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28 April 2015

AGM Opening Address
by the Chairman of Allied Irish Banks, p.l.c.,
Richard Pym

Check against delivery

Good morning ladies and gentlemen and welcome to our Annual General Meeting.

My name is Richard Pym, and I am the Chairman of AIB. I joined the Board on the 13th of October last as Chairman Designate and succeeded David Hodgkinson as Chairman on the 1st of December.

I wish to acknowledge David's very significant contribution to this Company. He took the reins as Executive Chairman when the Bank was in a much challenged position and, during his tenure, he enabled real progress in rebuilding the Bank to the stronger position in which we are today. David retired from the Board on the 18th of December. We wish him well.

We have a quorum, so I now formally open the Meeting.

The Notice of the Meeting was posted to Shareholders on the 30th of March, 2015, and so I suggest we dispense with its formal reading.

I'm joined, nearest to me, on the platform by David O'Callaghan, our Company Secretary; David Duffy, our Chief Executive Officer, Mark Bourke, our Chief Financial Officer and Helen Dooley, our Group Legal Counsel.

The other Directors are present in the room and I'll be including them in proceedings when we come to the resolutions on reappointments, where I will ask them to identify themselves and to provide you with a brief summary of their experience for the role, as I will do myself.

We have already announced that David Duffy will step down as CEO and Executive Director; he will be taking up a position as CEO of Clydesdale Bank and we will announce his departure date when agreed.

David remains in position and is supporting the Board in the process to appoint a permanent successor to the role; we will announce that appointment in due course.

I am very sorry to see David leave AIB. During his tenure as CEO the bank has been transformed from an organisation in difficulty

- to being a bank which is well positioned to deliver on our strategic objectives to customers and shareholders,
- to being a bank which is now operating to support our customers, economic growth and jobs in the Irish economy, and
- to being a bank which has returned to profit during 2014, having passed the European Central Bank Comprehensive Assessment.

So we wish David well and thank him for all he, and his team, have achieved.

There has been a lot of press speculation on David's successor which we are not going to comment on. When we have something to say, we will announce it formally.

We will not be updating on financial performance today. We published our full year results on the 5th of March and we will issue an Interim Management Statement shortly.

So the first formal part of our proceedings is the Auditor's Report to the Members.

This is set out on pages 190 to 192 of our 2014 Annual Financial Report. Copies of the full Report are available at the entrance to the meeting.

As you are aware, the Auditor's Report is quite detailed.

Gerry Fitzpatrick from our Auditor, Deloitte, is present here this morning, however I propose that, with the consent of the Meeting, we take the Auditor's Report as read.

Three years ago, led by David, we embarked on a challenging journey to transform our Irish and UK businesses into stable, customer focused, and profitable organisations. Having delivered on our objectives, 2014 was a milestone year for the bank.

We achieved significantly improved financial results, and a material de-risking of the balance sheet, all while constantly maintaining focus on rebuilding our customers' trust, improving customer service levels and strengthening our internal governance.

AIB's recovery over the last number of years has had to be a balancing act. Most obviously, it had to be done in tandem with implementing solutions for customers in financial difficulties while protecting taxpayers' capital – and all the time attempting to return the performance of the bank to sustainable levels both in terms of margins and the bank's cost base.

This has been achieved through the efforts of our employees, the leadership team, the Board and the Irish Government, supported of course by Irish taxpayers.

But we could not have made this progress without the loyalty and continuing engagement of our customers. Their loyalty is deeply appreciated by the bank and continues to be an intrinsic element of the bank's recovery.

Although much has been achieved in recent years, we recognise that we have more to do. The Group is now in a stronger position to support our customers and the Irish economy, and our future success will be measured not just on what we do for customers, but how we conduct ourselves through our business decisions.

We remain deeply conscious of our debt to the Irish people and I reiterate our thanks for that immense support, without which AIB would not have survived. Irish taxpayers have invested €20.8 billion in AIB and we believe that investment will be returned over time, subject of course to economic conditions and the decisions of the State as shareholder.

We were pleased to confirm recently that the dividend of €280m due on the preference shares held by the State will, for the first time, be paid in cash this year.

Over the past few years, AIB has focused on building a culture that emphasises the needs of our customers in everything we do.

As a newcomer to AIB, I continue to be impressed by what I have seen since I arrived. I have met dedicated and enthusiastic colleagues in all parts of the organisation; people with the right attitude to work and the right attitude to customers; people who care and who want to do the right thing.

We have invested heavily, and continue to invest in our branches, online, mobile and direct banking offerings to provide more convenient and accessible banking for our customers.

We want our customers to have seamless access to our banking services in whatever way they want, and that means always being able to find a friendly face in a branch or a voice on the phone, as well as being able to access our online and mobile services at the time of their choosing.

In conjunction with our leading digital channels, AIB continues to maintain the largest physical distribution reach in Ireland with our customers having access to different services at over 270 locations across AIB and EBS and over 1,000 An Post locations nationwide.

We have placed more specialists throughout the business with the understanding and authority to address customers' needs close to where the customer wishes to do business.

But we have more to do in terms of ensuring we deliver a complete, consistent and connected quality experience for our customers. Our customer satisfaction ratings have improved and continue to improve, albeit slowly.

We don't always get it right, we know that, but we listen to our customers and we are making changes where they are needed.

The improving economic climate in Ireland is translating into an increased appetite for credit with growth in the personal, business and corporate banking segments of the market.

In 2014 we approved over €11bn of lending in Ireland and our lending drawdowns to our customers were 42% higher than the previous year, including our mortgage and business customers.

We continue to have capacity to lend and we remain focused on supporting our customers, jobs and the broader Irish economy.

We are fully aware of the distress suffered by many customers in financial difficulty and we are making inroads into restructuring their borrowings.

Our fundamental priorities in these situations remain unchanged and are:

- to keep private dwelling mortgage customers in their homes where possible; and
- to secure the future of viable companies and protect employment.

We deal with all cases in a fair and equitable manner while ensuring an economic return for the Bank and taxpayers.

We share the concerns regarding the consequences of ongoing difficulties associated with legacy debt. Reflecting this concern, our staff deal with customers who continue to experience financial stress and we work hard to arrive at sustainable solutions that will allow them to emerge from arrears.

We have said it many times before, AIB aims to keep people in their homes where possible, if customers engage with us.

With that as our primary motive, we have put in place what we believe to be the most comprehensive set of permanent arrears solutions in the market.

We work with third party channels for those customers who feel they cannot come directly to the bank.

We pause the legal process when customers engage with us and enter a sustainable restructuring arrangement.

While we have much more to do, the success of our approach is borne out in our most recent set of results with overall arrears in our owner occupied mortgage portfolio in the Republic reducing by 22% in 2014.

Similarly, as we seek to protect employment and viable businesses, solid progress is being achieved for those non-mortgage customers who typically have exposures across a number of asset classes including SME debt, associated properties and buy-to-let mortgages.

At the end of last year, a total of €4.7 billion of non-mortgage loans were subject to forbearance and we continue to constructively engage to offer restructures to our customers in 2015.

We recognise that adopting a fair and equitable approach to our customers is fundamental to maintaining good working relationships over time. However, we are not able to spend shareholders and taxpayers' money, your money, where customers won't co-operate, it isn't fair on those who try.

There has been much criticism of mortgage pricing recently, and particularly in relation to standard variable rate mortgage pricing relative to other forms of mortgages and other markets.

This criticism has centred on the Banks' cost of funding relative to the mortgage rates applied. The narrative that AIB is able to fund itself at the ECB base rate is simply not the case and is an overly simplistic assessment of a much broader set of circumstances.

In addition to the cost of funding, interest rates must also take into account the cost of risk attached to a loan, the operational costs involved in running the bank and the need to generate returns for shareholders. All of these factors differ from bank to bank and across countries.

AIB, as a commercial institution, must ensure that lending is at sustainable rates to ensure it is able to rebuild its capital in order to insulate against any future adverse shocks.

Having learned the lessons of our extremely painful past, we cannot allow the bank to return to a situation where its lending decisions are being undertaken on any other basis than a medium to long term view of sustainability and viability.

However, late last year when we were sure of our financial position, we reduced our standard variable mortgage rate by c.0.25% for new and existing customers.

Further rate reductions to AIB customers, existing and new, are something that the Management Team and Board continue to consider.

Returning to the issue of capital, our increasing capital levels are supportive of our aims to grow lending volumes, support our customers and Irish economic recovery.

The Group has received significant support from the State and we are deeply aware of our responsibilities to generate value for shareholders over time.

We are in discussions with the Department of Finance regarding the appropriate capital structure of the Group in the context of regulatory and market requirements and the performance of the Group.

These discussions are currently focused on options in relation to the €3.5 billion 2009 Preference Shares, including the possible conversion into ordinary shares of all or part of those shares, the €1.6 billion Contingent Capital Notes which mature in July 2016, and a possible significant consolidation in our ordinary shares given AIB currently has 523 billion ordinary shares in issue.

I should mention at this stage that, based on that number of shares in issue, that's half a trillion, multiplied by yesterday's closing share price, our ordinary shares are currently trading on a valuation of around 6 times the net asset value of the Group (excluding the 2009 Preference Shares), at the end of December. That compares to the median for comparable European banks of around 1 times net asset value. Based on that differential I cannot think why a reasonable investor would think that this Bank is worth 6 times its net assets.

Any future actions in respect of the Group's capital structure will be subject to relevant regulatory and shareholder approvals, and, at this time, there is no definitive set of outcomes or completion date for these discussions.

In conclusion, I again express our deep appreciation for the support of the Irish taxpayer and, as Chairman, I acknowledge that the bank only exists today due to the support of the State.

As mentioned earlier, ensuring a financial return to the State over time, as well as effecting AIB's role in supporting Ireland's economic recovery, remains a constant focus of the Board and management of this bank.

We have made solid progress as we seek to return AIB to a customer focussed, sustainable business but there is a lot more to do. Rebuilding public confidence and trust in the Bank is paramount.

We now come to the formal part of the meeting, where we consider and vote on the resolutions.

You will have an opportunity to ask questions, but if for some reason you don't get the chance or would prefer to ask your question in a less public setting, the Directors will be joining you for lunch so you can put your questions to any of us at that stage.

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. Please wait for a microphone and state your name before putting your question.

-ENDS-

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Forward-looking Statement

The Chairman's 2015 AGM Opening address 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 Risk and Uncertainties on pages 51 to 56 in the 2014 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 51 to 56 of the 2014 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.