



AGM Opening Address by the Non-Executive Chairman of Allied Irish Banks, p.l.c., David Hodgkinson

20th June 2013

Good morning ladies and gentlemen and welcome to our Annual General Meeting. My name is David Hodgkinson, and I am the Chairman of AIB. We have a quorum, so I now formally open the Meeting. The Notice of the Meeting was posted to Shareholders on May 28th, 2013, and so I will dispense with its formal reading.

I'm joined on the platform on my far right hand side by Paul Stanley, our Acting Chief Financial Officer; to my immediate right by our Chief Executive Officer, David Duffy; to my immediate left by David O'Callaghan, our Company Secretary; and on my far left by Helen Dooley, our Group General Counsel. The other Directors are present in the room and, as we come to the resolutions on reappointments, I will request the Directors to identify themselves and to provide you with a brief summary of their experience and suitability for the role.

I wish to point out that we are not updating on financial performance today. Our results for the first half of the year will be published in early August.

The first formal part of our proceedings is the Auditor's Report to the Members. This is set out on pages 382 and 383 of our 2012 Annual Financial Report, which was sent to shareholders who requested it. Copies of the full Report are also available at the entrance to the meeting. As you will have seen from the AGM documentation, the Board has proposed a change in Auditor from KPMG to Deloitte, and this matter will be voted upon later in the meeting. As KPMG was our Auditor for the 2012 financial statements, Ms. Niamh Marshall, our Lead KPMG Partner, is present this morning. The Auditor's Report has increased in length in recent years, so I propose that, with the consent of the Meeting, we take the Auditor's Report as read.

Thank you.

Summary of Organisational Change & Performance

AIB has come through a number of years of fundamental restructure and change. While 2012 was another very challenging year for the Group from a financial perspective, a number of important steps were taken to position the bank for recovery over the longer term.

At last year's AGM, I outlined a number of actions we were taking to reduce the cost base of the bank over time. Since then, as a result of a Voluntary Severance Programme and other measures, including pay and benefit reductions, we have made significant progress in achieving those cost reductions. We are now well advanced in the implementation of the programme – over 1,700 people had left the organisation by the end of 2012, and a minimum of 2,500 will have left the organisation by 2014. We introduced a pay and benefit review at senior management level that included pay cuts of up to 15% for the Leadership Team, including the Chief Executive. We are in advanced discussions in the Labour Court with our staff Union with a view to closing the bank's

defined benefit pension scheme to future accrual as well as changes to other staff pay and conditions.

These and other measures are aimed at reducing AIB's overall cost base by c. €350m by 2014.

We continued to make progress on restructuring our balance sheet and in improving our operating performance, and we:

- undertook a number of structural initiatives that will further reduce the bank's cost base over time,
- improved our funding costs, and
- moved to increase margins on income earning assets.

A focus on customer service is central to our revised strategy and we continue to enhance our distribution capability through increased online services, mobile banks and self-service lobbies and other investments in technology to increase efficiency and reduce costs over time. With over 800,000 AIB customers now using on-line banking, the bank is accelerating investment in our digital capability, allowing a higher level of self-service and automation of transactions at any time.

Through our expanded agreement with An Post, we are providing additional banking services to our customers in locations where branches have closed. The provision of mobile banks in rural regions has also brought the service to areas of the country where AIB previously did not have a presence.

Against a challenging economic backdrop, we have made significant progress in increasing our market share in key product areas.

The sale of non-core loans progressed to the point where, at the end of March 2013, we were 95% complete on the target set for us by the Central Bank of Ireland. We also successfully returned to the bond markets in late 2012 and early 2013.

We significantly reduced our operating loss during 2012, on a pre-exceptional basis, which included a 70% reduction in bad debt provisions year on year. However, notwithstanding the improvements in performance compared with 2011, AIB continued to be a loss-making organisation.

The scale of the challenge ahead remains significant. However, building on the progress made to date, we still aim to generate a pre-provision operating profit in 2013, and return to post provision profitability during 2014. And based on AIB's core tier 1 capital position of 15% at the end of March 2013, the bank is more than adequately capitalised at this time.

Customers in Difficulty:

Conscious of the importance of dealing appropriately with customers in financial difficulty, we significantly expanded our capacity to effectively manage this process during 2012. We now have the resources, people, products and infrastructure in place to deliver on our commitments to assist customers to restructure their debts. We have developed and trialled different long-term sustainable solutions for restructuring customers' debts, which are now being offered as part of a standard business approach. We continue to request that mortgage or business customers who are experiencing financial difficulty contact the bank at the earliest opportunity to consider the most appropriate options and solutions.

The Bank is committed to working with our customers where there is open, honest and collaborative engagement although we appreciate that this is often a difficult process for both parties. Our strategy is to keep people in their homes, wherever possible, where mortgage payments are being prioritised and customers are co-operating with the bank to reach a solution. To add context to the overall arrears situation, over 80% of AIB mortgages on principle dwelling homes, and approximately 65% of our buy to let mortgages, continued to perform at year end 2012.

We intend to meet and, where possible, exceed the recently announced Central Bank of Ireland targets for sustainable mortgage solutions as part of our ongoing efforts to deal effectively and quickly with these customers.

Restructuring of the debt of our SME customers in financial difficulty is also progressing well. Our priority in this instance is to support viable businesses and to protect jobs. AIB has committed c.1,000 staff to assisting SME customers in financial difficulty. For business borrowers, there is often complexity in the nature of their debt overhang which is frequently property-related. However, we are now in a much better position to negotiate and agree mutually acceptable solutions.

We fully accept that the manner in which AIB treats its customers throughout this difficult period will have a defining impact on our recovery over time

Lending to SMEs and Mortgages:

As part of its role in supporting economic activity AIB exceeded its 2012 targets for SME and mortgage lending.

We will continue to ensure, as part of our overall strategic goals, that we support economic recovery in Ireland through our lending to personal, business and corporate customers. The mortgage market in Ireland remains one of the cornerstones of AIB's strategy and business and, during 2012, we surpassed our lending target of €1 billion by approving €1.5 billion in mortgages. We approved c.70% of mortgage applications received from customers in 2012. We estimate that our share of the mortgage market in Ireland was c.46% during the year, and we continue to prioritise mortgage lending as a key component of the Bank's strategy for 2013. Our staff are actively engaged in providing advice and information to first-time buyers through nationwide seminars, attended in large numbers.

We fully understand that the provision of appropriate banking and credit support to the SME sector is crucial to the recovery of our economy and the future of that sector. Embracing the need to support jobs and enterprise, AIB approved €4.8 billion in credit to 31,500 SMEs in 2012 and continue to encourage customers to discuss their needs with us. We have revised our lending standards to improve and expedite access to credit and to reduce the complexity involved for viable businesses. The bank now focuses on cash-flow based lending rather than property and security-based lending but we believe that this is a prudent change as part of a long term sustainable lending strategy. To demonstrate our commitment to making access to credit more straight forward for viable businesses, we introduced at the end of 2012 an initiative aimed at facilitating approval, within 48 hours, of SME loans up to €25,000 for existing customers at their branch level.

We also have a large number of other initiatives ongoing to promote SME credit availability, including the establishment of several credit funds, the publication of industry specific research reports and seminars and coaching programmes for business customers across the country.

Based on our own research, and that of independent external parties, we believe that demand for new SME credit remains somewhat subdued at this time, although there are encouraging signs that demand is increasing. However, many companies require restructuring or refinancing of existing debt rather than new facilities and this has led to considerable debate as to whether or not banks are lending. At AIB we are clear that we have a full range of options available for business borrowers whether it be new lending facilities or the refinancing or restructuring of existing terms. As such, we are confident we will achieve the Government SME lending target of €4 billion for this year.

In Summary:

We have had to implement unpopular, difficult and challenging changes as a bank. We acknowledge that the scale of change has been difficult for our customers and staff, and other stakeholders, and we are grateful for their continuing support. However, these changes have been made in what we believe are the best long term interests of the customer, the shareholder, and the Irish economy.

We must continue to demonstrate our genuine commitment to our customers and to economic recovery, and continue to work towards removing the negative perceptions towards the banking sector that still exist among the public. The support of the Irish taxpayer for AIB cannot be overstated and, as Chairman, I again acknowledge that the bank only exists today due to the support of the State. The Board and management of this bank maintain a constant focus on ensuring that a return will be made to the State over time and in ensuring that AIB plays an important role in Ireland's economic recovery.

Additionally, our customers' loyalty is deeply appreciated by the bank and we are striving to deliver to them consistent, professional, reliable and efficient service. Throughout AIB, the need to engage with and regain the trust of our customers is our primary focus. Regaining that trust can only be achieved in large part by actions rather than words. We have made solid progress as we seek to return AIB to a customer centric, sustainable business model but there is a lot more to do both at a bank and national level. Notwithstanding the challenges and further changes ahead, I am positive that AIB is moving in the right direction as we implement our strategic priorities.

We now come to the formal part of the meeting, where we consider and vote upon the resolutions, and hear questions and comments from the floor. To be fair to everyone in the room, and to give as many people as possible an opportunity to speak, I ask that you please be succinct and get to your question as quickly as possible. My intention is to try and respond to your questions and comments as clearly as I possibly can, after proposing the first Resolution.

Thank you.