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If you are in any doubt as to the action you should take, you are recommended to immediately seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser (being, in the case of Shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations 2007 (as amended) or the Investment Intermediaries Act 1995 and, in the case of Shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000 (the "FSMA") or from another appropriately authorised independent financial adviser if you are in a territory outside Ireland and the United Kingdom).

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Allied Irish Banks, p.l.c.

(incorporated and registered in Ireland under the Companies Act 1963 with registered number 24173)

Proposed participation in the National Asset Management Agency bank asset acquisition programme

Circular and Notice of Extraordinary General Meeting

Your attention is drawn to the letter from your Chairman which is set out on pages 6 to 43 of this document and which recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting referred to below. Please read the whole of this document, in particular the risk factors set out in Part II ("Risk Factors"). You should not rely solely on any key or summarised information set out in this document.

Notice of an Extraordinary General Meeting of the Company, to be held on 23 December 2009 at 11.00 a.m. at Bankcentre, Ballsbridge, Dublin 4, is set out at the end of this document. A Form of Proxy for use at the Extraordinary General Meeting is enclosed. To be valid, Forms of Proxy should be completed, signed and returned by no later than 11.00 a.m. on 21 December 2009 in accordance with the notes to the EGM Notice (at the end of this document) and the Form of Proxy itself. Completion and return of a Form of Proxy will not prevent the Shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should the Shareholder wish to do so.

Electronic proxy appointment is available for the Extraordinary General Meeting. This facility enables a Shareholder to lodge its proxy appointment by electronic means by logging on to the website of the Registrar, Computershare Investor Services Limited: www.computershare.com/ie/voting/aib. Additionally, for those who hold Shares in CREST, a Shareholder may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Computershare Investor Services Limited (CREST participant ID 3RA50) so that it is received by no later than 11.00 a.m. on 21 December 2009. The completion and return of either an electronic proxy appointment notification or a CREST Proxy Instruction (as the case may be) will not prevent the Shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should the Shareholder wish to do so.

Morgan Stanley and AIB Corporate Finance are acting exclusively for AIB and no one else in connection with the NAMA Participation and will not regard any other person (whether or not a recipient of this document) as their respective client in relation to the NAMA Participation and will not be responsible to anyone other than AIB for providing the protections afforded to their respective clients or for providing advice in relation to the NAMA Participation or any other matter referred to in this document. In particular, the advice of Morgan Stanley referred to on page 19 of this document has been delivered to the Directors for the purposes of their obligations under the Listing Rules. It has not been delivered for the benefit of anyone else, including any shareholder of AIB, and it is not to be relied on by anyone other than the Directors for any purpose whatsoever.

Apart from the responsibilities and liabilities, if any, which may be imposed on Morgan Stanley by the Listing Rules, neither Morgan Stanley nor AIB Corporate Finance accepts any responsibility whatsoever and makes no representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by AIB, or on AIB's behalf or by Morgan Stanley or AIB Corporate Finance, or on Morgan Stanley's or AIB Corporate Finance's behalf, in connection with AIB or the NAMA Participation, and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of Morgan Stanley and AIB Corporate Finance accordingly disclaims to the fullest extent permitted by law and under the Listing Rules all and any responsibility and liability, whether arising in tort, contract or otherwise, which it might otherwise have in respect of this document and any such statement.

Circular dated 30 November 2009

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IMPORTANT INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

In this document, references to “Euro”, “€”, “c” or “cent” are to Euro currency and references to “£” are to British currency. The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

WEBSITES

Neither the content of the Group’s website, the content of any website accessible from hyperlinks on the Group’s website nor any other website is incorporated into, or forms part of, this document.

TIME

All references in this document to times are to Dublin times, unless otherwise stated.

DEFINITIONS

Capitalised terms used in this document have the meanings ascribed to them in Part VI (“*Definitions*”) of this document.

DOCUMENTS INCORPORATED BY REFERENCE

This document and any information incorporated by reference into this document may be inspected at the registered office of the Company and at the offices of McCann FitzGerald, Riverside One, Sir John Rogerson’s Quay, Dublin 2 and Linklaters LLP, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this document until 23 December 2009, being the date of the Extraordinary General Meeting, and will also be available for inspection at the Extraordinary General Meeting for at least 15 minutes prior to and during the meeting.

FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference “forward-looking statements”, within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Exchange Act of 1934, as amended, regarding the belief or current expectations of AIB, AIB’s Directors and other members of its senior management about AIB’s businesses and the transactions described in this document, including statements relating to possible future write-downs or impairments. Generally, words such as “may”, “could”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or similar expressions identify forward-looking statements.

These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of AIB and are difficult to predict, that may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among other factors:

- developments in the current crisis in global financial markets;
- the ability of AIB to access sources of liquidity;
- the risk that AIB may have insufficient capital resources to meet the minimum required by regulators;
- the possibility of AIB requiring further goodwill impairments;
- the risk that financial models determining the value of certain financial instruments may change over time or turn out to be inaccurate and the value realised by AIB for its assets may be materially different from the current or estimated value;
- the financial stability of other financial institutions, including AIB’s counterparties;

- the management of AIB's capital;
- the policies of various governmental and regulatory authorities;
- limitations or additional requirements imposed on AIB's activities as a result of the NAMA Participation, the CIFS Scheme, the ELG Scheme and the NPRFC Investment;
- the risk that governmental liability guarantee schemes may be revoked or changed;
- the credit ratings assigned to AIB by rating agencies;
- the risk that AIB may not participate in the NAMA Programme or that the NAMA Programme may turn out to be unsuccessful in achieving its goals;
- the risk that AIB's application to participate in the NAMA Programme may not be successful;
- if AIB participates in the NAMA Programme, the lack of control AIB will have over the nature, number and valuation of the assets to be transferred to NAMA and the timing for the transfer of those assets to NAMA;
- the risk that the value of Associated Loans that NAMA acquires from AIB could be greater than the value attributed to them in the Assumptions;
- the outcome of EU state aid clearances and reviews;
- the undertakings made by, and restrictions placed on, AIB once an application has been made by it to participate in the NAMA Programme;
- the risk that AIB may be required to indemnify NAMA in respect of various matters;
- the directions the Financial Regulator may give in relation to AIB's future conduct;
- the risk that the Minister may direct the Company to implement a restructuring plan and/or a business plan in relation to AIB's future conduct;
- the Company being required to provide such services in respect of NAMA Assets as NAMA requests;
- compliance with any guidelines issued by the Minister regarding lending practices; and
- the risk that AIB may not recover the full value of the Subordinated NAMA Bonds and that the Government may impose a surcharge on the Company's profits.

For more information, see the risk factors described in Part II ("*Risk Factors*") of this document.

Save as otherwise stated in Appendix V of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document, no statement in this document or incorporated by reference into this document is intended to constitute a profit forecast or profit estimate for any period. The forward-looking statements speak only as of the date of this document. Except as required by the Financial Regulator, the Irish Stock Exchange, the FSA, the London Stock Exchange or applicable law, AIB does not have any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. AIB expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this document or incorporated by reference to reflect any change in AIB's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This document contains various references to the Company's estimate of its NAMA Assets as being €24.2 billion on a gross loan basis (i.e. before taking account of €2.3 billion of loan loss provisions as at 30 June 2009). That estimate by AIB of the likely value of its NAMA Assets is based on:

- the Assumptions;
- the work undertaken by the Company in response to a request made by the interim NAMA management to provide NAMA with details in respect of certain of the Group's bank assets; and
- certain parts of the speech delivered by the Minister for Finance to the Dáil (the lower house of the Irish parliament) on 16 September 2009 (included in Appendix IV of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document.

Shareholders should note that the extent of AIB's NAMA Assets that may be acquired by NAMA will be determined by the NAMA Act and the Eligible Bank Assets Regulations and it may be different from the estimated figure referred to above. Accordingly, it should be noted that the NAMA Resolution (if passed) will authorise the Company to proceed with the NAMA Participation on the terms contained in the NAMA Act.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy for the Extraordinary General Meeting	11.00 a.m. on 21 December 2009
Extraordinary General Meeting	11.00 a.m. on 23 December 2009
Expected date of completion of the transactions constituting the NAMA Participation ⁽¹⁾	by July 2010

Note:

(1) It is expected that NAMA Assets will be transferred to NAMA in a series of transfers. The expected completion date indicated above refers to the transfer of the last of the Selected NAMA Assets to NAMA, as indicated by the NAMA Draft Business Plan.

PART I

LETTER FROM THE EXECUTIVE CHAIRMAN OF ALLIED IRISH BANKS, p.l.c.



Directors:

Dan O'Connor Executive Chairman
Eugene Sheehy Group Chief Executive
Colm Doherty Group Managing Director
Declan Collier*
Kieran Crowley*
Stephen L. Kingon*
Anne Maher*
Sean O'Driscoll*
David Pritchard*
Dick Spring*
Robert G. Wilmers*
Jennifer Winter*

** denotes Non-Executive Director*

Head and Registered Office

Bankcentre
Ballsbridge
Dublin 4
Ireland

30 November 2009

Dear Shareholder

Proposed participation in the National Asset Management Agency bank asset acquisition programme

1 Introduction

On 7 April 2009, the Minister for Finance announced the Government's intention to establish a national asset management agency. On 22 November 2009, the NAMA Act was enacted providing for the establishment of the National Asset Management Agency on a day to be appointed by the Minister. The purposes of the NAMA Act include the restoration of stability to the banking system and the facilitation of restructuring of credit institutions of systemic importance to the Irish economy. The Government has acknowledged AIB's systemic importance to the Irish economy in the context of the Credit Institutions (Financial Support) Scheme 2008 and by virtue of the €3.5 billion investment in the Company by the NPRFC in 2009.

If the NAMA Resolution is approved by Shareholders, the Company intends to submit an Application to the Minister to be designated as a participating institution under the NAMA Act. The Company estimates that, under the NAMA Programme and based on the Assumptions, NAMA will acquire from AIB land and development loans and certain Associated Loans with a value of approximately €24.2 billion on a gross loan basis (i.e. before taking account of €2.3 billion of loan loss provisions as at 30 June 2009). The Minister, in a speech delivered to the Dáil (the lower house of the Irish parliament) on 16 September 2009 (set out in Appendix IV to this letter), provided public guidance that an average industry discount of 30 per cent. to the gross value of the NAMA Assets has been estimated. In the Board's view, there is no reason to believe that the average discount applicable to AIB's NAMA Assets will fall significantly outside of that guidance.

Based on the Assumptions, AIB has estimated that, on a pro forma basis as at 30 June 2009, the NAMA Participation would have reduced its core tier 1 capital ratio from 8.5 per cent. to 6.3 per cent., its tier 1 capital ratio from 7.8 per cent. to 6.1 per cent. and its total capital ratio from 10.7 per cent. to 9.5 per cent.

The consideration for the NAMA Assets acquired from AIB will comprise the issue to AIB of NAMA Bonds and Subordinated NAMA Bonds equal in value to the purchase price of the NAMA Assets, which, based on the public guidance provided by the Minister referred to above, AIB expects will be approximately €17.0 billion. AIB understands that the acquisition by NAMA of AIB's NAMA Assets will commence in January 2010 and will be completed by July 2010. If AIB's application to join the NAMA Scheme is accepted by the Minister, AIB will be obliged to proceed with the NAMA Participation on the terms specified in the NAMA Act.

Due to the size of the NAMA Participation relative to AIB's market capitalisation, the NAMA Participation constitutes a "Class 1 transaction" under the Listing Rules. In addition, the NAMA Participation is treated as a "related party transaction" under the Listing Rules. As a consequence, the Listing Rules require that the NAMA Participation may only be implemented if it is approved by Shareholders.

The purpose of this letter is to provide Shareholders with information on the rationale for and benefits of the NAMA Participation. This letter also contains the notice of an Extraordinary General Meeting of the Company to be held on 23 December 2009 to consider and, if thought fit, pass the resolution required to enable the Company to participate in the NAMA Programme. At the Extraordinary General Meeting, a second resolution (unrelated to the NAMA Participation) concerning the convening of certain Shareholder meetings on 14 days' notice will also be proposed.

The Board regrets the inconvenience caused to Shareholders by convening the Extraordinary General Meeting on a date so close to the Christmas holidays. However, due to circumstances beyond its control, including the NAMA Act not having been enacted until 22 November 2009, the earliest available date for the meeting was 23 December 2009.

2 Overview of the NAMA Programme

Under the NAMA Programme, NAMA will acquire "eligible bank assets" from AIB (referred to in this letter as NAMA Assets), which will include performing and non-performing loans. At the date of this letter, NAMA had not identified which of AIB's loans it intends to acquire under the NAMA Programme. The NAMA Assets will be valued on a loan-by-loan basis, using the valuation methodology specified in the NAMA Act and in the Valuation Regulations. The consideration for the NAMA Assets to be acquired by NAMA from AIB will comprise the issue to AIB of NAMA Bonds and Subordinated NAMA Bonds equal in value to the purchase price of those assets. The NAMA Draft Business Plan states that it is expected that the acquisition by NAMA of all of the NAMA Assets from all of the participating institutions will be completed by July 2010.

As a result of the acquisition framework specified in the NAMA Act, the NAMA Programme could encompass a very significant portion of AIB's loan book at values which have not yet been determined. However, the Company has been engaged in ongoing discussions with the interim NAMA management in order to understand the potential impact of the NAMA Programme on AIB. On the basis of statements made by the Minister, statements included in the NAMA Draft Business Plan and on the basis of the Assumptions, the Company estimates that NAMA will acquire from AIB land and development loans and certain Associated Loans with an aggregate value of approximately €24.2 billion on a gross loan basis (i.e. before taking account of €2.3 billion of loan loss provisions as at 30 June 2009).

The table below has been prepared to provide a summary of the estimated profile of AIB's NAMA Assets that may transfer to NAMA, as further set out in section 5 and in Appendix III to this letter:

	As at 30 June 2009		
	Land and Development Loans € billion	Associated Loans € billion	Total € billion
Republic of Ireland	14.3	6.4	20.7
United Kingdom	2.6	0.7	3.3
Rest of World	<u>0.2</u>	<u>—</u>	<u>0.2</u>
	17.1	7.1	24.2

Source: Company internal estimates

The Board has noted the public guidance provided by the Minister in relation to the value at which NAMA Assets will be acquired, indicating an average industry discount of 30 per cent. to the gross value of the NAMA Assets, although there can be no assurance that this will be the case. In the Board's view, there is no reason to believe that the average discount applicable to AIB's NAMA Assets will fall significantly outside of this guidance. A copy of the speech delivered by the Minister for Finance on 16 September 2009 to the Dáil (the lower house of the Irish parliament), outlining details in relation to the NAMA Programme, is set out in Appendix IV to this letter.

The Board believes that AIB's participation in the NAMA Programme is in the best interests of Shareholders and provides the best and most comprehensive path towards stability for AIB, principally due to the following:

- the NAMA Participation will remove from the Group's balance sheet certain loans, primarily relating to land and development, which is likely to provide the market with increased certainty regarding the level of loan loss provisions to which the Group might be exposed; and
- the increased market confidence that is expected to result from greater certainty regarding the level of loan loss provisions is likely to increase AIB's access to, and flexibility in, both wholesale funding and capital markets. That increased access and flexibility should provide the Group with better opportunities to strengthen its balance sheet and improve its funding position, if it decides to do so in the future.

Notwithstanding the significant uncertainties for the Group in relation to some of the key terms of the NAMA Participation, as set out in section 4 below, the Board believes that if the NAMA Resolution is not approved by Shareholders, the Group would be exposed to even greater uncertainty, which could significantly undermine shareholder value and, in particular, could restrict AIB's ability to access wholesale funding and capital markets. Furthermore, the Board believes that if the NAMA Resolution is not approved by Shareholders, it would not be possible to put in place the levels of capital that would be expected by the market or funding commitments in an acceptable time period to support and reinforce confidence in AIB. Accordingly, there is a very significant risk that AIB will have to rely, to a greater extent, on Government support to sustain its business. The terms of this support are likely to result in partial or full nationalisation of AIB.

3 Rationale for, benefits of and alternatives to the NAMA Participation

The Board believes that the NAMA Participation will provide a number of key benefits to the Group that should support its business and help to improve its long-term outlook.

3.1 Reducing uncertainty relating to AIB, its business and its financial performance

The Board believes that the NAMA Participation is likely to provide the market with increased certainty regarding the Company's business and financial performance for the following reasons:

- *the NAMA Participation will enable AIB to sell certain land and development loans and Associated Loans to NAMA and thereby determine the Group's losses associated with those loans.* It is expected that this will increase market certainty because the NAMA Assets in general are perceived to carry a higher risk than other classes of assets on the Group's balance sheet. The interim NAMA management expects that the acquisition of NAMA Assets from AIB will be completed by July 2010;
- *the NAMA Participation will reduce the leverage of the Group by reducing the level of loans held on its balance sheet.* Reducing the level of loans will help to reduce the Group's loan-to-deposit ratio, which is a key measure of balance sheet leverage, to levels that are likely to be more sustainable. The Company estimates that, on a pro forma basis and based on the Assumptions, the Group would have had a pro forma loan-to-deposit ratio of 129.5 per cent. on 30 June 2009 (compared to the actual loan-to-deposit ratio of 156.0 per cent. on 30 June 2009); and
- *the NAMA Participation will improve AIB's liquidity and funding position.* AIB will receive NAMA Bonds and Subordinated NAMA Bonds in consideration for the sale of its NAMA Assets. Based on statements made by the Minister and statements contained in the NAMA Draft Business Plan, AIB expects that approximately 95 per cent. of that consideration will be in the form of NAMA Bonds and the balance will be in the form of Subordinated NAMA Bonds. The NAMA Bonds will provide AIB with access to additional liquidity and funding, should this be required, on more flexible and advantageous terms than are currently achievable by AIB, as AIB may use the NAMA Bonds to finance its ordinary business activities, for example, by entering into liquidity-providing transactions with market counterparties, including the European Central Bank. The NAMA Bonds will materially increase the level of Qualifying Liquid Assets and Contingent Funding held by AIB. On 30 June 2009, the Group held €53.7 billion of Qualifying Liquid Assets and Contingent Funding, of which approximately €34.1 billion was pledged to market counterparties.

3.2 Restoring confidence in AIB

The cumulative effect of the disruption in financial markets in the past two years and concerns over the stability of financial institutions generally has had a severe impact on the ability of financial institutions to access wholesale funding markets. Governments, including the Irish Government, have sought to address those concerns through the introduction of deposit and liability guarantee schemes and through direct capital investments in financial

institutions. The disturbance in the normal operation of financial markets, together with the deterioration in global economic conditions, has eroded market confidence in financial institutions, including AIB.

The Board believes that a recovery in the market's confidence in AIB is vital in order to achieve and sustain long-term stability for the Company and to deliver shareholder value. The Board believes that the NAMA Participation will underpin market confidence in AIB by removing a key element of uncertainty that would otherwise affect the Company and will generate the following benefits for AIB:

- *provide greater access to wholesale funding markets.* Increased certainty regarding the Group's loan loss provisions resulting from the NAMA Participation should enable AIB to gain greater access to wholesale funding markets, as counterparties become more comfortable with the Company's risk profile. This should increase the number of counterparties that are willing to provide wholesale funding to AIB and should also reduce the costs to AIB of accessing this funding. Increased access to wholesale funding markets should reduce the level of AIB's reliance on existing governmental and central bank support, including the CIFS Scheme. On 5 November 2009, AIB issued €750 million of five-year senior unsecured unguaranteed bonds, which was over-subscribed. In total, since the start of 2009 AIB has raised €1.75 billion of unsecured unguaranteed debt. Accordingly, there is already evidence that AIB's access to wholesale funding markets without reliance on Governmental support has improved, which the Board believes reflects the market's expectation that AIB will participate in the NAMA Programme;
- *improve customer confidence in AIB.* The NAMA Participation should support the Company in retaining existing customer deposits, attracting additional deposits and, overall, building a larger, more stable deposit base. AIB's ability to increase the size and stability of its deposit base should reduce its reliance on wholesale funding markets; and
- *enhance AIB's ability to access capital in the future.* The creation of greater market confidence in AIB should enhance its ability, should it so decide, to access capital, pursue the Company's strategy, improve the resilience of the Group's balance sheet and meet anticipated future regulatory capital requirements. On 16 September 2009, the Company announced its intention to generate approximately €2.0 billion of capital over the following 12 to 18 months.

3.3 Alternatives to the NAMA Participation

The Board has considered alternative arrangements for securing greater confidence in the long-term future of AIB should the Group not participate in the NAMA Programme. In such circumstances, the Company would need to find alternative ways to address the uncertainty surrounding the Group's future financial performance and potential levels of loan loss provisions associated with its NAMA Assets. The Board believes that, in the absence of the NAMA Participation, the Company would need to reduce the significant risks and uncertainty that the Group would face by putting in place additional committed term funding and raising further capital. In particular, the Board believes that the sources of that capital should be clearly identified and firm commitments put in place prior to the Board deciding whether or not to make an Application. The Board has considered several options for raising the required capital but the Board believes that none of these options is viable in the short-term (being the time before which the Company must decide whether or not to make an Application) and accordingly these options are not feasible alternatives to the NAMA Participation.

The Board has evaluated the following options for raising the necessary capital:

- *asset disposals.* The Company has a number of attractive assets that could be sold. However, the sale of one or more of these assets may not be sufficient to address the challenges currently facing AIB and would not be achievable in the timeframe required, unless such sales were at a discount to market value or on other terms that would not be attractive to AIB or its Shareholders;
- *an investment in the Company by a strategic investor.* A strategic investment would be highly unlikely to occur until AIB is able to demonstrate greater clarity on the expected potential levels of loan loss provisions associated with its NAMA Assets and this would not be achievable in the required timeframe;
- *a capital raising from Shareholders and/or new investors.* The uncertainty surrounding the Group's future financial performance and potential levels of loan loss provisions associated with its NAMA Assets would make any capital raising very challenging. In addition, the Board believes that if the Group does not participate in the NAMA Programme, AIB is unlikely to be able to successfully raise additional capital without the participation of, and continued reliance by AIB on, the Government; and

- *the sale by the Group of the NAMA Assets other than to NAMA.* The Board believes that, particularly due to the lack of liquidity for the NAMA Assets, there are no mechanisms presently available to the Group to remove all of its expected NAMA Assets from its balance sheet other than by the NAMA Participation.

The Board accordingly believes that, if the Group does not participate in the NAMA Programme, there are no viable alternatives for raising the required capital that could be put in place prior to the time before which the Company must decide whether or not to make an Application. If the Group does not participate in the NAMA Programme, there is a very significant risk that AIB will have to rely, to a greater extent, on Government support to raise the required capital and sustain its business. The terms of this support would be likely to result in partial or full nationalisation of AIB.

4 The material terms of the NAMA Programme

The NAMA Act is structured so that it requires a participant that wishes to apply to join the NAMA Programme to do so at a point when it will not have certainty on several important aspects of the NAMA Programme, as described in section 5 below. Further details on the NAMA Programme are set out in sections 1 and 2 of Appendix I to this letter, but the material terms of the NAMA Programme can be summarised as follows:

4.1 Application

To participate in the NAMA Programme, the Company must apply to the Minister within 60 days of the date of the establishment of NAMA. The Company's Application may not be conditional on matters beyond the Company's control, and Shareholders' approval of the NAMA Resolution must accordingly be obtained prior to making that Application. An Application, once made, will include the entire Group and will oblige AIB to proceed with the NAMA Participation on the terms specified in the NAMA Act if the Minister accepts AIB's Application. In making the Application, AIB will be entitled to request that certain subsidiaries be excluded from the NAMA Participation and, in deciding whether to designate AIB as a participating institution, the Minister will also determine whether those subsidiaries should be excluded.

Following the making of an Application, the Minister, after consultation with the Governor of the Central Bank and the Financial Regulator, may designate AIB as a participating institution. Upon designation, AIB will participate in the NAMA Programme on the terms set out in the NAMA Act and in applicable regulations made by the Minister (including the Eligible Bank Assets Regulations and the Valuation Regulations, currently in draft form).

4.2 Eligible bank assets

NAMA may acquire "eligible bank assets" (the NAMA Assets) from AIB. The term "eligible bank assets" is defined in the NAMA Act by reference to regulations to be issued by the Minister. The Eligible Bank Assets Regulations, in accordance with parameters set by the NAMA Act, prescribe several categories of bank assets for those purposes. Those categories include credit facilities provided to a debtor for the purpose of purchasing development land, and credit facilities made available to an associated debtor of a debtor to whom the participating institution has provided credit facilities for the purpose of purchasing development land. Further details relating to AIB's expected NAMA Assets are set out in section 5 below and in Appendix I to this letter.

If AIB is of the opinion that any of its bank assets is not eligible as a NAMA Asset, it may object to its acquisition by NAMA. In the event of a dispute between NAMA and AIB in relation to the qualification of an asset as a NAMA Asset, each party is entitled to make representations to an expert reviewer appointed by the Minister. The expert reviewer will advise the Minister of his or her opinion as to whether the disputed bank asset is a NAMA Asset and the Minister will, in accordance with the advice of the expert reviewer, either confirm that the asset may be acquired or direct NAMA not to acquire it.

4.3 Completion of acquisitions

Once the NAMA Assets have been identified by regulations made by the Minister under the NAMA Act (such as the Eligible Bank Assets Regulations), NAMA must inform the Company which of AIB's identified NAMA Assets it proposes to acquire. That identification will be by means of an Acquisition Schedule to be served on AIB by NAMA that will specify, among other things, the Selected NAMA Assets, the Purchase Price (and the method of its calculation) and the date of acquisition. NAMA is entitled to serve multiple Acquisition Schedules on AIB and the Selected NAMA Assets may accordingly transfer to NAMA in a number of tranches.

4.4 Valuation

NAMA will determine the value of each NAMA Asset on a loan-by-loan basis, using the valuation methodology specified in the NAMA Act and in the Valuation Regulations. The NAMA Act distinguishes between what can be termed a “Bank Asset”, which includes a credit facility and every other asset other than what can be termed a “Property Asset”. A “Property Asset” means any asset that is the subject of security for a credit facility that is a Bank Asset. Either a Bank Asset or a Property Asset may be a NAMA Asset, but different rules govern how Bank Assets and Property Assets will be valued.

Generally, the acquisition value of a NAMA Asset will be its long-term economic value as determined by NAMA, calculated, in the case of a Bank Asset, on the basis of the net present value methodology in accordance with any regulations made by the Minister (including the Valuation Regulations, if prescribed by the Minister); the Minister may make regulations requiring the use of the net present value methodology in respect of Property Assets also. However, NAMA may determine that a particular NAMA Asset should have an acquisition value equal to its market value or a value between its long-term economic value and its market value that NAMA considers appropriate in the circumstances. In making its decision, NAMA must have regard to certain prescribed matters, referred to below. AIB will have a limited entitlement to seek a review of the valuation determined by NAMA.

The Minister may specify discount rates to be applied to a valuation of a NAMA Asset to reflect NAMA’s cost of funds, a risk-reflective margin to the Government and to reflect enforcement, due diligence and other relevant costs incurred or likely to be incurred by NAMA over its lifetime in the discharge of its functions. The draft Valuation Regulations specify a standard discount rate of three per cent. for this purpose.

(i) Long-term economic value

In determining the long-term economic value of a NAMA Asset, NAMA will seek to determine the price that the NAMA Asset could reasonably be expected to attain in a stable financial system when the current economic conditions have ameliorated. The long-term economic value of a Bank Asset will be calculated on the basis of the net present value methodology and the Minister may make regulations requiring the same methodology to be used in respect of Property Assets. The exact method of valuation will depend upon whether a NAMA Asset is classified as a “Bank Asset” or a “Property Asset”, within the meaning of the NAMA Act.

(a) Bank Assets

When NAMA is calculating the long-term economic value of a Bank Asset, the draft Valuation Regulations will, if prescribed:

- specify a standard discount rate to provide for certain costs that NAMA is likely to incur over its lifetime (such as enforcement costs);
- in the case of a Bank Asset for which the security is land, require NAMA to take into account projected cash flows (using a prescribed discount rate) over various periods of time, according to different characteristics of the relevant asset; and
- in the case of every Bank Asset, permit NAMA to take into account any of a range of factors, such as the net present value of the anticipated income stream associated with Bank Assets of the same kind as the Bank Asset concerned.

Further information on the assessment of the long-term economic value of Bank Assets is set out in section 2.2.1 of Appendix I to this letter.

(b) Property Assets

The long-term economic value assigned to a Property Asset depends on whether or not the Property Asset is land.

(A) Land

In calculating the long-term economic value or the market value of land, NAMA may be required to take into account prescribed matters, which may include certain adjustment factors. The relevant factors vary according to whether or not the land is located in Ireland.

NAMA may determine an adjustment factor by reference to a range of factors (as summarised in section 2.2.2(i)(a) in Appendix I to this letter), which differ according to whether the land is located in Ireland or outside Ireland. However, in no circumstances:

- may the long-term economic value of a parcel of land exceed its market value by more than 25 per cent.; or
- may the aggregate of the long-term economic values of all land valued in connection with the acquired portfolio of a participating institution exceed the aggregate of the market values of that land by more than 20 per cent.

NAMA may determine that, in respect of any particular class of property or parcel of land, the long-term economic value shall not exceed the market value.

(B) Property Assets other than land

For a Property Asset that is not land, no adjustment factor may be applied to the long-term economic value. Its long-term economic value will accordingly be its market value.

(ii) Market value

Where NAMA uses market value in determining the purchase price of a NAMA Asset, market value is deemed to be the estimated amount that would be paid by a willing buyer to a willing seller in an arm's length transaction after proper marketing, where appropriate, where both parties act knowledgeably, prudently and without compulsion.

In determining the market value of a NAMA Asset, NAMA may take into account, among other things, specified matters, such as the value the participating institution submits as being its opinion of the market value, the market value determined by NAMA in respect of other similar NAMA Assets and other prescribed matters. NAMA can specify the date or event by reference to which the market value of a NAMA Asset will be determined.

The valuation methodology governing the NAMA Participation is summarised in section 2 of Appendix I to this letter.

4.5 Consideration

The consideration for the Selected NAMA Assets will comprise the issue to AIB of NAMA Bonds and Subordinated NAMA Bonds in aggregate equal in value to the Purchase Price. AIB may use the NAMA Bonds to finance its ordinary business activities, including entering into liquidity-providing transactions with market counterparties, including the European Central Bank. In his speech delivered to the Dáil (the lower house of the Irish parliament) on 16 September 2009 (set out in Appendix IV to this letter), the Minister indicated that 95 per cent. of the purchase price for NAMA Assets will comprise NAMA Bonds and the remaining five per cent. will comprise the issue of Subordinated NAMA Bonds. A similar statement is also included in the NAMA Draft Business Plan. Under the NAMA Act, the total value of the Subordinated NAMA Bonds payable to AIB may not exceed five per cent. of the total Purchase Price payable to AIB.

4.6 Surcharge

If, on a winding-up of NAMA or after ten years since its establishment or on the dissolution, restructuring or material alteration of NAMA, NAMA has made a loss that the Minister believes is unlikely to be otherwise made good, the Oireachtas (the Irish parliament) may, at the request of the Minister, impose, as a special tax, a surcharge on the profits of a participating institution. The aggregate of all such surcharges would be capped at the actual loss incurred by NAMA and would be apportioned between participating institutions on the basis of the book value of the bank assets acquired by NAMA from each of them as a proportion of the total book value of the bank assets acquired from all participating institutions. No surcharge may become payable before the later of ten years after the passing of the NAMA Act and the date on which NAMA is dissolved or restructured or its functions are altered materially. Any surcharge imposed on AIB may not exceed 100 per cent. of the corporation tax, if any, due and payable by AIB in the relevant surcharge period.

4.7 Other terms and conditions

NAMA may specify the terms and conditions that are to apply generally to the acquisition of the NAMA Assets of AIB, including a requirement that AIB provides various warranties to NAMA, including warranties as to enforceability of security, good and marketable title, accuracy and completeness of information and other customary warranties. AIB may also be required to indemnify NAMA against various potential third-party claims against NAMA, including claims arising from errors, omissions or misstatements that may have been made by or on

behalf of AIB, and redundancy and other employment-related disputes arising from a transfer of any Selected NAMA Asset or the enforcement of any security concerning the Selected NAMA Assets and other matters.

It is expressly provided in the NAMA Draft Business Plan that participating institutions will continue to conduct routine loan administration work in respect of Selected NAMA Assets. However, NAMA may terminate any such servicing arrangement if it wishes.

Shareholders are advised to also read sections 1 and 2 of Appendix I to this letter, as they contain important further details on the terms of the NAMA Programme and on the valuation methodology to be used in determining the Purchase Price.

5 The NAMA Assets

5.1 Overview

Shareholders should note that the extent of AIB's NAMA Assets that may be acquired by NAMA will be determined by the NAMA Act and the Eligible Bank Assets Regulations and it may be different to the estimated figure referred to below being, in AIB's view, its likely NAMA Assets. Accordingly, it should be noted that the NAMA Resolution (if passed) will authorise the Company to proceed with the NAMA Participation on the terms contained in the NAMA Act. This section contains AIB's assessment of its likely NAMA Assets, based on a number of assumptions.

The following assessment by AIB of the likely value of its NAMA Assets is based on:

- the Assumptions;
- the work undertaken by the Company in response to a request made by the interim NAMA management to provide NAMA with details in respect of certain of the Group's bank assets; and
- certain parts of the speech delivered by the Minister for Finance to the Dáil (the lower house of the Irish parliament) on 16 September 2009 (included in Appendix IV to this letter).

The NAMA Act is structured to require a participant that wishes to apply to join the NAMA Programme to do so at a point when it will not have certainty on: (i) precisely which of its NAMA Assets will be acquired by NAMA; (ii) the number of its assets to be acquired by NAMA; (iii) the price at which its NAMA Assets will be acquired by NAMA; and (iv) the timing of the transfer of its NAMA Assets to NAMA.

As a result of the acquisition framework specified in the NAMA Act, the NAMA Programme could encompass a very significant portion of AIB's loan book at values which have not yet been determined. However, on the basis of statements made by the Minister, statements in the NAMA Draft Business Plan, the Assumptions and the work carried out by AIB in relation to the potential scope of the NAMA Programme insofar as it concerns AIB, the Company estimates that NAMA will acquire from AIB certain land and development loans and certain Associated Loans with a value of approximately €24.2 billion on a gross loan basis (i.e. before taking account of €2.3 billion of loan loss provisions as at 30 June 2009). The Board has noted the public guidance provided by the Minister in relation to the value at which NAMA Assets will be acquired and that an average industry discount of 30 per cent. to the gross value of the NAMA Assets has been estimated, although there can be no assurance that this will be the case. In the Board's view, there is no reason to believe that the average discount applicable to AIB's NAMA Assets will fall significantly outside of this guidance.

AIB has endeavoured to ascertain which of its land and development loan assets and Associated Loans will be NAMA Assets. In forming its estimate of its likely NAMA Assets, AIB has taken the view that:

- only land and development loans recorded in Ireland, the United Kingdom, the United States and Canada will be transferred to NAMA;
- certain of AIB's other loans are excluded from its estimations on the basis that they do not meet the minimum financial eligibility threshold specified in the NAMA Draft Business Plan as being applicable to AIB, being land and development loans (and loans associated with those loans) of less than an aggregate value of €5.0 million per borrower; and
- in relation to the Company's land and development loans within the scope of the NAMA Programme, all Associated Loans should be included in order to calculate AIB's NAMA Assets.

5.2 Analysis of AIB's property and construction loan book as at 30 June 2009

Appendix II to this letter contains an analysis of the Company's estimated NAMA Assets in the context of its overall property and construction loan book. The following is a brief overview of that analysis, and explains how, based on a

property and construction loan book of €49.9 billion at 30 June 2009, the Company arrived at its estimated €24.2 billion of NAMA Assets, comprising €17.1 billion of land and development loans and €7.1 billion of Associated Loans.

As at 30 June 2009, the aggregate value of the Company's property and construction loan book amounted to €49.9 billion. Of this amount, approximately €25.1 billion of loans were classified by AIB as investment loans and approximately €1.8 billion were classified as loans to contractors and housing associations and, as they were not classified by AIB as land and development loans, AIB excluded them from its estimated NAMA Assets. The Company has also excluded from its estimates €1.3 billion of loans classified as land and development loans recorded in Central and Eastern Europe because they are recorded in the books of its Polish subsidiary, Bank Zachodni WBK S.A., in respect of which AIB intends to request from the Minister an exclusion from designation under the NAMA Act (together with a second subsidiary of AIB, AIB Bank (CI) Limited). As a result, AIB estimates that it has €21.7 billion of land and development loans in Ireland, the United Kingdom, the United States and Canada.

The Company has deducted the following loans from the €21.7 billion figure referred to above: (i) €0.5 billion of overdraft facilities; (ii) €0.4 billion of land and development loans which were recorded in the United States and Canada where the development phase has been completed; and (iii) €3.7 billion of land and development loans where the aggregate of loans to each borrower in the loan book is less than €5.0 million. As a result, AIB estimates it has €17.1 billion of land and development loans to customers of AIB that are eligible to become NAMA Assets. An additional €7.1 billion of AIB's loans are classified in AIB's loan book as associated with such loans to those customers (Associated Loans), resulting in an estimated gross loan value of AIB's NAMA Assets of €24.2 billion, before taking account of €2.3 billion of loan loss provisions as at 30 June 2009.

The method applied by AIB in compiling the figure of €7.1 billion of Associated Loans referred to above was to identify each borrower comprised in AIB's estimated €17.1 billion of land and development loans that the Company believes are eligible to become NAMA Assets. AIB then extracted details from its records of all non-land and non-development loans made by AIB to that borrower or its associates, based on the Company's credit management system. On the basis of that assessment, AIB classified €7.1 billion of its loans as "associated with" the borrowers of the estimated €17.1 billion of land and development loans that the Company believes are eligible to become NAMA Assets.

In addition to the gross loan balances of €24.2 billion referred to above, derivative instruments and accrued interest relating to those loans will form part of AIB's NAMA Assets that may transfer to NAMA. At 30 June 2009, the relevant accrued interest amounted to €27.0 million and the mark-to-market value of the relevant derivative instruments (principally comprising interest rate swaps, interest rate caps and interest rate floors) was €91.0 million.

Appendix III to this letter contains an analysis of the Company's estimated NAMA Assets on a geographic and on a loan category basis.

Based on the Assumptions and the other matters referred to under "Important Information" at the beginning of this document, AIB has estimated that NAMA Assets of the Group with a value of approximately €24.2 billion will be acquired by NAMA. The Company has no reason to believe that the quantum of NAMA Assets that would transfer to NAMA would be materially different from such estimated amount. The Company may seek to challenge the acquisition of eligible bank assets by NAMA in certain circumstances, for example where a bank asset has been recorded in a foreign jurisdiction where there are local law restrictions or disproportionate difficulties relating to the transfer of those assets to NAMA.

6 Financial effects of the NAMA Participation

Based on the Assumptions, AIB believes that, as a result of the NAMA Participation, NAMA will acquire from AIB NAMA Assets with a gross loan value of approximately €24.2 billion, before taking account of €2.3 billion of loan loss provisions as at 30 June 2009. As at 30 June 2009, those NAMA Assets (before taking account of provisions made to that date of €2.3 billion) represented approximately 17.0 per cent. of the Group's total loans and receivables to customers of €129.0 billion and approximately 12.2 per cent. of its total assets of €179.5 billion. AIB understands that prior to 31 January 2010 NAMA intends to acquire land and development loans and associated loans relating to the largest ten borrowers in Ireland from the participating institutions, which are estimated to amount to approximately €3.8 billion for AIB, €2.9 billion of which were in respect of performing loans and €0.9 billion of which were in respect of non-performing loans as at 30 September 2009.

Under current capital adequacy regulations applicable to financial institutions in Ireland, AIB is obliged to maintain minimum capital ratios of four per cent. for tier 1 capital and eight per cent. for total capital. Those minimum capital levels are intended to ensure that the Group has sufficient capital to conduct its business. Core tier 1 capital, which

comprises part of tier 1 capital, is a measure used by debt and equity markets to assess the level of regulatory capital that a bank may require in order to absorb potential future losses. Based on the Assumptions, AIB has estimated that, on a pro forma basis as at 30 June 2009, the NAMA Participation would have had the following impact on its regulatory capital ratios if it had occurred in its entirety by that date.

	30 June 2009		Estimated Impact of NAMA Participation
	Actual	Pro forma (percentage)	
Core tier 1 capital	8.5	6.3	-2.2
Tier 1 ratio	7.8	6.1	-1.7
Total capital ratio	10.7	9.5	-1.2

Further information in relation to the potential financial impact of the NAMA Participation on the Continuing Group is set out in Part III (“*Unaudited Pro Forma Financial Information of the Continuing Group*”) of this document.

The global markets for short and medium term sources of funding on which banks rely to support their business activities remain constrained as a result of which support by the Minister to directly supplement existing sources of funding and create the environment for an improvement in the availability of other traditional sources of funding remains necessary. Due to dislocation and the uncertainty surrounding the implementation of new government schemes, the Irish Stock Exchange and the UK Listing Authority have agreed that a statement regarding the adequacy of working capital for at least the next 12 months should not be required in this document. There is, therefore, no working capital statement in this document.

7 Use of proceeds

The Board intends to use the NAMA Bonds and Subordinated NAMA Bonds received by AIB to increase its Qualifying Liquid Assets and Contingent Funding and as a source of further liquidity to support its business activities.

8 Summary of AIB’s relationship with the Government

The Government has acknowledged AIB’s systemic importance to the Irish economy in the context of the Credit Institutions (Financial Support) Scheme 2008 and by virtue of the €3.5 billion investment in the Company by the NPRFC in 2009. Under the CIFS Scheme, only systemically important credit institutions specified by order of the Minister are eligible to join that scheme. On 24 October 2008, the Minister, pursuant to the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008, specified AIB for this purpose.

In response to the decline in financial markets that began in 2008, the Government took steps to seek to reassure the markets of the stability of the Irish banking industry. These steps included: (i) the CIFS Scheme, announced in September 2008, under which the Minister guaranteed specific categories of liabilities of certain systemically important participating institutions (including AIB and certain of its subsidiaries) for a two-year period from 30 September 2008; and (ii) direct capital investments in some Irish financial institutions. On 13 May 2009, AIB issued €3.5 billion of preference shares and 294,251,819 warrants to subscribe for Ordinary Shares to the National Pensions Reserve Fund Commission.

In addition, the ELG Scheme was announced by the Minister in outline form on 16 September 2009. The proposed ELG Scheme is not yet in force and its terms remain in draft form. The proposed ELG Scheme is a Government-backed liability guarantee scheme to facilitate credit institutions in Ireland that wish to issue debt securities and take deposits with a maturity after September 2010 on either a guaranteed or unguaranteed basis. Liabilities under the proposed ELG Scheme must have maturities of no more than five years and must be incurred during the period from the commencement date of the ELG Scheme to 29 September 2010. Further details of the CIFS Scheme, the NPRFC Investment and the proposed ELG Scheme, and specifically the powers granted or proposed to be granted to the Minister and the Financial Regulator in respect of AIB under those two schemes and that investment, are contained in section 3 of Appendix I to this letter.

As a result of the financial support provided by the Government to the Company and the ongoing relationship between the Government and the Company, the Minister is treated as a “related party” of the Company under the Listing Rules. In addition, the NAMA Participation is treated as a “related party transaction” under the Listing Rules as it would be a transaction between an “associate” of the Minister (being NAMA) and AIB. The Listing Rules provide that, prior to a listed company entering into a related party transaction, the entry into the proposed transaction must be approved by its shareholders, with the related party refraining from exercising any voting entitlement it may have at the shareholder meeting held to approve the transaction. The NPRFC, which is regarded

as an “associate” of the Minister under the Listing Rules and which holds Ordinary Shares, has undertaken not to vote on the NAMA Resolution and to take all reasonable steps to ensure that its associates (if any) will not vote on the NAMA Resolution.

9 Current trends in trading and prospects

On 18 November 2009, AIB released an interim management statement which included an update of the Group’s business and key performance trends. A copy of that statement is set out in Appendix V to this letter.

10 AIB’s strategy

AIB’s business plan for 2009 and 2010 contains AIB’s strategy to provide a full range of high-quality and competitive financial services to customers in its chosen geographic markets. The plan was developed in the final quarter of 2008 against a considerably changed domestic and international economic environment and was updated and approved by the Board in early 2009 against a background of further deterioration in global economic and financial conditions.

The key objectives and directional focus of the Group over the period of the plan are to:

- manage the Group’s credit exposures in an active manner in order to minimise credit losses, while supporting customers in a manner consistent with prudent banking practice;
- reduce the Group’s dependence on wholesale funding markets by reducing its loan-to-deposit ratio through, among other things, deposit growth;
- ensure that the Group maintains adequate capital levels to properly support its business and to support economic activity in Ireland. In that regard, on 16 September 2009 the Group announced its intention to generate approximately €2.0 billion of capital over the following 12 to 18 months;
- support economic recovery in Ireland through the provision of mortgages to retail customers and credit to small and medium-sized enterprises; and
- facilitate competition through competitive pricing and the provision of comprehensive information to customers relating to AIB’s products and services.

The objectives of AIB’s business plan for 2009 and 2010 are supplemented by AIB’s EU restructuring plan that the Government was required to submit to the European Commission arising from the NPRFC Investment.

11 EU restructuring plan

The financial support provided or proposed to be provided by the Government to the Company under the CIFS Scheme, the NPRFC Investment, the ELG Scheme and the NAMA Programme has been, is and will be subject to review by the European Commission under EU state aid rules. The Government has submitted a restructuring plan (which was prepared by the Company) to the European Commission arising out of the NPRFC Investment that took place on 13 May 2009 and the review of that plan by the European Commission is currently at a preliminary stage. The outcome of that review is uncertain and may be adverse to the Group’s interests.

The restructuring plan is a five-year plan that is intended to ensure the long-term viability of the Group and that complements AIB’s key objectives to develop its business model in a manner that reduces risk across the Group’s various businesses.

Further information relating to the restructuring plan and its review by the European Commission is set out in Part II (“*Risk Factors*”) of this document.

The relevant European Commission guidelines provide that restructuring plans for government-aided banks are to be assessed by reference to fundamental principles, including:

- *viability*: banks must be independently viable in the long term;
- *burden-sharing*: banks, their shareholders and investors should carry an adequate share of the burden of the restructuring by contributing to that restructuring as much as possible with their own resources. AIB is considering a request by the European Commission, in line with its guidelines, not to pay the discretionary coupons on certain hybrid capital instruments, which would trigger provisions to preclude AIB from declaring and paying any distribution or dividend on its Ordinary Shares, the 2009 Preference Shares or certain of the Group’s other securities for one year from the date that the coupon was not paid. The non-payment of the annual

discretionary dividend payable on 13 May 2010 on the 2009 Preference Shares would require AIB to issue Shares to the NPRFC in lieu of the cash dividend; and

- *competition*: measures must be taken to minimise distortions of competition.

12 Further information

Your attention is drawn to the further information contained in Parts II (“*Risk Factors*”) to V (“*Additional Information*”) of this document and, in particular, to the Risk Factors in Part II of this document. Shareholders should read the whole of this document and should not rely solely on the information set out in this letter.

13 Extraordinary General Meeting

An Extraordinary General Meeting is being convened by the EGM Notice set out at the end of this document to consider and, if thought fit, pass the Resolutions. The Extraordinary General Meeting will take place at 11.00 a.m. on 23 December 2009 in Bankcentre, Ballsbridge, Dublin 4.

Two resolutions will be proposed at the Extraordinary General Meeting. The first resolution will be proposed as an ordinary resolution and concerns the approval required to enable AIB to participate in the NAMA Programme. An ordinary resolution requires the approval of a majority of those Shareholders present and voting (in person or by proxy) at the meeting in order to be passed. The second resolution, which will be proposed as a special resolution, is not related to the NAMA Participation and will, if approved, enable the Company to convene certain meetings of Shareholders on 14 days’ notice. A special resolution requires the approval of at least 75 per cent. of those Shareholders present and voting (in person or by proxy) at the meeting in order to be passed.

13.1 NAMA Resolution

The NAMA Participation is conditional upon the approval of the NAMA Resolution by Shareholders and the making of a successful Application by AIB. The NAMA Resolution authorises the Company to proceed with the NAMA Participation on the terms contained in the NAMA Act. In particular, it is proposed that the NAMA Resolution, if passed, will authorise the Directors to:

- make an application in accordance with the NAMA Act on behalf of the Group to the Minister to be designated as a participating institution under the NAMA Act and to request the exclusion of any subsidiaries from the NAMA Programme;
- procure that the Group complies with any direction, request, guideline or instruction given to it by the Minister, NAMA or a NAMA Group Entity in accordance with the NAMA Act;
- procure that the Group complies with such terms and conditions in relation to the acquisition by NAMA of any assets of the Group as the Minister or NAMA may specify, including the giving by the Group of such representations, warranties and assurances as are requested by the Minister or NAMA;
- object to the proposed acquisition of any asset of the Group by NAMA and to dispute the valuation placed by NAMA on any asset of the Group, as they think fit;
- procure that the Group performs such services in connection with a Selected NAMA Asset as it is directed or requested to perform by NAMA or a NAMA Group Entity;
- indemnify NAMA and any other person specified in the NAMA Act against any loss or liability arising from, or in respect of, any matter or thing;
- make such disclosures in respect of information or records of the Group and its assets and liabilities as it may be required or permitted to disclose pursuant to the NAMA Act;
- procure that the Group complies with every direction given by the Financial Regulator under Part 12 of the NAMA Act (“*Conduct of Participating Institutions*”); and
- procure that the Group complies with every obligation to which the Company or any of its subsidiaries becomes subject by virtue of the Company being a participating institution under the NAMA Act.

In order for the Company to submit an unconditional Application to the Minister, the NAMA Resolution must be approved by Shareholders at the Extraordinary General Meeting on 23 December 2009. If Shareholders approve the NAMA Resolution and AIB elects to apply to participate in the NAMA Programme, its Application, if accepted by the Minister, would be irrevocable and would oblige AIB to proceed with the NAMA Programme. The NAMA Resolution is seeking approval from Shareholders generally to participate in the NAMA Programme. Shareholders should therefore note that AIB will not be seeking any further approval from Shareholders to participate in the NAMA Programme or in respect of the acquisition of any of the Selected NAMA Assets by NAMA.

Due to the size of the NAMA Participation relative to AIB's market capitalisation, the NAMA Participation constitutes a "Class 1 transaction" under the Listing Rules, as it is estimated by the Company that NAMA will acquire NAMA Assets from AIB with a gross loan value of approximately €24.2 billion (i.e. before taking account of €2.3 billion of loan loss provisions as at 30 June 2009) based on the Assumptions and AIB's market capitalisation at 27 November 2009 (being the latest practicable date prior to the date of this document) being approximately €1.4 billion. As the NAMA Participation is a Class 1 transaction, the Listing Rules require that the NAMA Participation may only be implemented if it is approved by Shareholders. In addition, the NAMA Participation is considered to be a "related party transaction" for AIB for the purposes of the Listing Rules. The Minister is not a Shareholder and he is accordingly not entitled to vote at the Extraordinary General Meeting. The NPRFC, which is regarded as an "associate" of the Minister under the Listing Rules and which holds Ordinary Shares, has undertaken not to vote on the NAMA Resolution.

13.2 Second Resolution

The Second Resolution, which is not related to the NAMA Act, is being proposed at the Extraordinary General Meeting because of recent changes made to Section 133 of the Companies Act 1963 by the implementation in Ireland of the EU Shareholders' Rights Directive in August 2009. Those changes to the Companies Act 1963 increased the standard notice period for general meetings of the Company to 21 days, which is currently, and will continue to be, the notice period that is applicable to an annual general meeting of the Company or a general meeting to consider a special resolution (being a resolution which requires at least a 75 per cent. majority vote of those attending the meeting in person or by proxy, not a simple majority, in order to be passed). To the extent that the Minister and any of his associates currently hold Ordinary Shares, he (and, if relevant, those associates) will be entitled to vote on the Second Resolution, as the matters contemplated by the Second Resolution are not considered to be a "related party transaction".

Prior to the implementation of the EU Shareholders' Rights Directive, AIB was able to convene any meeting of Shareholders (except its annual general meeting or a meeting to consider a special resolution) on 14 days' notice. Section 133 of the Companies Act 1963 (as amended) now envisages that, on an annual basis, a company may pass a resolution, such as the Second Resolution, in order to preserve its ability to utilise, where appropriate, that shorter notice period. The Directors consider that it is in the interests of the Company to retain that flexibility, and the Second Resolution seeks that approval. If passed, the approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

You will find set out at the end of this document a notice convening the Extraordinary General Meeting, to be held at Bankcentre, Ballsbridge, Dublin 4 at 11.00 a.m. on 23 December 2009, at which the Resolutions will be proposed.

14 Action to be taken

You will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the Extraordinary General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by Computershare Investor Services, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland by no later than 11.00 a.m. on 21 December 2009. The return of a Form of Proxy will not prevent you from attending the meeting, or any adjournment thereof, and voting in person if you wish to do so.

Electronic proxy appointment is available for the Extraordinary General Meeting. The facility enables a Shareholder to lodge its proxy appointment by electronic means by logging on to the website of the Registrar, Computershare Investor Services Limited: www.computershare.com/ie/voting/aib. Additionally, for those who hold Shares in CREST, a Shareholder may appoint a proxy by completing and transmitting a CREST proxy instruction to Computershare Investor Services Limited (CREST participant ID 3RA50). In each case, the proxy appointment must be received by no later than 11.00 a.m. on 21 December 2009. The completion and return of either an electronic proxy appointment notification or a CREST proxy instruction (as the case may be) by a Shareholder will not prevent the Shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should the Shareholder wish to do so.

Voting at the Extraordinary General Meeting in respect of the Resolutions will be conducted by way of a poll. That means that Shareholders who attend the meeting, as well as those who are not able to attend but have returned a Form of Proxy, may have their votes taken into account according to the number of shares they hold. The Directors believe it is important that the intentions of all members who register a vote are fully taken into account. Voting on a poll is more transparent and equitable, since it allows the votes of all Shareholders who wish to vote to be taken into account and it reflects evolving best practice. Shareholders who attend the meeting in person will be able to ask questions relevant to the business of the meeting prior to voting on the Resolutions and will be entitled to receive an answer to each question raised at the meeting, subject to certain exceptions as specified in note 15 to the EGM Notice enclosed with this document.

15 Importance of, and the implications of not voting in favour of, the NAMA Resolution

In order for the NAMA Participation to proceed, the NAMA Resolution must be passed by Shareholders at the Extraordinary General Meeting to be held at 11.00 a.m. on 23 December 2009 at Bankcentre, Ballsbridge, Dublin 4.

If the NAMA Resolution is not approved by Shareholders, AIB would be unable to proceed with the NAMA Participation. In those circumstances, AIB would need to assess its strategic and operational position and would be required to find alternative methods to reduce the current significant uncertainties facing the business and to find alternative ways in which it could rebuild confidence in AIB in order to improve its access to capital and wholesale funding markets. These alternatives may not be readily available.

The inability of AIB to complete the NAMA Participation could have the following adverse consequences for AIB and its Shareholders:

- **AIB's efforts to restore and sustain the stability of its business on a long-term basis could be significantly restricted;**
- **AIB would continue to be exposed to higher potential losses over a longer period on its NAMA Assets. Due to the nature of the underlying security of its NAMA Assets, the eventual loan loss provisions on AIB's NAMA Assets are uncertain and will depend on macroeconomic conditions in Ireland, the United Kingdom and the United States, as well as recovery in the underlying property markets in such jurisdictions;**
- **AIB would not benefit from the positive impact of the NAMA Participation on the Group's leverage and increased liquidity that the NAMA Bonds will provide;**
- **due to the greater level of risk and uncertainty that would result from not participating in the NAMA Programme, the confidence of wholesale funding and capital markets in AIB would be likely to further decrease. This undermining of confidence would restrict AIB's ability to access wholesale funding, with negative consequences for the quantum, duration and cost of any such funding;**
- **greater levels of risk and uncertainty might increase capital markets' expectation of the appropriate level of capital that AIB should maintain. AIB's ability to access this increased level of capital might be significantly affected as a result; and**
- **the Board believes, if the NAMA Resolution is not approved by Shareholders, it would not be possible to put in place the necessary levels of capital that would be expected by the market or funding commitments in an acceptable time period to support and reinforce confidence in AIB and, therefore, there is a very significant risk that AIB will have to rely, to a greater extent, on Government support to sustain its business. The terms of this support are likely to result in partial or full nationalisation of AIB.**

Shareholders are reminded of the importance of the information contained in sections 3, 4, 5 and 6 of this letter.

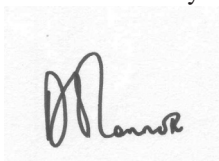
16 Recommendation

The Board, which has been so advised by Morgan Stanley, considers the NAMA Participation to be fair and reasonable so far as Shareholders are concerned. In providing its advice, Morgan Stanley has taken into account the Board's commercial assessments. The two Directors appointed by the Government, Mr Declan Collier and Mr Dick Spring, have not taken part in the Board's consideration of the NAMA Participation.

In addition, the Board considers that the NAMA Participation and the Resolutions are in the best interest of Shareholders taken as a whole.

Accordingly, the Board recommends that Shareholders vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, as they intend to do, or procure, in respect of their own beneficial holdings, amounting to approximately 1,077,865 Ordinary Shares, representing approximately 0.12 per cent. of the Ordinary Shares in issue as at 27 November 2009 (being the latest practicable date prior to the publication of this document). The NPRFC has undertaken not to vote on the NAMA Resolution and to take all reasonable steps to ensure that its associates (if any) will not vote on the NAMA Resolution.

Yours sincerely



Dan O'Connor
Executive Chairman

30 November 2009

**APPENDICES TO THE LETTER FROM DAN O’CONNOR, EXECUTIVE CHAIRMAN OF
ALLIED IRISH BANKS, p.l.c.**

**Appendix I
The NAMA Participation**

1 The material terms of the NAMA Programme and related guidance

The terms of the NAMA Participation are contained in the NAMA Act and the regulations to be published under that Act. In addition to a summary of the terms of the NAMA Participation, the Executive Chairman’s letter and this Appendix I contain some information from announcements made by the Minister and from the NAMA Draft Business Plan that provides some general guidance concerning the likely application of the terms of the NAMA Act. That information is merely a preliminary indication and, accordingly, is subject to change.

NAMA is to be a body corporate with perpetual succession that is to be established by the NAMA Act to perform the functions assigned to it by that Act. Except where otherwise provided by the NAMA Act, it is to be independent in its performance of its functions under the NAMA Act. NAMA will be required to comply with directions given to it by the Minister under the NAMA Act. Its board of directors is to consist of seven persons appointed by the Minister, together with the chief executive officer of NAMA and the chief executive of the NTMA.

The NAMA Participation comprises the following principal elements:

1.1 Application and designation

To participate in the NAMA Programme, the Company must apply to the Minister within 60 days of the date of establishment of NAMA. Shareholder approval of the NAMA Resolution must be obtained prior to making an Application to the Minister, as an Application may not be conditional on matters beyond the Company’s control. An Application, once made, will include the entire Group and will oblige AIB to proceed with the NAMA Participation if the Minister accepts AIB’s Application. All of AIB’s subsidiaries must be included in the Application, although AIB may apply to the Minister to exclude particular subsidiaries. In deciding whether to designate AIB as a participating institution, the Minister will also determine whether any of those subsidiaries should be excluded. If the NAMA Resolution is passed, the Company intends to apply to the Minister to be designated as a participating institution (in respect of the Group) and intends to apply, as permitted by the NAMA Act, to request that subsidiaries be excluded. The Company intends to request from the Minister an exclusion from designation under the NAMA Act of certain of its subsidiaries on various grounds, including those where there would be local law restrictions or disproportionate difficulties in transferring their bank assets to NAMA or because they are not wholly-owned subsidiaries of AIB. Those subsidiaries include Bank Zachodni WBK S.A. and AIB Bank (CI) Limited.

Following the making of an Application, the Minister, after consultation with the Governor of the Central Bank and the Financial Regulator, may designate AIB as a participating institution. The Minister may not make such designation unless he is satisfied that AIB is systemically important to the financial system in Ireland and that the acquisition of AIB’s NAMA Assets is necessary to achieve the purposes of the NAMA Act, having regard to a number of factors. Upon designation, AIB will participate in the NAMA Programme on the terms set out in the NAMA Act and in applicable regulations of the Minister (including the Eligible Bank Assets Regulations and the Valuation Regulations).

1.2 Prescription of NAMA Assets

1.2.1 Provisions of the NAMA Act

The NAMA Act provides for the acquisition by NAMA from participating institutions of “eligible bank assets” (being those classes of bank assets that are prescribed by the Minister by regulation (including the Eligible Bank Assets Regulations) and defined in this document as “NAMA Assets”), including performing and non-performing eligible bank assets. The definition of “bank assets” in the NAMA Act includes a credit facility, any security relating to a credit facility and every other asset owned by a participating institution. Further information on the Eligible Bank Assets Regulations is set out in section 1.2.2 below (“Regulations made under the NAMA Act”).

The NAMA Act provides that the NAMA Assets may include loans made for the purpose, in whole or in part, of purchasing, exploiting or developing development land, loans associated with those loans and loans the security for which is or includes development land or an interest in a company engaged in that business. In addition: (i) loans to debtors where the total amount of loans made to that debtor or associated debtors by AIB is such that, in the opinion of the Minister, acquisition of those loans by NAMA is necessary for the purposes of the NAMA Act; and (ii) any other class of bank asset which, in the Minister’s opinion, is necessary for the purposes of the NAMA Act, may be prescribed by the Minister as a NAMA Asset.

1.2.2 Regulations made under the NAMA Act

The draft Eligible Bank Assets Regulations prescribe many classes of bank assets, and several sub-classes, that are to be NAMA Assets. They include:

- credit facilities provided by a participating institution to (a) a debtor for the purpose of purchasing or developing development land, (b) a debtor for any purpose, where the security connected with the credit facility includes development land or an interest in a body corporate that is engaged in developing development land and (c) a debtor for any purpose where the credit facility is guaranteed by such a body corporate that is engaged in developing development land;
- credit facilities provided to an associated debtor of a debtor to which or to whom credit facilities have been provided for the purpose of exploiting development land;
- credit facilities (other than credit cards) provided, for any purpose, to a debtor to which or to whom credit facilities have been provided for the purpose of exploiting development land; and
- financial contracts that relate to any of the preceding bank assets.

The Minister may make further regulations that prescribe additional NAMA Assets.

1.2.3 Related guidance

Loans made by AIB after 31 December 2008 cannot be transferred to NAMA. If, in NAMA's opinion, a loan was made on or prior to 31 December 2008, it may be transferred to NAMA even if it was renegotiated or refinanced after that date.

1.3 Identification of NAMA Assets

NAMA may direct AIB to provide information about each of its bank assets that may be a NAMA Asset. In addition, NAMA may direct AIB's senior management to certify the accuracy and completeness of the information supplied by the Company. AIB is obliged to disclose to NAMA, in good faith, all relevant material information about each bank asset.

If AIB is of the opinion that any of its bank assets is not eligible as a NAMA Asset, it may object to its acquisition by NAMA. In the event of a dispute between NAMA and AIB in relation to the status of an asset as a NAMA Asset, both parties are entitled to make representations to an expert reviewer appointed by the Minister. The expert reviewer will advise the Minister of his or her opinion as to whether the disputed bank asset is a NAMA Asset and the Minister will, in accordance with the advice of the expert reviewer, either confirm that the asset may be acquired or direct NAMA not to acquire it.

1.4 Calculation of Purchase Price

1.4.1 Provisions of the NAMA Act

NAMA will determine the value of each NAMA Asset on a loan-by-loan basis, by using the valuation methodology specified in the NAMA Act and in the Valuation Regulations. The valuation methodology will take into account the current market value and/or the long-term economic value of each NAMA Asset to be acquired by NAMA. The valuation framework must comply with EU state aid guidance and is accordingly subject to the European Commission's approval. AIB will have a limited entitlement to seek a review of the valuation determined by NAMA.

Details of the valuation methodology and the nature and extent of the valuation appeal process are contained in section 2 below.

1.4.2 Related guidance

In his statement of 16 September 2009, the Minister estimated that an average industry-wide discount of 30 per cent. to gross value for NAMA Assets to be acquired by NAMA would be applied in valuing NAMA Assets. However, the discount applicable to the specific NAMA Assets to be acquired from AIB will not be known until such time as each loan has been individually valued by NAMA and that valuation has been served on AIB by NAMA as part of an Acquisition Schedule (subject to the Company's limited right of review). An Acquisition Schedule will be subject to change (as mentioned in section 1.5 below).

1.5 Acquisition of Selected NAMA Assets

NAMA will identify the NAMA Assets of AIB that it proposes to acquire. When NAMA has identified the relevant assets and has determined the Purchase Price, NAMA will acquire the Selected NAMA Assets by serving on AIB an Acquisition Schedule identifying, amongst other matters, the Selected NAMA Assets, the Purchase Price (and the method of its calculation) and the date of acquisition. NAMA may serve multiple Acquisition Schedules on AIB.

Before the acquisition date specified in an Acquisition Schedule, NAMA may revoke or amend that Acquisition Schedule in any way.

The service of an Acquisition Schedule on AIB by NAMA will operate to effect the acquisition by NAMA of the Selected NAMA Assets of AIB on the date specified in the Acquisition Schedule, notwithstanding the existence of any legal (including contractual) or equitable restrictions on the acquisition of the NAMA Asset or any requirement for a consent, notification, authorisation or licence to transfer such NAMA Asset. If the law governing a foreign NAMA Asset does not permit the transfer or assignment of such an asset by means of the service of an Acquisition Schedule on AIB, the NAMA Act will require AIB to do all that it is permitted to do under that foreign law to assign to NAMA the greatest interest possible in that foreign NAMA Asset and AIB will be required to hold that NAMA Asset for the benefit of and at the direction of NAMA.

After NAMA acquires a Selected NAMA Asset, it will in the place of AIB have all the rights and powers (and may also be subject to some or all of the obligations) that AIB had in relation to that Selected NAMA Asset prior to the acquisition.

In identifying Selected NAMA Assets, the NAMA Act provides that NAMA may either acquire those assets itself or, alternatively, nominate a NAMA Group Entity as the entity that is to acquire those assets.

NAMA will have three options in relation to the Selected NAMA Assets: (i) to dispose of them at an early stage; (ii) to hold them with a view to disposing of them when market conditions improve; or (iii) to develop them to enhance the return. The overall objective of NAMA is to function as a commercial entity to achieve optimal return, whilst acting in the best interests of the Irish taxpayer.

1.6 Completion of acquisition

1.6.1 Provisions of the NAMA Act

The consideration for the Selected NAMA Assets will comprise the issue to AIB of NAMA Bonds by the Minister or NAMA (whose NAMA Bonds may be guaranteed by the Minister) and Subordinated NAMA Bonds by NAMA, equal in value to the Purchase Price. AIB intends to retain those debt securities and may use them (excluding any portion of them that are in the form of Subordinated NAMA Bonds) to finance its ordinary business activities, including entering into liquidity-providing transactions with market counterparties, including the European Central Bank.

If, on a winding-up of NAMA or after ten years since its establishment or on the dissolution, restructuring or material alteration of NAMA, NAMA makes a loss that the Minister believes is unlikely to be otherwise made good, the Oireachtas (the Irish parliament) may, at the request of the Minister, impose, as a special tax, a surcharge on the profits of a participating institution. The aggregate of all such surcharges may not exceed the actual loss incurred by NAMA and would be apportioned between participating institutions on the basis of the book value of the bank assets acquired from each institution as a proportion of the total book value of the bank assets acquired from all participating institutions. No surcharge may become payable before the later of ten years after the passing of the NAMA Act and the date on which NAMA is dissolved or restructured or its functions are altered materially. Any surcharge imposed on AIB may not exceed 100 per cent. of the corporation tax (if any) due and payable by AIB in the relevant surcharge period.

On the date specified in an Acquisition Schedule, the Selected NAMA Assets will transfer to NAMA by operation of law and NAMA must pay the Purchase Price to AIB. The Purchase Price will comprise both NAMA Bonds and Subordinated NAMA Bonds. The terms and conditions of the Subordinated NAMA Bonds may be referenced to the financial performance of NAMA in totality but not to any part or parts of the Selected NAMA Assets. In addition, those Subordinated NAMA Bonds may not exceed five per cent. of the total Purchase Price payable to AIB for all of its Selected NAMA Assets.

1.6.2 Related guidance

In his statement of 16 September 2009, the Minister indicated that 95 per cent. of the Purchase Price will comprise NAMA Bonds and the remaining five per cent. will comprise Subordinated NAMA Bonds.

1.7 General provisions

If AIB applies to participate in the NAMA Programme, AIB will, from the date of that Application:

- be obliged to act in relation to its NAMA Assets in good faith, having regard to the purposes of the NAMA Act, and to administer, service and deal with its NAMA Assets as would a prudent lender acting reasonably; and
- require the prior written approval of NAMA to do the following: (i) deal with any of its NAMA Assets otherwise than in the ordinary course of its business or in such a way as to prejudice or impair NAMA's prospective interests or priorities in relation to the relevant NAMA Asset; (ii) deal with any claim that the Company may

have if doing so could reduce, lessen or impair any security or right in respect of that NAMA Asset; or
(iii) amend or vary any contract relating to a NAMA Asset unless contractually obliged to do so.

Once the Minister designates AIB as a participating institution, it will require the prior written approval of NAMA to do any of those same prescribed matters and, in addition, will be prohibited from making any change to a NAMA Asset that has been included in an Acquisition Schedule that has been served on the Company.

Following its acquisition of a Selected NAMA Asset from AIB, NAMA may direct AIB to deal in a specified way with any part of that Selected NAMA Asset that is not acquired by NAMA.

The NAMA Act also:

- empowers the Financial Regulator (with the approval of the Minister) to give certain directions to AIB, such as to restrict the Group's balance sheet growth, to reduce the Group's balance sheet, to restrict or require consolidation or merger with other participating financial institutions and to restrict its ability to acquire other credit institutions, in order to achieve the purposes of the NAMA Act;
- empowers the Minister (after consultation with the Governor of the Central Bank and the Financial Regulator) to direct AIB to prepare a restructuring plan and/or a business plan for the purposes of the NAMA Act and to implement the relevant plan(s); and
- empowers the Minister to issue guidelines (i) regarding lending practices and procedures to facilitate the availability of credit and (ii) relating to the review of decisions of participating institutions to refuse credit facilities.

The NAMA Act does not provide for any means by which the status of a participating institution as such may be ended. Accordingly, once AIB's Application has been accepted by the Minister, AIB will not have the ability to terminate either its status as a participating institution or its participation in the NAMA Programme.

2 Valuation methodology of the NAMA Participation⁽¹⁾

2.1 General

2.1.1 Classes of Assets

In relation to valuation methodology, the NAMA Act distinguishes between what can be termed a "Bank Asset"⁽²⁾, which includes a credit facility and every other bank asset other than a Property Asset, and what can be termed a "Property Asset", which means any asset that is the subject of security for a credit facility that is a Bank Asset. Either a Bank Asset or a Property Asset may be a NAMA Asset, but different rules govern how Bank Assets and Property Assets will be valued.

2.1.2 Acquisition Value

Generally, the acquisition value of a NAMA Asset, whether it is a Bank Asset or a Property Asset, will be its long-term economic value as determined by NAMA (see section 2.2 below)⁽³⁾, calculated on the basis of the net present value methodology⁽⁴⁾ in the case of Bank Assets and in accordance with any regulations made by the Minister⁽⁵⁾ in the case of Property Assets (which may require the use of the net present value methodology)⁽⁶⁾.

However, NAMA may determine that a particular NAMA Asset should have an acquisition value equal to the market value (see section 2.3 below) or a value between its long-term economic value and its market value that NAMA considers appropriate in the circumstances⁽⁷⁾. In making its decision, NAMA must have regard to certain prescribed matters, such as the type of NAMA Asset involved, the expected acquisition date of that NAMA Asset and EU state aid rules⁽⁸⁾. State aid provisions of EU law prohibit, among other things, aid granted by a member state or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings, in so far as the aid affects trade between member states. The state aid provisions of EU law also make provision for the compatibility with the internal market of certain categories of aid that would otherwise be prohibited⁽⁹⁾.

⁽¹⁾ Principally the NAMA Act and the Valuation Regulations (which set out adjustment factors that it is proposed should be applied to the valuation of land in Ireland and elsewhere)

⁽²⁾ NAMA Act, section 4(1)

⁽³⁾ NAMA Act, section 75(1)

⁽⁴⁾ NAMA Act, section 76(2)(d)

⁽⁵⁾ NAMA Act, section 76(1)

⁽⁶⁾ NAMA Act, section 79(2)(c)(iv)

⁽⁷⁾ NAMA Act, section 75(2)

⁽⁸⁾ NAMA Act, section 75(2) and (3)

⁽⁹⁾ NAMA Act, EC Treaty, Articles 87 to 89

The Minister may specify discount rates to be applied to a valuation of a Bank Asset or a Property Asset to reflect NAMA's cost of funds and a risk-reflective margin to the Government and to reflect enforcement, due diligence and other relevant costs incurred or likely to be incurred by NAMA over its lifetime in the discharge of its functions⁽¹⁰⁾. The draft Valuation Regulations specify a standard discount rate of three per cent. for this purpose⁽¹¹⁾.

2.1.3 Prohibition on Acquisitions

NAMA will be prohibited from acquiring a NAMA Asset where it determines that the long-term economic value of the Property Asset (comprised in the security for the relevant credit facility) is less than its market value⁽¹²⁾.

2.2 Long-term Economic Value

In determining the long-term economic value of a NAMA Asset, NAMA will seek to determine the price that the NAMA Asset could reasonably be expected to attain in a stable financial system when the current economic conditions have ameliorated⁽¹³⁾. The long-term economic value of a Bank Asset will be calculated on the basis of net present value methodology⁽¹⁴⁾ and the Minister may make regulations requiring the same methodology in respect of Property Assets⁽¹⁵⁾.

The exact method of valuation depends on whether an asset is a Bank Asset or a Property Asset.

2.2.1 Bank Assets

NAMA will determine the long-term economic value of a Bank Asset having regard to specified matters, such as the market value of the Bank Asset and the long-term economic value of the Property Asset and EU state aid rules, in accordance with criteria that are prescribed under the Valuation Regulations.

When NAMA is calculating the long-term economic value of a Bank Asset, the draft Valuation Regulations⁽¹⁶⁾:

- in the case of a Bank Asset for which the security is land, require NAMA to take into account projected cash flows (using a prescribed discount rate based on the Irish Government Bond Stock Exchange quoted closing yield at the date that NAMA is established plus an as-yet unspecified percentage) over various periods of time by reference to the scale of the adjustment factor that is being applied to the value of the land;
- in the case of a Bank Asset for which the security is land which is cash flow-producing in accordance with its contractual terms and where the market value of the land is greater than the balance outstanding on the relevant credit facility, require NAMA to take into account the projected cash flows of the Bank Asset (using a prescribed discount rate based on the Irish Government Bond Stock Exchange quoted closing yield at the date that NAMA is established plus an as-yet unspecified percentage) for a period of eight years or to the asset's maturity date (whichever would be the shorter period);
- in the case of every Bank Asset, permit NAMA to take into account any of a range of factors such as the long-term economic value of property, the net present value of the anticipated income stream associated with Bank Assets of the same kind as the Bank Asset concerned, loan margins and the mark-to-market value of any derivative contracts associated with Bank Assets of the same kind as the Bank Asset concerned; and
- specify a standard discount rate of (a) 2.75 per cent. to provide for enforcement costs and (b) 0.25 per cent. to provide for due diligence costs, incurred or likely to be incurred by NAMA over its lifetime in the discharge of its functions⁽¹⁷⁾.

2.2.2 Property Assets

The long-term economic value assigned to a Property Asset depends on whether or not the Property Asset is land.

(i) Land

In calculating the long-term economic value or the market value of land, NAMA may be required to take into account prescribed matters which may include certain adjustment factors⁽¹⁸⁾. The relevant factors vary according to whether or not the land is located in Ireland.

⁽¹⁰⁾ NAMA Act, section 79(2)(c)(v) and (vi)

⁽¹¹⁾ Valuation Regulations, regulation 8

⁽¹²⁾ NAMA Act, section 84(5)

⁽¹³⁾ NAMA Act, section 72(2)(c) and (d)

⁽¹⁴⁾ NAMA Act, section 76(2)(d)

⁽¹⁵⁾ NAMA Act, section 79(2)(c)(iv)

⁽¹⁶⁾ Valuation Regulations, regulations 2 ("NAMA discount rate") and 7

⁽¹⁷⁾ Valuation Regulations, regulation 8

⁽¹⁸⁾ NAMA Act, section 79(1)

(a) *Land located in Ireland*

NAMA may determine the adjustment factor that it thinks appropriate, by reference to any of a range of considerations, including⁽¹⁹⁾:

- the difference between prices or yields of Irish land on the valuation date and prices or yields of Irish land over the relevant period, as determined by reference to specific bulletins and indices;
- the correlation, in the relevant period, between land prices and demographic variables relating to Ireland, between land prices and interest rates in Ireland and between land prices and the gross domestic product of Ireland, based on data and analyses prepared by authoritative bodies (including the Central Statistics Office) and made available to NAMA not later than 21 days after the day on which the proposed Valuation Regulations come into operation;
- projections (made available to NAMA not later than 21 days after the day on which the proposed Valuation Regulations come into operation) in respect of matters such as land prices, demographic variables, interest rates and the gross domestic product of Ireland referable to any period or periods that end on a day or days not later than seven years after the valuation date set by NAMA, prepared by certain authoritative bodies (including the Central Statistics Office); and
- data and analyses provided to NAMA (not later than 21 days after the day on which the proposed Valuation Regulations come into operation) by certain ministers of the Government regarding various matters, including data and analyses (a) on the extent to which existing land zoning and planning permissions meet or exceed projected growth requirements in Ireland, (b) on existing and future transport planning and the associated supply and demand projections for land use and (c) in relation to the potential rise in energy and other costs due to the long-term decline in non-renewable resources.

(b) *Land not located in Ireland*

NAMA may determine the adjustment factor that it thinks fit, by reference to any of a range of considerations, including⁽²⁰⁾:

- the difference between prices or yields of land in the relevant country on the valuation date that NAMA sets and prices or yields of land in that country over the relevant period, as determined by reference to industry bulletins and indices;
- based on data and analyses published by authoritative sources in the relevant country and published not later than 21 days after the day on which the proposed Valuation Regulations come into operation, the correlation, in the relevant period, between matters such as land prices and demographic variables relating to the relevant country, between land prices and interest rates in that country and between land prices and the gross domestic product of that country; and
- data and analyses provided to NAMA (not later than 21 days after the day on which the proposed Valuation Regulations come into operation) by the Irish Minister for Communications, Energy and Natural Resources in relation to the potential rise in energy and other costs due to the long-term decline in non-renewable resources.

(c) *All land*

NAMA may determine that, in respect of any particular class of property or parcel of land, the long-term economic value shall not exceed the market value⁽²¹⁾.

In no circumstance⁽²²⁾:

- may the long-term economic value of a parcel of land exceed its market value by more than 25 per cent.; or
- may the aggregate of the long-term economic values of all land valued in connection with the acquired portfolio of a participating institution exceed the aggregate of the market values of that land by more than 20 per cent.

(ii) *Property Assets other than land*

For a Property Asset that is not land, no adjustment factor may be applied to the long-term economic value, which will be the asset's market value (see section 2.3 below)⁽²³⁾.

⁽¹⁹⁾ Valuation Regulations, regulation 5

⁽²⁰⁾ Valuation Regulations, regulation 6

⁽²¹⁾ NAMA Act, section 76(2)

⁽²²⁾ Valuation Regulations, regulation 9(1) and (2)

⁽²³⁾ Valuation Regulations, regulation 3

2.3 Market Value

Where NAMA uses market value in determining the purchase price of a Bank Asset or a Property Asset, market value is deemed to be the estimated amount that would be paid by a willing buyer to a willing seller in an arm's length transaction after proper marketing (where appropriate), where both parties act knowledgeably, prudently and without compulsion⁽²⁴⁾.

In determining the market value of a NAMA Asset, NAMA may take into account (among other things) specified matters, such as the value the participating institution submits as being its opinion of the market value, the market value determined by NAMA in respect of another similar NAMA Asset and other factors specific to Bank Assets (such as the performance of the particular bank asset) and Property Assets respectively⁽²⁵⁾.

NAMA can specify a date or event by reference to which the market value of a NAMA Asset will be determined⁽²⁶⁾.

2.4 Review procedure

The NAMA Act provides for a limited review procedure for the valuation that NAMA proposes in respect of the NAMA Assets that it is to acquire from a particular institution⁽²⁷⁾.

Where a participating institution objects to the valuation that NAMA applies to a NAMA Asset and NAMA declines to remove the relevant asset from the acquisition schedule served by NAMA on that participating institution or to revoke the relevant acquisition schedule, a participating institution may, within 14 days of the service of the completion notice on it (the event which marks the end of the NAMA acquisition process), seek a review of the total portfolio acquisition value (i.e. in respect of all of the NAMA Assets) acquired from that participating institution⁽²⁸⁾. That review may be sought only if the participating institution:

- is of the opinion that the aggregate market value of the NAMA Assets acquired from that participating institution exceeds the total portfolio acquisition value; and
- has served a notice or notices under the NAMA Act in respect of a particular Selected NAMA Asset or Assets that in itself comprises or that in aggregate comprise at least 12.5 per cent. by value of the total portfolio acquisition value.

Accordingly, in the case of a challenge to a single asset valuation, no further action may be taken by the participating institution until all Acquisition Schedules have been served on the participating institution and the proportionate value of the relevant asset is identified. Then, if the relevant asset accounts in itself for 12.5 per cent. of the total portfolio value, or in aggregate with other assets the valuations of which are being challenged that 12.5 per cent. threshold is reached, the total portfolio value may be challenged.

NAMA must refer any such qualifying dispute regarding the total portfolio acquisition value to a statutory valuation panel (comprising persons with relevant expertise and specialist knowledge)⁽²⁹⁾. Having considered the submissions of and other materials provided by the participating institution and by NAMA⁽³⁰⁾, the valuation panel will recommend to the Minister whether it considers that the aggregate market value of the particular Selected NAMA Assets is correct or, if not, what the correct aggregate market value is⁽³¹⁾.

If the panel's determination of the aggregate market value is greater than the total portfolio acquisition value and if the Minister believes that the advice of the valuation panel is wrong in a material respect, the Minister must remit the matter to the valuation panel for reconsideration, setting out the Minister's reasons for doing so. The valuation panel offers advice to the Minister (who may again remit the matter to the panel if the panel's determination of the aggregate market value is greater than the total portfolio acquisition value and if the Minister believes that the advice of the valuation panel is materially wrong) and there is no further recourse to contest the advice of the valuation panel or the final determination of the Minister⁽³²⁾.

Where the Minister accepts the recommendation of the valuation panel that the aggregate market value of the Selected NAMA Assets is greater than the total portfolio acquisition value as determined by NAMA, the acquisition

⁽²⁴⁾ NAMA Act, section 72(2)(a) and (b)

⁽²⁵⁾ NAMA Act, section 77

⁽²⁶⁾ NAMA Act, section 73

⁽²⁷⁾ NAMA Act, Part 7, Chapter 2

⁽²⁸⁾ NAMA Act, section 122

⁽²⁹⁾ NAMA Act, section 122(3)

⁽³⁰⁾ NAMA Act, sections 123 and 124

⁽³¹⁾ NAMA Act, section 124

⁽³²⁾ NAMA Act, sections 121(5) and 125

by NAMA will remain valid but the Minister will direct that NAMA, at NAMA's option⁽³³⁾, either pay an increased price for the relevant portfolio or return to AIB Selected NAMA Assets that together equal the amount of the difference in value so that NAMA pays the correct price for the adjusted total portfolio⁽³⁴⁾.

3 AIB's relationship with the Government

As a result of the financial support provided by the Government to the Company and the ongoing relationship between the Government and the Company, the Minister is treated as a "related party" of the Company under the Listing Rules. In addition, the NAMA Participation is treated as a "related party transaction" under the Listing Rules as it would be a transaction between an "associate" of the Minister (being NAMA) and AIB. The financial support provided by the Government can be summarised as: (i) the CIFS Scheme; and (ii) the NPRFC Investment; and (iii) the proposed ELG Scheme. Details of AIB's relationship with the Government resulting from that financial support are set out below.

3.1 The Credit Institutions (Financial Support) Scheme 2008 (CIFS Scheme)

The CIFS Scheme gives effect to the bank guarantee announced by the Government on 30 September 2008. Under the CIFS Scheme, the Minister for Finance guarantees certain types of liabilities of certain participating institutions, including AIB and certain of its subsidiaries, for a two-year period from 30 September 2008. If AIB defaults in respect of a guaranteed liability during the period of the guarantee, the Minister commits to pay to the creditor an amount equal to that liability. There is no monetary cap on the guarantee and it covers all guaranteed liabilities of AIB which become due for payment up to 29 September 2010. AIB is obliged to pay a quarterly charge to the Government for the guarantee. The cost of the CIFS Scheme to the Group for the six months ended 30 June 2009 was €58.4 million.

Under the CIFS Scheme, the Minister and/or the Financial Regulator may or must (as the case may be) exercise the following rights and powers over AIB:

- AIB must comply with rules governing the declaration and payment of dividends made by the Minister, in consultation with the Governor of the Central Bank and the Financial Regulator, and no new dividends may be declared or paid by AIB before those rules are made (no rules have yet been made by the Minister).
- AIB may not, without the prior approval of the Minister, acquire shares in any other credit institution or financial institution, establish any subsidiaries or enter into or acquire any new business or businesses where that action would, in the opinion of the Minister following consultation with the Governor of the Central Bank and the Financial Regulator, increase the liability of the Government under the guarantee.
- The Minister must impose specific restrictions on AIB in respect of certain dated subordinated debt covered by the guarantee, including the maintenance of solvency ratios during the guarantee period.
- The Minister may, after consultation with the Governor of the Central Bank and the Financial Regulator, direct AIB to prepare a restructuring plan to ensure compliance with the objectives of the CIFS Scheme. The Minister, in consultation with the Governor of the Central Bank and the Financial Regulator, may direct AIB to make changes to such restructuring plan(s) and to implement such plan(s) within a specified timeframe as determined by him.
- The Minister may, during the guarantee period, require AIB to appoint up to two non-executive directors to its board from a panel approved by the Minister. Two such directors have been appointed to the Board. The Minister also has the right to appoint persons to attend all meetings of the remuneration, audit, credit and risk committees of AIB. In addition, the Financial Regulator may require changes to the Board where the Board does not contain an appropriate balance between executive and non-executive directors. AIB must comply with any direction from the Minister or the Financial Regulator or both to take steps to restructure its executive management responsibilities, strengthen its management capacity and improve its corporate governance.
- If, in the opinion of the Minister, AIB is in breach of its obligations under the CIFS Scheme in a manner that is material in the context of the provisions of the guarantee, the Minister may increase the charge payable by AIB (as referred to above), impose additional unspecified conditions on AIB or revoke the guarantee (but may not do so retrospectively).
- The Financial Regulator, in consultation with the Minister, must impose conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth. AIB must take steps to comply with any liquidity, solvency and capital ratios that the Financial Regulator, following consultation with the Minister, may direct.

⁽³³⁾ NAMA Act, section 125(4)

⁽³⁴⁾ NAMA Act, section 125

- To progressively reduce the risk to the Exchequer under the guarantee, AIB must: (i) appropriately manage the Group's balance sheet in a manner consistent with the CIFS Scheme and the need to avoid significant distortion of financial flows; (ii) put in place improved structures to ensure long-term stability of funding; (iii) improve liquidity, solvency and capital ratios in circumstances where that is required; and (iv) take measures to minimise any risk of recourse to the guarantee as directed by the Governor of the Central Bank and the Financial Regulator, after consultation with the Minister.
- AIB must comply with targets set for AIB by the Financial Regulator, in consultation with the Minister, such as loan/deposit targets and wholesale funding/total liabilities targets. AIB may also be required to limit its exposure to certain sectors, customers or connected persons where it is in the public interest and in the interests of financial stability and the maintenance of confidence in the banking system.
- AIB may not engage in buy-backs or redemptions of its shares without the approval of the Financial Regulator, given after consultation with the Minister.
- The CIFS Scheme imposes restrictions on guaranteed institutions in relation to directors' and executives' remuneration and termination payments during the guarantee period.
- The Minister may revoke, in whole or in part, the guarantee to a participating institution in certain circumstances. If the Minister revokes the guarantee provided to AIB, all of AIB's fixed-term guaranteed liabilities outstanding at that time would nevertheless continue to have the full benefit of the guarantee up to 29 September 2010 or their maturity, whichever is earlier, and all guaranteed liabilities, including on-demand deposits, will be protected by notice of at least 90 days prior to any financial institution being removed from the CIFS Scheme.

3.2 NPRFC Investment

On 13 May 2009, in implementing the Government's recapitalisation of AIB, the Company issued: (i) 3.5 billion of core tier 1 securities in the form of non-cumulative redeemable preference shares (the "2009 Preference Shares") and (ii) 294,251,819 warrants over Ordinary Shares (the "2009 Warrants"), to the NPRFC for an aggregate subscription price of €3.5 billion. The NPRFC, the Government's national pensions reserve fund, is controlled and managed by the NPRFC.

Under the NPRFC Investment, the Minister and/or the Financial Regulator may exercise the following rights and powers over AIB:

- The NPRFC, as the holder of the 2009 Preference Shares, has voting rights equal to 25 per cent. of all votes capable of being cast by shareholders on a poll at a general meeting of the Company on shareholder resolutions relating to: (i) the appointment, re-appointment or removal of Directors; and (ii) a change of control of AIB or a sale of all or substantially all of its business (in relation to item (i) above, the 25 per cent. voting rights entitlement is inclusive of the voting rights of all Government Entities in respect of any Ordinary Shares they may hold).
- To the extent that the NPRFC holds Ordinary Shares, it is not restricted from exercising its voting rights in respect of such Ordinary Shares at a general meeting of the Company. If AIB does not pay the annual dividend on the 2009 Preference Shares, it must issue new ordinary shares by way of a bonus issue to the holders of the 2009 Preference Shares. The issue of bonus shares can be deferred by AIB, but the holders of 2009 Preference Shares will acquire voting rights at general meetings of AIB equivalent to the voting rights that would have attached to the bonus shares if they had been issued.
- The NPRFC has the right to appoint directly 25 per cent. of the directors of AIB.
- The 2009 Preference Shares are freely transferable in minimum lots of 50,000 shares. However, the voting rights attaching to the 2009 Preference Shares, the right to appoint directors to the board of AIB (both as described above) and the veto over certain share capital-related resolutions (as described below) are not transferable, as those rights are exercisable only by a Government Preference Shareholder.
- The 2009 Warrants are not transferable, except to a Government Entity, without the prior written consent of AIB and will not be listed or quoted on any stock exchange. While the Government Preference Shareholder holds Warrant Shares, the voting rights on those shares will be restricted to 50 per cent. of the voting rights attaching to such shares. If those Warrant Shares are transferred to any person other than a Government Entity, full voting rights will attach to those Warrant Shares.
- For so long as the NPRFC holds 2009 Preference Shares or 2009 Warrants, subject to certain exceptions, the consent of the Minister will be required for the passing of certain share capital resolutions of the Company, being resolutions relating to: (i) an increase in the authorised share capital; (ii) a re-issue of Treasury Shares; (iii) the issue of any shares; or (iv) the redemption, consolidation, conversion or sub-division of the share capital.

The exceptions referred to above include any issue of shares made for the purposes of redeeming or purchasing the 2009 Preference Shares and an issue of shares made in circumstances that would require an anti-dilution adjustment to be made to the number of 2009 Warrants held by the NPRFC.

- The 2009 Preference Shares can be redeemed at the option of AIB but it is subject to the prior consent of the Financial Regulator. The redemption may be made only from distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital.
- The Company must prepare and submit to the Minister for approval a restructuring plan, including details of how the Company intends to minimise and repay state aid that has been provided as part of the NPRFC Investment and an analysis of the compensatory measures taken or to be taken to minimise any distortions of competition caused by the NPRFC Investment.
- The NPRFC Investment imposed restrictions on AIB in relation to directors' and executives' remuneration and termination payments.
- AIB agreed to consult with the Minister prior to taking any material action which may be reasonably expected to have a public interest dimension.

3.3 The Credit Institutions (Eligible Liabilities Guarantee) Scheme (proposed ELG Scheme)

On 16 September 2009, the Minister published an outline of the proposed Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009, which is subject to the approval of the Oireachtas (the Irish parliament). The proposed ELG Scheme is intended to facilitate the ability of credit institutions in Ireland to issue debt securities and take deposits with a maturity after September 2010 on either a guaranteed or an unguaranteed basis. All liabilities guaranteed under the CIFS Scheme as at the date an institution joins will remain unconditionally and irrevocably guaranteed under and in accordance with the terms of the CIFS Scheme.

Eligible liabilities under the proposed ELG Scheme comprise any of the following liabilities:

- all deposits (to the extent not covered by deposit protection schemes in Ireland (other than the CIFS Scheme) or in any other jurisdiction);
- senior unsecured certificates of deposit;
- senior unsecured commercial paper; and
- other senior unsecured bonds and notes.

Eligible liabilities must not have a maturity in excess of five years and must be incurred during an "issuance window" from the commencement date of the proposed ELG Scheme to 29 September 2010 (subject to the approval of the European Commission at six-monthly intervals that the issuance window can remain open).

From the time that a participating institution joins the ELG Scheme, only covered liabilities of that participating institution (as defined in the CIFS Scheme) in existence or contracted for prior to that time will continue to be guaranteed under the CIFS Scheme. All such then-existing covered liabilities will remain guaranteed until 29 September 2010 under the CIFS Scheme. From the time that a participating institution joins the proposed ELG Scheme, any liabilities incurred or contracted for thereafter by that participating institution may be guaranteed under the proposed ELG Scheme only.

The Minister, in consultation with the Governor of the Central Bank and the Financial Regulator, may issue directions to participating institutions to comply with some or all of the provisions on conduct, transparency and reporting requirements applicable to covered institutions pursuant to paragraphs 24 to 52 of the CIFS Scheme (summarised in section 3.1 above). The European Central Bank's pricing recommendations on government guarantees for bank debt dated 20 October 2008 will apply to liabilities guaranteed under the proposed ELG Scheme.

Appendix II

Analysis of AIB's property and construction loan book (as at 30 June 2009)

This Appendix II has been prepared to provide an analysis of the Company's NAMA Assets. It is based on the Assumptions and the work undertaken by the Company in response to a request made by the interim NAMA management to provide NAMA with details in respect of certain of the Group's bank assets and is prepared on the basis referred to in section 5 of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document. The information contained in this Appendix II is based on the unaudited Half-Yearly Report 2009 and management information and is provided in the context of AIB's overall property and construction loan book.

	<u>30 June</u> <u>2009</u> (€ billion)
Total Property & Construction ⁽¹⁾	49.9 ⁽¹⁾
<i>Less categories (other than land and development) outside the scope of the NAMA Programmes</i>	
Classified as investment ^{(2(a) and 1)}	(25.1) ^{(2(a) and 1)}
Classified as contractors ^{(2(a) and 1)}	(1.2) ^{(2(a) and 1)}
Classified as housing associations ^{(2(a) and 1)}	<u>(0.6)</u> ^{(2(a) and 1)}
Total land and development	23.0
<i>Less Central & Eastern Europe</i>	
Land and development in Central & Eastern Europe ^{(2(b) and 1)}	<u>(1.3)</u> ^{(2(b) and 1)}
Total land and development for Ireland, the UK, the US and Canada	21.7
<i>Less</i>	
Overdraft facilities ^{(2(c))}	(0.5) ^{(2(c))}
Land and development loans where the development phase is complete ^{(2(d))}	<u>(0.4)</u> ^{(2(d))}
Total land and development for Ireland, the UK, the US and Canada <i>(including land & development loan borrowers of less than €5 million)</i>	20.8
Less land and development loan connections less than €5 million (or £4.5 million) ⁽³⁾	<u>(3.7)</u> ⁽³⁾
Total land & development loans for Ireland, the UK, the US and Canada <i>(excluding land & development loan borrowers of less than €5 million)</i>	17.1
Total Associated Loans ⁽⁴⁾	<u>7.1</u> ⁽⁴⁾
Total AIB NAMA Assets	<u>24.2</u>

Notes:

- (1) AIB's total property and construction loan book as reported in the Half-Yearly Report 2009 (note 19, page 56).
- (2) In calculating the total AIB NAMA Assets:
 - (a) credit facilities classified as "investments" (totalling €25.1 billion), "contractors" (totalling €1.2 billion) and "housing associations" (totalling €0.6 billion) are not classified in AIB's books as land and development loans, and therefore these loan balances (as reported in note 19, page 56 of the Half-Yearly Report 2009) have been excluded;
 - (b) land and development loans amounting to €1.3 billion which were recorded in AIB's Central and Eastern Europe Division (as reported in note 19, page 56 of the Half Yearly Report 2009) have also been excluded as they are recorded in the books of its Polish subsidiary, Bank Zachodni WBK S.A. in respect of which AIB intends to request from the Minister an exclusion from designation under the NAMA Act (together with a second subsidiary of AIB, AIB Bank (CI) Limited);
 - (c) overdraft facilities amounting to €0.5 billion have been excluded; and
 - (d) land and development loans reported within AIB's Capital Markets division amounting to €0.4 billion, which were recorded in the United States and Canada, have been excluded as the construction phase of the underlying development scheme has been completed, and therefore the loans are no longer classified in AIB's books as land and development loans.
- (3) Land and development loans of less than an aggregate value of €5.0 million (£4.5 million) per borrower are not expected to transfer to NAMA. Accordingly, the total amount of these facilities (€3.7 billion) has been excluded in arriving at AIB's estimated €17.1 billion of land and development loans.
- (4) Based on the Assumptions, a further amount of €7.1 billion non-land and non-development loans has been identified as Associated Loans. These Associated Loans were classified in AIB's loan book at 30 June 2009 as being associated with the connections of AIB's estimated €17.1 billion of land and development loans (as referred to in note 3 above).

Appendix III

Segmentation of AIB's NAMA Assets (as at 30 June 2009)

The table below has been prepared to provide a breakdown of AIB's NAMA Assets on a geographic and loan category basis. The information in respect of the NAMA Assets contained in this table is unaudited. It is based on the Assumptions and the work undertaken by the Company in response to a request made by the interim NAMA management to provide NAMA with details in respect of certain of the Group's bank assets and is prepared on the basis referred to in section 5 of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document.

	As at 30 June 2009											
	Land and Development				Associated Loans				Total			
	ROI	CM	UK	Total	ROI	CM	UK	Total	ROI	CM	UK	Total
(€ billion)												
Jurisdiction												
Ireland	14.1	0.2	—	14.3	6.4	—	—	6.4	20.5	0.2	—	20.7
Northern Ireland	—	—	1.3	1.3	—	—	0.5	0.5	—	—	1.8	1.8
Great Britain	—	—	1.3	1.3	—	—	0.2	0.2	—	—	1.5	1.5
USA/Canada	—	0.2	—	0.2	—	—	—	—	—	0.2	—	0.2
Total	14.1	0.4	2.6	17.1	6.4	0.0	0.7	7.1	20.5	0.4	3.3	24.2
Performing/Non-performing												
Performing loans	8.6	0.4	2.1	11.1	5.7	—	0.7	6.4	14.3	0.4	2.8	17.5
Non-performing loans	5.5	—	0.5	6.0	0.7	—	—	0.7	6.2	—	0.5	6.7
Total	14.1	0.4	2.6	17.1	6.4	0.0	0.7	7.1	20.5	0.4	3.3	24.2

Notes:

- (1) The above table is based upon AIB's divisional operating structure, where "ROI" represents AIB Bank Republic of Ireland (ROI) division, "CM" represents Capital Markets Division and "UK" represents AIB Bank UK division.
- (2) The above table presents a breakdown of the relevant loan portfolio by jurisdiction, where the relevant jurisdiction is determined based on where the loan is recorded within AIB's books and records (and not based on the location of the underlying loan security or collateral).
- (3) Non-performing loans are those loans classified as impaired by AIB as at 30 June 2009.

The table below has been prepared to provide a summary of the estimated profile of AIB's NAMA Assets that may transfer to NAMA. The information in respect of the NAMA Assets contained in the table below is unaudited. It is based on the Assumptions and the work undertaken by the Company in response to a request made by the interim NAMA management to provide NAMA with details in respect of certain of the Group's bank assets and is prepared on the basis referred to in section 5 of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document.

	Land and Development Loans € billion	Associated Loans € billion	Total € billion
Republic of Ireland	14.3	6.4	20.7
United Kingdom	2.6	0.7	3.3
Rest of World	<u>0.2</u>	<u>—</u>	<u>0.2</u>
	17.1	7.1	24.2
Performing loans at 30 June 2009			c.17.5
Non-performing loans at 30 June 2009			c.6.7
Forecast performing loans at 31 December 2009			c.13.6
Forecast non-performing loans at 31 December 2009			c.10.5
Balance sheet provisions at 30 June 2009			c.2.3
Forecast balance sheet provisions at 31 December 2009			c.4.2

Appendix IV

Minister for Finance's speech delivered to the Dáil (the lower house of the Irish parliament) on 16 September 2009

Readers of the Minister's speech below should note that some aspects of the speech may have been superseded by subsequent events, including the enactment of the NAMA Act and the publication of the NAMA Draft Business Plan, the Eligible Bank Assets Regulations and the Valuation Regulations referred to elsewhere in this Part I ("Letter from the Executive Chairman of Allied Irish Banks, p.l.c."), and the speech should be read accordingly.

Second Stage Speech

"Introduction

In the history of this State, few subjects have been debated more intensively and more passionately than the Government's proposal to establish a National Asset Management Agency. Since I published the draft legislation on the 30th of July last, there has been a fast and furious debate on the airwaves, in the print media, on websites, at public gatherings, at a lengthy Committee meeting of these Houses two weeks ago, and, I am sure, in every household around the country.

This is as it should be. It is impossible to over-state the fundamental importance of the resolution of our banking crisis to our economic recovery. A clear understanding of why our banking system got into this crisis is also of the utmost importance. We must learn lessons from this crisis and we must and will take the necessary steps to ensure that we never make the same mistakes again.

I accept the good intentions of most contributors to the debate. Some of the commentary was ill-informed; some of it, from those who know better, was mischievous. But many constructive suggestions and amendments have been put forward and the Government has taken the best of them on board. I want to stress that I am open to further constructive amendments from the members of this House which will improve the legislation and protect the citizens of the State.

Much of the debate has centred on the risk involved in NAMA. Let us be clear: the resolution of the banks' difficulties involves risk; risk that the private sector will not take. That is why this government, like governments all over the world has had to step in. But there is another risk that is less prominent in the debate. That is the risk to the taxpayer of paralysis and delay.

If we do not act now to free our banks of their higher risk loans, we will not be in a position to benefit from the economic recovery that appears to be emerging in the United States and in Europe. Without a healthy and functioning banking system our businesses and service providers will not be able to grow and develop their products for our main markets. If we do not stand ready to take advantage of a global upturn, as an open free market economy dependent on foreign direct investment and international capital flows we will lose market share and we will lose jobs. That is the very real risk confronting our country.

So, the time for debate comes to an end. The Government has a duty to act. Our proposal to establish an Asset Management Agency has received the backing of the IMF and the ECB. It is also clear that the proposal has credibility in the financial markets. Since its announcement, the cost of borrowing by the State has fallen by 1.5% for 10 year money; tangible evidence that the Government's strategy is already working.

I also note that NAMA has received the endorsement of two distinguished predecessors of mine: Ray McSharry and Alan Dukes. Both men sat at the desk I currently occupy at another period of great peril for the economic life of this country. Given their record of service, I think their assessment is deserving of our respect.

A Cheann Comhairle, the citizens of this country are understandably angry about the state of the banks. They are bitterly disappointed by the failure of our regulatory system. They are appalled by the details of the reprehensible behaviour of some in the financial system and in the property sector in whom they placed their trust. And they are also angry with the Government. Many ask why we are putting money into the banks while they endure the brunt of the difficult budgetary decisions which we must take. There is now unfortunately a breakdown of trust in the entire system.

But the public also knows we need the banks. The public understands we cannot have economic recovery unless we fix our banking system. It is not just about bank guarantees, recapitalisation and asset management solutions for impaired assets. It is something much more fundamental and tangible. People need to be reassured that their deposits are safe. They need to believe that senior management and Directors in the banks are responsible, trustworthy and accountable for their actions. This will not happen overnight. It will require much hard work by all of us.

So we must all now overcome our understandable anger and get on with the business of reform. This Government is determined to refashion the financial and banking system, and to address and correct all regulatory and governance shortcomings. We will give a clear direction to the banks about what is expected of them. And let me be absolutely clear as I stand here today on behalf of the people of Ireland: the banks should be extremely grateful for the continued support and forbearance extended by the citizens. In return, the Government expects the banks to play more than their part in the economic recovery of the State by providing appropriately risk adjusted credit to businesses to protect and create jobs. Our citizens deserve nothing less.

The Bill before you today, has been drawn up on the basis of the expert advice and counsel available to the Government from the NTMA, the Financial Regulator, the Central Bank as well as our financial and legal advisors. Everything we do here must and will be done in accordance with EU State Aid rules. This Bill is the centre piece of the Government's plan to resolve the problems that have beset our financial and credit system. Before dealing with the details of how NAMA will work I want to set out the context in which the decision to establish the Agency has been taken.

International and Irish Context

Just under a year ago, the banks in this country were on the brink of financial collapse. The wellbeing of our nation and our people was under threat. The State Guarantee introduced overnight on the 29th of September 2008 pulled us back from the brink. As a result, our banks and financial institutions were once again able to raise from international markets the funds they needed to ensure that their customers whether big or small, young or old, could go about their daily business in the knowledge that their deposits were secure.

In the year and especially in the months before the Guarantee, our banks were being squeezed by the severe correction and withdrawal of funding that was taking place in the international financial markets. This correction followed an unsustainable period of cheap credit and inadequate regulation of the global banking system. The failure of the international investment bank Lehman Brothers and the decline in other global financial institutions further exacerbated the position. Smaller, more open economies, like ours were particularly badly affected.

Having moved away from more traditional forms of funding, with Balance Sheets expanding by over 100% in a few short years, Irish banks availed more than most of this cheap credit: borrowing short term to fund long term assets; using it to fund extensive property based lending. When this cheap credit dried up overnight, the Government like most Governments in the developed world was required to step in.

But as other countries followed our example in the use of guarantees, funding conditions again became extremely difficult for Irish banks and building societies. Large levels of speculative property lending left the banks exposed to a property market which had passed the peak of its cycle. The property industry shuddered to a halt. Sales of houses and other property stopped and repayments of interest and capital could not be met by borrowers. International providers of funding and capital recognised the risks, cut credit lines and in some cases stopped dealing with the financial institutions. In this weakened state, our banks started to hoard capital to protect themselves. Stress on their capital and funding positions understandably damaged the ability of banks to provide the vital flow of new and existing lending to the economy.

To address this problem, and to further stabilise the system, the Government moved to recapitalise AIB and Bank of Ireland. As details of shameful behaviour on the part of some senior executives in Anglo Irish Bank began to emerge, that Bank was taken into State ownership to prevent it from destabilising the rest of the banking system and the economy. As we know, these events are now the subject of a number of investigations which I hope will conclude sooner rather than later. Suffice it to say that the damage done by certain individuals to the reputation of this country will take some time and much hard work to repair.

Throughout the last year, our membership of the European Union and the eurozone in particular has played a vital role in our response to the current financial crisis. The European Central Bank stood behind this country during its time of greatest need and let nobody forget that when it comes to the Lisbon Referendum on the 2nd of October.

It is important to remember that the Government's support for our banks has not been unconditional. Financial benefits have accrued to the State from the fees related to the guarantee which will amount to €1 billion. The State also holds warrants for a 25% shareholding in AIB and Bank of Ireland which have gained significant value since the investment. Operational restrictions have been imposed on the banks. Executive pay has been limited. New rules have been imposed on the banks in their dealings with business customers and residential mortgage holders.

Nor has State support saved the banks from losses in this crisis. Shareholders, many of them ordinary citizens saving for their future, have suffered from enormous falls in share values and banks have taken large losses on their loan books. Subordinated Bondholders have also been hit, with a large amount of subordinated debt being bought back by the banks in recent months at a significant discount. The outcome of these transactions was a loss representing

approximately €4 billion to these bondholders and a material contribution to the capital required for the institutions, that otherwise would probably have had to come from the State.

I want to reiterate that in all our actions over the past year, our sole concern has been the best interests of the wider economy. The simple fact is that credit remains the lifeblood of any economy. It allows business to source funding for productive developments and to foster creativity and innovation so that we can become a more competitive, export-orientated economy. It allows individuals to access mortgage funding and finance the purchase of consumer goods. The only way to restore the flow of credit is through a cleaned up banking system.

Asset Management Agency Approach

That, a Cheann Comhairle, is precisely why the Government has decided to set up the National Asset Management Agency.

NAMA, will facilitate the speedy removal of higher risk property related assets which are clogging up the banks' balance sheets and greatly hampering their ability to lend to credit-worthy individuals and households and thereby support economic activity.

This general approach to dealing with distressed assets has been supported and recommended by banking experts across the globe. The model has been successfully implemented in a number of countries in the past where similar issues with problem loans have arisen. Countries such as Germany and the UK are also introducing asset relief schemes. Indeed, the European Commission has issued State aid guidance in this area specifically to assist Member States that have chosen to take steps to establish asset relief schemes. International agencies such as the IMF and the ECB have commented favourably on the approach. In other words, this is a proven policy response that has been successful elsewhere and will be successful in Ireland.

As we rebuild our banking infrastructure we must reform our oversight mechanisms so that our regulatory and supervisory system ensures we have a banking system that is fit for purpose; a system that supports economic recovery; and a system that will prevent the economy from being undermined by rogue and undisciplined actions within the sector.

So how will NAMA work? Turning to how NAMA will operate, individual institutions must apply and be accepted as participating institutions. The NAMA Bill includes fair and objective criteria for the selection of the institutions that would participate in NAMA consistent with the EU State aid guidelines. As I made clear at the discussion with the Joint Oireachtas Finance Committee on the draft NAMA Bill on 31 August under the legislation any credit institution in Ireland can apply for participation in NAMA and each application will be assessed strictly in an objective and non-discriminatory manner in accordance with the statutory criteria included in the Bill and EU State aid requirements.

With this in mind, I will be proposing a Committee Stage amendment to Section 60 of the Bill to increase from 30 to 60 days the period of time that credit institutions have to apply for designation as participating institutions in NAMA to facilitate the application process for credit institutions.

The figures I am presenting today relate to five institutions:

- Allied Irish Banks,
- Anglo Irish Bank,
- Bank of Ireland,
- The Educational Building Society, and
- Irish Nationwide Building Society.

These are the institutions in which we have had the opportunity over the last year to carry out the necessary due diligence, analysis and stress testing.

The Agency will buy the land and development property loans and certain associated loans from the banks at prices well under the current book value. It will then manage these loans out over time to achieve the best possible financial return for the taxpayer. NAMA will start with the largest systemic exposures across the institutions and it is expected that by the middle of next year most of the loans will be transferred. NAMA will leave behind smaller, cleaner and better funded banks that can focus their resources on their core function of lending to the productive economy.

It is likely that some institutions will require additional capital in order to absorb the losses arising from the transfer of their impaired assets to NAMA and in order to maintain appropriate levels of capital. I want to make it clear that the Government would expect such an institution to explore all available options for raising such capital. It is the Government preference that private market solutions are found and implemented. The banks and building societies will be expected to increase the equity component of their capital base as the NAMA asset transfers are implemented.

To the extent that sufficient capital cannot be raised independently or generated internally, the Government remains committed to providing such banks and building societies with an appropriate level of capital to continue to meet their requirements. This will be done in a manner consistent with EU State aid rules and the credit needs of the Irish economy. I should also state that any recapitalisation of a credit institution in such circumstances must be followed by restructuring in a manner which complies with EU State aid requirements.

Projected Asset Details

It is expected that NAMA will purchase loans with a book value of approximately €77 billion.

The approximate breakdown is as follows:

Allied Irish Banks	€24 billion
Anglo Irish Bank	€28 billion
Bank of Ireland	€16 billion
EBS	€ 1 billion
INBS	€ 8 billion

Further details of the loan books of the institutions are contained in the supplementary documentation.

It is projected that 36% of the assets will be land, 28% development property and 36% in associated commercial loans. The estimate is that 40% of these loans are cash-flow producing. The cash flow produced will be sufficient to cover interest payments on the NAMA bonds and operating costs. The geographical breakdown of the assets is about two thirds in Ireland, one fifth in Great Britain, 6% in Northern Ireland and most of the remainder in the USA and Europe.⁽¹⁾

Valuation

The price to be paid for these assets will be a lot less than their €77 billion book value. The valuation formula has regard to EU guidance taking into account both current market conditions and long term economic returns. This strikes a balance between reflecting the long term potential of these assets while minimising any potential risk that NAMA will make a loss.

The legislation sets out a comprehensive methodology on how assets will be valued and I am publishing today draft valuation regulations which provide further detail on the valuation process. This valuation framework must accord with EU State aid guidance and is subject to EU approval. Application of the valuation methodology is a complicated and extensive process and it must be remembered that each loan must be valued individually in accordance with the methodology. In that context, any estimate of the price to be paid for the assets is provisional in nature. From our estimates, it is expected that NAMA would pay approximately €54 billion in relation to the €77 billion of loans that I mentioned earlier. This is an estimated aggregate discount of 30%. Loan quality, geographic distribution and type of loan will all vary from institution to institution. These figures cannot be applied to extrapolate to individual portfolios or loans. It is essential to the NAMA process that final decisions on these kinds of numbers will be made only after an exhaustive bottom-up valuation process. The valuation process will be designed to meet the standard that will be expected by the EU Commission.

The estimated market value is €47 billion. Deputies should consult the accompanying documentation to see how this figure was calculated.

This is an estimate based on certain assumptions and information about the property market including a fall in average property values in the State of about 50% since the peak in 2007. This average masks a very large degree of variation in property value movements depending on factors such as location, the nature of the property and so forth.

The fall in property values has pushed up property yields. Yields are now above their long term average, and this suggests that values are bottoming out. In fact, the gap between yields and interest rates is much higher than at any time since the mid 1990s. Further details are available in the supplementary documentation.

Using the adjustment factors set out in the legislation, the current estimate of the allowance for long term economic value is €7 billion. I know there are reasons to argue over whether there should be any allowance made for long term economic value. But we are here to help the economy and people by putting our financial system back on track. We cannot do that by forcing banks to sell assets at below what would be rational prices for them.

As US Federal Reserve Chairman Ben Bernanke has said “Banks will have a basis for valuing those assets and will not have to use fire sale prices. Their capital will not be unreasonably marked down.” We also reject the idea of forcing distressed asset prices on the banks and we must ourselves find the right balance. We will not pay too much for these assets, but paying too little has its own consequences for our economy and this is not the time to expand our risks.

⁽¹⁾ subject to rounding: Ireland: 67%, Northern Ireland: 6%, rest of UK: 21%, USA: 3%, Other: 4%

But this limited allowance for long term economic value will be de-risked. The Bill provides for part of the consideration for the assets transferred to be in the form of subordinated bonds, which put the banks at risk if NAMA were to lose money, which is not our expectation — without giving them an upside in relation to its gains.

In addition, we intend to introduce a levy if on the winding up of NAMA there were to be a deficit.

Finally, I should note that the State owns 100% of Anglo Irish and currently has substantial economic interest in the two largest banks. Those who argue that I am transferring value to shareholders must agree that this is very much reduced by the fact that the State is in itself a shareholder for a substantial part of the system.

The proportion of the total consideration which will be in the form of subordinated debt and therefore at risk to the bank and linked to the performance of NAMA will be around 5%.

Let me repeat this point. The protections for the taxpayer of the risk sharing mechanisms, and if necessary a levy, will ensure that any unjust enrichment of private shareholders by paying an allowance over current market value can be recouped. But if NAMA makes money this will accrue to the taxpayer.

Taking the subordinated debt into account, it is estimated that NAMA will have to achieve less than a 10% uplift over the current market values on its assets over ten years to break even. Let's put that figure in perspective. Assuming that NAMA were to dispose of the majority of its assets in the second half of the decade, this uplift in property values would be achieved even if values kept pace with general consumer price inflation. In that case, real (that is, inflation adjusted) property prices in ten years' time would still be 45 per cent below their values of late 2006. To be clear there is no assumption in our work that peak property prices must and will be repeated. The Governor of the Central Bank, John Hurley, and the incoming Governor, Professor Patrick Honohan, have stated to me and I quote:

“Having regard to the uncertainty in property price movements, the proposed add-on of 15-18 per cent to the estimated current market price does not seem out of proportion with the range of potential upward price movements, especially when a risk sharing element is included.”

Developers and the Market for Development Land

The amount a borrower owes will not change because of the transfer of a loan to NAMA. The Agency will have a statutory duty to maximise the tax payers' return and will therefore be expected to use all of its means to this end. The Bill also provides the Agency with a wide range of powers it needs to pursue borrowers and enforce security in some cases this will mean that borrowers' personal assets will have to be assumed by NAMA.

I am also conscious of the need to avoid a repeat of the current position in the market for development land. A requirement has been included in the Bill obliging NAMA to have regard for the need to avoid undue concentrations or distortions in the market for development land. I also intend to issue guidelines governing the Agency's interaction with borrowers in the completion of properties acquired by NAMA.

Effects on Individual Financial Institutions

The banking system has let us down. However, it can revive and serve our economy in a proper manner. But the existing structures cannot remain the same. Already a number of banks are developing restructuring plans to tight deadlines to meet EU requirements arising from recapitalisation options. Any institution participating in NAMA will be required to restructure its operations and I will be insisting that this is a real process leading to a reformed and re-invigorated banking system. It is too early to outline a definitive shape for the new system and there has to be scope for subsidiaries of external banks to play their full part. This will be a focus of my work over the coming weeks.

Bank Guarantee

I referred earlier to the importance of the Bank Guarantee scheme in stabilising the banking system following its introduction last year. In June last, I introduced changes to the scheme as part of the Financial Measures (Miscellaneous Provisions) Act 2009 which allowed for the extension to the Government guarantee contained in the Credit Institutions (Financial Support) Act 2008 beyond the current expiry date of 29 September 2010. As I announced in the Supplementary Budget on 7 April last, the guarantee will be amended to facilitate access for Irish financial institutions to longer term debt. I propose to adjust the current guarantee but retain all of the most important features. The details of this will be published on my Department's website this afternoon. The new scheme will be somewhat more targeted. It will allow for greater longer term debt issuance under the guarantee, moving it more towards the European model. The revised guarantee scheme will represent the necessary first step in the exit strategy for the State from the blanket guarantee offered in September 2008. However, it is clear that the stability provided by the guarantee remains important and for that reason it will remain extensive and retain the blanket guarantee for deposits.

A key feature of the modified guarantee scheme is that it allows the covered institutions to access un-guaranteed funding. Over the last month certain Irish institutions have started taking the first steps towards issuing un-guaranteed term debt and we welcome this positive trend.

EU State aid approval for the scheme is at an advanced stage. A formal market notice will be issued later this month once approval of the European Commission has been secured and I anticipate that I will bring the necessary Statutory Instrument to commence the scheme before the House in early October. The liquidity advantages provided by NAMA, together with the continuing support of the guarantee scheme, will underpin the stability of funding for the Irish financial system.

The House will be aware that market participants pay keen attention to our debates on financial matters. For the avoidance of doubt in the market, all liabilities covered under the existing guarantee on liabilities, known as the CIFS scheme, will remain fully guaranteed until 29 September 2010.

Central Bank Reforms

The Central Bank of Ireland is taking its position at the centre of financial supervision and financial stability oversight. Professor Patrick Honohan will succeed Mr. John Hurley as Governor later this month. A new Head of Financial Supervision will be recruited shortly. New resources and additional expert staff will widen skill sets and expand and enhance the capacity for the reformed institution. I expect the draft legislation providing for the reform of the regulatory system to be published before the end of the year

As part of the reform package for financial regulation and longer term planning, I am examining options for the introduction of a legislative regime to deal in a systematic way with distressed financial institutions. I want to ensure that the State has in place a range of tools to protect deposit holders and ensure that we can deal effectively with problem institutions and at the same time maintain the confidence of the international markets. My officials and the relevant authorities are examining the scope of such a regime. I hope to be in a position to bring forward proposals in this area in the New Year.

Promotion of Lending to the Economy

Everybody in this House is aware of the effect of the crisis conditions of the last year is having on the availability of credit to businesses and households. The flow of credit is essential to the proper functioning of the economy and all of the Government's actions to stabilise the banks have been undertaken in order to ensure that the financial system continues to fulfil its essential functions in providing credit for businesses and individuals. The establishment of NAMA and the removal of identified risky assets from the balance sheets of participating institutions should in itself improve credit supply. The basic business model of a bank — and what generates profits — is on-lending at a margin appropriate for the risk involved. NAMA will allow banks to focus on this and addresses the two key existing limitations to new lending:

- It will strengthen and improve the funding position of the banks meaning they have available funding to on-lend. The simple fact is that every Euro lent by a bank to a customer must be drawn from deposits or borrowed by the bank from somewhere else. NAMA will pay for the loans by giving the banks Government bonds that can be swapped for cash in international markets and at the European Central Bank
- The removal of higher risk assets will allow banks to focus their human and capital resources on their core business — rather than trying to work out problem loans. Every new loan requires new capital and banks in their current position need to maintain existing capital buffers to absorb current and future losses.

Specific credit supply measures were incorporated into the Government's recapitalisation packages for AIB and Bank of Ireland. Credit for SMEs has been a particular focus of concern. As part of the recapitalisation package each bank committed to increasing capacity for SME lending by 10%, establishing a €100m fund for clean energy and environment-friendly investment and a further €15m for seed and venture capital. The banks report on all of these commitments quarterly and their reports are monitored by the Financial Regulator. The reports clearly show that new business lending is taking place month by month, although at a lower rate than last year, and that substantial numbers of new business accounts are being opened each month.

The Department of Enterprise, Trade and Employment have established a Credit Clearing Group, involving business groups, banks, State agencies and Departments, which is examining cases of credit refusal referred to it and an e mail post-box has been set up to facilitate referrals. In addition, of course, that Department is operating the Stabilisation Fund and the Temporary Employment Subsidy Scheme to help viable businesses get through the current difficulties.

To summarise, the Government has made SME lending a major priority. Various actions have been taken to support viable business, to track the real situation, and to facilitate access to credit on a proper commercial basis. In terms of specific credit supply measures attaching to NAMA, the Government continues to examine options in this regard.

Alternative Approaches

Some have argued for alternative approaches. As I discussed earlier, the risks to the taxpayer of overpaying for assets by paying an allowance for long term economic value can be mitigated by risk sharing mechanisms and the levy. I wonder if those who argue that NAMA should ignore the fact that the market is currently distressed and pay the institutions current market value realise the cost implications of what they are proposing. The additional capital required by the institutions compared with what might be required under the NAMA approach would be in the region of €4 billion to €7 billion. This capital would have to be provided — and because the banks would be so weakened, the only possible provider would be the State. Some of this, clearly, would be offset by the effect of our ownership in the institutions concerned, but this money would have to be provided, with any payback coming later.

More expensive still is the Labour Party's reported proposal for blanket nationalisation and a straightforward 50 per cent discount on the loans. This would immediately require the State to borrow an additional €10 billion to €14 billion to recapitalise the banks. Even under the benign assumption that additional borrowing of this scale would not affect the interest rates on Government bonds, the interest costs of this additional capital would be between €600 million and €700 million each year. That is dead money that should be used to fund vital public services. In the more likely event that the extra borrowing put upward pressure on the cost of borrowing money on international markets, the overall costs to the State of Labour's proposal would be even larger.

Of equal concern is the damage that would be done to any possibility of recovery of the financial system. This new capital injection would lead to effectively full nationalisation of the banking system. Full nationalisation is, of course, Labour Party policy but it carries with it a very real possibility that the people who provide our banks with the funds they need to continue their operations would reduce their level of funding. The simple fact is that it is easier for a commercially oriented banking system to attract the funding it needs to provide credit to the economy. A forced nationalisation of the system would involve significant risks of reduced funding opportunities for the banks. Against a backdrop of the global funding crisis, these are risks we cannot afford to take. I would draw your attention to the words of President Obama last April, when explaining his opposition to blanket nationalisation. He said, and I quote: "Pre-emptive government takeovers are likely to end up costing taxpayers even more in the end and ... are more likely to undermine than create confidence."

So that is what President Obama thinks of the policy of blanket nationalisation. That view is shared by many countries around the world and that is strongly the view of this Government.

Additional Economic and Social Benefits of NAMA

NAMA will ensure that credit flows again to viable businesses and households by cleaning the balance sheets of Irish banks. This is essential for economic recovery and the generation of employment. NAMA will ensure that we avoid the Japanese outcome of 'Zombie banks' that are just ticking over and not making a vibrant contribution to economic growth. NAMA will force the banks to take the losses on their riskiest loans, earlier than may otherwise be the case and leave the banks 'cleaned up' and better able to get on with their future business. This asset management approach protects taxpayers. The evidence from property busts in other countries shows that the longer bankers and borrowers are allowed to deny the reality of the losses they face, the greater the ultimate cost to the taxpayer and the economy more generally.

Cleaning banks' balance sheets of their riskiest class of assets allows banks' management to refocus the banks' operations towards lending to small and medium-sized firms and away from property speculation.

The announcement of the decision to set up NAMA has already triggered some improvement in confidence in our economy which has led to a reduction in the cost of borrowing for the State.

Within the legal boundaries that NAMA must operate, and notwithstanding its commercial remit, NAMA could have a role in creating balanced and desirable places to live with obvious benefits for sustainable social values. NAMA could seek to facilitate the Department of Education and the Department of Environment, Heritage and Local Government where these bodies have requirements — for example, such as schools, parks, and so on — which facilitate the creation of desirable developments that encourage vibrant sustainable communities. Such bodies could be given first option on disposals for a limited period, and though they would have to pay the reasonable market price required they would at least be given the first mover advantage. These bodies have sometimes been held to ransom and have had to pay inflated prices for projects such as school extensions and playgrounds.

In disposing of properties, NAMA could play a role in the provision of social and affordable housing. For example, proposals to purchase or take long leases of suitable blocks of unsold apartments or units for social and affordable housing needs can be implemented, where this can be shown to create a commercial proposition for NAMA

Key Parts of the Legislation

I would now like to deal with the main provisions of the Bill, the Bill contains over 200 sections and I propose to outline the principal aspects of each Part:

Part 1 sets out in detail the purposes of the Act and includes some general provisions such as the definitions used in the Act. It also includes a provision dealing with the sanctioning of certain offences committed under the Act.

Part 2 deals with the purposes, functions and powers of NAMA. NAMA will have all powers to enable it to achieve its purposes and to carry out its functions. In particular, NAMA will have all necessary commercial powers of a financial asset management company enabling it to take full and determined action in relation to bank assets acquired. This Part also provides for the establishment of the agency itself, the appointment of a Board and CEO and makes related provisions.

Part 3 sets out how NAMA will be financed, provides for the issuance of securities, including subordinated securities, for the purchase of bank assets. This Part also sets limits on NAMA's borrowing powers and includes detailed measures in relation to NAMA's accountability. In particular, NAMA must produce certain reports for me as Minister and these will be laid before the Oireachtas. NAMA will be audited by the Comptroller & Auditor General and the Bill provides for the appearance of the Chair and CEO of NAMA before Oireachtas Committees.

Part 4 provides for the designation of participating institutions eligible to have bank assets purchased by NAMA. The decision to designate will be made by me, after consultation with the Governor of the Central Bank and the Financial Regulator, having regard to a number of factors including the systemic importance of the institution to the financial system of this State and whether the designation of the institution is necessary to achieve the purposes of the Act. This Part also provides for the designation of bank assets eligible for acquisition. After consulting NAMA, the Governor of the Central Bank and the Financial Regulator, these assets will be set out in a Ministerial Order.

Part 5 sets out the methodology for the valuation of eligible assets. I have dealt in detail with the valuation process already and indicated that draft regulations to be made under section 77 will also be published today.

Part 6 provides generally for the mechanics of the acquisition by NAMA of bank assets, and makes special provision for foreign bank assets. In particular, this Part requires participating institutions to provide NAMA with certain information regarding its bank assets. This Part also provides that bank assets to be acquired by NAMA will be listed on acquisition schedules drawn up by NAMA and served on the participating institution and makes provision for the terms and conditions of acquisition. This Part includes provisions to ensure that, save in respect of excluded obligations and liabilities, NAMA steps into the shoes of the participating institutions in connection with the banks assets acquired. This Part also makes provision to govern dealings in relation to bank assets acquired or proposed to be acquired.

Part 7 sets out two appeal mechanisms for participating institutions. The first is an appeal against the inclusion of a bank asset in an acquisition schedule on the basis that the bank asset is not an eligible bank asset as defined under the Act. The second appeal relates to either the valuation of individual bank assets or the valuation of the total portfolio acquisition value (being the value paid by NAMA for all bank assets it acquires from a participating institution and its subsidiaries).

Part 8 governs the relationship between NAMA and participating institutions. It requires participating institutions to deal with NAMA in good faith. It also provides for the servicing of assets by participating institutions on NAMA's behalf, and includes provision for the making of directions in respect of this. This Part also makes provision enabling NAMA to agree an incentivisation arrangement with the participating institutions in relation to the servicing of assets.

Part 9 gives certain powers to NAMA to allow it to effectively deal with bank assets transferred to it. NAMA will be provided with powers necessary to enforce security relating to bank assets, including the appointment of statutory receivers and NAMA can, upon receipt of a Court order, be vested with ownership of land underlying the bank asset. To deal with the danger that persons might seek to impede NAMA's operations in particular ways, this Part also provides NAMA with very limited powers to compulsorily obtain land or interests in land.

Part 10 deals with legal proceedings. It includes provisions that will protect the operation of NAMA in particular by enabling it to elect to be substituted in proceedings and by ensuring that, where appropriate, the only remedies available are those that will not affect the bank asset.

Part 11 governs the disclosure of confidential information by participating institutions to NAMA and by NAMA to certain other bodies. This Part also generally prohibits the disclosure or use of confidential

information for personal gain by NAMA staff, Board members or NAMA service providers. The Part also includes certain information sharing provisions including between NAMA and the Revenue Commissioners and between me, as Minister, the Governor of the Central Bank and the Financial Regulator.

Part 12 deals with the conduct of participating institutions and allows the Financial Regulator, with my approval as Minister, to direct participating institutions to provide certain reports. This Part also includes provision for the drafting by participating institutions of restructuring or business plans.

Part 13 covers various miscellaneous matters. These include providing that NAMA can avoid certain transactions designed to defeat, delay or hinder the acquisition by NAMA of an eligible bank asset, or to impair the value of an eligible asset. The Part also includes certain taxation related provisions and makes it an offence to lobby NAMA.

Part 14 relates to the review of NAMA's operation. I, as Minister, may at any time require NAMA to report on the progress it has made in discharging its functions under the Act and I will assess at 31 December 2012 and thereafter every 5 years the extent to which NAMA has achieved its objectives. The Part also provides that the Comptroller and Auditor General will report at 31 December 2010 and thereafter every three years on the progress being made by NAMA in reaching its objectives.

Part 15 deals with technical amendments to certain other Acts which are generally set out in the Schedules.

The Schedules deal with a number of technical amendments to other legislation. One of the key amendments in the Schedules is in respect of the Taxes Acts and has the effect of restricting the amount of a participating institution's taxable trading income which can be reduced by losses carried forward, including losses arising from the NAMA process.

I also propose to bring forward a number of Committee Stage Amendments. The main proposed amendment is that windfall gains on rezoned land will be subject to Capital Gains Tax at the rate of 80%.

Conclusion

Since this crisis began a year ago, the sole objective of the Government's actions has been the common good. The common good of this country requires, first and foremost, a return to economic growth. Economic recovery is dependent on three key factors. The first is getting the public finances back in order: that work is well underway and will be debated in this House when I bring forward the Budget in December.

The second is restoring our competitiveness by reducing our cost base. The final key ingredient is a healthy banking system that will serve the needs of the wider economy. Without a properly functioning banking system, we will not have economic recovery. It is as simple as that. Having stabilised the financial institutions over the last year, we must now move to cleanse them of their infection and return them to full health. The necessary controls have been included in our plan to ensure that the interests of taxpayers have and will be protected throughout the process of repair. And the reforms I will introduce to our regulatory and supervisory structures will ensure that there will be fair, but forceful, oversight of the banking sector.

I want to thank those in various government departments and agencies as well as my financial and legal advisors who have worked incredibly hard over the last year in highly pressured conditions to deal with this crisis. The suggestion that in setting up NAMA and in drawing up this legislation, they were somehow colluding in some conspiracy to protect narrow sectional interests is unworthy of any member of this House. Their work has been entirely in the national interest and history will show that to be the case.

Let nobody underestimate the scale of the task before us. Our banking system during the boom years was driven at reckless speeds, and when it hit the wall last September the damage was huge. Our banking system needed radical surgery. We never once shirked our responsibilities or shied away from taking bold actions when we judged that such actions were needed. Others had the luxury of indulging in abstractions and recrimination. The Government had to act and we did. Our critics say we should have done things differently. They are entitled to their views. But nobody can deny that this Government took brave and decisive steps when they were needed. We took these actions because we care about the economy and the welfare of the citizens of this country.

As President Obama said in a speech about the banking crisis in the United States earlier this year: "...whether we like it or not, history has shown repeatedly that when nations do not take early and aggressive action to get credit flowing again, they have crises that last years and years instead of months and months — years of low growth, years of low job creation, years of low investment, all of which cost these nations far more than a course of bold, upfront action."

NAMA is our "bold, upfront action." A Cheann Comhairle, I commend this Bill to the House."

Appendix V

AIB's Interim Management Statement (dated 18 November 2009)

This Appendix V contains the interim management statement issued by AIB on 18 November 2009. The information contained in this Appendix V is unaudited and relates to forecast or estimated financial information.

“Allied Irish Banks, p.l.c. (“AIB”) [NYSE:AIB] is issuing the following update on business and key performance trends. Please note that all trends in the update are in constant currency terms.

Overview

Our financial results for 2009 are expected to reflect solid operating profits before bad debt provisions set against a background of a very difficult operating environment. We expect operating profit to be achieved in all divisions — Republic of Ireland, Capital Markets, UK and CEE.

The bad debt charge will be heavily weighted to the loans that have been identified for potential transfer to NAMA over the coming months. These loans are predominantly in our Republic of Ireland and, to a much lesser extent, UK divisions. Excluding the Republic of Ireland, the other three divisions collectively are expected to remain profitable this year underlining the importance of international diversification. It is expected that Capital Markets and CEE have little or no assets that will transfer to NAMA. M&T continues to perform well relative to its US regional banking peers and its Q3 financial performance exceeded market consensus expectations.

Our principal source of funding continues to be our stable customer deposits which at the end of September comprised 50 per cent. of our total funding, up 1 per cent. since the end of June. In wholesale markets, liquidity is significantly better than in the early part of the year as illustrated by a wider range of counterparties, increased balances across our global funding programmes and our recent un-guaranteed senior debt issues in the public markets. We are experiencing modest improvement in pricing, particularly for shorter duration funding, although term pricing remains elevated and conditions are more challenging than historic norms.

Our capital ratios continue to exceed minimum regulatory requirements and we continue to actively consider the range of potential sources of additional capital as outlined in our statement of 16 September.

Operating profit

Diverse multi-national sources of income and intense management of our cost base is driving an expected underlying operating profit of around €2 billion in 2009 before bad debt provisions. Capital Markets continues to perform very strongly; operating profit from this division is expected to be ahead of the level achieved in 2008 and to be the largest divisional contributor to group profit. The quality of our Polish business and the relatively positive economic conditions in which it is operating is likely to result in a broadly similar operating profit in 2009 relative to 2008. Income pressure and most particularly the cost of customer deposits is the key driver of reduced operating profits in our Republic of Ireland and United Kingdom divisions.

Loan and deposit volumes

Weak demand for credit is likely to result in year end gross customer loans being broadly in line with last year. Increased impairment however is expected to reduce year on year net customer lending by around 4 per cent. The low level of demand is most apparent in Ireland despite our reaffirmed commitment to our domestic market. For example, we anticipate providing around €2 billion of new lending this year to our SME customers, delivered through our extensive branch network, 15 dedicated business centres and 250 relationship managers. We are providing 1 in 3 of all new mortgages and first time buyer drawdowns are currently up this year by around 28 per cent. We are targeting a small increase in our Polish book as we take higher return opportunities, particularly in the personal market. In other international markets our priority continues to be on de-leveraging the balance sheet.

At our half year results presentation we said customer deposits had stabilised following outflows in the first quarter of 2009. This stability has continued and the full year balance is expected to increase over the half year level.

Margins

We expect the net interest margin to reduce by around 25 basis points (bps) from 221 bps in 2008. The primary negative catalyst continues to be the cost of customer deposits partly offset by improving returns on our loan book and higher treasury margins.

Non-Interest Income

Lower fees from banking activity, investment banking and asset management and the cost of the Government Guarantee Scheme will reduce non-interest income in 2009, partly offset by some bond disposal gains. Overall, we expect non-interest income to reduce this year by over 10 per cent.

Costs

Further and ongoing savings are being achieved and are continuing the downward trend in costs. In 2009 we are targeting costs to fall by around 5 per cent. following the 5 per cent. reduction already achieved in 2008. A key driver of this improving trend is the number of people employed which has reduced by over 1,500 in the 9 months to September on a full time equivalent basis. All expense categories across the group are subject to scrutiny and review as we develop further savings initiatives.

Asset quality

Deterioration in our overall loan book continues but the pace of that deterioration is slowing. This trend reflects the significant portion of the book already criticised rather than a material improvement in the quality of the book or operating conditions. The increase in criticised loans in the second half of 2009 is expected to be significantly less than the €18 billion increase in the first half. Additions to impaired loans continue to be heavily weighted to those previously indicated property & construction exposures that may transfer to NAMA. At our half year results presentation we said that a bad debt charge outlook figure for 2009 was likely to be overtaken by the implementation of the first phase of NAMA. Accordingly we did not revise the previously guided figure of €4.3 billion provided in May. We did however note that in light of the continuing deterioration in the economies in which we operate, particularly in Ireland, the risk to that figure of €4.3 billion was that it would be higher. We now expect the bad debt charge for 2009 to be around €5.3 billion, with the increase predominantly on the €24 billion portfolio indicated in September by the Minister for Finance that may transfer to NAMA. Of that €24 billion portfolio, c. €6.7 billion was impaired at the half year and we expect the impaired element to have increased at year end by c. €3.8 billion to €10.5 billion. In our statement of 16th September our estimate of balance sheet provisions at the end of 2009 for NAMA loans was c. €3.5 billion. We now expect those provisions to be c. €4.2 billion. Accordingly, there is no material change other than timing to our assessment of the combined effect of NAMA writedowns and bad debt charges on our profit and capital.

An outline estimated profile of the €24 billion loans indicated in September that may transfer to NAMA is as follows:

	Landbank & Development € billion	Associated € billion	Total € billion
Republic of Ireland	14.2	6.4	20.6
United Kingdom	2.6	0.7	3.3
Rest of World	<u>0.2</u>	<u>—</u>	<u>0.2</u>
	17.0	7.1	24.1
Performing at 30 June 2009			c.17.4
Impaired at 30 June 2009			c.6.7
Forecast performing at 31 December 2009			c.13.6
Forecast impaired at 31 December 2009			c.10.5
Balance sheet provisions at 30 June 2009			c.2.3
Forecast balance sheet provisions at 31 December 2009			c.4.2

We continue to work closely with the NAMA team. In our statement of 16 September we noted that the Minister guided an average industry wide discount of 30 per cent. for NAMA eligible loans and had stressed the variability between banks. Based on our work to that point, we said then that we expected the discount for AIB loans that may transfer to NAMA to be less than the estimated industry wide average of 30 per cent. The actual outcome however can only be known following an extensive exercise in which those loans are individually valued on a case by case basis by NAMA. We expect to provide an updated estimate of the likely effect on AIB when there is more clarity on matters such as the final amount of loans to be transferred, pricing and transfer timing of loans, fees payable to AIB, fair value of the consideration to be received and due diligence is completed. In the meantime, it is our view that there is no reason to believe that the average discount applicable to AIB's NAMA eligible loans will fall significantly outside the Minister's guidance of 30 per cent.

Following the expected enactment of the NAMA legislation an application by AIB to participate in the NAMA bank asset acquisition scheme is to be considered by our shareholders at an EGM to be convened shortly.

In our Republic of Ireland division loan book of around €78 billion, c. €57 billion is “non-NAMA” of which around €27 billion is in personal mortgages. Recent reviews show some signs of stabilisation and the overall provision requirement in the portfolios comprising the aforementioned €57 billion has not materially increased since the half year. At the end of 2009 the €27 billion mortgage portfolio is expected to include close to €500 million of impaired loans and have balance sheet provisions of c. €125 million. The remaining €30 billion of the pro forma Republic of Ireland division loan book is expected to include impaired loans of c. €3.7 billion and will have balance sheet provisions of c. €1.8 billion.

In our other divisions — Capital Markets, UK and CEE, there are signs of stabilisation and in the second half of 2009 we are expecting the bad debt provision charges to be lower in Capital Markets & CEE and broadly similar in the UK relative to the charges incurred in the first half to June. Impaired loans and bad debt charges are clearly higher than in previous years, reflecting more difficult conditions in all markets and the prudent balance sheet provisions in each division reflects these conditions. In the UK, property & construction (including €3.3 billion of aforementioned loans that could transfer to NAMA) and leisure are the sectors receiving our particularly close attention. Leveraged transactions in Capital Markets and property and consumer loans in Poland are also being tightly managed.

Funding

As already noted, our customer franchise deposits are a stable and growing part of our overall funding. Our customer loan to deposit ratio was at 152 per cent. at the end of September, down from 156 per cent. at the end of June and we continue to target a progressive reduction in this ratio. NAMA will be a major liquidity event in the Irish market, materially reducing loan to deposit ratios and the NAMA bonds received as consideration for loans that may be transferred to NAMA would substantially increase our level of qualifying liquid assets. Our level of qualifying liquid assets/contingent funding was €54 billion at the end of September.

Our recent success in sourcing non Government guaranteed and unsecured deposits represents a key positive change in market sentiment. In recent weeks we have raised a total of €1.75 billion of term funding in 2 separate bond issues for 3 years and 5 years respectively. There was strong demand for both issues, which were heavily oversubscribed by a wide range of overseas investors.

Agreement on the terms and conditions of a modified Government guarantee is expected shortly. The fee is expected to be higher than that for the existing guarantee, although applicable to what we anticipate will be an increasingly lower level of covered liabilities.

Capital

Our core tier 1 capital ratio at the end of September was c. 8.5 per cent. and reflected the accelerated timing of bad debt provisions on the loans that may transfer to NAMA.

In our 16th September statement we referred to our intention to raise capital over the next 12/18 months and we outlined the potential sources of that capital — the equity market, a strategic investment and asset sales/business disposals. In that statement we also acknowledged the Government’s intent to assist and support capital raising measures and its appreciation that such measures should be taken over a reasonable timeframe. Our firm intention and resolve to strengthen our capital position is unchanged. Market expectations and regulatory requirements for banks to hold higher levels of capital continue to evolve and in that context we are reviewing the quantum and ratios appropriate for AIB.

In the 3 months to the end of September our shareholders’ equity increased by c. €333 million, due to an increase in the fair value of Available for Sale securities.

Interaction with European Commission (EC)

The EC will consider over the coming months the competitive effects of state aid on our business and markets. We are engaging constructively with the EC and our restructuring plan has been submitted in recent days and accordingly consideration of potential outcomes is premature at this very preliminary stage.

Further details of our performance and outlook will be provided in our 2009 Preliminary Results announcement scheduled for 3 March 2010.’

PART II

RISK FACTORS

The following risks should be considered carefully by Shareholders before deciding how to vote on the NAMA Resolution.

This Part II addresses the existing and future material risks to AIB's business. The risks below are those risks which the Directors currently believe to be material to the Group. Some risks are not yet known and some that are not currently deemed or considered to be material could later prove to be material. All of these risks could materially affect AIB, its income, operating profits, earnings, net assets, liquidity and capital resources. In such a case, the market price of Ordinary Shares may decline and Shareholders could lose all or part of their investment.

Shareholders should read this Part II in conjunction with the letter from the Executive Chairman of Allied Irish Banks, p.l.c. and the Appendices thereto contained in Part I of this document.

This Part II is divided into risks relating to AIB and risks relating to the NAMA Participation.

Risks relating to AIB

AIB's businesses, earnings and financial condition have been, and will continue to be, affected by the current crisis in global financial markets.

The crisis in the global financial system has resulted in a period of significant turbulence and uncertainty, with unprecedented levels of illiquidity, resulting in significant problems at many commercial banks, investment banks and insurance companies. In response to major market instability and illiquidity, the Government, the governments of the other EU member states and the US government have intervened in order to inject liquidity and capital into, and to stabilise, financial markets, and, in some cases, to prevent the failure of systemically important financial institutions. Despite those measures, the stressed conditions in liquidity, funding and credit markets have continued, albeit with some easing since the second quarter of 2009. Heightened liquidity risks remain a significant factor at both a systemic and an individual institution level. The profitability of AIB has been adversely affected by the deterioration in general economic conditions in the economies in which it operates, as well as by financial market volatility and the decrease in the availability, and increased costs, of wholesale funding.

In addition, recessionary conditions have been present in Ireland and the United Kingdom, as well as in some other countries where AIB operates. Those conditions have negatively impacted the availability and cost of credit for financial institutions and produced downward pressure on the share price of AIB and other financial institutions. Those adverse conditions have also had a negative effect on AIB's business activities, the vast majority of which are dependent on the level of banking, finance and financial services required by its customers and on the overall economic and business environment in the markets in which it operates. In particular, levels of borrowing are heavily dependent on customer confidence, market interest rates and other factors that affect the economy.

Demand for housing and commercial and other property has also fallen considerably. Any continued deterioration in property prices in Ireland and/or the United Kingdom could further adversely affect AIB's financial condition and results of operations. If those levels of market disruption and volatility continue, deteriorate or abate and then recur, AIB will experience further reductions in business activity, lower demand for its products and services, increased funding costs as a result of rating downgrades or otherwise, funding pressures, lower share prices, decreased asset values, additional write-downs and impairment charges and lower profitability.

AIB's financial performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates, which may no longer be accurate given the general economic instability. While certain recent economic forecasts are being revised upwards, there can be no assurance of a return to sustainable economic growth, which may affect AIB's earnings and financial condition. Moreover, any such growth is expected to be modest and slow. The precise nature of all the risks and uncertainties that AIB faces as a result of current economic conditions cannot be predicted and many of these risks are outside AIB's control.

Lack of liquidity is a risk to AIB's business and its ability to access sources of liquidity has been, and will continue to be, constrained.

Liquidity risk is the risk that a bank will be unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with a consequent failure to repay depositors and fulfil commitments to lend, a risk that is inherent in banking operations.

AIB is subject to minimum liquidity requirements set by regulators in Ireland and other countries in which it operates. These regulatory minimum liquidity requirements may increase in the future and/or the Financial Regulator may change the manner in which it applies liquidity requirements to banks, including AIB.

While liquidity in wholesale markets has been significantly better than in the early part of the year as illustrated by a wider range of counterparties, increased balances across global funding programmes and recent unguaranteed debt issues, the perception of counterparty and country risk has remained high. This negative perception has led to reductions in, and increased costs of, wholesale funding. Accordingly, in common with many other banks, AIB's access to traditional sources of liquidity has been constrained. In addition, negative sentiment towards the Irish market has created additional funding challenges for Irish institutions.

AIB's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its operations, actively managing its maturity profile, maintaining a sufficient stock of high-quality liquid assets to meet obligations as they fall due and carefully monitoring its undrawn commitments and contingent liabilities. However, AIB's requirements to access sources of liquidity (for example, through the issue or sale of financial and other instruments) during the recent period of global liquidity stress has been constrained and has required it to source more short-term funding. Although AIB is experiencing modest improvement in the price it pays for wholesale funding, particularly for shorter duration funding, the pricing of funding remains elevated and conditions are more challenging than historic norms. This has resulted in an overall reduction in liquidity and AIB has increased its recourse to liquidity schemes provided by central banks.

Rating downgrades create the risk that corporate and institutional counterparties may look to further reduce aggregate credit exposures to banks, which could increase the Group's cost of funding or limit its access to liquidity.

Furthermore, like many banks, AIB relies on customer deposits to meet a considerable portion of its funding requirements and those deposits are subject to fluctuation due to certain factors outside AIB's control, such as a loss of confidence or competitive pressures which could result in a significant outflow of deposits within a short period of time. AIB's customer deposits have stabilised following outflows in the first quarter of 2009. At 30 September 2009, customer deposits represented 50 per cent. of AIB's funding, an increase of 1 per cent. since 30 June 2009. Further information is set out in Part IV ("*Capital Resources and Liquidity*") of this document. Any further material decrease in AIB's deposits could, particularly if accompanied by one of the other factors described above, have a negative impact on AIB's liquidity unless corresponding action is taken to improve the liquidity profile of other deposits or to reduce or liquefy other less liquid assets.

AIB is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.

AIB's ability to maintain its targeted regulatory capital ratios could be affected by a number of factors, including the level of risk-weighted assets. In addition, AIB's core tier 1 ratio will be directly impacted by its after-tax results which could be affected, most notably, from greater than anticipated asset impairments.

AIB is required by regulators in Ireland to maintain adequate capital comprising minimum capital ratios of four per cent. for tier 1 capital and eight per cent. for total capital. Although the Company's capital ratios continue to exceed these minimum regulatory requirements, the Company is subject to the risk of having insufficient capital resources in the longer term to meet the minimum regulatory capital requirements. Furthermore, AIB's level of risk-weighted assets may differ depending on the assumptions used in modelling its risks in terms of the internal-ratings-based approach under the Capital Requirements Directive (comprising Directive 2006/48/EC and Directive 2006/49/EC). Under this approach, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in financial markets worsen.

The deterioration in credit quality of AIB's loan portfolio may exceed expectations and generate an additional capital requirement in the longer term. Any failure by AIB to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on AIB's operating results, financial condition and prospects. If AIB is required to strengthen its capital position, it may not be possible for it to raise additional capital from financial markets. That could lead to further capital injections by the Government, which would dilute the interests of Shareholders.

AIB's results would be adversely affected in the event of further goodwill impairment.

The Group capitalises goodwill, which is calculated as the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. The Group tests goodwill for impairment annually or more frequently, at external reporting dates, when events or circumstances indicate that goodwill might be impaired. An impairment test involves comparing the recoverable amount (the higher of value in use and fair value less cost to sell) of an individual cash-generating unit with its carrying value. The value in use and fair value of the Group's cash generating units are affected by market conditions and the performance of the economies in which the Group operates. AIB recorded an impairment charge of €200 million on its investment in M&T Bank Corporation and €45 million in respect of its investment in Bulgarian American Credit Bank in the six months ended 30 June 2009. The Group considers that current market conditions could further impact the value of goodwill held in

its accounts which, in turn, could result in the recognition of additional impairment losses, although this would not impact regulatory capital.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately turn out to be inaccurate and the value realised by AIB for its assets may be materially different from the current or estimated fair value.

Under International Financial Reporting Standards, AIB recognises at fair value: (i) derivative financial instruments; (ii) financial instruments at fair value through profit or loss; (iii) certain hedged financial assets and financial liabilities; and (iv) financial assets classified as available-for-sale, each as further described in “Accounting Policies” on pages 119 to 135 of the Annual Report 2008, which are incorporated by reference into this document. Generally, to establish the fair value of these instruments, AIB relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. The best evidence of fair value is quoted prices in an active market. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions. The deterioration of the world’s financial markets has considerably reduced the amount of the Group’s financial instruments that are valued on the basis of quoted prices in active markets. The absence of quoted prices increases reliance on valuation techniques and requires AIB to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex and the assumptions, judgements and estimates AIB is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, appropriate credit spreads, residential and commercial property price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had, and could continue to have, an adverse effect on AIB’s results of operations, financial condition and future prospects.

In the past two years, financial markets have experienced stressed conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity. Those stress conditions resulted in AIB recording significant fair value write-downs on its credit market exposures in 2008 and further fair value write-downs in the first half of 2009. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant changes in the fair values of AIB’s exposures, even in respect of exposures, such as credit market exposures, for which AIB has previously recorded fair value write-downs. In addition, the value ultimately realised by AIB may be materially different from the current or estimated fair value. Any of these factors could require AIB to recognise further fair value write-downs or recognise impairment charges, any of which may adversely affect its results of operations, financial condition and future prospects.

AIB is subject to inherent risks concerning customer and counterparty credit quality and the actual or perceived failure or worsening credit of customers, other financial institutions and counterparties, which could adversely affect AIB’s results of operations, financial condition and future prospects.

Credit risk is defined as the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that pledged collateral does not fully cover the lender’s claims. Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of AIB’s businesses. AIB’s most significant credit risks arise from lending activities to customers and banks, its trading portfolio, available for sale and held to maturity financial investments, derivatives and “off-balance sheet” guarantees and commitments. For further information on such activities, see “Financial Investments available for Sale”, “Financial Investments held to Maturity”, “Contractual Obligations” and “Off-balance Sheet arrangements” on pages 55 to 58 of the Annual Report 2008 which are incorporated by reference into this document.

As at 30 June 2009, the Group’s asset quality had deteriorated when compared to the position as at 30 June 2008, most notably in property portfolios. The overall bad debt provision increased from €137 million, or 0.21 per cent. of average loans, for the six months ended 30 June 2008 to €2.37 billion, or 3.58 per cent. of average loans, for the six months ended 30 June 2009 (the overall bad debt provision charge, for the 12 months ended 31 December 2008 was €1.82 billion, or 1.37 per cent. of average loans). Criticised loans (being loans requiring additional credit management attention) increased from €15.47 billion, or 11.7 per cent. of total gross loans, as at 31 December 2008 to €33.39 billion, or 25.0 per cent. of total gross loans, as at 30 June 2009, of which €2.99 billion, or 2.3 per cent., were impaired as at 31 December 2008 and €10.8 billion, or 8.1 per cent., were impaired as at 30 June 2009. Asset quality and risk management remain under intense focus.

The Irish and UK economies, together with other economies in which AIB operates, are in a very challenging phase, with continuing uncertainty as to the depth of the slowdown in the global economy, uncertainty in relation to interest

and currency exchange rates, unemployment and the direction of property markets. There are increasing signs from leading indicators that the global economic downturn is bottoming out, but that any recovery is expected to be slow. In particular, as a result of Ireland's significant reliance on the construction industry, economists expect a recovery in its economy to lag behind that of the wider European Union. As a result, AIB has seen and expects to continue to see adverse changes in the credit quality of its customers and counterparties, with increasing defaults across a range of sectors. Ultimately, should these trends persist they may lead to higher impairment charges, higher costs, additional write-downs and lower profitability for AIB.

In addition, AIB's exposure to credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure that is due to AIB, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently experienced. Any such losses could have a material adverse effect on AIB's future performance and results of operations. Furthermore, exposure to particularly vulnerable sectors in the Irish or UK economies, such as property and construction, could result in reduced valuations of the assets over which AIB has taken security and consequently adversely impact its earnings.

AIB has been exposed to increased counterparty risk as a result of financial institution failures during the global economic crisis, and will continue to be exposed to the risk of loss if major corporate borrowers or counterparty financial institutions fail or are otherwise unable to meet their obligations.

AIB's business performance could be affected if its capital is not managed effectively.

Effective management of AIB's capital is critical to its ability to operate its businesses, to grow organically and to pursue its strategy. Any change that limits its ability to manage the Group's balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets or the inability to syndicate loans as a result of market conditions or otherwise) or to access funding sources could have a material adverse impact on its financial condition and regulatory capital position.

Market expectations and regulatory requirements for banks to hold higher levels of capital continue to evolve. With the continued uncertainty in financial markets, there could be a market expectation for internationally active banks to hold levels of core tier 1 capital and shareholders' equity at levels higher than those required by regulators. This could lead to AIB being required to hold higher levels of capital than currently envisaged. That requirement could reduce AIB's operational flexibility and reduce earnings growth.

AIB's businesses and financial condition could be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in Ireland, the United Kingdom, the European Union, the United States and elsewhere.

AIB has engaged, and will continue to engage, in discussions with relevant regulators, including in Ireland, the United Kingdom, the European Union, the United States and elsewhere, on an ongoing and regular basis, informing them of operational, systems and control evaluations and issues as deemed appropriate or required. Accordingly, it is possible that any matters discussed or identified may result in investigatory actions by regulators, increased costs being incurred by the Group, remediation of systems and controls, public or private censure or fines. Any of those events or circumstances could have a significant impact on the Group's results of operations, financial condition and future prospects.

There is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in Ireland and elsewhere. The nature and impact of future changes in policies and regulatory action are not predictable and are beyond AIB's control but could have an adverse impact on AIB's businesses and earnings.

AIB is subject to certain commitments and restrictions in relation to the operation of its business under the CIFS Scheme and the NPRFC Investment, and will be subject to restrictions under the proposed ELG Scheme and the NAMA Programme, which may serve to limit the Group's operations and impact the interests of Shareholders.

The Government, having acknowledged AIB's systemic importance to the Irish economy, has taken measures (or announced proposed measures) to improve liquidity. In respect of AIB, these measures include: (i) the CIFS Scheme, announced in September 2008, under which the Minister for Finance guaranteed certain types of liabilities of certain participating institutions (including AIB and certain of its subsidiaries) for a two-year period from 30 September 2008; (ii) AIB issued €3.5 billion of preference shares and 294,251,819 warrants to subscribe for Ordinary Shares to the NPRFC on 13 May 2009 as part of the NPRFC Investment; and (iii) the draft ELG Scheme, which was announced to facilitate the ability of credit institutions in Ireland to issue debt securities and take deposits with a maturity after September 2010 of up to five years on either a guaranteed basis (guaranteed by the Minister for Finance) or unguaranteed basis. Participating institutions in the ELG Scheme will also be subject to conduct, transparency and reporting requirements in relation to the operation of their business.

Under the terms of the CIFS Scheme and the NPRFC Investment, AIB is subject to certain commitments and restrictions in relation to the operation of its business. These include: (i) additional reporting and consultation requirements with the Minister for Finance and the Financial Regulator; (ii) the appointment of a number of Government-nominated directors to the Board of AIB; (iii) restrictions on the payments of dividends, restrictions on expansion of capital and lending activity, restrictions on the implementation of buy-back and share redemptions and restrictions on Group balance sheet growth; (iv) restrictions on the acquisition of shares in other credit or financial institutions, restrictions on the establishment of subsidiaries and the entering into of new business; (v) restrictions on changes to AIB's share capital without the approval of the NPRFC, subject to certain exceptions; (vi) restrictions on executive pay and compensation; and (vii) commitments to increase lending to small and medium enterprises and first-time buyers.

If the annual cash dividend on the 2009 Preference Shares under the NPRFC Investment is not paid, AIB must issue Ordinary Shares by way of bonus issue to the holders of the 2009 Preference Shares, unless it is prohibited by law from doing so. If such an issue occurs, it will result in a dilution of the interests of the Shareholders.

Governmental liability guarantee schemes are subject to revocation or change, which may have a negative impact on the availability of funding in the markets in which AIB operates.

Governmental liability guarantee schemes are subject to revocation or change, based on changing economic and political conditions in the jurisdiction of the relevant scheme. In particular, the CIFS Scheme is scheduled to terminate on 29 September 2010 and the proposed ELG Scheme will only guarantee liabilities with maturities of no more than five years that were incurred prior to 29 September 2010. To the extent that liability guarantee schemes are revoked or changed in a manner which diminishes their effectiveness, or are not established where such schemes have been proposed or are terminated, or to the extent those schemes fail to generate additional funding in the relevant markets in which those schemes operate, AIB, in common with other banks, may continue to face limited access to, or higher costs associated with funding alternatives, which could have a material adverse impact on AIB's results of operations, financial condition and future prospects.

The CIFS Scheme entitles the Minister for Finance to revoke in whole or in part the guarantee to a participating institution in certain circumstances. If the Minister revokes the guarantee provided to AIB, all of AIB's fixed-term guaranteed liabilities outstanding at that time would nevertheless continue to have the full benefit of the guarantee up to 29 September 2010 or their maturity, whichever is earlier, and all guaranteed liabilities, including on-demand deposits, will be protected by notice of at least 90 days prior to any financial institution being removed from the CIFS Scheme. However, the revocation of the Ministerial guarantee could have a material adverse effect on the availability of funding to AIB.

AIB's borrowing costs and its access to the debt capital markets depend significantly on its credit ratings.

AIB's cost of borrowing is influenced by, among other things, its credit ratings. Any downgrading in AIB's credit ratings may limit AIB's access to the debt capital markets and may trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Credit ratings of AIB are also important to AIB when competing in certain markets, such as over-the-counter derivatives. As a result, any further downgrading in AIB's credit ratings could adversely affect its access to liquidity and competitive position, increase its funding costs and have a negative impact on its results of operations, financial condition and future prospects.

Risks relating to the NAMA Participation

If the Company does not participate in the NAMA Programme or if the NAMA Participation fails to provide the expected benefits, it may result in an increase in uncertainty relating to the Company's business and financial performance which may, in turn, result in a further loss of confidence in the Company which would have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme, the Board believes that the Company will benefit from a reduction in the uncertainty relating to the Company's business and financial performance and a restoration in confidence in the Company. Such reduction in uncertainty and resulting increase in confidence is expected to, among other things, reduce the leverage on the Group's balance sheet, improve AIB's liquidity and funding position, provide greater access to wholesale funding markets and enhance AIB's ability to access capital in the future.

However, if the Company does not participate in the NAMA Programme or if the expected benefits fail to materialise, the Company may suffer the following adverse consequences:

- the Company's efforts to restore and sustain the stability of its business on a long-term basis could be significantly restricted;
- the Company would continue to be exposed to higher potential losses over a longer period on its NAMA Assets;
- the Company would not benefit from the positive impact on the Group's leverage and increased liquidity that the NAMA Bonds are expected to provide;

- the confidence of wholesale funding and capital markets in AIB would restrict the Company's ability to access wholesale funding with negative consequences for the quantum, duration and cost of any such funding;
- capital markets may expect the Company to maintain higher levels of capital but the Company's ability to access such increased levels of capital may be significantly affected as a result; and
- it would not be possible to put in place the necessary levels of capital or funding commitments in an acceptable time period to support and reinforce confidence in AIB and, therefore, there is a very significant risk that AIB will have to rely, to a greater extent, on Government support to sustain its business. The terms of this support are likely to result in partial or full nationalisation of AIB.

In addition, if the Company does not participate in the NAMA Programme, the Company's participation and involvement (or the terms of such participation and involvement) in any current or future Government support schemes may be adversely affected.

There is also no certainty that the NAMA Participation will eliminate or reduce the need for further capital support, including from the Government, in order to put in place the levels of capital that would be expected by the market and that need may be increased depending on a number of factors including the consideration received by AIB for its NAMA Assets.

There is no certainty that if the Company applies to the Minister to be designated as a participating institution in the NAMA Programme, the Minister will so designate the Company or that the Minister will agree to exclude certain subsidiaries of AIB from the NAMA Programme.

To participate in the NAMA Programme, the Company must apply to the Minister within a specified period to be designated as a participating institution under the NAMA Act. Following the making of an Application, the Minister, after consultation with the Governor of the Central Bank and the Financial Regulator, may designate the Company as a participating institution. The Minister may not make such designation unless he is satisfied that the Company is systemically important to the financial system in Ireland and that the acquisition of the Group's NAMA Assets is necessary to achieve the purposes of the NAMA Act, having regard to a number of factors. While the Government has acknowledged AIB's systemic importance to the Irish economy in the context of the CIFS Scheme and the NPRFC Investment, there is no certainty that the Minister will designate the Company as a participating institution in the NAMA Programme or that the Minister will agree to any request that might be made by the Company that particular subsidiaries of the Company be excluded from the NAMA Programme. Should the Company not be designated as a participating institution, the Company may suffer the adverse consequences set out above which may have a material adverse effect on the Group's results, operations, financial condition and future prospects. Should particular subsidiaries of the Company not, as the Company may request, be excluded from the NAMA Programme, then this may result in the Company's portfolio of performing loans becoming depleted and its asset base being reduced.

If the Company participates in the NAMA Programme, the Company will not have any control over the nature, number and valuation of its NAMA Assets that are to be transferred to NAMA and the timing for the transfer of such assets to NAMA.

When an institution is designated as a participating institution for the purposes of the NAMA Programme following an Application to the Minister for Finance, the categories of NAMA Assets to be transferred to NAMA will be identified in an Acquisition Schedule. When that Acquisition Schedule is served on the participating institution, all material powers and discretions in respect of those NAMA Assets will vest in NAMA. Accordingly, if AIB participates in the NAMA Programme, NAMA will determine: (i) what (if any) NAMA Assets (or parts of a NAMA Asset) of AIB it will acquire; (ii) when NAMA will acquire the asset or assets (or parts of assets); and (iii) (subject to the limited entitlement to seek a review of NAMA's valuation) the value of those assets and the consideration that NAMA or the Minister will pay for them pursuant to the valuation methodology specified in the NAMA Act and in the Valuation Regulations.

The NAMA Draft Business Plan indicates that NAMA will acquire from the Company approximately €17.0 billion in land and development loans and €7.1 billion in Associated Loans and that the stated aim of the Government is to have the acquisition process completed by July 2010. However, if the Company participates in the NAMA Programme, there cannot be any certainty regarding the actual valuation that will be applied to any particular asset that NAMA may acquire from the Company, as the statutory valuation review procedure offers limited protection to a participating institution, and the timescale within which acquisitions will be made is uncertain. In his statement of 16 September 2009, the Minister estimated an average industry-wide discount of 30 per cent. to the gross value of the NAMA Assets. However, the discount applicable to the Company's NAMA Assets acquired by NAMA will not be known until such time as each loan has been individually valued by NAMA and that valuation has been served on the Company by NAMA. This may result in AIB suffering greater than expected losses on the acquisition of the

Group's NAMA Assets and the discount applicable to the Group's NAMA Assets may not reflect the actual long-term economic value of the assets, therefore not adequately compensating the Company for the sale of those assets.

Given the uncertainty relating to the valuation to be attributed to individual assets, there can be no assurance that: (i) the benefits received by AIB of participating in the NAMA Programme will not be outweighed by the costs; and (ii) the actual discount on the acquisition by NAMA of the Company's NAMA Assets will not be greater than the Company expects. In addition, the terms and conditions of the NAMA Bonds and the NAMA Subordinated Bonds to be issued to the Company in consideration for its NAMA Assets are uncertain and may include terms that are unfavourable to the Company.

The lack of control by AIB over the nature, number and valuation of NAMA Assets that are to be transferred to NAMA may result in more performing loans than anticipated being transferred to NAMA. NAMA may acquire from AIB NAMA Assets that AIB does not consider to be eligible NAMA Assets. As a result, the Company's portfolio of performing loans may be depleted and its asset base reduced. In addition, the transfer of certain loans to NAMA may result in a negative reaction from the relevant borrowers which could result in a lower number of NAMA Assets transferring to NAMA, a negative impact on future levels of business and potential deposit withdrawals by such borrowers. Any of these events may serve to limit the Group's operations and could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme, the value of Associated Loans that NAMA acquires from the Company could be greater than the Company's estimated value of €7.1 billion.

If the Company participates in the NAMA Programme, the value of Associated Loans that NAMA acquires from the Company could be greater than the Company's estimated value of €7.1 billion. The Company's estimate of €7.1 billion of Associated Loans was based on its own criteria for assessing Associated Loans. NAMA is entitled to acquire loans of associated debtors and the definition of that term in the NAMA Act could be interpreted by NAMA in a way that is broader than the criteria applied by the Company in estimating the value of its Associated Loans and, therefore, NAMA could acquire Associated Loans with a value of greater than €7.1 billion and the Company's portfolio of performing loans could be depleted and its asset base reduced to a greater extent than that anticipated by AIB.

The financial support provided or to be provided by the Government to the Company under the CIFS Scheme, the NPRFC Investment and the proposed ELG Scheme has been, is and will be subject to review by the European Commission under the EU state aid rules. Pursuant to the Commission's review of the NPRFC Investment, the Government has submitted a restructuring plan for the Company (prepared by the Company) for approval by the European Commission. The outcome of those reviews is uncertain and may involve the imposition of conditions that may be materially adverse to the Group's interests. In addition, the NAMA Programme will be subject to state aid review by the European Commission, the outcome of which is uncertain and may involve the imposition of conditions that may be materially adverse to the Group's interests.

As a result of the financial support provided by the Government to the Company under the NPRFC Investment, the Group was required to prepare a restructuring plan setting out the Group's plans to restructure and return to a position of viability in which it no longer relies on state aid. This restructuring plan, which was prepared by the Group, has been submitted to the European Commission by the Government. The review of that plan by the European Commission is currently at a preliminary stage. The ultimate outcome is uncertain and may be adverse to the Group's interests.

As part of its review, the European Commission is required to consider whether the plan demonstrates that the Group's long-term viability will be assured, that the Group (and its capital holders) make an appropriate contribution to the restructuring costs from their own resources and that measures are taken to limit distortions of competition arising from the financial support provided by the Government to the Group.

Based on a review of the outcome of similar reviews of the restructuring plans of other European banks under the state aid rules, it appears that the European Commission may impose conditions on the Group in connection with the clearance of the restructuring plan that could include:

- compelling the Group to reduce its balance sheet or divest itself of certain businesses, brands or Group branches; and/or
- imposing certain behavioural restrictions on the Group which could include: (i) prohibiting the Group from doing business on more favourable terms than other market participants; (ii) prohibiting the Group from providing certain products to certain markets or segments of markets; (iii) restricting the Group's ability to pay dividends on shares or interest payments on debt securities including hybrid capital instruments; (iv) constraining the market share of the Group in certain market segments; or (v) prohibiting proposed mergers or acquisitions by the Group in Ireland, the United Kingdom or in other EU markets.

AIB is considering a request by the European Commission, in line with its guidelines on restructuring aid to banks, not to pay a discretionary coupon on certain of its hybrid capital instruments (being the £350,000,000 Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities of AIB UK 3LP guaranteed by AIB), which would otherwise have been payable on 14 December 2009. This would trigger provisions to preclude AIB from declaring and paying any distribution or dividend for one year from 14 December 2009 on the Ordinary Shares, the 2009 Preference Shares or certain other securities (being the 7.5 per cent. Step-up Callable Perpetual Reserve Capital Instruments, the Fixed Rate/Floating Rate Guaranteed Non-Voting Non-Cumulative Perpetual Preferred Securities issued by AIB UK 1 LP and the Fixed Rate/Floating Rate Guaranteed Non-Voting Non-Cumulative Perpetual Preferred Securities issued by AIB UK 2 LP). The non-payment of the dividend due on 13 May 2010 on the 2009 Preference Shares would require AIB to issue new ordinary shares equivalent in value to the amount of the annual dividend that would have been payable by way of a bonus issue to the holders of 2009 Preference Shares.

AIB believes that the European Commission's review of the AIB restructuring plan may be prolonged and that the outcome of the review might only be known in approximately three to six months' time, at the earliest. Even then, the ultimate decision taken by the European Commission may be subject to appeal in the European Courts.

As such, at this stage there can be no certainty as to the outcome of the state aid process in connection with the restructuring plan, including the extent of any required amendments to the restructuring plan. In addition, if the NAMA Resolution is not approved by Shareholders, there can be no certainty as to the contents of the restructuring plan or the outcome of the state aid process. Given the possibility of the imposition of conditions by the European Commission in connection with the approval of the restructuring plan, there can be no assurance that the Group will be able to continue to operate all its businesses or divisions in the way they are currently operated and to maintain or improve its revenues and margins, which could adversely affect the Group's results of operations, financial condition and future prospects.

In addition, the European Commission has indicated that government-aided banks should act in accordance with the principles of viability, burden-sharing and competition in advance of formal conditions being imposed. If the Group should decide not to act in accordance with these guidelines, for example in relation to the non-payment of coupons on certain of its hybrid instruments, then this may affect the assessment of any compensatory measures to be imposed on the Group in relation to its restructuring plan.

The proposed ELG Scheme, which has received state aid clearance from the European Commission, is subject to the same conditions imposed in connection with the CIFS Scheme, which could have a material adverse effect on the Group's business.

The NAMA Programme will also require state aid clearance from the European Commission. That clearance could be subject to conditions that could have a material adverse effect on the Group's business.

Once the Company applies to participate in the NAMA Programme and before a decision is made on the application, and also when the Company is designated as a participating institution in the NAMA Programme, the Company will be subject to restrictions on the manner in which it may deal with any of its NAMA Assets, irrespective of whether NAMA subsequently acquires any or all of those assets.

An institution that applies to participate in the NAMA Programme will be constrained in the freedom of commercial action that it has in respect of its NAMA Assets before a decision is made by the Minister on the Application. These constraints will apply in respect of all of an applicant institution's NAMA Assets and not merely those that NAMA proposes to acquire or, at a later date, actually acquires; such constraints will also apply in respect of a NAMA Asset of the Company, a part of which asset is acquired by NAMA, and the rest of which remains with the Company.

If AIB applies to participate in the NAMA Programme, it will be obliged to act in relation to its NAMA Assets in good faith, having regard to the purposes of the NAMA Act and to administer, service and deal with its NAMA Assets as would a prudent lender acting reasonably. Also, as an applicant for designation as a participating institution, the Company will require the prior written approval of NAMA to:

- deal with any of its NAMA Assets otherwise than in the ordinary course of its business;
- deal with any of its NAMA Assets so as to prejudice or impair NAMA's prospective interests or priorities in relation to the relevant NAMA Asset;
- deal with any claim that AIB may have, or otherwise take or omit to take any action, if AIB's doing so could reduce, lessen or impair any security, right, etc. in respect of that eligible NAMA Asset; or
- amend or vary any contract relating to a NAMA Asset, unless contractually obliged to do so.

In addition, the Company will be prohibited from making a change to a NAMA Asset that has been included in an Acquisition Schedule that has been served on the Company without the written consent of NAMA.

These obligations of the Company and the constraints on the Company's commercial freedom of action may serve to limit the Group's operations and could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme, the Company may be required to indemnify NAMA in respect of various matters, including NAMA's potential liability to any person arising from any error, omission or misstatement on the part of the Company in respect of its participation in the NAMA Programme.

The NAMA Act provides that NAMA may direct AIB, if it participates in the NAMA Programme, to indemnify NAMA in respect of various potential third-party claims against NAMA, including claims arising from errors, omissions or misstatements that may have been made to NAMA by or on behalf of AIB in connection with the NAMA Programme, and redundancy and other employment-related disputes arising from a transfer of any of its NAMA Assets to NAMA or the enforcement of any security over its NAMA Assets transferred to NAMA. If the Company is required to give such indemnities, any claim by NAMA in respect of those indemnities, depending on its nature, scale and factual context, could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme, the Financial Regulator (with the approval of the Minister) will be entitled to give directions to the Company in relation to its future conduct, which may serve to limit or expand the Group's operations.

The NAMA Act empowers the Financial Regulator (with the approval of the Minister) to give directions to AIB, if it participates in the NAMA Programme, in order to achieve the purposes of the NAMA Act. Such directions may:

- restrict balance sheet growth;
- require balance sheet reduction;
- restrict AIB's ability to take over other credit institutions;
- restrict or require consolidation and merger of participating institutions;
- include the imposition of obligations in relation to the monitoring of lending and balance sheet management and lending guidelines.

If the Company participates in the NAMA Programme, any such direction that is given to it by the Financial Regulator could, depending on its nature, serve to limit or expand the Group's operations in respect of the matter that the direction addresses which could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme, the Minister will be entitled to direct the Company to prepare a restructuring plan and/or a business plan for the Minister's approval. Implementation of either or both of those plans could serve to limit the Group's operations.

The NAMA Act provides that the Minister may, after consultation with the Governor of the Central Bank and the Financial Regulator, direct AIB, if it participates in the NAMA Programme, to prepare a restructuring plan and/or a business plan, to submit a draft of the restructuring plan and/or business plan for the Minister's approval, to amend a draft restructuring plan and/or business plan and to implement the relevant plan(s), once approved. Depending on its content, the implementation of an approved restructuring plan and/or an approved business plan could serve to limit the Group's operations and could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme and if NAMA acquires NAMA Assets from the Company, the Company may be required to provide such services in respect of its NAMA Assets acquired by NAMA as NAMA stipulates on the terms and conditions that NAMA determines.

The NAMA Act provides that a participating institution from which NAMA acquires a NAMA Asset must continue to provide relevant services (such as management, administration, restructuring and enforcement services) in respect of that asset, on any terms and conditions that NAMA may specify, and that NAMA must reimburse the participating institution in respect of the agreed cost of the relevant services that the institution provides.

The giving of any such direction by NAMA (albeit including reimbursement for agreed costs of such services) could, depending on the detailed nature and scope of those terms and conditions, have a material adverse effect on the Group's results of operations, financial condition and future prospects, as the Company could be obliged to perform a potentially substantial amount of work for NAMA in respect of its NAMA Assets over which the Company would have no control.

NAMA will, however, be entitled to engage any other person to provide the relevant services and to perform those services itself. If the Company participates in the NAMA Programme and NAMA engages a person other than the Company to provide relevant services in respect of a NAMA Asset that NAMA acquires from the Company or if

NAMA itself provides the relevant services in respect of that NAMA Asset or if NAMA specifies disadvantageous terms and conditions for the performance of the relevant services by the Company, the Company may lose income and may as a result have surplus human and other resources, any or all of which could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

If the Company participates in the NAMA Programme, it would have to comply with any guidelines that the Minister may issue regarding lending practices and procedures to facilitate the availability of credit to classes of borrowers or potential borrowers, including small and medium-sized enterprises.

The NAMA Act provides that the Minister may issue guidelines regarding lending practices and procedures to facilitate the availability of credit to classes of borrowers or potential borrowers, including small and medium-sized enterprises and relating to the review of decisions of participating institutions to refuse credit facilities. If it participates in the NAMA Programme, the Company would have to comply with any such guidelines. Depending on the content of any lending guidelines, compliance by the Company with their requirements could constrain the Company's commercial freedom of action and require the Company to take lending decisions that it otherwise might choose not to, which could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

The winding-up of NAMA on an insolvent basis or in circumstances where NAMA makes a loss could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

The NAMA Act provides that:

- up to five per cent. of the Government-backed debt securities that will be issued by NAMA to a participating institution in exchange for acquired NAMA Assets may be subordinated. If the Company is issued with Subordinated NAMA Bonds and if NAMA is ultimately wound up on an insolvent basis or otherwise makes a loss, the Company may not recover the full value of those Subordinated NAMA Bonds (or any value in respect of them). The terms and conditions of the Subordinated NAMA Bonds are not known, although they may be referenced to the financial performance of NAMA in totality but not to any part or parts of the individually acquired NAMA Assets from any particular institution; and
- if, on a winding-up of NAMA or after ten years since its establishment or on the dissolution, restructuring or material alteration of NAMA, NAMA has made a loss, and the Minister is of the opinion that such underlying loss is unlikely to be otherwise made good, the Government may impose, as a special tax, a surcharge on the Company's profits in order to recover from the Company a proportionate amount of such loss. The aggregate of all such surcharges may not exceed the actual loss incurred by NAMA and would be apportioned between participating institutions on the basis of the book value of the bank assets acquired from each institution as a proportion of the total book value of the bank assets acquired from all participating institutions. Any surcharge imposed on AIB may not exceed 100 per cent. of the corporation tax (if any) due and payable by AIB in the relevant surcharge period and no surcharge may be imposed until at least ten years after the passing of the NAMA Act.

Accordingly, the winding-up of NAMA and the possibility of a surcharge on the Company's profits to recover a proportionate amount of NAMA's losses could have a material adverse effect on the Group's results of operations, financial condition and future prospects. Further, as the terms of the Subordinated NAMA Bonds are not known and will be settled by the Minister in due course, the Company does not know how onerous the conditions might be that would have to be satisfied before repayment of Subordinated NAMA Bonds, which could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

PART III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE CONTINUING GROUP

Section A: The unaudited Pro Forma Financial Information of the Continuing Group as at 30 June 2009

The unaudited Pro Forma Financial Information of the Continuing Group as at 30 June 2009, and the notes thereto set out below, have been prepared for the purposes of the Listing Rules to illustrate how AIB's participation in the NAMA Programme might have affected the financial position of the Continuing Group if it had occurred in its entirety by 30 June 2009.

The unaudited Pro Forma Financial Information is based on the unaudited Half-Yearly Report 2009 for the Group, prepared in accordance with IAS 34, after applying the adjustments described in the notes set out below. The unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, and it does not constitute statutory financial statements of AIB. Due to its nature, the unaudited Pro Forma Financial Information addresses a hypothetical situation and, therefore, it does not represent what the Group's actual financial position or results would be following the completion of the transfer of the Selected NAMA Assets to NAMA as part of the NAMA Programme.

	Consolidated Balance Sheet of AIB as at 30 June 2009 ⁽¹⁾	Adjustments	Pro forma Consolidated Balance Sheet as at 30 June 2009 ⁽³⁾
		Estimated impact of NAMA Participation ⁽²⁾ (€ million)	
Assets			
Cash and balances at central banks	2,084		2,084
Items in course of collection	388		388
Trading portfolio financial assets	324		324
Derivative financial instruments	5,736	(91)	5,645
Loans and receivables to banks	4,954		4,954
Loans and receivables to customers	129,031	(21,904)	107,127
Financial investments available for sale	30,156	17,011	47,167
Financial investments held to maturity	1,471		1,471
Assets classified as held for sale	36		36
Current taxation	48		48
Prepayments and accrued income	759	(27)	732
Other assets	1,199		1,199
Interests in associated undertakings	1,675		1,675
Property, plant and equipment	572		572
Intangible assets and goodwill	748		748
Deferred taxation	359	757	1,116
Total assets	<u>179,540</u>	<u>(4,254)</u>	<u>175,286</u>
Liabilities			
Trading portfolio financial liabilities	110		110
Derivative financial instruments	5,356		5,356
Deposits by banks	44,987		44,987
Customer accounts	82,710		82,710
Debt securities in issue	24,453		24,453
Current taxation	38		38
Accruals and deferred income	888		888
Other liabilities	2,855		2,855
Provision for liabilities and commitments	86		86
Retirement benefit liabilities	1,263		1,263
Deferred taxation	2		2
Subordinated liabilities and other capital instruments	4,683		4,683
Total liabilities	<u>167,431</u>		<u>167,431</u>

	Consolidated Balance Sheet of AIB as at 30 June 2009 ⁽¹⁾	Adjustments Estimated impact of NAMA Participation ⁽²⁾ (€ million)	Pro forma Consolidated Balance Sheet as at 30 June 2009 ⁽³⁾
Shareholders' equity			
Share capital	329		329
Share premium account	4,975		4,975
Other equity interests	389		389
Reserves	592		592
Profit and loss account	5,268	(4,254)	1,014
Shareholders' equity	11,553	(4,254)	7,299
Non-controlling interests in subsidiaries	556		556
Total shareholders' equity including non-controlling interests	12,109	(4,254)	7,855
Total liabilities, shareholders' equity and non-controlling interests	179,540	(4,254)	175,286
	Actual at 30 June 2009	Estimated impact of NAMA Participation (€ million)	Pro forma as at 30 June 2009
Key Balance Sheet Measures			
Total risk-weighted assets ^{(5(a))}	131,327	-22,440	108,887
Core tier 1 capital ^{(5(b))}	11,110	-4,254	6,856
Tier 1 capital ^{(5(c))}	10,249	-3,664	6,585
Total capital ^{(5(d))}	14,016	-3,714	10,302
	Actual at 30 June 2009 %	Estimated impact of NAMA Participation %	Pro forma as at 30 June 2009 %
Core tier 1 capital ^{(5(b))}	8.5	-2.2	6.3
Tier 1 capital ^{(5(c))}	7.8	-1.7	6.1
Total capital ratio ^{(5(d))}	10.7	-1.2	9.5
Loan-to-deposit ratio ⁽⁶⁾	156.0	-26.5	129.5

Notes:

- (1) The financial information on AIB Group has been extracted, without adjustment, from the unaudited Half-Yearly Report 2009, which is incorporated by reference in this document.
- (2) This adjustment represents the hypothetical loss that would have been incurred by AIB Group, on the basis of the Assumptions as described in Part I of this document, if the transfers of AIB's NAMA Assets to NAMA had occurred in their entirety by 30 June 2009. However, as noted in Part I of this document, AIB cannot be certain at this time as to: (a) precisely which of its NAMA Assets will be acquired by NAMA; (b) the number of its assets to be acquired by NAMA; (c) the price at which its NAMA Assets will be acquired by NAMA; and (d) the timing of the transfer of its NAMA Assets to NAMA.

Computation of hypothetical loss attributable to shareholders:

	<u>30 June 2009</u>
	(€ million)
Gross Loans⁽ⁱ⁾	24,183
Provisions ⁽ⁱⁱ⁾	<u>(2,279)</u>
Net Loans⁽ⁱⁱⁱ⁾	21,904
Accrued interest on loans ⁽ⁱ⁾	27
Derivative instruments ⁽ⁱⁱⁱ⁾	<u>91</u>
Total	<u>22,022</u>
Implied total consideration ^{(iv) (v)}	<u>17,011</u>
Loss on disposal	<u>(5,011)</u>
Tax credit ^(vi)	<u>757</u>
Loss Attributable to Shareholders	<u>(4,254)</u>

- (i) Gross loans and receivables (pre-provisions) totalling €24,183 million are assumed to have been transferred by AIB Group to NAMA at 30 June 2009. Accrued interest relating to the loans and receivables amounted to €27 million at 30 June 2009.
- (ii) The total provisions already taken against the loans and receivables at 30 June 2009 amounted to €2,279 million.
- (iii) The net book value of AIB's estimate of the NAMA Assets at 30 June 2009 was €21,904 million. Derivative instruments or other such securities relating to the loans and receivables were valued on a mark-to-market basis on 30 June 2009 at a value of €91 million.
- (iv) As outlined in Part I of this document, in the Minister's statement of 16 September 2009 and in the NAMA Draft Business Plan, an average industry-wide discount of 30 per cent. to the gross loan value of the NAMA Assets to be acquired by NAMA is estimated. However, the discount applicable to the Selected NAMA Assets will not be known until such time as each loan has been individually valued as part of the transfer of assets to NAMA. Accordingly, there cannot be any assurance that the actual discount to be applied by NAMA to the value of the Selected NAMA Assets will be similar to the estimated average industry-wide discount of 30 per cent. indicated by the Minister.
- (v) For illustration purposes only, the unaudited Pro Forma Financial Information has been presented based on the Assumptions, including a 30 per cent. discount on the relevant NAMA Assets. A 30 per cent. discount on the gross loan value of the NAMA Assets, accrued interest on loans and derivative instruments of €24,301 million implies a total consideration payable to AIB by NAMA amounting to €17,011 million. This implied total consideration includes both NAMA Bonds (representing 95 per cent. of the implied total consideration) and Subordinated NAMA Bonds (representing 5 per cent. of the implied total consideration), both of which are classified as financial investments available for sale in the unaudited Pro Forma Financial Information.
- (vi) In the unaudited Pro Forma Financial Information, AIB Group has recognised a deferred taxation benefit of €757 million on the assumption that sufficient taxable future profits would be generated.
- (3) No adjustment has been made in the unaudited Pro Forma Financial Information to reflect:
- Any potential fair value or impairment adjustment in respect of the nominal value of the Subordinated NAMA Bonds that would be received by AIB Group as part of the consideration for transfers of NAMA Assets based on the Assumptions. AIB Group will need to consider further the basis of this assumption regarding the value of the Subordinated NAMA Bonds and, therefore, in due course a different financial impact (which may be negative) may apply compared with the impact based on the unaudited Pro Forma Financial Information.
 - The trading results and performance of the AIB Group since 30 June 2009.
 - The impact of transaction costs and expenses relating to the NAMA Participation. It is unclear as to the amount of transaction costs and expenses that may be incurred by AIB as part of the NAMA Participation.
- (4) Up until the actual completion of the transfer of the Selected NAMA Assets to NAMA, AIB may take further loan loss provisions against these assets in the normal course of business. Any additional loan loss provisions taken against the Selected NAMA Assets would reduce the potential loss on disposal based on the Assumptions.
- (5) Based on the Assumptions, AIB has estimated that on a pro forma basis as at 30 June 2009 the NAMA Participation would have the above impact on the Group's capital ratios if it had occurred in its entirety by that date. The estimate of that impact is based on the following:
- (a) The risk-weighted asset value of the NAMA Assets at 30 June 2009 was €22,440 million.
 - (b) The core tier 1 impact represents the loss attributable to shareholders of €4,254 million.
 - (c) In relation to tier 1 capital, in addition to the loss attributable to shareholders in paragraph 5(b) above, a decrease in the expected loss deduction in tier 1 capital of €590 million, resulting in a net negative impact of €3,664 million.
 - (d) The impact on total capital is made up of: (i) loss attributable to shareholders of €4,254 million; (ii) a decrease in the expected loss deduction of €1,180 million; and (iii) restricted availability of tier 2 capital of €640 million, resulting in a net negative impact of €3,714 million.
- (6) Loan-to-deposit ratio represents total customer loans (net of provisions) divided by customer deposits which at 30 June 2009 amounted to 156 per cent. When the impact of AIB's NAMA Assets amounting to €21,904 million is adjusted for, based on the Assumptions, the pro forma loan-to-deposit ratio is 129.5 per cent. as at 30 June 2009.

**Section B: Report on the unaudited Pro Forma Financial Information of the Continuing Group
as at 30 June 2009**



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The Directors
Allied Irish Banks, p.l.c.
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30 November 2009

Dear Sirs

We report on the unaudited pro forma financial information of the Continuing Group (the “Pro Forma Financial Information”) set out in Part III of the Class 1 and related party circular dated 30 November 2009 (the “Circular”), which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the potential participation in the statutory bank asset acquisition scheme established by the National Asset Management Agency in the Republic of Ireland might have affected the financial information presented on the basis of the accounting policies adopted by AIB in preparing the condensed consolidated interim financial statements for the period ended 30 June 2009. This report is required by paragraph 10.3.3 of the Listing Rules of the Irish Stock Exchange and by paragraph 13.3.3R of the Listing Rules of the UK Listing Authority and is given for the purpose of complying with those paragraphs and for no other purpose.

Responsibilities

It is the responsibility of the directors of AIB to prepare the Pro Forma Financial Information in accordance with paragraph 10.3.3 of the Listing Rules of the Irish Stock Exchange and paragraph 13.3.3R of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 10.4.1(6) of the Listing Rules of the Irish Stock Exchange and paragraph 13.4.1R(6), of the Listing Rules of the UK Listing Authority consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board of the United Kingdom and Ireland. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of AIB.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of AIB.

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of AIB.

Yours faithfully

KPMG
Chartered Accountants
Dublin, Ireland

PART IV

CAPITAL RESOURCES AND LIQUIDITY

Capital resources

AIB's policy is to maintain adequate capital resources at all times, having regard to the nature and scale of its business and the risk inherent in its operations. The Group is focused upon managing its balance sheet efficiently.

The Board reviews and approves the Group's capital plan on an annual basis. The capital plan identifies the amount and type of capital that the Group requires to support its business strategy and to comply with regulatory requirements, taking into account the results of stress testing in order to arrive at and maintain the Group's desired capital profile. Stress testing, in the context of capital planning, is a technique used to evaluate the potential effect on an institution's capital adequacy of a specific event or movement in a set of economic variables, and focuses on exceptional but plausible events. This means that the Group's capital requirement can increase significantly during an economic stress despite a decrease in nominal exposures.

The Group manages its capital resources through an Internal Capital Adequacy Assessment Process known as ICAAP. The overarching principle of ICAAP is the explicit link between capital and risk, and in the application of this approach, the adequacy of the Group's capital is assessed on the basis of the risks it is exposed to. This requires a clear assessment of the material risk profile of the Group, and a consideration of the extent to which identified risks, both individually and in aggregate, require capital to support them. In addition, the level of capital held by the Group is influenced by its target debt rating and minimum regulatory requirements. In order to assist in the management of capital, AIB also assesses both market and internal opportunities that may generate or strengthen the Group's capital position.

AIB's principal sources of capital comprise ordinary shareholders' funds and preference share capital. These sources of capital are supplemented by non-core tier 1 instruments and tier 2 instruments.

The following table outlines the Group's capital and key capital ratios as at 30 June 2009 and 31 December 2008. The information contained in this table is unaudited and is extracted from the Half-Yearly Report 2009.

	<u>As at 30 June 2009</u>	<u>As at 31 December 2008</u>
	(€ million)	
AIB Group – Tier 1 capital		
Core tier 1 capital		
Paid up share capital	329	294
Eligible reserves	11,623	8,600
Non-controlling interests in subsidiaries	366	354
Supervisory deductions from core tier 1 capital	<u>(1,208)</u>	<u>(1,490)</u>
Total core tier 1 capital (after deductions)	<u>11,110</u>	<u>7,758</u>
Non-core tier 1 capital		
Non-equity minority interest in subsidiaries	190	990
Non-cumulative perpetual preferred securities	138	864
Reserve capital instruments	<u>239</u>	<u>497</u>
Total non-core capital (before deductions)	<u>567</u>	<u>2,351</u>
Supervisory deductions from total tier 1	<u>(1,428)</u>	<u>(172)</u>
Total tier 1 capital (after deductions)	<u>10,249</u>	<u>9,937</u>

AIB Group – Tier 2 and total capital	As at 30 June 2009	As at 31 December 2008
	(€ million)	
Upper tier 2		
Subordinated perpetual loan capital	194	692
Eligible reserves and credit provisions	778	768
Upper tier 2 – sub-total	<u>972</u>	<u>1,460</u>
Subordinated term loan capital	4,351	2,970
Total tier 2 before deductions	5,323	4,430
Supervisory deductions from tier 2	<u>(1,428)</u>	<u>(172)</u>
Total tier 2 after deductions	<u>3,895</u>	<u>4,258</u>
Total eligible capital		
Tier 1 capital	10,249	9,937
Tier 2 capital	3,895	4,258
Supervisory deductions from total capital	<u>(128)</u>	<u>(142)</u>
Total capital	<u>14,016</u>	<u>14,053</u>
Key capital ratios		
Risk-weighted assets	131,327	133,899
Core tier 1 capital ratio	8.5%	5.8%
Tier 1 capital ratio	7.8%	7.4%
Total capital ratio	10.7%	10.5%

AIB is subject to the regulatory capital and capital adequacy requirements of the Financial Regulator. The Financial Regulator follows the provisions of the Capital Requirements Directive (comprising Directive 2006/48/EC and Directive 2006/49/EC) by applying a risk asset ratio framework to the measurement of capital adequacy. The adequacy of the Group's capital is assessed by comparing available regulatory capital resources with capital requirements expressed relative to risk-weighted assets. The internationally agreed minimum total capital ratio of eight per cent. is the base standard from which the Financial Regulator sets the individual minimum capital ratio for banks within its jurisdiction.

During 2008, as a result of continuing market uncertainty, regulators and market participants became more focused on the quality of bank capital and the key focus of capital adequacy shifted to the core tier 1 capital ratio.

As a result of the increased focus on core tier 1 capital, and increasing impairments and supervisory deductions arising from the deterioration in the Group's property portfolios in Ireland and the UK, the Group recognised the need to strengthen its capital position.

The Board has already taken a number of key steps in order to bolster the Group's core tier 1 capital position. In May 2009, AIB issued €3.5 billion of core tier 1 capital qualifying preference shares under the NPRFC Investment.

In June 2009, as part of its commitment under the NPRFC Investment to increase its core tier 1 capital by the end of the year, the Group completed an exchange of non-core tier 1 capital instruments (comprising non-cumulative perpetual preferred securities and perpetual reserve capital instruments) and upper tier 2 capital instruments (comprising perpetual subordinated notes) for lower tier 2 capital instruments (comprising subordinated notes). The exchange was carried out at discounts ranging from 33 per cent. to 50 per cent. to the nominal value of the instruments, resulting in a gain of approximately €1.1 billion for AIB, thereby generating additional core tier 1 capital for the Group (further details in relation to this exchange transaction are set out in note 7 on page 48 of the Half-Yearly Report 2009).

The Group has at all times been in compliance with the regulatory capital requirements of the Financial Regulator and, as at 30 June 2009, its capital ratios remained strong with a core tier 1 ratio of 8.5 per cent., a tier 1 ratio of 7.8 per cent. and a total capital ratio of 10.7 per cent.

The NAMA Participation will enable AIB to sell certain land and development loans and Associated Loans to NAMA and thereby determine the Group's losses associated with those loans. It is expected that this will increase market certainty because the NAMA Assets in general are perceived to carry a higher risk than other classes of assets on the Group's balance sheet.

The increased market confidence that is expected to result from greater certainty regarding the level of loan loss provisions is likely to increase AIB's access to, and flexibility in, both wholesale funding and capital markets. The increased confidence should enhance the Group's ability, should it so decide, to access capital.

On 16 September 2009, AIB announced its intention to generate approximately €2.0 billion of capital over the following 12 to 18 months. The Board indicated that this capital could be generated from, amongst other things, possible asset disposals, an investment in the Group by a strategic investor and a capital raising from Shareholders and/or new investors. The purpose of this capital generation is to improve the resilience of the Group's balance sheet in order to better position the Group's capital profile for the longer-term through further increasing its capital ratios beyond prevailing levels which are above regulatory minimum levels.

The NAMA Participation has a negative impact on the capital position of the Group, as a result of the crystallisation of loan losses on the NAMA Assets based on the Assumptions. These losses reduce the Group's core tier 1 capital, tier 1 capital and total capital and the corresponding capital ratios. Whilst the NAMA Participation also results in a reduction in the Group's risk-weighted assets, which positively affects the Group's capital ratios, this positive effect is insufficient to offset the impact the losses would have on the Group's capital ratios arising from the disposal of the NAMA Assets based on the Assumptions.

Accordingly, based on the Assumptions, AIB estimates that the potential financial impact of the NAMA Participation as set out in Part III ("*Unaudited Pro Forma Financial Information of the Continuing Group*") would result in a core tier 1 ratio of 6.3 per cent., a tier 1 ratio of 6.1 per cent. and a total capital ratio of 9.5 per cent., a reduction of 2.2 per cent., 1.7 per cent. and 1.2 per cent. respectively.

Until the actual completion of the transfer of the NAMA Assets, AIB will take further loan loss provisions against these assets in the normal course of business. The Group is forecasting an increase in its balance sheet provisions on such assets from approximately €2.3 billion as at 30 June 2009 to approximately €4.2 billion as at 31 December 2009, as set out in Section 5 of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document. Additional loan loss provisions together with any related asset quality deterioration will result in a different impact on the Group's capital ratios than that shown in the pro forma capital ratios set out in Part III ("*Unaudited Pro Forma Financial Information of the Continuing Group*") of this document.

Liquidity

Liquidity management and funding strategy

The objective of the Group's liquidity management policy is to ensure that it can at all times meet its obligations as they fall due at an economic price. The Group's funding strategy is designed to anticipate funding requirements based upon actual and projected balance sheet movements.

This liquidity management policy and funding strategy is implemented through active monitoring of AIB's liability maturity profile, and by maintaining a stock of high-quality liquid assets, at a level considered sufficient to meet the withdrawal of deposits and to cover calls on commitments in both normal and abnormal trading conditions. In all cases, net outflows are monitored on a daily basis, and the required minimum stock of liquid assets can be increased accordingly if outflows exceed target levels.

In accordance with internal policies, AIB actively manages the risks arising from the mismatch of assets and liabilities across its balance sheet by ensuring that it maintains a balanced spread of repayment obligations with a focus on zero to eight-day and nine to 31-day time periods, which align to the Financial Regulator's own requirements. The Group continues to operate within all regulatory liquidity ratios, and has implemented a series of internal measures that are more restrictive than the regulatory minimum levels.

AIB maintains a diversified funding base across all segments of the markets in which it operates, while focusing on minimising concentration in any single source of funding and maintaining a balance between short-term and long-term funding sources. The Group analyses the structure of its wholesale term funding and the stability of its customer deposit base. Customer deposits represent the largest source of funding, with the Group's retail franchise in Ireland, the UK and Poland providing AIB with a stable and predictable source of funds. A significant proportion of retail deposits is contractually repayable on demand or at short notice. However, the Board believes that AIB's strong relationship focused franchise and product range, together with the nature and geographic spread of its underlying customer base, are generally mitigating factors against the risk of deposit outflows.

The Group manages its funding position with an ongoing focus on the relationship between its deposit base and its loan book, through a series of measures including the industry benchmark customer loan-to-deposit ratio. More refined measures are utilised internally which recognise the capacity of AIB to generate contingent liquidity out of its loan book. At 30 June 2009, AIB had a customer loan-to-deposit ratio of 156.0 per cent. which improved to 152 per cent. as at 30 September 2009, and a progressive reduction in the ratio is targeted going forward.

Government and central bank funding and liquidity support

Challenging market conditions in 2008 resulted in a contraction of wholesale bank market appetite on the part of participants for liquidity risk. This was manifested in a shortening of duration in wholesale funding availability,

leading to a contraction in the term funding profile of many institutions, including AIB. As a consequence, AIB had to increase its use of secured funding to offset limited wholesale market access.

The Government, acknowledging the difficulties experienced by Irish financial institutions in accessing wholesale bank markets and recognising the systemic importance of certain institutions, including AIB, to the wider Irish economy, announced the CIFS Scheme on 30 September 2008. Under the CIFS Scheme, the Minister guaranteed specific categories of liabilities of certain participating institutions (including AIB and certain of its subsidiaries) for the two-year period from 30 September 2008 to 29 September 2010. The covered liabilities comprise all retail and corporate deposits (to the extent not covered by existing deposit protection schemes), interbank deposits, senior unsecured debt, asset covered securities and dated subordinated debt (lower tier 2).

As a result of the stressed market conditions experienced in 2008 and 2009, and in line with other global financial institutions, AIB has accessed a range of global central bank liquidity facilities. The Group participates in global central bank money market repo operations as part of its normal day-to-day funding activity. These facilities are part of standard central bank operations. Although it is likely that some of the facilities will be scaled back over time, it is the Group's view that this will be more than offset by the continuing recovery in broader wholesale funding markets. The Group has also availed of certain additional liquidity schemes introduced by central banks for all market participants during the recent dislocation within funding markets. Since 30 June 2009, as a consequence of improving market conditions, AIB has been reducing its reliance on central bank liquidity facilities.

Furthermore, during the wholesale bank market dislocation, AIB focused on enhancing its Qualifying Liquid Asset and Contingent Funding capacity, by structuring loan portfolios into central bank eligible assets. Such initiatives have helped to increase the Group's capacity to access further liquidity.

Since the imposition of the CIFS Scheme in September 2008, AIB has issued a series of medium-term notes on a guaranteed basis, totalling €8.1 billion, and it retains a reliance on this scheme to fund its balance sheet on an ongoing basis. At 30 June 2009, excluding shareholders' funds, AIB's total funding liabilities of €156.9 billion were split €117.2 billion (or approximately 75 per cent. of the total funding) guaranteed and €39.7 billion (or approximately 25 per cent. of the total funding) unguaranteed.

Whilst the Group retains a reliance on the CIFS Scheme, in recent months it has successfully issued two senior unsecured unguaranteed bonds as follows: (i) €1.0 billion three-year bond issued in September 2009; and (ii) €750 million five-year bond issued in November 2009.

On 16 September 2009, the Government announced in outline form a new guarantee scheme to replace the CIFS Scheme which expires on 29 September 2010. The proposed ELG Scheme, which is not yet in force and remains in draft form, is a Government-backed liability guarantee scheme designed to facilitate credit institutions in Ireland that wish to issue debt securities with a maturity after 29 September 2010 on either a guaranteed or unguaranteed basis. It also provides for coverage of deposits. Liabilities under the proposed ELG Scheme must have maturities of no more than five years and they must be incurred during the period from the commencement date of the ELG Scheme to 29 September 2010. It is expected that the ELG Scheme will become available before the end of 2009. The proposed extension under the ELG Scheme should serve to ameliorate ongoing concerns over funding and liquidity risk after the expiry of the CIFS Scheme.

AIB's strategy, subject to market conditions, is to extend the duration of its funding, which would positively impact the overall profile of the Group's funding base. While AIB has been successful in accessing the unguaranteed market for funding, it retains a reliance on the continuation of the CIFS Scheme and access to certain central bank liquidity schemes to support its funding position. AIB will continue to access unguaranteed sources of funds in future in order to reduce the Group's reliance on guaranteed funding.

In summary, over the past 18 months the Group has been heavily reliant on the CIFS Scheme and has availed of central bank liquidity facilities in continuing to access funding and liquidity, and it expects to continue to avail of such facilities in future. Were such schemes to be discontinued, the Group would likely face an increase in reliance on short-term money market funding which could materially increase the Group's refinancing risk. In line with its prudent funding strategy, the Group continues to avail of opportunities to replace short-term funds with longer-dated liabilities. Therefore, despite the recent improvement in market liquidity, AIB will continue to have to rely upon the CIFS Scheme (and in due course the ELG Scheme) and to have to use standard central bank liquidity facilities.

The impact of NAMA on funding and liquidity

The NAMA Participation will have a significant impact on AIB's funding and liquidity profile. It will reduce the leverage of the Group by removing a significant quantum of customer loans from its balance sheet, thereby lowering the Group's loan-to-deposit ratio. AIB estimates that, based on the Assumptions, its loan-to-deposit ratio of 156.0

per cent. as at 30 June 2009 would have fallen to a pro forma loan-to-deposit ratio of 129.5 per cent. if all of its estimated NAMA Assets had been transferred to NAMA by that date.

It is expected that the increased certainty regarding the Group's loan losses resulting from the NAMA Participation should enable AIB to gain greater access to wholesale funding markets as counterparties become more comfortable with the Company's risk profile. This should increase the number of counterparties that are willing to provide wholesale funding to AIB and should also reduce the costs to AIB of accessing this funding. Any increased access to wholesale funding markets would be expected to reduce the level of AIB's reliance on existing Government support (including the CIFS Scheme) and global central bank facilities.

AIB will receive NAMA Bonds and Subordinated NAMA Bonds in consideration for the sale of its NAMA Assets. Based on statements made by the Minister and statements contained in the NAMA Draft Business Plan, AIB expects that approximately 95 per cent. of that consideration will be in the form of NAMA Bonds and the balance will be in the form of Subordinated NAMA Bonds. The NAMA Bonds will provide AIB with access to additional liquidity and funding, should this be required, on more flexible and advantageous terms than are currently achievable by AIB. AIB may use the NAMA Bonds to finance its ordinary business activities, for example, by entering into liquidity-providing transactions with market counterparties, including the European Central Bank. The NAMA Bonds will materially increase the level of Qualifying Liquid Assets and Contingent Funding held by AIB.

At 30 June 2009, the Group held €53.7 billion in Qualifying Liquid Assets and Contingent Funding, of which approximately €34.1 billion had been pledged. At 30 September 2009, AIB still retained approximately €54.0 billion in Qualifying Liquid Assets and Contingent Funding.

Based on the Assumptions, the NAMA Bonds would enable the Group to increase its Qualifying Liquid Assets and Contingent Funding base by approximately €16.1 billion, thereby enhancing its overall liquidity profile.

A combination of the Group's ongoing focus on de-leveraging its balance sheet together with the positive impact of the NAMA Participation should reduce AIB's funding and liquidity risk in the future.

Funding structure and profile

Sources of Funds

	Total funding as at 30 September 2009		Total funding as at 30 June 2009		Total funding as at 31 December 2008	
	€ billion	%	€ billion	%	€ billion	%
Bank deposits – Unsecured	10.5	6	12.7	8	17.0	10
Bank deposits – Secured	30.2	18	32.3	19	8.6	5
Total deposits by banks	40.7	25	45.0	27	25.6	15
Commercial certificates of deposit	3.6	2	4.1	2	15.1	9
European medium-term note programme	14.5	9	12.1	7	9.6	6
Bonds and other medium-term notes	4.7	3	4.7	3	7.2	4
Commercial paper	3.6	2	3.6	2	5.9	3
Total debt securities in issue	26.4	16	24.5	14	37.8	22
Total wholesale funding	67.1	41	69.5	41	63.4	37
Subordinated debt	4.5	3	4.7	3	4.5	3
Total wholesale funding including subordinated debt	71.6	43	74.2	44	67.9	40
Customer accounts	82.2	50	82.7	49	92.6	54
Total shareholders' equity including non-controlling interests	11.4	7	12.1	7	10.3	6
Total Group Funding	165.2	100	169.0	100	170.8	100

Residual Maturity Funding Analysis

	Total wholesale funding including subordinated debt as at 30 September 2009		Total wholesale funding including subordinated debt as at 30 June 2009		Total wholesale funding including subordinated debt as at 31 December 2008	
	€ billion	%	€ billion	%	€ billion	%
Less than one year	58.6	82	52.0	70	50.5	74
One to two years	2.2	3	10.7	14	6.1	9
Two to five years	4.5	6	5.1	7	5.1	8
More than five years	6.3	9	6.4	9	6.2	9
Total wholesale funding including subordinated debt	71.6	100	74.2	100	67.9	100

Notes:

- (1) The information in the above table as at 31 December 2008 has been extracted from the Annual Report 2008.
- (2) The information in the above table relating to the sources of funds as at 30 June 2009 has been extracted from the Half-Yearly Report 2009.
- (3) The information in the above table as at 30 September 2009 and the residual maturity funding analysis as at 30 June 2009 have been extracted from the Company's books and records and has not been previously published or audited.

In the six months to 30 June 2009, the Group experienced a reduction in customer deposits following a significant increase in deposits in the latter half of 2008. The reduction in the first half of 2009 reflected a decline in sentiment towards Irish financial institutions generally following the nationalisation of Anglo Irish Bank in January 2009.

Over the six months to 30 June 2009, the Group's access to unsecured bank deposits, certificate of deposits and commercial paper programmes was also reduced, reflecting the challenging conditions in these markets. To meet this reduced liquidity, AIB significantly increased its access to secured bank deposits (which represent sale and repurchase arrangements involving the pledging of the Group's assets as collateral in return for principally short-term funding) and increased medium-term note issuances. As outlined in the funding structure and profile analysis above, the Group's secured bank deposits rose by approximately €23.7 billion in the first half of 2009 when access to wholesale markets became more challenging for Irish banking institutions.

The capital position at 30 June 2009 includes the NPRFC Investment, which was completed in May 2009 when the NPRFC subscribed for €3.5 billion in core tier 1 qualifying preference shares.

In the second half of 2009, the Group's customer deposit base has stabilised. During this period AIB has successfully reduced its secured bank deposit dependency and has undertaken further medium-term note issuances. Under the CIFS Scheme, to date in the second half of 2009, AIB has issued €3.25 billion in guaranteed medium-term notes. In addition, the Group has issued senior unsecured unguaranteed bonds totalling €1.75 billion over that time period.

The duration of the Group's wholesale funding has declined over the nine month period to 30 September 2009 reflecting the maturing profile of its existing issuances and an increased reliance on short-term bank deposits to offset the reduction in its customer deposit base. Recent medium-term note issuances and the anticipated introduction of the ELG Scheme, which facilitates issuances of up to five years, will allow for an extension in the Group's funding duration going forward. Investor confidence and market conditions have materially improved over the course of 2009.

The potential impact of EU state aid

In order to comply with EU state aid requirements, a number of European banks that received state aid have, in principle, agreed with the European Commission to commit to a series of restructuring measures. These measures have been reported to include fundamental change (e.g. disposals and market share limitations) and/or certain capital burden sharing measures (e.g. non-payment of hybrid debt coupons). Further detail on the commitments agreed by other European banks as a result of the European Commission's assessment of their restructuring plans are outlined in Part II ("*Risk Factors*") of this document.

Once given, the commitments of the banks will be recorded in a European Commission decision which will usually set out a time period for implementation. The time period provided to action the commitments is likely to involve a long stop date.

The European Commission's assessment of AIB's restructuring plan is at a very preliminary stage. AIB believes that the outcome of the European Commission's assessment of AIB's restructuring plan may be prolonged and that the outcome of the review might only become clear in approximately three to six months' time, at the earliest. Even then, the ultimate decision taken by the European Commission may be subject to appeal in the European Courts. In

addition, two other Irish banks are also understood to be in discussions with the European Commission in respect of restructuring plans associated with state aid. It has been suggested that the European Commission's decision in respect of AIB may be taken in the context of the Irish banking sector as a whole which could add additional complexity and uncertainty.

Notwithstanding the extended period the European Commission might accept for the implementation of commitments, in practical terms the impact on the Group is likely to be over a shorter time period of one to two years. The implementation of any commitments, especially those involving fundamental change, will take time and therefore implementation will likely commence relatively soon after any commitments have been agreed.

At this point AIB does not know what actions the European Commission might take in respect of its assessment of AIB's restructuring plan or the nature or scope of the commitments that might be required of AIB, including the timing for the implementation of any measure adopted or commitments required.

Notwithstanding that AIB would seek to limit the effect on the Group of any measure adopted or commitments required in connection with the state aid clearance of the restructuring plan, the outcome of the European Commission's assessment of AIB's restructuring plan may have an impact on the Company's funding and capital position.

Working capital

As discussed above, the global markets for short and medium-term sources of funding on which banks rely to support their business activities remain constrained as a result of which support by the Minister to directly supplement existing sources of funding and create the environment for an improvement in the availability of other traditional sources of funding remains necessary. Due to dislocation and the uncertainty surrounding the implementation of new government schemes, the Irish Stock Exchange and the UK Listing Authority have agreed that a statement regarding the adequacy of working capital for at least the next 12 months should not be required in this document. There is, therefore, no working capital statement in this document.

PART V

ADDITIONAL INFORMATION

1 Responsibility

The Directors, whose names appear on page 67, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation and registered office

2.1 AIB was incorporated in Ireland on 21 September 1966 under the Companies Act 1963 under the name Allied Irish Banks Limited. On 2 January 1985, Allied Irish Banks Limited changed its name to its present name, Allied Irish Banks, p.l.c., and was registered under the Companies Acts 1963 to 1983 as a public limited company. Allied Irish Banks, p.l.c. is registered under company number 24173.

2.2 The Company is domiciled in Ireland. Its registered office is at Bankcentre, Ballsbridge, Dublin 4 (telephone number 01 660 0311 or, if dialling from outside Ireland, +353 1 660 0311).

2.3 The principal laws and legislation under which the Company operates, and under which the Ordinary Shares have been created, are the Companies Acts 1963 to 2009 and regulations made thereunder.

3 Selected financial information on AIB

This selected historical financial information in relation to AIB has, unless otherwise stated, been extracted without material adjustment from, and should be read together with, the Half-Yearly Report 2009, the Annual Report 2008, the Annual Report 2007 and the Annual Report 2006, which are incorporated by reference into this document. Shareholders should not rely solely on the summarised financial information below but should read the whole document and all documents incorporated by reference into this document.

	As at and for the six months ended 30 June	As at and for the year ended 31 December		
	2009	2008 ⁽¹⁾	2007 ⁽¹⁾	2006
	(€ million, except per share data, percentages and ratios)			
	(unaudited)	(restated)	(restated)	(audited)
Key income statement data				
Total operating income	2,781	5,068	4,868	4,326
Total operating expenses	1,043	2,357	2,521	2,314
Operating profit before provisions	1,738	2,711	2,347	2,012
(Loss)/profit before taxation	(872)	1,034	2,511	2,615
(Loss)/profit for the period/year	(786)	890	2,069	2,298
(Loss)/profit for the period attributable to equityholders of the parent	(829)	772	1,952	2,185
Key balance sheet data				
Total assets	179,540	182,174	177,888	158,526
Total liabilities	167,431	171,861	166,684	148,614
Total shareholders' equity including non-controlling interests	12,109	10,313	11,204	9,912
Shareholders' equity	11,553	8,969	9,853	8,605
Other key financial data				
Loss/earnings per ordinary share (cent)	(43.2)	83.4	218.3	246.8
Diluted earnings per ordinary share (cent)	(43.2)	83.3	216.7	244.6
Dividends per ordinary share paid (cent)	—	81.8	74.3	67.6
Tier 1 capital ratio ⁽²⁾	7.8%	7.4%	7.8%	8.2%
Total capital ratio	10.7%	10.5%	10.3%	11.1%

Notes:

(1) Restated due to a change in accounting policy for insurance and investment contracts. The change in accounting policy has been accounted for retrospectively and the comparative financial statements have been restated. The change in accounting policy had the effect of increasing investment in associates, total assets, retained earnings and total liabilities, shareholders' equity and non-controlling interests by €26 million at 31 December 2007 and by €31 million at 31 December 2008. Share of income from associated undertakings and profit before tax each increased by €5 million in the year ended 31 December 2008. The change in accounting policy increased basic earnings per share for the year ended 31 December 2008 by 0.5 cent to 83.4 cent and diluted earnings per share by 0.5 cent to 83.3 cent.

(2) The tier 1 capital ratios and total capital ratios as at 30 June 2009, 31 December 2008 and 31 December 2007 have been prepared under the Capital Requirements Directive, comprising Directive 2006/48/EC and Directive 2006/49/EC. The ratios as at 31 December 2006 have been prepared under the Capital Adequacy Directive, comprising Directive 93/6/EEC and Directive 98/31/EEC.

4 Directors and Senior Managers of the Company

4.1 Directors

The Directors and their principal functions are as follows:

Dan O'Connor	Executive Chairman
Eugene Sheehy	Group Chief Executive (Executive Director) and acting Group Chief Risk Officer (<i>retires on 30 November 2009</i>)
Colm Doherty	Group Managing Director (Executive Director) and acting Group Chief Risk Officer with effect from 1 December 2009
Declan Collier	Non-Executive Director (Government appointee)
Kieran Crowley	Non-Executive Director
Stephen L. Kingon	Non-Executive Director
Anne Maher	Non-Executive Director
Sean O'Driscoll	Non-Executive Director
David Pritchard	Deputy Chairman and Senior Independent Non-Executive Director
Dick Spring	Non-Executive Director (Government appointee)
Robert G. Wilmers	Non-Executive Director
Jennifer Winter	Non-Executive Director

On 18 November 2009, AIB announced that Dr. Michael Somers will be appointed as a Director and Deputy Chairman. His appointment will take effect following the completion of the customary Financial Regulator's regulatory approval process. Mr. David Pritchard, currently Deputy Chairman, will step down from that post on Dr. Somers' appointment. Mr. Pritchard will be retaining his role of Senior Independent Non-Executive Director.

Under the terms of the CIFS Scheme, AIB must, during the period of the scheme at the direction of the Minister for Finance, appoint at least one but not more than two Non-Executive Directors to its Board from a panel approved by the Minister. In compliance with that scheme, Mr. Declan Collier and Mr. Dick Spring were appointed to the Board.

In accordance with the terms of the NPRFC Investment, the NPRFC (or any other Government Preference Shareholder) has the following rights to appoint Directors to the Board: (i) four Directors where the total number of Directors on the Board is 16, 17 or 18 (which number includes any other Directors appointed by the Government (including under the CIFS Scheme)); and (ii) 25 per cent. of the Directors (including any Directors appointed by the Government (including under the CIFS Scheme)) rounded up or down to the nearest whole number (with 0.5 rounded up to 1), where the total number of directors is 15 or fewer. Any increase in the number of Directors to more than 18 will require the prior written consent of the Government Preference Shareholder. The director appointment rights of the Government Preference Shareholder will cease to apply if no Government Entity holds any 2009 Preference Shares. The NPRFC has notified the Company that Mr. Declan Collier and Mr. Dick Spring are, for the purposes of the NPRFC entitlement to appoint Directors to the Board described above, to be treated as appointees of the NPRFC.

4.2 Senior Managers

The Senior Managers of the Company and their principal functions are as follows:

Gerry Byrne	Managing Director, AIB CEE Division
Robbie Henneberry	Managing Director, AIB Bank ROI Division
Steve Meadows	Chief Operating Officer
Maelíosa ÓhÓgartaigh	acting Group Chief Financial Officer
Mary Toomey	Head of Group Strategic Human Resources
Nick Treble	Managing Director, AIB Group (UK) p.l.c.

5 Significant shareholdings

- 5.1 As at 27 November 2009 (being the latest practicable date prior to the publication of this document), the Company had been notified of or was otherwise aware of the following Shareholders who were directly or indirectly interested in 3 per cent. or more of the issued Ordinary Shares:

	<u>As at 27 November 2009 (being the latest practicable date prior to the date of this document)</u>	
	<u>Ordinary Shares</u>	<u>Percentage of issued share capital</u>
T. Rowe Price Associates, Inc.	42,954,693	4.87
Fidelity International Limited	26,772,595	3.03

- 5.2 Save as disclosed in this section 5 and save for the NPRFC in respect of its holding of 2009 Preference Shares (described in section 3.2 of Appendix I to the letter contained in Part I (“*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*”) of this document), AIB is not aware of any person who, as at 27 November 2009 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which exceeds the threshold of 3 per cent. or more of the total voting rights attaching to its issued share capital.

6 Directors’ and Senior Managers’ interests, options and awards

Save as set out in sections 6.1 and 6.2, no Director or Senior Manager has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

6.1 Directors’ and Senior Managers’ shareholdings

As at 27 November 2009 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors which have been notified by each Director to the Company pursuant to section 53 or section 64 of the Companies Act 1990 or which are required pursuant to section 59 of the Companies Act 1990 to be entered into the register referred to therein, together with the interests of the Senior Managers which have been notified to the Company, were:

	<u>As at 27 November 2009 (being the latest practicable date prior to the publication of this document)</u>	
<u>Directors and Senior Managers</u>	<u>Number of Ordinary Shares</u>	<u>Percentage of issued share capital⁽¹⁾</u>
Directors		
Dan O’Connor	14,000	0.002
Eugene Sheehy (<i>retires on 30 November 2009</i>)	315,159	0.035
Colm Doherty	97,544	0.011
Kieran Crowley	12,520	0.001
Stephen L. Kingon	4,500	0.0005
Anne Maher	1,600	0.0002
Sean O’Driscoll	138,503	0.016
David Pritchard	53,500	0.006
Robert G. Wilmers	440,059	0.05
Jennifer Winter	480	0.00005
Dick Spring	Nil	—
Declan Collier	Nil	—
Senior Managers		
Gerry Byrne	38,761	0.004
Robbie Henneberry	59,113	0.007
Steve Meadows	23,386	0.003
Maelíosa ÓhÓgartaigh	11,329	0.001
Mary Toomey	3,175	0.0004
Nick Treble	24,256	0.003

Note:

(1) Excluding Treasury Shares.

6.2 Directors' and Senior Managers' options and awards

6.2.1 Share options

As at 27 November 2009 (being the latest practicable date prior to the publication of this document), the Directors and Senior Managers held the options to subscribe for Ordinary Shares under the AIB Group Share Option Scheme as shown in the table below. The vesting of these options in the individuals concerned is dependent on EPS targets being met. Subject thereto, the options outstanding are exercisable at various dates between 2009 and 2015. Details of the Directors' options and awards are shown in the Register of Directors' and Secretary's Interests, which may be inspected by Shareholders at the Company's registered office.

<u>Directors and Senior Managers</u>	<u>Date of grant</u>	<u>Number of Shares</u>	<u>Option price</u> (€)	<u>Vested/Unvested</u>	<u>Exercise period</u>
Directors					
Dan O'Connor	—	—	—	—	—
Eugene Sheehy (<i>retires on 30 November 2009</i>) . . .	26/06/2002	40,000	13.55	Vested	26/06/2005-2012
	04/12/2002	80,000	13.90	Vested	04/12/2005-2012
Colm Doherty	26/04/2001	75,000	11.98	Vested	26/04/2004-2011
	26/06/2002	75,000	13.55	Vested	26/06/2005-2012
	28/04/2004	30,000	12.60	Vested	28/04/2007-2014
	26/04/2005	5,000	16.20	Vested	26/04/2008-2015
Senior Managers					
Gerry Byrne	26/04/2001	25,000	11.98	Vested	26/04/2004-2011
	26/06/2002	30,000	13.55	Vested	26/06/2005-2012
	23/04/2003	40,000	13.30	Vested	23/04/2006-2013
	28/04/2004	20,000	12.60	Vested	28/04/2007-2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-2015
Robbie Henneberry	26/04/2005	10,000	16.20	Vested	26/04/2008-2015
Steve Meadows	—	—	—	—	—
Maelíosa ÓhÓgartaigh	26/04/2001	5,000	11.98	Vested	26/04/2004-2011
	26/02/2002	5,000	13.55	Vested	26/06/2005-2012
	23/04/2003	13,000	13.30	Vested	23/04/2006-2013
	28/04/2004	10,000	12.60	Vested	28/04/2007-2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-2015
Mary Toomey	26/06/2002	2,500	13.55	Vested	26/06/2005-2012
	23/04/2003	5,000	13.30	Vested	23/04/2006-2013
	28/04/2004	5,000	12.60	Vested	28/04/2007-2014
	26/04/2005	5,000	16.20	Vested	26/04/2008-2015
Nick Treble	26/04/2001	30,000	11.98	Vested	26/04/2004-2011
	26/06/2002	20,000	13.55	Vested	26/06/2005-2012
	23/04/2003	16,000	13.30	Vested	23/04/2006-2013
	28/04/2004	40,000	12.60	Vested	28/04/2007-2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-2015

6.2.2 Long-term incentives

Details of the Directors' and Senior Managers' conditional grants of awards of Ordinary Shares under the AIB Group Performance Share Plan 2005 are given below. These conditional awards are subject to onerous performance targets being met, in terms of EPS growth and total shareholder return. The conditional grants of awards outstanding as at 27 November 2009 (being the latest practicable date prior to the publication of this document) may wholly or partly vest between 2009 and 2011, depending on the date of the grant and the grant conditions being met.

As at 27 November 2009
(being the latest practicable date prior to
the publication of this document)

Conditional Grants of
Awards of Ordinary Shares

Directors and Senior Managers

Directors:

Dan O'Connor	—
Colm Doherty	110,873
Eugene Sheehy (<i>retires on 30 November 2009</i>)	216,818

Senior Managers:

Gerry Byrne	67,924
Robbie Henneberry	65,979
Steve Meadows	77,610
Maelíosa ÓhÓgartaigh	34,086
Mary Toomey	31,108
Nick Treble	74,269

7 Directors' service contracts and letters of appointment

7.1 General provisions

Details of the Executive Directors' notice periods under their service contracts are set out below:

<u>Name</u>	<u>Date of current contract</u>	<u>Notice period — from Company</u>	<u>Notice period — from Executive Director</u>
Colm Doherty	8 February 1988 (amended 18 November 2009)	12 months	6 months
Eugene Sheehy (<i>retires on 30 November 2009</i>)	1 July 2005	12 months	6 months

The Executive Directors' are employed under rolling service contracts which will only expire upon notice from the Company or the Executive Director. There is not currently a service contract in place for Mr. Dan O'Connor.

The original dates of appointment of the Directors are as follows:

	<u>Date first appointed</u>
Declan Collier (Government appointee)	22/01/2009
Kieran Crowley	24/08/2004
Colm Doherty	13/02/2003
Stephen L. Kingon	06/09/2007
Anne Maher	11/01/2007
Dan O'Connor	11/01/2007
Sean O'Driscoll	07/09/2006
David Pritchard	21/06/2007
Eugene Sheehy	12/05/2005
Dick Spring (Government appointee)	22/01/2009
Robert G. Wilmers	01/04/2003
Jennifer Winter	24/08/2004

Non-Executive Directors are generally appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in exceptional circumstances, on the recommendation of the Nomination and Corporate Governance Committee. The NPRFC has the right to appoint directly 25 per cent. of the directors of AIB (Government appointees). Following appointment, all Directors (other than the Government appointees) are required by the Articles of Association to retire at the next annual general meeting, and may go forward for reappointment. Subsequently, all Directors (other than the Government appointees) are required to submit themselves for reappointment at intervals of not more than three years. Since 2005, all the Executive and Non-Executive Directors have retired from office at the annual general meeting and offered themselves for reappointment. Other than in the case of the Government appointees, it is intended that this corporate governance practice will apply again at the 2010 annual general meeting.

7.2 Severance provisions

No Executive Director is entitled to any benefits upon termination of employment. No Non-Executive Director is entitled to any benefits upon termination of his or her appointment.

8 Litigation

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings, nor, so far as AIB is aware, are any such proceedings pending or threatened by or against any member of the Group, which may have, or have had in the recent past (covering the 12 months immediately preceding the date of this document), a significant effect on the Company's or the Group's financial position or profitability.

None of AIB's NAMA Assets are or have been involved in any governmental, legal or arbitration proceedings, nor, so far as AIB is aware, are any such proceedings pending or threatened in respect of any of AIB's NAMA Assets which may have, or have had in the recent past (covering the 12 months immediately preceding the date of this document), a significant effect on the financial position or profitability of AIB's NAMA Assets as a whole (for these purposes, a reference to AIB's NAMA Assets is a reference to the likely composition of AIB's NAMA Assets, as outlined in section 5 of Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document).

9 Material contracts

9.1 The following are all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the AIB Group: (i) within the two years immediately preceding the date of this document which are, or may be, material to the Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Group as at the date of this document:

9.1.1 CIFS Scheme Acceptance Deeds

On 24 October 2008, the Company and its subsidiaries, AIB Group (UK) p.l.c., AIB Mortgage Bank, AIB Bank (CI) Limited and Allied Irish Banks North America Inc. each executed a guarantee acceptance deed in accordance with the terms of the CIFS Scheme, and were each specified as covered institutions in the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (S.I. No.416 of 2008). The CIFS Scheme is described in section 3.1 of Appendix I to the letter contained in Part I ("*Letter from the Executive Chairman of Allied Irish Banks, p.l.c.*") of this document.

9.1.2 Arrangements in relation to the NPRFC Investment

(i) Warrant Instrument

Pursuant to the terms of the Warrant Instrument between the Company and the NPRFC entered into on 13 May 2009, the Company agreed to issue 294,251,819 warrants to subscribe for Ordinary Shares to the NPRFC on the terms summarised below:

- (a) The 2009 Warrants represented 25 per cent. of the Ordinary Shares (excluding Treasury Shares) in issue on 13 May 2009 (being the date of completion of the NPRFC Investment) computed as if the 2009 Warrants were exercisable and had been exercised in full on that date.
- (b) Each of the Core Tranche Warrants (155,780,375 warrants) entitles the holder to subscribe for one Ordinary Share at a subscription price of €0.975 per share and each of the Secondary Tranche Warrants (138,471,444 warrants) entitles the holder to subscribe for one Ordinary Share at a subscription price of €0.375 per share.
- (c) The 2009 Warrants are exercisable in the period between 13 May 2014 and 13 May 2019, or earlier if a third party proposes to acquire control of the Company or ownership of all or substantially all of the Company's business and assets.
- (d) If, on or prior to 31 December 2009, AIB redeems or purchases 1.5 billion 2009 Preference Shares out of the proceeds of an issue of shares which are treated, or will upon issue be treated, as core tier 1 capital by the Financial Regulator, all Secondary Tranche Warrants will be cancelled, leaving the NPRFC with Core Tranche Warrants over 15 per cent. of the Ordinary Shares (excluding Treasury Shares) in issue on 13 May 2009 (being the completion date of the NPRFC Investment) computed as if the Core Tranche Warrants were exercisable and had been exercised in full on that date. A redemption or repurchase by AIB on or before 31 December 2009 of less than 1.5 billion 2009 Preference Shares will result in a proportionate cancellation of the number of Secondary Tranche Warrants (which would reduce the aggregate number of Warrants on a scale from 25 per cent. to 15 per cent.).

- (e) While the Government Preference Shareholder holds Warrant Shares, the voting rights on those shares will be restricted to 50 per cent. of the voting rights attaching to such shares. If those Warrant Shares are transferred to any person other than a Government Entity, full voting rights will attach to those Warrant Shares.
- (f) On issue, each 2009 Warrant will entitle the holder to subscribe for one Ordinary Share. This ratio will be adjusted upon the occurrence of certain share capital-related events in order to adjust the number of Warrant Shares the subject of the 2009 Warrants to compensate the NPRFC for the dilutive effects of such share capital-related events (for example, a bonus issue of shares, certain capital distributions, a consolidation or subdivision of shares and a rights issue of shares at an issue price above a prescribed discount to the market price). If an anti-dilution adjustment would otherwise result in the issue of Ordinary Shares under the Warrant Instrument at a discount to their nominal value, the shortfall between the exercise price and the nominal value of Ordinary Shares will be paid up from AIB's undistributable reserves (including the share premium account) or, subject to there being no contravention of the rights of other Shareholders, from AIB's distributable reserves.
- (g) The 2009 Warrants are not transferable, except to a Government Entity, without the prior written consent of the Company and are not listed or quoted on any stock exchange.

(ii) *The Subscription Agreement*

- (a) Pursuant to the terms of the Subscription Agreement between AIB, the Minister for Finance and the NPRFC dated 13 May 2009, AIB agreed to issue the 2009 Preference Shares and the 2009 Warrants to the NPRFC at an aggregate subscription price of €3.5 billion.
- (b) AIB gave the NPRFC and the Minister certain warranties relating to the business and operations of the Group. These warranties are considered standard for this type of agreement and cover issues such as the Company's issued share capital, accuracy and completeness of certain information, accuracy of audited financial statements, payment of taxes, possession of all material licences and absence of material litigation.
- (c) AIB provided various undertakings to the NPRFC and the Minister, including agreeing to commit to the Minister's "Bank Customer Package". This includes, *inter alia*, obligations on AIB to:
 - (A) increase lending capacity to small to medium-sized enterprises by 10 per cent. and provide an additional 30 per cent. capacity for lending to first-time buyers during each quarter of the financial year compared to the corresponding quarter in the year commencing 1 January 2008;
 - (B) establish a €100 million fund to support environmentally-friendly investment and innovations in clean energy;
 - (C) comply with the Code of Conduct for Business Lending to Small and Medium Enterprises and the Code of Conduct for Mortgage Arrears published by the Financial Regulator;
 - (D) make every effort to avoid repossessions and, in any case, not commence court proceedings for repossession of a principal private residence within 12 months of arrears appearing, where the customer maintains contact and co-operates reasonably with AIB;
 - (E) fund and co-operate with an "Independent Review of Credit Availability"; and
 - (F) work closely with IDA Ireland, Enterprise Ireland and with other Irish state agencies to ensure the supply of appropriate finance to contractors engaged on major projects sponsored by those agencies.

AIB also agreed to submit a restructuring plan to the Minister, including an assessment of AIB's business model's viability and details of how AIB intends to repay the state aid provided. This restructuring plan, which was prepared by the Group, has now been submitted to the European Commission by the Government. In addition, AIB agreed to accept restrictions on the amount of remuneration Directors would receive.

AIB also agreed that, on request from the NPRFC, it would undertake all necessary acts in order to facilitate the placing, offering to the public or admission to listing of the 2009 Preference Shares or any Ordinary Shares acquired as a result of the 2009 Warrants or the 2009 Preference Shares.

Under the terms of the Subscription Agreement, AIB must consult with the Minister or his nominee prior to taking any material action which may be reasonably expected to have a public interest dimension.

- (d) On 13 May 2009, the NPRFC paid to AIB €3.5 billion (less an arrangement fee of €30 million paid by AIB to the NPRFC) in respect of the issue to it of the 2009 Preference Shares and the 2009 Warrants.
- (e) AIB undertook in the Subscription Agreement that application would be made in due course for the Warrant Shares and any Bonus Shares to be admitted to the Official Lists and to trading on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange.
- (f) In addition to agreeing to allow the Government Entities to make use of any public offer prospectus issued by the Company for the purposes of placing such Ordinary Shares with investors, the Company also undertook to co-operate in the preparation and issue of a public offer prospectus where this is required for the purposes of an offering to the public, a placing or listing of the 2009 Preference Shares or any Ordinary Shares acquired as a result of holding 2009 Preference Shares or 2009 Warrants.

9.1.3 Bulgarian American Credit Bank Agreement

On 21 February 2008, Bulgarian-American Enterprise Fund (“BAEF”), the majority shareholder of Bulgarian American Credit Bank AD (“BACB”), entered into a purchase agreement under which BAEF agreed to sell to AIB 49.99 per cent. of the issued share capital of BACB, for a total consideration of approximately €216.2 million.

Of the €216.2 million consideration received by BAEF, BAEF was obliged to deposit four tranches totalling €130 million into separate AIB bank accounts opened in the name of BAEF. The deposited amounts mature and are due and payable to BAEF upon the 90-day, 12-month, 18-month and 24-month anniversaries of the date of deposit.

BAEF further agreed to maintain deposits totalling €25 million in three equal-sized tranches, in three BACB bank accounts. Those amounts are to remain on deposit for at least 12 months, 18 months and 24 months, respectively, from the closing date.

- 9.2** There are no contracts (other than contracts entered into in the ordinary course of business) that have been entered into by members of the Group and which relate to AIB’s NAMA Assets: (a) within the two years immediately preceding the date of this document which are, or may be, material to AIB’s NAMA Assets as a whole; or (b) at any time and contain obligations or entitlements which are, or may be, material to AIB’s NAMA Assets as a whole as at the date of this document (for these purposes, a reference to AIB’s NAMA Assets is a reference to the likely composition of AIB’s NAMA Assets, as outlined in section 5 of Part I (“*Letter from the Executive Chairman of Allied Irish Banks, p.l.c*”) of this document).

10 Related party transactions

Other than as disclosed in the financial information incorporated by reference into this document for the financial years ended 31 December 2006 (as set out on pages 139 to 141 of the Annual Report 2006), 31 December 2007 (as set out on pages 165 to 167 of the Annual Report 2007) and 31 December 2008 (as set out on pages 240 to 241 of the Annual Report 2008) and the six months ended 30 June 2009 (as set out on pages 21, 66 to 67 and 69 of the Half-Yearly Report 2009) and the changes to the Directors’ loans set out below, no related party transactions were entered into by the Company or any other member of the AIB Group during the financial years ended 31 December 2006, 2007 or 2008 or during the period between 1 January 2009 and 27 November 2009 (being the latest practicable date prior to the publication of this document). The Company maintains a register of Directors’ loans constituting related party transactions, as required by the Financial Regulator’s disclosure requirements introduced in March 2009.

As at 26 November 2009, the Directors’ loans constituting related party transactions comprised an aggregate amount of €5.09 million.

11 No significant change

From 30 June 2009 (being the date of the Half-Yearly Report 2009) to the date of this document, there has been no significant change in the trading or financial position of the Continuing Group.

From 30 June 2009 (being the date of the Half-Yearly Report 2009) to the date of this document, there has been no significant change in the trading or financial position of the Company’s NAMA Assets, save for the ongoing deterioration in asset quality resulting in an increasing number of loans being classified as impaired and higher levels of provisions being taken against the loans. From 30 June 2009 to the date of this document, the level of impaired loans increased from approximately €6.7 billion to approximately €9.0 billion and the level of balance sheet provisions increased from approximately €2.3 billion to approximately €3.7 billion, respectively. This increase is consistent with the trend outlined in the Interim Management Statement in Appendix V to Part I (“*Letter*”).

from the Executive Chairman of Allied Irish Banks, p.l.c.”) of this document, which indicates that the level of impaired loans is forecast to rise to approximately €10.5 billion at 31 December 2009 (for these purposes, a reference to the Company’s NAMA Assets is a reference to the likely composition of AIB’s NAMA Assets, as outlined in section 5 of Part I (“Letter from the Executive Chairman of Allied Irish Banks, p.l.c.”) of this document).

12 Documents available for inspection

Copies of the following documents may be inspected in physical form at the registered office of the Company and at the offices of McCann FitzGerald, Riverside One, Sir John Rogerson’s Quay, Dublin 2 and Linklaters LLP, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this document until 23 December 2009, being the date of the Extraordinary General Meeting, and will also be available for inspection at the Extraordinary General Meeting for at least 15 minutes prior to and during the meeting:

- (i) the Memorandum and Articles of Association;
- (ii) the Half-Yearly Report 2009, the Annual Report 2008, the Annual Report 2007 and the Annual Report 2006;
- (iii) the consent letters referred to in section 14 below;
- (iv) the report on the unaudited Pro Forma Financial Information by KPMG set out in Part III (“Unaudited Pro Forma Financial Information of the Continuing Group”) of this document;
- (v) the NAMA Act, the Valuation Regulations and the Eligible Bank Assets Regulations; and
- (vi) this document.

13 Documents incorporated by reference

The table below sets out the various sections of the documents which are incorporated by reference into this document:

<u>Document</u>	<u>Section</u>	<u>Page numbers in such document</u>
Half-Yearly Report 2009	Financial highlights (unaudited)	3
Half-Yearly Report 2009	Condensed consolidated income statement (unaudited) for the half-year ended 30 June 2009	34
Half-Yearly Report 2009	Condensed consolidated statement of financial position (unaudited) for the half-year ended 30 June 2009	36
Half-Yearly Report 2009	Shareholders’ equity	66-67
Half-Yearly Report 2009	Interim management report – Commentary on results, related party transactions	21
Half-Yearly Report 2009	Condensed consolidated statement of comprehensive income (unaudited) for the half-year ended 30 June 2009	35
Half-Yearly Report 2009	Consolidated statement of changes in equity	38-39
Half-Yearly Report 2009	Condensed consolidated statement of cash flows (unaudited) for the half-year ended 30 June 2009	37
Half-Yearly Report 2009	Notes to the interim financial statements	40-70
Half-Yearly Report 2009	Related party transactions	69
Half-Yearly Report 2009	Independent Review Report of KPMG to Allied Irish Banks, p.l.c.	73
Annual Report 2008	Financial investments available for sale	55-56
Annual Report 2008	Financial investments held to maturity	57
Annual Report 2008	Contractual obligations	57
Annual Report 2008	Off-balance sheet arrangements	58
Annual Report 2008	Accounting policies	119-135
Annual Report 2008	Consolidated income statement for year ended 31 December 2008	136
Annual Report 2008	Consolidated balance sheet as at 31 December 2008	137
Annual Report 2008	Balance sheet Allied Irish Banks, p.l.c. as at 31 December 2008	138
Annual Report 2008	Statement of recognised income and expense	141

<u>Document</u>	<u>Section</u>	<u>Page numbers in such document</u>
Annual Report 2008.	Consolidated reconciliation of movements in shareholders' equity	142-143
Annual Report 2008.	Reconciliation of movements in shareholders' equity — Allied Irish Banks, p.l.c.	144-145
Annual Report 2008.	Statement of cash flows for year ended 31 December 2008	139-140
Annual Report 2008.	Notes to the accounts for year ended 31 December 2008	146-254
Annual Report 2008.	Related party transactions	240-241
Annual Report 2008.	Independent Auditor's Report	256-257
Annual Report 2007.	Consolidated income statement for year ended 31 December 2007	79
Annual Report 2007.	Consolidated balance sheet as at 31 December 2007	80
Annual Report 2007.	Balance sheet Allied Irish Banks, p.l.c. as at 31 December 2007	81
Annual Report 2007.	Statement of recognised income and expense	84
Annual Report 2007.	Consolidated reconciliation of movements in shareholders' equity	85
Annual Report 2007.	Reconciliation of movements in shareholders' equity — Allied Irish Banks, p.l.c.	86
Annual Report 2007.	Statement of cash flows for year ended 31 December 2007	82-83
Annual Report 2007.	Notes to the accounts for year ended 31 December 2007	87-178
Annual Report 2007.	Related party transactions	165-167
Annual Report 2007.	Independent Auditor's Report	180-181
Annual Report 2006.	Consolidated income statement for year ended 31 December 2006	63
Annual Report 2006.	Consolidated balance sheet as at 31 December 2006	64
Annual Report 2006.	Balance sheet Allied Irish Banks, p.l.c. as at 31 December 2006	65
Annual Report 2006.	Statement of recognised income and expense	68
Annual Report 2006.	Consolidated reconciliation of movements in shareholders' equity	69
Annual Report 2006.	Reconciliation of movements in shareholders' equity — Allied Irish Banks, p.l.c.	70
Annual Report 2006.	Statement of cash flows for year ended 31 December 2006	66-67
Annual Report 2006.	Notes to the accounts for year ended 31 December 2006	71-145
Annual Report 2006.	Related party transactions	139-141
Annual Report 2006.	Independent Auditor's Report	147-148

The parts of these documents other than those incorporated by reference (as per the above table) are either not relevant or are covered elsewhere in this document.

14 Consents

- 14.1** Morgan Stanley, independent adviser, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 14.2** AIB Corporate Finance has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 14.3** KPMG, reporting accountants, has given and has not withdrawn its written consent to the inclusion herein of its report on the Pro Forma Financial Information set out in Part III ("*Unaudited Pro Forma Financial Information of the Continuing Group*") of this document and the references to its name in the form and context in which they appear.

Dated: 30 November 2009

PART VI

DEFINITIONS

The following expressions apply throughout this document unless the context otherwise requires:

2009 Preference Shares	the 3,500,000,000 2009 non-cumulative preference shares of €0.01 each in the share capital of the Company issued to the NPRFC pursuant to the Subscription Agreement
2009 Warrants	the 294,251,819 warrants to subscribe for Ordinary Shares issued to the NPRFC pursuant to the Subscription Agreement, as constituted by the Warrant Instrument
Acquisition Schedule	the schedule (of which there may be more than one) by which the Selected NAMA Asset(s) will be acquired by NAMA, which will specify, among other things, the Selected NAMA Asset(s) to be acquired from AIB, the Purchase Price (and the method of NAMA's calculation of the Purchase Price) and the date of acquisition
AIB or Company	Allied Irish Banks, p.l.c., a company incorporated under the laws of Ireland (registered under number 24173), with its registered office at Bankcentre, Ballsbridge, Dublin 4
AIB Corporate Finance	AIB Corporate Finance Limited, a company incorporated under the laws of Ireland (registered under number 120018), with its registered office at 85 Pembroke Road, Ballsbridge, Dublin 4, which is regulated in Ireland by the Financial Regulator
AIB Group or the Group	the Company and each of its subsidiaries and subsidiary undertakings from time to time
AIB Group Share Option Scheme	The AIB Group Share Option Scheme described in note 10(i) (pages 155 and 156) of the notes in the accounts of the Annual Report 2008 which are incorporated by reference in this document
Annual Report 2006	the Company's Annual Report and Accounts 2006 for the 12-month period ended 31 December 2006
Annual Report 2007	the Company's Annual Report and Accounts 2007 for the 12-month period ended 31 December 2007
Annual Report 2008	the Company's Annual Financial Report 2008 for the 12-month period ended 31 December 2008
Application	the application to be submitted by a credit institution to the Minister for designation as a participating institution in the NAMA Programme under the NAMA Act
Articles of Association	the articles of association of the Company
Associated Loans	in relation to a borrower comprised in the estimated €17.1 billion of the Company's land and development loans that the Company believes are eligible to become NAMA Assets, those loans made by the Group to that borrower or its associates that do not relate to land and development (based on the Company's credit management system)
Assumptions	for the purposes of this document, means the following assumptions: (i) NAMA Assets with a value of approximately €24.2 billion on a gross loan basis (i.e. before taking account of €2.3 billion of loan loss provisions as at 30 June 2009) will be transferred from AIB to NAMA;

- (ii) AIB will receive in consideration for the transfer of its NAMA Assets (excluding accrued interest and derivative instruments referred to in (vii) below) NAMA Bonds and Subordinated NAMA Bonds with an aggregate value of approximately €17.0 billion, equating to the average industry-wide discount of 30 per cent. for NAMA Assets announced by the Minister on 16 September 2009;
- (iii) the €24.2 billion referred to in (i) above comprises €17.1 billion in respect of land and development loans to customers of AIB and €7.1 billion in respect of those facilities that were classified in AIB's loan book at 30 June 2009 as associated with such loans to those customers;
- (iv) only land and development loans (and Associated Loans) recorded in AIB's books in Ireland, the United Kingdom, the United States and Canada will transfer to NAMA;
- (v) borrowers with land and development loans with an aggregate value of less than €5.0 million per borrower will be excluded;
- (vi) five per cent. of the Purchase Price will be in the form of Subordinated NAMA Bonds; and
- (vii) in addition to the gross loan balances referred to in (iii) above, accrued interest and derivative instruments relating to the NAMA Assets will form part of the transfer to NAMA. It is assumed that AIB will receive consideration from NAMA for the accrued interest and derivative instruments net of the average industry-wide discount of 30 per cent. as referred to in (ii) above

Board	the board of Directors of AIB
Bonus Shares	the Ordinary Shares to be issued to the holders of 2009 Preference Shares in the event of non-payment of dividends on the 2009 Preference Shares, in accordance with the Articles of Association
Central Bank	the Central Bank of Ireland, as part of the Central Bank and the Financial Services Authority of Ireland
CIFS Scheme	the Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008)
Circular	this circular to Shareholders dated 30 November 2009, issued by the Company in connection with the NAMA Participation and the Second Resolution
Companies Acts	the Companies Acts of Ireland 1963 to 2009 and every statutory modification and re-enactment thereof for the time being in force
Continuing Group	the Group following completion of the NAMA Programme and based on the Assumptions
core tier 1 capital	securities that constitute at any given time, under the regulatory framework then applicable to the Company, core tier 1 capital (within the meaning of the Financial Regulator's requirements at such time or equivalent)
Core Tranche Warrants	warrants to subscribe for 155,780,375 Ordinary Shares at a subscription price of €0.975 per Ordinary Share, subject to and with the benefit of the terms and conditions set out in the Warrant Instrument
CREST	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear is the operator as defined in the CREST Regulations)

CREST Manual	the rules governing the operation of CREST, consisting of the CREST Reference Manual, the CREST International Manual, the CREST Central Counterparty Service Manual, the CREST Rules, the Registrars Service Standards, the Settlement Discipline Rules, the CCSS Operations Manual, the Daily Timetable, the CREST Application Procedure and the CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since)
CREST Regulations	the Companies Act 1990 (Uncertificated Securities) Regulations 2006 (SI No. 68 of 2006), as amended
Directors	the Executive Directors and Non-Executive Directors, whose names appear in section 4.1 of Part V (“ <i>Additional Information</i> ”) of this document
EGM Notice	the notice of the Extraordinary General Meeting set out in this document
ELG Scheme	as the context requires: <ul style="list-style-type: none"> (i) the outline of an eligible liabilities guarantee scheme that is proposed to be made under the Credit Institutions (Financial Support) Act 2008, as announced on 16 September 2009; or (ii) any scheme (other than the CIFS Scheme) made under the Credit Institutions (Financial Support) Act 2008
Eligible Bank Assets Regulations	as the context requires: <ul style="list-style-type: none"> (i) the draft National Asset Management Agency (Designation of Eligible Bank Assets) Regulations; (ii) the National Asset Management Agency (Designation of Eligible Bank Assets) Regulations as they may be made by the Minister; or (iii) any other regulations made under section 69 of the NAMA Act
EPS	earnings per share
EU	the European Union
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Executive Directors	the executive directors of AIB
Extraordinary General Meeting	the extraordinary general meeting of AIB to be held at 11.00 a.m. on 23 December 2009 at Bankcentre, Ballsbridge, Dublin 4, notice of which is set out in this document
Financial Regulator	the Financial Services Regulatory Authority, as part of the Central Bank and Financial Services Authority of Ireland
Financial Services Authority or FSA	the Financial Services Authority of the United Kingdom
Form of Proxy	the form of proxy which (where relevant) accompanies the Circular for use by Shareholders at the Extraordinary General Meeting
FSMA	the Financial Services and Markets Act 2000 of the United Kingdom, as amended
Government	the Government of Ireland
Government Entity	<ul style="list-style-type: none"> (i) any of the NTMA, the NPRFC, the Minister for Finance and any Minister or Department of the Government; and (ii) any custodian or nominee holding 2009 Preference Shares on behalf of the NTMA, the NPRFC (in its capacity as controller and manager of the NPRF), the Minister for Finance or any Minister or Department of the Government

Government Preference Shareholder	a Government Entity holding 2009 Preference Shares
Half-Yearly Report 2009	the half-yearly financial report of the Company for the six-month period ended 30 June 2009
interim NAMA management	the interim NAMA management described in the NAMA Draft Business Plan
Ireland	the Republic of Ireland, and the word “ Irish ” shall be construed accordingly
Irish Stock Exchange	Irish Stock Exchange Limited
KPMG	KPMG, a firm of chartered accountants registered with the Institute of Chartered Accountants in Ireland
Listing Rules	the Listing Rules of the Irish Stock Exchange and, where appropriate, the Listing Rules made by the FSA under Part VI of the FSMA
London Stock Exchange	London Stock Exchange plc
Minister or Minister for Finance	the Minister for Finance of Ireland
Morgan Stanley	Morgan Stanley & Co. Limited
NAMA	the National Asset Management Agency, to be established by the NAMA Act
NAMA Act	the National Asset Management Agency Act 2009
NAMA Assets	such classes of assets, including, but not limited to, land and property development loans and certain associated loans, as shall have been prescribed by the Minister as necessary for the purposes of the NAMA Act for inclusion in the NAMA Programme (known in the NAMA Act as “eligible bank assets”)
NAMA Bonds	notes, bills, bonds or other financial instruments to be issued by NAMA or a NAMA Group Entity (whether or not guaranteed by the Minister) or by the Minister to a participating institution in consideration for the acquisition of bank assets by NAMA or a NAMA Group Entity in accordance with the NAMA Act
NAMA Draft Business Plan	the draft business plan of the interim NAMA management, published on 13 October 2009
NAMA Group	NAMA and each of its subsidiaries and any other body corporate and any trust, partnership, arrangement for the sharing of profits and losses, joint venture, association, syndicate or other arrangement formed, registered, incorporated or established by NAMA for the purposes of performing any of its functions under the NAMA Act
NAMA Group Entity	a subsidiary of NAMA or any other body corporate established by NAMA for the purpose of performing any of its functions under the NAMA Act
NAMA Participation	the proposed participation by AIB in the NAMA Programme
NAMA Programme	the programme through which NAMA will acquire NAMA Assets from participating institutions on the terms specified in or pursuant to the NAMA Act
NAMA Resolution	the resolution approving the NAMA Participation, numbered 1 in the EGM Notice
Non-Executive Directors	the non-executive directors of AIB
NPRF	the National Pensions Reserve Fund, a fund established under the NPRF Act

NPRF Act	the National Pensions Reserve Fund Act 2000 (as amended by the Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009)
NPRFC	the National Pensions Reserve Fund Commission, as established by the NPRF Act to, <i>inter alia</i> , control, manage and invest the assets of the NPRF (or any replacement successor agency or authority). References in this document to the NPRFC are to the NPRFC acting in its capacity as controller and manager of the NPRF
NPRFC Investment	the issue of the 2009 Preference Shares and the 2009 Warrants to the NPRFC on 13 May 2009
NTMA	the National Treasury Management Agency as established by the National Treasury Management Agency Act 1990 and appointed, <i>inter alia</i> , manager of the NPRF and to act as agent of the NPRFC
Official Lists	the Official List of the Irish Stock Exchange and/or, as appropriate, the Official List of the UK Listing Authority
Ordinary Shares or Shares participating institution	the ordinary shares of €0.32 each in the share capital of the Company a credit institution that, following submission of an Application, is designated by the Minister as a participating institution under the NAMA Act (which for this purpose includes all of its subsidiaries except those which the Minister specifies are to be excluded)
Prospectus Directive Regulation	Commission Regulation (EC) No 809/2004
Purchase Price	the purchase price of a Selected NAMA Asset, as determined by NAMA and specified in an Acquisition Schedule
Pro Forma Financial Information	the unaudited pro forma financial information of the Continuing Group as at 30 June 2009 illustrating how, based on, <i>inter alia</i> , the Assumptions, the NAMA Participation might have affected the financial position of the Group if it had occurred in its entirety at that date
Qualifying Liquid Assets and Contingent Funding	together, facilities which provide cash funding without incurring a significant loss. Qualifying liquid assets (which include central government securities or securities issued by financial institutions) are assets which can provide liquidity within four working days. Contingent funding includes pre-approved facilities where cash can be accessed subject to certain conditions being met
Registrar or Computershare Investor Services	Computershare Investor Services, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18
Resolutions	the NAMA Resolution and the Second Resolution
Second Resolution	the resolution approving the convening of certain general meetings of the Company on 14 days' notice, numbered 2 in the EGM Notice
Secondary Tranche Warrants	warrants to subscribe for 138,471,444 Ordinary Shares at a subscription price of €0.375 per Ordinary Share, subject to and with the benefit of the terms and conditions set out in the Warrant Instrument
Selected NAMA Assets	those NAMA Assets of AIB which NAMA proposes to acquire under the NAMA Programme
Senior Managers	the senior managers of AIB whose names appear in section 4.2 of Part V (" <i>Additional Information</i> ") of this document
Shareholder	a holder of Ordinary Shares

Shareholders' Rights Directive	Directive 2007/36/EC, which was implemented in Ireland on 6 August 2009 by the Shareholders' Rights (Directive 2007/36/EC) Regulations 2009 (S.I. No. 316 of 2009)
Subordinated NAMA Bonds	subordinated notes, bills, bonds or other financial instruments to be issued by NAMA or a NAMA Group Entity in consideration for the acquisition of bank assets by NAMA or a NAMA Group Entity, in accordance with the NAMA Act
Subscription Agreement	the subscription agreement entered into on 13 May 2009 between the Company, the Minister and the NPRFC in connection with the NPRFC Investment
subsidiary undertakings	a subsidiary undertaking of the Company within the meaning of the European Communities (Companies: Group Accounts) Regulations 1992
tier 1 capital	securities that constitute, under the regulatory framework then applicable to the Company, tier 1 capital (within the meaning of the Financial Regulator's requirements at such time or equivalent)
Treasury Shares	Ordinary Shares which have been purchased by the Company but not cancelled
UK Listing Authority or UKLA	the FSA in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part VI of the FSMA
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States or US	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
Valuation Regulations	as the context requires: <ul style="list-style-type: none"> (i) the draft National Asset Management Agency (Determination of Long-Term Economic Value of Property and Bank Assets) Regulations; (ii) the National Asset Management Agency (Determination of Long-Term Economic Value of Property and Bank Assets) Regulations as they may be made by the Minister; or (iii) any other regulations made under section 75, 76 or 79 of the NAMA Act
Warrant Instrument	the warrant instrument relating to the 2009 Warrants, entered into by AIB and the NPRFC on 13 May 2009
Warrant Shares	the Ordinary Shares to be issued on the exercise of the 2009 Warrants

Allied Irish Banks, p.l.c.

(incorporated and registered in Ireland under the Companies Act 1963 with registered number 24173)

NOTICE OF EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting of Allied Irish Banks, p.l.c. (the “Company”) will be held at 11.00 a.m. on 23 December 2009 at Bankcentre, Ballsbridge, Dublin 4 to consider and, if thought fit, pass the following resolutions, of which resolution 1 will be proposed as an ordinary resolution and resolution 2 will be proposed as a special resolution:

1. Ordinary Resolution

THAT the proposed participation by the Company and its subsidiaries, as defined in the National Asset Management Agency Act 2009, in the bank asset acquisition scheme established by the National Asset Management Agency Act 2009 (and regulations made and to be made thereunder) (together, the “NAMA Legislation”) on the terms contained in the NAMA Legislation (the “NAMA Participation”), being a related party transaction and a Class 1 transaction for the purposes of the Listing Rules of the Irish Stock Exchange and of the UK Listing Authority:

- (a) be and it is hereby approved; and
- (b) the directors of the Company (or any duly authorised committee thereof) be and are hereby authorised to take all such steps, execute all such documents and do all such things that they consider necessary, expedient, appropriate or desirable to effect or implement, or in connection with, the NAMA Participation upon such terms and in such manner as they determine to be necessary, expedient or desirable, including, without prejudice to the generality of the foregoing:
 - (i) to make an application in accordance with the NAMA Legislation on behalf of the Company and all of its subsidiaries (the “Group”) to the Minister for Finance (the “Minister”) to be designated as a participating institution under the NAMA Legislation and to request the exclusion of any subsidiaries of the Company as designated participating institutions under the NAMA Legislation;
 - (ii) to procure that the Group complies with any direction, request, guideline or instruction given to it by the Minister, the National Asset Management Agency (“NAMA”) or a NAMA group entity (as defined in the NAMA Legislation) in accordance with the NAMA Legislation;
 - (iii) to procure that the Group complies with such terms and conditions in relation to the acquisition by NAMA of any assets of the Group as the Minister or NAMA may specify, including the giving by the Group of such representations, warranties and assurances as are requested by the Minister or NAMA;
 - (iv) in their absolute discretion, to object to the proposed acquisition of any asset of the Group by NAMA and to dispute the valuation placed by NAMA on any asset of the Group, as they think fit;
 - (v) to procure that the Group performs such services in connection with a bank asset that NAMA or a NAMA group entity (as defined in the NAMA Legislation) has acquired or intends to acquire (whether from the Group or otherwise) as it is directed or requested to perform by NAMA or a NAMA group entity;
 - (vi) to indemnify NAMA and any other person required by the NAMA Legislation against any loss or liability arising from, or in respect of, any matter or thing;
 - (vii) to make such disclosures, or give such confirmations, in respect of information or records of the Group and its assets and liabilities as it may be required or permitted to disclose or give pursuant to the NAMA Legislation;
 - (viii) to procure that the Group complies with every direction given by the Irish Financial Services Regulatory Authority under Part 12 (Conduct of Participating Institutions) of the NAMA Act 2009; and
 - (ix) to procure that the Group complies with every obligation to which it, the Company or any of its subsidiaries becomes subject by virtue of the Company being a participating institution under the NAMA Legislation.

2. Special Resolution

THAT, in accordance with the Shareholders' Rights (Directive 2007/36/EC) Regulations 2009, a general meeting of the Company, other than an annual general meeting or a general meeting for the passing of a special resolution, may be called on 14 days' notice.

By Order of the Board

David O'Callaghan
Secretary – Designate
Bankcentre
Ballsbridge
Dublin 4

30 November 2009

Notes:

Entitlement to attend and vote

- (1) Pursuant to regulation 14 of the Companies Act 1990 (Uncertificated Securities) Regulations 1996, only those Shareholders registered on the Company's register of members: (i) at the close of business on the day two days prior to the Extraordinary General Meeting; or (ii) if the Extraordinary General Meeting is adjourned, at the close of business on the day two days prior to the adjourned Extraordinary General Meeting, shall be entitled to attend and vote at the Extraordinary General Meeting or, if relevant, any adjournment thereof. Changes to entries on the Company's register of members after that time will be disregarded in determining the rights of any person to attend and vote at the Extraordinary General Meeting.

Website giving information regarding the meeting

- (2) Information regarding the Extraordinary General Meeting, including the information required by Section 133A(4) of the Companies Act 1963, is available from www.aibgroup.com.

Attending in person

- (3) The Extraordinary General Meeting will be held at Bankcentre, Ballsbridge, Dublin 4. If you wish to attend the Extraordinary General Meeting in person, you are recommended to attend at least 15 minutes before the time appointed for holding of the Extraordinary General Meeting to allow time for registration. Please bring the attendance card attached to your Form of Proxy and present it at the shareholder registration desk before the commencement of the Extraordinary General Meeting.

Appointment of proxies

- (4) A Shareholder who is entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy to attend, speak and vote instead of the Shareholder. A Shareholder may appoint more than one proxy to attend and vote at the Extraordinary General Meeting in respect of shares held in different securities accounts. A Shareholder acting as an intermediary on behalf of one or more clients may grant a proxy to each of its clients or their nominees provided each proxy is appointed to exercise rights attached to different shares held by that Shareholder. A proxy need not be a Shareholder. If you wish to appoint more than one proxy please contact the Company's Registrar, Computershare Investor Services (Ireland) Limited, on +353 1 247 5411.
- (5) A Form of Proxy for use by Shareholders is enclosed with this Notice of Extraordinary General Meeting (or is otherwise being delivered to Shareholders). Completion of a Form of Proxy (or submission of proxy instructions electronically) will not prevent a Shareholder from attending the Extraordinary General Meeting and voting in person should the Shareholder wish to do so.
- (6) To be valid, a Form of Proxy and any power or other authority under which it is executed (or a duly certified copy of any such power or authority) must be lodged with the Company's Registrar, Computershare Investor Services (Ireland) Limited, of Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, not later than 48 hours before the Extraordinary General Meeting or adjourned Extraordinary General Meeting or (in the case of a poll taken otherwise than at or on the same day as the Extraordinary General Meeting or adjourned Extraordinary General Meeting) at least 48 hours before the taking of the poll at which it is to be used.
- (7) To appoint (or remove) a proxy electronically, log on to the website of the Registrar, Computershare Investor Services (Ireland) Limited: www.computershare.com/ie/voting/aib. To log in, you will require your unique PIN (which will expire at the end of the voting period), and your Shareholder Reference Number (SRN), both of which are printed on the face of the accompanying Form of Proxy. Full details of the procedures are given on the website.
- (8) CREST members may appoint one or more proxies through the CREST electronic proxy appointment service in accordance with the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (9) In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such

instructions, as described in the CREST Manual. The message (whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by the Company's Registrars, Computershare Investor Services (Ireland) Limited, as issuer's agent (CREST Participant ID 3RA50) by the latest times(s) for receipt of proxy appointments specified in this Notice of Extraordinary General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services (Ireland) Limited is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

- (10) CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or Sponsored Member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- (11) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Companies Act 1990 (Uncertificated Securities) Regulations 1996.

Issued shares and total voting rights

- (12) The total number of issued ordinary shares in the Company on the date of this notice of Extraordinary General Meeting is 882,755,456 (excluding treasury shares).
- (13) Voting on each of the resolutions will be decided on a poll. This means that shareholders who attend the Extraordinary General Meeting, as well as those who are not able to attend but have sent proxy forms, may have their votes taken into account according to the number of shares they hold.
- (14) Resolution 1 is an ordinary resolution and requires a simple majority of votes cast at the meeting to be passed. Resolution 2 is a special resolution and requires at least 75 per cent. of votes cast at the meeting to be passed.

Questions at the Extraordinary General Meeting

- (15) Under Section 134C of the Companies Act 1963, the Company must answer any question you ask relating to the business being dealt with at the Extraordinary General Meeting unless: (i) answering the question would interfere unduly with the preparation for the Extraordinary General Meeting or the confidentiality and business interests of the Company; (ii) the answer has already been given on the Company's website in the form of an answer to a question; or (iii) it appears to the Chairman of the Extraordinary General Meeting that it is undesirable in the interests of good order of the meeting that the question be answered.

Other resolutions

- (16) The Extraordinary General Meeting is being convened to consider specific resolutions as incorporated in this Notice of Extraordinary General Meeting. As the text of the resolutions is set out in this Notice of Extraordinary General Meeting, Section 133B of the Companies Act 1963 (which provides that a member or members meeting the prescribed qualification criteria may table a draft resolution for an item on the agenda of an extraordinary general meeting) is accordingly inapplicable.

