



AIB's response to the Minister for Finance's Statement

16th September 2009

Allied Irish Banks, p.l.c. ("AIB") [NYSE: AIB] is issuing this announcement following today's statement made by the Minister for Finance in relation to the potential effects of the National Asset Management Agency (NAMA) and Government funding guarantee.

At the outset, the board and management of AIB acknowledge the crucial leadership role of the Government to ensure a properly functioning banking system that fulfils its vital role of supporting the economy. We recognise the challenges posed by the current environment and note the measures proposed by the Minister. We reiterate our acknowledgement of and apology for the part we played in contributing to this challenging environment.

The Minister has now indicated c. €24bn (gross) of AIB loans in respect of which the economic interest could be transferred to NAMA. We understand the transfer will take place on a phased basis beginning in November this year with completion targeted for mid 2010. Taking account of the variation in asset quality and mix, the capital implications for AIB and other banks can only be known when the loans are individually valued on a case by case basis over the coming year. Acknowledging this, the Minister estimated an average industry wide discount of 30% for the NAMA eligible loans and also stressed the variability between banks. AIB together with leading international risk experts is conducting an extensive review of its NAMA eligible loans using appropriate economic valuation techniques to determine valuation outcomes. Based on the work to date, which covers around half the value of our NAMA eligible loans, AIB expects the discount will be less than the estimated industry wide average of 30%. The following key factors underpin that expectation:

- Our top 25 connections account for c. €8bn or 33% of our NAMA eligible loans and have c. 80% of their collateral by value concentrated in Dublin.
- Based on eligible loans of c. €24bn, c. €17bn are land and development loans and c. €7bn are associated loans and of this €7bn over 90% are performing, underpinned by independent cashflows.

Based on the Minister's estimated average industry wide discount of 30% (which as we have already stated is expected to exceed the estimated maximum for AIB) and allowing for our estimated 2009 year end provisions of c. €3.5bn in respect of NAMA eligible loans, the net write down for AIB would be c. €3.7bn before tax. Our expectation of a lower discount for AIB than the average industry wide discount would have a material positive effect on the write down; for every 1% reduction in the discount, the write down is reduced by c. €240m. The actual net write down will have a phased effect on our capital position over the next twelve months. As at 30 June 2009 our core tier 1 capital ratio was 8.5%, having absorbed a bad debt charge of almost €2.4bn and we expect our capital ratios to remain resilient.

The Minister has said that he expects banks to rebuild over time their regulatory equity capital / risk weighted assets ratios. In anticipation of various capital requirement scenarios and in addition to the normal capital formation from operations, we have available to us a range of sources of capital. We are confident that one or more of these sources will increase our capital to a level that will satisfy stakeholders through the trough of this economic cycle and in this regard it is now our intention to generate in the region of €2bn of capital which we expect to complete over the next 12 – 18 months. The potential sources of capital include:

- **The equity market**

Investors have previously signalled strong interest in participating in a recapitalisation when some key terms of NAMA are clarified. We believe that we are now moving towards sufficient clarity to enable existing and potential shareholders to consider an investment proposition. Underpinning the investment proposition is a diverse business with a strong and resilient earnings capability.

- **A strategic investment**

On 14th August we announced that we had received interest from a third party with a potential interest in taking a minority stake in AIB. In the previous announcement we noted in particular the need for greater clarity in respect of NAMA before discussions between us could more meaningfully progress. Following the Minister's statement we will continue to explore strategic options including potential investments in the bank. There remains no certainty that these discussions will lead to proposals.

- **Asset sales / business disposals**

AIB has a range of assets which extends across geographies and business lines in respect of which we believe there is strong third party interest. AIB maintains an ongoing review of its businesses and the decision to retain or dispose of certain assets will be based on a number of criteria including strategic rationale, likely sales proceeds, capital impact, funding and earning effects.

We acknowledge the Government's intent to assist and support potential capital raising measures and its appreciation that such measures should be taken over a reasonable timeframe.

The commitment to adjust and modify the Government guarantee to depositors and other suppliers of funding provides certainty and security to them. We are informed that the cost of both the existing and modified guarantees will increase significantly above the c. €110m per annum currently being incurred. The current figure represents a charge factor of 9.5 basis points of covered liabilities under the guarantee. For the remaining one year period of this guarantee to September 2010, the charge factor will increase to 22.7 basis points. The effect of this is to increase the charge to c. €140m for 2009 and c. €170m for the remaining period to September 2010. On issuance of the new modified guarantee (ELG), a further yet to be defined increase is expected to apply in line with EU guidelines.

Further updates to the initiatives outlined in this announcement will be made in due course

-Ends-

For further information please contact:

Alan Kelly
General Manager, Group Finance
AIB Group

Bankcentre
Ballsbridge
Dublin 4
Tel: +353-1-6600311 Ext 12162

or

Catherine Burke
Head of Group Corporate Relations
AIB Group
Bankcentre
Ballsbridge
Dublin 4
Tel: +353-1-6600311 Ext 13894