to a return of assets in a winding-up of AIB. They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors.

If the CET1 ratio of Allied Irish Banks p.l.c. or the Group at any time falls below 7% (a Trigger Event) and is not in winding-up, subject to certain conditions AIB may write down the AT1s by the lower of the amount necessary to generate sufficient common equity tier 1 capital to restore the CET1 ratio to 7% or the amount that would reduce the prevailing principal amount to zero. To the extent permitted, in order to comply with regulatory capital and other requirements, AIB may at its sole and full discretion reinstate any previously written down amount.

43 Capital reserves and capital redemption reserves

Capital reserves	**2016** Capital contribution reserves € m	**2016** Other capital reserves € m	**2016** Total € m	2015 Capital contribution reserves € m	2015 Other capital reserves € m	2015 Total € m
At 1 January	**1,382**	**178**	**1,560**	1,780	178	1,958
Transfer to revenue reserves:						
Anglo business transfer	**(285)**	**–**	**(285)**	(285)	–	(285)
CCNs issuance *(note 39)*	**(76)**	**–**	**(76)**	(113)	–	(113)
	(361)	**–**	**(361)**	(398)	–	(398)
At 31 December	**1,021**	**178**	**1,199**	1,382	178	1,560

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy number ab in note 1. The transfers to revenue reserves relate to the capital contributions being deemed distributable. The capital contribution reserves which arose on the issue of the CCNs are now deemed to be fully distributable as the CCNs have been repaid in full.

In addition, on 28 July 2011, the Minister for Finance ('the Minister') and the NPRFC(1) agreed to contribute € 2,283 million and € 3,771 million respectively (total € 6,054 million) as capital contributions to AIB for Nil consideration. These capital contributions constitute CET 1 capital for regulatory purposes and are included within 'Revenue reserves'. Neither the Minister nor the NPRFC(1) has an entitlement to seek repayment of these capital contributions.

(1)Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

Capital redemption reserves	**2016** € m	2015 € m
At 1 January	**14**	–
Transfer from 2009 Preference Share capital *(note 40)*	**–**	14
At 31 December	**14**	14

2015

On 17 December 2015, AIB redeemed 1,360 million of the 2009 Preference Shares (nominal value € 13.6 million) which was reflected as a transfer to the capital redemption reserve account from the 2009 Preference Share capital account in accordance with the Companies Act 2014 (note 40).

On 17 December 2015, AIB cancelled its holding of treasury shares (note 41). This resulted in the transfer of the nominal value of shares cancelled (€ 89,200) from the ordinary share capital account to capital redemption reserves.

44 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to enforceable master netting arrangements or similar agreements that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and receivables and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

The Group has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 971 million (2015: € 1,052 million).

The Group's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase agreements
- reverse sale and repurchase agreements
- securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ('CSAs'), which enable the Group to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The CSAs in place provide collateral for derivative contracts. At 31 December 2016, € 487 million (2015: € 514 million) of CSAs are included within financial assets and € 322 million (2015: € 201 million) of CSAs are included within financial liabilities.

44 Offsetting financial assets and financial liabilities *(continued)*

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2016 and 2015:

							2016
			Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial assets	**Note**	Gross amounts of recognised financial assets € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	22	1,316	–	1,316	(971)	(322)	23
Loans and receivables to banks –							
Reverse repurchase agreements	23	350	(350)	–	–	–	–
Total		1,666	(350)	1,316	(971)	(322)	23

							2016
			Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	33	5,323	(350)	4,973	(4,999)	(12)	(38)
Customer accounts –							
Securities sold under agreements to repurchase	34	622	–	622	(641)	–	(19)
Derivative financial instruments	22	1,468	–	1,468	(971)	(487)	10
Total		7,413	(350)	7,063	(6,611)	(499)	(47)

44 Offsetting financial assets and financial liabilities *(continued)*

					Related amounts not offset in the statement of financial position		2015
Financial assets	**Note**	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	22	1,245	–	1,245	(1,052)	(201)	(8)
Loans and receivables to banks –							
Reverse repurchase agreements	23	648	–	648	(737)	–	(89)
Loans and receivables to customers –							
Reverse repurchase agreements	24	226	–	226	(222)	–	4
Total		2,119	–	2,119	(2,011)	(201)	(93)

					Related amounts not offset in the statement of financial position		2015
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	33	10,153	–	10,153	(10,571)	(20)	(438)
Customer accounts –							
Securities sold under agreements to repurchase	34	905	–	905	(928)	(1)	(24)
Derivative financial instruments	22	1,605	–	1,605	(1,052)	(514)	39
Total		12,663	–	12,663	(12,551)	(535)	(423)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and receivables to banks – amortised cost;
- loans and receivables to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

44 Offsetting financial assets and financial liabilities *(continued)*

The following table reconciles the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2016 and 2015:

				2016
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	1,316	Derivative financial instruments	1,814	498
Loans and receivables to banks –				
Reverse repurchase agreements	–	Loans and receivables to banks	1,399	1,399
Loans and receivables to customers –				
Reverse repurchase agreements	–	Loans and receivables to customers	60,639	60,639

				2016
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	4,973	Deposits by central banks and banks	7,732	2,759
Customer accounts –				
Securities sold under agreements to repurchase	622	Customer accounts	63,502	62,880
Derivative financial instruments	1,468	Derivative financial instruments	1,609	141

44 Offsetting financial assets and financial liabilities *(continued)*

				2015
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,245	Derivative financial instruments	1,698	453
Loans and receivables to banks –				
Reverse repurchase agreements	648	Loans and receivables to banks	2,339	1,691
Loans and receivables to customers –				
Reverse repurchase agreements	226	Loans and receivables to customers	63,240	63,014

				2015
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	10,153	Deposits by central banks and banks	13,863	3,710
Customer accounts –				
Securities sold under agreements to repurchase	905	Customer accounts	63,383	62,478
Derivative financial instruments	1,605	Derivative financial instruments	1,781	176

45 Memorandum items: contingent liabilities and commitments, and contingent assets

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated statement of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on balance sheet lending'.

The following tables give the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2016 € m	2015 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**527**	735
Other contingent liabilities	**383**	640
	910	1,375
Commitments[2]		
Documentary credits and short-term trade-related transactions	**62**	39
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**7,760**	7,206
1 year and over[4]	**2,467**	2,502
	10,289	9,747
	11,199	11,122

[1] Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

[2] A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

[3] An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

[4] With an original maturity of more than 1 year.

	Contingent liabilities		Commitments	
	2016 € m	2015 € m	**2016 € m**	2015 € m
Concentration of exposure				
Republic of Ireland	**661**	673	**8,540**	8,030
United Kingdom	**145**	544	**1,744**	1,710
United States of America	**104**	158	**5**	7
Total	**910**	1,375	**10,289**	9,747

45 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

The credit ratings of contingent liabilities and commitments as at 31 December 2016 and 2015 are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	2016 **€ m**	2015 € m
Good upper	**3,231**	3,166
Good lower	**7,145**	5,425
Watch	**383**	258
Vulnerable	**268**	164
Impaired	**172**	366
Unrated	**–**	1,743
Total	**11,199**	11,122

Legal proceedings

AIB Group, in the course of its business, is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Company is aware (other than that set out in the following paragraph) pending or threatened by or against AIB Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cash flows of AIB Group.

Contingent liability/contingent asset - NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, the Group has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefits may result to the Group (notes 38 and 47).

(b) The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

(c) On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

Participation in TARGET 2 – Ireland

AIB migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2:

By Deeds of Charge made on 15 February 2008, AIB created first floating charges in favour of the Central Bank of Ireland ('Central Bank') over all of AIB's right, title, interest and benefit, present and future, in and to:

(i) the balances then or at any time standing to the credit of Payment Module accounts held by AIB with a Eurosystem central bank ('Charge over Payment Module Accounts'); and

(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by AIB to the Central Bank ('Charge over Eligible Securities').

In each case, a 'Charged Property', for the purpose of securing all present and future liabilities of AIB in respect of AIB's participation in TARGET 2, arising from the Deeds of Charge and the Terms and Conditions for participation in TARGET 2 – Ireland (specified from time to time by the Central Bank), including, without limitation, liabilities to the Central Bank, the European Central Bank, or any national central bank of a Member State that has adopted the euro.

45 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

Participation in TARGET 2 – Ireland *(continued)*

The Deeds of Charge contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

The Central Bank amended its collateral management system in May 2014, moving from an earmarking system to a pooling one for certain collateral accepted for Eurosystem credit operations. As part of this transition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets dated 7 April 2014 ('Framework Agreement'). The Framework Agreement provided for the release of the Charge over Eligible Securities with effect from 26 May 2014.

A deed of charge was made on 7 April 2014 between AIB and the Central Bank in connection with the Framework Agreement ('Framework Agreement Deed of Charge'). The Framework Agreement Deed of Charge created a first fixed charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of AIB at that time in and to, or in connection with, a collateral account (the "Collateral Account") and eligible assets which stand to the credit of the Collateral Account and a first floating charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to other eligible assets of AIB.

The Charge over Payment Module Accounts remains in place. It has been extended to also provide for a first floating charge in favour of the Central Bank over a participant's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of a dedicated cash account (as defined in the Terms and Conditions for Participation in TARGET 2 – Ireland). AIB does not currently hold a dedicated cash account in relation to its participation in TARGET 2 – Ireland.

46 Subsidiaries and consolidated structured entities

The following are the material companies of AIB Group at 31 December 2016 and 2015:

Name of company	Principal activity	Place of incorporation
Allied Irish Banks, p.l.c.	The parent company of the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank	Republic of Ireland
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Republic of Ireland
EBS d.a.c.	Mortgages and savings – a licensed bank	Republic of Ireland
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland

The proportion of ownership interest and voting power held by the Group in the above subsidiaries is 100%.

All subsidiaries of AIB are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries of AIB Group are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Guarantees

Allied Irish Banks, p.l.c. (the parent company) has guaranteed a number of its subsidiary companies. These companies are listed in note m to the parent company's financial statements.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities ("SPEs") in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by the Group:
- Emerald Mortgages No. 4 Public Limited Company;
- Emerald Mortgages No. 5 d.a.c.;
- Mespil 1 RMBS d.a.c.;
- Tenterden Funding p.l.c.;
- Goldcrest Funding No. 1 d.a.c.; and
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 47.

There are no contractual arrangements that could require Allied Irish Banks, p.l.c. or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the financial year, neither Allied Irish Banks, p.l.c. nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

The Group has no interest in unconsolidated structured entities.

Further details on AIB's principal subsidiaries are set out in note m to the parent company's financial statements.

47 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements.* The primary form of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

The Group utilises securitisations primarily to support the following business objectives:

- as an investor, AIB has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through Treasury;
- as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
- as an originator of securitisations to support the funding activities of the Group.

AIB controls certain special purpose entities which were set-up to support the funding activities of the Group. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. AIB controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Stock borrowing and lending

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss is included in trading income.

Employee compensation trusts

AIB and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of share based compensation schemes are summarised in note 11 'Share-based compensation schemes', however, activity has been minimal for the past number of years.

Transfer of financial assets

The Group enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

(i) continue to be recognised in their entirety; or
(ii) be derecognised in their entirety but the Group retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements/securities lending

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. The Group's sale and repurchase agreements are with banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 33) and 'Customer accounts' (note 34). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 33 and 34. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

The Group enters into securities lending in the form of collateral swap agreements with other parties. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transaction. A fee is generated for the Group under this transaction.

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to

47 Off-balance sheet arrangements and transferred financial assets *(continued)*

Issuance of covered bonds *(continued)*

be recognised on the Group's statement of financial position with the related covered bonds included within 'Debt securities in issue' (note 36). As the Group segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 9 billion, internal Group companies hold € 4 billion which are eliminated on consolidation. These internally issued bonds are used by the Group as part of sale and repurchase agreements with the Central Bank of Ireland as outlined above.

Special purpose entities

Securitisations are transactions in which the Group sells loans and receivables to customers (mainly mortgages) to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised in the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 36). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

In 2012, the Group securitised € 533 million of the AIB Group (UK) p.l.c. residential mortgage portfolio.These mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ('Tenterden'). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to an AIB subsidiary. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's statement of financial position. Tenterden is consolidated into the Group's financial statements with the class B notes being eliminated on consolidation. The liability in respect of cash received by Tenterden from the external investors is included within 'Debt securities in issue' (note 36) in the statement of financial position. At 31 December 2016, the carrying amount of the assets which the Group continues to recognise is € 207 million (31 December 2015: € 294 million) and the carrying amount of the associated liabilities is € 69 million (31 December 2015: € 135 million).

In 2013, the Group securitised part of its credit card receivables portfolio. These credit card receivables were transferred to a securitisation vehicle, Goldcrest Funding No.1 d.a.c. ('Goldcrest'). In order to fund the acquired receivables, Goldcrest received senior loan facility proceeds from external investors secured on these and future credit card receivables and junior loan facility proceeds from Allied Irish Banks p.l.c. The transferred receivables were not derecognised as the Group retained substantially all the risks and rewards of ownership and the credit card receivables continued to be reported in the Group's statement of financial position. Goldcrest was consolidated into the Group's financial statements with the junior loan facility being eliminated on consolidation. In November 2016, the securitisation transaction was terminated and Goldcrest is being liquidated.

Arising from the acquisition of EBS on 1 July 2011, the Group controls three special purpose entities which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 d.a.c.; and Mespil 1 RMBS d.a.c.

Emerald Mortgages No. 4 Public Limited Company

The total carrying value of the original residential mortgages transferred by EBS d.a.c. to Emerald Mortgages No. 4 Public Limited Company ('Emerald 4') as part of the securitisation amounted to € 1,500 million. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2016 is € 615 million (2015: € 677 million). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 399 million (2015: € 446 million) and is included within 'Debt securities in issue' (note 36). On 15 December 2016, Emerald 4 announced to the Irish Stock Exchange that it had received notice from its parent (EBS d.a.c.) of its intention to refinance loan notes on 15 March 2017 which Emerald 4 held. Consequent upon this, Emerald 4 stated that it will either exercise its option to redeem the bonds or repay outstanding bond holders.

Emerald Mortgages No. 5 d.a.c.

The total carrying amount of original residential mortgages transferred by EBS d.a.c. to Emerald Mortgages No.5 d.a.c. ('Emerald 5') as part of the securitisation amounted to € 2,500 million. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2016 is € 1,189 million (2015: € 1,304 million). Bonds were issued by Emerald 5 to EBS d.a.c. but these are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

Mespil 1 RMBS d.a.c.

The total carrying amount of secured loans that the Group has recognised at 31 December 2016 is € 734 million (2015: € 780 million) in relation to the transfers from EBS d.a.c. and Haven Mortgages Limited to Mespil 1 RMBS d.a.c. The bonds issued by Mespil 1 RMBS d.a.c. to EBS d.a.c. are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

47 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises as at 31 December 2016 and 2015, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities:

							2016
	Carrying amount of transferred assets	**Carrying amount of associated liabilities held by third parties**	**Carrying amount of associated liabilities held by Group companies**	**Fair value of transferred assets**	**Fair value of associated liabilities held by third parties**	**Fair value of associated liabilities held by Group companies**	**Net fair value position**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Sale and repurchase agreements/							
similar products	**6,224(1) (2)**	**5,745(1)**	**–**	**6,229**	**5,745**	**–**	**484**
Covered bond programmes							
Residential mortgage backed	**9,521(3)**	**5,265**	**–**	**8,682**	**5,459**	**–**	**3,223**
Securitisations	**822**	**468**	**420**	**800**	**449**	**398**	**(47)**

							2015
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Sale and repurchase agreements/							
similar products	12,398(1) (2)	11,208(1)	–	12,398	11,208	–	1,190
Covered bond programmes							
Residential mortgage backed	9,219(3)	4,765	–	8,169	4,990	–	3,179
Securitisations	1,263	781	558	1,210	752	533	(75)

(1) See notes 33 and 34.

(2) Includes € 345 million of assets pledged in relation to securities lending arrangements at 31 December 2016 (2015: € 640 million).

(3) The asset pools € 19 billion (2015: € 18 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by AIB Group companies. The € 9,521 million (2015: € 9,219 million) above refers to those assets apportioned to external investors.

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme. The future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

Assets ring fenced for this purpose entitle the UK Scheme to expected annual payments in the range of £ 15 million to £ 35 million per annum from 2016 until 2032, with a potential termination payment in 2032 of up to £ 60 million. Following the approval of the triennial valuation in December 2014, the current annual payments were set at £ 19.1 million per annum, commencing 1 April 2016, but subject to review following each future triennial valuation.

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of Allied Irish Banks p.l.c. has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by AIB Group as the pension scheme has a priority right to the cash flows from the partnership, such that the variability in recoveries is expected to be borne by AIB Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into AIB Group.

47 Off-balance sheet arrangements and transferred financial assets *(continued)*

(ii) Transferred financial assets derecognised in their entirety but the Group retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to € 594 million were settled through the transfer to the Irish Scheme of interests in an SPE owning loans and receivables previously transferred at fair value from the Group. The loans and receivables were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and receivables transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and receivables on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125% of the principal balance outstanding of all transferred loans and receivables on the last day of each calendar month. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement as the fee is considered to be a market rate. Under the servicing agreement, the Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In 2016, the Group recognised € 1 million (cumulative € 5.3 million) (2015: € 1.1 million (cumulative € 4.3 million)) in the income statement for the servicing of the loans and receivables transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance ('the Minister') may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the maximum exposure to loss which may arise on the dissolution or restructuring of NAMA.

In addition, the Group was appointed by NAMA as a service provider for the loans and receivables transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In 2016, the Group recognised € 4 million (cumulative € 86 million) (2015: € 13 million (cumulative € 82 million)) in the income statement for the servicing of financial assets transferred to NAMA.

48 Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets in note 1 (m) and financial liabilities in note 1 (n), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading at 31 December 2016 and 2015:

	At fair value through profit and loss		At fair value through equity		At amortised cost			2016 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Held to maturity €m	Other €m	€m
Financial assets								
Cash and balances at central banks	–	–	–	–	5,921	–	598[1]	6,519
Items in the course of collection	–	–	–	–	134	–	–	134
Trading portfolio financial assets	1	–	–	–	–	–	–	1
Derivative financial instruments	800	250	764	–	–	–	–	1,814
Loans and receivables to banks	–	–	–	–	1,399	–	–	1,399
Loans and receivables to customers	–	–	–	–	60,639	–	–	60,639
NAMA senior bonds	–	–	–	–	1,799	–	–	1,799
Financial investments available for sale	–	–	–	15,437	–	–	–	15,437
Financial investments held to maturity	–	–	–	–	–	3,356	–	3,356
Other financial assets	–	–	–	–	–	–	430	430
	801	250	764	15,437	69,892	3,356	1,028	91,528
Financial liabilities								
Deposits by central banks and banks	–	–	–	–	–	–	7,732	7,732
Customer accounts	–	–	–	–	–	–	63,502	63,502
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–
Derivative financial instruments	861	389	359	–	–	–	–	1,609
Debt securities in issue	–	–	–	–	–	–	6,880	6,880
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	791	791
Other financial liabilities	–	–	–	–	–	–	442	442
	861	389	359	–	–	–	79,347	80,956

[1] Comprises cash on hand.

48 Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit and loss		At fair value through equity		At amortised cost			2015 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Held to maturity €m	Other €m	€m
Financial assets								
Cash and balances at central banks	–	–	–	–	4,415	–	535[1]	4,950
Items in the course of collection	–	–	–	–	153	–	–	153
Trading portfolio financial assets	1	–	–	–	–	–	–	1
Derivative financial instruments	877	321	500	–	–	–	–	1,698
Loans and receivables to banks	–	–	–	–	2,339	–	–	2,339
Loans and receivables to customers	–	–	–	–	63,240	–	–	63,240
NAMA senior bonds	–	–	–	–	5,616	–	–	5,616
Financial investments available for sale	–	–	–	16,489	–	–	–	16,489
Financial investments held to maturity	–	–	–	–	–	3,483	–	3,483
Other financial assets	–	–	–	–	–	–	938	938
	878	321	500	16,489	75,763	3,483	1,473	98,907
Financial liabilities								
Deposits by central banks and banks	–	–	–	–	–	–	13,863	13,863
Customer accounts	–	–	–	–	–	–	63,383	63,383
Trading portfolio financial liabilities	86	–	–	–	–	–	–	86
Derivative financial instruments	933	424	424	–	–	–	–	1,781
Debt securities in issue	–	–	–	–	–	–	7,001	7,001
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	2,318	2,318
Other financial liabilities	–	–	–	–	–	–	456	456
	1,019	424	424	–	–	–	87,021	88,888

[1] Comprises cash on hand.

49 Fair value of financial instruments

The term ‘financial instruments’ includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group’s accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 1 (p).

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group’s financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders’ equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2016.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted);
Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market; and
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

All valuations are carried out within the Finance function of the Group and valuation methodologies are validated by the independent Risk function within the Group.

The methods used for calculation of fair value in 2016 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives’ valuation model, the fair value is estimated using inputs which provide the Group’s view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") are applied to all uncollateralised over-the-counter derivatives. CVA is calculated as: (Option replacement cost x probability of default (“PD”) x loss given default (“LGD”)). PDs are derived from market based Credit Default Swap ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security, where applicable. For unsecured counterparties, an LGD of 60% is applied.

49 Fair value of financial instruments *(continued)*

Funding valuation adjustment

In line with market practice which continues to evolve, AIB applies a FVA for calculating the fair value of uncollateralised derivative contracts. The application of the FVA in the valuation of uncollateralised derivative contracts introduces the use of a funding curve for discounting of cash flows where market participants consider that this cost is included in market pricing. The funding curve used is the average funding curve implied by the Credit Default Swaps ("CDS") of the Group's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations on page 332. For FVA, a favourable scenario is the use of the bond yields of the Group's most active derivative counterparties while an adverse scenario is a downgrade in the CDS of the reference entities used to derive the funding curve.

The combination of CVA and FVA is referred to as XVA.

Financial investments available for sale

The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and receivables to banks

The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and receivables to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. An adjustment is made for credit risk which at 31 December 2016 took account of the Group's expectations on credit losses over the life of the loans.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

NAMA senior bonds

The Group's holding of NAMA senior bonds is classified as loans and receivables measured at amortised cost. For disclosure purposes, the fair value of the NAMA senior bonds has been calculated using a market price sourced from a pricing provider.

Financial investments held to maturity

The Group's holding of financial investments held to maturity consists of Irish Government securities. These have been fair valued based on quoted market prices.

49 Fair value of financial instruments *(continued)*

Deposits by central banks and banks and customer accounts

The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Debt securities in issue

The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and other receivables and payables. The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 45. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table on the following pages sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2016 and 2015:

49 Fair value of financial instruments *(continued)*

					2016
	Carrying amount	Fair value			
		Fair value hierarchy			
	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,692	–	1,189	503	1,692
Exchange rate derivatives	73	–	73	–	73
Equity derivatives	49	–	43	6	49
Financial investments available for sale					
Government securities	8,050	8,050	–	–	8,050
Supranational banks and government agencies	1,719	1,719	–	–	1,719
Asset backed securities	445	432	13	–	445
Bank securities	4,551	4,551	–	–	4,551
Corporate securities	67	67	–	–	67
Equity securities	605	–	1	604	605
	17,252	14,819	1,320	1,113	17,252
Financial assets not measured at fair value					
Cash and balances at central banks	6,519	598(1)	5,921	–	6,519
Items in the course of collection	134	–	–	134	134
Loans and receivables to banks	1,399	–	587	812	1,399
Loans and receivables to customers					
Mortgages(2)	33,375	–	–	31,296	31,296
Non-mortgages	27,264	–	–	26,790	26,790
Total loans and receivables to customers	60,639	–	–	58,086	58,086
NAMA senior bonds	1,799	–	–	1,807	1,807
Financial investments held to maturity	3,356	3,439	–	–	3,439
Other financial assets	430	–	–	430	430
	74,276	4,037	6,508	61,269	71,814
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	1,485	–	1,328	157	1,485
Exchange rate derivatives	79	–	79	–	79
Equity derivatives	45	–	41	4	45
	1,609	–	1,448	161	1,609
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	709	–	–	709	709
Secured borrowings	7,023	–	1,901	5,123	7,024
Customer accounts					
Current accounts	29,721	–	–	29,721	29,721
Demand deposits	12,663	–	–	12,663	12,663
Time deposits	20,496	–	–	20,625	20,625
Securities sold under agreements to repurchase	622	–	–	622	622
Debt securities in issue					
Bonds and medium term notes	6,733	6,391	559	–	6,950
Other debt securities in issue	147	–	147	–	147
Subordinated liabilities and other capital instruments	791	766	79	–	845
Other financial liabilities	442	–	–	442	442
	79,347	7,157	2,686	69,905	79,748

(1) Comprises cash on hand.

(2) Includes residential and commercial mortgages.

49 Fair value of financial instruments *(continued)*

					2015
	Carrying amount	Fair value			
		Fair value hierarchy			
	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,540	–	1,069	471	1,540
Exchange rate derivatives	67	–	67	–	67
Equity derivatives	91	–	50	41	91
Financial investments available for sale					
Government securities	8,684	8,533	151	–	8,684
Supranational banks and government agencies	2,008	2,008	–	–	2,008
Asset backed securities	329	328	1	–	329
Bank securities	4,600	4,600	–	–	4,600
Corporate securities	87	76	–	11	87
Equity securities	781	–	1	780	781
	18,188	15,545	1,340	1,303	18,188
Financial assets not measured at fair value					
Cash and balances at central banks	4,950	535(1)	4,415	–	4,950
Items in the course of collection	153	–	–	153	153
Loans and receivables to banks	2,339	–	779	1,560	2,339
Loans and receivables to customers					
Mortgages(2)	34,667	–	–	32,181	32,181
Non-mortgages	28,573	–	–	28,192	28,192
Total loans and receivables to customers	63,240	–	–	60,373	60,373
NAMA senior bonds	5,616	–	–	5,626	5,626
Financial investments held to maturity	3,483	3,479	–	–	3,479
Other financial assets	938	–	–	938	938
	80,719	4,014	5,194	68,650	77,858
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	86	86	–	–	86
Derivative financial instruments					
Interest rate derivatives	1,622	–	1,369	253	1,622
Exchange rate derivatives	64	–	64	–	64
Equity derivatives	89	–	51	38	89
Credit derivatives	6	–	6	–	6
	1,867	86	1,490	291	1,867
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	460	–	–	460	460
Secured borrowings	13,403	–	2,903	10,503	13,406
Customer accounts					
Current accounts	25,955	–	–	25,955	25,955
Demand deposits	11,698	–	–	11,698	11,698
Time deposits	24,825	–	–	25,067	25,067
Securities sold under agreements to repurchase	905	–	–	905	905
Debt securities in issue					
Bonds and medium term notes	6,901	6,479	670	–	7,149
Other debt securities in issue	100	–	100	–	100
Subordinated liabilities and other capital instruments	2,318	758	1,778	–	2,536
Other financial liabilities	456	–	–	456	456
	87,021	7,237	5,451	75,044	87,732

(1) Comprises cash on hand. (2) Includes residential and commercial mortgages.

49 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following table shows significant transfers between Level 1 and Level 2 of the fair value hierarchy for the financial years ended 31 December 2016 and 2015:

	2016			2015		
	Financial assets			Financial assets		
	Trading portfolio €m	**Debt securities €m**	**Total €m**	Trading portfolio €m	Debt securities €m	Total €m
Transfer into Level 2 from Level 1	**–**	**–**	**–**	–	–	–

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy for the financial years ended 31 December 2016 and 2015:

						2016
	Financial assets				**Financial liabilities**	
	Derivatives	**Available for sale**		**Total**	**Derivatives**	**Total**
		Debt securities	**Equity securities**			
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January 2016	**512**	**11**	**780**	**1,303**	**291**	**291**
Transfers into Level 3[1]	**38**	**–**	**–**	**38**	**–**	**–**
Total gains or (losses) in:						
Profit or loss						
– Net trading income	**(41)**	**–**	**–**	**(41)**	**(70)**	**(70)**
– Other operating income	**–**	**–**	**272**	**272**	**–**	**–**
	(41)	**–**	**272**	**231**	**(70)**	**(70)**
Other comprehensive income						
– Net change in fair value of financial investments available for sale	**–**	**–**	**(250)**	**(250)**	**–**	**–**
– Net change in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**(2)**	**(2)**
	–	**–**	**(250)**	**(250)**	**(2)**	**(2)**
Purchases/additions	**–**	**–**	**79**	**79**	**–**	**–**
Sales/disposals	**–**	**(9)**	**(277)**	**(286)**	**–**	**–**
Settlements	**–**	**(2)**	**–**	**(2)**	**(58)**	**(58)**
At 31 December 2016	**509**	**–**	**604**	**1,113**	**161**	**161**

[1] Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers into level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobservable data.

49 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

						2015
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2015	642	3	411	1,056	300	300
Transfers out of Level 3[1]	(8)	–	–	(8)	–	–
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	(2)	363	361	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	20	20
	–	(2)	363	361	20	20
Purchases	–	10	13	23	–	–
Sales	–	–	(7)	(7)	–	–
Settlements[2]	(122)	–	–	(122)	(29)	(29)
At 31 December 2015	512	11	780	1,303	291	291

[1] Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

[2] Includes gains and losses recognised in 'Net trading income' (note 7). In addition, for unrealised gains or losses at 31 December 2015, see table below.

Transfers out of level 3 arose as a result of the ability to measure financial instruments using observable data for their fair value measurement either directly or indirectly.

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2016 and 2015:

	2016 **€ m**	2015 € m
Net trading income – gains	**136**	61

49 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2016 and 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				**Range of estimates**	
Financial instrument		**2016 € m**	2015 € m	**Valuation technique**	**Significant unobservable input**	**2016**	2015
Uncollateralised customer derivatives	Asset	**509**	512	CVA	LGD	**47% – 67% (Base 54%)**	47% – 79% (Base 55%)
	Liability	**161**	291				
					PD	**0.8% – 1.6% (Base 1.2% 1 year PD)**	0.9% – 1.5% (Base 1.2% 1 year PD)
					Combination LGD and PD[1]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.6%) to 0.5%**	(0.4%) to 0.5%

[1] The fair value measurement sensitivity to unobservable inputs ranges at 31 December 2016 from negative € 37 million to positive € 23 million (31 December 2015: negative € 57 million to positive € 26 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater that € 1 million in any individual case or collectively, the detail is not disclosed here.

Financial instrument		**2016 € m**	2015 € m	**Valuation technique**	**Significant unobservable input**	**2016**	2015
NAMA subordinated bonds	Asset	**466**	432	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 7.21% applicable to base asset price. The estimates range from (a) discount rate of 9%; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 9% applicable to base asset price. The estimates range from: (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).

In June 2016, the Group received Series B Preferred Stock in Visa Inc. as part consideration for its holding of shares in Visa Europe. This preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

Financial instrument		**2016 € m**	2015 € m	**Valuation technique**	**Significant unobservable inputs**	**Range of estimates at 31 December 2016**
Visa Inc. Series B Preferred Stock	Asset	**70**	N/A	Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. (50%). This was converted to euro at the year end rate.	Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.

49 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology for 31 December 2016 and 2015:

	2016			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	38	(47)	–	–
Financial investments available for sale – equity securities	–	(65)	81	(12)
Total	38	(112)	81	(12)
Classes of financial liabilities				
Derivative financial instruments	–	(3)	–	–
Total	–	(3)	–	–

	2015			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	87	(71)	–	–
Financial investments available for sale – equity securities	–	–	26	(105)
Total	87	(71)	26	(105)
Classes of financial liabilities				
Derivative financial instruments	14	(63)	–	–
Total	14	(63)	–	–

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

50 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	**2016** **€ m**	2015 € m
Profit on disposal of business	**(1)**	–
Profit on disposal of property, plant and equipment	**–**	(3)
(Profit)/loss on disposal/transfer of loans and receivables	**(11)**	22
Dividends received from equity securities	**(26)**	(26)
Dividends received from associated undertakings	**(40)**	(24)
Associated undertakings net income	**(35)**	(25)
Writeback of provisions for impairment on loans and receivables	**(294)**	(925)
Writeback of provisions for impairment on financial investments available for sale	**(2)**	–
Writeback of provisions for liabilities and commitments	**(2)**	(11)
Change in other provisions	**28**	177
Retirement benefits – defined benefit expense	**2**	21
Termination benefits	**–**	4
Depreciation, amortisation and impairment	**109**	74
Interest on subordinated liabilities and other capital instruments	**199**	278
Net (gains) on buy back of debt securities in issue	**(1)**	(8)
Profit on disposal of financial investments available for sale	**(362)**	(166)
Loss on termination of hedging swaps	**59**	81
Remeasurement of NAMA senior bonds	**(10)**	(6)
Amortisation of premiums and discounts	**227**	79
Fair value gain on re-estimation of cash flows on loans and receivables previously restructured	**(15)**	(3)
Income from settlement of claim	**–**	(38)
Change in prepayments and accrued income	**54**	25
Change in accruals and deferred income	**(94)**	(84)
Effect of exchange translation and other adjustments[1]	**(18)**	(259)
Total non-cash items	**(233)**	(817)
Contributions to defined benefit pension schemes	**(59)**	(84)
Dividends received from equity securities	**26**	26
Total other items	**(33)**	(58)
Non-cash and other items for the year ended 31 December	**(266)**	(875)

[1] The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

50 Statement of cash flows (continued)

Change in operating assets[1]	**2016** **€ m**	2015 € m
Change in loans and receivables to customers	**1,286**	1,546
Change in NAMA senior bonds	**3,838**	3,834
Change in loans and receivables to banks	**769**	(709)
Change in derivative financial instruments	**125**	(328)
Change in items in course of collection	**7**	(2)
Change in other assets	**482**	(111)
	6,507	4,230

Change in operating liabilities[1]	**2016** **€ m**	2015 € m
Change in deposits by central banks and banks	**(6,115)**	(2,927)
Change in customer accounts	**1,884**	(1,539)
Change in trading portfolio financial liabilities	**(86)**	86
Change in debt securities in issue	**(118)**	(867)
Change in notes in circulation	**(59)**	3
Change in other liabilities	**(94)**	(109)
	(4,588)	(5,353)

[1] The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2016 **€ m**	2015 € m
Cash and balances at central banks	**6,519**	4,950
Loans and receivables to banks	**645**	722
	7,164	5,672

The Group is required to maintain balances with the Central Bank of Ireland which at 31 December 2016 amounted to € 21 million (2015: € 121 million).

The Group is required by law to maintain reserve balances with the Bank of England. At 31 December 2016, these amounted to € 566 million (2015: € 658 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on the Group's ability to meet its cash obligations.

51 Related party transactions

Related parties of the Group include associated undertakings, joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB.

(a) Transactions with subsidiary undertakings

AIB is the ultimate parent company of the Group. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency transactions and the provision of guarantees on an 'arm's length' basis. Balances between AIB and its subsidiaries are detailed in notes g, h, k, m, q and r to the parent company financial statements. In accordance with IFRS10 *Consolidated Financial Statements*, transactions with subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for 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 other unfavourable features. Details of loans to associates are set out in note h to the parent company financial statements, while deposits from associates are set out in note r.

(c) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group Pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of AIB transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 47).

During 2012, AIB agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a special purpose entity owning loans and receivables previously transferred at fair value from the Group. A subsidiary of AIB was appointed as a service provider for the loans and receivables transferred in return for a servicing fee at a market rate (note 47).

(d) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*, in respect of the compensation of Key Management Personnel. Under IAS 24, Key Management Personnel are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Leadership Team (see pages 177 to 179). The figures shown below include the figures separately reported in respect of Directors' remuneration in the Directors' Remuneration report on pages 203 to 207).

	Group		**Allied Irish Banks, p.l.c.**	
	2016 € m	2015 € m	**2016 € m**	2015 € m
Short-term compensation[1]	**6.7**	6.7	**6.1**	6.2
Post-employment benefits[2]	**0.8**	0.8	**0.8**	0.8
Termination benefits[3]	**0.3**	0.2	**0.3**	0.2
Total	**7.8**	7.7	**7.2**	7.2

[1] Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits including, where relevant, payment in lieu of notice, and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Company.

[2] Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The company's defined benefit pension schemes closed to future accrual with effect from 31 December 2013 and all employee pension benefits have accrued on the basis of defined contributions since that date.

[3] Comprises severance payments made to Senior Executives who left during 2016 and 2015.

51 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

As at 31 December 2016, deposit and other credit balances held by Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, who were in office during the year amounted to € 6.39 million (2015: € 5.77 million).

Loans to Key Management Personnel 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 of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executive Officers are also made in the ordinary course of business, on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case by case basis. The aggregate balance of loans and guarantees held by Key Management Personnel, at the beginning and end of the financial year, represents less than 0.03% of the net assets of the Company.

Directors: There were 12 Directors in office during the year, 8 of whom availed of credit facilities (2015:5). 6 of the 8 Directors who availed of credit facilities had balances outstanding at 31 December 2016 (2015: 6).
Senior Executive Officers: There were 11 Senior Executive Officers in office during the year, 10 of whom availed of credit facilities (2015:9). 8 of the 10 Senior Executive Officers who availed of credit facilities had balances outstanding at 31 December 2016 (2015:9).

Details of transactions with Key Management Personnel, and connected parties where indicated, for the years ended 31 December 2016 and 2015 are as follows:

(i) Current Directors

	Balance at 31 December 2015 € 000	Amounts advanced during 2016	Amounts repaid during 2016	Balance at 31 December 2016 € 000
Mark Bourke:				
Loans	563	–	48	515
Overdraft/credit card*	–	–	–	–
Total	563	–	48	515
Interest charged during the year				6
Maximum debit balance during the year**				563
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	2
Total	–	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				4
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	3	–	–	2
Total	3	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				12
Brendan McDonagh:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1

51 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(i) Current Directors *(continued)*

	Balance at 31 December 2015 € 000	Amounts advanced during 2016 € 000	Amounts repaid during 2016 € 000	Balance at 31 December 2016 € 000
Jim O'Hara:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Dr Michael Somers:				
Loans	–	–	–	–
Overdraft/credit card*	3	–	–	2
Total	3	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				3
Catherine Woods:				
Loans	69	–	10	59
Overdraft/credit card*	–	–	–	–
Total	69	–	10	59
Interest charged during the year				1
Maximum debit balance during the year**				69

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities and all interest that has fallen due on all of these loans or facilities has been paid.

As at 31 December 2016, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.032 million. No amounts were paid or liability incurred in fulfilling the guarantee.

Mr Simon Ball had a credit card facility which had an opening, closing and maximum debit balance during 2016 of less than € 500 and no interest was incurred during the year. Mr Richard Pym had a credit card facility which was not used during the year and Helen Normoyle had an overdraft facility of less than € 2,000 which was not used during the year.

Bernard Byrne and Peter Hagan had no facilities with the Group during 2016.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

51 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(ii) Former Directors who were in office during the year

No Directors resigned during the year.

(iii) Senior Executive Officers in office during the year

(Aggregate of 11 persons (2015: 9)):

	Balance at 31 December 2016 € 000	Balance at 31 December 2015 € 000
Loans	**3,839**	2,218
Overdraft/credit card*	**46**	10
Total	**3,885**	2,228
Interest charged during the year	**97**	
Maximum debit balance during the year**	**5,105**	

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities and all interest that has fallen due on all of these loans or facilities has been paid.

(iv) Aggregate amounts outstanding at year end

	Loans, overdrafts/credit cards	
	31 December 2016 € 000	31 December 2015 € 000
Directors (2016: 6 persons; 2015: 6 persons)	**580**	1,723
Senior Executive Officers (2016: 8 persons; 2015: 9 persons)	**3,885**	2,228
	4,465	3,951

As at 31 December 2016, guarantees entered into by 1 Director in favour of the Group amounted to € 0.032 million in aggregate (2015: € 0.05 million by 1 Director). No amounts were paid or liability incurred in fulfilling the guarantee. As at 31 December 2016, no Senior Executive Officer had entered into guarantees in favour of the Group.

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2016, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 26 persons; 2015: 20 persons):

	Balance at 31 December 2016 € 000	Balance at 31 December 2015 € 000
Loans	**1,755**	914
Overdraft/credit card*	**70**	89
Total	**1,825**	1,003
Interest charged during the year	**40**	
Maximum debit balance during the year**	**2,013**	

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities and all interest that has fallen due on all of these loans or facilities has been paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

51 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

As at 31 December 2015, deposit and other credit balances held by Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, who were in office during the year amounted to € 5.77 million (2014: € 4.56 million). The aggregate balance of loans and guarantees held by Key Management Personnel, at the beginning and end of the financial year, represented 0.03% of the net assets of the Company.

(i) Directors in office during 2015

	Balance at 31 December 2014 € 000	Amounts advanced during 2015	Amounts repaid during 2015	Balance at 31 December 2015 € 000
Mark Bourke:				
Loans	611	–	48	563
Overdraft/credit card*	–	n/a	n/a	–
Total	611	n/a	n/a	563
Interest charged during the year				7
Maximum debit balance during the year**				611
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	n/a	n/a	–
Total	–	n/a	n/a	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Jim O'Hara:				
Loans	–	–	–	–
Overdraft/credit card*	–	n/a	n/a	–
Total	–	n/a	n/a	–
Interest charged during the year				–
Maximum debit balance during the year**				11
Dr Michael Somers:				
Loans	–	–	–	–
Overdraft/credit card*	3	n/a	n/a	3
Total	3	n/a	n/a	3
Interest charged during the year				–
Maximum debit balance during the year**				6
Catherine Woods:				
Loans	79	–	10	69
Overdraft/credit card*	–	n/a	n/a	–
Total	79	n/a	n/a	69
Interest charged during the year				1
Maximum debit balance during the year**				79

As at 31 December 2015, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.05 million. No amounts were paid or liability incurred in fulfilling the guarantee.

Mr Richard Pym has a credit card facility which had an opening, closing and maximum debit balance during 2015 of less than €500 and no interest was incurred during the year.

Simon Ball, Bernard Byrne, Peter Hagan and Helen Normoyle had no facilities with the Group during 2015

No impairment charges or provisions were recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that had fallen due on all of these loans or facilities was paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year,

51 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(ii) Former Directors who were in office during the year

	Balance at 31 December 2014 € 000	Amounts advanced during 2015 € 000	Amounts repaid during 2015 € 000	Balance at 31 December 2015 € 000
David Duffy:				
Loans	1,171	–	92	1,079
Overdraft/credit card*	4	n/a	n/a	9
Total	1,175	n/a	n/a	1,088
Interest charged during the year				8
Maximum debit balance during the year**				1,214

(iii) Senior Executive Officers in office during the year

(Aggregate of 9 persons (2014: 7))**:**

	Balance at 31 December 2015 € 000	Balance at 31 December 2014 € 000
Loans	2,218	1,607
Overdraft/credit card*	10	50
Total	2,228	1,657
Interest charged during the year	37	
Maximum debit balance during the year**	2,456	

(iv) Aggregate amounts outstanding at year end

	Loans, overdrafts/credit cards	
	31 December 2015 € 000	31 December 2014 € 000
Directors (2015:6 persons; 2014: 7 persons)	1,723	1,868
Senior Executive Officers (2015:9 persons; 2014: 7 persons)	2,228	1,657
	3,951	3,525

As at 31 December 2015, guarantees entered into by 1 Director in favour of the Group amounted to € 0.05 million in aggregate (2014: € 0.1 million by 1 Director). No amounts were paid or liability incurred in fulfilling the guarantee. As at 31 December 2015, no Senior Executive Officer held guarantees in favour of the Group.

No impairment charges or provisions were recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that had fallen due on all of these loans or facilities was paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

51 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2015, as defined in Section 220 of the Companies Act 2015, are as follows (aggregate of 20 persons; 2014: 19 persons):

	Balance at 31 December 2015 € 000	Balance at 31 December 2014 € 000
Loans	914	1,322
Overdraft/credit card*	89	58
Total	1,003	1,380
Interest charged during the year	20	
Maximum debit balance during the year**	1,591	

No impairment charges or provisions were recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that had fallen due on all of these loans or facilities was paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(f) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investment in AIB's 2009 Preference shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the various share issues to NPRFC(1) during 2010 and 2011, AIB is under the control of the Irish Government.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

(1)Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

Rights and powers of the Irish Government and the Central Bank of Ireland

The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, inter alia:

- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in the Risk management section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Capital reorganisation;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
  - (i) Direction Order;
  - (ii) Transfer Order;
  - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

In addition, the European Commission, in approving AIB's restructuring plan on 7 May 2014, found that restructuring aid granted by Ireland to AIB is in line with EU state aid rules.

- ***Capital investments***

  National Treasury Management Agency ("NTMA")

  The Ireland Strategic Investment Fund (the "ISIF") was established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. The ISIF is controlled and managed by the NTMA. Pursuant to this Act, all property held by the National Pensions Reserve Fund Commission (the "NPRFC"), including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the NTMA on 22 December 2014. All the 2009 Preference Shares were either converted to ordinary shares or redeemed on 17 December 2015 following a capital reorganisation implemented in December 2015 (see below).

  Ordinary shares

  At 31 December 2016, the Irish Government, through the NTMA, held 2.7 billion (31 December 2015: 2.7 billion) ordinary shares in AIB representing 99.9% of the issued ordinary share capital (31 December 2015: 99.9%). See note 40 for details of the Government's investment in the ordinary shares of AIB.

  Contingent capital notes

  On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister with interest payable annually in arrears at a rate of 10% on the nominal value of the notes. Details of this transaction are set out in note 39. On 28 July 2016, AIB redeemed in full all outstanding contingent capital notes (€ 1.6 billion) together with accrued interest thereon amounting to € 160 million.

  Capital contributions

  On 28 July 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for nil consideration. For further details, see note 43.

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***Capital reorganisation***

AIB implemented a number of measures in order to reorganise its capital following resolutions passed at an EGM of shareholders held on 16 December 2015. These measures were designed to enable AIB: return State aid to the Irish Government in line with its obligations under its EU restructuring plan; create a sound and sustainable capital base on which to grow its business; meet regulatory capital requirements under CRD IV; allow the future payment of dividends on ordinary shares; and position itself for a return to private ownership over time.

The measures outlined below impacted on the Irish Government as a related party to AIB:

(a) 2009 Preference Shares (aggregate subscription price of € 3.5 billion)

(i) Conversion of € 2,140 million 2009 Preference Shares into ordinary shares (note 40);
(ii) Redemption of € 1,360 million of the 2009 Preference Shares (note 40); and
(iii) Payment of dividend on the 2009 Preference Shares.

A dividend amounting to € 166 million was paid in cash for the period from the last dividend payment date of 13 May 2015 up to the date of conversion/redemption of the 2009 Preference Shares on 17 December 2015.

(b) Consolidation of ordinary shares

The Irish Government, through the ISIF, held a total of 677,705,287,273 ordinary shares in AIB with a nominal value of € 0.0025 per share as a result of the conversion of € 2,140 million of the 2009 Preference Shares into ordinary shares noted above.

On 21 December 2015, all ordinary shares with a nominal value of € 0.0025 were consolidated into one ordinary share with a nominal value of € 0.625 for every 250 shares held following a Consolidation Resolution passed at the EGM on 16 December 2015. For details of this consolidation, see note 40.

The Irish Government, through the ISIF, held 2,710,821,147 ordinary shares with a nominal value of € 0.625 per share at 31 December 2015 (99.9 % of total issued ordinary share capital).

(c) Issue of warrants to the Minister for Finance (or another State Entity nominated by the Minister for Finance)

In recognition of the significant financial support provided to AIB by the Irish Government since 2008 and as consideration for its supporting and participating in the Capital Reorganisation, AIB received shareholder approval, at the EGM held on 16 December 2015, to enter into a Warrant Agreement with the Minister for Finance (or another State Entity nominated by the Minister for Finance). Under the terms of this Warrant Agreement, as part of a Regulated Market Event, the Minister for Finance will be entitled to issue a Warrant Notice to AIB, subject to certain conditions, requiring AIB to issue warrants for nil consideration to the Minister for Finance (or another State Entity nominated by the Minister for Finance). On the occurrence of a Regulated Market Event, the warrants would entitle the Minister for Finance (or another State Entity nominated by the Minister for Finance) to subscribe for AIB ordinary shares with a nominal value of € 0.625 per share, subject to a maximum of 9.99 per cent of the issued ordinary share capital. The warrant exercise price will be not less than 200 per cent of the Initial Regulated Market price and the warrants will be exercisable for a period of ten years after the date of the Regulated Market Event.

Since the Regulated Market Event had not occurred at 31 December 2016, no notice has issued to AIB for the issue of warrants, accordingly, these warrants have not been accounted for in the financial statements.

(d) Redemption of Promissory Note

On 17 December 2015, the EBS Promissory Note which was held as an available for sale security was redeemed at its carrying value following the EBS Promissory Note Termination Agreement entered into on 20 November 2015 between the Minister for Finance, the NTMA, EBS and AIB.

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***Guarantee schemes***

The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of € 100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB.

In January 2010, AIB and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. This scheme expired on 28 March 2013 for all new liabilities.The total liabilities guaranteed under the ELG Scheme at 31 December 2016 amounted to € 1.1 billion (31 December 2015: € 1.8 billion). Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Details of the total charge for the period to the 31 December 2016 and 31 December 2015, are set out in note 4. Participating institutions are also required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution's guarantee under the ELG Scheme.

– ***NAMA***

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds and NAMA subordinated bonds which are detailed in notes 8, 26 and 27. In addition, AIB acquired NAMA senior bonds in 2011 as part of the Anglo transaction (€ 11,854 million fair value at acquisition date) and the EBS transaction (€ 301 million carrying value at acquisition date). AIB also acquired € 6 million in subordinated NAMA bonds, as part of the EBS transaction. The NAMA senior bonds are guaranteed by the Irish Government.

Following on the transfer of financial assets to NAMA, a contingent liability/contingent asset arises in relation to:

- final settlement amounts with NAMA on assets transferred;
- a series of indemnities which AIB has provided to NAMA on transferred assets;
- a possible requirement for AIB to share NAMA losses on dissolution of NAMA.

Details of the contingent liability/asset are set out in note 45.

Investment in National Asset Management Agency Investment d.a.c. ("NAMAIL")

In March 2010, a then subsidiary of Allied Irish Banks, p.l.c. made an equity investment in 17 million "B" shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to € 17 million, of which € 12 million was invested on behalf of the AIB Group pension scheme (fair value at 31 December 2016: € 11 million; 31 December 2015 of € 10 million), with the remainder invested on behalf of clients.

– ***Funding support***

Throughout the financial crisis, the Irish Government provided guarantees to AIB and, in this regard, the ELG scheme is outlined above. In addition, AIB has availed of Targeted Long Term Refinancing Operation II ("TLTRO II") funding from the ECB, through the Central Bank. At 31 December 2016, the amounts outstanding, totalling € 1.9 billion (31 December 2015: € 2.9 billion for TLTRO) are included within 'Deposits by central banks and banks' in the table below. See note 33 for details of collateral.

The interest rate on the TLTRO II is the main ECB rate which is currently 0%. The term of the TLTRO II is four years with AIB having the option to repay after two years.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***PCAR/PLAR***

On 31 March 2011, the Central Bank published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of € 85 billion in financial support for the sovereign was agreed in principle. Up to € 35 billion of this support was earmarked for the banking system, € 10 billion of which was for immediate recapitalisation of the banks with the remaining € 25 billion to be provided on a contingency basis. Arising from the 2011 PCAR and PLAR assessments, AIB, including EBS, was required to raise € 14.8 billion in total capital (including € 1.6 billion in contingent capital), all of which was subsequently raised.

– ***Credit Institutions (Stabilisation) Act 2010***

The Credit Institutions (Stabilisation) Act 2010, which was enacted in December 2010, ceased to have effect on 31 December 2014. During the period when the Act was effective, the Minister invoked certain of his powers under the Act in relation to AIB as follows:

- a Direction Order in December 2010;
- a Transfer Order in February 2011;
- a Subordinated Liabilities Order in April 2011; and
- Acquisition of EBS d.a.c. ("EBS").

On 31 March 2011, the Minister proposed the combination of AIB and EBS (formerly EBS Building Society) to form one of the two Pillar banks. On 26 May 2011, AIB entered into an agreement with EBS, the Minister and the NTMA to acquire EBS for a consideration of € 1 (one euro). The acquisition was effective from 1 July 2011.

– ***Central Bank and Credit Institutions (Resolution) Act 2011***

The Central Bank and Credit Institutions (Resolution) Act 2011 provided the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that were failing or likely to fail and that would be effective in protecting the Exchequer and the stability of the financial system and the economy. However, in early 2016, the Single Resolution Mechanism ("SRM") became principally involved in determing the Group's resolution strategy.

– ***Relationship Framework***

In order to comply with contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. Under the 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 Board of AIB and its management team. However, the Board is required to obtain the prior written consent of the Minister, or to consult with the Minister, in respect of certain material matters, such as material disposals.

– ***Approval of AIB Restructuring Plan***

On 7 May 2014, the European Commission approved, under state aid rules, AIB's Restructuring Plan. In arriving at its final decision, the European Commission acknowledged the significant number of restructuring measures already implemented by AIB, comprising business divestments, asset deleveraging, liability management exercises and significant cost reduction actions. The Commission concluded that the Restructuring Plan sets out the path to restoring long term viability. The plan covers the period from 2014 to 2017.

– ***Restructuring Plan commitments***

AIB has committed to a range of 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. All of the commitments are aligned to AIB's operational plans and are supportive of AIB's return to viability.

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[1] together with the highest balances held at any point during the period.

		2016		2015	
	Note	**Balance € m**	**Highest[2] balance held € m**	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**1,529**	**3,618**	41	2,830
Trading portfolio financial assets		**–**	**–**	–	391
Derivative financial instruments		**–**	**7**	3	4
Loans and receivables to banks	b	**21**	**965**	121	121
Loans and receivables to customers		**19**	**82**	81	168
NAMA senior bonds	c	**1,799**	**5,619**	5,616	9,427
Financial investments available for sale	d	**5,580**	**5,854**	5,839	10,019
Financial investments held to maturity	e	**3,356**	**3,483**	3,483	3,487
Total assets		**12,304**		15,184	

		2016		2015	
		Balance € m	**Highest[2] balance held € m**	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	f	**1,912**	**2,950**	2,950	5,300
Customer accounts	g	**806**	**1,020**	688	3,856
Trading portfolio financial liabilities		**–**	**86**	86	551
Derivative financial instruments		**18**	**55**	69	142
Subordinated liabilities and other capital instruments	h	**–**	**1,600**	1,523	1,523
Total liabilities		**2,736**		5,316	

[1] Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank (“POSB”) and the National Treasury Management Agency (“NTMA”) are included.

[2] The highest balance during the period, together with the outstanding balance at the year end, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

Substantially all of the above balances relate to Allied Irish Banks, p.l.c..

a Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution’s average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 31 December 2016 was € 529 million (2015: € 513 million).

b The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.

c NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.

d Financial investments available for sale comprise € 5,114 million (2015: € 5,406 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 December 2016 of € 466 million (2015: € 432 million) detailed above under ‘NAMA’.

e These comprise Irish Government securities (note 28).

f This relates to funding received from the ECB through the Central Bank which is detailed under ‘Funding Support’ above.

g Includes € 325 million (2015: € 160 million) borrowed from the Strategic Banking Corporation of Ireland (“SBCI”), the ordinary share capital of which is owned by the Minister for Finance.

h Redeemed on 28 July 2016 (note 39).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Local government(1)

During 2016 and 2015, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

Commercial semi-state bodies(2)

During 2016 and 2015, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

(1)This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

(2)Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

– Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment in available for sale debt securities and repurchase agreements.

At 31 December 2016 and 2015, the following balances were outstanding in total to these financial institutions:

	2016 € m	2015 € m
Assets		
Derivative financial instruments	**1**	10
Loans and receivables to banks(1)	**3**	494
Financial investments available for sale	**471**	483
Liabilities		
Deposits by central banks and banks(2)	**89**	29
Derivative financial instruments	**4**	7
Customer deposits(3)	**–**	17

(1)The highest balance in loans and receivables to banks amounted to € 501 million in respect of funds placed during the period (2015: € 616 million).

(2)The highest balance in deposits by central banks and banks amounted to € 369 million in respect of funds received during the period (2015: € 395 million).

(3)The highest balance in customer deposits amounted to € 17 million in respect of funds received during the period (2015: € 22 million).

In connection with the acquisition by AIB Group of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) "IBRC", IBRC had indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB Group has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. € 81.3 million in aggregate). AIB Group is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

51 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Irish bank levy

In 2014, a bank levy was introduced on certain financial institutions, including the Group. This levy is recognised in the income statement on the date on which all the criteria set out in the legislation are met. The levy equals 35% of each financial institution's Deposit Interest Retention Tax payment for 2011 and was chargeable on this basis for each of the years 2014-2016 inclusive. The annual levy paid by the Group for 2016 and reflected in the income statement amounted to € 60 million.

Legislation enacted in December 2016 extended this levy to 2021, with the total amount to be collected from all financial institutions remaining at its current level of € 150 million per annum. However, the basis for calculating an individual financial institution's share of the levy was revised as set down in the Finance Act 2016.

(f) Indemnities

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default.

52 Commitments

Capital expenditure	**2016 € m**	2015 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**9**	7
Capital expenditure authorised but not yet contracted for	**38**	38

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases is set out in the following table:

	2016 € m	2015 € m
One year	**62**	59
One to two years	**58**	54
Two to three years	**55**	51
Three to four years	**53**	49
Four to five years	**51**	48
Over five years	**268**	342
Total	**547**	603

The Group holds a number of significant operating lease arrangements in respect of branches and the headquarter locations. AIB Group leases the Bankcentre campus in Ballsbridge, Dublin 4 under two separate lease arrangements.

The minimum lease terms remaining on the most significant leases vary from 1 year to 14 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 5 years with the final contractual remaining terms ranging from 1 year to 22 years.

There are no contingent rents payable and all lease payments are at market rates.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date were € 2 million (2015: € 3 million).

Operating lease payments recognised as an expense for the period were € 65 million (2015: € 58 million). Sublease income amounted to Nil (2015: Nil).

53 Employees

The following table shows the geographical analysis of average employees for 2016 and 2015 as follows:

Average number of staff (Full time equivalents)	**2016**	2015
Republic of Ireland	**8,797**	9,145
United Kingdom	**1,376**	1,463
United States of America	**53**	55
Total	**10,226**	10,663

The following table shows the segmental analysis of average employees for 2016 and 2015 as follows:

	2016	2015
AIB Ireland	**5,436**	5,754
AIB UK	**1,064**	1,138
Group & International(1)	**3,726**	3,771
Total	**10,226**	10,663

(1)Group & International includes the businesses outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs).

The average number of employees for 2016 and 2015 set out above (excludes employees on career breaks and other unpaid long term leaves).

Actual full time equivalent numbers at 31 December 2016 were 10,376 (31 December 2015: 10,204).

54 Regulatory compliance

During the years ended 31 December 2016 and 2015, AIB Group, and Allied Irish Banks, p.l.c. and its regulated subsidiaries complied with their externally imposed capital ratios.

55 Financial and other information

	2016 **%**	2015 %
Operating ratios		
Operating expenses/operating income	**53.8**	63.9
Operating expenses/operating income before exceptional items, bank levies and regulatory fees	**52.4**	49.3
Other income/operating income	**31.0**	26.7
Other income/operating income before exceptional items	**23.5**	26.5
Net interest margin(1)	**2.23**	1.94
Performance measures		
Return on average total assets	**1.4**	1.3
Return on average ordinary shareholders' equity	**11.1**(2)	12.4(3)

(1)Represents net interest income as a percentage of average interest earning assets.

(2)Profit attributable to ordinary shareholders after deduction of the distribution on other equity interests as a percentage of average ordinary shareholders' equity which excludes other equity interests of € 494 million.

(3)Profit attributable to ordinary shareholders after deduction of the annual dividend on the 2009 Preference Shares as a percentage of average ordinary shareholders' equity (i.e. excludes the € 3.5 billion in 2009 Preference Shares which were redeemed/converted in December 2015).

Rates of exchange	**2016**	2015
€ /$*		
Closing	**1.0541**	1.0887
Average	**1.1069**	1.1097
€ /£*		
Closing	**0.8562**	0.7340
Average	**0.8196**	0.7260

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		**Liabilities and equity**	
Currency information	**2016** **€ m**	2015 € m	**2016** **€ m**	2015 € m
Euro	**76,885**	82,053	**77,392**	85,268
Other	**18,737**	21,069	**18,230**	17,854
	95,622	103,122	**95,622**	103,122

56 Average balance sheets and interest rates[1]

The following table shows interest rates prevailing at 31 December 2016 and 2015 together with average prevailing interest rates, gross yields, spreads and margins for the years ended 31 December 2016 and 2015:

	31 December		Average interest rates for years ended 31 December	
Interest rates	**2016 %**	2015 %	**2016 %**	2015 %
Ireland				
AIB Group's prime lending rate	**0.13**	0.25	**0.16**	0.43
European inter-bank offered rate				
One month euro	**(0.37)**	(0.20)	**(0.34)**	(0.07)
Three month euro	**(0.32)**	(0.13)	**(0.26)**	(0.02)
United Kingdom				
AIB Group's base lending rate	**0.25**	0.50	**0.40**	0.50
London inter-bank offered rate				
One month sterling	**0.26**	0.50	**0.41**	0.51
Three month sterling	**0.37**	0.59	**0.50**	0.57
ECB refinancing rate	**0.00**	0.05	**0.01**	0.05
Gross yields, spreads and margins[2]				
Gross yields[3]			**2.87**	2.84
Interest rate spread[4]			**1.87**	1.54
Net interest margin[5]			**2.23**	1.94

[1] The average balance sheet and gross yields, spreads and margins are presented on a continuing operations basis.

[2] The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates on the following page.

[3] Gross yield represents the average interest rate earned on interest earning assets.

[4] Interest rate spread represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

[5] Net interest margin represents net interest income as a percentage of average interest earning assets.

56 Average balance sheets and interest rates *(continued)*

The following table shows the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2016 and 2015. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Year ended 31 December 2016			Year ended 31 December 2015		
Assets	**Average balance €m**	**Interest €m**	**Average rate %**	Average balance €m	Interest[1] €m	Average rate %
Trading portfolio financial assets less liabilities	**–**	**–**	**–**	38	1	2.6
Loans and receivables to banks	**6,077**	**18**	**0.3**	7,143	24	0.3
Loans and receivables to customers	**62,116**	**2,248**	**3.6**	64,868	2,363	3.6
NAMA senior bonds	**3,644**	**11**	**0.3**	7,614	31	0.4
Financial investments available for sale	**14,925**	**182**	**1.2**	19,503	398	2.0
Financial investments held to maturity	**3,419**	**131**	**3.8**	106	4	3.8
Total average interest earning assets	**90,181**	**2,590**	**2.9**	99,272	2,821	2.8
Non-interest earning assets	**8,005**			7,557		
Total average assets	**98,186**	**2,590**	**2.6**	106,829	2,821	2.6
Liabilities and equity						
Due to central banks and banks	**9,728**	**(13)**	**(0.1)**	15,734	4	0.0
Due to customers	**38,894**	**341**	**0.9**	43,777	520	1.2
Other debt issued	**7,474**	**50**	**0.7**	7,475	92	1.2
Subordinated liabilities	**1,629**	**199**	**12.2**	1,625	278	17.1
Average interest earning liabilities	**57,725**	**577**	**1.0**	68,611	894	1.3
Non-interest earning liabilities	**28,056**			25,985		
Total average liabilities	**85,781**	**577**	**0.7**	94,596	894	0.9
Equity	**12,405**			12,233		
Total average liabilities and equity	**98,186**	**577**	**0.6**	106,829	894	0.8

[1] In the 2015 financial statements, net interest income on swaps was shown as a separate line item in the average balance sheet. In the 2015 comparatives above, this net amount has been allocated to the underlying hedged items (note 4).

In the above table, negative interest expense amounting to € 21 million is offset against interest expense (2015: Nil). In the income statement, the Group presents interest resulting from a negative effective interest rate on financial assets as interest expense. Similarly, interest resulting from a negative effective interest rate on financial liabilities is presented as interest income.

57 Non-adjusting events after the reporting period

On 3 February 2017, AIB announced that it had been informed by the Single Resolution Board ("SRB") that the preferred strategy for the Group is a single point of entry bail-in strategy through a holding company. This holding company would become the new parent company of the current Group. The Group is engaging with the SRB in relation to the establishment of such a holding company which would require shareholder approval.

58 Dividends

No dividends on ordinary shares were paid during the financial year ended 31 December 2016.

Final dividends are not accounted for until they have been approved at the Annual General Meeting of Shareholders to be held on 27 April 2017. The Board is recommending that a final dividend of € 0.0921 per ordinary share amounting in total to € 250 million be paid on 9 May 2017. The financial statements for the financial year ended 31 December 2016 do not reflect this which will be accounted for in shareholders' equity as an appropriation in 2017 of distributable reserves.

59 Approval of financial statements

The financial statements were approved by the Board of Directors on 1 March 2017.

Allied Irish Banks, p.l.c.
Parent company financial statements and notes

Parent company statement of financial position

as at 31 December 2016

	Notes	**2016** **€ m**	2015 € m
Assets			
Cash and balances at central banks	af	**2,396**	1,333
Items in course of collection		**59**	67
Disposal groups and non-current assets held for sale	d	**1**	2
Trading portfolio financial assets	e	**1**	1
Derivative financial instruments	f	**1,852**	1,718
Loans and receivables to banks	g	**18,129**	21,311
Loans and receivables to customers	h	**25,870**	29,500
NAMA senior bonds	j	**1,799**	5,616
Financial investments available for sale	k	**17,660**	17,510
Financial investments held to maturity	l	**3,356**	3,483
Interests in associated undertakings		**3**	3
Investments in Group undertakings	m	**5,704**	5,226
Intangible assets	n	**373**	278
Property, plant and equipment	o	**315**	299
Other assets		**191**	249
Current taxation		**2**	1
Deferred tax assets	p	**2,457**	2,421
Prepayments and accrued income		**381**	435
Total assets		**80,549**	89,453
Liabilities			
Deposits by central banks and banks	q	**13,411**	19,651
Customer accounts	r	**49,325**	49,129
Trading portfolio financial liabilities	s	**–**	86
Derivative financial instruments	f	**1,848**	2,032
Debt securities in issue	t	**1,147**	1,600
Current taxation		**–**	16
Deferred tax liabilities		**33**	–
Other liabilities	u	**271**	265
Accruals and deferred income		**243**	407
Retirement benefit liabilities	c	**101**	310
Provisions for liabilities and commitments	v	**170**	205
Subordinated liabilities and other capital instruments	w	**791**	2,318
Total liabilities		**67,340**	76,019
Equity			
Share capital	x	**1,696**	1,696
Share premium	x	**1,386**	1,386
Reserves		**9,633**	9,858
Total shareholders'equity		**12,715**	12,940
Other equity interests	y	**494**	494
Total equity		**13,209**	13,434
Total liabilities and equity		**80,549**	89,453

Richard Pym	**Bernard Byrne**	**Mark Bourke**	**Sarah McLaughlin**
Chairman	Chief Executive Officer	Chief Financial Officer	Company Secretary

1 March 2017

Parent company statement of cash flows

for the financial year ended 31 December 2016

	Notes	**2016** **€ m**	2015 € m
Cash flows from operating activities			
Profit before taxation for the year from continuing operations		**124**	1,096
Adjustments for:			
– Non-cash and other items	af	**628**	(741)
– Change in operating assets	af	**9,666**	6,540
– Change in operating liabilities	af	**(5,667)**	(6,184)
– Taxation (paid)/refund		**(71)**	3
Net cash inflow from operating activities		**4,680**	714
Cash flows from investing activities			
Purchase of financial investments available for sale	k	**(3,713)**[1]	(4,257)
Proceeds from sales and maturity of financial investments available for sale		**3,364**[2]	4,386[3]
Additions to property, plant and equipment	o	**(52)**	(82)
Disposal of property, plant and equipment		**–**	14
Additions to intangible assets	n	**(162)**	(155)
Investment in Group undertakings		**(1,126)**	
Dividends received from associated undertakings		**11**	13
Net cash (outflow) from investing activities		**(1,678)**	(81)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	y	**–**	494
Net proceeds on issue of € 750 million Tier 2 Notes due 2025	w	**–**	750
Redemption of 2009 Preference Shares	x	**–**	(1,700)
Redemption of Contingent Capital Notes		**(1,600)**	–
Distribution paid on other equity interests		**(37)**	–
Dividends paid on 2009 Preference Shares		**–**	(446)
Interest paid on subordinated liabilities and other capital instruments		**(191)**	(160)
Net cash outflow from financing activities		**(1,828)**	(1,062)
Change in cash and cash equivalents		**1,174**	(429)
Opening cash and cash equivalents		**1,872**	2,242
Effect of exchange translation adjustments		**(100)**	59
Closing cash and cash equivalents	af	**2,946**	1,872

[1] Excludes non-cash acquisition of € 65 million.

[2] Excludes non-cash disposal consideration of € 75 million.

[3] Transfer from financial investments available for sale to financial investments held to maturity of € 3,487 million not reflected in cash flows (note l).

Parent company statement of changes in equity

for the financial year ended 31 December 2016

	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € m
At 1 January 2016	**1,696**	**1,386**	**494**	**583**	**14**	**10**	**1,493**	**319**	**7,518**	**(79)**	**13,434**
Total comprehensive income for the year											
Loss for the year	–	–	–	–	–	–	–	–	(20)	–	(20)
Other comprehensive income	–	–	–	–	–	–	(424)	92	156	8	(168)
Total comprehensive income for the year	–	–	–	–	–	–	(424)	92	136	8	(188)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Capital contributions *(note z)*	–	–	–	(361)	–	–	–	–	361	–	–
Distribution on other equity interests	–	–	–	–	–	–	–	–	(37)	–	(37)
Total contributions by and distributions to owners	–	–	–	(361)	–	–	–	–	324	–	(37)
At 31 December 2016	**1,696**	**1,386**	**494**	**222**	**14**	**10**	**1,069**	**411**	**7,978**	**(71)**	**13,209**

Parent company statement of changes in equity

for the financial year ended 31 December 2015

	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2015	1,344	1,752	–	981	–	11	1,379	327	8,171	(81)	(549)	18	13,353
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	946	–	–	–	946
Other comprehensive income	–	–	–	–	–	–	114	(8)	679	2	–	–	787
Total comprehensive income for the year	–	–	–	–	–	–	114	(8)	1,625	2	–	–	1,733
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners													
Capital contributions *(note z)*	–	–	–	(398)	–	–	–	–	398	–	–	–	–
Dividend on 2009 Preference Shares	–	–	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	–	–	18	–	–	(18)	–
Cancellation of treasury shares	–	–	–	–	–	–	–	–	(549)	–	549	–	–
Issue of Additional Tier 1 Securities	–	–	494	–	–	–	–	–	–	–	–	–	494
Other movements	–	–	–	–	–	(1)	–	–	1	–	–	–	–
Capital reorganisation (note x)													
2009 Preference Shares – conversion	(21)	–	–	–	–	–	–	–	–	–	–	–	(21)
2009 Preference Shares – redemption	(14)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,700)
	(35)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,721)
Ordinary shares issued on conversion of 2009 Preference Shares	21	–	–	–	–	–	–	–	–	–	–	–	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	366	(366)	–	–	–	–	–	–	–	–	–	–	–
Dividend paid on 2009 Preference Shares to date of conversion/redemption	–	–	–	–	–	–	–	–	(166)	–	–	–	(166)
Total contributions by and distributions to owners	352	(366)	494	(398)	14	(1)	–	–	(2,278)	–	549	(18)	(1,652)
At 31 December 2015	1,696	1,386	494	583	14	10	1,493	319	7,518	(79)	–	–	13,434

Notes to the parent company financial statements

a Accounting policies

Where applicable, the accounting policies adopted by Allied Irish Banks, p.l.c. (the parent company) are the same as those of AIB Group as set out in note 1 to the consolidated financial statements on pages 229 to 255.

The parent company financial statements and related notes set out on pages 356 to 414 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial year ended 31 December 2016. They also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations 2015.

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.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 256 to 260.

Parent Company Income statement

In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting; and from filing them with the Registrar of Companies. The parent company's loss after tax for the financial year ended 31 December 2016 is € 20 million.

b Administrative expenses

	2016 **€ m**	2015 € m
Personnel expenses:		
Wages and salaries	**491**	475
Termination benefits(1)	**22**	24
Retirement benefits(2)	**74**	97
Social security costs	**53**	53
Other personnel expenses(3)	**(73)**	(81)
Total personnel expenses	**567**	568
General and administrative expenses:		
Bank levies and regulatory fees	**86**	50(4)
Other general and administrative expenses	**445**	395
Total general and administrative expenses	**531**	445
	1,098	1,013

(1)At 31 December 2016, a charge of € 22 million (2015: a charge of € 24 million) was made to the income statement in respect of termination benefits arising from the voluntary severance programme.

(2)Comprises a charge of € 8 million relating to defined benefit expense (2015: a charge of € 25 million), a defined contribution expense of € 60 million (2015: € 66 million) and a long term disability payments expense of € 6 million (2015: € 6 million) (note c).

(3)Other personnel expenses include other compensation costs of Nil (2015: Nil).

(4)In 2015, a credit of € 1 million reclassified from 'Other general and administrative expenses'.

Personnel expenses of € 22 million (2015: € 33 million) were capitalised as part of the cost of intangible assets.

c Retirement benefits

Allied Irish Banks, p.l.c. operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

Allied Irish Banks, p.l.c. operates a defined contribution ("DC") scheme, further details of which are provided in the Group's retirement benefits note (note 12). The total cost in respect of the DC scheme for 2016 was € 60 million (2015: € 66 million) and is included in administrative expenses (note b).

c Retirement benefits *(continued)*

Defined benefit schemes

The most significant defined benefit scheme operated by Allied Irish Banks, p.l.c. is the AIB Group Irish Pension Scheme ('the Irish scheme'), further details of which are provided in the Group's retirement benefits note (note 12).

Financial and mortality assumptions

The financial and mortality assumptions adopted in the preparation of these financial statements are the same as those adopted in the preparation of the Group's financial statements. See note 12 for further details.

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the Allied Irish Banks, p.l.c. pension schemes. A sensitivity analysis of the key assumptions for the Irish scheme is set out in the Group's retirement benefits note (note 12).

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2016 and 2015:

	2016				2015		
	Defined benefit obligation €m	**Fair value of scheme assets €m**	**Asset ceiling/ minimum funding[1] €m**	**Net defined benefit (liability) asset €m**	Defined benefit obligation €m	Fair value of scheme assets €m	Net defined benefit (liability) asset €m
At 1 January	**(4,813)**	**4,503**		**(310)**	(5,473)	4,330	(1,143)
Included in profit or loss							
Past service cost	**–**	**–**		**–**	(1)	–	(1)
Interest (cost) income	**(129)**	**122**		**(7)**	(119)	96	(23)
Administration costs	**–**	**(1)**		**(1)**	–	(1)	(1)
	(129)	**121**		**(8)**	(120)	95	(25)
Included in other comprehensive income							
Remeasurements (loss) gain:							
– Actuarial (loss) gain arising from:							
– Experience adjustments	**66**	**–**		**66**	(72)	–	(72)
– Changes in demographic assumptions	**–**	**–**		**–**	(47)	–	(47)
– Changes in financial assumptions	**185**	**–**		**185**	769	–	769
– Return on scheme assets excluding interest income	**–**	**172**		**172**	–	127	127
– Asset ceiling/minimum funding adjustments			**(245)**	**(245)**			
Translation adjustment on non-euro schemes	**(2)**	**1**		**(1)**	(4)	2	(2)
	249	**173**	**(245)**	**177**	646	129	775
Other							
Contributions by employer	**–**	**40**		**40**	–	82	82
Benefits paid	**129**	**(129)**		**–**	134	(133)	1
	129	**(89)**		**40**	134	(51)	83
At 31 December	**(4,564)**	**4,708**	**(245)**	**(101)**	(4,813)	4,503	(310)

[1] In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement imposed on the sponsor and any ceiling on the amount that the sponsor has a right to recover from a scheme.

c Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets at 31 December 2016 and 2015:

	2016 **€ m**	2015 € m
Cash and cash equivalents	**328**	135
Equity instruments		
Quoted equity instruments:		
Basic materials	**73**	62
Consumer goods	**198**	206
Consumer services	**160**	166
Energy	**174**	91
Financials	**342**	330
Healthcare	**156**	172
Industrials	**190**	178
Technology	**178**	169
Telecoms	**53**	53
Utilities	**49**	47
Total quoted equity instruments	**1,573**	1,474
Unquoted equity instruments	**11**	10
Total equity instruments	**1,584**	1,484
Debt instruments		
Quoted debt instruments:		
Corporate bonds	**388**	294
Government bonds	**1,078**	1,031
Total quoted debt instruments	**1,466**	1,325
Unquoted debt instruments:		
Corporate bonds	**54**	53
Total debt instruments	**1,520**	1,378
Real estate(1)(2)	**304**	255
Derivatives(2)	**(22)**	23
Investment funds		
Quoted investment funds:		
Bonds	**333**	421
Equity	**8**	7
Fixed interest	**12**	12
Forestry	**36**	36
Multi asset	**214**	318
Total quoted investment funds	**603**	794
Total investment funds	**603**	794
Mortgage backed securities(2)	**391**	434
Fair value of scheme assets at 31 December	**4,708**	4,503

(1)Located in Europe.

(2)A quoted market price in an active market is not available.

c Retirement benefits *(continued)*

Long-term disability payments

Allied Irish Banks, p.l.c. provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in the event of illness or injury resulting in the employee's long term absence from work. In 2016, Allied Irish Banks, p.l.c. contributed € 6 million (2015: € 6 million) towards insuring this benefit. This amount is included in administrative expenses (note b).

d Disposal groups and non-current assets held for sale

	2016 € m	2015 € m
Total disposal groups and non-current assets held for sale	**1**	2

Disposal groups and non-current assets held for sale comprise property surplus to requirements.

e Trading portfolio financial assets

	2016 € m	2015 € m
Equity shares	**1**	1
	1	1
Of which unlisted:		
Equity securities	**1**	1
	1	1

f Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 22 to the consolidated financial statements.

The following table presents the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2016 and 2015:

	2016 € m	2015 € m
Interest rate contracts(1)		
Notional principal amount	97,621	103,431
Positive fair value	1,732	1,561
Negative fair value	(1,724)	(1,873)
Exchange rate contracts(1)		
Notional principal amount	4,977	6,825
Positive fair value	73	68
Negative fair value	(79)	(64)
Equity contracts(1)		
Notional principal amount	1,034	2,396
Positive fair value	47	89
Negative fair value	(45)	(89)
Credit derivatives(1)		
Notional principal amount	–	340
Positive fair value	–	–
Negative fair value	–	(6)
Total notional principal amount	103,632	112,992
Total positive fair value	1,852	1,718
Total negative fair value	(1,848)	(2,032)

(1)Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

The following table analyses the notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	2016				2015			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	47,168	31,351	25,113	103,632	27,892	61,950	23,150	112,992
Positive fair value	358	481	1,013	1,852	168	673	877	1,718

Allied Irish Banks, p.l.c. has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Positive fair value	
	2016 € m	2015 € m	2016 € m	2015 € m
Republic of Ireland	102,285	111,211	1,507	1,411
United Kingdom	1,073	1,437	325	284
United States of America	274	344	20	23
	103,632	112,992	1,852	1,718

f Derivative financial instruments *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2016 and 2015. A description of how the fair values of derivatives are determined is set out in note 49 to the consolidated financial statements.

	2016			2015		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter (“OTC”)						
Interest rate swaps	39,862	822	(858)	44,236	912	(944)
Cross-currency interest rate swaps	455	52	(50)	432	56	(55)
Interest rate options bought and sold	641	1	(5)	689	2	(3)
Total interest rate derivatives – OTC	40,958	875	(913)	45,357	970	(1,002)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	1,520	15	(15)	100	–	–
Total interest rate derivatives – OTC – central clearing	1,520	15	(15)	100	–	–
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	2,182	1	–	2,184	–	–
Total interest rate derivatives – exchange traded	2,182	1	–	2,184	–	–
Total interest rate derivatives	44,660	891	(928)	47,641	970	(1,002)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	4,970	73	(79)	6,756	67	(64)
Currency options bought and sold	7	–	–	69	1	–
Total foreign exchange derivatives	4,977	73	(79)	6,825	68	(64)
Equity derivatives – OTC						
Equity index options bought and sold	1,034	47	(45)	2,396	89	(89)
Total equity derivatives	1,034	47	(45)	2,396	89	(89)
Credit derivatives – OTC						
Credit derivatives	–	–	–	340	–	(6)
Total credit derivatives	–	–	–	340	–	(6)
Total derivatives held for trading	50,671	1,011	(1,052)	57,202	1,127	(1,161)

f Derivative financial instruments *(continued)*

	2016			2015		
	Notional principal amount	**Fair values**		Notional principal amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	**9,308**	**40**	**(388)**	11,738	64	(418)
Total derivatives designated as fair value hedges – OTC	**9,308**	**40**	**(388)**	11,738	64	(418)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	**1,168**	**17**	**(1)**	–	–	–
Total interest rate fair value hedges – OTC –central clearing	**1,168**	**17**	**(1)**	–	–	–
Total derivatives designated as fair value hedges	**10,476**	**57**	**(389)**	11,738	64	(418)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**33,155**	**639**	**(303)**	41,627	502	(348)
Cross currency interest rate swaps	**2,589**	**130**	**(61)**	2,371	24	(105)
Total interest rate cash flow hedges – OTC	**35,744**	**769**	**(364)**	43,998	526	(453)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	**6,741**	**15**	**(43)**	54	1	–
Total interest rate cash flow hedges – OTC – central clearing	**6,741**	**15**	**(43)**	54	1	–
Total derivatives designated as cash flow hedges	**42,485**	**784**	**(407)**	44,052	527	(453)
Total derivatives held for hedging	**52,961**	**841**	**(796)**	55,790	591	(871)
Total derivative financial instruments	**103,632**	**1,852**(1)	**1,848**(2)	112,992	1,718(1)	(2,032)(2)

(1)Includes exposure to subsidiary undertakings of € 177 million (2015: € 172 million).

(2)Includes amounts due to subsidiary undertakings of € 245 million (2015: € 289 million).

f **Derivative financial instruments *(continued)***

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

	Within 1 year €m	**Between 1 and 2 years €m**	**Between 2 and 5 years €m**	**More than 5 years €m**	**2016 Total €m**
Forecast receivable cash flows	**44**	**23**	**68**	**169**	**304**
Forecast payable cash flows	**77**	**58**	**92**	**74**	**301**

	Within 1 year €m	Between 1 and 2 years €m	Between 2 and 5 years €m	More than 5 years €m	2015 Total €m
Forecast receivable cash flows	29	27	160	234	450
Forecast payable cash flows	22	29	90	101	242

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

	Within 1 year €m	**Between 1 and 2 years €m**	**Between 2 and 5 years €m**	**More than 5 years €m**	**2016 Total €m**
Forecast receivable cash flows	**44**	**23**	**68**	**169**	**304**
Forecast payable cash flows	**97**	**75**	**115**	**87**	**374**

	Within 1 year €m	Between 1 and 2 years €m	Between 2 and 5 years €m	More than 5 years €m	2015 Total €m
Forecast receivable cash flows	29	27	160	234	450
Forecast payable cash flows	47	49	126	123	345

g Loans and receivables to banks

	2016 € m	2015 € m
Funds placed with central banks	**17**	102
Funds placed with other banks	**18,112**	21,209
	18,129	21,311
Of which:		
Due from third parties	**569**	1,293
Due from subsidiary undertakings[1]	**17,560**	20,018
	18,129	21,311
Amounts include:		
Reverse repurchase agreements	**2,362**	4,896

Loans and receivables to banks by geographical area[2]	2016 € m	2015 € m
Republic of Ireland	**17,588**	20,748
United Kingdom	**539**	560
United States of America	**2**	3
	18,129	21,311

[1] Amounts due from subsidiary undertakings may include repurchase agreements.

[2] The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and receivables to banks include cash collateral of € 929 million (2015: € 848 million) placed with derivative counterparties in relation to net derivative positions (note aa).

Under reverse repurchase agreements with both external and subsidiary counterparties, AIB has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted of non-government securities (bank bonds) with a fair value of € 2,619 million (2015: € 5,728 million). The fair value of collateral sold or repledged amounted to € 2,445 million (2015: € 4,532 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

h Loans and receivables to customers

	2016 € m	2015 € m
Loans and receivables to customers	**27,335**	32,129
Reverse repurchase agreements	**–**	226
Amounts receivable under finance leases and hire purchase contracts	**574**	488
Unquoted debt securities	**80**	219
Provisions for impairment *(note i)*	**(2,119)**	(3,562)
	25,870	29,500
Of which:		
Due from third parties	**19,001**	19,630
Due from subsidiary undertakings[1]	**6,869**	9,870
	25,870	29,500
Of which repayable on demand or at short notice	**12,082**	17,169
Amounts include:		
Due from associated undertakings	**–**	–

[1] Amounts due from subsidiary undertakings may include repurchase agreements.

Under reverse repurchase agreements, AIB has accepted collateral with a fair value of Nil (2015: € 222 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral.

For details of credit quality, refer to note ai 'Credit risk information'.

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of hire purchase agreements involving vehicles, plant, machinery and equipment.

	2016 € m	2015 € m
Gross receivables		
Not later than 1 year	**231**	213
Later than one year and not later than 5 years	**382**	312
Later than 5 years	**15**	6
	628	531
Unearned future finance income	**(58)**	(47)
Deferred costs incurred on origination	**4**	4
Total	**574**	488
Present value of minimum payments		
Not later than 1 year	**221**	204
Later than one year and not later than 5 years	**341**	279
Later than 5 years	**12**	5
Present value of minimum payments	**574**	488
Provision for uncollectible minimum payments receivable[1]	**11**	30
Net investment in new business	**345**	274

[1] Included in the provisions for impairment on loans and receivables to customers (note i).

i Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables. The classification below aligns to the asset classes disclosed in the 'Risk management' section of this report.

					2016
	Residential mortgages € m	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At 1 January 2016	**136**	**480**	**1,855**	**1,091**	**3,562**
Exchange translation adjustments	**–**	**–**	**–**	**(3)**	**(3)**
Credit to income statement – customers	**(20)**	**(18)**	**(128)**	**(9)**	**(175)**
Amounts written off	**(9)**	**(208)**	**(689)**	**(365)**	**(1,271)**
Recoveries of amounts written off in previous years	**–**	**–**	**–**	**6**	**6**
At 31 December 2016	**107**	**254**	**1,038**	**720**	**2,119**
Total provisions are split as follows:					
Specific	**92**	**220**	**958**	**626**	**1,896**
IBNR	**15**	**34**	**80**	**94**	**223**
	107	**254**	**1,038**	**720**	**2,119**
Amounts include:					
Loans and receivables to customers *(note h)*					**2,119**

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January 2015	198	713	4,458	2,195	7,564
Exchange translation adjustments	1	1	15	10	27
Credit to income statement – customers	(41)	(14)	(196)	(250)	(501)
Amounts written off	(22)	(220)	(2,425)	(866)	(3,533)
Recoveries of amounts written off in previous years	–	–	3	2	5
At 31 December 2015	136	480	1,855	1,091	3,562
Total provisions are split as follows:					
Specific	125	436	1,707	955	3,223
IBNR	11	44	148	136	339
	136	480	1,855	1,091	3,562
Amounts include:					
Loans and receivables to customers *(note h)*					3,562

j NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The following table provides a movement analysis of the NAMA senior bonds:

	2016 **€ m**	2015 € m
At 1 January	**5,616**	9,423
Amortisation of discount	**11**	21
Repayments	**(3,838)**	(3,834)
Acceleration/re-estimation of the timing of cash flows	**10**	6
At 31 December	**1,799**	5,616

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. These assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in 2016, a gain of € 10 million has been recognised following the acceleration of repayments by NAMA (2015: a gain of € 6 million). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'.

The estimated fair value of the bonds at 31 December 2016 is € 1,807 million (2015: € 5,626 million). The nominal value of the bonds is € 1,805 million (2015: € 5,643 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A (2015: A–) i.e. the external rating of the Sovereign.

At 31 December 2016, € 729 million (2015: € 1,257 million) of NAMA senior bonds were pledged to central banks and banks (note q).

k Financial investments available for sale

The following table sets out at 31 December 2016 and 2015, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses:

						2016
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	**5,114**	**525**	**(13)**	**512**	**(63)**	**449**
Euro government securities	**2,706**	**148**	**(6)**	**142**	**(18)**	**124**
Non Euro government securities	**230**	**8**	**(1)**	**7**	**(1)**	**6**
Supranational banks and government agencies	**1,719**	**64**	**(1)**	**63**	**(8)**	**55**
Collateralised mortgage obligations	**433**	**–**	**(8)**	**(8)**	**4**	**(4)**
Other asset backed securities	**12**	**–**	**–**	**–**	**–**	**–**
Euro bank securities	**6,861[1]**	**102**	**(91)**	**11**	**(1)**	**10**
Euro corporate securities	**47**	**–**	**–**	**–**	**–**	**–**
Non Euro corporate securities	**20**	**3**	**–**	**3**	**–**	**3**
Total debt securities	**17,142**	**850**	**(120)**	**730**	**(87)**	**643**
Equity securities						
Equity securities – NAMA subordinated bonds	**447**	**401**	**–**	**401**	**(50)**	**351**
Equity securities – other	**71**	**13**	**–**	**13**	**(3)**	**10**
Total equity securities	**518**	**414**	**–**	**414**	**(53)**	**361**
Total financial investments available for sale	**17,660**	**1,264**	**(120)**	**1,144**	**(140)**	**1,004**

						2015
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	5,406	587	–	587	(73)	514
Euro government securities	3,033	140	(3)	137	(17)	120
Non Euro government securities	245	7	(1)	6	(1)	5
Supranational banks and government agencies	2,008	78	–	78	(10)	68
Collateralised mortgage obligations	328	–	(3)	(3)	1	(2)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	5,720[1]	81	(38)	43	(5)	38
Euro corporate securities	30	–	–	–	–	–
Non Euro corporate securities	57	3	(2)	1	–	1
Total debt securities	16,828	896	(47)	849	(105)	744
Equity securities						
Equity securities – NAMA subordinated bonds	414	369	–	369	(46)	323
Equity securities – other	268	267	–	267	(88)	179
Total equity securities	682	636	–	636	(134)	502
Total financial investments available for sale	17,510	1,532	(47)	1,485	(239)	1,246

[1] Includes € 2,310 million (2015: € 1,120 million) in respect of subsidiary undertakings.

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. A writeback of impairment losses of € 2 million on debt securities (2015: Nil) has been recognised.

k Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale

	2016			2015		
	Debt securities € m	**Equity securities € m**	**Total € m**	Debt securities € m	Equity securities € m	Total € m
At 1 January	**16,828**	**682**	**17,510**	20,620	360	20,980
Exchange translation adjustments	**(1)**	**–**	**(1)**	27	–	27
Purchases/acquisitions	**3,713**	**65**	**3,778**	4,257	–	4,257
Sales/disposals	**(3,100)**	**(246)**	**(3,346)**	(4,077)	–	(4,077)
Maturities	**(93)**	**–**	**(93)**	(309)	–	(309)
IAS 39 reclassification out	**–**	**–**	**–**	(3,487)[1]	–	(3,487)
Writeback of provisions for impairment	**2**	**–**	**2**	–	–	–
Amortisation of discounts net of premiums	**(110)**	**–**	**(110)**	(98)	–	(98)
Movement in unrealised gains/(losses)	**(97)**	**17**	**(80)**	(105)	322	217
At 31 December	**17,142**	**518**	**17,660**	16,828	682	17,510
Of which:						
Listed	**17,142**	**–**	**17,142**	16,828	–	16,828
Unlisted	**–**	**518**	**518**	–	682	682
	17,142	**518**	**17,660**	16,828	682	17,510

[1] Irish Government securities with a carrying value of € 3,487 million were reclassified from financial investments available for sale to financial investments held to maturity in 2015.

l Financial investments held to maturity

	2016 € m	2015 € m
Government bonds	**3,356**	3,483
Total financial investments held to maturity	**3,356**	3,483

	Debt securities	
Analysis of movements in financial investments held to maturity	**2016 € m**	2015 € m
At 1 January	**3,483**	–
IAS 39 reclassifications in 2015 *(note k)*	**–**	3,487
Amortisation of fair value gain	**(127)**	(4)
At 31 December	**3,356**	3,483

Following a review of the Group's investment strategy, a decision was taken to reclassify a portfolio of Irish Government securities to held to maturity from the available for sale asset portfolio. Government bonds with a fair value of € 3,487 million were reclassified from available for sale to held to maturity in 2015. The reclassification reflects the Group's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was € 549 million. This unrealised gain is being amortised to interest income using the effective income method over the remaining life of the bonds.

Financial investments held to maturity are listed on a recognised stock exchange. Their maturity profile is set out in note aj.

Notes to the parent company financial statements

m Investments in Group undertakings

	2016 € m	2015 € m
Equity		
At 1 January	**4,926**	4,806
Additions	**1,126**(1)	–
(Impairment)/reversal of impairment	**(648)**(2)	120
At 31 December	**5,404**	4,926
Subordinated debt		
At 1 January and 31 December	**300**	300
Total	**5,704**	5,226
Of which:		
Credit institutions	**4,397**	4,397
Other	**1,307**	829
Total – all unquoted	**5,704**	5,226

(1) In 2016, Allied Irish Bank, p.l.c. invested € 1.1 billion equity capital into AIB Holding (N.I.) Limited.

(2) Impairment amounting to € 678 million in AIB Holding (N.I.) Limited offset by reversal of impairment amounting to € 30 million in AIB UK Loan Management Limited.

The investments in Group undertakings are included in the financial statements on an historical cost basis.

Principal subsidiary undertakings incorporated in the Republic of Ireland

	Nature of business
AIB Mortgage Bank*	Issue of Mortgage Covered Securities
EBS d.a.c.*	Mortgages and savings

*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank

AIB Mortgage Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. regulated by the Central Bank of Ireland/Single Supervisory Mechanism. AIB Mortgage Bank is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and holds a banking authorisation. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts 2001 and 2007.

On 13 February 2006, Allied Irish Banks, p.l.c. transferred to AIB Mortgage Bank its Irish branch originated residential mortgage business, amounting to € 13.6 billion in mortgage loans. In March 2006, AIB Mortgage Bank launched a € 15 billion Mortgage Covered Securities Programme. The Programme was increased to € 20 billion in 2009.

On 25 February 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services.

m Investments in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated in the Republic of Ireland *(continued)*

AIB Mortgage Bank (continued)

As at 31 December 2016, the total amount of principal outstanding in respect of mortgage covered securities issued by AIB Mortgage Bank was € 7.7 billion (2015: € 7.2 billion) of which € 5.3 billion was held by external debt investors (2015: € 4.8 billion), € 2.4 billion by Allied Irish Banks, p.l.c. (2015: 1.1 billion) and Nil was self-issued to AIB Mortgage Bank (2015: € 1.3 billion). The mortgage covered securities issued to Allied Irish Banks, p.l.c. and to AIB Mortgage Bank were held in an Allied Irish Banks, p.l.c. account subject to a fixed charge in favour of the Central Bank of Ireland in support of Eurosystem refinancing operations. As at 31 December 2016, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in AIB Mortgage Bank's cover assets pool was € 13.9 billion (2015: € 13.9 billion).

EBS d.a.c. ("EBS")

EBS (previously EBS Building Society), which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism, became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. AIB operates EBS as a standalone, separately branded subsidiary with its own branch network which continues to offer mortgage and savings products.

EBS Group had consolidated total assets of € 12.9 billion as at 31 December 2016. EBS operates in the Republic of Ireland and has a countrywide network of 71 offices and a direct telephone based distribution division, EBS Direct. EBS offers residential mortgages and savings products, together with life and property insurance on an agency basis. EBS also distributes mortgages through Haven Mortgages Limited ('Haven'), a wholly owned subsidiary, to independent mortgage intermediaries.

In December 2007, EBS established Haven, a wholly owned subsidiary focused on mortgage distribution through the intermediary market which, prior to 2005, had not been part of its target market. Haven is authorised by the Central Bank of Ireland/Single Supervisory Mechanism as a retail credit firm under Part V of the Central Bank Act 1997 (as amended). Haven has its own board of directors and the autonomy to grow and establish its business around the needs of its customer (the intermediary). Haven offers a full range of prime mortgages.

In December 2008, EBS established EBS Mortgage Finance, a wholly owned subsidiary which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism. EBS Mortgage Finance is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and also holds a banking authorisation. Its purpose is to issue Mortgage Covered Securities for the financing of loans secured on residential property in accordance with the Asset Covered Securities legislation. Such loans may be made directly by EBS Mortgage Finance or may be purchased from EBS and other members of the EBS Group or third parties. Between December 2008 and November 2011, EBS transferred to EBS Mortgage Finance certain Irish residential loans and related security held by it and certain of its Irish residential loan business related to such loans and security. The aggregate book value of the Irish residential loans transferred was approximately € 8.44 billion. As at 31 December 2016, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in EBS Mortgage Finance's cover assets pool was € 3.8 billion (2015: € 4.2 billion).

In December 2008, EBS Mortgage Finance launched a € 6 billion Mortgage Covered Securities Programme. As at 31 December 2016, the total amount of principal outstanding in respect of mortgage covered securities issued by EBS Mortgage Finance was € 1.5 billion (2015: € 2.4 billion) of which Nil (2015: Nil) was held by external debt investors. EBS held € 1.5 billion (2015: € 2.4 billion).

Prior to its acquisition by AIB, EBS had set up a number of special purpose entities ("SPEs"), namely, Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 Limited; and Mespil 1 RMBS Limited. Loans and receivables which were transferred to these securitisation entities are included in the Group's consolidated loans and receivables and amount to € 2,733 million (2015: € 2,961 million). For further details on these SPEs, see note 47 to the consolidated financial statements.

m Investments in Group undertakings *(continued)*

Principal subsidiary undertaking incorporated outside the Republic of Ireland

	Nature of business
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain *Registered office:* 92 Ann Street, Belfast BT1 3AY	Banking and financial services

The above subsidiary undertaking is a wholly-owned subsidiary of Allied Irish Banks, p.l.c. The registered office is located in the principal country of operation. The issued share capital is denominated in ordinary shares.

AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Conduct Authority and the Prudential Regulation Authority had consolidated total assets of £ 13.4 billion at 31 December 2016. It operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI), each with different economies and operating environments. It is the primary legal entity within the segment AIB UK.

Great Britain (GB)

In this market, the segment operates as Allied Irish Bank (GB) (“AIB GB”) out of 16 locations in key cities across Great Britain. AIB GB’s strategy is to be a leading provider of full banking services to owner-managed businesses and small corporates who value a high-service relationship in local geographies and in selected sectors. In addition, AIB GB has a committed and unique focus on British Irish trade.

Northern Ireland (NI)

In this market, the segment operates as First Trust Bank (“FTB”) which operates out of 30 branches and outlets throughout Northern Ireland. FTB offers a full banking service, including online, mobile and telephone banking to business and personal customers across the range of customer segments, including professionals, high net worth individuals, SMEs, as well as public and corporate sectors.

m Investments in Group undertakings *(continued)*

Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into AIB Group's financial statements, have availed of the exemption from filing its individual accounts as set out in Section 357 of the Companies Act 2014. In accordance with the Act, Allied Irish Banks, p.l.c. has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Capital Markets Limited
AIB Corporate Banking Limited
AIB Corporate Finance Limited
AIB Holdings (Ireland) Limited
AIB Finance Limited
AIB International Leasing Limited
AIB Leasing Limited
AIB Services Limited
Allied Irish Banks (Holdings & Investments) Limited
Allied Irish Finance Limited
Allied Irish Nominees Limited
Eyke Limited
Hengram Limited
The Hire Purchase Company of Ireland Limited
Blogram Limited
Sanditon Limited
S. & M. (Limerick) Limited
AIB International Finance Unlimited Company
General Estates and Trust Company Limited
AIB Limited
Commdec Limited
Dohcar Limited
Dohhen Limited
Kavwall Limited
Jonent Downs Limited
Skonac Unlimited Company
Skobar Unlimited Company
Skovale Unlimited Company
Skopek Unlimited Company
Wallkav Limited
Marro Properties Limited
Ammonite Limited
AIB Capital Exchange Offering 2009 Limited
AIB European Investments Limited
P B Nominees Limited
Alibank Nominees Limited
AIB Combined Leasing Limited
Radstock Limited
Rushwood Holdings Limited
The Royal Bank of Ireland Limited
The Munster and Leinster Bank Limited
Mezzanine Management Limited
AIB Investment Services Limited
AIB Financial Services Limited
AIB Insurance Services Limited
AIB 24 Hour Services Limited
AIB Commercial Finance Limited
AIB Debt Management Limited

In presenting details of the principal subsidiary undertakings, the exemption permitted by sections 316 and 348 of the Companies Act 2014 and by the European Union (Credit Institutions: Financial Statements) Regulations 2015, has been availed of and Allied Irish Banks, p.l.c. will annex all relevant information, including a full listing of subsidiary undertakings, to its annual return to the Companies Registration Office in accordance with these regulations and the Companies Act 2014.

m Investments in Group undertakings *(continued)*

Letters of financial support given to subsidiaries by Allied Irish Banks, p.l.c.

Allied Irish Banks, p.l.c. has provided letters of financial support to the Board of Directors of the following subsidiaries:

AIB Mortgage Bank
AIB Group (UK) p.l.c.
AIB UK Loan Management Limited
AIB Corporate Leasing Limited
AIB Capital Markets Holdings (UK) Limited
EBS d.a.c.
EBS Mortgage Finance
AIB Holdings (NI) Limited
AIB Film Distribution

Impairment losses in Group undertakings

Allied Irish Banks, p.l.c.'s ('the parent company') investments in Group undertakings are reviewed for impairment at the end of each reporting period if there are indications that impairment may have occurred. In addition, an assessment is carried out where there are indications that impairment losses recognised in prior periods may no longer exist or may have decreased.

The testing for possible impairment involves comparing the recoverable amount of the individual investments with their carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment charge in the parent company's financial statements.

For previously impaired investments, where the assessment indicates an increase in the recoverable amount, the impairment loss recognised in earlier periods is reversed. However, the carrying amount will only be increased up to the amount that it would have been had the original impairment not been recognised.

At 31 December 2016, the carrying value of investments in the following subsidiary undertakings of the parent company were reviewed for impairment/reversal of impairment:

- AIB Holdings (N.I.) Limited; and
- AIB UK Loan Management Limited.

AIB Holdings (N.I.) Limited

The investment by Allied Irish Banks, p.l.c. in AIB Holdings (N.I.) Limited amounting to € 767 million was written down to Nil in 2011, driven by the negative shareholder reserves in this subsidiary. In 2013, AIB provided a further capital injection of € 243 million (£205 million) to AIB Holdings (N.I.) Limited and at 31 December 2013 this was fully impaired following an impairment assessment as there remained negative shareholder reserves in this company. In 2016, following a capital injection of € 1,126 million (£ 862 million), AIB reviewed this investment for impairment and provided for impairment amounting to € 678 million (£ 508 million) in order to writedown the investment to its estimated recoverable amount based on its value in use.

AIB UK Loan Management Limited

The carrying value of the investment in AIB UK Loan Management Limited, € 965 million (£805 million), was written down to Nil in 2011 as it was expected that all assets would be disposed of at a loss and the business would cease, with no residual value. However, the full planned deleveraging did not transpire and the remaining assets continue to run down in line with their repayment profile with some selective disposals. Against this backdrop, a review at 31 December 2015 was carried out. As a result of positive shareholder reserves in the subsidiary and future expectations, it was considered that there were sufficient indicators to suggest that the reversal of a portion of the previous impairment loss was appropriate. Accordingly, € 120 million (£ 100 million) of the previous impairment provision was reversed. In 2016, it was considered appropriate to reverse a further € 30 million (£ 25 million) due to continued positive shareholder reserves and future expectations.

n Intangible assets

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2016 Total € m
Cost					
At 1 January	288	438	118	3	847
Additions	18	40	104	–	162
Transfers in/(out)	–	60	(60)	–	–
At 31 December	306	538	162	3	1,009
Amortisation/impairment					
At 1 January	261	305	–	3	569
Amortisation for the year	13	39	–	–	52
Impairment for the year	8	3	4	–	15
At 31 December	282	347	4	3	636
Carrying value at 31 December	24	191	158	–	373

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2015 Total € m
Cost					
At 1 January	278	396	40	3	717
Additions	15	48	92	–	155
Transfers in/(out)	–	14	(14)	–	–
Amounts written off[1]	(5)	(20)	–	–	(25)
Exchange translation adjustments	–	–	–	–	–
At 31 December	288	438	118	3	847
Amortisation/impairment					
At 1 January	257	299	–	3	559
Amortisation for the year	9	26	–	–	35
Impairment for the year	–	–	–	–	–
Amounts written off[1]	(5)	(20)	–	–	(25)
Exchange translation adjustments	–	–	–	–	–
At 31 December	261	305	–	3	569
Carrying value at 31 December	27	133	118	–	278

[1] Relates to assets which are no longer in use with a Nil carrying value.

Notes to the parent company financial statements

o Property, plant and equipment

	Property			Equipment	Assets under construction	2016 Total
	Freehold	Long leasehold	Leasehold under 50 years			
	€ m	€ m	€ m	€ m	€ m	€ m
Cost						
At 1 January	**162**	**74**	**93**	**449**	**22**	**800**
Transfers in/(out)	**3**	**2**	**7**	**3**	**(15)**	**–**
Additions	**1**	**–**	**5**	**34**	**12**	**52**
Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Exchange traslation adjustments	**–**	**–**	**(1)**	**–**	**–**	**(1)**
At 31 December	**166**	**76**	**104**	**485**	**19**	**850**
Depreciation/impairment						
At 1 January	**43**	**25**	**56**	**377**	**–**	**501**
Transfers in/(out)	**(1)**	**–**	**1**	**–**	**–**	**–**
Depreciation charge for the year	**4**	**2**	**6**	**23**	**–**	**35**
Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
At 31 December	**46**	**27**	**63**	**399**	**–**	**535**
Carrying value at 31 December	**120**	**49**	**41**	**86**	**19**	**315**

	Property			Equipment	Assets under construction	2015 Total
	Freehold	Long leasehold	Leasehold under 50 years			
	€ m	€ m	€ m	€ m	€ m	€ m
Cost						
At 1 January	121	73	87	432	7	720
Transfers in/(out)	–	1	2	1	(4)	–
Additions	41	–	4	18	19	82
Disposals	–	–	–	(2)	–	(2)
At 31 December	162	74	93	449	22	800
Depreciation/impairment						
At 1 January	40	24	50	358	–	472
Depreciation charge for the year	3	1	6	21	–	31
Disposals	–	–	–	(2)	–	(2)
At 31 December	43	25	56	377	–	501
Carrying value at 31 December	119	49	37	72	22	299

The carrying value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 208 million (2015: € 201 million).

p Deferred taxation	**2016 € m**	2015 € m
Deferred tax assets:		
Retirement benefits	**20**	45
Unutilised tax losses	**2,644**	2,684
Other	**22**	46
Total gross deferred tax assets	**2,686**	2,775
Deferred tax liabilities:		
Cash flow hedges	**(60)**	(49)
Assets used in business	**(16)**	(15)
Available for sale securities	**(153)**	(277)
Other	**(33)**	(13)
Total gross deferred tax liabilities	**(262)**	(354)
Net deferred tax assets	**2,424**	2,421
Represented on the statement of financial position as follows:		
Deferred tax assets	**2,457**	2,421
Deferred tax liabilities	**(33)**	–
	2,424	2,421

For each of the years ended 31 December 2016 and 2015, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	**2016 € m**	2015 € m
At 1 January	**2,421**	2,756
Exchange translation and other adjustments	**–**	(2)
Deferred tax through other comprehensive income	**89**	(183)
Income statement	**(86)**	(150)
At 31 December	**2,424**	2,421

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 ‘Critical accounting judgements and estimates’ on pages 256 to 260. Information on the regulatory capital treatment of deferred tax assets is included in ‘Principal risks and uncertainties’ on page 58.

At 31 December 2016, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,424 million (2015: € 2,421 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

q Deposits by central banks and banks

	2016 € m	2015 € m
Central banks		
Eurosystem refinancing operations[1]	**1,900**	2,900
Other borrowings	**12**	50
	1,912	2,950
Banks		
Securities sold under agreements to repurchase	**4,973**	10,153
Other borrowings	**6,526**	6,548
	11,499	16,701
	13,411	19,651
Of which:		
Due to third parties	**7,727**	13,637
Due to subsidiary undertakings[2]	**5,684**	6,014
	13,411	19,651
Amounts include:		
Due to related party	**–**	–

[1] Euorsystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

[2] Amounts due to subsidiary undertakings may include repurchase agreements.

Details of AIB's sale and repurchase activity are set out in note 47 to the consolidated financial statements.

Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2016 (2015: Nil).

Deposits by central banks and banks include cash collateral of € 388 million (2015: € 321 million) received from derivative counterparties in relation to net derivative positions (note 33) and also from repurchase agreement counterparties.

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2016			2015		
	Central banks € m	**Banks € m**	**Total € m**	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**3,293**	**5,239**	**8,532**	5,357	10,829	16,186
Of which:						
Government securities[1]	**498**	**3,891**	**4,389**	20	8,364	8,384
Other securities	**2,795**	**1,348**	**4,143**	5,337	2,465	7,802

[1] Includes NAMA senior bonds.

(b) At 31 December 2015, Allied Irish Banks, p.l.c. had securitised credit card receivables with a carrying value of € 292 million as described in note 47. Funding received from external investors was included above in 'Other borrowings' and was secured on both existing and future credit card receivables. This securitisation structure was terminated in November 2016.

r Customer accounts

	2016 € m	2015 € m
Current accounts	**23,329**	19,390
Demand deposits	**9,154**	8,123
Time deposits	**16,039**	20,532
Securities sold under agreements to repurchase[1]	**803**	1,084
	49,325	49,129
Of which:		
Non-interest bearing current accounts	**23,040**	19,082
Interest bearing deposits, current accounts and short-term borrowings	**26,285**	30,047
	49,325	49,129
Of which:		
Due to third parties	**46,727**	45,045
Due to subsidiary undertakings[2]	**2,598**	4,084
	49,325	49,129
Amounts include:		
Due to associated undertakings	**263**	192

[1] AIB pledged government available for sale securities with a fair value of € 258 million (2015: € 663 million) and non-government available for sale securities with a fair value of € 619 million (2015: € 545 million) as collateral for these facilities and providing access to future funding facilities.

[2] Amounts due to subsidiary undertakings may include repurchase agreements.

Customer accounts include cash collateral of € 60 million received from derivative counterparties in relation to net derivative positions note aa).

s Trading portfolio financial liabilities

	2016 € m	2015 € m
Debt securities:		
Government securities	**–**	86
	–	86

For contractual residual maturity – see note aj 'Liquidity risk information'.

t Debt securities in issue

	2016 € m	2015 € m
Bonds and medium term notes:		
European medium term note programme	**1,000**	1,500
Other debt securities in issue:		
Commercial paper	**147**	100
	1,147	1,600

Debt securities issued during the year amounted to € 389 million (31 December 2015: € 2,022 million) of which Nil relates to an EMTN issuance (31 December 2015: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 850 million (31 December 2015: € 3,045 million).

u Other liabilities

	2016 **€ m**	2015 € m
Items in transit	**21**	16
Creditors	**7**	8
Fair value of hedged liability positions	**23**	21
Other	**220**	220
	271	265

v Provisions for liabilities and commitments

	Liabilities and charges **€ m**	**NAMA[(1)] provisions** **€ m**	**Onerous[(2)] contracts** **€ m**	**Legal claims** **€ m**	**Other provisions** **€ m**	**Voluntary severance scheme** **€ m**	**2016** **Total** **€ m**
At 1 January	**49**	**39**	**2**	**23**	**92**	**–**	**205**
Exchange translation adjustments	**–**	**–**	**–**	**–**	**(12)**	**–**	**(12)**
Charged to income statement	**2(3)**	**–**	**–**	**5**	**44**	**–**	**51**
Released to income statement	**(4)(3)**	**(29)(1)**	**–**	**(3)**	**(1)**	**–**	**(37)**
Provisions utilised	**–**	**(8)**	**–**	**(1)**	**(28)**	**–**	**(37)**
At 31 December	**47**	**2**	**2**	**24**	**95(4)**	**–**	**170(5)**

	Liabilities and charges € m	NAMA(1) provisions € m	Onerous(2) contracts € m	Legal claims € m	Other provisions € m	Voluntary severance scheme € m	2015 Total € m
At 1 January	60	33	16	23	90	–	222
Transfers in	–	14	–	–	–	–	14
Exchange translation adjustments	–	–	–	–	5	–	5
Charged to income statement	11(3)	7(1)	–	3	5	–	26
Released to income statement	(22)(3)	(12)(1)	(5)	(2)	–	–	(41)
Provisions utilised	–	(3)	(9)	(1)	(8)	–	(21)
At 31 December	49	39	2	23	92(4)	–	205(5)

(1)NAMA income statement charge/(credit) relates to on-going valuation adjustments in relation to loans previously transferred to NAMA.

(2)Provisions for the unavoidable costs expected to arise from the closure of properties surplus to requirements.

(3)Included in writeback of provisions for liabilities and commitments in the income statement.

(4)Includes € 71 million (2015: € 82 million) due to a subsidiary undertaking.

(5)The total provisions for liabilities and commitments expected to be settled within one year amount to € 8 million (2015: € 55 million).

w Subordinated liabilities and other capital instruments

All outstanding subordinated liabilities and other capital instruments of AIB Group are issued by Allied Irish Banks, p.l.c. and are detailed in note 39 to the consolidated financial statements.

x Share capital

The share capital and share premium of Allied Irish Banks, p.l.c. are detailed in note 40 to the consolidated financial statements, all of which relates to Allied Irish Banks, p.l.c..

y Other equity interests

Other equity interests comprise Additional Tier 1 Securities which were issued by Allied Irish Banks, p.l.c. on 3 December 2015. These are detailed in note 42 to the consolidated financial statements.

z Capital reserves and capital redemption reserves

			2016			2015
Capital reserves	**Capital contribution reserves € m**	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**427**	**156**	**583**	825	156	981
Transfer to revenue reserves:						
Anglo business transfer	**(285)**	**–**	**(285)**	(285)	–	(285)
CCNs issuance *(note w)*	**(76)**	**–**	**(76)**	(113)	–	(113)
	(361)	**–**	**(361)**	(398)	–	(398)
At 31 December	**66**	**156**	**222**	427	156	583

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of CCNs are non-distributable on initial recognition but may become distributable as outlined in accounting policy (ab) in note 1 to the consolidated financial statements. The transfers to revenue reserves relate to the capital contributions being deemed distributable. The capital contribution reserves which arose on the issue of the CCNs are now deemed to be fully distributable as the CCNs have been repaid in full.

Capital redemption reserves

All capital redemption reserves are held in Allied Irish Banks p.l.c. and are detailed in note 43 to the consolidated financial statements.

aa Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in Allied Irish Banks, p.l.c.'s statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Details of these transactions are set out in note 44 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c.

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2016 and 2015:

							2016
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	f	1,483	–	1,483	(985)	(441)	57
Loans and receivables to banks –							
Reverse repurchase agreements	g	2,712	(350)	2,362	(2,619)	–	(257)
Total		4,195	(350)	3,845	(3,604)	(441)	(200)

							2016
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	q	5,323	(350)	4,973	(4,999)	(12)	(38)
Customer accounts –							
Securities sold under agreements to repurchase	r	803	–	803	(877)	–	(74)
Derivative financial instruments	f	1,677	–	1,677	(985)	(922)	(230)
Total		7,803	(350)	7,453	(6,861)	(934)	(342)

aa Offsetting financial assets and financial liabilities *(continued)*

					2015		
			Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	f	1,399	–	1,399	(1,079)	(341)	(21)
Loans and receivables to banks –							
Reverse repurchase agreements	g	4,896	–	4,896	(5,728)	–	(832)
Loans and receivables to customers –							
Reverse repurchase agreements	h	226	–	226	(222)	–	4
Total		6,521	–	6,521	(7,029)	(341)	(849)

					2015		
			Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	q	10,153	–	10,153	(10,571)	(20)	(438)
Customer accounts –							
Securities sold under agreements to repurchase	r	1,084	–	1,084	(1,208)	(1)	(125)
Derivative financial instruments	f	1,894	–	1,894	(1,079)	(888)	(73)
Total		13,131	–	13,131	(12,858)	(909)	(636)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and receivables to banks – amortised cost;
- loans and receivables to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

aa Offsetting financial assets and financial liabilities *(continued)*

The following table reconciles the ‘Net amounts of financial assets and financial liabilities presented in the statement of financial position’ as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2016 and 2015:

				2016
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in the statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,483**	Derivative financial instruments	**1,852**	**369**
Loans and receivables to banks –				
Reverse repurchase agreements	**2,362**	Loans and receivables to banks	**18,129**	**15,767**
Loans and receivables to customers –				
Reverse repurchase agreements	**–**	Loans and receivables to customers	**25,870**	**25,870**

				2016
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in the statement of financial position € m**	**Financial liabilities not in scope off offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	**4,973**	Deposits by central banks and banks	**13,411**	**8,438**
Customer accounts –				
Securities sold under agreements to repurchase	**803**	Customer accounts	**49,325**	**48,522**
Derivative financial instruments	**1,677**	Derivative financial instruments	**1,848**	**171**

				2015
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in the statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,399	Derivative financial instruments	1,718	319
Loans and receivables to banks –				
Reverse repurchase agreements	4,896	Loans and receivables to banks	21,311	16,415
Loans and receivables to customers –				
Reverse repurchase agreements	226	Loans and receivables to customers	29,500	29,274

				2015
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in the statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	10,153	Deposits by central banks and banks	19,651	9,498
Customer accounts –				
Securities sold under agreements to repurchase	1,084	Customer accounts	49,129	48,045
Derivative financial instruments	1,894	Derivative financial instruments	2,032	138

ab Memorandum items: contingent liabilities and commitments, and contingent assets

Allied Irish Banks, p.l.c. has given guarantees in respect of the liabilities of certain of its subsidiaries and has also given guarantees to the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate (note m).

Details of contingent liabilities and commitments entered into by AIB Group are set out in note 45 to the consolidated financial statements.

The commentary on Legal proceedings, Contingent liability/contingent assets and Participation in TARGET 2 – Ireland, as set out in note 45 to the consolidated financial statements, applies also to Allied Irish Banks, p.l.c.

The following tables give the nominal or contract amounts of contingent liabilities and commitments for Allied Irish Banks, p.l.c.:

	Contract amount	
	2016 **€ m**	2015 € m
Contingent liabilities[1] - credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**453**	497
Other contingent liabilities	**312**	334
	765	831
Commitments[2]		
Documentary credits and short-term trade-related transactions	**54**	37
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**6,007**	5,992
1 year and over[4]	**1,619**	1,590
	7,680	7,619
	8,445[5]	8,450[5]

[1] Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

[2] A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

[3] An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

[4] With an original maturity of more than 1 year.

[5] Included in exposures are amounts relating to Group subsidiaries of € 263 million (2015: € 239 million).

	Contingent liabilities		Commitments	
	2016 **€ m**	2015 € m	**2016** **€ m**	2015 € m
Concentration of exposure				
Republic of Ireland	**661**	673	**7,671**	7,597
United Kingdom	**1**	1	**4**	15
United States of America	**103**	157	**5**	7
Total	**765**	831	**7,680**	7,619

Credit ratings

The credit ratings of contingent liabilities and commitments as at 31 December 2016 and 2015 are set out in the following table:

	2016 **€ m**	2015 € m
Good upper	**3,140**	2,838
Good lower	**4,824**	4,348
Watch	**98**	199
Vulnerable	**239**	141
Impaired	**144**	311
Unrated	**–**	613
Total	**8,445**	8,450

ac Transferred financial assets

Allied Irish Banks, p.l.c. enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement:*

(i) continue to be recognised in their entirety; or

(ii) be derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements and securitisations. Details of these transactions are set out in note 47 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c..

(i) Transferred financial assets not derecognised in their entirety

The following table sets out the carrying value of financial assets which did not qualify for derecognition and their associated financial liabilities:

							2016
	Carrying amount of transferred assets €m	**Carrying amount of associated liabilities held by third parties €m**	**Carrying amount of associated liabilities held by Group companies €m**	**Fair value of transferred assets €m**	**Fair value of associated liabilities held by third parties €m**	**Fair value of associated liabilities held by Group companies €m**	**Net fair value position €m**
Sale and repurchase agreements/ similar products	**6,461**	**5,926**[1]	**–**	**6,466**	**5,926**	**–**	**540**
Securitisations:							
Credit card receivables[2]	**–**	**–**	**–**	**–**	**–**	**–**	**–**

							2015
	Carrying amount of transferred assets €m	Carrying amount of associated liabilities held by third parties €m	Carrying amount of associated liabilities held by Group companies €m	Fair value of transferred assets €m	Fair value of associated liabilities held by third parties €m	Fair value of associated liabilities held by Group companies €m	Net fair value position €m
Sale and repurchase agreements	12,677	11,387[1]	–	12,677	11,387	–	1,290
Securitisations:							
Credit card receivables	292	200	92	292	200	92	–

[1] See notes q and r.

[2] Securitisation transaction terminated in November 2016 (note 47 to the consolidated financial statements).

(ii) Transferred financial assets derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement

Allied Irish Banks, p.l.c. has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which Allied Irish Banks p.l.c. has a continuing involvement in financial assets transferred.

NAMA

Details in relation to the continuing involvement by Allied Irish Banks, p.l.c. in assets transferred to NAMA are set out in note 47 to the consolidated financial statements. The carrying value of assets transferred during 2010 and 2011 amounted to € 13,483 million, all of which were derecognised.

In 2016, Allied Irish Banks, p.l.c. recognised € 4 million (cumulative € 86 million) (2015: € 13 million (cumulative € 82 million)) in the income statement for the servicing of all financial assets transferred to NAMA by the Group.

AIB Mortgage Bank

In 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services. In 2016, Allied Irish Banks, p.l.c. recognised € 63 million (cumulative € 519 million) (2015: € 60 million (cumulative € 456 million)) in the income statement for the provision of services under this agreement.

ad Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets in note 1 (m) to the consolidated financial statements and financial liabilities in note 1 (n) to the consolidated financial statements describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading.

	At fair value through profit and loss		At fair value through equity		At amortised cost			2016 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Held to maturity €m	Other €m	€m
Financial assets								
Cash and balances at central banks	–	–	–	–	1,840	–	556(1)	2,396
Items in the course of collection	–	–	–	–	59	–	–	59
Trading portfolio financial assets	1	–	–	–	–	–	–	1
Derivative financial instruments(2)	1,011	57	784	–	–	–	–	1,852
Loans and receivables to banks(3)	–	–	–	–	18,129	–	–	18,129
Loans and receivables to customers(4)	–	–	–	–	25,870	–	–	25,870
NAMA senior bonds	–	–	–	–	1,799	–	–	1,799
Financial investments available for sale(5)	–	–	–	17,660	–	–	–	17,660
Financial investments held to maturity	–	–	–	–	–	3,356	–	3,356
Other financial assets	–	–	–	–	–	–	363	363
	1,012	57	784	17,660	47,697	3,356	919	71,485
Financial liabilities								
Deposits by central banks and banks(6)	–	–	–	–	–	–	13,411	13,411
Customer accounts(7)	–	–	–	–	–	–	49,325	49,325
Derivative financial instruments(8)	1,052	389	407	–	–	–	–	1,848
Debt securities in issue(9)	–	–	–	–	–	–	1,147	1,147
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	791	791
Other financial liabilities	–	–	–	–	–	–	239	239
	1,052	389	407	–	–	–	64,913	66,761

Following footnotes to be updated.

(1)Comprises cash on hand.

(2)Includes exposure to subsidiary undertakings of € 177 million.

(3)Includes exposure to subsidiary undertakings of € 17,560 million.

(4)Includes exposure to subsidiary undertakings of € 6,869 million.

(5)Includes exposure to subsidiary undertakings of € 2,310 million.

(6)Includes amounts due to subsidiary undertakings of € 5,684 million.

(7)Includes amounts due to subsidiary undertakings of € 2,598 million.

(8)Includes amounts due to subsidiary undertakings of € 245 million.

(9)Includes amounts due to subsidiary undertakings of Nil.

ad Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit and loss		At fair value through equity		At amortised cost			2015 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Held to maturity €m	Other €m	€m
Financial assets								
Cash and balances at central banks	–	–	–	–	840	–	493(1)	1,333
Items in the course of collection	–	–	–	–	67	–	–	67
Trading portfolio financial assets	1	–	–	–	–	–	–	1
Derivative financial instruments(2)	1,127	64	527	–	–	–	–	1,718
Loans and receivables to banks(3)	–	–	–	–	21,311	–	–	21,311
Loans and receivables to customers(4)	–	–	–	–	29,500	–	–	29,500
NAMA senior bonds	–	–	–	–	5,616	–	–	5,616
Financial investments available for sale(5)	–	–	–	17,510	–	–	–	17,510
Financial investments held to maturity	–	–	–	–	–	3,483	–	3,483
Other financial assets	–	–	–	–	–	–	452	452
	1,128	64	527	17,510	57,334	3,483	945	80,991
Financial liabilities								
Deposits by central banks and banks(6)	–	–	–	–	–	–	19,651	19,651
Customer accounts(7)	–	–	–	–	–	–	49,129	49,129
Trading portfolio financial liabilities	86	–	–	–	–	–	–	86
Derivative financial instruments(8)	1,161	418	453	–	–	–	–	2,032
Debt securities in issue(9)	–	–	–	–	–	–	1,600	1,600
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	2,318	2,318
Other financial liabilities	–	–	–	–	–	–	229	229
	1,247	418	453	–	–	–	72,927	75,045

(1)Comprises cash on hand.

(2)Includes exposure to subsidiary undertakings of € 172 million.

(3)Includes exposure to subsidiary undertakings of € 20,018 million.

(4)Includes exposure to subsidiary undertakings of € 9,870 million.

(5)Includes exposure to subsidiary undertakings of € 1,120 million.

(6)Includes amounts due to subsidiary undertakings of € 6,014 million.

(7)Includes amounts due to subsidiary undertakings of € 4,084 million.

(8)Includes amounts due to subsidiary undertakings of € 289 million.

(9)Includes amounts due to subsidiary undertakings of Nil.

ae Fair value of financial instruments

The tables on the following pages set out the carrying amount in the statement of financial position of financial assets and financial liabilities distinguishing between those measured at fair value and those measured at amortised cost. In addition, the fair value of all financial assets and financial liabilities is shown setting out the fair value hierarchy as described below into which the fair value measurement is categorised:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the financial position of Allied Irish Banks, p.l.c. or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Company as a going concern at 31 December 2016.

ae Fair value of financial instruments *(continued)*

					2016
	Carrying amount	Fair value			
		Fair value hierarchy			
	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,732	–	1,364	368	1,732
Exchange rate derivatives	73	–	73	–	73
Equity derivatives	47	–	43	4	47
Financial investments available for sale					
Government securities	8,050	8,050	–	–	8,050
Supranational banks and government agencies	1,719	1,719	–	–	1,719
Asset backed securities	445	432	13	–	445
Bank securities	6,861	4,551	2,310	–	6,861
Corporate securities	67	67	–	–	67
Equity securities	518	–	1	517	518
	19,513	14,819	3,805	889	19,513
Financial assets not measured at fair value					
Cash and balances at central banks	2,396	556[1]	1,840	–	2,396
Items in the course of collection	59	–	–	59	59
Loans and receivables to banks	18,129	–	17	18,112	18,129
Loans and receivables to customers	25,870	–	–	25,637	25,637
NAMA senior bonds	1,799	–	–	1,807	1,807
Financial investments held to maturity	3,356	3,439	–	–	3,439
Other financial assets	363	–	–	363	363
	51,972	3,995	1,857	45,978	51,830
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	1,724	–	1,570	154	1,724
Exchange rate derivatives	79	–	79	–	79
Equity derivatives	45	–	41	4	45
	1,848	–	1,690	158	1,848
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	6,388	–	–	6,388	6,388
Secured borrowings	7,023	–	1,901	5,123	7,024
Customer accounts					
Current accounts	23,329	–	–	23,329	23,329
Demand deposits	9,154	–	–	9,154	9,154
Time deposits	16,039	–	–	16,081	16,081
Securities sold under agreements to repurchase	803	–	–	803	803
Debt securities in issue					
Bonds and medium term notes	1,000	1,043	–	–	1,043
Other debt securities in issue	147	–	147	–	147
Subordinated liabilities and other capital instruments	791	766	79	–	845
Other financial liabilities	239	–	–	239	239
	64,913	1,809	2,127	61,117	65,053

[1] Comprises cash on hand.

ae Fair value of financial instruments *(continued)*

					2015
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,561	–	1,237	324	1,561
Exchange rate derivatives	68	–	68	–	68
Equity derivatives	89	–	50	39	89
Financial investments available for sale					
Government securities	8,684	8,533	151	–	8,684
Supranational banks and government agencies	2,008	2,008	–	–	2,008
Asset backed securities	329	328	1	–	329
Bank securities	5,720	4,600	1,120	–	5,720
Corporate securities	87	76	–	11	87
Equity securities	682	–	–	682	682
	19,229	15,545	2,628	1,056	19,229
Financial assets not measured at fair value					
Cash and balances at central banks	1,333	493[1]	840	–	1,333
Items in the course of collection	67	–	–	67	67
Loans and receivables to banks	21,311	–	102	21,209	21,311
Loans and receivables to customers	29,500	–	–	29,283	29,283
NAMA senior bonds	5,616	–	–	5,626	5,626
Financial investments held to maturity	3,483	3,479	–	–	3,479
Other financial assets	452	–	–	452	452
	61,762	3,972	942	56,637	61,551
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	86	86	–	–	86
Derivative financial instruments					
Interest rate derivatives	1,873	–	1,655	218	1,873
Exchange rate derivatives	64	–	64	–	64
Equity derivatives	89	–	51	38	89
Credit derivatives	6	–	6	–	6
	2,118	86	1,776	256	2,118
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	6,598	–	–	6,598	6,598
Secured borrowings	13,053	–	2,903	10,153	13,056
Customer accounts					
Current accounts	19,390	–	–	19,390	19,390
Demand deposits	8,123	–	–	8,123	8,123
Time deposits	20,532	–	–	20,623	20,623
Securities sold under agreements to repurchase	1,084	–	–	1,084	1,084
Debt securities in issue					
Bonds and medium term notes	1,500	1,542	–	–	1,542
Other debt securities in issue	100	–	100	–	100
Subordinated liabilities and other capital instruments	2,318	758	1,778	–	2,536
Other financial liabilities	229	–	–	229	229
	72,927	2,300	4,781	66,200	73,281

[1] Comprises cash on hand.

ae Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2016 and 2015:

			2016			2015
Financial assets	**Trading portfolio €m**	**Debt securities €m**	**Total €m**	Trading portfolio €m	Debt securities €m	Total €m
Transfer into Level 2 from Level 1	–	–	–	–	–	–

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for 2016 and 2015:

						2016
	Financial assets				**Financial liabilities**	
	Derivatives	**Available for sale**		**Total**	**Derivatives**	**Total**
		Debt securities	**Equity securities**			
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At 1 January 2016	**363**	**11**	**682**	**1,056**	**256**	**256**
Transfers into Level 3[1]	**32**	**–**	**–**	**32**	**–**	**–**
Total gains or (losses) in:						
Profit or loss						
– Net trading income	**(23)**	**–**	**–**	**(23)**	**(38)**	**(38)**
– Other operating income	**–**	**–**	**246**	**246**	**–**	**–**
	(23)	**–**	**246**	**223**	**(38)**	**(38)**
Other comprehensive income						
– Net change in fair value of financial investments available for sale	**–**	**–**	**(230)**	**(230)**	**–**	**–**
– Net change in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**(2)**	**(2)**
	–	**–**	**(230)**	**(230)**	**(2)**	**(2)**
Purchases/additions	**–**	**–**	**65**	**65**	**–**	**–**
Sales/disposals	**–**	**(9)**	**(246)**	**(255)**	**–**	**–**
Settlements	**–**	**(2)**	**–**	**(2)**	**(58)**	**(58)**
At 31 December 2016	**372**	**–**	**517**	**889**	**158**	**158**

[1] Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers into level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobservable data.

ae Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

						2015
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2015	460	3	359	822	271	271
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	(2)	323	321	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	19	19
	–	(2)	323	321	19	19
Purchases	–	10	–	10	–	–
Settlements[2]	(97)	–	–	(97)	(34)	(34)
At 31 December 2015	363	11	682	1,056	256	256

[2] Includes gains and losses recognised in 'Net trading income/(loss)'. In addition, for unrealised gains or losses at 31 December 2016, see table below.

The following table shows total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2016 and 2015:

	2016 **€ m**	2015 € m
Net trading income – gains	**89**	54

ae Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used at the years ended 31 December 2016 and 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				**Range of estimates**	
Financial instrument		**2016 € m**	2015 € m	**Valuation technique**	**Significant unobservable inputs**	**2016**	2015
Uncollateralised customer derivatives	Asset Liability	**372** **158**	363 256	CVA	LGD	**47% – 67%** **(Base 54%)**	47% – 73% (Base 55%)
					PD	**0.8% – 1.6%** **(Base 1.2% 1 year PD)**	1.0% – 1.6% (Base 1.3% 1 year PD)
					Combination LGD and PD[1]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.6%) – 0.5%**	(0.4%) – 0.5%

[1]The fair value measurement sensitivity to unobservable inputs ranges from negative € 33 million to positive € 19 million (2015: negative € 44 million to positive € 23 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater that € 1 million in any individual case or collectively, the detail is not disclosed here.

Financial instrument		**2016 € m**	2015 € m	**Valuation technique**	**Significant unobservable inputs**	**2016**	2015
NAMA subordinated bonds	Asset	**447**	414	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 7.21% applicable to base asset price. The estimates range from (a) discount rate of 9%; to (b) an early full repayment of coupons plus capital (March 2019)	Discount rate of 9% applicable to base asset price. The estimates range from:: (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).

In June 2016, the Group received Series B Preferred Stock in Visa Inc. as part consideration for its holding of shares in Visa Europe. This preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

Financial instrument		**2016 € m**	2015 € m	**Valuation technique**	**Significant unobservable inputs**	**Range of estimates at 31 December 2016**
Visa Inc. Series B Preferred Stock	Asset	**70**	N/A	Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. (50%). This was converted to euro at the year end rate.	Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.	Estimates range from: (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 100% discount for conversion rate variability.

ae Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Company believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2016 and 2015:

	2016			
	Level 3			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable € m	**Unfavourable € m**	**Favourable € m**	**Unfavourable € m**
Classes of financial assets				
Derivative financial instruments	**31**	**(39)**	**–**	**–**
Financial investments available for sale – equity securities	**–**	**(65)**	**80**	**(12)**
Total	**31**	**(104)**	**80**	**(12)**
Classes of financial liabilities				
Derivative financial instruments	**–**	**(3)**	**–**	**–**
Total	**–**	**(3)**	**–**	**–**

	2015			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	29	(43)	–	–
Financial investments available for sale – equity securities	–	–	25	(98)
Total	29	(43)	25	(98)
Classes of financial liabilities				
Derivative financial instruments	2	(9)	–	–
Total	2	(9)	–	–

Day 1 gain or loss:

No difference existed between the fair value of financial instruments at initial recognition and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

af Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	**2016 € m**	2015 € m
Profit on disposal of property, plant and equipment	**–**	(3)
Profit on disposal/transfer of loans and receivables	**(29)**	(18)
Dividends received from equity securities	**(24)**	(24)
Dividends received from associated undertakings	**(11)**	(13)
Provisions/(writeback of provisions) for impairment of subsidiary undertakings	**648**	(120)
(Writeback of provisions) for impairment on loans and receivables	**(175)**	(501)
(Writeback of provisions) for impairment on financial investments available for sale	**(2)**	–
(Writeback of provisions) for liabilities and commitments	**(2)**	(11)
Change in other provisions	**16**	10
Retirement benefits – defined benefit expense	**8**	25
Depreciation, amortisation and impairment	**102**	66
Interest on subordinated liabilities and other capital instruments	**199**	278
Profit on disposal of financial investments available for sale	**(336)**	(126)
Loss on termination of hedging swaps	**59**	81
Remeasurement of NAMA senior bonds	**(10)**	(6)
Amortisation of premiums and discounts	**226**	81
Fair value gain on re-estimation of cash flows on loans and receivables previously restructured	**(11)**	(1)
Income from settlement of claim	**–**	(38)
Change in prepayments and accrued income	**51**	16
Change in accruals and deferred income	**(95)**	(67)
Effect of exchange translation and other adjustments[1]	**30**	(311)
Total non-cash items	**644**	(682)
Contributions to defined benefit pension schemes	**(40)**	(83)
Dividends received from equity securities	**24**	24
Total other items	**(16)**	(59)
Non-cash and other items for the year	**628**	(741)

[1] The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

af Statement of cash flows *(continued)*

Change in operating assets[1]	**2016** **€ m**	2015 € m
Change in loans and receivables to customers	**2,859**	1,369
Change in NAMA senior bonds	**3,838**	3,834
Change in loans and receivables to banks	**2,752**	1,721
Change in derivative financial instruments	**152**	(330)
Change in items in course of collection	**8**	(1)
Change in other assets	**57**	(53)
	9,666	6,540

Change in operating liabilities[1]	**2016** **€ m**	2015 € m
Change in deposits by central banks and banks	**(5,757)**	(3,759)
Change in customer accounts	**659**	(1,443)
Change in trading portfolio financial liabilities	**(86)**	86
Change in debt securities in issue	**(453)**	(1,022)
Change in other liabilities	**(30)**	(46)
	(5,667)	(6,184)

[1] The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2016 **€ m**	2015 € m
Cash and balances at central banks	**2,396**	1,333
Loans and receivables to banks	**550**	539
	2,946	1,872

ag Related party transactions

Related parties of Allied Irish Banks, p.l.c. ("AIB") include subsidiary undertakings, associate undertakings and joint undertakings, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB. Related party transactions are detailed in note 51 to the consolidated financial statements.

ah Commitments

Capital expenditure	**2016** **€ m**	2015 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**7**	7
Capital expenditure authorised but not yet contracted for	**37**	34

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases is set out in the following table.

	2016 **€ m**	2015 € m
One year	**46**	45
One to two years	**29**	32
Two to three years	**27**	16
Three to four years	**26**	16
Four to five years	**24**	15
Over five years	**95**	113
Total	**247**	237

Operating lease payments recognised as an expense for the year were € 59 million (2015: € 51 million). Sublease income amounted to Nil (2015: Nil). Included in the lease payments to other Group subsidiaries is € 30 million (2015: € 37 million). Future minimum lease payments due to subsidiaries of Allied Irish Banks, p.l.c. amount to € 24 million excluding VAT (2015: € 41 million excluding VAT) and are included in the total of € 247 million in 2016 (2015: € 237 million).

ai Credit risk information

The following table sets out the maximum exposure to credit risk that arises within Allied Irish Banks, p.l.c. and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2016 and 2015:

			2016			2015
Maximum exposure to credit risk	**Amortised cost(1) € m**	**Fair value(2) € m**	**Total € m**	Amortised cost(1) € m	Fair value(2) € m	Total € m
Balances at central banks(3)	**1,840**	**–**	**1,840**	840	–	840
Items in course of collection	**59**	**–**	**59**	67	–	67
Derivative financial instruments(4)	**–**	**1,852**	**1,852**	–	1,718	1,718
Loans and receivables to banks(5)	**18,129**	**–**	**18,129**	21,311	–	21,311
Loans and receivables to customers(6)	**25,870**	**–**	**25,870**	29,500	–	29,500
NAMA senior bonds	**1,799**	**–**	**1,799**	5,616	–	5,616
Financial investments available for sale(7)	**–**	**17,142**	**17,142**	–	16,828	16,828
Financial investments held to maturity	**3,356**	**–**	**3,356**	3,483	–	3,483
Other assets:						
Trade receivables	**68**	**–**	**68**	100	–	100
Accrued interest(8)	**295**	**–**	**295**	352	–	352
	51,416	**18,994**	**70,410**	61,269	18,546	79,815
Financial guarantees	**765**	**–**	**765**	831	–	831
Loan commitments and other credit related commitments	**7,680**	**–**	**7,680**	7,619	–	7,619
	8,445	**–**	**8,445(9)**	8,450	–	8,450(9)
Total	**59,861**	**18,994**	**78,855**	69,719	18,546	88,265

(1) All amortised cost items are 'loans and receivables' per IAS 39 *Financial Instruments: Recognition and Measurement* definitions.

(2) All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as 'fair value through profit or loss'.

(3) Included within cash and balances at central banks of € 2,396 million (2015: € 1,333 million).

(4) Exposures to subsidiary undertakings of € 177 million (2015: € 172 million) have been included.

(5) Exposures to subsidiary undertakings of € 17,560 million (2015: € 20,018 million) have been included.

(6) Exposures to subsidiary undertakings of € 6,869 million (2015: € 9,870 million) have been included.

(7) Exposures to subsidiary undertakings of € 2,310 million (2015: € 1,120 million) have been included but equity shares amounting to € 518 million (2015: 682 million) have been excluded.

(8) Exposures to subsidiary undertakings of € 5 million (2015: € 12 million) have been included.

(9) Exposures to subsidiary undertakings of € 263 million (2015: € 239 million) have been included.

ai Credit risk information *(continued)*

Collateral

Allied Irish Banks, p.l.c. takes collateral as a secondary source of repayment in the event of a borrower's default. The nature of collateral taken is set out on page 69. The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c..

Collateral for the non-mortgage portfolio

For non-mortgage lending, collateral is taken where available, and will typically include a charge over the business assets such as stock and debtors. In some cases, a charge over property collateral or a personal guarantee supported by a lien over personal assets may also be taken. Collateral is reviewed on a regular basis in accordance with credit policy.

The value of collateral is assessed at origination of the loan or in the case of criticised loans, when testing for impairment. However, as the Group does not capture collateral values on its loan systems, it is not possible to quantify the fair value of collateral for non-impaired loans on an on-going basis at a portfolio level. It should be noted that when testing a loan for impairment, the present value of estimated future cash flows, including the value of collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Therefore, for non-mortgage impaired loans, the net exposure after provision would be indicative of the fair value.

Collateral for the residential mortgage portfolio

For residential mortgages, Allied Irish Banks, p.l.c. takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. Allied Irish Banks, p.l.c. adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 December 2016 is based on property values at origination or date of latest valuation and applying the CSO (Ireland) index to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by Allied Irish Banks, p.l.c. in relation to financial assets detailed in the maximum exposure to credit risk table on page 403.

Loans and receivables to customers - residential mortgages

The following table shows the fair value of collateral held for the residential mortgage portfolio at 31 December 2016 and 2015:

	2016				2015			
	Neither past due nor impaired € m	**Past due but not impaired € m**	**Impaired € m**	**Total € m**	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Fully collateralised[1]								
Loan-to-value ratio:								
Less than 50%	**205**	**6**	**24**	**235**	193	6	15	214
50% - 70%	**208**	**5**	**28**	**241**	192	6	25	223
71% - 80%	**122**	**3**	**24**	**149**	126	3	22	151
81% - 90%	**129**	**4**	**22**	**155**	139	2	33	174
91% - 100%	**120**	**4**	**41**	**165**	150	8	58	216
	784	**22**	**139**	**945**	800	25	153	978
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**351**	**10**	**87**	**448**	410	12	121	543
Total collateral value	**1,135**	**32**	**226**	**1,393**	1,210	37	274	1,521
Gross residential mortgages	**1,191**	**34**	**243**	**1,468**	1,282	39	298	1,619
Statement of financial position specific provisions			**(91)**	**(91)**			(125)	(125)
Statement of financial position IBNR provisions				**(15)**				(11)
Net residential mortgages			**152**	**1,362**			173	1,483

[1] The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at each year end.

ai Credit risk information *(continued)*

Loans and receivables to customers – other

In addition to the credit risk mitigants outlined above, Allied Irish Banks, p.l.c. holds reverse repurchase agreements amounting to Nil (2015: € 226 million) in its loans and receivables portfolio for which it had accepted collateral with a fair value of Nil (2015: € 222 million).

Loans and receivables to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 31 December 2016, repurchase agreements amounted to Nil (2015: € 649 million) for which Allied Irish Banks, p.l.c. had accepted collateral with a fair value of Nil (2015: € 737 million).

NAMA senior bonds

Allied Irish Banks p.l.c. holds a guarantee from the Irish Government in respect of NAMA senior bonds which at 31 December 2016 have a carrying value of € 1,799 million (2015: € 5,616 million).

Derivatives

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2016 amounted to € 1,852 million (2015: € 1,718 million) and those with negative fair value are reported as liabilities which at 31 December 2016 amounted to € 1,848 million (2015: € 2,032 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 984 million at 31 December 2016 (2015: € 1,079 million). Allied Irish Banks, p.l.c. also has Credit Support Annexes (“CSAs”) in place which provide collateral for derivative contracts. As at 31 December 2016, € 884 million (2015: € 888 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 437 million (2015: € 341 million) of CSAs are included within financial liabilities as collateral for derivative assets (note aa). Additionally, Allied Irish Banks, p.l.c. has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Financial investments available for sale

At 31 December 2016, government guaranteed senior bank debt amounting to € 190 million (2015: € 174 million) was held within the available for sale portfolio.

ai Credit risk information *(continued)*

The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c..

The following table shows loans and receivables to customers by industry sector and geography at 31 December 2016 and 2015:

					2016
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers	€ m	%	€ m	€ m	€ m
Agriculture	1,621	7.7	1,621	–	–
Energy	270	1.3	260	10	–
Manufacturing	927	4.4	863	7	57
Property and construction	6,641	31.4	6,641	–	–
Distribution	3,839	18.2	3,839	–	–
Transport	683	3.2	648	35	–
Financial	379	1.8	375	4	–
Other services	2,428	11.4	2,325	41	62
Personal:					
Residential mortgages	1,467	7.0	1,467	–	–
Other	2,865	13.6	2,865	–	–
Gross loans and receivables	21,120	100.0	20,904	97	119
Analysed as to:					
Neither past due nor impaired	16,422				
Past due but not impaired	801				
Impaired – provisions held	3,897				
	21,120				
Provisions for impairment	(2,119)				
Total	19,001[2]				

[1] Based on booking office.

[2] Excludes intercompany balances of € 6,869 million.

ai Credit risk information *(continued)*

					2015
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers	€ m	%	€ m	€ m	€ m
Agriculture	1,644	7.1	1,644	–	–
Energy	214	0.9	198	15	1
Manufacturing	876	3.8	792	9	75
Property and construction	7,818	33.6	7,818	–	–
Distribution	4,087	17.5	4,064	23	–
Transport	588	2.5	575	13	–
Financial	778	3.3	695	79	4
Other services	2,511	10.8	2,422	48	41
Personal:					
Residential mortgages	1,619	7.0	1,619	–	–
Other	3,142	13.5	3,142	–	–
Gross loans and receivables	23,277	100.0	22,969	187	121
Analysed as to:					
Neither past due nor impaired	16,609				
Past due but not impaired	832				
Impaired – provisions held	5,836				
	23,277				
Unearned income	(89)				
Deferred costs	4				
Provisions for impairment	(3,562)				
Total	19,630[2]				

[1] Based on booking office.

[2] Excludes intercompany balances of € 9,870 million.

ai Credit risk information *(continued)*

Impaired loans by geographic location and industry sector

The following table presents an analysis of impaired loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2016 and 2015:

				2016
	Total	**Analysed geographically[1]**		
		Republic of Ireland	**United Kingdom**	**Rest of the World**
	€ m	**€ m**	**€ m**	**€ m**
Agriculture	**115**	**115**	**–**	**–**
Energy	**29**	**29**	**–**	**–**
Manufacturing	**55**	**55**	**–**	**–**
Property and construction	**2,071**	**2,071**	**–**	**–**
Distribution	**599**	**599**	**–**	**–**
Transport	**33**	**10**	**23**	**–**
Financial	**135**	**135**	**–**	**–**
Other services	**231**	**231**	**–**	**–**
Personal:				
Residential mortgages	**243**	**243**	**–**	**–**
Other	**386**	**386**	**–**	**–**
Total	**3,897**	**3,874**	**23**	**–**

				2015
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	164	164	–	–
Energy	36	36	–	–
Manufacturing	117	117	–	–
Property and construction	3,160	3,160	–	–
Distribution	868	868	–	–
Transport	54	36	18	–
Financial	135	135	–	–
Other services	373	373	–	–
Personal:				
Residential mortgages	298	298	–	–
Other	631	631	–	–
Total	5,836	5,818	18	–

[1] Based on booking office.

ai Credit risk information *(continued)*

Aged analysis of contractually past due but not impaired gross loans

The following table presents by industry sector an aged analysis of contractually past due but not impaired loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2016 and 2015:

							2016
	1 – 30 days € m	31 – 60 days € m	61 – 90 days € m	91 – 180 days € m	181 – 365 days € m	> 365 days € m	Total € m
Agriculture	39	7	2	6	8	31	93
Energy	6	–	–	–	–	–	6
Manufacturing	6	–	–	2	–	2	10
Property and construction	96	16	13	23	35	94	277
Distribution	68	9	3	7	7	25	119
Transport	4	1	–	–	–	3	8
Other services	32	13	2	15	8	21	91
Personal:							
Residential mortgages	8	4	1	3	5	14	35
Credit cards	26	5	3	–	–	–	34
Other	52	14	10	10	15	27	128
Total	337	69	34	66	78	217	801
As a percentage of total loans[1]	1.6%	0.3%	0.2%	0.3%	0.4%	1.0%	3.8%

							2015
	1 – 30 days € m	31 – 60 days € m	61 – 90 days € m	91 – 180 days € m	181 – 365 days € m	> 365 days € m	Total € m
Agriculture	51	21	2	8	5	39	126
Energy	1	–	–	–	–	2	3
Manufacturing	5	2	–	1	–	2	10
Property and construction	88	34	11	35	42	103	313
Distribution	50	14	8	12	6	31	121
Transport	4	–	–	–	–	2	6
Financial	1	–	–	–	1	–	2
Other services	24	16	6	8	7	13	74
Personal:							
Residential mortgages	12	5	2	6	5	9	39
Credit cards	30	5	3	2	1	–	41
Other	34	17	5	11	6	24	97
Total	300	114	37	83	73	225	832
As a percentage of total loans[1]	1.3%	0.5%	0.1%	0.4%	0.3%	1.0%	3.6%

[1] Total loans (excluding intercompany) are gross of impairment provisions and unearned income.

ai Credit risk information *(continued)*

Provisions for impairment by geographic location and industry sector

The following table presents by industry sector an analysis of provisions for impairment on loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2016 and 2015:

				2016
	Total	Analysed geographically(1)		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	36	36	–	–
Energy	9	9	–	–
Manufacturing	40	40	–	–
Property and construction	959	959	–	–
Distribution	273	273	–	–
Transport	31	8	23	–
Financial	91	91	–	–
Other services	147	147	–	–
Personal:				
Residential mortgages	92	92	–	–
Other	218	218	–	–
Specific	1.896	1,873	23	–
IBNR	223	221	1	1
Total	2,119	2,094	24	1

				2015
	Total	Analysed geographically(1)		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	71	71	–	–
Energy	14	14	–	–
Manufacturing	72	72	–	–
Property and construction	1,707	1,707	–	–
Distribution	451	451	–	–
Transport	51	33	18	–
Financial	55	55	–	–
Other services	241	241	–	–
Personal:				
Residential mortgages	125	125	–	–
Other	436	436	–	–
Specific	3,223	3,205	18	–
IBNR	339	339	–	–
Total	3,562	3,544	18	–

(1)Based on booking office.

ai Credit risk information *(continued)*

Internal credit ratings

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2016 and 2015 is as follows:

					2016
	Residential mortgages € m	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
Neither past due nor impaired					
Good upper	**602**	**228**	**174**	**1,189**	**2,193**
Good lower	**418**	**1,809**	**2,525**	**6,062**	**10,814**
Watch	**47**	**86**	**150**	**309**	**592**
Vulnerable	**123**	**194**	**1,445**	**1,061**	**2,823**
Total	**1,190**	**2,317**	**4,294**	**8,621**	**16,422**
Past due but not impaired					
Good upper	**–**	**3**	**1**	**1**	**5**
Good lower	**1**	**47**	**24**	**66**	**138**
Watch	**4**	**23**	**11**	**29**	**67**
Vulnerable	**29**	**89**	**240**	**233**	**591**
Total	**34**	**162**	**276**	**329**	**801**
Total impaired	**243**	**386**	**2,071**	**1,197**	**3,897**
Total gross loans and receivables	**1,467**	**2,865**	**6,641**	**10,147**	**21,120**
Impairment provisions					**(2,119)**
Total					**19,001**[1]

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	585	203	92	1,030	1,910
Good lower	471	1,792	2,274	5,985	10,522
Watch	105	109	395	493	1,102
Vulnerable	123	267	1,584	1,101	3,075
Total	1,284	2,371	4,345	8,609	16,609
Past due but not impaired					
Good upper	–	2	–	1	3
Good lower	4	39	33	91	167
Watch	6	28	38	43	115
Vulnerable	29	69	242	207	547
Total	39	138	313	342	832
Total impaired	298	631	3,160	1,747	5,836
Total gross loans and receivables	1,621	3,140	7,818	10,698	23,277
Unearned income					(89)
Deferred costs					4
Impairment provisions					(3,562)
Total					19,630[1]

[1] Excludes intercompany loans.

Details of the rating profiles and lending classifications are set out on page 123.

ai Credit risk information *(continued)*

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity shares), financial investments available for sale (excluding equity shares) and financial investments held to maturity for Allied Irish Banks, p.l.c. at 31 December 2016 and 2015 is as follows:

					2016
	Bank[1] € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,282**	**–**	**2,440**	**446**	**7,168**
A+/A/A-	**654**	**27**	**10,456[2]**	**–**	**11,137**
BBB+/BBB/BBB-	**171**	**19**	**2,028**	**–**	**2,218**
Sub investment	**10**	**21**	**–**	**–**	**31**
Unrated	**3**	**–**	**–**	**–**	**3**
Total	**5,120**	**67**	**14,924[3]**	**446**	**20,557**

					2015
	Bank[1] € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,215	–	2,758	328	7,301
A/A-	988	–	14,716[2]	–	15,704
BBB+/BBB/BBB-	160	–	2,317	1	2,478
Sub investment	527	86	–	–	613
Unrated	3	1	–	–	4
Total	5,893	87	19,791[3]	329	26,100

(1)Excludes balances with subsidiaries of € 19,870 million (2015: € 21,103 million).

(2)Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A (2015: A–) i.e. the external rating of the Sovereign.

(3)Includes supranational banks and government agencies.

aj Funding and liquidity risk information

Financial assets and financial liabilities by contractual residual maturity

						2016
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	131	227	481	1,013	1,852
Loans and receivables to banks[2]	18,117	11	1	–	–	18,129
Loans and receivables to customers[2]	12,082	768	2,177	7,296	5,666	27,989
NAMA senior bonds[3]	–	1,799	–	–	–	1,799
Financial investments available for sale[4]	1	53	2,143	10,149	4,796	17,142
Financial investments held to maturity	–	–	–	2,113	1,243	3,356
Other financial assets	–	363	–	–	–	363
	30,200	3,125	4,548	20,039	12,718	70,630
Financial liabilities						
Deposits by central banks and banks	6,012	5,349	150	1,900	–	13,411
Customer accounts	35,079	9,996	2,990	1,157	103	49,325
Derivative financial instruments[1]	–	74	200	667	907	1,848
Debt securities in issue	–	147	–	1,000	–	1,147
Subordinated liabilities and other capital instruments	–	–	–	–	791	791
Other financial liabilities	239	–	–	–	–	239
	41,330	15,566	3,340	4,724	1,801	66,761

						2015
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	71	97	673	877	1,718
Loans and receivables to banks[2]	20,653	658	–	–	–	21,311
Loans and receivables to customers[2]	17,169	920	2,161	7,248	5,649	33,147
NAMA senior bonds[3]	–	5,616	–	–	–	5,616
Financial investments available for sale[4]	1	–	816	10,396	5,615	16,828
Financial investments held to maturity	–	–	–	2,204	1,279	3,483
Other financial assets	–	452	–	–	–	452
	37,823	7,717	3,074	20,521	13,420	82,555
Financial liabilities						
Deposits by central banks and banks	6,278	11,471	1,902	–	–	19,651
Customer accounts	31,537	11,965	4,267	1,307	53	49,129
Derivative financial instruments[1]	–	87	86	965	894	2,032
Debt securities in issue	–	100	500	1,000	–	1,600
Subordinated liabilities and other capital instruments	–	–	1,524	–	794	2,318
Trading debt securities	–	86	–	–	–	86
Other financial liabilities	229	–	–	–	–	229
	38,044	23,709	8,279	3,272	1,741	75,045

[1] Shown by maturity date of contract.

[2] Shown gross of provisions for impairment, unearned income and deferred costs.

[3] New notes will be issued at each maturity date, with the next maturity date being 1 March 2017. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

[4] Excluding equity shares.

The balances shown above include exposures to/by subsidiary undertakings.

aj Funding and liquidity risk information *(continued)*

Financial liabilities by undiscounted contractual maturity

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date they can be called. The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects that most guarantees it provides will expire unused.

The Company has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

						2016
	Payable on demand €m	**3 months or less but not repayable on demand €m**	**1 year or less but over 3 months €m**	**5 years or less but over 1 year €m**	**Over 5 years €m**	**Total €m**
Contingent liabilities	**765**	**–**	**–**	**–**	**–**	**765**
Commitments	**7,680**	**–**	**–**	**–**	**–**	**7,680**
	8,445[1]	**–**	**–**	**–**	**–**	**8,445**

						2015
	Payable on demand €m	3 months or less but not repayable on demand €m	1 year or less but over 3 months €m	5 years or less but over 1 year €m	Over 5 years €m	Total €m
Contingent liabilities	831	–	–	–	–	831
Commitments	7,619	–	–	–	–	7,619
	8,450[1]	–	–	–	–	8,450

[1] Includes € 263 million (2015: € 239 million) relating to Group subsidiaries.

ak Market risk information

Market risk profile

The following table summarises Treasury's interest rate VaR profile to a 95% confidence level with a one day holding period at 31 December 2016 and 2015. AIB recognises the limitations of VaR models, and supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

	VaR (trading book)		**VaR (banking book)**		**Total VaR**	
	2016 €m	2015 €m	**2016 €m**	2015 €m	**2016 €m**	2015 €m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.3	**3.2**	2.7	**3.2**	2.7
High	**1.1**	1.1	**4.3**	3.6	**5.2**	5.2
Low	**–**	–	**2.5**	1.3	**2.5**	1.3
At 31 December	**0.1**	1.1	**4.1**	3.0	**5.2**	2.9

The following table sets out the VaR for foreign exchange rate and equity risk for the financial years ended 31 December 2016 and 2015:

	Foreign exchange rate risk		**Equity risk**	
	VaR (trading book)		**VaR (trading book)**	
	2016 €m	2015 €m	**2016 €m**	2015 €m
1 day holding period:				
Average	**0.04**	0.07	**0.05**	0.04
High	**0.13**	0.16	**0.35**	0.10
Low	**0.01**	0.02	**0.01**	0.01
At 31 December	**0.03**	0.05	**0.04**	0.02

General information

Shareholder information

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- view any outstanding payments, change your address and view your shareholding by signing into Investor Centre on http://www.computershare.com/ie/InvestorCentre You will need your unique user ID and password which you created during registration. Or register at http://www.computershare.com/ie/investor/register to become an Investor Centre member.
  To register you will be required to enter the name of the company in which you hold shares, your Shareholder Reference Number (SRN), your family or company name and security code (provided on screen).
- download standard forms required to initiate changes in details held by the Registrar, by accessing AIB's website at www.aibgroup.com, clicking on the Investor Relations, Shareholder Information and Personal Shareholder Details option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder's share certificate, dividend counterfoil and personalised circulars) should be entered. These services may also be accessed via the Registrar's website at www.computershare.com.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

Allied Irish Banks, p.l.c. is an Irish-registered company. Its ordinary shares are traded on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange.

Registrar

The Company's Registrar is:

Computershare Investor Services (Ireland) Ltd.,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Shareholding analysis

The Ireland Strategic Investment Fund holds 2,710,821,149 ordinary shares of € 0.625 each in the share capital of Allied Irish Banks, p.l.c.

Financial calendar

Annual General Meeting: 27 April 2017, at the RDS, Ballsbridge, Dublin 4.

Interim results

The unaudited Half-Yearly Financial Report 2016 will be announced towards the end of July/early August 2017 and will be available on the Company's website – **www.aibgroup.com**.

Shareholder's enquires regarding Ordinary Shares should be addressed to:

Computershare Investor Services (Ireland) Ltd.,
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18, Ireland.
Telephone: +353 1 247 5411
Facsimile: +353 1 216 3151
Website: **www.computershare.com**
www.investorcentre.com/ie/contactus
or
www.aibgroup.com

General information - New operating segments

Segment overview

From the 1st of January 2017, following realignment of Leadership Team responsibilities the Group will be managed going forward through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group. The following section presents 2016 and 2015 restated to show the performance under the new structure.

Segment allocations

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 Group. Funding and liquidity charges are based on each segment's funding requirements and the Group'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 requirement.

The funding and liquidity allocation methodology has been further refined to more accurately reflect each segment's funding profile and will be implemented from the 1st of January 2017. The performance in 2016 and 2015 has been presented on this revised allocation methodology.

AIB segments at a glance

Retail & Commercial Banking ("RCB")

Largest retail and commercial bank in Ireland with;

- Over 2.3m personal and SME customers
- €42.7bn net loans and €42.9bn customer accounts
- Multi-brand: AIB, EBS, Haven
- Broad Infrastructure: 297 locations, 982 ATMs
- Leading market shares and leading position in digital enablement

Wholesale, Institutional & Corporate Banking ("WIB")

WIB comprises of;

- Corporate Banking – relationship-driven model with sector specialisms: €4.4bn net loans
- Syndicated & International Finance: bank's interface to public loan markets €2.8bn net loans
- Real Estate Finance – centralised origination and management: €1.7bn net loans
- Specialised Finance – structured finance, mezzanine finance, and equity product offering: €0.2bn net loans

AIB UK

AIB UK – AIB GB and First Trust Bank

- Over 363,000 retail and SME customers
- £7.5bn net loans, £8.9bn customer accounts
- FTB – focused challenger in Northern Ireland
- AIB GB – is a specialist Business Bank

Group

Group, Treasury and Support Functions

- Treasury activities
- Central control and support functions

General information – New operating segments

Segmental reporting information

					2016					2015
	RCB	**WIB**	**AIB UK**	**Group**	**Total (before exceptional items)**	RCB	WIB	AIB UK	Group	Total (before exceptional items)
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Operations by business segment										
Net interest income	1,273	269	224	247	2,013	1,220	226	252	229	1,927
Other income	398	51	65	103	617	382	43	50	221	696
Total operating income	1,671	320	289	350	2,630	1,602	269	302	450	2,623
Personnel expenses	(404)	(59)	(84)	(170)	(717)	(417)	(52)	(96)	(160)	(725)
General and administrative expenses	(277)	(37)	(53)	(199)	(566)	(225)	(30)	(59)	(179)	(493)
Depreciation, impairment and amortisation	(64)	–	(2)	(28)	(94)	(39)	(3)	(3)	(29)	(74)
Total operating expenses	(745)	(96)	(139)	(397)	(1,377)	(681)	(85)	(158)	(368)	(1,292)
Operating profit/(loss) before provisions	926	224	150	(47)	1,253	921	184	144	82	1,331
Bank levies and regulatory fees	–	–	1	(113)	(112)	–	–	(4)	(67)	(71)
Writeback/(provisions) for impairment on loans and receivables	286	(21)	37	(8)	294	898	(14)	44	(3)	925
Writeback/(provisions) for liabilities and commitments	4	(2)	–	–	2	9	(11)	–	–	(2)
Writeback of provisions for impairment on financial investments available for sale	–	–	–	2	2	–	–	–	–	–
Total writeback/(provisions)	290	(23)	37	(6)	298	907	(25)	44	(3)	923
Operating profit/(loss)	1,216	201	188	(166)	1,439	1,828	159	184	12	2,183
Associated undertakings	31	–	4	–	35	22	–	3	–	25
Profit on disposal of business	–	–	1	–	1	3	–	–	–	3
Profit/(loss) before taxation and exceptional items from continuing operations	1,247	201	193	(166)	1,475	1,853	159	187	12	2,211

Retail & Commercial Banking ("RCB")

RCB contribution statement	2016 Earning € m	2016 Impaired € m	2016 Total € m	2015 Earning € m	2015 Impaired € m	2015 Total € m
Net interest income	1,131	142	1,273	1,046	174	1,220
Business income	320	-	320	331	-	331
Other items	78	-	78	51	-	51
Other income	398	-	398	382	-	382
Total operating income	1,529	142	1,671	1,428	174	1,602
Total operating expenses	(655)	(90)	(745)	(591)	(90)	(681)
Operating contribution before bank levies, regulatory fees and provisions	874	52	926	837	84	921
Total net writeback of provisions	107	183	290	382	525	907
Operating contribution	981	235	1,216	1,219	609	1,828
Associated undertakings	31	-	31	22	-	22
Contribution before disposal of property	1,012	235	1,247	1,241	609	1,850
Profit on disposal of property	-	-	-	3	-	3
Contribution before exceptional items	1,012	235	1,247	1,244	609	1,853

RCB balance sheet metrics	31 Dec 2016 Earning € bn	31 Dec 2016 Impaired € bn	31 Dec 2016 Total € bn	31 Dec 2015 Earning € bn	31 Dec 2015 Impaired € bn	31 Dec 2015 Total € bn
Mortgages	28.7	2.7	31.4	28.4	3.7	32.1
Personal	2.5	0.2	2.7	2.3	0.3	2.6
Business	6.3	1.3	7.6	6.1	1.6	7.7
Legacy distressed loans[1]	0.8	0.2	1.0	1.0	0.3	1.3
Net loans	38.3	4.4	42.7	37.8	5.9	43.7
Mortgages			2.0			1.7
Personal			0.7			0.5
Business			1.2			1.1
New lending			3.9			3.3
Current accounts			19.4			16.7
Deposits			23.5			23.7
Customer accounts			42.9			40.4

Net interest income

€1,273m €1,220m Increase of € 53 million due to continued reduction in cost of funds partly offset by the impact of mortgage rate cuts and lower net impaired loans as restructuring activity continued.

Other income

€398m €382m Net fee and commission income remained stable excluding the impact of the card interchange while the increase was due to to higher gains on the realisation / re-estimation of cashflows on loans previously restructured.

Total operating expenses

€745m €681m Costs have increased due to increased average salary costs, cost of regulatory compliance, marketing and spend on the investment programme. RCB also includes the costs for the workout unit for loan restructuring.

Total net writeback of provisions

€290m €907m Lower level of writebacks in 2016 as the pace and quantum of writebacks moderate.

Net earning loans

€38.3bn €37.8bn Increased by € 0.5 billion mainly due to strong levels of new lending and loans upgraded to earning in the year partly offset by redemptions.

New lending

€3.9bn €3.3bn New lending was up € 0.6 billion (+20%) compared to 2015. Strong mortgage lending of € 2.0 billion was up 22%, with a gain in market share to 36% (2% higher than 34% in 2015). Personal lending was up € 0.2 billion (+36%) compared to 2015 and Business was up € 0.1 billion (+9%) as demand for credit increased.

Net impaired loans

€4.4bn €5.9bn Decrease of € 1.5 billion as RCB made further progress in restructuring customers in financial difficulty.

Customer accounts

€42.9bn €40.4bn The customer accounts base continued to grow in 2016, maintaining market share while reducing average cost of funds.

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[1] Larger legacy distressed loans that have been subject to restructuring arrangement which are managed through the RCB workout unit.

General information - New operating segments

Wholesale, Institutional & Corporate Banking ("WIB")

WIB contribution statement	**2016** **€ m**	2015 € m	*%* *change*
Net interest income	**269**	226	*19*
Other income	**51**	43	*19*
Total operating income	**320**	269	*19*
Total operating expenses	**(96)**	(85)	*13*
Operating contribution before bank levies, regulatory fees and provisions	**224**	184	*22*
Total provisions	**(23)**	(25)	*-8*
Contribution before exceptional items	**201**	159	*26*

WIB balance sheet metrics	**31 Dec 2016** **€ bn**	31 Dec 2015 € bn	*%* *change*
Corporate	**4.4**	4.6	*-4*
Syndicated and international	**2.8**	2.3	22
Real Estate Finance	**1.7**	1.5	*11*
Specialised Finance	**0.2**	0.2	*-2*
Net loans	**9.1**	8.6	*5*
Corporate	**0.9**	0.9	*-8*
Syndicated and international	**1.3**	1.1	*16*
Real Estate Finance	**0.6**	0.3	*137*
Specialised Finance	**0.1**	0.2	*-68*
New lending	**2.9**	2.5	*11*
Current accounts	**3.7**	2.6	44
Deposits	**2.7**	3.4	-21
Customer accounts	**6.4**	6.0	*7*

Net interest income

€269m €226m Net interest income increased by € 43 million compared to 2015 due to strong net loan growth combined with margin improvement from continued reductions in cost of funds.

Other income

€51m €43m Other income increased by € 8 million compared to 2015. Business income of € 44 million increased by € 5 million driven by credit related fees. Other items amounted to € 7 million in 2016.

Total operating expenses

€96m €85m Total operating expenses increased by € 11 million compared to 2015 due to increased average salary costs and from additional resources in response to loan growth and development of business initiatives.

Total provisions

€23m €25m Provision charge of € 23 million in 2016 reduced from a charge of € 25 million in 2015.

Net loans

€9.1bn €8.6bn

Earning loans of € 8.9 billion at 31 December 2016 were € 0.7 billion higher than € 8.2 billion at 31 December 2015 due to strong levels of new lending. Net impaired loans of € 0.2 billion at 31 December 2016 have reduced from € 0.4 billion at 31 December 2015.

New lending

€2.9bn €2.5bn New lending was up € 0.4 billion (up 11%) compared to 2015, with growth in Real Estate Finance (up 137%) and Syndicated and international (up 16%). Corporate remained the No. 1 bank for foreign direct investment in Ireland.

Customer accounts

€6.4bn €6.0bn Customer accounts increased € 0.4 billion with an increase in current accounts of € 1.1 billion partly offset by decrease in term deposits.

AIB UK

AIB UK contribution statement	**2016 £ m**	2015 £ m	% *change*
Net interest income	**183**	183	-
Other income	**54**	36	*50*
Total operating income	**237**	219	*8*
Total operating expenses	**(115)**	(114)	*1*
Operating contribution before bank levies, regulatory fees and provisions	**122**	105	*16*
Bank levies and regulatory fees	**1**	(3)	-
Total net writeback of provisions	**30**	32	*-6*
Operating contribution	**153**	134	*14*
Associated undertakings	**3**	3	-
Contribution before disposal of business	**156**	137	*14*
Profit on disposal of business	**1**	-	-
Contribution before exceptional items	**157**	137	*15*
Contribution before exceptional items €m	**193**	187	*3*

AIB UK balance sheet metrics	**31 Dec 2016 £ bn**	31 Dec 2015 £ bn	% *change*
AIB GB	**5.1**	5.1	-
FTB	**2.4**	2.5	*-4*
Net loans	**7.5**	7.6	*-1*
AIB GB	**1.3**	1.6	*-21*
FTB	**0.2**	0.3	*-16*
New lending	**1.5**	1.9	*-20*
AIB GB	**4.7**	4.8	*-2*
FTB	**4.2**	3.8	*11*
Customer accounts	**8.9**	8.6	*3*

Net interest income

£183m £183m Net interest income is in line with 2015. Reduction in cost of funds is offset by the disposal of a loan portfolio of £ 0.5 billion in the second half of 2015 and the impact of a reduction in the Bank of England Base Rate in August 2016.

Other income

£54m £36m Net fee and commission income was in line with 2015, with an increase in lending fees, partly offset by reduced transaction fees. Other items in 2016 included a loss of £ 3 million relating to the final settlement of UK loan disposals at the end of 2015 (loss of £ 29 million in 2015).

Total operating expenses

£115m £114m Total operating expenses of £ 115 million in 2016, broadly in line with 2015.

Total net writeback of provisions

£30m £32m Total net writeback of provisions of £ 30 million in 2016 compared to £ 32 million for 2015 as a result of continued restructuring activity.

Net loans

£7.5bn £7.6bn Net earning loans of £ 7.1 billion were in line with 31 December 2015 as new lending was offset by redemptions. Net impaired loans of £ 0.4 billion at 31 December 2016 have reduced from £ 0.5 billion at 31 December 2015 due to repayments and write-offs in the period.

New lending

£1.5bn £1.9bn New lending of £ 1.5 billion in 2016, AIB GB at £ 1.3 billion and FTB at £ 0.2 billion, was £ 0.4 billion lower than 2015 due to reduction of £ 0.4 billion in corporate lending.

New business was written across a range of key sectors in both AIB GB and FTB and the developing sector strategies will build on the momentum developed through 2016.

Customer accounts

£8.9bn £8.6bn Customer accounts were £ 8.9 billion at 31 December 2016 and increased by £ 0.3 billion since 31 December 2015 with an increase in current accounts partly offset by a reduction in term and treasury deposits.

General information - New operating segments

Group

Group contribution statement	2016 € m	2015 € m	% change
Net interest income	**247**	229	*8*
Other income	**103**	221	*-53*
Total operating income	**350**	450	*-22*
Total operating expenses	**(397)**	(368)	*8*
Operating contribution before bank levies, regulatory fees and provisions	**(47)**	82	-
Bank levies and regulatory fees	**(113)**	(67)	*69*
Total provisions	**(6)**	(3)	*100*
Contribution before exceptional items	**(166)**	12	-

Net interest income

€247m €229m Net interest income of € 247 million in 2016 was € 18 million higher than 2015 due to lower cost of funds. This was partly offset by lower income on NAMA senior bonds and lower income from the securities portfolio due to the sale and maturity of legacy high yielding assets.

Other income

€103m €221m Business income of € 61 million reduced mainly due to the movement in valuations on the Group's sterling derivative positions. Other items of € 42 million in 2016 compared to € 135 million in 2015.

Other items	2016 € m	2015 € m
Net profit on disposal of AFS securities	**31**	77
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**10**	6
Settlements and other gains	**1**	52
Other items	**42**	135

Total operating expenses

€397m €368m Total operating expenses increased by € 29 million (+8%) compared to 2015 reflecting the impact of salary inflation and costs relating to outsourcing initiatives partly offset by reduced staff numbers. This is also impacted by spend on the investment programme, including depreciation on assets now live.

Bank levies and regulatory fees

€113m €67m Bank levies and regulatory fees of € 113 million for 2016 related to the Irish bank levy € 60 million, Deposit Guarantee Scheme ("DGS") € 35 million (fee includes claim on the DGS legacy fund) and € 18 million for the Single Resolution Fund.

Group balance sheet metrics	31 Dec 2016 € bn	31 Dec 2015 € bn	% change
Net loans	**0.1**	0.6	*-83*
Financial investments available for sale	**15.4**	16.5	*-7*
Financial investments held to maturity	**3.4**	3.5	*-3*
NAMA senior bonds	**1.8**	5.6	*-68*
Customer accounts	**3.9**	5.4	*-28*

Net loans

€0.1bn €0.6bn Net loans reduced € 0.5 billion in the year as legacy loans, including asset backed securities, were managed down by Treasury.

Financial investments Available for Sale ("AFS")

€15.4bn €16.5bn AFS assets which are held for liquidity and investment purposes have reduced by € 1.1 billion during 2016, consistent with plans to reduce overall AFS holdings in line with liquidity requirements.

Financial investments Held to Maturity ("HTM")

€3.4bn €3.5bn There have been no further additions to the held to maturity category during 2016.

NAMA senior bonds

€1.8bn €5.6bn NAMA senior bonds reduced by € 3.8 billion during the year due to redemptions. NAMA senior bonds are expected to be fully redeemed by the end of 2017.

Customer accounts

€3.9bn €5.4bn Customer accounts have reduced € 1.5 billion mainly due to maturity of high yielding term deposits and reduction in repos.

Credit profile of the loan portfolio

The following table analyses loans and receivables to customers by new operating segments showing asset quality and impairment provisions for the financial years end 31 December 2016 and 2015:

					2016
Gross loans and receivables to customers	**RCB**	**WIB**	**AIB UK**	**Group**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Residential mortgages:					
Owner-occupier	**28,624**	**7**	**1,564**	**–**	**30,195**
Buy-to-let	**4,784**	**29**	**231**	**–**	**5,044**
	33,408	**36**	**1,795**	**–**	**35,239**
Other personal	**2,768**	**102**	**230**	**–**	**3,100**
Property and construction	**4,403**	**2,499**	**2,492**	**–**	**9,394**
Non-property business	**6,025**	**6,520**	**4,800**	**150**	**17,495**
Total	**46,604**	**9,157**	**9,317**	**150**	**65,228**
Analysed as to asset quality[1]					
Satisfactory	**30,397**	**8,588**	**7,363**	**114**	**46,462**
Watch	**2,441**	**28**	**532**	**–**	**3,001**
Vulnerable	**5,858**	**310**	**461**	**–**	**6,629**
Impaired	**7,908**	**231**	**961**	**36**	**9,136**
Total criticised loans	**16,207**	**569**	**1,954**	**36**	**18,766**
Total loans percentage	**%**	**%**	**%**	**%**	**%**
Criticised loans/total loans	**35**	**6**	**21**	**24**	**29**
Impaired loans/total loans	**17**	**3**	**10**	**24**	**14**
Impairment provisions – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific	**3,462**	**44**	**516**	**25**	**4,047**
IBNR	**453**	**33**	**56**	**–**	**542**
Total impairment provisions	**3,915**	**77**	**572**	**25**	**4,589**
Provision cover percentage	**%**	**%**	**%**	**%**	**%**
Specific provisions/impaired loans	**44**	**19**	**54**	**69**	**44**
Total provisions/impaired loans	**50**	**33**	**60**	**69**	**50**
Total provisions/total loans	**8**	**1**	**6**	**17**	**7**
Income statement – impairment (credit)/charge	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific	**(183)**	**35**	**(31)**	**8**	**(171)**
IBNR	**(103)**	**(14)**	**(6)**	**–**	**(123)**
Total impairment (credit)/charge	**(286)**	**21**	**(37)**	**8**	**(294)**
	%	**%**	**%**	**%**	**%**
Impairment (credit)/charge/ average loans	**(0.60)**	**(0.23)**	**(0.37)**	**2.12**	**(0.44)**

[1] Satisfactory: 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 page 64.

General information – New operating segments

Credit profile of the loan portfolio

Gross loans and receivables to customers	RCB € m	WIB € m	AIB UK € m	Group € m	2015 Total € m
Residential mortgages:					
Owner-occupier	28,834	10	2,048	36	30,928
Buy-to-let	5,538	38	314	–	5,890
	34,372	48	2,362	36	36,818
Other personal	2,935	221	356	–	3,512
Property and construction	5,641	2,448	3,443	–	11,532
Non-property business	6,267	6,173	5,292	569	18,301
Total	49,215	8,890	11,453	605	70,163
Analysed as to asset quality[1]					
Satisfactory	28,898	7,747	8,132	573	45,350
Watch	3,030	264	986	–	4,280
Vulnerable	6,502	279	667	–	7,448
Impaired	10,785	600	1,668	32	13,085
Total criticised loans	20,317	1,143	3,321	32	24,813
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	41	13	29	5	35
Impaired loans/total loans	22	7	15	5	19
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	4,896	218	1,027	17	6,158
IBNR	556	47	71	–	674
Total impairment provisions	5,452	265	1,098	17	6,832
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	45	36	62	53	47
Total provisions/impaired loans	51	44	66	53	52
Total provisions/total loans	11	3	10	3	10

Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	(524)	43	(30)	3	(508)
IBNR	(374)	(29)	(14)	–	(417)
Total impairment (credit)/charge	(898)	14	(44)	3	(925)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(1.72)	0.17	(0.35)	0.59	(1.26)

[1] Satisfactory: 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 page yy 43.

Credit profile of the loan portfolio

Loans and receivables to customers – Other personal

The following table analyses other personal lending by new operating segments showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

					2016
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Analysed as to asset quality[1]					
Satisfactory	1,995	96	161	–	2,252
Watch	110	–	10	–	120
Vulnerable	279	4	13	–	296
Impaired	384	2	46	–	432
Total criticised loans	773	6	69	–	848
Total gross loans and receivables	2,768	102	230	–	3,100
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	28	6	30	–	27
Impaired loans/total loans	14	2	20	–	14
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	218	–	34	–	252
IBNR	34	–	4	–	38
Total impairment provisions	252	–	38	–	290
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	57	–	74	–	58
Total provisions/impaired loans	66	–	83	–	67
Total provisions/total loans	9	–	17	–	9
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	(21)	12	(2)	–	(11)
IBNR	(7)	(2)	(2)	–	(11)
Total impairment (credit)/charge	(28)	10	(4)	–	(22)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(0.46)	6.67	(1.06)	–	(0.63)

Footnote

Credit profile of the loan portfolio

Loans and receivables to customers – Other personal *(continued)*

					2015
	RCB	WIB	AIB UK	Group	Total
	€ m	€ m	€ m	€ m	€ m
Analysed as to asset quality[1]					
Satisfactory	1,875	176	247	–	2,298
Watch	134	3	23	–	160
Vulnerable	307	29	20	–	356
Impaired	619	13	66	–	698
Total criticised loans	1,060	45	109	–	1,214
Total gross loans and receivables	2,935	221	356	–	3,512
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	36	20	31	–	35
Impaired loans/total loans	21	6	19	–	20
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	435	2	49	–	486
IBNR	42	2	5	–	49
Total impairment provisions	477	4	54	–	535
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	70	15	74	–	70
Total provisions/impaired loans	77	31	82	–	77
Total provisions/total loans	16	2	15	–	15
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	(7)	–	2	–	(5)
IBNR	(7)	–	4	–	(3)
Total impairment (credit)/charge	(14)	–	6	–	(8)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(0.46)	–	1.52	–	(0.19)

Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

The following table analyses property and construction lending by new operating segments showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

					2016
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Investment:					
Commercial	2,612	2,053	1,533	–	6,198
Residential	716	102	233	–	1,051
	3,328	2,155	1,766	–	7,249
Land and development:					
Commercial	324	100	20	–	44
Residential development	638	162	277	–	1,077
	962	262	297	–	1,521
Contractors	113	82	170	–	365
Housing associations	–	–	259	–	259
Total	4,403	2,499	2,492	–	9,394
Analysed as to asset quality					
Satisfactory	661	2,133	1,643	–	4,437
Watch	246	3	129	–	378
Vulnerable	1,421	264	170	–	1,855
Impaired	2,075	99	550	–	2,724
Total criticised loans	3,742	366	849	–	4,957
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	85	15	34	–	53
Impaired loans/total loans	47	4	22	–	29
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	1,011	9	330	–	1,350
IBNR	77	7	15	–	99
Total impairment provisions	1,088	16	345	–	1,449
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	49	9	60	–	50
Total provisions/impaired loans	52	16	63	–	53
Total provisions/total loans	25	1	14	–	15
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	(76)	12	(10)	–	74)
IBNR	(56)	(11)	(4)	–	(71)
Total impairment (credit)/charge	(132)	1	(14)	–	(145)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(2.63)	0.04	(0.48)	–	(1.38)

General information – New operating segments

Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

					2015
	RCB	WIB	AIB UK	Group	Total
	€ m	€ m	€ m	€ m	€ m
Investment:					
Commercial	3,115	2,039	1,453	–	6,607
Residential	905	97	456	–	1,458
	4,020	2,136	1,909	–	8,065
Land and development:					
Commercial	454	129	69	–	652
Residential development	1,043	99	758	–	1,900
	1,497	228	827	–	2,552
Contractors	124	84	227	–	435
Housing associations	–	–	480	–	480
Total	5,641	2,448	3,443	–	11,532
Analysed as to asset quality					
Satisfactory	615	1,854	1,683	–	4,152
Watch	325	161	487	–	973
Vulnerable	1,649	190	260	–	2,099
Impaired	3,052	243	1,013	–	4,308
Total criticised loans	5,026	594	1,760	–	7,380
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	89	24	51	–	64
Impaired loans/total loans	54	10	29	–	37
Impairment provisions statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	1,711	79	685	–	2,475
IBNR	133	18	23	–	174
Total impairment provisions	1,844	97	708	–	2,649
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	56	33	68	–	57
Total provisions/impaired loans	60	40	70	–	61
Total provisions/total loans	33	4	21	–	23

Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	(215)	28	(29)	–	(216)
IBNR	29	(7)	(20)	–	2
Total impairment (credit)/charge	(186)	21	(49)	–	(214)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(2.63)	0.82	(1.13)	–	(1.54)

Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

The following table analyses non- property business lending by new operating segments showing asset quality and impairment provisions for the financial years ended 31 December 2016 and 2015:

					2016
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Agriculture	1,531	148	94	–	1,773
Distribution:					
Hotels	508	1,012	791	–	2,311
Licensed premises	386	155	–	–	541
Retail/wholesale	1,090	885	364	–	2,339
Other distribution	127	121	–	–	248
	2,111	2,173	1,155	–	5,439
Other services	1,435	1,897	2.368	6	5,706
Other	948	2,302	1,183	144	4,577
Total	6,025	6,520	4,800	150	17,495
Analysed as to asset quality					
Satisfactory	3,333	6,339	4,184	114	13,970
Watch	327	24	296	–	647
Vulnerable	1,296	29	149	–	1,474
Impaired	1,069	128	171	36	1,404
Total criticised loans	2,692	181	616	36	3,525
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	45	3	13	24	20
Impaired loans/total loans	18	2	4	24	8
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	587	34	71	25	717
IBNR	77	25	29	–	131
Total impairment provisions	664	59	100	25	848
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	55	27	42	69	51
Total provisions/impaired loans	62	46	58	69	60
Total provisions/total loans	11	1	2	17	5
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	24	12	(20)	8	24
IBNR	(41)	(2)	3	–	(40)
Total impairment (credit)/charge	(17)	10	(17)	8	(16)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(0.28)	0.16	(0.31)	2.12	(0.08)

General information – New operating segments

Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business *(continued)*

					2015
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Agriculture	1,533	158	104	–	1,795
Distribution:					
Hotels	549	952	855	–	2,356
Licensed premises	513	144	101	–	758
Retail/wholesale	1,047	912	436	–	2,395
Other distribution	234	79	9	–	322
	2,343	2,087	1,401	–	5,831
Other services	1,523	1,726	2,569	70	5,888
Other	868	2,202	1,218	499	4,787
Total	6,267	6,173	5,292	569	18,301
Analysed as to asset quality					
Satisfactory	3,070	5,692	4,510	537	13,809
Watch	495	89	299	–	883
Vulnerable	1,297	50	149	–	1,496
Impaired	1,405	342	334	32	2,113
Total criticised loans	3,197	481	782	32	4,492
Total loans percentage	%	%	%	%	%
Criticised loans/total loans	51	8	15	6	25
Impaired loans/total loans	22	6	6	6	12
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m
Specific	821	136	178	17	1,152
IBNR	117	27	30	–	174
Total impairment provisions	938	163	208	17	1,326
Provision cover percentage	%	%	%	%	%
Specific provisions/impaired loans	58	40	53	53	55
Total provisions/impaired loans	67	48	62	53	63
Total provisions/total loans	15	3	4	3	7

Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m
Specific	(106)	14	6	3	(83)
IBNR	(127)	(23)	8	–	(142)
Total impairment (credit)/charge	(233)	(9)	14	3	(225)
	%	%	%	%	%
Impairment (credit)/charge/ average loans	(3.33)	(0.16)	0.27	0.62	(1.24)

Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provisions/writeback of provisions split between individually significant, individually insignificant and IBNR for loans and receivables for the financial years ended 31 December 2016 and 2015 :

		RCB € m	WIB € m	AIB UK € m	Group € m	2016 Total € m
Specific provisions	– Individually significant	**(163)**	**27**	**(26)**	**8**	**(154)**
	– Individually insignificant	**(20)**	**8**	**(5)**	**–**	**(17)**
IBNR		**(103)**	**(14)**	**(6)**	**–**	**(123)**
Total provisions for impairment (credit)/charge on loans and receivables to customers		**(286)**	**21**	**(37)**	**8**	**(294)**
Writeback of provisions for impairment on financial investments available for sale						**(2)**
Writeback of provisions for liabilities and commitments						**(2)**
Total						**(298)**

		RCB € m	WIB € m	AIB UK € m	Group € m	2015 Total € m
Specific provisions	– Individually significant	(657)	43	(22)	3	(633)
	– Individually insignificant	133	–	(8)	–	125
IBNR		(374)	(29)	(14)	–	(417)
Total provisions for impairment (credit)/charge on loans and receivables to customers		(898)	14	(44)	3	(925)
Writeback of provisions for liabilities and commitments						(11)
Total						(936)

General information – New operating segments

Credit profile of the loan portfolio

Provisions – income statement

The following table analyses by segment the income statement impairment provisions/writeback of provisions for the financial years ended 31 December 2016 and 2015:

	2016			2015		
	Residential mortgages € m	**Other € m**	**Total € m**	Residential mortgages € m	Other € m	Total € m
RCB	**(110)**	**(176)**	**(286)**	(465)	(433)	(898)
WIB	**–**	**21**	**21**	2	12	14
AIB UK	**(1)**	**(36)**	**(37)**	(15)	(29)	(44)
Group & International	**–**	**8**	**8**	–	3	3
Total	**(111)**	**(183)**	**(294)**	(478)	(447)	(925)

The following table analyses by segment the income statement impairment provisions/writeback of provisions as a percentage of average loans and receivables to customers expressed as basis points ("bps") for the financial years ended 31 December 2016 and 2015:

	2016			2015		
	Residential mortgages bps	**Other bps**	**Total bps**	Residential mortgages bps	Other bps	Total bps
RCB	**(32)**	**(126)**	**(60)**	(131)	(254)	(171)
WIB	**–**	**23**	**23**	388	15	17
AIB UK	**(10)**	**(44)**	**(37)**	(59)	(29)	(35)
Group & International	**–**	**212**	**212**	–	64	62
Total	**(31)**	**(59)**	**(44)**	(126)	(125)	(126)

Glossary of terms

Additional Tier 1 Capital	Additional Tier 1 Capital ("AT1") are securities issued by AIB and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.
Arrears	Arrears relates to 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.
Available for sale securities	Available for sale ("AFS") financial assets are non-derivative financial investments that are designated as available for sale and are not classified as a) loans and receivables b) held-to-maturity investments or c) financial assets at fair value through profit or loss The following debt securities are included in AIB's AFS portfolio: **Irish Government securities** – Securities issued by the Irish Government in euro. **Euro government securities** – Securities issued by European governments in euro. **Non-euro government securities** – Securities issued by governments in currencies other than the euro. **Supranational banks and government agencies** – Supranational banks and government agencies are international organisations or unions in which member states transcend national boundaries or interests. These include such institutions as the European Investment Bank and the European Financial Stability Fund. **Asset backed securities ("ABS")** – 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. Within this report, ABS which are backed by an underlying pool of residential mortgage loans are referred to as "RMBS" – see below. **Euro bank securities** – Securities issued by financial institutions denominated in euro. **Euro corporate securities** – Securities issued by corporates denominated in euro. **Non-euro corporate securities** – Securities issued by corporates denominated in currencies other than the euro.
Bank Recovery and Resolution Directive	The Bank Recovery and Resolution Directive ("BRRD") is a European legislative package issued by the European Commission and adopted by EU Member States. The BRRD introduces a common EU framework for how authorities should intervene to address banks which are failing or are likely to fail. The framework includes early intervention and measures designed to prevent failure and in the event of bank failure for authorities to ensure an orderly resolution.
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 (e.g. AFS or HTM securities portfolios).
Basis point	One hundredth of a per cent (0.01%), so 100 basis points is 1%. 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 arising in the Group's portfolio of financial instruments.
Buy-to-let mortgage	A residential mortgage loan approved for the purpose of purchasing a residential investment property.
Capital Requirements Directive	Capital Requirements Directive ("CRD"): Capital adequacy legislation implemented by the European Union and adopted by Member States designed to ensure the financial soundness of credit institutions and certain investment firms and give effect in the EU to the Basel II proposals which came into force on 20 July 2006.
Capital Requirements Directive IV	Capital Requirements Directive IV ("CRD IV"), which came into force on 1 January 2014, comprises a Capital Requirements Directive and a Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. The Regulation contains the detailed prudential requirements for credit institutions and investment firms. Requirements Regulation (No. 575/2013) ("CRR") and the Capital Requirements Directive (2013/36/EU).
Collateralised bond obligation/ collateralised debt obligation	A collateralised bond obligation ("CBO")/collateralised debt obligation ("CDO") is an investment vehicle (generally an SPE) which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. In the case of synthetic CBOs/CDOs, the risk is backed by credit derivatives instead of the sale of assets (cash CBOs/CDOs).
Collectively assessed impairment	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).

Glossary of terms

Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets and issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.
Commercial property	Commercial property lending focuses primarily on the following property segments: a) Apartment complexes; b) Develop to sell; c) Office projects; d) Retail projects; e) Hotels; and f) Selective mixed-use projects and special purpose properties.
Common equity tier 1 capital ("CET 1")	The highest quality form of regulatory capital under Basel III that comprises ordinary shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.
Common equity tier 1 ratio	Common equity tier 1 ratio – A measurement of a bank's common equity tier 1 capital expressed as a percentage of its total risk-weighted assets.
Concentration risk	Concentration risk is the risk of loss from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.
Contractual maturity	The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.
Contractual residual maturity	The time remaining until the expiration or repayment of a financial instrument in accordance with its contractual terms.
Credit default swaps	An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.
Credit derivatives	Financial instruments where credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be inherent in a financial asset such as a loan or might be a generic credit risk such as the bankruptcy risk of an entity.
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 mitigation	Techniques used by lenders to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.
Credit spread	Credit 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.
Credit support annex	Credit support annex ("CSA") provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association ("ISDA"). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.
Credit valuation adjustment	Credit valuation adjustment ("CVA ") is an adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of derivative counterparties.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
Customer accounts	A liability of the Group 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 restructuring	This is the process whereby customers in arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write down of the balance. In certain circumstances, the loan balance may be swapped for an equity stake in the counterparty.
Debt securities	Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.
Debt securities in issue	Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group 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 CRD IV context when a loan is greater than 90 days past due and/or the borrower is unlikely to pay his credit obligations. This may require additional capital to be set aside.
Derecognition	The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.
ECB refinancing rate	The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow from the ECB under its main refinancing operations.
Economic capital	The amount of capital which the Group needs to run the business given the risks it is exposed to and remain solvent. 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 Regulator.
Eurozone	The eurozone consists of the following nineteen European Union 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.
Exposure at default	The expected or actual amount of exposure to the borrower at the time of default.
Exposure value	For on balance sheet exposures, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off balance sheet exposures, including commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors
First/second lien	Where a property or other security is taken as collateral for a loan, first lien holders are paid before all other claims on the property. Second lien holders are subordinate to the rights of first lien holders to a property security.
Forbearance	Forbearance is the term used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group 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.
Funded/ unfunded exposures	Funded: Loans, advances and debt securities where funds have been given to a debtor with an obligation to repay at some future date and on specific terms. Unfunded: Unfunded exposures are those where funds have not yet been advanced to a debtor, but where a commitment exists to do so at a future date or event.
Funding value adjustment	Funding value adjustment ("FVA") is an adjustment to the valuation of OTC derivative contracts due to a bank's funding rate exceeding the risk-free rate.
Held to maturity	Held to maturity ("HTM") investments as those which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than: (a) Those that the entity upon initial recognition designates as at fair value through profit or loss; (b) Those that the entity designates as available for sale; and (c) Those that meet the definition of loans and receivables.
Guarantee	An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.

Glossary of terms

Home loan	A loan secured by a mortgage on the primary residence or second home of a borrower.
Internal liquidity adequacy assessment process	The internal liquidity adequacy assessment processes (“ILAAP”) is a key element of the risk management framework for credit institutions. ILAAP is defined in the EBA’s SREP Guidelines as “the processes for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU”. It thus contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage liquidity and funding risks.
Internal Capital Adequacy Assessment Process	Internal Capital Adequacy Assessment Process (“ICAAP”): The Group’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.
Impaired loans	Loans are typically reported as impaired when interest thereon is more than 90 days 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 present value of impaired loans due to the passage of time is reported as interest income
Internal Ratings Based Approach	The Internal Ratings Based Approach (“IRBA”) 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: Probability of Default (“PD”); Loss Given Default (“LGD”); and Exposure at Default (“EAD”).
ISDA Master Agreements	Standardised contracts, developed by the International Swaps and Derivatives Association (“ISDA”), used as an umbrella under which bilateral derivatives contracts are entered into.
Liquidity Coverage Ratio	Liquidity Coverage Ratio (“LCR”): 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 exceeds 100% on 1 January 2018.
Leverage ratio	To prevent an excessive build-up of leverage on institutions’ balance sheets, Basel III introduces 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. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.
Syndicated and international lending	Syndicated and international lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Syndicated and international lending is extended typically to non-investment grade borrowers and carries commensurate rates of return.
Loss Given Default	The expected or actual loss in the event of default, expressed as a percentage of ‘exposure at default’.
Liquidity risk	The risk that Group 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 expressed as a percentage of customer accounts, as presented in the statement of financial position.
Loan workout	Loan workout is the process whereby once a loan is deemed to be criticised (i.e. ‘Watch’, ‘Vulnerable’ or ‘Impaired’), the Group monitors and reviews it regularly with the objective of working with the customer to resolve their financial difficulties, which may include restructuring, in order to optimise the level of recovery by the Group.
Loan to Value	Loan to value (“LTV”) is 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.
Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. ‘Past due days’ is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: – has breached an advised limit; – has been advised of a limit lower than the then current amount outstanding; or – has drawn credit without authorisation. When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Notes ("EMTN") Programme.
National Asset Management Agency	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") 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.
Net Stable Funding Ratio	Net Stable Funding Ratio ("NSFR"): The ratio of available stable funding to required stable funding over a 1 year time horizon.
Off balance sheet items	Off balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.
Offsetting	Offsetting, or 'netting', is the presentation of the net amounts of financial assets and financial liabilities in the statement of financial position as a result of Group's rights of set-off.
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, people risk and legal risk.
Optionality risk	A type of market risk associated with option features that are embedded within assets and liabilities on the Group's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, effect its duration, yield and pricing. Examples include bonds with early call provisions or prepayment risk on a mortgage portfolio. Where these risks are left unhedged, it can result in losses arising in the Group's portfolio.
Principal components analysis	Principal components analysis ("PCA") 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 "demeaned"; 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%) of yield curve movements can be explained using just three principal components (i.e. a parallel shift, twist and bow). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.
Private equity investments	Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies.
Prime loan	A loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk.
Probability of Default	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Regulatory capital	Regulatory capital is determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.
Re-pricing risk	Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.
Repurchase agreement	Repurchase agreement ("Repo") is a short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.

Glossary of terms

Residential mortgage-backed securities	Residential mortgage-backed securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.
Risk weighted assets	Risk weighted assets ("RWAs") are a measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
Securitisation	Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flows into securities that can be issued and traded in the capital markets.
Single Supervisory Mechanism	The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries. 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.
Special purpose entity	Special purpose entity ("SPE") 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).
Stress testing	Stress testing is a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.
Structured securities	This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.
Tier 2 capital	Broadly includes qualifying subordinated debt and other tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provisions on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.
Value at Risk	The Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources for repayment.
Watch loan	Loans exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flow.
Wholesale funding	Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.
Yield curve risk	A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

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