



AIB - Capital Raising Update

1st July 2011

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Allied Irish Banks, p.l.c. ("AIB") [NYSE:AIB] announces that, further to its announcement of 23 June 2011, it has concluded discussions with the Government and has agreed the final terms of its capital raising transaction, pursuant to which it proposes to raise €5 billion of equity share capital from the National Pensions Reserve Fund Commission (the "NPRFC") and up to €1.6 billion by the issue of contingent capital notes to the Minister for Finance (the "Minister") (together, the "Capital Raising").

On 26 May 2011, AIB announced that it had signed an agreement with, amongst others, the Minister to acquire Educational Building Society ("EBS"), subject to receipt of all regulatory approvals required. As announced by AIB earlier today, completion of the acquisition of EBS by AIB has now taken place. The Minister has stated that the merger of AIB and EBS will form one of the two pillars of Irish banking.

On 31 March 2011, the Central Bank of Ireland prescribed a minimum capital target for certain Irish credit institutions of 10.5% Core Tier 1 Capital under a base scenario and 6% Core Tier 1 Capital under a given stress scenario, plus allowing for an additional protective buffer. As a result, AIB is required to increase its Core Tier 1 Capital by c.€13.3 billion (of which c.€1.4 billion may be in the form of contingent capital), and EBS is required to increase its Core Tier 1 Capital by c.€1.5 billion (of which c.€0.2 billion may be in the form of contingent capital). These capital increases are to be completed by 31 July 2011. Following completion of the EBS merger earlier today, it is expected that AIB will be required to raise a total of c.€14.8 billion of Core Tier 1 Capital, of which c.€1.6 billion may be in the form of contingent capital (the "PCAR Requirement").

The Capital Raising will comprise an equity placing (the "Placing") of ordinary share capital of €5 billion to the NPRFC and an issue of up to €1.6 billion of contingent capital convertible notes (the "Contingent Capital Notes Issue") to the Minister. The Placing will comprise an issue of new Ordinary Shares for cash at a price of €0.01 per share. The Contingent Capital Notes Issue will comprise an issue of contingent capital notes (the "Contingent Capital Notes") for cash. The Contingent Capital Notes will be subordinated tier 2 capital instruments with a five year and one day maturity denominated in units of €1,000 (with a minimum denomination of €100,000), issued at par with an aggregate principal amount of up to €1.6 billion. In certain circumstances, including if AIB's Core Tier 1 Capital ratio falls, or is likely in the opinion of the Central Bank to fall, below 8.25%, the Contingent Capital Notes will convert immediately and mandatorily in their entirety into ordinary shares at a conversion price of €0.01 per Ordinary Share. The Contingent Capital Notes carry a fixed annual mandatory interest rate of 10% of the principal amount, but this may be increased by the Minister up to a maximum amount of 18% per annum if the Contingent Capital Notes are to be sold by the Minister.

It has been indicated to AIB by the Minister that it is his intention that any portion of the PCAR Requirement that has not been satisfied by the Capital Raising, other capital generating exercises undertaken by AIB and EBS and any further burden-sharing with the Group's subordinated debt holders, will be satisfied by way of a capital contribution to be made by the State to AIB (the "Capital Contribution") once the Minister is satisfied that an appropriate level of burden-sharing has been achieved with the Group's subordinated debt holders. It is expected that the Capital Contribution would be given to AIB by the State for no consideration and accordingly no new Ordinary Shares will be issued by AIB to the State in return for the Capital Contribution.

The proceeds of the Placing, the Contingent Capital Notes Issue and the Capital Contribution will be used to fund the day-to-day operations of the Group.

By strengthening the Group's capital position, the Capital Raising and the Capital Contribution should facilitate the objective of providing for a sustainable future as a systemically important pillar bank, continuing to support customers, and contributing to economic recovery. AIB's continued listing on the Enterprise Securities Market of the Irish Stock Exchange enables Shareholders to continue to trade their shares, ensures that AIB remains subject to market oversight, disclosure and reporting obligations and facilitates AIB's wish to maintain investor relationships and market analyst coverage.

The Placing and the Contingent Capital Notes Issue will have a significant positive impact on the Group's capital ratios, further details of which are set out in the circular referred to below to be dispatched to Shareholders shortly in connection with the Capital Raising. The Capital Contribution will also have a positive impact on the Group's capital ratios.

The Capital Raising constitutes a "related party transaction" for AIB for the purposes of the ESM Rules (being a transaction between AIB, the Minister who, through the NPRFC, currently holds c.93.1% of the total issued ordinary share capital of AIB, and the NPRFC). In those circumstances, the ESM Rules oblige the Directors (other than those connected with the related party), in recommending the transaction to Ordinary Shareholders, to form the view that the terms of the transaction are fair and reasonable insofar as Shareholders are concerned and to describe their view in that specific wording. Accordingly, the Board, having consulted with AIB's ESM adviser, Morgan Stanley & Co. International plc, considers the Placing and the Contingent Capital Notes Issue to be fair and reasonable insofar as Ordinary Shareholders are concerned. In reaching its decision, the Board has taken into account the absence of any viable alternatives to raise the necessary capital to meet the PCAR Requirement and also the fact that the sole provider of the required capital, the State, is willing to provide the requisite capital on the terms summarised above only.

To avoid any potential conflict of interest, the three Directors appointed by the Government, Mr Declan Collier, Mr Dick Spring and Dr Michael Somers, have not taken part in the Board's decision to proceed with the Placing and the Contingent Capital Notes Issue.

AIB's Board of Directors acknowledges the continued support of the Minister and the Irish State.

Circular and Shareholder Meeting

To implement the Capital Raising, AIB will dispatch a circular to Shareholders shortly, including a notice to convene an EGM to be held at 10.00 a.m. on Tuesday, 26 July 2011, at Bankcentre, Ballsbridge, Dublin 4, to consider, and if thought fit, pass necessary shareholder resolutions. AIB's Annual General Meeting will also be held on Tuesday, 26 July 2011, commencing at 12 noon (or 20 minutes after the conclusion of the EGM, if later) at Bankcentre, Ballsbridge, Dublin 4. A separate circular will be dispatched to Shareholders shortly, including a notice to convene the AGM, to consider, and if thought fit, pass the shareholder resolutions to be proposed at the AGM.

The Government Shareholding Following the Capital Raising

Pursuant to the Placing, AIB will issue 500,000,000,000 new Ordinary Shares to the NPRFC. Upon completion of the Placing, and following a further allotment of new Ordinary Shares to the NPRFC in lieu of part of the 2011 annual cash dividend on the 2009 Preference Shares that was deferred on 13 May 2011, the NPRFC will hold c.99.8% of the enlarged total issued ordinary share capital of AIB. AIB will at that time have 513,491,220,350 Ordinary Shares in issue (excluding 35,680,114 treasury shares), however, it is possible that the total number of Ordinary Shares in issue may decrease by 36,212,608 if a 5% increment, that is prescribed by the terms of the 2009 Preference Shares due to the deferral of part of the 2011 annual dividend, is waived.

[Click here to read shareholder questions and answers](#)

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