

THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended immediately to seek your own personal financial advice from an 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).

If you sell or have sold or otherwise transferred all of your Ordinary Shares, please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain this document and accompanying Form of Proxy and consult the stockbroker, bank or other agent through whom you made the sale, transfer or disposal.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security. The contents of this document should not be construed as legal, business, financial, tax, investment or other professional advice.



Allied Irish Banks, p.l.c.

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

Proposed disposal of the M&T Shareholding

Circular and Notice of Extraordinary General Meeting

Your attention is drawn to the letter from your Executive Chairman which is set out on pages 7 to 16 of this document and which recommends that you vote in favour of the Resolution 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") of this document. 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 at 11.00 a.m. on 1 November 2010 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 30 October 2010 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 a 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 (Ireland) 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 (Ireland) Limited (CREST Participant ID 3RA50) so that it is received by no later than 11.00 a.m. on 30 October 2010. 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, AIB Corporate Finance and Citigroup Global Markets Inc. are acting exclusively for AIB and no one else in connection with the Disposal and will not regard any other person (whether or not a recipient of this document) as their respective client in relation to the Disposal 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 Disposal or any other matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on Morgan Stanley or AIB Corporate Finance 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, the M&T Shareholding, M&T or the Disposal, 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.

None of the Minister for Finance, the Department of Finance, the Government, the NTMA, the NPRFC or any person controlled by or controlling any such person, or any entity or agency of or related to the Irish State, or any director, officer, official, employee or adviser of any such person (each such person, a "Relevant Person") accepts any responsibility for the contents of, or makes any representation or warranty as to the accuracy, completeness or fairness of any information in, this Circular or any document referred to in this Circular or any supplement or amendment thereto (each a "Document"). Each Relevant Person expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of any Document. No Relevant Person has authorised or will authorise the contents of any Document, or has recommended or endorsed the merits of the Disposal or any other course of action contemplated by any Document.

Circular dated 11 October 2010

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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 “\$”, “US dollars”, “US\$”, “dollars” or “cents” are to US currency, references to “pounds sterling” or “£” are to British currency and references to “zloty”, “PLN” or “zł” are to Polish 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.

Save as otherwise indicated, financial data regarding AIB and its subsidiaries is extracted from the 2010 Half-Yearly Financial Report (unaudited), the 2009 Annual Financial Report, the 2008 Annual Financial Report or the 2007 Annual Financial Report (as applicable). Where financial data regarding AIB is not extracted from the consolidated financial statements of AIB and its subsidiaries as set out in the 2010 Half-Yearly Financial Report, the 2009 Annual Financial Report, the 2008 Annual Financial Report and the 2007 Annual Financial Report, it is derived from AIB’s unaudited accounting books and records.

EXCHANGE RATES

Except where otherwise stated, amounts quoted in US dollars in this document have been converted into equivalent Euro amounts at the rate of US\$1.397:€1.00, the European Central Bank reference exchange rate prevailing on 7 October 2010, the latest practicable date prior to the publication of this document.

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, Ireland times, unless otherwise stated.

DEFINITIONS

Capitalised terms used in this document have the meanings ascribed to them in Part VIII (“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 1 November 2010, 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 and Section 21E of the US Securities 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 or M&T’s businesses, as appropriate, 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. All statements other than statements of historical fact are, or may be deemed to be, 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 AIB's actual results to differ materially from those contemplated by the forward-looking statements include, among other factors:

- the Disposal becoming incapable of completion, which would require AIB to rely to a greater extent on Government support. Any such reliance is highly likely to result in increased Government ownership and control or full nationalisation;
- recent and future economic conditions in Ireland and international economic and sector-specific conditions;
- default of a major market participant or negative developments affecting one or more Irish financial institutions leading to a disruption in the markets in which AIB operates;
- the Continuing Group's exposure to the Irish property sector;
- the risk that the Continuing Group may have insufficient capital resources to meet the revised PCAR requirement and will need to rely to a greater extent on Government support;
- the risk that the Continuing Group may be required to hold a higher level of capital than that currently anticipated by the market or pursuant to the revised PCAR requirement;
- constraints on liquidity, the uncertainty over the terms of a further extension of the ELG Scheme and the market reaction to the removal of Government guarantees and further liquidity risks;
- risks relating to the availability of customer deposits and the Continuing Group's ability to access these deposits;
- further downgrades to Irish sovereign ratings or AIB's credit ratings;
- risks relating to other sovereign issuers;
- increased volatility in financial markets or prolonged volatility, resulting in reduced asset valuations and lower fees and commissions for the Continuing Group;
- the financial stability of the Continuing Group's counterparties including other financial institutions;
- commitments and restrictions imposed on the Continuing Group's activities under the CIFS Scheme, the NPRFC Investment, NAMA Programme and the ELG Scheme;
- the risk that the Continuing Group may be unable to retain its ISE and LSE listings;
- the ability of the Minister or the Central Bank of Ireland to give directions to the Continuing Group in relation to its future conduct;
- the Continuing Group's participation in the NAMA Programme gives rise to important risks given the lack of control by the Continuing Group over the nature, number and valuation of its NAMA Assets and the timing of their transfer and the Continuing Group may have to pay a special tax or surcharge in the event that NAMA makes a loss or repay payments received by the Continuing Group for AIB's NAMA Assets;
- the Continuing Group's ability to implement its strategic plan;
- the European Commission restructuring plan;
- the dilution risks arising from the impact of the "dividend stopper" provisions being triggered in the LP3 Securities;
- AIB's risk management processes may not be fully effective and its risk management framework may leave it exposed to risks that have not been identified by such policies and procedures;
- risks relating to the Continuing Group's reputation;
- financial models determining the value of certain financial instruments may change over time or not turn out to be accurate and the value realised by the Continuing Group for its assets may be materially different from the current or estimated fair value;
- risks relating to change in control of the Continuing Group;
- the policies of various governmental and regulatory authorities and changes in laws and regulations;

- risks relating to the Continuing Group's deferred tax assets;
- a restructuring of the Irish banking system;
- the Continuing Group being unable to recruit, retain and develop senior management and skilled personnel;
- the Continuing Group being subject to litigation and regulatory investigations;
- the Continuing Group operating in competitive markets that are subject to significant change and uncertainty;
- risks relating to AIB's liability for contributing to compensation schemes in respect of banks and other authorised financial services firms; and
- risks associated with the Disposal.

For more information, see the risk factors described in Part II ("Risk Factors") of this document, which also includes factors that may cause M&T's actual results to differ materially from those contemplated by the forward-looking statements.

No statement in this document or any document incorporated by reference herein 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 Central Bank of Ireland, the Irish Stock Exchange, the FSA, the London Stock Exchange or applicable law, AIB does not have any obligation and expressly disclaims any obligation or undertaking to update or revise publicly any forward-looking statement, whether as a result of new information, further or future 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.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Offering of the Notes	4.10 p.m. (US Eastern Standard Time) on 5 October 2010
Closing of offering of the Notes and proceeds remitted to the Control Account	Commences at 9.00 a.m. (US Eastern Standard Time) on 13 October 2010
Latest time and date for receipt of Forms of Proxy for the Extraordinary General Meeting	11.00 a.m. on 30 October 2010
Extraordinary General Meeting	11.00 a.m. on 1 November 2010
Expected date of completion of the Disposal and receipt of proceeds by AIB	4 November 2010

PART I

LETTER FROM THE EXECUTIVE CHAIRMAN OF ALLIED IRISH BANKS, P.L.C.



Directors:

Dan O'Connor†	Executive Chairman
Colm Doherty†	Group Managing Director
Declan Collier*	
Kieran Crowley*†	
Stephen L. Kingon*	
Anne Maher*	
David Pritchard*	
Dr Michael Somers*	Deputy Chairman
Dick Spring*	

Head and Registered Office

Bankcentre
Ballsbridge
Dublin 4
Ireland
11 October 2010

Dear Shareholder

Proposed disposal of the M&T Shareholding

1 Introduction

On 30 March 2010, the Financial Regulator (whose functions are now performed by the Central Bank of Ireland from 1 October 2010) published details of the Prudential Capital Assessment Review (“PCAR”), its assessment of the forward-looking prudential capital requirements of certain Irish credit institutions, including AIB, that are covered by Government guarantee schemes. As part of this original PCAR, the Financial Regulator announced an equivalent equity capital requirement of €7.4 billion for AIB which was to be in place by 31 December 2010. On the same day, AIB announced its plans for meeting the original PCAR capital requirement by 31 December 2010.

On 30 September 2010, the Financial Regulator updated its assessment of AIB’s capital requirement and increased the amount of equivalent equity capital required under the PCAR from €7.4 billion to €10.4 billion. The increased PCAR requirement for AIB has been set following an assessment by the Financial Regulator of AIB’s potential losses on AIB’s eligible NAMA Assets and must be in place by 31 December 2010.

AIB expects to meet the revised PCAR requirement by way of an equity capital raising of €5.4 billion, which is expected to launch during November 2010, and by the planned disposals of the M&T Shareholding (as described below), the AIB shareholding in BZWBK and its UK business and other capital generating measures (such as other minor asset disposals, risk weighted asset reduction initiatives and liability management actions) which are expected to generate a further €5.0 billion of capital, approximately half of which is expected to be realised from the BZWBK Disposal. In the event that AIB’s residual capital requirement is not met through the planned disposals and capital generating initiatives by 31 March 2011, any shortfall will be met by the conversion of 2009 Preference Shares at that date on commercial terms to be agreed between AIB and the NPRFC prior to the date of conversion.

AIB owns 26,700,000 M&T Shares which, as at 7 October 2010 (being the latest practicable date prior to the publication of this document), represented approximately 22.4 per cent. of the issued common stock of M&T, a

† On 30 September 2010, AIB announced that the Board has agreed with Mr Dan O’Connor that he will step down as Executive Chairman within the coming weeks and that the Board has agreed with Group Managing Director, Mr Colm Doherty, the termination of his contract on existing terms. Mr Doherty will depart AIB before the end of 2010. In addition, on 4 October 2010, Mr Kieran Crowley notified AIB of his intention to resign from the Board at its next meeting on 13 October 2010.

* Denotes Non-Executive Director.

commercial banking business based in Buffalo, New York. The disposal by AIB of its shareholding in M&T Bank Corporation (“M&T”) represents one of the key steps in AIB’s plans to meet the revised PCAR capital requirement.

Due to its size, the Disposal constitutes a “Class 1 transaction” under the Listing Rules. As a consequence, completion of the Disposal is subject to the approval of Shareholders.

The purpose of this letter is to provide Shareholders with details of the Disposal and to explain why the Board believes that the Disposal is in the best interests of AIB and its Shareholders as a whole. Mr Robert G. Wilmers, a member of the AIB Board until 4 October 2010, who is also the Chairman and Chief Executive Officer of, and a shareholder in, M&T, absented himself from deliberations of the Board in connection with the Disposal. This letter also contains the notice of an Extraordinary General Meeting of the Company to be held on 1 November 2010 to consider and, if thought fit, pass the resolution required to enable the Company to complete the Disposal.

2 Information on M&T and its relationship with AIB

M&T is a New York Stock Exchange-listed commercial banking business based in Buffalo, New York, with significant businesses in Maryland, Pennsylvania and other eastern states in the United States. M&T has two wholly owned bank subsidiaries: M&T Bank and M&T Bank, National Association. These banks collectively offer a wide range of commercial banking, trust and investment services to their customers. As at 30 June 2010, as set out in its unaudited quarterly report filed with the SEC on Form 10-Q, M&T, on a US GAAP basis, reported consolidated total assets of US\$68.2 billion (€48.8 billion), total deposits of US\$47.5 billion (€34.0 billion) and shareholders’ equity of US\$8.1 billion (€5.8 billion).

On 1 April 2003, M&T completed the acquisition from AIB of Allfirst Financial Inc. (“Allfirst”), a bank holding company headquartered in Baltimore, Maryland in the United States. Under the terms of the Agreement and Plan of Reorganization dated 26 September 2002 between AIB, Allfirst and M&T (the “Reorganization Agreement”), M&T acquired all of the issued Allfirst stock held by AIB, and in return AIB received 26,700,000 M&T Shares and US\$886,107,000 in cash, of which US\$865,000,000 was received by way of a pre-sale dividend from Allfirst.

As a substantial shareholder of M&T, AIB has the right to designate four members to serve on the board of directors of M&T and M&T Bank respectively. In anticipation of the Disposal, AIB Group’s Managing Director, Mr Colm Doherty, resigned from the board of directors of M&T on 16 June 2010. Pursuant to the Reorganization Agreement, M&T also has the right to designate one member to serve on the Board of AIB so long as AIB holds at least 15 per cent. of M&T’s entire issued share capital. M&T’s designee on the AIB Board was Mr Wilmers, who resigned from the Board on 4 October 2010.

The Reorganization Agreement provides that the M&T Shareholding may only be disposed of by AIB pursuant to an effective registration statement or pursuant to an exemption from registration under the US Securities Act and subject to the provisions of the Reorganization Agreement. In addition, under the terms of the Reorganization Agreement, M&T has the right of first refusal in respect of a proposed sale of the M&T Shareholding by AIB in certain circumstances.

The Reorganization Agreement provides a number of options for a disposal of the M&T Shareholding that are not subject to M&T’s right of first refusal, including a disposal that is structured as a widely dispersed public distribution (such as by means of an underwritten public offering). The Disposal is being effected by way of a widely dispersed public underwritten offering of contingent mandatorily exchangeable notes which will be mandatorily exchanged for the M&T Shares following the passing of the Resolution by Shareholders, provided that no AIB Regulatory Event has occurred. Accordingly, the Disposal is not subject to M&T’s right of first refusal.

Paragraph 9 of Part VII (“Additional Information”) of this document contains further details relating to the Reorganization Agreement.

3 Background to and reasons for the Disposal

Overview of Government and regulatory initiatives prior to 30 September 2010

In response to the significant challenges facing the Irish banking sector arising from the deterioration in international financial markets that began in 2008, the Government took steps to reassure the markets of the stability of the Irish banking industry. Those steps included:

- the CIFS Scheme, announced in September 2008 (which expired on 29 September 2010) and the ELG Scheme, announced in December 2009 (which is due to expire on 31 December 2010), under which the Minister guaranteed specific categories of liabilities of certain systemically important Irish credit institutions (including AIB and some of its subsidiaries);

- direct capital investments by the Government in certain Irish financial institutions, including AIB. On 13 May 2009, AIB issued to the NPRFC €3.5 billion of preference shares and 294,251,819 warrants to subscribe for Ordinary Shares; and
- the NAMA Programme.

Further details of the CIFS Scheme, the ELG Scheme, the NPRFC Investment and the NAMA Programme, and powers granted to the Minister and the Central Bank of Ireland (which performs the Financial Regulator's function from 1 October 2010) in respect of AIB thereunder, are contained in paragraph 8 of Part VII ("Additional Information") of this document.

The NAMA Programme

In April 2010, AIB transferred €3.3 billion of assets to NAMA, representing the first tranche of its NAMA Assets. AIB received €1.9 billion in consideration for those assets from NAMA (in the form of NAMA Bonds and Subordinated NAMA Bonds), which represented a discount of approximately 42 per cent. to the gross value of the assets transferred. The transfer of the second tranche of €2.7 billion of AIB's NAMA Assets to NAMA occurred in July 2010. AIB received €1.4 billion in consideration for those assets from NAMA (in the form of NAMA Bonds and Subordinated NAMA Bonds), which represented a discount of approximately 48.5 per cent. to the gross value of the NAMA Assets transferred. This represents an average discount of approximately 45 per cent. being applied to the gross value of the NAMA Assets transferred to NAMA in the first and second tranches.

On 30 September 2010, the Minister announced changes to the NAMA Programme including that, in relation to AIB, where the total exposure of a debtor is below a €20 million threshold, that debtor's loans will not now be transferred to NAMA, whereas the threshold had previously been set at €5 million. AIB expects this to result in approximately €4.4 billion of AIB loans previously designated as NAMA Assets no longer being transferred. The Minister has stated that NAMA has reviewed the quality of NAMA Assets still to be transferred to NAMA from AIB and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. A major factor in this increased discount was stated to be "the predominance of land bank loans, many of which were speculative investments that now have little value". AIB expects a further transfer of NAMA Assets as part of the final tranche may be completed in October 2010, and, in any event, NAMA has stated that its objective is that all assets transferring to NAMA will be transferred by 31 December 2010 and, in any event, by the end of February 2011.

Prudential Capital Assessment Review and other developments relating to regulatory capital

The PCAR announced by the Financial Regulator on 30 March 2010 included capital requirements for certain Irish credit institutions (including AIB) to strengthen and increase their capital bases to help restore confidence in the Irish banking sector.

The PCAR assessed the capital requirement of AIB and other Irish credit institutions in the context of expected losses and other financial developments, under both base and stress-case scenarios, over the period from 2010 to 2012. The original PCAR concluded that, over the period from 2010 to 2012, in common with other Irish credit institutions, the target Equity Tier 1 Capital Ratio for AIB would be 7 per cent. and the target Core Tier 1 Capital Ratio would be 8 per cent. In order to meet the target Equity Tier 1 Capital Ratio, the original PCAR determined that AIB must generate the equivalent of €7.4 billion of new equity capital by 31 December 2010.

On 30 September 2010, the Financial Regulator updated its assessment of AIB's capital requirement and increased the amount of equivalent equity capital required under the PCAR from €7.4 billion to €10.4 billion. The increased PCAR requirement for AIB has been set following an assessment by the Financial Regulator of AIB's potential losses on AIB's eligible NAMA Assets and must also be met by 31 December 2010.

The actual discount on AIB's remaining NAMA Assets to be transferred to NAMA will not be known until completion of the final objection valuation review procedure in accordance with the terms of the NAMA Act. The Financial Regulator announced that any differences between the estimate of the discount provided by NAMA, which was used for the revised PCAR capital requirement announced on 30 September 2010, and the final discounts on transfer will be included in the next PCAR, which the Central Bank of Ireland will conduct in 2011.

On 30 March 2010, following publication of the original PCAR, AIB announced a series of capital raising initiatives to meet the capital requirement set by the Financial Regulator. These initiatives included plans to sell the M&T Shareholding, as well as AIB's shareholding in BZWBK (a Polish bank) and its UK business, which comprises AIB (GB) and First Trust Bank in Northern Ireland. AIB also intends to dispose of its 49.99 per cent. shareholding in Bulgarian American Credit Bank ("BACB"). On 10 September 2010, AIB announced that (through AIB European

Investments Limited and AIB Capital Markets, p.l.c.) it had conditionally agreed to sell its shareholdings in BZWBK and BZWBK AIB Asset Management S.A. to Banco Santander S.A. for a total cash consideration of €3.1 billion subject to the terms and conditions of the BZWBK Share Purchase Agreement. Further details of the terms of this sale are set out in paragraph 8.1.5 of Part VII (“Additional Information”) of this document. Furthermore, on 20 September 2010, AIB announced that it had conditionally agreed to sell its entire shareholding in Goodbody Holdings Limited and associated companies, including Goodbody Stockbrokers, to Fexco Holdings Limited for a cash consideration of approximately €24 million.

As announced on 30 September 2010, AIB has also undertaken to launch a €5.4 billion equity capital raising during November 2010 which is expected to be completed before 31 December 2010. This equity capital raising will be fully underwritten by the NPRFC and will be subject, amongst other matters, to European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share, which represents a discount of approximately 9.4 per cent. to the official closing price of an Ordinary Share on the Irish Stock Exchange on 29 September 2010. The capital raising is expected to be structured as a placing and open offer and existing shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new Ordinary Shares under the equity capital raising. A prospectus is expected to be published in early November 2010 that will provide further details of the terms of the equity capital raising, underwriting structure and timing.

If necessary, the NPRFC’s underwriting commitment will be met through a new cash contribution of up to €3.7 billion for new Ordinary Shares from existing cash resources of the NPRFC and by the conversion of up to €1.7 billion of the 2009 Preference Shares held by the NPRFC. Assuming conversion of €1.7 billion of the 2009 Preference Shares, the NPRFC would continue to hold €1.8 billion of the 2009 Preference Shares.

On completion of the equity capital raising it is likely that the NPRFC will own a significant majority stake in AIB. It is intended that the transaction will be structured in a manner which optimises the ability of AIB to retain its existing stock exchange listings, including on the ISE and the LSE, by appropriate structuring of voting rights (subject to agreement with the relevant exchanges), even in circumstances where the NPRFC purchases all or substantially all of the underwritten new Ordinary Shares. The mechanics of implementation will be subject to discussion with the ISE and the UKLA.

It is anticipated that the 2009 Warrants issued to the NPRFC will be repurchased on terms to be agreed. As terms have not yet been agreed it is not possible to quantify the likely impact; however, the reduction in capital is not expected to be material.

In addition to the capital generated from the BZWBK Disposal, AIB expects to raise €2.5 billion from the planned disposals of the M&T Shareholding and AIB’s UK business and additional capital generating initiatives (such as other minor asset disposals, risk weighted asset reduction initiatives and liability management actions). In the event that AIB’s residual capital requirement is not met through the planned disposals and capital generating initiatives by 31 March 2011, any shortfall will be met by the conversion of 2009 Preference Shares at that date on commercial terms to be agreed between AIB and the NPRFC prior to the date of conversion.

As further described in paragraph 5 of this Part I and in Part VI (“Principal Terms of the Disposal”) of this document, subject to receipt of Shareholder approval, AIB expects to receive net proceeds of approximately US\$2.0 billion (€1.5 billion) (representing US\$76.24 per M&T Share) from the Disposal on the Exchange Date. The sale of the M&T Shareholding is, subject to receipt of Shareholder approval, a further step being taken by AIB towards reaching the increased regulatory capital requirement set by the Financial Regulator under the revised PCAR.

4 Principal terms of the Disposal

AIB has considered a number of ways in which it could monetise its M&T Shareholding and maximise the sale proceeds by retaining flexibility as to the timing of the transaction so as to take advantage of favourable market conditions. Given the need for Shareholders to approve the Disposal and the requirement for the M&T Shares to be registered under the US Securities Act prior to their offer and sale in the United States, the sale of the M&T Shareholding has been structured by way of an issue by AIB of contingent mandatorily exchangeable notes (the “Notes”) to investors who, following receipt of Shareholder approval and in the absence of an AIB Regulatory Event, will receive AIB’s M&T Shares in exchange for the Notes. The Notes constitute AIB debt instruments and investors have been issued one Note for each underlying M&T Share, in return for payment of a price of US\$77.50 per Note. The issue price has been principally based on the market price of an M&T Share at the time of the pricing of the Notes. The Notes are governed by New York law and are listed on the New York Stock Exchange.

If Shareholder approval is obtained, and in the absence of an AIB Regulatory Event, each Note will be mandatorily exchanged for one M&T Share (subject to anti-dilution adjustments for stock splits and stock combinations with

respect to the common stock of M&T), on the third business day after receipt of such Shareholder approval (the “**Exchange Date**”).

If Shareholder approval is not obtained by 8 November 2010 or an AIB Regulatory Event occurs, each Note will be automatically redeemed on 15 November 2010 at its principal amount plus US\$0.26 per Note (the “**Redemption Premium**” and, together with the principal amount per Note, the “**Redemption Price**”) provided that the Redemption Price will be reduced by the amount of any Cash M&T Distribution Adjustment in excess of US\$0.515 per Note. The Redemption Price per Note, together with any Cash M&T Distribution Adjustment, will not exceed 101 per cent. of the Note’s principal amount. The total Redemption Premium will in no case exceed US\$6.9 million. If Shareholder approval is not obtained or an AIB Regulatory Event occurs, AIB would not be obliged to transfer to Noteholders any non-cash distributions received from M&T.

Whether or not Shareholder approval is obtained, investors in the Notes will have the right to receive any Cash M&T Distribution Adjustment on the later of (i) the Exchange Date or the date on which the Notes are redeemed, as applicable, and (ii) the business day immediately following AIB’s receipt of the Cash M&T Distribution from M&T. In the event that the Notes are redeemed, the Redemption Price will be reduced by the amount of the excess of any Cash M&T Distribution Adjustment over US\$0.515 per Note.

Pending exchange of the Notes, an amount of cash representing approximately 101 per cent. of the aggregate principal amount of the Notes will be held in a Control Account pursuant to the terms of the Security Agreement. If the Notes are exchanged for M&T Shares, on the Exchange Date AIB expects to receive, upon the release of the Note Proceeds from the Control Account, net proceeds (following deduction of relevant expenses, discounts and fees) of approximately US\$2.0 billion (€1.5 billion) (representing US\$76.24 per M&T Share). As of the close of business on 7 October 2010 (being the latest practicable date prior to the publication of this document), the aggregate value of the M&T Shareholding was US\$2.1 billion (based on a market price of US\$76.87 per M&T Share as reported on the New York Stock Exchange on that date). Any redemption of the Notes will be funded exclusively from the amounts held in the Control Account.

In the event that any distribution made by M&T includes property other than cash, subject to the exchange of Notes into M&T Shares having occurred, AIB will deliver such property (before any deduction for withholding or other taxes) to the record holders of the Notes as of the Exchange Date, following the later of the Exchange Date and the business day immediately following AIB’s receipt of the distribution from M&T.

Part VI (“Principal Terms of the Disposal”) of this document provides further details on the structure and terms of the Notes and the Disposal. Shareholders should note that they are only being asked to vote on whether AIB should proceed with and complete the Disposal. The issue of the Notes by AIB did not require Shareholder approval.

5 Financial effects of the Disposal

Subject to Shareholder approval of the Disposal, AIB expects to receive net proceeds of approximately US\$2.0 billion (€1.5 billion) from the Disposal. AIB has estimated that, on a pro forma basis as at 30 June 2010, the Disposal, the transfer of the second tranche of NAMA Assets and the BZWBK Disposal would have had the following impact on its regulatory capital ratios if they had occurred on that date:

	Actual as at 30 June 2010	Impact of the Disposal	Impact of the transfer of the second tranche of NAMA Assets	Impact of the BZWBK Disposal	Pro forma as at 30 June 2010 ⁽¹⁾
Equity Tier 1 Capital Ratio	3.8%	0.7%	(0.4%)	2.1%	6.2%
Core Tier 1 Capital Ratio	6.9%	0.6%	(0.3%)	2.4%	9.6%
Tier 1 Capital Ratio	6.0%	0.7%	(0.4%)	2.4%	8.7%
Total Capital Ratio	9.0%	0.7%	(0.4%)	2.5%	11.8%

Note:

(1) As set out in Section A of Part IV (“Unaudited Pro Forma Financial Information”) of this document.

Further information in relation to the potential financial impact of the Disposal, the transfer of the second tranche of NAMA Assets and the BZWBK Disposal on the Continuing Group is set out in Part IV (“Unaudited Pro Forma Financial Information”) 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, support by the Minister for Finance 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 the uncertainty surrounding the implementation and/or continuation of the

Government schemes, and the stated intention of AIB to raise the equivalent of €10.4 billion of equity capital by 31 December 2010 to meet the revised PCAR requirement, the UK Listing Authority has agreed that a statement regarding the adequacy of working capital for at least the next 12 months should not be required in this document. Due to the uncertainty surrounding the implementation and/or continuation of the Government schemes, the Irish Stock Exchange has 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 (“Capital Resources and Liquidity”) of this document contains a discussion of the Group’s current capital resources and liquidity position.

6 Use of proceeds

Subject to Shareholder approval of the Disposal, AIB expects to receive net proceeds from the Disposal of approximately US\$2.0 billion (€1.5 billion). The Board intends to use the Equity Tier 1 Capital generated from the proceeds of the Disposal to meet part of AIB’s revised PCAR capital requirement of €10.4 billion, as set out in paragraph 3 above. The net cash proceeds will be used as an additional source of liquidity to support AIB’s business activities.

As set out in Part IV (“Unaudited Pro Forma Financial Information”) of this document, the capital generated from the Disposal of €0.8 billion is expected to increase AIB’s Equity Tier 1 Capital Ratio by 0.7 per cent. Taking into account the combined impact of the Disposal, the transfer of the second tranche of NAMA Assets and the BZWBK Disposal, AIB’s Equity Tier 1 Capital Ratio on a pro forma basis as at 30 June 2010 would have been 6.2 per cent. if those transactions had occurred on that date.

7 Current trends in trading and prospects

On 4 August 2010, AIB released its 2010 Half-Yearly Financial Report (which is incorporated by reference herein) containing a condensed set of financial statements and an interim management report, which includes a review of the important events that occurred during the six months ended 30 June 2010 and their impact on the condensed consolidated financial statements and the principal risks and uncertainties affecting AIB for the remaining months of 2010. That report also includes some key operating business targets over the next three years.

Trading conditions since 30 June 2010 with respect to AIB’s margins remain substantially the same as those experienced in the second quarter of 2010. General funding market conditions since 30 June 2010 have become increasingly challenging, which has had a negative impact on AIB’s funding position, which has seen a reduction in debt securities in issue and customer accounts offset by an increase in deposits by banks. While AIB has issued term funding of €6.6 billion during 2010 in anticipation of term funding maturing in September 2010, current market conditions are limiting funding access to shorter durations. Asset quality remains challenging, with no significant trends beyond those evident during the six months ended 30 June 2010. In addition, an estimated after tax loss attributable to Shareholders was realised on the transfer of the second tranche of NAMA Assets by AIB on 12 July 2010, as referred to in Part IV (“Unaudited Pro Forma Financial Information”) of this document.

On 10 September 2010, AIB announced that (through AIB European Investments Limited and AIB Capital Markets p.l.c.) it had conditionally agreed to sell its shareholdings in BZWBK and BZWBK AIB Asset Management S.A. to Banco Santander S.A. for a total cash consideration of €3.1 billion subject to the terms and conditions of the BZWBK Share Purchase Agreement. Further details of the terms of this sale are set out in paragraph 8.1.5 of Part VII (“Additional Information”) of this document. Furthermore, on 20 September 2010, AIB announced that it had conditionally agreed to sell its entire shareholding in Goodbody Holdings Limited, and associated companies including Goodbody Stockbrokers, to Fexco Holdings Limited for a cash consideration of approximately €24 million.

On 30 September 2010, the Minister stated that NAMA has reviewed the quality of NAMA Assets still to be transferred to NAMA from AIB and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. In addition, in deriving AIB’s revised PCAR requirement on NAMA loans with balances of less than €20 million, which will now be retained on the AIB balance sheet, the Financial Regulator applied a 56 per cent. discount. The actual discount on AIB’s remaining assets to be transferred to NAMA will not be known until completion of the final objection valuation review procedure in accordance with the terms of the NAMA Act. The Financial Regulator announced that any differences between the estimate of the discount provided by NAMA, which was used for the revised PCAR capital requirement announced on 30 September 2010, and the final discounts on transfer will be included in the next PCAR, which the Central Bank of Ireland will conduct in 2011.

On 30 September 2010, AIB announced that the Board has agreed with Mr Dan O'Connor that he will step down as Executive Chairman within the coming weeks and that the Board has agreed with Group Managing Director, Mr Colm Doherty, the termination of his contract on existing terms. Mr Doherty will depart AIB before the end of 2010. On 4 October 2010, AIB received notification from Mr Robert Wilmers of his resignation from the Board to take effect immediately in light of the Disposal. In addition, on 4 October 2010, Mr Kieran Crowley notified AIB of his intention to resign from the Board at its next meeting on 13 October 2010. There may be additional changes to the composition of the Company's Board and the Senior Executives in due course.

8 Strategy

Central to AIB's strategy is the positioning of the Company as a customer and people led credit institution, which AIB expects will have a significant positive impact on its culture and profitability.

The strategy sets out a 'back to basics' approach for AIB. Key objectives of AIB's strategy include:

Rebuilding the business on solid foundations

- raising capital; and
- improving AIB's funding profile.

Restoring AIB to a path of sustainable profit

- increasing product pricing and margins;
- improving risk governance and management;
- reducing costs; and
- supporting customers.

AIB has developed a capital, funding and liquidity strategy aimed at enhancing its capital base and extending the maturity profile of its funding base, in the context of reducing its reliance on Government guaranteed funding schemes. See Part V ("Capital Resources and Liquidity") of this document for further information relating to AIB's capital, funding and liquidity strategy.

On 30 March 2010, AIB announced a series of capital raising initiatives to meet the increased capital requirement determined by the Financial Regulator following the original PCAR, which included plans to sell the M&T Shareholding, as well as AIB's shareholding in BZWBK and its UK business. On 10 September 2010, AIB announced that (through AIB European Investments Limited and AIB Capital Markets p.l.c.) it had conditionally agreed to sell its shareholdings in BZWBK and BZWBK AIB Asset Management S.A. to Banco Santander S.A.

As announced on 30 September 2010, AIB has also undertaken to launch a €5.4 billion equity capital raising during November 2010 which is expected to be completed before 31 December 2010. This equity capital raising will be fully underwritten by the NPRFC and will be subject to, amongst other matters, European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share, which represents a discount of approximately 9.4 per cent. to the official closing price of an Ordinary Share on the Irish Stock Exchange on 29 September 2010. The capital raising is expected to be structured as a placing and open offer and existing shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new Ordinary Shares under the equity capital raising. A prospectus is expected to be published in early November 2010 that will provide further details of the terms of the equity capital raising, underwriting structure and timing.

If necessary, the NPRFC's underwriting commitment will be met through a new cash contribution of up to €3.7 billion for new Ordinary Shares from existing cash resources of the NPRFC and by the conversion of up to €1.7 billion of the 2009 Preference Shares held by the NPRFC. Assuming conversion of €1.7 billion of the 2009 Preference Shares, the NPRFC would continue to hold €1.8 billion of the 2009 Preference Shares.

On completion of the equity capital raising it is likely that the NPRFC will own a significant majority stake in AIB. It is intended that the transaction will be structured in a manner which optimises the ability of AIB to retain its existing stock exchange listings, including on the ISE and the LSE, by appropriate structuring of voting rights (subject to agreement with the relevant exchanges), even in circumstances where the NPRFC purchases all or substantially all of the underwritten new Ordinary Shares. The mechanics of implementation will be subject to discussion with the ISE and the UKLA.

It is anticipated that the 2009 Warrants issued to the NPRFC will be repurchased on terms to be agreed. As terms have not yet been agreed it is not possible to quantify the likely impact; however, the reduction in capital is not expected to be material.

In addition to the capital generated from the BZWBK Disposal, AIB expects to raise €2.5 billion from the planned disposals and additional capital generating initiatives (such as other minor asset disposals, risk weighted asset reduction initiatives and liability management actions). In the event that AIB's residual capital requirement is not met through the planned disposals and capital generating initiatives by 31 March 2011, any shortfall will be met by a conversion of 2009 Preference Shares at that date on commercial terms to be agreed between AIB and the NPRFC prior to the date of conversion.

As part of its funding and liquidity strategy, subject to market conditions, AIB aims to extend the average duration of its funding, which would positively impact the overall profile of the Group's funding base. Since 31 December 2009, AIB has issued €6.6 billion in term funding under the ELG Scheme, with a significant bias towards maturities ranging from two to five years. While AIB has accessed the unguaranteed market for funding, it retains a reliance on the continuation of the ELG Scheme. In addition, AIB continues to access central bank liquidity schemes. As market conditions allow, AIB will avail itself of opportunities to access unguaranteed sources of funds in order to reduce the Group's reliance on guaranteed funding. See Part V ("Capital Resources and Liquidity") of this document for further information on AIB's capital and current funding position.

As a result of prevailing market conditions and in line with other global financial institutions, AIB has also accessed a range of central bank liquidity facilities. The Group participates in global central bank money market repurchase agreement operations as part of its normal day-to-day funding activity. These facilities are part of standard central bank operations. AIB continues to rely on central bank liquidity facilities as an additional source of liquidity, as required. The Group has also availed itself of certain additional liquidity schemes introduced by central banks for market participants during the period of dislocation within the funding markets. Due to the limited access to, and high costs of, short-term funding under current market conditions, AIB expects to draw on its Qualifying Liquid Assets and Contingent Funding capacity to continue to access secured lending facilities.

The Group is fully engaged in the NAMA Programme, with two tranches of NAMA Assets (comprising loans with a nominal value of €6.0 billion) having transferred to NAMA in April 2010 and July 2010. On 30 September 2010, the Minister stated that NAMA has reviewed the quality of AIB's NAMA Assets still to be transferred to NAMA from AIB and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. The actual discount on AIB's remaining NAMA Assets to be transferred to NAMA will not be known until the completion of the final objection valuation review procedure in accordance with the terms of the NAMA Act.

The Group is committed to ensuring that its products are priced to commercial levels at a pace consistent with market and economic development. Improvement in overall net interest margins is targeted from 2012. Based on the European Commission restructuring plan (which was prepared by AIB and submitted to the European Commission in November 2009 and a revised plan submitted on 4 May 2010), AIB's net interest margin target is approximately 180 basis points by 2013.

AIB has initiated the implementation of a much more rigorous credit management framework across the Group which includes, amongst other things, new lending disciplines, policies and practices. The Group is also leveraging the strong skills of its existing key relationship and credit personnel in the Capital Markets division, by utilising such expertise for enhanced credit management of larger cases that have originated in the AIB Bank Republic of Ireland division.

Following the integration of all credit functions within the Group, a more coherent strategic approach has been adopted in respect of credit underwriting, risk policies, strategy, best practices and standards, which improves the identification and management of credit risk in a timely and effective way. This function reports directly to the AIB Group Managing Director. The Group has targeted an increasingly diversified loan book and progressively reducing loss rate from levels recorded in the first half of 2010.

The cost base will reflect a smaller bank, employing fewer people following the planned disposals and the anticipated business reorganisation. The business reorganisation plan is currently being finalised and will involve the implementation of a cost reduction programme that will progressively target a lower cost/income ratio of around 50 per cent. by 2013. The Group expects to engage with key stakeholders over the coming months in relation to that plan.

AIB, as a customer-led organisation, is committed and positioned to support customers and economic recovery in Ireland. The mortgage market in Ireland remains of strategic importance to AIB and there have been a wide range of initiatives launched by AIB to date to provide support to the small and medium-sized enterprise ("SME") market. See

paragraph 8.1.4 of Part VII (“Additional Information”) of this document for further details of the initiatives taken by AIB in this respect.

AIB’s strategic objectives and priorities are reflected in the restructuring plan, which AIB prepared and the Department of Finance submitted to the European Commission in November 2009 as a result of the state aid provided to AIB in connection with the NPRFC Investment. AIB, through the Department of Finance, is involved in detailed negotiations and discussions with the European Commission in relation to the terms of the existing restructuring plan, and substantive engagement and progress has been achieved. The European Commission will require AIB to undertake structural measures, including measures relating to the planned disposals announced by AIB on 30 March 2010, and behavioural measures, including measures to support the development of competition in the Irish market and certain restrictions on discretionary dividend and coupon payments. These measures are reflected in the updated restructuring plan that was submitted to the European Commission on 4 May 2010. The announcement by AIB on 30 September 2010 relating to increased capital requirements, an equity capital raising and board changes, represents additional and alternative measures to achieve viability which is likely to result in a requirement to submit an amended restructuring plan to the European Commission. AIB expects the decision regarding approval of the proposed measures, including the terms of the updated restructuring plan, to be taken by the European Commission in late 2010/early 2011.

9 Further information

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

10 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 Resolution. The Extraordinary General Meeting will take place at 11.00 a.m. on 1 November 2010 in Bankcentre, Ballsbridge, Dublin 4, Ireland.

An ordinary resolution will be proposed at the Extraordinary General Meeting to approve the terms of the Disposal. As a Class 1 transaction for the purposes of the Listing Rules, the Disposal may only be completed if it is first approved by Shareholders. 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.

11 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 (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland by no later than 11.00 a.m. on 30 October 2010. 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 (Ireland) 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 (Ireland) Limited (CREST Participant ID 3RA50). In each case, the proxy appointment must be received by no later than 11.00 a.m. on 30 October 2010. 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 Resolution 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 before 11.00 a.m. on 30 October 2010, may have their votes taken into account according to the number of shares they hold. 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 Resolution 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.

12 Importance of, and the implications of not voting in favour of, the Resolution

In order for AIB to complete the Disposal, the Resolution must be passed by Shareholders at the Extraordinary General Meeting to be held at 11.00 a.m. on 1 November 2010 at Bankcentre, Ballsbridge, Dublin 4, Ireland.

If the Resolution is not approved by Shareholders, AIB will be unable to complete the Disposal and will be obliged to redeem the Notes by paying the Redemption Price held in the Control Account to the purchasers of the Notes.

Although the capital generated from the proceeds of the Disposal alone will not enable AIB to meet the entire revised PCAR capital requirement for AIB announced by the Financial Regulator on 30 September 2010, the Disposal is one of the significant steps being taken by AIB towards generating a proportion of the additional capital required in order to meet that requirement.

If the Resolution is not approved by Shareholders, the Disposal will become incapable of completion. The inability of AIB to complete the Disposal could have the following adverse consequences for AIB and its Shareholders:

- **If AIB is unable to complete the Disposal at this time, then there is no assurance that AIB will be able to dispose of the M&T Shareholding at a later date, in favourable or equivalent market circumstances or to dispose of the M&T Shareholding at all. In those circumstances, AIB would need to rely to a greater extent on Government support including through the conversion of the 2009 Preference Shares into Ordinary Shares.**
- **The Board therefore believes that if AIB is unable to proceed with the Disposal and the other announced disposals, then it is highly likely that such events would result in increased Government ownership and control or full nationalisation. If this were to occur, Shareholders could lose the value of their Ordinary Shares and suffer further dilution.**

13 Financial advice

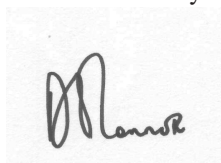
The Board has received financial advice from Morgan Stanley and AIB Corporate Finance in relation to the Disposal. Mr Wilmers, as Chairman and Chief Executive Officer of M&T and a shareholder in M&T, did not take part in the Board's consideration of the Disposal. He resigned from the Board on 4 October 2010. In providing their advice, Morgan Stanley and AIB Corporate Finance have relied upon the Board's commercial assessments of the Disposal.

14 Recommendation

The Board believes that the Disposal is in the best interests of AIB and of the Shareholders as a whole. Mr Wilmers, as Chairman and Chief Executive Officer of M&T and a shareholder in M&T, did not take part in the Board's consideration of the Disposal. He resigned from the Board on 4 October 2010.

Accordingly, the Board recommends that Shareholders vote in favour of the Resolution 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 197,101 Ordinary Shares, representing approximately 0.02 per cent. of the Ordinary Shares in issue as at 7 October 2010 (being the latest practicable date prior to the publication of this document).

Yours sincerely



Dan O'Connor
Executive Chairman

11 October 2010

PART II

RISK FACTORS

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

This Part II addresses the risks relating to the Disposal not proceeding, existing and future material risks to AIB's and M&T's businesses and existing and future material risks relating to the Disposal. The risks below are those risks which the Board currently believes to be material to the Continuing Group. Some risks are not yet known and some that are not currently deemed or considered material could later prove to be material. All of these risks could materially affect the Continuing Group, its income, operating profits, earnings, net assets, liquidity and capital resources. Risks relating to M&T have been extracted from M&T's annual report on Form 10-K and its quarterly report for the three months ended 30 June 2010 on Form 10-Q which are publicly available at www.sec.gov. Risks associated with the Disposal not proceeding and risks associated with the Disposal have also been included. Prior to voting on the Disposal, Shareholders should consider these risks fully and carefully, together with all other information set out in this document.

Shareholders should read this Part II in conjunction with the letter from the Executive Chairman of AIB contained in Part I ("Letter from the Executive Chairman of Allied Irish Banks, p.l.c.") of this document.

This Part II is divided into risks relating to the Disposal not proceeding, risks relating to the Continuing Group, risks relating to M&T and risks relating to the Disposal.

Risks relating to the Disposal not proceeding

If AIB is unable to complete the Disposal, AIB will need to rely to a greater extent on Government support, which is highly likely to result in increased Government ownership and control or full nationalisation.

Although the capital generated from the proceeds of the Disposal alone will not enable AIB to meet the entire revised PCAR capital requirement announced by the Financial Regulator for AIB on 30 September 2010, the Disposal is one of the significant steps being taken by AIB towards generating the additional capital required in order to meet that capital requirement.

If the Resolution is not approved by Shareholders, the Disposal will become incapable of completion. If this were to occur, there could be no assurance that AIB would be able to dispose of the M&T Shareholding at a later date, in favourable or equivalent market circumstances or to dispose of the M&T Shareholding at all. In those circumstances, AIB would need to rely to a greater extent on Government support including through the conversion of the 2009 Preference Shares into Ordinary Shares. The Board therefore believes that if AIB is unable to proceed with the Disposal and the other announced disposals, then it is highly likely that such events would result in increased Government ownership and control or full nationalisation. If this were to occur, Shareholders could lose the value of their Ordinary Shares and suffer further dilution.

Risks relating to the Continuing Group

AIB's businesses, earnings and financial condition have been, and the Continuing Group's businesses, earnings and financial condition will continue to be, affected by the recent and future economic conditions in Ireland and international economic and sector-specific conditions.

As at 30 June 2010, 68 per cent. of AIB's total assets were located in Ireland and approximately 63 per cent. of its net interest income was generated in Ireland. Ireland is facing an extremely challenging economic period. Unemployment has increased in Ireland from 13.2 per cent. in the second quarter of 2010 to 13.7 per cent. in September 2010 (Source: CSO Live Register Report, 29 September 2010) and the property market has suffered a very significant decline, with average national house prices in Ireland falling by 6.4 per cent. in the first half of 2010, 18.5 per cent. in 2009 and 9.1 per cent. in 2008 (Source: Permanent TSB/ERSI House Price Index) and commercial property prices falling by 55.6 per cent. between September 2007 and December 2009 (Source: IPD Irish Commercial Property Index). Following heavy reliance on construction and property-related activity for economic growth, the Irish economy experienced a severe contraction with Irish GDP contracting by 7.1 per cent. for the 2009 calendar year. Following an increase of 2.2 per cent. in GDP in the first quarter of 2010 compared to the fourth quarter in 2009, initial estimates for the second quarter of 2010 show a decrease, on a seasonally adjusted basis, of 1.2 per cent. in GDP compared with the previous quarter (Source: CSO, Quarterly National Accounts, Q2 2010). The Irish public finances have deteriorated sharply since 2007, moving from an estimated surplus of 0.3 per cent. of GDP in terms of general Government balance to a deficit of 11.7 per cent. in 2009. The rise in the deficit is primarily due to the sharp fall in tax revenues largely associated with the downturn in the Irish housing market. Furthermore,

as announced by the Minister in his Statement on Banking on 30 September 2010, as a result of the capital support being provided by the Government to the Irish banking system, a substantial spike in Ireland's general Government deficit is expected in 2010 totalling almost 20 per cent. of GDP, resulting in an expected general Government deficit for 2010 of around 32 per cent. of GDP. See "*The Continuing Group is exposed to the Irish property sector, which has been and remains subject to unfavourable economic and market conditions*" for risks relating to the Continuing Group's exposure to the Irish property market. Higher unemployment, reduced corporate profitability and personal bankruptcy rates have and will continue to reduce borrowers' ability to repay loans including mortgages. The existing conditions have already materially adversely affected AIB, have exerted downward pressure on share prices, liquidity and availability of credit for financial institutions, including AIB and other corporations, have constrained pricing policies for Irish credit institutions and have left the Irish banking system facing serious structural and funding issues.

Prior to the planned disposals, while AIB conducts its principal activities in Ireland, the Continuing Group also has international businesses, principally in the UK, the United States and in Poland. The deterioration of the economies of the other key geographic markets served by the Group, particularly the UK, adversely affected the Group's financial condition and performance in 2008 and 2009 and continues to present challenges for the Continuing Group. Demand for housing and commercial and other property has also fallen considerably in the UK and the United States. A continued deterioration in property prices in AIB's key geographic markets could further adversely affect the Continuing Group's financial condition and results of operations.

If unfavourable economic conditions persist or worsen, or in particular if the Irish economy recovers at a slower rate than anticipated, the Continuing Group may experience further reductions in business activity, lower demand for its products and services, reduced availability of credit, increased funding costs, decreased asset values, additional write-downs and impairment charges with consequent adverse effects on profitability and financial condition. The Continuing Group's financial performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates may no longer be accurate given the general economic instability.

The Continuing Group's businesses are also subject to inherent risks arising from sector-specific economic conditions in the markets in which they operate. The very severe dislocation of the global financial markets that began in 2007 substantially worsened in 2008 and triggered widespread problems at many large international and Irish banks and other financial institutions. This dislocation severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This led the Government and other governments to inject liquidity into the financial system and required the recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market. Measures taken by the Government to enhance the availability of liquidity and improve access to funding for systemically important financial institutions in Ireland include, amongst others, the CIFS Scheme, the ELG Scheme, the NPRFC Investment and the NAMA Programme. See paragraph 8.1 of Part VII ("Additional Information") of this document for further details of these measures.

Despite these interventions, the volatility and market disruption in the banking sector has continued. While certain recent economic forecasts for the global economy have been revised upwards, there can be no assurance of a return to economic growth in economies in which the Continuing Group operates. Although the Minister's Statement on Banking on 30 September 2010 provides some certainty on the total cost of restructuring the banking system in Ireland and the fiscal impact of these bank restructuring costs, there can be no certainty regarding the success of these plans and a further deterioration in the Irish economy would adversely affect the Continuing Group's businesses, earnings and financial condition.

The default of a major market participant or negative developments affecting one or more Irish financial institutions, in particular, could disrupt the markets and impact AIB's financial condition and results of operations.

Within the financial services industry, the default of any one institution could lead to defaults by other institutions. The failure of a sufficiently large and influential institution could disrupt clearance and settlement systems in the markets in which the Continuing Group operates and cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect AIB and AIB's contract counterparties. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, as occurred after the bankruptcy of Lehman Brothers. Such systemic risk could have a material adverse effect on AIB's ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects. In addition, the failure of a sufficiently large and influential institution could impact future product sales as a potential result of reduced confidence in the financial services industry.

Negative developments affecting Irish financial institutions (e.g. depleted capital levels of Irish financial institutions) have had a general negative effect on market investor sentiment towards Irish financial institutions and on AIB's financial condition primarily through access to, and cost of, wholesale funding.

Systemic risk to the markets in which AIB operates continues to exist, and dislocations caused by the interdependency of financial market participants and the perception of the Irish banking sector in general continues to be a potential source of material adverse change to AIB's financial condition and results of operations.

The Continuing Group is exposed to the Irish property sector, which has been and remains subject to unfavourable economic and market conditions.

The Continuing Group is heavily exposed to the Irish property sector, which has been adversely affected by unfavourable economic and market conditions. As of 30 June 2010, excluding those loans held for sale to NAMA, approximately 65 per cent. of AIB's loan portfolio was concentrated in Ireland (68 per cent. as at 31 December 2009) and 40 per cent. was concentrated in the construction and property and residential mortgage sectors (41 per cent. as at 31 December 2009). From the late 1990s to 2006, the mortgage market in Ireland expanded rapidly as housing prices soared, driven in part by economic and wage growth. The rapid increase began to contract in 2006 and 2007 as the European Central Bank raised interest rates. In 2008, as the Irish economy started to decline and as interest rates continued to increase, housing oversupply persisted and mortgage delinquencies increased. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property and residential mortgage sectors increased substantially. As at 31 December 2007, 2008 and 2009, AIB's impaired loans in these sectors were €178 million, €1.3 billion and €2.75 billion respectively, and as of 30 June 2010, AIB's impaired loans in these sectors, excluding loans and receivables held for sale to NAMA, amounted to €3.5 billion (or €13.6 billion including loans and receivables held for sale to NAMA) (as extracted from the 2007 Annual Financial Report, the 2008 Annual Financial Report, the 2009 Annual Financial Report or the 2010 Half-Yearly Financial Report, as applicable). With regard to the €4.4 billion of AIB's total eligible NAMA Assets with individual values of less than €20 million and greater than €5 million that were classified as held for sale to NAMA at 30 June 2010 but that AIB expects will no longer be transferred to NAMA, €2.9 billion of these assets relate to the construction and property and residential mortgage sectors in Ireland, of which €1.9 billion were impaired.

NAMA has had, and is expected to continue to have, an impact on the liquidity of property assets in Ireland. Uncertainty as to what effects NAMA will have on the property market has resulted in fewer property transactions. In addition, the discount applied on the transfer of AIB's NAMA Assets related to property may have a material adverse impact on the values and liquidity of property. If this occurs, the value of property collateral on the Continuing Group's loans would be reduced, which may increase the rate of write-downs and/or impairments.

If unfavourable economic and market conditions persist, with further falls in property prices and increases in unemployment, the risk of further impairments and the consequent adverse impact on the Continuing Group's profitability and financial condition is exacerbated.

The Continuing Group is subject to the risk of having insufficient capital resources to meet the revised minimum PCAR requirement. If the Continuing Group is not able to raise a proportion of the additional capital to meet the revised PCAR capital requirement from the announced capital raising initiatives, AIB will need to rely to a greater extent on Government support. Such further reliance could lead to increased Government ownership and control or full nationalisation.

As part of the Financial Regulator's assessment of the Irish banking sector's capital requirements, it announced on 30 March 2010 that the target Equity Tier 1 Capital Ratio for AIB, in common with certain other Irish credit institutions, should be 7 per cent. and the target Core Tier 1 Capital Ratio should be 8 per cent. AIB's capital ratios as at 30 June 2010 were Equity Tier 1 Capital of 3.8 per cent., Core Tier 1 Capital of 6.9 per cent., Tier 1 Capital of 6.0 per cent. and Total Capital of 9.0 per cent. In order to meet the original PCAR capital requirement, AIB was initially required to generate the equivalent of €7.4 billion of equity capital by 31 December 2010. On 30 September 2010, the Financial Regulator updated its assessment of AIB's capital requirement and increased the amount of equivalent equity capital required under the PCAR from €7.4 billion to €10.4 billion. The increased PCAR requirement for AIB has been set following an assessment by the Financial Regulator of AIB's potential losses on AIB's eligible NAMA Assets and must also be met by 31 December 2010.

As a result of the crystallisation of loan losses on the NAMA Assets that have transferred, the NAMA Participation has had and will continue to have a negative impact on the capital position of the Continuing Group. Those losses will reduce the Continuing Group's Equity Tier 1 Capital, Core Tier 1 Capital, Tier 1 Capital and Total Capital, and its corresponding capital ratios. The NAMA Participation will, however, result in a reduction in the Group's risk-

weighted assets, which will in turn positively affect the Continuing Group's capital ratios. The positive benefit of reducing its risk-weighted assets will, however, be insufficient to offset the negative impact from the crystallisation of loan losses on the transfers of AIB's NAMA Assets to NAMA. In addition, in the period over which losses on AIB's NAMA Assets negatively impact the capital position of the AIB Group and the planned capital raising actions have not been completed, there is a risk that AIB may temporarily see a fall in its regulatory capital ratios below current minimum regulatory capital requirements set by the Central Bank of Ireland. In those circumstances, the Continuing Group would be required to engage in discussions with the Central Bank of Ireland prior to such an event occurring, with a view to mitigating the effects of such an event. The Central Bank of Ireland is formally empowered in Regulation 70 of S.I. No. 661 of 2006 to agree a period of time and a course of action which would return the credit institution to solvency or, *inter alia*, to suspend a credit institution's deposit taking ability, and in extreme circumstances may exercise these powers. Were this power to be exercised it would restrict AIB from temporarily accepting customer deposits, which could adversely affect AIB's profitability and results of operations and lead to a deterioration in the funding and liquidity position of the Continuing Group.

The Continuing Group expects that part of the revised PCAR capital requirement will be satisfied from the proceeds of the Disposal, the completion of the BZWBK Disposal which was announced on 10 September 2010 and the sale of its UK business, each to be undertaken by 31 December 2010. However, the price achieved for the sale of AIB's UK business will be dependent on prevailing economic and market conditions, which may be challenging, and therefore there is no assurance that the Continuing Group will be able to find buyers for the UK business at an acceptable price in the stated time period. AIB may be forced to sell the UK business at a price below that which the Continuing Group would otherwise have agreed or may not be able to dispose of its interest in the UK business at all. Moreover, the BZWBK Disposal is and any sale of the UK business may be subject to various approvals, including from shareholders, regulators and competition authorities, and the Continuing Group and/or potential buyers or buyers may be unable to obtain these approvals within a sufficient time or at all.

AIB has also undertaken to launch a €5.4 billion equity capital raising during November 2010 which is expected to be completed before 31 December 2010. As announced on 30 September 2010, this equity capital raising will be fully underwritten by the NPRFC and will be subject, amongst other matters, to the European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share, which represents a discount of approximately 9.4 per cent. to the official closing price of an Ordinary Share on the Irish Stock Exchange on 29 September 2010. The capital raising is expected to be structured as a placing and open offer and existing shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new Ordinary Shares under the equity capital raising. A prospectus is expected to be published in early November 2010 that will provide further details of the equity capital raising, underwriting structure and timing.

If necessary, the NPRFC's underwriting commitment will be met through a new cash contribution of up to €3.7 billion for new Ordinary Shares from existing cash resources of the NPRFC and by the conversion of up to €1.7 billion of the 2009 Preference Shares held by the NPRFC. Assuming conversion of €1.7 billion of the 2009 Preference Shares, the NPRFC would continue to hold €1.8 billion of the 2009 Preference Shares. On completion of the equity capital raising it is likely that the NPRFC will own a significant majority stake in the Continuing Group.

In addition to the capital generated from the BZWBK Disposal, AIB expects to raise €2.5 billion from the planned disposals and additional capital generating initiatives (such as other minor asset disposals, risk weighted asset reduction initiatives and liability management actions). In the event that the Continuing Group's residual capital requirement is not met through the planned disposals and capital generating initiatives by 31 March 2011, any shortfall will be met by a conversion of 2009 Preference Shares at that date on commercial terms to be agreed between AIB and the NPRFC prior to the date of conversion. If that were to occur, or if further capital injections by the Government were to be required, the interests of other Shareholders would be further diluted, the Government's influence over the Continuing Group's operations would be significantly increased and Shareholders may lose the value of their shares. See *"If AIB is unable to complete the Disposal, AIB will need to rely to a greater extent on Government support, which is highly likely to result in increased Government ownership and control or full nationalisation"*.

If the Continuing Group is required to hold a higher level of capital than that currently anticipated by the market and as prescribed by the revised PCAR requirement then this could have an adverse impact on the Continuing Group's operational flexibility, reduce earnings growth and require the issue of additional equity capital to the Government.

AIB's level of future capital continues to be driven by (i) changes to the level of RWAs (as a result of NAMA transfers, grade migration and balance sheet deleveraging); (ii) capital changes (as a result of NAMA losses,

increased provisions and decreased profitability); and (iii) regulatory restrictions, such as the requirement that Tier 2 Capital should not exceed Tier 1 Capital and restrictions on the amount of dated subordinated debt that may rank as own funds during the five years prior to the repayment date. Furthermore, AIB's level of RWAs may differ depending on the assumptions used in modelling its risks in terms of the internal-ratings based approach under the Capital Requirements Directives (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 impact negatively on the credit quality of the Continuing Group's loan portfolio, which may have an adverse effect on the Continuing Group's results of operations.

Market expectations and regulatory requirements for banks to hold higher levels of capital continue to evolve. Due to the ongoing uncertainty in financial markets, market expectations may require international banks to hold capital at levels higher than currently expected, any future capital requirement for AIB determined by the Central Bank of Ireland may be more than the revised PCAR requirement, or the definitions of capital may be subject to change. As a consequence, this could require the Continuing Group to hold higher levels of capital than the target 7 per cent. Equity Tier 1 Capital and target 8 per cent. Core Tier 1 Capital ratios set by the Financial Regulator in the original PCAR.

Furthermore, the detailed impact of the new Basel III proposals for the Continuing Group is not clear because certain elements of the package have not been finalised, including the transitional arrangements. Once the finalised proposals are assessed against the Continuing Group's particular balance sheet and business strategy, changes may be required to the Continuing Group's capital structure and/or its asset base which may adversely impact its profitability and results of operations. See *"The Continuing Group's businesses and financial condition could be affected by the fiscal, taxation, regulatory or other policies, laws and regulations and other actions of various governmental and regulatory authorities in Ireland, the United Kingdom, the European Union and elsewhere"*.

If, among other factors, the total consideration received by the Continuing Group for the transfer of the NAMA Assets is less than that assumed by the Financial Regulator in the revised PCAR, the Continuing Group may not have sufficient capital resources to meet future regulatory capital requirements. Such higher expectations and/or regulatory requirements may also adversely impact the Continuing Group's operational flexibility, reduce earnings growth and require the issue of additional equity capital to the Government.

Constraints on liquidity, uncertainty over the terms of a further extension of the ELG Scheme and the market reaction to the removal of Government guarantees may expose the Continuing Group to further liquidity risks.

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. At 30 June 2010, 53 per cent. of AIB's funding was sourced from customer accounts, 20 per cent. from deposits by banks and the remainder through a combination of short-term paper, asset-covered securities, senior debt, subordinated debt and capital.

The quantum of AIB's wholesale funding has reduced from approximately €64 billion at 31 December 2009 to €61 billion at 30 June 2010, and the loan-to-deposit ratio (including assets held for sale to NAMA) has similarly reduced from 146 per cent. at 31 December 2009 to 143 per cent. at 30 June 2010. The Group, however, continues to be subject to liquidity risks that reflect the broader global liquidity difficulties to which all financial institutions have been subject, as well as factors that are specific to the Irish banking industry. Furthermore, any reduction in the Continuing Group's Qualifying Liquid Assets and Contingent Funding Capacity will have an impact on its liquidity risk profile.

The Government's guarantee of specified liabilities through the CIFS Scheme (which expired on 29 September 2010) and the ELG Scheme represents a critical element of liquidity support for AIB and, more generally, the Irish banking sector. Although these Government guarantee programmes have helped to significantly ease the liquidity challenges to which the Group and other Irish banks have been subject, there can be no assurance that ongoing challenges will not continue to impact the Continuing Group's funding initiatives, whether as a result of factors specific to the Continuing Group or factors that apply to borrowers in Europe or elsewhere more generally.

In addition, despite the introduction of the CIFS Scheme and the ELG Scheme, the terms on which funding is available are more onerous and expensive than was the case prior to mid-2007. Should the global economy and global financial system deteriorate further, the Continuing Group's cost of funding may rise and access to liquidity may be further constrained, particularly if the cost of customer deposits increases, affecting the Continuing Group's margins, profit and liquidity risk profile. See *"The Continuing Group relies on customer deposits to fund a*

considerable portion of its loan portfolio, the ongoing availability of which is sensitive to factors outside the Continuing Group's control. Loss of consumer confidence in the Continuing Group's business or in banking businesses generally, among other things, could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Continuing Group's ability to fund its operations and its liquidity position" for further risks relating to the availability of customer deposits and AIB's ability to access these deposits. Furthermore, legal challenges to the NAMA system may undermine the confidence of the international markets and consequently result in increased Government borrowing costs, which may in turn adversely affect bank funding capacity and the Continuing Group's borrowing costs.

On 28 June 2010, following a request by the Minister, the European Commission approved a modification of the ELG Scheme to provide for an extension of the issuance period from 29 September 2010 to 31 December 2010 (subject to the introduction of new pricing rates) for participating institutions for (a) liabilities of between three months and five years duration (other than inter-bank deposits); (b) retail deposits of any duration up to five years; and (c) corporate deposits with a maturity of between three months and five years.

On 21 September 2010, following a further request from the Minister, the European Commission approved an amendment to the ELG Scheme to extend the "issuance window" in respect of inter-bank deposits and short-term liabilities (zero to three months) (including corporate deposits) of a participating institution, from 29 September 2010 to 31 December 2010. On 29 September 2010, the Minister, following the approval of the Oireachtas (the Irish Parliament) signed into law a statutory instrument that gave effect to the changes to the ELG Scheme approved by the European Commission on 28 June 2010 and 21 September 2010. Accordingly, the "issuance window" in respect of every eligible liability of a participating institution under the ELG Scheme (including retail deposits over €100,000 for any duration up to five years and corporate and inter-bank deposits for any duration up to five years) has now been extended from 29 September 2010 to 31 December 2010, so that a state guarantee is now available for both short- and long-term liabilities issued or accepted up to the end of 2010. Retail deposits of an amount up to €100,000 remain outside the ELG Scheme but continue to be guaranteed indefinitely under the Deposit Guarantee Scheme.

The Minister for Finance has amended the rules of the ELG Scheme so that the pricing of the ELG Scheme guarantee has increased in line with the recommendations of the Governing Council of the European Central Bank on government guarantees for bank debt dated 20 October 2008, the European Commission DG Competition staff working document entitled "The Application of State Aid Rules to Government Guarantee Schemes Covering Bank Debt to be Issued after 30 June 2010" dated 30 April 2010 and any Eurosystem guidelines in order to bring the funding costs of beneficiary banks closer to market conditions and thereby reduce distortions of competition. The rules of the ELG Scheme have also been amended to reflect the changes to the ELG Scheme approved by the European Commission on 28 June 2010 and 21 September 2010. The Minister has also said that progress in relation to the phasing out of the ELG Scheme will be achieved over time, consistent with any requirement for continued support of the funding conditions of participating institutions and the maintenance of financial stability overall. The ELG Scheme remains subject to six-monthly review and approval by the European Commission in accordance with European Union state aid rules. The next review of the ELG Scheme is due to take place before 31 December 2010, although the results of any such review will not affect the status of guaranteed liabilities that are, by then, already in place. There can be no assurance that the ELG Scheme will be extended beyond 31 December 2010.

Furthermore, on 9 November 2009, the European Central Bank highlighted that guarantees of short-term bank debt (maturity profile of less than three months) and interbank deposits should be avoided to the extent possible. However, the changes to the ELG Scheme that the European Commission approved on 21 September 2010 and implemented by the Minister on 29 September 2010 mean that all inter-bank deposits for any duration up to five years and short-term liabilities (including inter-bank deposits, corporate deposits and debt liabilities of less than 3 months maturity) will be brought within the ELG Scheme if they are issued up to 31 December 2010. If the ELG Scheme is withdrawn, it is likely to put increased pressure on AIB's ability to fund itself in the short term and increase its use of secured funding in the market or in standard central bank facilities, if so required. The curtailment or non-extension of other standard central bank facilities currently accessed by AIB may result in the Continuing Group facing increased funding pressures, which in turn may result in an increase in cost of funding. As at 30 June 2010, AIB's total short-term wholesale bank debt, excluding customer deposits and secured funding (as extracted from AIB's unaudited books and records) amounted to €13 billion. Given AIB's reliance on the ELG Scheme and short-term wholesale bank debt, if the ELG Scheme is revoked or further changed in a manner which diminishes its effectiveness, notwithstanding a pool of liquid assets available to AIB in the form of high quality bonds including NAMA Bonds, AIB may face significant liquidity risks. In respect of the period from 21 January 2010 to 30 June 2010, AIB paid €118.9 million in fees in respect of the ELG Scheme. Increased fees payable by AIB to the Government for the ELG Scheme (including the increased pricing rates imposed on participating institutions as part

of the prolongation of the ELG Scheme issuance period to 31 December 2010) may also impact on AIB's profitability and financial condition.

The cancellation or material amendment of the ELG Scheme could introduce systemic weakness to the Irish banking sector and restrict liquidity support across the sector as a whole. The cancellation or material amendment of the ELG Scheme or the removal of the Continuing Group from the ELG Scheme prior to its planned expiry could adversely affect the terms on which the Continuing Group would be able to access funding.

The Continuing Group relies on customer deposits to fund a considerable portion of its loan portfolio, the ongoing availability of which is sensitive to factors outside the Continuing Group's control. Loss of consumer confidence in the Continuing Group's business or in banking businesses generally, among other things, could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Continuing Group's ability to fund its operations and its liquidity position.

At 30 June 2010, 53 per cent. of AIB's funding was sourced from customer accounts (51 per cent. as at 31 December 2009). Growth in the Continuing Group's lending activities will depend, in part, on the availability of customer deposits on appropriate terms, for which there is increasing competition. AIB has sought to increase its reliance on customer deposits in the recent past, given the challenges in accessing wholesale funding, and a lack of availability of such deposit funding could affect the Continuing Group's future growth. See "*The Continuing Group operates in competitive markets (subject to some price regulation) that are subject to significant change and uncertainty, which could have a material adverse effect on its results, financial condition and prospects*" for further risks associated with the Continuing Group operating in competitive markets.

The ongoing availability of customer deposits to fund the Continuing Group's loan portfolio is subject to potential changes in certain factors outside the Continuing Group's control, such as a loss of confidence of depositors in either the Irish economy in general, the financial services industry or the Continuing Group specifically, ratings downgrades, significant further deterioration in economic conditions and the availability and extent of deposit guarantees (including as a result of regulatory changes to deposit guarantee schemes and/or changes to the ELG Scheme). These factors could lead to a reduction in the Continuing Group's ability to access customer deposit funding on appropriate terms in the future and to sustained deposit outflows, both of which would impact on the Continuing Group's ability to fund its operations and meet its minimum liquidity requirements.

Any loss in consumer confidence in the Continuing Group's banking businesses, or in banking businesses generally, could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Continuing Group experience an unusually high level of withdrawals, that may have an adverse effect on the Continuing Group's results, financial condition and prospects and could, in extreme circumstances, prevent the Continuing Group from funding its operations and meeting its minimum liquidity requirements. In such extreme circumstances, the Continuing Group may not be in a position to continue to operate without additional funding support, which it may be unable to access.

Further downgrades to the Irish sovereign ratings or AIB's credit ratings or outlook could limit the Continuing Group's access to funding, trigger additional collateral requirements and weaken its competitive position.

The sovereign rating of Ireland has a number of effects on the Irish banking sector as a whole. As at 7 October 2010, the long-term (outlook)/short-term sovereign credit ratings for Ireland were AA-/A1+ from Standard & Poor's, Aa2/P1 from Moody's Investor Service and A+/F1 from Fitch Ratings. Further downgrades would also be likely to increase the cost of financing the Irish public debt, which could result in increased taxation, lower Government spending, and an adverse effect on Irish economic conditions, all of which could have an adverse effect on the Continuing Group. On 1 October 2010, Fitch Ratings downgraded AIB's lower tier 2 subordinated debt to "BB" from "BBB+". This followed the announcement by the Minister on 30 September 2010 in which it was proposed to introduce new legislation specific to Anglo Irish Bank Corporation Limited and Irish Nationwide Building Society which would address burden sharing by subordinated bondholders and outlined that the NPRFC would fully underwrite an equity capital raising by AIB to the value of €5.4 billion and that, as a result, the Government could acquire a majority stake in AIB. In light of these developments, Fitch Ratings was of the view that should AIB require further capital, AIB's lower tier 2 subordinated debt would be at greater risk of being included in any future debt restructuring. While Fitch Ratings considered this risk to be remote, it felt the risk was sufficiently tangible for the rating to be reduced to below investment grade. On 6 October 2010, Moody's placed AIB's Government guaranteed long term debt covered by the ELG Scheme on review for a possible downgrade, along with its long term bank deposit rating and its Prime-1 short term rating. AIB's dated subordinated debt was downgraded to Ba3 from A2 and junior subordinated debt was downgraded to B1 from Ba3. On 8 October 2010, Standard & Poor's downgraded its long-term counterparty credit rating on AIB to "BBB+" from "A-", while the short-term

counterparty credit rating was affirmed at “A-2”. The outlook is negative. In addition, AIB’s lower tier 2 debt rating was downgraded to “BB” from “BBB+”.

As the guarantor of certain liabilities of the Continuing Group under the ELG Scheme, recent downgrades in Ireland’s sovereign rating have had an adverse impact on AIB Group’s credit rating and on the cost of funding for certain securities guaranteed under the ELG Scheme. Any future downgrades in Ireland’s sovereign ratings may similarly adversely affect the Continuing Group’s credit ratings and could result in a further increase in cost of funding for certain securities guaranteed under the ELG Scheme and the withdrawal of deposits from the Continuing Group.

In addition, as a result of its NAMA Participation, the Continuing Group has received and will receive Government guaranteed bonds and unguaranteed subordinated bonds issued by NAMA as consideration for the transfer of assets to NAMA. In the normal course of business, the Continuing Group also has holdings in Government bonds separate from those issued under NAMA. A further downgrade or series of downgrades in the rating of the Government debt or the Government guaranteed bonds could adversely impact the extent to which the Continuing Group can use these bonds as collateral for the purposes of accessing secured borrowing from wholesale markets. A further downgrade or series of downgrades in the sovereign rating of Ireland may affect the marketability of the Government debt or Government guaranteed bonds held by the Continuing Group or make it more difficult and/or more expensive for the Continuing Group to access private sources of capital and funding.

The AIB Group has suffered rating downgrades that have impacted the Group’s operations. Any further downgrades, or a delay in upgrades, in the credit ratings of the Continuing Group could have a materially negative impact on the volume and pricing of its funding and its financial position, limit the Continuing Group’s access to the capital and funding markets, trigger material collateral requirements in derivative contracts or other secured-funding arrangements and weaken the Continuing Group’s competitive position in certain markets. In addition, the availability of deposits is often dependent on credit ratings and a series of further downgrades would be likely to lead to significant withdrawals of corporate or retail deposits which would result in a material deterioration in the Continuing Group’s funding and liquidity position and may have systemic implications for the Irish banking system.

The Continuing Group is exposed to risks relating to other sovereign issuers.

The financial problems experienced by other sovereign issuers, including certain European Union member states, concern over sovereign credits and risks associated with lending to other sovereign issuers and financial institutions in the European Union, have recently led to doubts regarding the strength of economic recovery and caused significant falls in equity markets and volatility. The Continuing Group has exposures to sovereign debt issued by the Greek, Italian, Portuguese and Spanish local and central governments and is therefore subject to the risk of sovereign debt credit deterioration of these governments. See Note 26 on page 84 of the 2010 Half-Yearly Financial Report, incorporated by reference herein, for further details of these exposures. The issuance of significant amounts of debt in European Union member states may result in reduction in demand for debt issued by European financial institutions and corporate borrowings. In addition, European Union member states in which the Continuing Group operates may be required to provide further financial assistance to other European Union member states, which may in turn have a negative impact on the financial condition of the European Union member states in which the Continuing Group operates. Should such conditions continue or escalate, it could adversely affect the Continuing Group’s access to capital markets and increase its funding costs which could have a material effect on the Continuing Group’s financial condition and profitability.

Increased volatility in financial markets has resulted in, and prolonged volatility may continue to result in, reduced asset valuations and lower fees and commissions and other effects which could further adversely affect the Continuing Group’s results, financial condition and prospects.

The recent volatile market conditions arising from the Eurozone debt crisis have resulted in significant falls in perceived or actual asset values. If such conditions continue and result in further downturns in the capital markets and asset values, as well as significant movements in interest rates or credit spreads, the results of operations of the Continuing Group could be subject to significant volatility and there can be no assurance as to the effects of this volatility, particularly if it is prolonged, on the financial condition or results of operations of the Continuing Group. Effects may include: (i) a general reduction in business activity and market volumes which affects fees, commissions and margins from customer-driven transactions and revenues; (ii) increased impairments and defaults on credit exposures; (iii) losses resulting from falling collateral values; (iv) increased collateral requirements under derivative and other financial instruments; and (v) increased costs of hedging against market risks, such as equity or interest rate exposure. Such volatility could in particular have an impact on the mark-to-market valuations of assets in the Continuing Group’s “financial assets and financial liabilities held for sale to NAMA”, “disposal groups and

non-current assets held for sale”, “trading portfolio-financial assets” and “financial investments available for sale” portfolios. In addition, any further deterioration in the performance of the assets in the above portfolios could lead to additional impairment losses. The available financial investments for sale portfolio accounted for 13 per cent. of total Group assets as at 30 June 2010 (18 per cent. excluding the “disposal groups and non-current assets held for sale”) (as extracted from the 2010 Half-Yearly Financial Report).

The Continuing Group 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 the Continuing Group’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 financial institutions, its trading portfolio, available for sale and held to maturity financial investments, derivatives and “off-balance sheet” guarantees and commitments.

The Irish and UK economies, together with other economies in which AIB operates, are in a challenging phase, with uncertainty in relation to the direction of interest and currency exchange rates. Furthermore, unemployment has increased in Ireland from 13.2 per cent. in the second quarter of 2010 to 13.7 per cent. in September 2010 (Source: CSO Live Register Report, 29 September 2010) and the property market has suffered a very significant decline, with average national house prices in Ireland falling by 6.4 per cent. in the first half of 2010, 18.5 per cent. in 2009 and 9.1 per cent. in 2008 (Source: Permanent TSB/ERSI House Price Index) and commercial property prices falling by 55.6 per cent. between September 2007 and December 2009 (Source: IPD Irish Commercial Property Index). Following an increase of 2.2 per cent. in GDP in the first quarter of 2010 compared to the fourth quarter of 2009, initial estimates for the second quarter of 2010 show a decrease in Irish GDP, on a seasonally adjusted basis, of 1.2 per cent. compared with the previous quarter (Source: CSO, Quarterly National Accounts, Q2 2010). Any recovery is expected to be slow. In particular, as a result of Ireland’s significant reliance on the construction industry, economists expect any recovery in its economy to lag behind that of the wider European Union. Ultimately, should these trends persist they may lead to higher impairment charges, higher costs, additional write-downs and lower profitability for the Continuing Group, which would negatively impact on the Continuing Group’s capital position and may result in full nationalisation, with potential for other Shareholders to lose the value of their Ordinary Shares. See “*If AIB is unable to complete the Disposal, AIB will need to rely to a greater extent on Government support, which is highly likely to result in increased Government ownership and control or full nationalisation*”.

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 being experienced. Any such losses could have a material adverse effect on the Continuing Group’s future performance and results of operations. In addition, exposure to particularly vulnerable sectors of the Irish and/or UK economies, such as property and construction, could result in reduced valuations of the assets over which the Continuing Group has taken security and reduced recoverability. Furthermore, an increase in interest rates in the Continuing Group’s main markets may lead to, amongst other things, further declines in collateral and investment, higher repayment costs and reduced recoverability which together with the aforementioned risks may adversely impact the Continuing Group’s earnings or require an increase in the expected cumulative provision charge for the Group, excluding losses incurred relating to AIB’s NAMA Assets.

AIB has been exposed to increased counterparty risk as a result of financial institution failures during the global economic crisis. Defaults by, or even the perceived creditworthiness of or concerns about, one or more corporate borrowers or financial institutions or the financial services industry generally have led to market-wide liquidity problems, losses and defaults and could lead to further losses or defaults by such borrowers and/or institutions, which would adversely affect the Continuing Group’s results of operations, financial condition and future prospects.

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

In May 2009, the Government (acting through the NPRFC) subscribed for €3.5 billion of non-cumulative preference shares and warrants to subscribe for Ordinary Shares in AIB (the “NPRFC Investment”). Other initiatives taken by the Government to provide support to AIB and certain other Irish credit institutions include the

ELG Scheme (which, at that time, supplemented the CIFS Scheme (which expired on 29 September 2010)), which guarantees specified liabilities of the Group, and the NAMA Programme, pursuant to which NAMA is purchasing eligible assets of participating Irish credit institutions in accordance with the NAMA Act.

Under the terms of, originally, the CIFS Scheme, and now the ELG Scheme and the NPRFC Investment, AIB is subject to certain commitments and restrictions which have had and will continue to have a significant impact on the manner in which AIB conducts its business. These include: (i) significant additional reporting and consultation requirements with the Minister for Finance and the Central Bank of Ireland; (ii) the appointment of a number of Government-nominated directors to the Board of AIB; (iii) restrictions on the payment of dividends, restrictions on expansion of capital and lending activity, restrictions on the implementation of buy-back and share redemptions and restrictions on 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; and (vi) commitments to increase lending to small- and medium-sized enterprises and first-time buyers of residential property. Compliance with such restrictions may serve to limit the Continuing Group's operations and place significant demands on the reporting systems and resources of the Continuing Group.

Under the terms of its Articles of Association, if AIB does not pay the 2009 Preference Dividend in full on the Annual Dividend Payment Date in any particular year, the holders of 2009 Preference Shares shall be allotted and issued new Ordinary Shares by way of a bonus issue during the Bonus Shares Settlement Period, unless AIB is prohibited by law from doing so. If the Bonus Shares are issued by AIB on the Annual Dividend Payment Date in a particular year, the Bonus Shares will comprise such number of new Ordinary Shares as is equal to the aggregate cash amount of the 2009 Preference Dividend that was not paid in that particular year, based on the average price of an Ordinary Share in the 30-day trading period immediately preceding the Annual Dividend Payment Date. If the issue of Bonus Shares is deferred by AIB beyond the Annual Dividend Payment Date, the number of Bonus Shares to be issued will be increased and will be equal to the unpaid dividend amount on the 2009 Preference Shares divided by 95 per cent. of the average price of an Ordinary Share in the 30-day trading period immediately preceding the Annual Dividend Payment Date.

In accordance with the European Commission's policy relating to European Union state aid rules on restructuring aid to banks, AIB has agreed not to pay discretionary coupons on its Tier 1 Capital instruments and Tier 2 Capital instruments. As a result, the coupon due on the LP3 Securities, which would otherwise have been payable on 14 December 2009, was not paid by AIB. The effect of this non-payment was to trigger the "dividend stopper" provision in the LP3 Securities, which precludes AIB from declaring and paying any distribution or dividend on the Group's "junior share capital", which includes the Ordinary Shares and the 2009 Preference Shares, and any "parity security", which includes the LPI Securities, the LP2 Securities and the RCI Securities for a period of one calendar year. AIB was accordingly precluded from paying, and resolved not to pay, the 2009 Preference Dividend due to the NPRFC on 13 May 2010 in respect of its holding of 2009 Preference Shares. As a result, pursuant to the terms of its Articles of Association, AIB issued 198,089,847 new Ordinary Shares to the NPRFC by way of a bonus issue, which resulted in a dilution of the interests of the existing Shareholders by 18.33 per cent., and the Government (through the NPRFC) becoming the largest holder of Ordinary Shares (holding 18.61 per cent. of the issued Ordinary Shares (excluding Treasury Shares)). If AIB is further precluded from paying any future annual dividend on the 2009 Preference Shares, it could result in the issuance of further Ordinary Shares by way of a bonus issue to the NPRFC. The new Ordinary Shares issued by way of the bonus issue to the NPRFC carry voting rights. The NPRFC will be entitled to exercise the full voting rights attaching to these new Ordinary Shares in its capacity as Ordinary Shareholder.

Furthermore, if the capital raising initiatives announced by AIB on 30 March 2010 and updated on 30 September 2010 are unsuccessful or if AIB is unable to generate additional capital required from such initiatives, then AIB will have to rely, to a greater extent, on Government support through the conversion of the 2009 Preference Shares held by the NPRFC into Ordinary Shares which may result in increased Government ownership and control or full nationalisation with the potential for other Shareholders to be significantly diluted and lose the value of their Ordinary Shares. Through the NPRFC's shareholding in AIB (or any other shareholding held by the Government in AIB), the Government is in a position to exert significant influence over the Continuing Group and its businesses and there is a risk that the Government may exercise its voting rights in a manner which may not always be aligned with the interests of AIB's other Shareholders. Further details of the CIFS Scheme, the NPRFC Investment, the ELG Scheme and the NAMA Programme, and powers granted to the Minister and the Central Bank of Ireland in respect of AIB under those two schemes, that programme and that investment are contained in Paragraph 8 of Part VII ("Additional Information") of this document. See *"If AIB is unable to complete the Disposal, AIB will need to rely to a greater extent on Government support, which is highly likely to result in increased Government ownership and control or full nationalisation"*.

The equity capital raising announced by AIB is to be fully underwritten by the NPRFC. If the structure of the transaction does not enable AIB to retain its ISE and LSE listings as a result of the Government acquiring more than 75 per cent. of AIB's issued ordinary share capital, then AIB could be delisted from the ISE and LSE and Shareholders could lose the value of their Shareholding.

As announced on 30 September 2010, AIB has undertaken to launch a €5.4 billion equity capital raising during November 2010. This equity capital raising is expected to be fully underwritten by the NPRFC, subject to, amongst other matters, European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share, which represents a discount of approximately 9.4 per cent. to the official closing price of an Ordinary Share on the Irish Stock Exchange on 29 September 2010. The capital raising is expected to be structured as a placing and open offer. As a result of this transaction, the Government could acquire more than 75 per cent. of AIB's issued ordinary share capital, which would put AIB in breach of the ISE and UKLA listing rule requirements that at least 25 per cent. of the issued ordinary share capital must be in public hands. Although AIB intends to structure the transaction in a manner which optimises the ability of AIB to retain its existing stock exchange listings, including on the ISE and the LSE, by appropriate structuring of voting rights (subject to agreement with the relevant exchanges and the UKLA), there is no guarantee that such a transaction will be successfully structured. If such events occur, then AIB could be delisted from the ISE and the LSE and Shareholders could lose the value of their Shareholding.

AIB's participation in the CIFS Scheme, the ELG Scheme and the NAMA Programme entitles the Minister or the Central Bank of Ireland (as appropriate) or NAMA to give directions to the Continuing Group in relation to its future conduct, which may serve to limit or expand the Continuing Group's operations and adversely affect its results of operations.

Under the terms of the ELG Scheme, the Minister, in consultation with the Governor of the Central Bank of Ireland, may issue directions to a participating institution which are necessary to ensure that the objectives of the ELG Scheme are met. Such directions may include directions to comply with some or all of the provisions on conduct, transparency and reporting requirements applicable to covered institutions pursuant to the CIFS Scheme. Each participating institution will be required to comply with such directions, even though the CIFS Scheme has expired. In addition, the Minister may, after consultation with the Governor of the Central Bank of Ireland, direct AIB to prepare a restructuring plan to ensure compliance with the objectives of the ELG Scheme (which is separate and independent of the European Commission restructuring plan). The Minister, in consultation with the Governor of the Central Bank of Ireland, may direct AIB to make changes to such restructuring plan(s) and to implement such plan(s). Depending on its content, the implementation of such a restructuring plan could serve to limit the Continuing Group's operations and could have a material adverse effect on the Continuing Group's results of operations, financial condition and future prospects.

The NAMA Act empowers the Central Bank of Ireland (with the approval of the Minister) to give directions to AIB, which may require it to undertake certain actions for the purposes of achieving the goals of the NAMA Act. Such directions may restrict the Continuing Group's balance sheet growth and/or require balance sheet reduction, restrict AIB's ability to take over other credit institutions and require or restrict consolidations and mergers. The NAMA Act also provides that the Minister may, after consultation with the Governor of the Central Bank of Ireland, direct the Continuing Group to prepare a restructuring plan and/or a business plan and to submit a draft of the restructuring plan and/or business plan for the Minister's approval, and depending on its content such a restructuring plan could also serve to limit the Continuing Group's operations. The NAMA Act also empowers NAMA to direct the Continuing Group as to how the NAMA Assets are to be managed and to provide certain services to NAMA.

The Continuing Group's participation in the NAMA Programme gives rise to important risks given the lack of control by AIB over the nature, number and valuation of its NAMA Assets and the timing of their transfer and the Continuing Group may have to pay a special tax or surcharge in the event that NAMA makes a loss or repay payments received for its NAMA Assets.

The AIB Group's participation in the NAMA Programme was approved by Shareholders on 23 December 2009 and is expected to remove from the AIB Group's balance sheet certain loans, primarily relating to land and development. AIB initially expected that NAMA may acquire from the AIB Group up to approximately €23.1 billion of land, development and associated loans, including the first and second tranches of AIB's NAMA Assets with a total value of €6.0 billion (being the value of the relevant NAMA Assets on a gross loan basis) that AIB transferred to NAMA in April 2010 and July 2010. As at 30 June 2010, AIB's total eligible NAMA Assets amounted to €20.4 billion (following the transfer of the first tranche of AIB's NAMA Assets of €3.3 billion and currency movements since 31 December 2009 of €0.3 billion). However, €3.2 billion of eligible NAMA Assets of AIB Group (UK) p.l.c. which were not classified as held for sale to NAMA in the unaudited 2010 Half-Yearly Financial Report, as they may be,

subject to certain conditions specified by NAMA, included in the sale of AIB Group (UK) p.l.c. Accordingly, the gross loans classified as held for sale to NAMA as at 30 June 2010 amounted to €17.2 billion.

On 30 September 2010, the Minister announced changes to the NAMA Programme including, in relation to AIB, where the total exposure of a debtor is below a €20 million threshold, that debtor's loans will not now be transferred to NAMA whereas the threshold had previously been set at €5 million. As a result of the 30 September 2010 announcement, AIB expects this to result in approximately €4.4 billion of AIB loans previously designated as NAMA Assets no longer being transferred. AIB expects that it has €13.5 billion of NAMA Assets still to be transferred to NAMA (being eligible NAMA Assets as at 30 June 2010 of €20.4 billion including the €3.2 billion of eligible NAMA Assets of AIB Group (UK) p.l.c. which were not classified as held for sale to NAMA in the unaudited 2010 Half-Yearly Financial Report, less the second tranche of €2.7 billion that was transferred in July 2010, less eligible NAMA Assets below €20 million that will no longer be transferred of €4.4 billion, plus other movements of €0.2 billion.). Such reduction in the quantum of AIB's NAMA Assets will negatively impact the liquidity of the Continuing Group, as a result of receiving a lower amount of NAMA Bonds.

In April 2010, AIB transferred €3.3 billion of assets to NAMA, representing the first tranche of its NAMA Assets. AIB received €1.9 billion in consideration for these assets from NAMA, which represented a discount of approximately 42 per cent. to the gross value of the assets transferred. The transfer of the second tranche of €2.7 billion of AIB's NAMA Assets to NAMA occurred in July 2010. AIB received €1.4 billion in consideration for those assets from NAMA, which represented a discount of approximately 48.5 per cent. to the gross value of the assets transferred. This represents an average discount of approximately 45 per cent. being applied to the gross value of NAMA Assets transferred to NAMA in the first and second tranches.

On 30 September 2010, the Minister also stated that NAMA has reviewed the quality of the NAMA Assets still to be transferred to NAMA from AIB, and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. A major factor in this increased discount was stated to be "the predominance of land bank loans, many of which were speculative investments that now have little value".

AIB expects a further transfer of NAMA Assets as part of the final tranche may be completed in October 2010 and, in any event, NAMA has stated that its objective is that all assets transferring to NAMA will be transferred by 31 December 2010 and, in any event, by the end of February 2011.

As per the acquisition procedure set out in the NAMA Act, NAMA must inform AIB which of its NAMA Assets NAMA proposes to acquire. This identification is made by means of an acquisition schedule served on AIB by NAMA which specifies, among other things, the NAMA Assets, the purchase price (and the method of its calculation) and the date of acquisition. Accordingly, AIB has no control over the timing of the transfer of its NAMA Assets. Delays in the service of the acquisition schedule may result in a delay of full implementation of the NAMA Programme.

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. AIB has the right to object to the valuation that NAMA applies to one of its NAMA Assets and in the event that NAMA declines to remove the relevant asset from the relevant acquisition schedule or to revoke the relevant acquisition schedule, AIB may, within 14 days of the service of the final completion notice on it (the event which marks the end of the full NAMA acquisition process), seek a review of its total portfolio acquisition value (i.e., in respect of all of its NAMA Assets acquired). That review may be sought (amongst other reasons) if AIB is of the opinion that the aggregate market value of its NAMA Assets acquired exceeds its total portfolio acquisition value. AIB has notified NAMA of individual formal loan valuation objections under this procedure in respect of approximately 80 per cent. of the loans by value transferred in the first and second tranches to NAMA. There can be no certainty as to the outcome of the review procedure and any amounts realised as a result of any successful objection.

The actual discount on AIB's remaining NAMA Assets to be transferred to NAMA will not be known until completion of the final objection valuation review procedure in accordance with the terms of the NAMA Act. The Financial Regulator announced that any differences between the estimate of the discount provided by NAMA, which was used for the revised PCAR capital requirement announced on 30 September 2010, and the final discounts on transfer will be included in the next PCAR, which the Central Bank of Ireland will conduct in 2011.

Given the lack of control by AIB over the nature, number and valuation of NAMA Assets to be transferred to NAMA, there are a number of other risks to the Continuing Group associated with the Continuing Group's participation in the NAMA Programme. These include the risk of the discount to the aggregate value of AIB's eligible NAMA Assets on a gross loan basis being greater than the 60 per cent. assumed by the Financial Regulator in the revised PCAR requirement which could result in additional regulatory capital requirements being determined by the Central Bank of Ireland in the future. There are also risks associated with the transfer by AIB to NAMA of

performing assets at a lower value than that which AIB believes is appropriate, the limited ability of the Continuing Group to challenge the valuations attached to specified assets being transferred, limitations around the ability of the Continuing Group to manage its NAMA Assets, the obligation imposed on the Continuing Group to comply with directions from the Minister and/or the Central Bank of Ireland, and the potential credit exposure to NAMA arising from the payment by it for up to 5 per cent. of the acquired NAMA Assets with subordinated debt. As a result, the Continuing Group'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 negative impact on future levels of business, potential deposit withdrawals by such borrowers and the threat of litigation from such borrowers. Any of these events may serve to limit the Continuing Group's operations and could have a material adverse effect on the Continuing Group's results of operations, financial condition and future prospects.

In addition, due to its participation in the NAMA Programme, the Continuing Group will only be able to use Irish tax losses carried forward against 50 per cent. of Irish taxable profit in any future years. Also, on a winding-up of NAMA or after 10 years since its establishment or on the dissolution, restructuring or material alteration of NAMA, if 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 that loss. Although the aggregate of all such surcharges may not exceed the actual loss incurred by NAMA and any such loss 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, and 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, 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.

The European Commission indicated, in its announcement on 26 February 2010 of its approval of the NAMA Programme, that under EU state aid rules, it will assess the compatibility (and, in particular, the actual transfer price) of the NAMA Assets with state aid rules when it is notified of such transfers by the Government. The European Commission's state aid decision on the NAMA Programme states that NAMA will be required to claw back any excess payment from the relevant Participating Institutions if the actual transfer price paid for NAMA Assets is determined to be too high following the European Commission's assessment of a notified transfer. Section 93 of the NAMA Act allows NAMA to require Participating Institutions to repay overpayments on NAMA Assets. Any such clawbacks and repayments could have an adverse effect on the Continuing Group.

See *"The Continuing Group is subject to certain commitments and restrictions in relation to the operation of its business under the CIFS Scheme, the NPRFC Investment, the NAMA Programme and the ELG Scheme, which may serve to limit the Continuing Group's operations and impact the interests of Shareholders"* for further risks associated with the Continuing Group's participation in the NAMA Programme.

The implementation of the Group's strategic plan and the disposals announced in connection with that plan will significantly alter the structure and size of the Continuing Group and involves risks which could materially impact the Continuing Group.

The Group's ability to implement its capital raising initiatives, such as asset and business disposals, by the end of this year depends, in large part, on factors outside AIB's control. In addition to the risks described in *"The Continuing Group is subject to the risk of having insufficient capital resources to meet the revised minimum PCAR requirement. If the Continuing Group is not able to raise a proportion of the additional capital to meet the revised PCAR capital requirement from the announced capital raising initiatives, AIB will need to rely to a greater extent on Government support. Such further reliance on Government support could lead to increased Government ownership and control or full nationalisation"* relating to the effect of challenging economic and market conditions on completion of the planned disposals, the Continuing Group is under the terms of the BZWBK Share Purchase Agreement, and may under the terms of any future sale agreements in connection with the other disposals, be liable for any deterioration in businesses being sold between the announcement of the disposal and its completion. As is the case in respect of the BZWBK Disposal, the period between the announcement of other transactions and their completion may be lengthy and may span many months. The lengthy period in respect of completion of the BZWBK Disposal arises, and the same may arise in respect of completion of other disposals, due to long waiting periods for obtaining relevant regulatory and shareholder clearances. Other risks that arise out of the BZWBK Disposal and that may arise out of the disposal of the Continuing Group's assets include the Continuing Group's liabilities incurred prior to completion of the relevant transaction in respect of the assets and businesses disposed of,

commercial and other risks associated with meeting covenants to the buyer during the period up to completion, the risk of employee and customer attrition in the period up to completion, substantive indemnity obligations in favour of the buyer, the risk of liability for breach of warranty, the need to continue to provide transitional service arrangements for lengthy periods following completion of the relevant transaction to the businesses being transferred and redundancy and other transaction costs. Further, the Continuing Group may be required to enter into covenants with the buyer of the relevant businesses agreeing not to compete in certain markets for specific periods of time. AIB has agreed to certain restrictions in relation to carrying on business in Poland which are further described in paragraph 8.1.5 of Part VII (“Additional Information”) of this document. In particular, in the context of the BZWBK Share Purchase Agreement, a break fee of €7.5 million is payable by AIB in the event that Shareholders do not approve the BZWBK Disposal. Furthermore, pursuant to the terms of the BZWBK Share Purchase Agreement, Banco Santander S.A. may in certain circumstances, including in relation to certain conditions being imposed on it by the Polish regulator, terminate the BZWBK Share Purchase Agreement.

In addition to the risks mentioned in the risk factor titled “*The Continuing Group is subject to the risk of having insufficient capital resources to meet the revised minimum PCAR requirement. If the Continuing Group is not able to raise a proportion of the additional capital to meet the revised PCAR capital requirement from the announced capital raising initiatives, AIB will need to rely to a greater extent on Government support. Such further reliance could lead to increased Government ownership and control or full nationalisation*” Termination of the BZWBK Share Purchase Agreement and payment of the break fee may directly affect AIB’s profitability and results of operations. Furthermore, in the event that Shareholders do not approve the BZWBK Disposal, AIB will be unable to enter into an agreement in relation to the disposal of BZWBK with a third party for a period of seven months from the date of the Shareholder meeting at which Shareholder approval was not obtained for the BZWBK Disposal. As is the case with the BZWBK Disposal, the other planned disposals may also be subject to approvals from regulators and competition authorities and these approvals may not be obtained within a sufficient time or at all.

Following the completion of the planned disposals, the Continuing Group will be a significantly smaller and less diversified institution focusing on its core activities in the Irish market. The implementation of the strategic plan may strain relations with employees and specific proposals in connection with the implementation may be opposed by labour unions or works councils. This may result in the Continuing Group becoming subject to industrial action or other labour conflicts, including strikes, which could result in a disruption to the Continuing Group’s business, operations, or financial condition. In addition, the implementation of the cost reduction and business rationalisation programme being developed by the Group to re-align its cost base to reflect a more focused and streamlined organisation following the disposals, may result in the Continuing Group incurring significant additional costs (including redundancy costs), take time to implement and negatively impact margins of the Continuing Group in the shorter term. Following the disposals, the Continuing Group will also no longer be able to benefit from services provided by the AIB Group entities that are being disposed of. Such activities will need to be performed by other Continuing Group entities or outsourced which may result in increased operational costs for the Group.

Any of the above factors, in the context of asset and business disposals and the execution of AIB’s strategy as further set out in Part I (“Letter from the Executive Chairman of Allied Irish Banks, p.l.c.”) of this document, could affect the Continuing Group’s ability to implement its strategic plan and could have a material adverse effect on the Continuing Group’s business, results of operations, financial condition, capital ratios and share price.

The Continuing Group is subject to risks relating to the European Commission restructuring plan.

In connection with the European Commission’s May 2009 approval of the €3.5 billion capital injection under the NPRFC Investment, AIB was required to prepare a restructuring plan, which was submitted by the Department of Finance to the European Commission in November 2009.

As part of its review, the European Commission is required to consider whether the plan demonstrates that the Continuing Group’s long-term viability will be assured, that the Continuing 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 Continuing Group.

Based on a review of the outcomes 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 Continuing Group in connection with the clearance of the restructuring plan that could include:

- compelling the Continuing Group to reduce its balance sheet substantially, including through divestment of certain businesses, brands or the Continuing Group’s branches in addition to those already announced; and/or
- imposing certain behavioural restrictions on the Continuing Group, which could include: (i) prohibiting the Continuing Group from doing business on more favourable terms than other market participants; (ii) prohibiting

the Continuing 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 Continuing Group in certain market segments; or (v) prohibiting proposed mergers or acquisitions by the Continuing Group in Ireland, the United Kingdom or in other EU markets.

On 4 May 2010, the Department of Finance submitted AIB's updated restructuring plan to the European Commission. AIB's restructuring plan, originally submitted in November 2009, was updated to reflect AIB's announced capital raising initiatives, which include the intention to raise additional equity capital and undertake a number of asset and business disposals. The announcement by AIB on 30 September 2010 relating to increased capital requirements, an equity capital raising and board changes, represents additional and alternative measures to achieve viability which is likely to result in a requirement to submit an amended restructuring plan to the European Commission for approval.

The ELG Scheme remains subject to six-monthly review and approval by the European Commission in accordance with European Union state aid rules. The next review of the ELG Scheme is due to take place before 31 December 2010, although the results of any such review will not affect the status of guaranteed liabilities that are, by then, already in place. In its 28 June 2010 approval of the Minister's proposed amendments of the ELG Scheme, the European Commission stated that the proposed extension of the ELG Scheme was to be subject to the conditions outlined in its staff working paper dated 30 April 2010, including the additional charges for debt issued after 30 June 2010 outlined in that working paper that vary according to a beneficiary bank's creditworthiness. Further fee increases apply to the guaranteed liabilities under the extension of the ELG Scheme approved by the European Commission on 21 September 2010. The European Commission, in the DG Competition staff working paper dated 30 April 2010 on the phasing out of EU Member State bank guarantee schemes from 30 June 2010, has indicated that it considers it appropriate that guarantee schemes that are to be extended beyond 30 June 2010 for banks not currently under restructuring obligations should include a threshold concerning the ratio of total guaranteed liabilities outstanding over total liabilities of a bank and the absolute amount of guaranteed liabilities which, if exceeded, would trigger the requirement for the EU Member State concerned to submit a viability review to the European Commission demonstrating the bank's long-term viability within three months of the granting of guarantees. The mechanism does not apply to banks that are already in restructuring, or that are obliged to present a restructuring plan, or that are already subject to a pending viability review, such as AIB, at the time that the relevant scheme is extended. In those scenarios, the working paper indicates that the award of additional state aid will have to be taken into account within the framework of the ongoing restructuring/viability review process.

AIB agreed with the European Commission that, in line with its guidelines on restructuring aid to banks, it will not pay a discretionary coupon on its Tier 1 and Tier 2 Capital instruments. See *"The Continuing Group is subject to certain commitments and restrictions in relation to the operation of its business under the CIFS Scheme, the NPRFC Investment, the NAMA Programme and the ELG Scheme, which may serve to limit the Continuing Group's operations and impact the interests of Shareholders"* for further risks in this respect.

AIB expects that the final outcome of the European Commission's assessment of AIB's updated restructuring plan will only become clear in late 2010/early 2011. Furthermore, the ultimate decision taken by the European Commission may be subject to appeal in the EU Courts. The European Commission has indicated that government-aided banks should act in accordance with the principles of viability, restoration, burden-sharing and limitation of competition distortions in advance of formal conditions being imposed. 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 Continuing Group's results of operations, financial condition and future prospects.

In addition, even if the European Commission does approve the restructuring plan in substantially the same form as submitted by the Group, a third party may challenge that decision in the EU courts. If such a challenge were to emerge and succeed, the European Commission would need to reconsider its decision, which may result in any of the adverse outcomes described above.

The successful implementation of any measures or commitments required in connection with the European Commission's restructuring plan depends on a number of factors outside the Continuing Group's control. The Continuing Group or potential buyers of assets being divested may need to obtain various approvals, including from shareholders, regulators and competition authorities, and the Continuing Group and/or potential buyers may be unable to obtain these approvals within a sufficient time or at all. The implementation of any restructuring plan will be subject to similar risks as outlined in *"The implementation of the Group's strategic plan and the disposals*

announced in connection with that plan will significantly alter the structure and size of the Continuing Group and involves risks which could materially impact the Continuing Group”.

The restructuring plan to be agreed with the European Commission will also give rise to additional costs related to the legal and financial assessment of potential transactions. Its implementation may also result in increased operating and administrative costs.

Any of the above factors in the context of the European Commission restructuring plan could have a material adverse effect on the Continuing Group’s business, results of operations, financial condition, capital ratios, liquidity and share price.

AIB Group is currently precluded from paying dividends or distributions on certain instruments affected by the terms of the “dividend stopper” provision in the LP3 Securities. In the event that the Continuing Group remains, or subsequently becomes, precluded from paying, or elects not to pay, such dividends, the proportionate ownership and voting interests of the existing Shareholders would be diluted, as AIB would, in certain circumstances, be obliged to issue Ordinary Shares if a dividend or coupon is not paid in cash.

In accordance with the European Commission’s policy on state aid rules and restructuring aid to banks, AIB agreed not to pay discretionary dividends on its Tier 1 Capital instruments (including the 2009 Preference Shares and the RCI Securities) and Tier 2 Capital instruments for a period of one calendar year from and including 14 December 2009.

Under the terms of the RCI Securities, if the payments of coupons (payable annually in February at the discretion of AIB) are deferred, such deferred coupon payments must be satisfied by the issue of Ordinary Shares to a trustee to raise cash to pay the deferred coupons. As announced by AIB on 1 December 2009, in line with European Commission policy, the Group did not pay the coupon otherwise payable on the RCI Securities on 28 February 2010 and the coupon is therefore deferred. A deferral of coupon under the RCI Securities triggers the “dividend stopper” provisions under those securities which prevent any dividend or coupon payments being made on the Ordinary Shares or preference shares of AIB, including the 2009 Preference Shares, until the deferred coupon on the RCI Securities is satisfied through the issue of Ordinary Shares. The amount of deferred coupon itself bears interest at the applicable rate under the RCI Securities, plus an additional 2 per cent. per annum. Once AIB determines that a deferred coupon can be paid, the obligation to satisfy the deferred coupon plus interest accrued can only be settled through the issue of Ordinary Shares to a trustee on behalf of the holders of the RCI Securities. Those Ordinary Shares will be sold by the trustee for the benefit of the holders of the RCI Securities. When those units of Ordinary Shares are issued, the proportionate ownership and voting interests of the existing Shareholders will be diluted. As at 7 October 2010, the outstanding amount of RCI Securities was €240,435,000. Based on the current net amount outstanding and assuming coupons are stopped until 28 February 2011, Ordinary Shares having a value of €19.7 million (including allowance for interest on deferred coupons) will be required for the unpaid coupons on the RCI Securities that are missed.

The dividend on the 2009 Preference Shares, the 2009 Preference Dividend, is a non-cumulative cash dividend at a fixed rate of 8 per cent. per annum of the subscription price, payable annually in arrears on 13 May, at the sole and absolute discretion of the Directors of AIB, with the next payment date being 13 May 2011. See *“The Continuing Group is subject to certain commitments and restrictions in relation to the operation of its business under the CIFS Scheme, the NPRFC Investment, the NAMA Programme and the ELG Scheme, which may serve to limit the Continuing Group’s operations and impact the interests of Shareholders”* for further risks associated with the non-payment of the 2009 Preference Dividend in full. See also *“The equity capital raising announced by AIB is to be fully underwritten by the NPRFC. If the structure of the transaction does not enable AIB to retain its ISE and LSE listings as a result of the Government acquiring more than 75 per cent. of AIB’s issued ordinary share capital, then AIB could be delisted from the ISE and LSE and Shareholders could lose the value of their Shareholding”* for further risks associated with the issue of additional Ordinary Shares.

In the event that the Continuing Group remains precluded from paying, or elects not to pay, coupons or dividends on the RCI Securities and the 2009 Preference Shares, the voting interests of the existing Shareholders would be further diluted as AIB would, in certain circumstances, be obliged to issue Ordinary Shares if a coupon or dividend is not paid in cash.

The Continuing Group’s risk management processes may not be fully effective and the risk management framework may leave it exposed to risks that have not been identified by such policies or procedures.

While AIB has an established risk management framework, the financial crisis and in particular how it has manifested in substantial credit losses has highlighted the deficiencies in the risk management policies of Irish banks and has led the AIB Group to review its overall approach to identifying, assessing and managing risks.

AIB has already taken a number of steps to enhance its risk management framework, including the restructuring of credit functions and the deployment of significant levels of experienced resources to credit management areas. However, there is a risk that the new risk management processes implemented by AIB may not be fully effective and the framework may also not be effective in mitigating AIB's risk exposure in all market environments against all types of risk. Any failure in the Continuing Group's risk management framework may have a material adverse effect on its results of operations and financial condition.

Market risk including non-trading interest rate risk: Market risk refers to the uncertainty of returns attributable to fluctuations in market factors, such as adverse movements in the level or volatility of market prices of debt instruments, equities and currencies. Some of the most significant market risks AIB faces are interest rate and foreign exchange price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress, such as those experienced in recent times. A period of prolonged low interest rates could adversely impact the margins that the Continuing Group may realise between its lending and borrowing costs and therefore impact its earnings. Changes in currency rates, particularly in the Euro-pound sterling, Euro-US dollar and the Euro-zloty exchange rates, affect the value of assets and liabilities denominated in foreign currencies and the reported earnings of the Continuing Group's non-Irish subsidiaries and associates and may affect income from foreign exchange dealing, which could have a material adverse effect on the Continuing Group's financial condition and operations.

Non-trading interest rate risk is defined as AIB's sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. Interest rates are highly sensitive to many factors beyond the Continuing Group's control, including the interest rate and other monetary policies of governments and central banks in the jurisdictions in which it operates. Non-trading interest rate risk in retail, commercial and corporate banking activities can arise from a variety of sources, including when the relevant assets and liabilities and off-balance sheet instruments have different repricing dates and unfavourable movements in interest rates could have a material adverse effect on the Continuing Group's financial condition and operations.

Operational risks: Operational risks are present in the Continuing Group's businesses and can arise through inadequate or failed internal processes (including financial reporting systems, risk monitoring processes and internal processes to ensure that collateral in respect of relevant loans is correctly valued and is fully enforceable) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Continuing Group. The Continuing Group's businesses are dependent on their ability to hire and retain experienced credit and risk management personnel, and process and report accurately and efficiently on a high volume of complex transactions across numerous and diverse products and services, in different currencies and are subject to a number of different legal and regulatory regimes. Any weakness in the Continuing Group's risk controls or loss mitigation action could have a material adverse effect on the Continuing Group's financial condition and operations.

Pension risk: Pension risk is the risk that the funding position of the Continuing Group's defined benefit plans would deteriorate to such an extent that the Continuing Group would be required to make additional contributions to cover its pension obligations towards current and former employees and such contributions could be significant and have a negative impact on the Continuing Group's regulatory capital position and results of operations.

The Continuing Group may face reputational risks.

Reputational risk is inherent in the AIB Group's business. Negative public or industry opinion can result from the actual or perceived manner in which the Continuing Group conducts its business activities or from actual or perceived practices in the banking industry, such as money laundering or mis-selling of financial products. Negative public or industry opinion may adversely affect the Continuing Group's ability to keep and attract customers and, in particular, corporate and retail depositors, the loss of whom would in each case adversely affect the Continuing Group's business, financial condition and prospects.

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 not turn out to be accurate and the value realised by the Continuing Group for its assets may be materially different from the current or estimated fair value.

Under IFRS, 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. The best evidence of fair value is quoted prices in an active market. 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. Where quoted prices on active markets are not available, AIB uses valuation techniques which require it 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. 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 and financial condition.

In the past three 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 2009 and the half-year to 30 June 2010. 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 the Continuing Group to recognise further fair value write-downs or recognise impairment charges, any of which may adversely affect its results of operations, financial condition and prospects.

Change of control may lead to adverse consequences for the Continuing Group.

The Government (through the NPRFC) is currently the largest holder of Ordinary Shares, holding 18.61 per cent. of the issued Ordinary Shares (excluding Treasury Shares). See "*The Continuing Group is subject to the risk of having insufficient capital resources to meet the revised minimum PCAR requirement. If the Continuing Group is not able to raise a proportion of the additional capital to meet the revised PCAR capital requirement from the announced capital raising initiatives, AIB will need to rely to a greater extent on Government support. Such further reliance could lead to increased Government ownership and control or full nationalisation*" for circumstances in which AIB may need to rely to a greater extent on Government support. AIB and its subsidiaries are parties to joint ventures, contracts and other agreements containing change of control provisions that may be triggered in the event of a change of control of the relevant Continuing Group entity, for example as a result of a major shareholder, such as the NPRFC, obtaining a majority stake in AIB. These include the agreements with respect to the Company's joint venture, Aviva Life Holdings Ireland Limited, in which AIB owns an interest of 24.99 per cent. and where it has an exclusive agreement to distribute the life and pensions products of the joint venture. Agreements with change of control provisions typically provide for, or permit, the termination of the agreement upon the occurrence of a change of control of one of the parties or if the new controlling party does not satisfy certain criteria. The crystallisation of change of control provisions could also result in the loss of contractual rights and benefits, as well as the termination of joint venture agreements. On a change of control of the relevant Continuing Group entity, the exercise of such rights or the decision by a counterparty not to waive or vary its rights on a change of control could have a material effect on the Continuing Group's results of operations, financial condition and prospects.

The Continuing Group's businesses and financial condition could be affected by the fiscal, taxation, regulatory or other policies, laws and regulations and other actions of various governmental and regulatory authorities in Ireland, the United Kingdom, the European Union and elsewhere.

AIB is subject to financial services laws, regulations, regulatory oversight, administrative actions and policies in each jurisdiction in which it operates, and failure to comply with any or all of these constitutes a risk in the financial services industry. Laws, regulations, regulatory oversight, administrative actions and policies are subject to change, particularly in the current market environment, where there have been unprecedented levels of government intervention and changes to the regulations governing financial institutions. These and future regulatory and supervisory developments, which the Continuing Group expects to face in Ireland, the United States, the United Kingdom, Poland and other countries in which it operates, could have an adverse effect on how the Continuing Group conducts its business and on its results of operations. Areas where laws and regulations and governmental policies could have an adverse impact include, but are not limited to:

- the monetary, interest rate, capital and liquidity adequacy and other policies of central banks and regulatory authorities;
- general changes in regulatory policy or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Continuing Group operates or may increase the costs of doing business in those markets;

- changes in the Government's policies with regard to the NPRFC Investment, the NAMA Programme and the ELG Scheme, or any one of them;
- changes to corporate governance regimes for listed companies (financial institutions in particular) and further developments in corporate governance standards;
- changes to international financial reporting standards and further developments in the financial reporting environment;
- changes in competition and pricing environments;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to bank customer deposits and the terms attaching to such guarantees, including requirements for the entire Continuing Group to accept exposure to the risk of any individual member of the Continuing Group, or even third party participants in guarantee schemes, failing;
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Continuing Group's products and services.

The FSA has directed that AIB's UK division must target a reduction in its loan-to-deposit ratio over the course of 2010 and 2011. Although a progressive reduction in the loan-to-deposit ratio is already being targeted by the Group, accelerated implementation of the targets within a short time period may negatively impact AIB UK's margins and profitability and have an adverse effect on the Continuing Group's financial condition and results of operations. Furthermore, as market expectations and regulatory requirements continue to evolve, the FSA may also require AIB's UK division to hold higher Total Capital levels than those currently held by the UK division.

AIB has engaged, and will continue to engage, in discussions with relevant regulators, in Ireland, the United Kingdom, the European Union 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 Continuing Group, remediation of systems and controls and public or private censure or fines. Any of those events or circumstances could, either individually or in aggregate, have a significant impact on the Continuing Group's results of operations, financial condition and future prospects.

In addition to the regulatory capital policy changes announced by the Financial Regulator on 30 March 2010 and 30 September 2010, there is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in Ireland and elsewhere. In June 2010, the Financial Regulator announced a "new approach" to regulating Irish banks which includes: (i) in-depth reviews of governance and risk management arrangements at banks; (ii) development of a new risk framework for regulating entities on the basis of impact and risk; (iii) review of mortgage credit standards and funding risks; (iv) review of bank strategies, with emphasis on broadening lending capabilities; (v) review of remuneration practices; and (vi) review of liquidity standards. 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 the Continuing Group's business, earnings and prospects.

As a result of the current banking environment and market events at an international level, the minimum regulatory capital requirements currently imposed on the Continuing Group, the manner in which the existing regulatory capital is currently calculated, the instruments that currently qualify as regulatory capital and the capital tier to which those instruments are currently allocated, could be subject to change in the future. A number of regulatory changes in this regard have recently been proposed or made, which would significantly alter the Continuing Group's regulatory capital, regulatory liquidity position and liability management, which include (but are not limited to):

- the EU Directive 2009/111/EC (CRD II) which must be implemented during 2010 and will in particular make changes to the criteria for assessing hybrid capital eligible to be included in Tier 1 Capital and may require the Continuing Group to replace, over a staged grandfathering period, existing hybrid capital instruments that do not fall within these revised eligibility criteria;
- the EU Capital Requirements Directive III (CRD III) which will introduce a number of changes in response to the recent and current market conditions, which (among other things) will increase the capital requirements for the trading books of credit institutions to ensure that a firm's assessment of the risks connected with its trading book better reflect the potential losses from adverse market movements in stressed conditions and limit

investments in re-securitisations and impose higher capital requirements for re-securitisations to ensure that firms take proper account of the risks of investing in such complex financial products. It is anticipated that the CRD III rules will be implemented in various stages during 2011, commencing 1 January and concluding 31 December 2011;

- the Basel III proposals which have been revised since first introduced in December 2009 set out a fundamental rewriting of certain aspects of the regulatory capital framework. Overall they introduce tougher and increased requirements to improve both the quality and quantity of capital and liquidity buffers which must be held by a firm; propose new capital buffer requirements to address procyclicality issues (so that banks would be encouraged to build up capital buffers in good times); require a strengthening of capital requirements for accounting for certain activities such as derivatives and impose a non-risk-based limit on a firm's balance sheet by reference to capital held. Though the Basel III proposals are not finalised and certain elements will be subject to observation and modification during trial periods at a later date, they are expected to be approved by the G20 at its November 2010 summit. The Basel III proposals will be subject to staggered implementation with different elements coming into force at various times over the period 1 January 2013 to 1 January 2019;
- the EU Capital Requirements Directive IV proposes further changes to the CRD proposed by the European Commission in February 2010. These changes are largely based on the Basel III proposals as originally outlined on 17 December 2009 (referred to above). A more developed CRD IV proposal is expected by the end of 2010 and it is currently expected to reflect some of the additional changes proposed by the Basel Committee since December 2009 though, of course, is subject to negotiation as part of the European legislative process.

The detailed impact of the new Basel III proposals for the Continuing Group is not clear, because certain elements of the package have not yet been finalised, including the transitional arrangements. Once the finalised proposals are assessed against the Continuing Group's particular balance sheet and business strategy, changes may be required to the Continuing Group's capital structure and/or its asset base which may adversely impact its profitability and results of operations.

In addition, the European Commission recently proposed regulation aimed at increasing transparency and reducing counterparty and operational risk in the over-the-counter derivatives market. If this new regulation is adopted by the European Parliament and EU Member States, the Continuing Group will be subject to increased disclosure and other requirements that could increase reporting burdens for AIB.

The Continuing Group's activities are subject to taxes at various rates in jurisdictions in which it has operations and such taxes are computed in accordance with local legislation and practice. Action by governments to increase tax rates or to impose additional taxes would reduce the Continuing Group's profitability. Revisions to tax legislation or to its interpretation might also affect the Continuing Group's results in the future.

The Continuing Group's deferred tax assets are substantially dependent on the generation of future profits over a number of years at, at least, the level currently anticipated by the AIB Group and there being no adverse changes to tax legislation, regulatory requirements or accounting standards.

The Continuing Group's business performance may not reach the level assumed in the projections that support the carrying value of the deferred tax assets. Lower than anticipated profitability within Ireland and the United Kingdom would lengthen the anticipated period over which the Continuing Group's Irish and UK tax losses would be utilised. The value of the deferred tax related to the unutilised tax losses constitutes a substantial portion of the total deferred tax assets recognised on the AIB Group's balance sheet. A significant reduction in anticipated profit or changes in tax legislation, regulatory requirements or accounting standards could adversely affect the basis for full recognition of the value of these losses, which would adversely affect the Continuing Group's results of operations, financial condition and future prospects.

The Irish banking system may restructure and change significantly, which could have a material adverse effect on the Continuing Group's competitive position.

The banking system in Ireland was impacted by the systemic issues facing the financial sector globally caused by factors such as the collapse of sub-prime mortgage lending in the United States, the failure of a number of high profile financial institutions, such as Lehman Brothers and Bear Stearns, the global credit crisis and rapidly deteriorating economic conditions, particularly in Ireland. Arising from these events, there have been a number of

Government and market responses impacting or potentially impacting on the structure of the Irish banking sector, including:

- the Government has taken steps to support or recapitalise certain of the domestic major Irish banks and building societies and in doing so has taken significant equity positions in certain of the major domestic Irish banks and building societies, in some cases amounting to majority voting control or nationalisation;
- on 19 January 2010, the Government announced a framework for an investigation into the factors which contributed to the Irish banking crisis within the context of the international economic and financial environment at that time. On 9 June 2010, two independent preliminary reports dealing with aspects of the banking crisis were published and the Government announced the establishment of a Commission of Investigation to investigate certain issues identified in the preliminary reports. The Commission of Investigation was formally established on 21 September 2010 and is expected to complete its report within six months;
- the Central Bank Reform Act 2010 was signed into law on 17 July 2010. This legislation, which was brought into operation by the Minister on 1 October 2010, establishes a new regulatory authority, the Central Bank of Ireland, which now performs the functions of the Financial Regulator. It has been indicated that the approach to the manner in which Irish financial institutions are regulated and supervised will change resulting in the delivery of a more assertive, risk based and challenging approach to banking supervision carrying a credible threat of enforcement; and
- the Government has indicated that it proposes, as part of a series of legislative amendments, to provide broader regulatory powers to the new Central Bank of Ireland, in addition to the wide range of statutory powers that already exist.

The Directors believe it is possible that, arising from these responses to the banking crisis in Ireland, a restructuring of the Irish banking system may occur in addition to the changes that have happened to date. It is unclear the form that any such restructuring might take or over what timeframe it might occur.

It is also unclear whether such restructuring might take place on a market driven basis or whether other factors such as the involvement of the European Commission or the Government would have an impact. As a material part of the Continuing Group's business and activities are in Ireland, the competitive position of the Group in the Irish banking system may be materially adversely affected by any such restructuring.

The Continuing Group may not be able to recruit, retain and develop appropriate senior management and skilled personnel.

The Continuing Group's success depends in part on the availability of skilled management and the continued service of key members of its management team. The Group depends on the availability of skilled management both at its head office and at each of its business units. On 30 September 2010, AIB announced that the Board has agreed with Mr Dan O'Connor that he will step down as Executive Chairman within the coming weeks and that the Board has agreed with Group Managing Director, Mr Colm Doherty, the termination of his contract on existing terms. Mr Doherty will depart AIB before the end of 2010. On 4 October 2010, AIB received notification from Mr Robert Wilmers of his resignation from the Board to take effect immediately in light of the Disposal. In addition, on 4 October 2010, Mr Kieran Crowley notified AIB of his intention to resign from the Board at its next meeting on 13 October 2010. There may be additional changes to the composition of the Company's Board and the Senior Executives in due course. Failure by the Continuing Group to staff its day-to-day operations appropriately, or the further loss of one or more key senior executives, and failure to replace them in a satisfactory and timely manner, has had and could have an adverse effect on the Continuing Group's results, financial condition and prospects.

Under the terms of the NPRFC Investment and the ELG Scheme, AIB is also required to comply with certain executive pay and compensation arrangements. As a result of these restrictions, AIB cannot guarantee that it will be able to attract, retain and remunerate highly skilled and qualified personnel competitively with its peers. If the Continuing Group fails to attract and appropriately develop, motivate and retain highly skilled and qualified personnel, its business and results of operations may be negatively affected.

The Continuing Group is required pursuant to the Central Bank Reform Act 2010 to submit for review and approval, proposed new appointments to some senior management positions. This may have a material adverse effect on the Continuing Group if the approval process resulted in delays in filling key positions or impacted the Continuing Group's ability to recruit suitable candidates.

The Group is and may be subject to litigation and regulatory investigations that may impact its business.

AIB operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which AIB may be involved are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation. The Government has established a commission to investigate, *inter alia*, the main causes of the serious failure within each covered institution to implement and adhere to appropriate standards and controls in the context of corporate governance and prudent risk management. Adverse regulatory action or adverse judgements in litigation could result in restrictions or limitations on AIB's operations or result in a material adverse effect on AIB's reputation or results of operations.

The Continuing Group operates in competitive markets (subject to some price regulation) that are subject to significant change and uncertainty, which could have a material adverse effect on its results, financial condition and prospects.

The markets for financial services within which the Group operates are highly competitive. It is anticipated that such competition may intensify in response to regulatory actions, competitor behaviour, consumer demand, technological changes, the impact of consolidation, new market entrants and other factors. In the event that financial markets remain unstable, competitor and market consolidation may accelerate.

In particular, competitive pricing pressures may limit the Continuing Group's ability to normalise its deposit rates and increase rates on customer loans, which would prevent the Continuing Group restoring its net interest margin to target levels, which is a key driver of future profitability. In addition, the Continuing Group could also encounter difficulties in increasing interest rates to borrowers, particularly in respect of residential mortgages, due to the reputational impact such increases could have on the Continuing Group in the Irish market, and other consequences that such an impact could have for the Continuing Group. Any of these events could have an adverse impact on net interest margins, and consequently on the results and financial condition of the Continuing Group.

Intervention by monetary authorities in the banking sector may impact the competitive position of the Continuing Group relative to its international competitors, who may be subject to intervention of a different quantum and nature, potentially putting the Continuing Group at a competitive disadvantage in certain markets. Competition may increase in some or all of the Continuing Group's principal markets and may have an adverse effect on its results, financial condition and prospects.

In Ireland, the United Kingdom and in some other jurisdictions, AIB is liable to contribute to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.

In Ireland, the United Kingdom and in other jurisdictions, AIB is liable to contribute to compensation schemes set up to address banks and other authorised financial services firms' inability to meet their obligations to customers. Such schemes include the Deposit Guarantee Scheme and the Investor Compensation Scheme (the "ICS"). Under the Deposit Guarantee Scheme, each licensed bank must contribute to the deposit protection account held by the Central Bank of Ireland. Currently, the level of contribution required under the Deposit Guarantee Scheme is 0.2 per cent. of eligible deposits (in whatever currency) held at all branches of the licensed bank in the European Economic Area. The Minister for Finance announced on 20 September 2008 that the maximum amount of deposit protection would be increased to €100,000 per depositor per institution. The ICS is administered by the Investor Compensation Company Limited, which was established under the Investor Compensation Act 1998. The ICS is Ireland's statutory fund of last resort for customers of authorised financial services firms, and is funded by levies on firms authorised by the Central Bank of Ireland, including AIB.

In the event that the contributions or levies to be paid by the Continuing Group in relation to such schemes are raised more frequently, or should the amounts of contributions or levies to be paid under such schemes be significantly increased, the associated costs to AIB may have a material impact on AIB's results of operations and financial condition.

In addition, to the extent that other jurisdictions where AIB operates have introduced or plan to introduce similar compensation, contributory or reimbursement schemes (such as in the United States with the Federal Deposit Insurance Corporation), AIB may incur additional costs and liabilities, which may negatively impact its results of operations and financial condition.

Risks relating to M&T

The following risks have been extracted from M&T's annual report for the year ended 31 December 2009 on Form 10-K and its quarterly report for the three months ended 30 June 2010 on Form 10-Q which are publicly available at www.sec.gov.

Interest rate risk: M&T is exposed to interest rate risk in its core banking activities of lending and deposit-taking since assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income, which represents the largest revenue source for M&T, is subject to the effects of changing interest rates. M&T closely monitors the sensitivity of net interest income to changes in interest rates and attempts to limit the variability of net interest income as interest rates change. M&T makes use of both on- and off-balance sheet financial instruments to mitigate exposure to interest rate risk. Adverse experience with these or other risks could have a material impact on M&T's financial condition and results of operations, as well as on the value of M&T's financial instruments in general, and M&T's common stock, in particular.

Liquidity risk: Liquidity refers to M&T's ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future financial obligations, including demands for loans and deposit withdrawals, funding operating costs, and for other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. M&T obtains funding through deposits and various short-term and long-term wholesale borrowings, including US federal funds purchased and securities sold under agreements to repurchase, brokered certificates of deposit, offshore branch deposits and borrowings from the Federal Home Loan Bank of New York and others. Should M&T experience a substantial deterioration in its financial condition or its debt ratings, or should the availability of funding become restricted due to disruption in the financial markets, M&T's ability to obtain funding from these or other sources could be negatively impacted.

Credit risk: Factors that influence M&T's credit loss experience include overall economic conditions affecting businesses and consumers, in general, and, due to the size of M&T's real estate loan portfolio and mortgage-related investment securities portfolio, real estate valuations, in particular. Other factors that can influence M&T's credit loss experience, in addition to general economic conditions and borrowers' specific abilities to repay loans, include:

- the impact of declining real estate values in M&T's portfolio of loans to residential real estate builders and developers;
- the repayment performance associated with M&T's portfolio of alternative residential mortgage loans and residential and other mortgage loans supporting mortgage-related securities;
- the concentration of commercial real estate loans in M&T's loan portfolio, particularly the large concentration of loans secured by properties in New York State, in general, and in the New York City metropolitan area, in particular;
- the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area and in central Pennsylvania that have historically experienced less economic growth and vitality than the vast majority of other regions of the country; and
- the size of M&T's portfolio of loans to individual consumers, which historically have experienced higher net charge-offs as a percentage of loans outstanding than many other loan types.

Considerable concerns exist about the economic recovery in both US national and international markets; the level and volatility of energy prices; a weakened housing market; the troubled state of financial and credit markets; the US Federal Reserve positioning of monetary policy; high unemployment, which has caused consumer spending to slow; the underlying impact on businesses' operations and abilities to repay loans as consumer spending slowed; continued stagnant population growth in the upstate New York and central Pennsylvania regions; and continued uncertainty about possible responses to state government budget deficits. Adverse experience with these or other risks could have a material impact on M&T's financial condition and results of operations, as well as on the value of M&T's financial instruments in general, and M&T's common stock, in particular.

Economic risk: The US economy has experienced recession and weak economic conditions during the last three years. Those conditions which contributed to risk are as follows:

- the significant downturn in the residential real estate market that began in 2007 had continued in 2008 and 2009. The impact of that downturn has resulted in declining home prices, higher foreclosures and loan charge-offs, and lower market prices on investment securities backed by residential real estate. These factors have negatively impacted M&T's results of operations and could continue to do so;

- lower demand for M&T's products and services and lower revenues and earnings could result from ongoing weak economic conditions. Those conditions could also result in higher loan charge-offs due to the inability of borrowers to repay loans;
- lower fee income from M&T's brokerage and trust businesses could result from significant declines in stock market prices;
- lower earnings could result from other-than-temporary impairment charges related to M&T's investment securities portfolio;
- higher Federal Deposit Insurance Corporation (the "FDIC") assessments could be imposed on M&T due to bank failures that have caused the FDIC Deposit Insurance Fund to fall below minimum required levels; and
- there is no assurance that the Emergency Economic Stabilization Act of 2008 or the American Recovery and Reinvestment Act of 2009 will improve the condition of the financial markets.

Supervision and regulation: M&T is subject to extensive state and federal laws and regulations governing the banking industry, in particular, and public companies, in general, including laws related to corporate taxation. The banking industry is regulated and supervised under both US federal and state law. M&T and its banking subsidiaries are subject to the regulation and supervision of the Board of Governors of the US Federal Reserve System, the FDIC, the US Office of the Comptroller of the Currency and the New York State Department of Banking. These regulations govern matters ranging from the regulation of certain debt obligations, changes in the control of bank holding companies and banks, and the maintenance of adequate capital, including permissible types, amounts and terms of loans and investments, to the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum interest rate that may be charged by law. Additionally, certain subsidiaries of M&T are subject to regulation, supervision and examination by other regulatory authorities, such as the SEC, the US Financial Industry Regulatory Authority and state insurance regulators. Changes in these or other laws and regulations, or the degree of M&T's compliance with these laws and regulations as judged by any of several regulators, including tax authorities, that oversee M&T, could have a significant effect on M&T's operations and its financial results.

Legislative actions taken now or in the future may have a significant adverse effect on M&T's operations.

A number of regulatory initiatives directed at the financial services industry have been proposed in recent months. One of those initiatives, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**"), was signed into US law by US President Obama on 21 July 2010. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States and will require the newly created Bureau of Consumer Financial Protection and other federal agencies to implement many new rules. It is difficult to predict the extent to which the Dodd-Frank Act or the forthcoming rules and regulations will impact M&T's business. It is expected, however, that at a minimum they will result in increased costs and therefore may adversely impact M&T's business, results of operations, financial condition and liquidity.

Another such initiative relates to the restricted ability of financial institutions to impose overdraft charges on certain customer transactions. Beginning on 1 July 2010, for new customers and 15 August 2010, for existing customers of M&T, federal rules prohibit a financial institution from assessing a fee to complete an ATM (any-time money) withdrawal or one-time debit card transaction which will cause an overdraft unless the customer consents in advance. It is expected that such rules will result in a decline in service charges on deposit accounts.

The following risks have been extracted from the M&T prospectus supplement dated 6 October 2010 which is publicly available at www.sec.gov.

Recent legislation regarding the financial services industry may have a significant adverse effect on M&T's operations.

On 21 July 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements a variety of far-reaching changes and has been called the most sweeping reform of the financial services industry since the 1930s. Many of the provisions of the Dodd-Frank Act will directly affect M&T's ability to conduct its business including:

- imposition of higher prudential standards, including more stringent risk-based capital, leverage, liquidity and risk-management requirements, and numerous other requirements on "systemically significant institutions," currently defined to include, among other things, all bank holding companies with assets of at least US\$50 billion (which would include M&T);

- mandates requiring the US Federal Reserve to establish standards for determining whether interchange fees charged by certain financial institutions are reasonable and proportional to the costs incurred by such institution;
- repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- increase in the FDIC assessment for depository institutions with assets of US\$10 billion or more and increases in the minimum reserve ratio for the deposit insurance fund;
- imposition of additional costs and fees, including fees to be set by the US Federal Reserve and charged to “systemically significant institutions” to cover the cost of regulating such institutions and any FDIC assessment made to cover the costs of any regular or special examination of M&T or its affiliates;
- establishment of a consumer financial protection bureau with broad authority to implement new consumer protection regulations and, for bank holding companies with US\$10 billion or more in assets, to examine and enforce compliance with federal consumer laws;
- application to bank holding companies above US\$15 billion in assets of regulatory capital requirements similar to those applied to banks, which requirements exclude, on a phase-out basis, all trust preferred securities and cumulative preferred securities from Tier 1 Capital (except for preferred stock issued under the TARP, which will continue to qualify as Tier 1 Capital as long as it remains outstanding); and
- establishment of new rules and restrictions regarding the origination of mortgages.

Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known, including mandates requiring the US Federal Reserve to establish compensation guidelines covering regulated financial institutions. The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of M&T’s business activities, require M&T to change certain of its business practices, materially affect M&T’s business model or affect retention of key personnel, require M&T to raise additional regulatory capital and could expose M&T to additional costs (including increased compliance costs). These and other changes may also require M&T to invest significant management attention and resources to make any necessary changes and may adversely affect M&T’s ability to conduct its business as previously conducted or its results of operations or financial condition.

M&T may be subject to more stringent capital requirements.

As discussed above, the Dodd-Frank Act would require the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank holding companies. Under the legislation, the federal banking agencies would be required to develop capital requirements that address systemically risky activities. The capital rules must address, at a minimum, risks arising from significant volumes of activity in derivatives, securitised products, financial guarantees, securities borrowing and lending and repurchase agreements; concentrations in assets for which reported values are based on models; and concentrations in market share for any activity that would substantially disrupt financial markets if the institutions were forced to unexpectedly cease the activity. These requirements, and any other new regulations, could adversely affect M&T’s ability to pay dividends, or could require M&T to reduce business levels or to raise capital, including in ways that may adversely affect M&T’s results of operations or financial condition.

In addition, on 12 September 2010, the Group of Governors and Heads of Supervisors of the Basel Committee, the oversight body of the Basel Committee, published its “calibrated” capital standards for major banking institutions (Basel III proposals). Under these standards, when fully phased-in on 1 January 2019, banking institutions will be required to maintain heightened Tier 1 common equity, Tier 1 Capital and Total Capital Ratios, as well as maintaining a “capital conservation buffer”. The Tier 1 common equity and Tier 1 Capital Ratio requirements will be phased in incrementally between 1 January 2013 and 1 January 2015; the deductions from common equity made in calculating Tier 1 common equity (for example, for mortgage servicing assets, deferred tax assets and investments in unconsolidated financial institutions) will be phased in incrementally over a four-year period commencing on 1 January 2014; and the capital conservation buffer will be phased in incrementally between 1 January 2016 and 1 January 2019. The Basel Committee also announced that a “countercyclical buffer” of 0 per cent. to 2.5 per cent. of common equity or other fully loss-absorbing capital “will be implemented according to national circumstances” as an “extension” of the conservation buffer. The release does not address the Basel Committee’s two liquidity measures initially proposed in December 2009 and amended in July 2010 — the Liquidity Coverage Ratio and Net Stable Funding Ratio — other than to state that the Liquidity Coverage Ratio will be introduced on 1 January 2015 and the Net Stable Funding Ratio will be significantly revised and moved to a

minimum standard by 1 January 2018. The final package of Basel III reforms will be considered in November 2010 by the G20 leaders, and then will be subject to individual adoption by member nations, including the United States.

The ultimate impact of the new capital and liquidity standards on M&T cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the US banking regulators.

Risks relating to the Disposal

Following completion of the Disposal, the Continuing Group will be less geographically diverse and the Continuing Group will have limited exposure to the US market.

In addition to its core businesses in Ireland and the United Kingdom, the Group currently has a larger international presence than any other Irish financial institution. AIB's 'back to basics' strategy requires the Group to focus its activities on its core Irish market. Following completion of the announced capital raising actions, which include the Disposal, the BZWBK Disposal and other asset and business disposals, the Continuing Group will no longer benefit from existing geographic and sector diversification from its domestic deposit taking activities.

Following completion of the Disposal, the Continuing Group will have limited exposure to the US market and will lose the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of the Disposal. In addition, the Continuing Group's increased dependence on the Irish market could have an adverse impact on the Continuing Group's operating results and financial condition and lead to reduced income levels.

Satisfaction of conditions.

Completion of the Disposal is subject only to the approval of Shareholders at the Extraordinary General Meeting of the Company and the non-occurrence of an AIB Regulatory Event. In accordance with the provisions of the Notes, if Shareholder approval for the Disposal is obtained at the Extraordinary General Meeting and in the absence of an AIB Regulatory Event, completion of the Disposal will take place on the third business day after the date of receipt of such approval. If Shareholders do not approve the Disposal by 8 November 2010, each Note will be redeemed at the Redemption Price from the funds held in the Control Account.

PART III
FINANCIAL INFORMATION

1 Nature of financial information

The financial information presented in this Part III represents AIB's interest in its associate undertaking M&T, and the information has been extracted without material adjustment from the consolidation schedules that support the consolidated financial statements of AIB. The consolidated financial statements of AIB for each of the financial years presented below were prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS"), which were both issued by the International Accounting Standards Board ("IASB") and subsequently adopted by the European Union.

The financial information presented in this Part III does not constitute statutory financial statements within the meaning of the Companies Acts. The consolidated financial statements of AIB for the financial years ended 31 December 2007, 2008 and 2009 were audited by KPMG, Chartered Accountants and Registered Auditor, whose address is 1-2 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland. The audit reports on those financial statements for the periods noted were unqualified and they did not include a statement under section 40(1) of the Companies (Amendment) Act 1983.

The summary financial information on M&T below has been extracted from AIB's 2009 Annual Financial Report (page 219, Note 35) and 2008 Annual Financial Report (page 201, Note 33).

Information in relation to M&T's historical share price performance is included in paragraph 14 of Part VII ("Additional Information") of this document.

Shareholders should read the whole of this document and information incorporated by reference into it and should not rely solely on the financial information contained in this Part III.

2 Summary of M&T Consolidated Income Statement

	<u>For the year ended 31 December</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(€m)		
Net interest income	1,365	1,333	1,478
Other income	<u>678</u>	<u>638</u>	<u>662</u>
Total operating income	2,043	1,971	2,140
Total operating expenses	<u>(1,173)</u>	<u>(1,148)</u>	<u>(1,448)</u>
Group operating profit before impairment provisions	870	823	692
Impairment provisions	<u>(127)</u>	<u>(291)</u>	<u>(437)</u>
Group profit before taxation	743	532	255
Taxation	<u>(244)</u>	<u>(137)</u>	<u>(65)</u>
Group profit after taxation	<u>499</u>	<u>395</u>	<u>190</u>
<i>AIB average percentage shareholding⁽¹⁾</i>	24.6%	24.2%	23.3%
<u>Contribution of M&T to AIB Group</u>			
	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(€m)		
Gross contribution	185	129	60
Taxation	<u>(65)</u>	<u>(35)</u>	<u>(16)</u>
Contribution to Group profit before taxation	<u>120</u>	<u>94</u>	<u>44</u>

Note:

(1) AIB accounts for its share of M&T's profits on the basis of AIB's average shareholding in M&T over the relevant financial period, which amounted to 23.3 per cent. during the financial year ended 31 December 2009 (2008: 24.2 per cent., 2007: 24.6 per cent.). This average is calculated monthly and is based on the common and issuable shares of M&T less the amount of treasury shares held by M&T.

3 Summary of the M&T Consolidated Statement of Financial Position

	For the year ended 31 December 2009
	(€m)
Cash, loans and receivables	36,761
Investment securities	5,401
Property, plant and equipment	303
Other assets	<u>3,417</u>
Total assets	<u>45,882</u>
Deposits	32,938
Other borrowings	9,381
Other liabilities	752
Shareholders' funds	<u>2,811</u>
Total liabilities and shareholders' funds	<u>45,882</u>

The carrying value of the M&T Shareholding as at 31 December 2009, as disclosed in AIB's 2009 Annual Financial Report (page 220, Note 35), was €1,282 million.

The carrying value of the M&T Shareholding as at 30 June 2010, as disclosed in the 2010 Half-Yearly Financial Report (page 66, Note 18), was €1,750 million.

PART IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Section A: The unaudited Pro Forma Financial Information as at 30 June 2010

The unaudited Pro Forma Financial Information set out below is based on the 2010 Half-Yearly Financial Report and has been prepared on the basis of the notes set out below to illustrate the effect of the Disposal, the transfer of the second tranche of NAMA Assets, completed on 12 July 2010, and the BZWBK Disposal, announced on 10 September 2010 (which is subject to Shareholder and regulatory approval and is being shown herein to illustrate the significant impact it would have on the AIB Group once completed), on the net assets and regulatory capital ratios of the AIB Group as at 30 June 2010 as if they had each occurred on that date.

The unaudited Pro Forma Financial Information has been prepared pursuant to UKLA Listing Rule 13.3.3R and ISE Listing Rule 10.3.3 and it is shown for illustrative purposes only to indicate how the Disposal, the transfer of the second tranche of NAMA Assets and the BZWBK Disposal might have affected the financial position of the AIB Group as at 30 June 2010 if they had occurred on that date. Due to its nature, the unaudited Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the AIB Group's actual financial position, results, risk weighted assets, or regulatory capital ratios following the Disposal, the transfer of the second tranche of NAMA Assets and the BZWBK Disposal.

Shareholders should read the whole of this document and should not rely solely on the unaudited Pro Forma Financial Information contained in this Part IV.

	Adjustments						Pro forma Consolidated Balance Sheet as at 30 June 2010 ⁽⁸⁾	
	Consolidated Balance Sheet as at 30 June 2010 ⁽¹⁾	Impact of the Disposal	Notes	Impact of the second tranche of NAMA Assets ⁽⁶⁾ (€m)	Notes	Impact of BZWBK Disposal ⁽⁷⁾		Notes
Assets								
Cash and balances at central banks	2,619	1,457	(2)			3,078	(7)(a)	7,154
Items in course of collection	162							162
Financial assets held for sale to NAMA	12,446			(1,612)	(6)(a)			10,834
Disposal groups and non-current assets held for sale	39,870	(1,750)	(3)	(256)	(6)(b)	(13,925)	(7)(b)	23,939
Trading portfolio financial assets	49							49
Derivative financial instruments	5,992							5,992
Loans and receivables to banks	4,504					377	(7)(d)	4,881
Loans and receivables to customers	77,608							77,608
Financial investments available for sale	22,832			1,351	(6)(c)			24,183
Interests in associated undertakings	289							289
Intangible assets and goodwill	250							250
Property, plant and equipment	320							320
Other assets	820							820
Current taxation	55							55
Deferred taxation	925			70	(6)(d)			995
Prepayments and accrued income	454							454
Total assets	169,195	(293)		(447)		(10,470)		157,985
Liabilities								
Deposits by banks	32,043							32,043
Customer accounts	59,830							59,830
Disposal groups classified as held for sale	25,765					(11,563)	(7)(c)	14,202
Derivative financial instruments	5,878							5,878
Debt securities in issue	27,965							27,965
Current taxation	36							36
Other liabilities	1,807							1,807
Accruals and deferred income	951							951
Retirement benefit liabilities	943							943
Provision for liabilities and commitments	42							42
Subordinated liabilities and other capital instruments	4,469							4,469
Total liabilities	159,729	0		0		(11,563)		148,166

Adjustments

	Consolidated Balance Sheet as at 30 June 2010 ⁽¹⁾	Impact of the Disposal	Notes	Impact of the second tranche of NAMA Assets ⁽⁶⁾	Notes	Impact of BZWBK Disposal ⁽⁷⁾	Notes	Pro forma Consolidated Balance Sheet as at 30 June 2010 ⁽⁸⁾
				(€m)				
Shareholders' equity								
Share capital	392							392
Share premium	4,912							4,912
Other equity interests	389							389
Reserves	748	(412)	(4)			(69)	(7)(e)	267
Profit and loss account	2,389	412	(4)			69	(7)(e)	
		(293)	(5)	(447)	(6)(e)	1,540	(7)(f)	3,670
Shareholders' equity	8,830	(293)		(447)		1,540		9,630
Non-controlling interests in subsidiaries	636					(447)	(7)(g)	189
Total shareholders' equity including non-controlling interests	9,466	(293)		(447)		1,093		9,819
Total liabilities, shareholders' equity and non-controlling interests	169,195	(293)		(447)		(10,470)		157,985

Notes:

- (1) The financial information on AIB Group has been extracted, without material adjustment, from the unaudited 2010 Half-Yearly Financial Report of the Group, which is incorporated by reference into this Circular.
- (2) This adjustment represents the Disposal proceeds of €1,457 million net of transaction costs directly attributable to the Disposal of €24 million. Under the Disposal, the gross proceeds are calculated on the sale of 26.7 million shares of M&T common stock by AIB at a sale price of €55.48 per share (being the sale price for M&T common shares of US\$77.50 per share using an exchange rate of €1.00 to US\$1.397).
- (3) This adjustment removes the carrying value of the M&T Shareholding (US\$2,147 million at the 30 June 2010 exchange rate of €1.00 to US\$1.2271 equalling €1,750 million) which will be sold under the Disposal and has been extracted without material adjustment from the 2010 Half-Yearly Financial Report (page 66, Note 18), as set out in paragraph 3 of Part III ("Financial Information") of this document.
- (4) This adjustment reflects:
 - (a) the realisation into AIB's profit and loss account of the unrealised gain of €430 million recognised on the 2003 disposal of Allfirst by AIB to M&T (further details of which are outlined in Part I ("Letter from the Executive Chairman of Allied Irish Banks, p.l.c.") of this document). This amount has been included in AIB's reserves from the financial year ended 31 December 2003; and
 - (b) the reversal of AIB's share of the cumulative unrealised losses on M&T's available for sale securities portfolio. This amounted to €18 million at 30 June 2010 and was included in AIB's reserves at that date.
- (5) This adjustment reflects the difference between the net proceeds of €1,457 million and the carrying value of the M&T Shareholding as at 30 June 2010 of €1,750 million.
- (6) This represents the adjustment to reflect the impact of the transfer of the second tranche of AIB's NAMA Assets amounting to €2.7 billion of loans (being the value of the relevant NAMA Assets on a gross loan basis) together with related accrued interest and derivatives of €40 million. €256 million of AIB's NAMA Assets transferred were classified in the balance sheet as at 30 June 2010 within the disposal groups and non-current assets held for sale. The impact of the second tranche shown above illustrates how it would have affected the Group's balance sheet had the transfer taken place on 30 June 2010. No account has been taken of any fees to be paid by NAMA for administrative or servicing work on the second tranche of AIB's NAMA Assets which AIB may undertake on NAMA's behalf in the future. The impact is based on the following:
 - (a) €1,612 million of a reduction in assets held for sale to NAMA represents part of AIB's NAMA Assets transferred under the second tranche, net of existing impairment provisions, but before the application of the NAMA valuation process, and it also includes related derivatives with a fair value of €25 million and related accrued interest of €12 million;
 - (b) €256 million of a reduction in disposal groups and non-current assets held for sale represents the residual of AIB's NAMA Assets transferred under the second tranche, net of existing provisions, but before the application of the NAMA valuation process, and it also includes related derivatives with a fair value of €2 million and related accrued interest of €1 million.
 - (c) €1,351 million adjustment represents an increase in available for sale financial assets reflecting the fair value of the NAMA Bonds (amounting to 95 per cent. of the consideration received by AIB equating to €1,309 million after a fair value adjustment of €24 million) and Subordinated NAMA Bonds (amounting to 5 per cent. of the consideration received by AIB equating to €42 million, after a fair value adjustment of €28 million) issued by NAMA as consideration for the second tranche of AIB's NAMA Assets;
 - (d) €70 million adjustment to deferred tax assets represents the estimated tax benefit arising from the loss attributable to Shareholders on the sale of AIB's NAMA Assets under the second tranche;
 - (e) the loss attributable to Shareholders on the sale of the second tranche of AIB's NAMA Assets is €447 million, which is calculated by taking €1,868 million, being €1,612 million (note 6(a) above) and €256 million (note 6(b) above) and deducting €1,351 million (note 6(c) above) and €70 million (note 6(d) above);
- (7) These adjustments relate to the impact of the BZWBK Disposal as follows:
 - (a) This adjustment represents the disposal proceeds of €3,078 million net of transaction costs directly attributable to the disposal of €10 million. Under the disposal, the gross proceeds are calculated on the sale of 51.414 million shares of BZWBK by AIB at a sale price of €57.13 per share (being the sale price for BZWBK shares of PLN 226.89 per share using an exchange rate of €1.00 to PLN 3.971) and the sale of 67,500 shares of BZWBK AIB Asset Management S.A. by AIB at a sale price of €150 million.
 - (b) This adjustment removes the total assets of BZWBK as reported under "Disposal groups and non-current assets held for sale" in the 2010 Half-Yearly Financial Report (Page 66, Note 18).
 - (c) This adjustment removes the total liabilities of BZWBK as reported under "Disposal groups and non-current assets held for sale" in the 2010 Half-Yearly Financial Report (Page 66, Note 18).

- (d) This adjustment represents the intergroup balances outstanding between AIB Group and BZWBK which, following the disposal, will be reported by AIB in “Loans and receivables to banks”.
- (e) This adjustment reflects the transfer to “Profit and loss account” of AIB’s share of the cumulative unrealised gains on the available for sale securities portfolio of BZWBK of €71 million and revaluation reserves of €(2) million both included in AIB’s “reserves” as at 30 June 2010.
- (f) This adjustment consists of the difference between the net disposal proceeds of €3,078 million and the carrying value of AIB’s shareholding in BZWBK of €1,538 million as at 30 June 2010. The carrying value is represented by AIB’s share of net assets of BZWBK on an IFRS basis of €1,086 million and unamortised goodwill of €452 million, both extracted from management records as at 30 June 2010.
- (g) This adjustment removes the non-controlling interest in BZWBK as at 30 June 2010 (Note 34 in the 2010 Half-Yearly Financial Report).
- (8) No adjustment has been made in the unaudited Pro Forma Financial Information to reflect:
- (a) the trading results and performance of M&T since 30 June 2010;
- (b) the trading results and performance of the AIB Group since 30 June 2010;
- (c) the impact that the transfer of AIB’s remaining NAMA Assets may have. On 30 September 2010, the Minister stated that NAMA has reviewed the quality of NAMA Assets still to be transferred to NAMA from AIB and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. As AIB has not yet received an acquisition schedule for these remaining NAMA Assets, the date for such transfers is yet to be determined, and due to the uncertainty with regard to the ultimate discount to be applied to the remaining NAMA Assets, AIB has concluded that the impact of these transfers should not be adjusted for in the unaudited Pro Forma Financial Information. Further information is set out in Part I (“Letter from the Executive Chairman of Allied Irish Banks, p.l.c.”) and Part V (“Capital Resources and Liquidity”) of this document;
- (d) the impact of the planned equity capital raising. AIB has also undertaken to launch a €5.4 billion equity capital raising during November 2010 which is expected to be completed before 31 December 2010. This equity capital raising will be fully underwritten by the NPRFC subject to, amongst other matters, European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share. The capital raising will be structured as a placing and open offer and existing shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new Ordinary Shares under the equity capital raising. If necessary, the NPRFC’s underwriting commitment will be met through a new cash contribution of up to €3.7 billion for new Ordinary Shares from existing cash resources of the NPRFC and by the conversion of up to €1.7 billion of the 2009 Preference Shares held by the NPRFC. Due to the uncertainty with regard to the ultimate component parts of the €5.4 billion equity capital raising, AIB has concluded that this impact should not be in the unaudited Pro Forma Financial Information. Further information is set out in Part I (“Letter from the Executive Chairman of Allied Irish Banks, p.l.c.”) and Part V (“Capital Resources and Liquidity”) of this document.

	Actual as at 30 June 2010 ⁽¹⁾	Impact of the Disposal ⁽²⁾	Notes	Impact of the second tranche of NAMA Assets ⁽³⁾	Notes	Impact of BZWBK Disposal ⁽⁴⁾	Notes	Pro forma as at 30 June 2010
	(€m)							
Key Balance Sheet Measures								
Total risk weighted assets	112,679	(762)	2(a)	(1,019)	3(a)	(10,486)	4(a)	100,412
Equity Tier 1 Capital	4,265	701	2(b)	(447)	3(b)	1,657	4(b)	6,176
Core Tier 1 Capital	7,765	701	2(b)	(447)	3(b)	1,657	4(b)	9,676
Tier 1 Capital	6,740	735	2(c)	(460)	3(c)	1,678	4(c)	8,693
Total Capital	10,100	768	2(d)	(472)	3(d)	1,497	4(d)	11,893
Equity Tier 1 Capital	3.8%	0.7%		(0.4%)		2.1%		6.2%
Core Tier 1 Ratio	6.9%	0.6%		(0.3%)		2.4%		9.6%
Tier 1 Ratio	6.0%	0.7%		(0.4%)		2.4%		8.7%
Total Capital Ratio	9.0%	0.7%		(0.4%)		2.5%		11.8%

Notes:

- (1) Information on the risk weighted assets, capital amounts and capital ratios of AIB Group has been extracted, without material adjustment, from the unaudited Half-Yearly Financial Report 2010 of the Group, which is incorporated by reference into this Circular.
- (2) AIB has estimated that, on a pro forma basis as at 30 June 2010, the Disposal would have had the impact on the Group’s capital position set out above if it had occurred at that date. No adjustment has been made to reflect the impact of the movement in the Euro-US dollar exchange rate used in preparing the 2010 Half-Yearly Financial Report and the exchange rate used in arriving at the net proceeds used in this hypothetical situation. The estimate of that impact is based on the following:
- (a) the impact on total risk weighted assets represents the elimination of the risk weighted assets attributable to AIB Group’s shareholding in M&T at 30 June 2010, which has been extracted from AIB’s accounting books and records. The cash received from the Disposal is assumed to have a zero risk weighting;
- (b) the Equity Tier 1 Capital and the Core Tier 1 Capital impacts represent the loss realised and the elimination of the supervisory deduction for goodwill arising on the acquisition of M&T, both resulting in an aggregate net positive impact of €701 million;
- (c) in relation to Tier 1 Capital, in addition to the impact on Core Tier 1 Capital, a decrease in supervisory deductions from Tier 1 Capital of €34 million as a result of the Disposal, resulting in a net positive impact of €735 million; and
- (d) the impact on Total Capital is made up of: (i) the impact on Tier 1 Capital of €735 million; and (ii) the elimination of the supervisory deduction from Tier 2 Capital of €33 million as a result of the Disposal, resulting in a net positive impact of €768 million to Total Capital.
- (3) AIB has estimated that, on a pro forma basis as at 30 June 2010, the transfer of the second tranche of AIB’s NAMA Assets would have had the impact on the Group’s capital position set out above if it had occurred on that date. The estimate of that impact is based on the following:
- (a) this adjustment represents a reduction of €1,019 million in RWAs relating to the transfer of the second tranche of AIB’s NAMA Assets;

- (b) this adjustment represents the negative impact on both Equity Tier 1 Capital and Core Tier 1 Capital amounting to €447 million (the loss attributable to Shareholders);
 - (c) this adjustment to Tier 1 Capital comprises: (a) the negative impact on Core Tier 1 Capital amounting to €447 million above in note 3(b); and (b) movement in the expected loss deduction in Tier 1 Capital of €13 million, resulting in a net negative impact of €460 million. In this regard, expected loss represents the estimated amount of losses based on probability of default of the underlying loans. Under the regulatory requirements for European banks, any excess of expected loss over provisions must be deducted from both Tier 1 Capital (50 per cent. of the excess amount) and Tier 2 Capital (50 per cent. of the excess amount);
 - (d) this adjustment to Total Capital comprises: (a) the negative impact on Tier 1 Capital amounting to €460 million as described above in note 3(c); and (b) movement in the expected loss deduction in Tier 2 Capital of €12 million, resulting in a net negative impact of €472 million. In this regard, expected loss represents the estimated amount of losses based on the probability of default of the underlying loans. Under the regulatory requirements for European banks, any excess of expected loss over provisions must be deducted from both Tier 1 Capital (50 per cent. of the excess amount) and Tier 2 Capital (50 per cent. of the excess amount).
- (4) AIB has estimated that, on a pro forma basis as at 30 June 2010, the BZWBK Disposal would have had the impact on the Group's capital position set out above if it had occurred on that date. The estimate of that impact is based on the following:
- (a) the impact on total risk weighted assets represents the removal of the risk weighted assets relating to BZWBK that were included in AIB Group's total RWAs at 30 June 2010, which have been extracted from AIB's accounting books and records. The cash received from the BZWBK Disposal is assumed to have a zero risk weighting;
 - (b) the Equity Tier 1 Capital and the Core Tier 1 Capital impacts represent: (i) the difference between the net proceeds of €3,078 million and the carrying value of BZWBK of €1,538 million; (ii) the elimination of supervisory deductions for goodwill relating to BZWBK amounting to €452 million; (iii) the removal of the non-controlling interest in BZWBK from equity, amounting to €447 million, following the disposal of BZWBK; (iv) the reversal of AIB's share of the cumulative unrealised gains on the available for sale securities portfolio of BZWBK amounting to €71 million and (v) the removal of the intangible assets relating to BZWBK of €41 million,
 - (c) in relation to Tier 1 Capital, in addition to the impact on Core Tier 1 Capital, a decrease in supervisory deductions from Tier 1 Capital of €21 million as a result of the BZWBK Disposal, resulting in a net positive impact of €1,678 million; and
 - (d) the impact on Total Capital is made up of: (i) the impact on Tier 1 Capital of €1,678 million; and (ii) the elimination of certain eligible reserves from Tier 2 Capital of €181 million (general provision of €90 million and total amount of cumulative unrealised gains on the available for sale securities portfolio of €91 million) as a result of the BZWBK Disposal, resulting in a net positive impact of €1,497 million to Total Capital.
- (5) No adjustment has been made in the unaudited Pro Forma Financial Information to reflect:
- (a) the trading results and performance of M&T since 30 June 2010;
 - (b) the trading results and performance of the AIB Group since 30 June 2010;
 - (c) the impact that the transfer of AIB's remaining NAMA Assets may have. On 30 September 2010, the Minister stated that NAMA has reviewed the quality of NAMA Assets still to be transferred to NAMA from AIB and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. As AIB has not yet received an acquisition schedule for these remaining NAMA Assets, the date for such transfers is yet to be determined, and due to the uncertainty with regard to the ultimate discount to be applied to the remaining NAMA Assets, AIB has concluded that the impact of these transfers should not be adjusted for in the unaudited Pro Forma Financial Information. Further information is set out in Part I ("Letter from the Executive Chairman of Allied Irish Banks, p.l.c.") and Part V ("Capital Resources and Liquidity") of this document.
 - (d) the impact of the planned equity capital raising. AIB has also undertaken to launch a €5.4 billion equity capital raising during November 2010 which is expected to be completed before 31 December 2010. This equity capital raising will be fully underwritten by the NPRFC subject, amongst other matters, to European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share. The capital raising will be structured as a placing and open offer and existing shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new Ordinary Shares under the equity capital raising. If necessary, the NPRFC's underwriting commitment will be met through a new cash contribution of up to €3.7 billion for new Ordinary Shares from existing cash resources of the NPRFC and by the conversion of up to €1.7 billion of the 2009 Preferences Shares held by the NPRFC. Due to the uncertainty with regard to the ultimate component parts of the €5.4 billion equity capital raising, AIB has concluded that this impact should not be in the unaudited Pro Forma Financial Information. Further information is set out in Part I ("Letter from the Executive Chairman of Allied Irish Banks, p.l.c.") and Part V ("Capital Resources and Liquidity") of this document.

Section B: Report on the unaudited Pro Forma Financial Information as at 30 June 2010



KPMG

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11 October 2010

Dear Sirs

We report on the unaudited Pro Forma Financial Information (the “Pro Forma Financial Information”) set out in Part IV of the Class 1 circular dated 11 October 2010 (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 disposal by AIB of its shareholding in M&T Bank Corporation, the transfer of the second tranche of Allied Irish Banks, p.l.c.’s NAMA Assets to NAMA and the sale by Allied Irish Banks, p.l.c., and its subsidiary undertakings, of its shareholdings in BZWBK and BZWBK AIB Asset Management S.A. might have affected the financial information presented on the basis of the accounting policies adopted by Allied Irish Banks, p.l.c. in preparing the unaudited 2010 Half-Yearly Financial Report. 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.

Terms defined in this letter shall have the same meaning(s) as given to them in the Circular.

Responsibilities

It is the responsibility of the Directors of Allied Irish Banks, p.l.c. 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 Commission Regulation (EC) No. 809/2004, 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 Allied Irish Banks, p.l.c.

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 Allied Irish Banks, p.l.c.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

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 Allied Irish Banks, p.l.c.

Yours faithfully

KPMG
Chartered Accountants
Dublin, Ireland

PART V

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 risks inherent in its operations. The Group is focused on 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 to which it is exposed. 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 2010 and 31 December 2009. The information contained in this table is extracted from the 2010 Half-Yearly Financial Report and the 2009 Annual Financial Report. Other financial information presented in this Part V as at 30 June 2010 has been extracted from the unaudited 2010 Half-Yearly Financial Report and information as at 31 December 2009 has been extracted from the 2009 Annual Financial Report. The Pro Forma Financial Information in Part IV ("Unaudited Pro Forma Financial Information") of this document illustrates the effect on a pro forma basis of the Disposal, the transfer of the second tranche of NAMA Assets and the sale of AIB's shareholding in BZWBK and BZWBK AIB Asset Management S.A. as if they had occurred on 30 June 2010.

<u>Capital adequacy information</u>	As at 30 June 2010	As at 31 December 2009
	(€m)	
Core Tier 1 Capital		
Paid up share capital	392	329
Eligible reserves	8,404	9,952
Equity non-controlling interests in subsidiaries	447	437
Supervisory deductions from Core Tier 1 Capital	(1,478)	(1,187)
Core Tier 1 Capital (after deductions)	7,765	9,531
Non-Core Tier 1 Capital		
Non-equity non-controlling interests in subsidiaries	189	189
Non-cumulative perpetual preferred securities	140	136
RCI Securities	239	239
Non-Core Tier 1 Capital (before deductions)	568	564
Supervisory deductions from total Tier 1	(1,593)	(1,425)
Total Tier 1 Capital (after deductions)	6,740	8,670

Upper Tier 2 Capital		
Eligible revenues	228	239
Credit provisions	553	510
Subordinated perpetual loan capital	207	189
Upper Tier 2 – sub-total	988	938
Subordinated term loan capital	4,085	4,261
Total Tier 2 before deductions	5,073	5,199
Supervisory deductions from Tier 2	(1,593)	(1,425)
Total Tier 2 after deductions	3,480	3,774
Total eligible capital		
Equity Tier 1 Capital ⁽¹⁾	4,265	6,031
Tier 1 Capital	6,740	8,670
Tier 2 Capital	3,480	3,774
Supervisory deductions from Total Capital	(120)	(129)
Total Capital	10,100	12,315
Key capital ratios		
Risk-weighted assets	112,679	120,380
Equity Tier 1 Capital Ratio	3.8%	5.0%
Core Tier 1 Capital Ratio	6.9%	7.9%
Tier 1 Capital Ratio	6.0%	7.2%
Total Capital Ratio	9.0%	10.2%

Note:

(1) Excludes the €3.5 billion of Core Tier 1 2009 Preference Shares issued to the NPRFC from Core Tier 1 Capital.

AIB is subject to the regulatory capital and the capital adequacy requirements set by the Central Bank of Ireland. The Central Bank of Ireland 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 8 per cent. is the base standard from which the Central Bank of Ireland has historically set the individual minimum capital ratio for banks within its jurisdiction. The minimum Tier 1 Capital Ratio set by the Central Bank of Ireland is currently 4.0 per cent.

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 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 preference shares under the NPRFC Investment.

In June 2009, as part of the commitment announced by AIB on 20 April 2009 to increase its Core Tier 1 Capital beyond the €3.5 billion capital increase pursuant to the NPRFC Investment by the end of 2009, the Group completed an exchange of non-Core Tier 1 Capital instruments (comprising the LPI Securities, the LP2 Securities, the LP3 Securities and the RCI Securities) and upper Tier 2 Capital instruments (comprising subordinated loan notes) for lower Tier 2 Capital instruments (comprising dated subordinated loan notes). The exchange was carried out at discounts to the nominal value but at a premium to the trading prices of the repurchased capital instruments. The discounts ranged from 33 per cent. to 50 per cent. to the nominal value of the repurchased capital instruments, resulting in a gain of approximately €1.2 billion for AIB, thereby generating additional Core Tier 1 Capital for the Group.

On 29 March 2010, AIB completed a further liability management exercise to enhance its Equity Tier 1 and Core Tier 1 Capital positions. The Group accepted offers to exchange €2.2 billion of lower Tier 2 Capital instruments denominated in Euro, Sterling and US dollars for €1.8 billion of new lower Tier 2 capital instruments (made up of €419 million (Euro denominated), £1,097 million (Sterling denominated) and US\$177 million (US dollar denominated)). The exchange was carried out at a discount to the nominal value but at a premium to the trading prices of the repurchased capital instruments. The discount ranged from 9 per cent. to 26 per cent. to the nominal

value of the repurchased capital instruments and the average take-up rate was 76 per cent. The liability management exercise generated a net gain of €372 million in both Equity Tier 1 Capital and Core Tier 1 Capital for AIB.

The Group has at all times been in compliance with the minimum Tier 1 Capital Ratio and Total Capital Ratio set by the Central Bank of Ireland. As at 30 June 2010, the Group had an Equity Tier 1 Capital Ratio of 3.8 per cent., a Core Tier 1 Capital Ratio of 6.9 per cent., a Tier 1 Capital Ratio of 6.0 per cent. and a Total Capital Ratio of 9.0 per cent.

On 30 March 2010, the Financial Regulator announced the results of the original PCAR of certain Irish credit institutions in the CIFS Scheme. The Financial Regulator's PCAR methodology assessed the capital requirements of AIB and certain other Irish financial institutions in the context of expected base and potential stressed losses, and other financial developments, over a three-year time horizon from 2010 to 2012.

The original PCAR concluded that, in common with certain other Irish credit institutions, the target Equity Tier 1 Capital Ratio for AIB would be 7 per cent. and its target Core Tier 1 Capital Ratio would be 8 per cent. In the absence of the planned disposals and a subsequent equity fundraising to be undertaken by the end of 2010, AIB would not be able to fulfil the original PCAR capital requirement determined by the Financial Regulator.

Based on the approach adopted under the PCAR review outlined above, the Financial Regulator determined on 30 March 2010 that AIB must generate the equivalent of €7.4 billion of equity capital in total. On 30 September 2010, the Financial Regulator updated its assessment of AIB's capital requirement and increased the amount of equivalent equity capital required under the PCAR from €7.4 billion to €10.4 billion. The increased PCAR requirement for AIB has been set following an assessment by the Financial Regulator of AIB's potential losses on AIB's NAMA Assets and must be met by 31 December 2010.

In April and July 2010, AIB transferred to NAMA the first and second tranches of its NAMA Assets with a total value of €6.0 billion (being the value of the relevant NAMA Assets on a gross loan basis). In return, AIB received payment for these assets by way of NAMA Bonds (amounting to 95 per cent. of the nominal value of the consideration received) and Subordinated NAMA Bonds (amounting to 5 per cent. of the nominal value of the consideration received) with an aggregate nominal value of €3.3 billion, representing a discount of approximately 45 per cent. to the gross value of the assets transferred. AIB's NAMA Assets transferred in the first and second tranches represent approximately 31 per cent. of the total NAMA Assets now expected to be transferred by AIB (being €6.0 billion of NAMA Assets transferred in the first and second tranches and the remaining balance of €13.5 billion of NAMA Assets).

On 30 September 2010, the Minister announced changes to the NAMA Programme including that, in relation to AIB, where the total exposure of a debtor is below a €20 million threshold, that debtor's loans will not now be transferred to NAMA, whereas the threshold had previously been set at €5 million. The Minister has stated that NAMA has reviewed the quality of NAMA Assets still to be transferred to NAMA from AIB and that it has estimated the discount to be applied to the remaining €13.5 billion of NAMA Assets at 60 per cent. A major factor in this increased discount was stated to be "the predominance of land bank loans, many of which were speculative investments that now have little value".

The actual discount on AIB's remaining NAMA Assets to be transferred to NAMA will not be known until completion of the final objection valuation review procedure in accordance with the terms of the NAMA Act. The Financial Regulator announced that any differences between the estimate of the discount provided by NAMA, which was used for the revised PCAR capital requirement announced on 30 September 2010, and the final discounts on transfer will be included in the next PCAR, which the Central Bank of Ireland will conduct in 2011. If among other factors, the total consideration received by the Continuing Group is less than that assumed by the Financial Regulator in the revised PCAR, any future capital requirement determined by the Central Bank of Ireland may be more than the revised PCAR requirement to generate €10.4 billion of new equity capital by 31 December 2010. NAMA has stated that its objective is that all assets transferring to NAMA will be transferred by 31 December 2010 and, in any event, by no later than the end of February 2011.

The NAMA Participation has and will have a negative impact on the capital position of the Group as a result of the crystallisation of loan losses on AIB's NAMA Assets. Those losses will reduce the Group's Equity Tier 1 Capital, Core Tier 1 Capital, Tier 1 Capital and Total Capital, and its corresponding capital ratios. That participation will, however, result in a reduction in the Group's risk-weighted assets, which will positively affect the Group's capital ratios. Taking account of both impacts on capital, the positive benefit of reducing its risk-weighted assets will, however, be insufficient to offset the negative impact from the crystallisation of loan losses on the transfer of AIB's NAMA Assets to NAMA.

On 30 March 2010, following publication of the original PCAR, AIB announced a series of capital raising initiatives to generate the necessary capital to meet the €7.4 billion equivalent equity capital requirement determined by the

Financial Regulator under the original PCAR. These initiatives included plans to sell the M&T Shareholding, as well as AIB's shareholding in BZWBK and its UK business, which comprises "Allied Irish Bank (GB)" in Great Britain and "First Trust Bank" in Northern Ireland. On 10 September 2010, AIB announced that (through AIB European Investments Limited and AIB Capital Markets p.l.c.) it had conditionally agreed to sell its shareholding in BZWBK and BZWBK AIB Asset Management S.A. to Banco Santander S.A. AIB will realise total proceeds of approximately €3.1 billion from the BZWBK Disposal. AIB also intends to dispose of its 49.99 per cent. shareholding in BACB, a Bulgarian Bank.

AIB has also undertaken to launch a €5.4 billion equity capital raising during November 2010 which is expected to be completed before 31 December 2010. This equity capital raising will be fully underwritten by the NPRFC, subject, amongst other matters, to the European Commission, Shareholder and other regulatory approvals, at a fixed price of €0.50 per new Ordinary Share, which represents a discount of approximately 9.4 per cent. to the official closing price of an Ordinary Share on the Irish Stock Exchange on 29 September 2010. The capital raising will be structured as a placing and open offer and existing shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new Ordinary Shares under the equity capital raising. A prospectus is expected to be published in early November 2010 that will provide further details of the terms of the equity capital raising, underwriting structure and timing.

If necessary, the NPRFC's underwriting commitment will be met through a new cash contribution of up to €3.7 billion for new Ordinary Shares from existing cash resources of the NPRFC and by the conversion of up to €1.7 billion of the 2009 Preference Shares held by the NPRFC. Assuming conversion of €1.7 billion of the 2009 Preference Shares, the NPRFC would continue to hold €1.8 billion of the 2009 Preference Shares.

On completion of the equity capital raising, it is likely that the NPRFC will own a significant majority stake in AIB. It is intended to structure the transaction in a manner which optimises the ability of AIB to retain its existing stock exchange listings, including on the ISE and the LSE, by appropriate structuring of voting rights (subject to agreement with the relevant exchanges), even in circumstances where the NPRFC purchases all or substantially all of the underwritten new Ordinary Shares. The mechanics of implementation will be subject to discussion with the ISE and the UKLA.

It is anticipated that the 2009 Warrants issued to the NPRFC will be repurchased on terms to be agreed.

In addition to the capital generated from the BZWBK Disposal, AIB expects to raise €2.5 billion from the planned disposals and additional capital generating initiatives (such as other minor additional asset disposals). In the event that AIB's residual capital requirement is not met through the planned disposals and capital generating initiatives by 31 March 2011, any shortfall will be met by the conversion of 2009 Preference Shares at that date on commercial terms to be agreed between AIB and the NPRFC prior to the date of conversion.

The Basel III proposals, which have been revised since first introduced in December 2009, set out a fundamental rewriting of certain aspects of the regulatory capital framework. Overall, they introduce tougher and increased requirements to improve both the quality and quantity of capital and liquidity buffers which must be held by a firm; propose new capital buffer requirements to address procyclicality issues (so that banks would be encouraged to build up capital buffers in good times); require a strengthening of capital requirements for accounting for certain activities such as derivatives and impose a non-risk-based limit on a firm's balance sheet by reference to capital held. The new and higher levels for capital ratios announced, provided: (a) that the common equity element of Tier 1 Capital, broadly shares and retained earnings (which replaces the core tier 1 concept under Basel II), would ultimately be raised from 2 per cent. to 4.5 per cent. by January 2015; (b) the originally proposed capital conservation buffer would be made up solely of common equity after deductions and be introduced in increments over the period from 2016 to 2019, when it would reach 2.5 per cent.; (c) Tier 1 Capital would be increased from 4 per cent. to 6 per cent. by January 2015; and (d) Total Capital would remain at 8 per cent. before the application of the capital conservation buffer. Though the Basel III proposals are not finalised and certain elements will be subject to observation and modification during trial periods at a later date, they are expected to be approved by the G20 at its November 2010 summit. The Basel III proposals will be subject to staggered implementation with different elements coming into force at various times over the period 1 January 2013 to 1 January 2019.

The impact of the Basel III proposals (amongst other things) requires banks to hold a minimum equity capital ratio of 7 per cent. of RWAs, which is broadly in line with the target capital ratios announced by the Financial Regulator in the context of the original PCAR on 30 March 2010. The detailed impact of the new Basel III proposals for the Continuing Group is not clear because certain elements of the package have not been finalised, including the transitional arrangements. Once the finalised proposals are assessed against the Continuing Group's particular balance sheet and business strategy, changes may need to be made to the Continuing Group's capital structure and/or its asset base which may adversely impact its profitability and results of operations.

On a pro forma basis, had the Disposal, the transfer of the second tranche of NAMA Assets and the BZWBK Disposal occurred on 30 June 2010, it would have resulted in an Equity Tier 1 Capital Ratio of 6.2 per cent., a Core Tier 1 Capital Ratio of 9.6 per cent., a Tier 1 Capital Ratio of 8.7 per cent. and a Total Capital Ratio of 11.8 per cent. at that date.

Although the capital generated from the proceeds of the Disposal alone will not enable AIB to meet the entire revised PCAR capital requirement announced by the Financial Regulator for AIB on 30 September 2010, the Disposal is one of the significant steps being taken by AIB towards generating the additional capital required in order to meet that capital requirement.

If the Resolution is not approved by Shareholders, the Disposal will become incapable of completion. If this were to occur, then there is no assurance that AIB will be able to dispose of the M&T Shareholding at a later date, in favourable or equivalent market circumstances, or to dispose of the M&T Shareholding at all. In those circumstances, AIB would need to rely to a greater extent on Government support through the conversion of the 2009 Preference Shares into Ordinary Shares. In the event that AIB's residual capital requirement is not met through the planned disposals and capital generating initiatives by 31 March 2011, any shortfall will be met by the conversion of 2009 Preference Shares at that date on commercial terms to be agreed between AIB and the NPRFC prior to the date of conversion. The Board therefore believes that if AIB is unable to proceed with the Disposal and the other planned disposals, then it is highly likely that such events would result in increased Government ownership and control or full nationalisation. If this were to occur, Shareholders could lose the value of their Ordinary Shares.

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 a range of abnormal trading conditions. In all cases, net cash outflows are monitored on a daily basis.

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-day to one-month time periods, which accords with the Central Bank of Ireland's own requirements. The Group continues to operate within all regulatory liquidity ratios imposed on it by the Central Bank of Ireland, 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 providing AIB with a stable and predictable source of funds.

The Group manages its funding position with continual 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 that recognise the capacity of AIB to generate contingent liquidity from its loan book. See "Government and central bank funding and liquidity support" below in this respect. At 31 December 2009, AIB had a customer loan-to-deposit ratio of 146 per cent. (123 per cent. excluding loans classified as held for sale to NAMA as of that date), compared to 156 per cent. at 30 June 2009. At 30 June 2010, AIB had a customer loan-to-deposit ratio of 143 per cent. (approximately 127 per cent. excluding loans classified as held for sale to NAMA as of that date). A progressive reduction in the loan-to-deposit ratio is targeted by AIB.

Government and central bank funding and liquidity support

Challenging market conditions in 2009 resulted in a contraction of wholesale market appetite for liquidity risk. This manifested itself through a shortening of duration in available wholesale funding, 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 experienced in the first half of 2009. AIB decreased its use of secured funding in the latter part of 2009 as markets became less stressed.

During 2009, AIB increased its Qualifying Liquid Assets and Contingent Funding capacity through the structuring of loan portfolios into central bank eligible assets. Those initiatives helped to increase the Group's capacity to access further liquidity. Over the second half of 2009, the Group reduced its reliance on secured funding from €32.3 billion at 30 June 2009 to €24.3 billion at 31 December 2009 and over that period medium- and long-term unsecured funding activity increased. The Group's secured funding levels at 30 June 2010 remained similar at €24.5 billion. As at 30 June 2010, the Group held €49 billion in Qualifying Liquid Assets and Contingent Funding.

General funding market conditions since 30 June 2010 have become increasingly challenging, which has had a negative impact on AIB's funding position, which has seen a reduction in debt securities in issue and customer accounts offset by an increase in deposits by banks. While AIB has issued term funding of €6.6 billion during 2010 in anticipation of term funding maturing in September 2010, current market conditions are limiting funding access to shorter durations.

As a result of prevailing market conditions and in line with other global financial institutions, AIB has also accessed a range of central bank liquidity facilities. The Group participates in global central bank money market repurchase agreement operations as part of its normal day-to-day funding activity. These facilities are part of standard central bank operations. AIB continues to rely on central bank liquidity facilities as an additional source of liquidity, as required. The Group has also availed itself of certain additional liquidity schemes introduced by central banks for market participants during the period of dislocation within the funding markets. Due to the limited access to, and high costs of, short-term funding under current market conditions, AIB expects to draw on its Qualifying Liquid Assets and Contingent Funding capacity to continue to access secured lending facilities. Any reduction in the Qualifying Liquid Assets and Contingent Funding capacity will have an impact on the Continuing Group's liquidity risk profile.

The Government, in 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 for certain participating institutions (including AIB and certain of its subsidiaries) for the two-year period from 30 September 2008 to 29 September 2010. The liabilities originally covered under the CIFS Scheme comprised all retail and corporate deposits (to the extent not covered by existing deposit protection schemes), inter-bank deposits, senior unsecured debt, asset-covered securities and dated subordinated debt (lower Tier 2). Covered bonds and dated subordinated debt issued by a participating institution after the date it joined the ELG Scheme are not guaranteed by the Minister.

The Government introduced the ELG Scheme on 9 December 2009 to supplement and ultimately replace the CIFS Scheme, and AIB and certain of its subsidiaries joined that new scheme on 21 January 2010. The NTMA was appointed the ELG Scheme operator by the Minister for Finance. The ELG Scheme is intended to facilitate the ability of certain participating credit institutions in Ireland to issue debt securities and take deposits with a maturity of up to five years on debt securities issued or deposits taken before, originally, 29 September 2010, and which has been extended to 31 December 2010. Eligible liabilities under the ELG Scheme comprise any of the following liabilities:

- (a) all deposits (to the extent not covered by deposit protection schemes in Ireland or in any other jurisdiction);
- (b) senior unsecured certificates of deposit;
- (c) senior unsecured commercial paper;
- (d) other senior unsecured bonds and notes; and
- (e) other forms of senior unsecured debt which may be specified by the Minister, consistent with European Union state aid rules and the European Commission's Banking Communication (2008/C 270/02) and subject to prior consultation with the European Commission.

Under the ELG Scheme, eligible liabilities must not have a maturity in excess of five years and must be incurred during the period from the commencement date of the ELG Scheme to, originally, 29 September 2010, and which has been extended to 31 December 2010, as described below (the ELG Scheme is subject to a six-monthly review and approval by the European Commission under EU state aid rules). On 28 June 2010, following a request from the Minister, the European Commission approved a modification of the ELG Scheme to provide for a prolongation of the issuance period from 29 September 2010 to 31 December 2010 (subject to the introduction of new pricing rates for participating institutions) for: (a) debt liabilities of between three months and five years duration (other than inter-bank deposits); (b) retail deposits of any duration up to five years; and (c) corporate deposits with a maturity of between three months and five years. On 21 September 2010, following a further request from the Minister, the European Commission approved an amendment to the ELG Scheme to extend the "issuance window" in respect of

inter-bank deposits and short-term liabilities (zero to three months) (including corporate deposits) of a participating institution, from 29 September 2010 to 31 December 2010. On 29 September 2010, the Minister, following the approval of the Oireachtas (the Irish Parliament) signed into law a statutory instrument that gave effect to the changes to the ELG Scheme approved by the European Commission on 28 June 2010 and 21 September 2010. Accordingly, the “issuance window” in respect of every eligible liability of a participating institution under the ELG Scheme (including retail deposits over €100,000 for any duration up to five years and corporate and inter-bank deposits for any duration up to five years) has been extended from 29 September 2010 to 31 December 2010 so that a State guarantee is now available for short- and long-term liabilities issued and accepted up to the end of 2010. Retail deposits of an amount up to €100,000 remain outside the ELG Scheme but continue to be guaranteed indefinitely under the Deposit Guarantee Scheme.

From the time that a participating institution joins the ELG Scheme (which, in the case of AIB ELG Covered Institutions, was 21 January 2010), any liabilities incurred or contracted for thereafter by that participating institution may be guaranteed under the ELG Scheme only.

Since the commencement of the CIFS Scheme in September 2008 and since joining the ELG Scheme in January 2010, AIB has issued term funding on a guaranteed basis, totalling €8.25 billion under the CIFS Scheme and €6.6 billion under the ELG Scheme. At 31 December 2009, excluding shareholders’ funds, the Group’s total funding liabilities of €152.6 billion were split €116.3 billion (or approximately 76 per cent. of the total funding) issued on a guaranteed basis and €36.3 billion (or approximately 24 per cent. of the total funding) issued on an unguaranteed basis. At 30 June 2010, excluding shareholders’ funds, the Group’s total funding liabilities of €148.1 billion were split into €108.6 billion (or approximately 73 per cent. of the total funding) issued on a guaranteed basis and €39.5 billion (or approximately 27 per cent. of the total funding) issued on an un-guaranteed basis. Of this guaranteed amount of €108.6 billion, €24.5 billion was guaranteed under the CIFS Scheme, and €62.5 billion is guaranteed under the ELG Scheme, with a further €21.6 billion guaranteed under the Government deposit scheme. At 30 June 2010, 21 per cent. of the total deposits by banks, 93 per cent. of the total debt securities in issue, 88 per cent. of customer accounts and 49 per cent. of the subordinated debt was held or issued on a guaranteed basis.

The Group issued the following two senior unsecured unguaranteed bonds in the second half of 2009: (i) a €1.0 billion three-year bond issued in September 2009; and (ii) a €750 million five-year bond issued in November 2009. In 2010, the Group has issued term funding totalling €6.6 billion under the ELG Scheme, with a significant bias towards maturities ranging from two to five years, thereby enhancing the underlying duration of its term debt funding profile. In addition, the Group has commenced a programme of issuing small quantities of shorter-term unguaranteed commercial paper. Up to 30 June 2010, AIB had balances of €54.5 million under this unguaranteed commercial paper programme. In addition, since 31 December 2009, the Group has issued €25 million in asset-covered securities on an un-guaranteed basis outside the remit of the ELG 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 continues to rely on the continuation of the ELG Scheme and continues to access certain central bank liquidity schemes. AIB will avail itself of opportunities to access unguaranteed sources of funds in future in order to reduce the Group’s reliance on guaranteed funding.

In summary, from September 2008 until its expiry on 29 September 2010 the Group was heavily reliant on the CIFS Scheme, and more recently, has been and continues to be heavily reliant on the ELG Scheme, and it has also availed itself of central bank liquidity facilities in continuing to access funding and liquidity. In 2010, AIB has availed itself of funds on a guaranteed and an unguaranteed basis under the ELG Scheme. On 28 June 2010, the European Commission approved a modification of the ELG Scheme to provide for an extension of the issuance period from 29 September 2010 to 31 December 2010 (subject to the introduction of new pricing rates) for participating institutions for (a) debt liabilities between three months’ and five years’ maturity (other than inter-bank deposits); (b) retail deposits of any duration of up to five years; and (c) corporate deposits with a maturity between three months and five years. On 21 September 2010, following a further request from the Minister, the European Commission approved an amendment to the ELG Scheme to extend the “issuance window” in respect of inter-bank deposits and short-term liabilities (zero to three months) (including corporate deposits), or a participating institution, from 29 September 2010 to 31 December 2010. On 29 September 2010, the Minister, following the approval of the Oireachtas (the Irish Parliament), signed into law a statutory instrument that gave effect to the changes to the ELG Scheme approved by the European Commission on 28 June 2010 and 21 September 2010. Accordingly, this has the effect that the “issuance window” in respect of every eligible liability of a participating institution under the ELG Scheme (including inter-bank deposits for any duration up to five years) has been extended from 29 September 2010 to 31 December 2010.

If the “issuance window” of the ELG Scheme is not further extended beyond 31 December 2010, the Group would likely face an increase in its reliance on short-term money market funding, which would materially increase ongoing refinancing risk. In line with its prudent funding strategy, the Group will continue to avail itself of opportunities to replace short-term funds with longer-dated liabilities.

The impact of NAMA on funding and liquidity

AIB has commenced transferring assets to NAMA and the terms of its NAMA Participation will have a significant positive impact on AIB’s liquidity profile and funding risk. The NAMA Participation will further reduce the leverage of the Group by removing a significant number of customer loans from the balance sheet, thereby enhancing the Group’s loan-to-deposit ratio. At 31 December 2009, AIB had a customer loan-to-deposit ratio of 146 per cent. (123 per cent. excluding loans classified as held for sale to NAMA as of that date). At 30 June 2010, AIB had a customer loan-to-deposit ratio of 143 per cent. (127 per cent. excluding loans classified as held for sale to NAMA as of that date).

As market conditions allow, AIB will access unguaranteed sources of funds, which will further reduce the level of AIB’s reliance on existing Government support (including the ELG Scheme) and global central bank facilities.

AIB is receiving NAMA Bonds and Subordinated NAMA Bonds in consideration for the sale of its NAMA Assets to NAMA. In respect of the consideration received, 95 per cent. of the nominal value will be in the form of NAMA Bonds and 5 per cent. will be in the form of Subordinated NAMA Bonds. The NAMA Bonds provide AIB with access to additional liquidity and funding, should this be required. 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 2010, the Group held €49 billion in Qualifying Liquid Assets and Contingent Funding, of which approximately €24.5 billion had been pledged. Following the transfer of the second tranche of AIB’s NAMA Assets in July 2010, AIB has €3.1 billion of NAMA Bonds and €0.2 billion of Subordinated NAMA Bonds.

A combination of the Group’s ongoing focus on de-leveraging its balance sheet, together with the positive impact of the NAMA Participation (as referred to above, resulting from (i) reducing the loan-to-deposit ratio; (ii) increasing certainty regarding the Group’s loan losses through the transfer of loans to NAMA, primarily relating to land and development, leading to increased certainty regarding the level of provisions, improved wholesale market access and an improved cost of funds; and (iii) enhancing AIB’s Qualifying Liquid Assets and Contingent Funding pool) will reduce AIB’s overall funding and liquidity risk in the future.

Funding structure and profile

Sources of Funds

	Total funding as at							
	30 June 2010 ⁽⁴⁾	31 December 2009 ⁽³⁾		30 June 2009 ⁽²⁾		31 December 2008 ⁽¹⁾		
	(€ billion)							
Bank deposits –								
unsecured	8.3	5%	9.0	5%	12.7	8%	17.0	10%
Bank deposits – secured . . .	<u>24.5</u>	<u>15%</u>	<u>24.3</u>	<u>15%</u>	<u>32.3</u>	<u>19%</u>	<u>8.6</u>	<u>5%</u>
Total deposits by banks. . .	32.8	20%	33.3	20%	45.0	27%	25.6	15%
Commercial certificates of								
deposit	1.7	1%	5.4	3%	4.1	2%	15.1	9%
European medium-term								
note programme	20.1	13%	15.6	10%	12.1	7%	9.6	6%
Bonds and other medium-								
term notes	2.8	2%	4.7	3%	4.7	3%	7.2	4%
Commercial paper	3.4	2%	5.0	3%	3.6	2%	5.9	3%
Total debt securities in								
issue	<u>28.0</u>	<u>18%</u>	<u>30.7</u>	<u>19%</u>	<u>24.5</u>	<u>14%</u>	<u>37.8</u>	<u>22%</u>
Total wholesale funding . .	<u>60.8</u>	<u>38%</u>	<u>64.0</u>	<u>39%</u>	<u>69.5</u>	<u>41%</u>	<u>63.4</u>	<u>37%</u>

	Total funding as at							
	30 June 2010 ⁽⁴⁾		31 December 2009 ⁽³⁾		30 June 2009 ⁽²⁾		31 December 2008 ⁽¹⁾	
	(€ billion)							
Subordinated debt	4.5	3%	4.6	3%	4.7	3%	4.5	3%
Total wholesale funding including subordinated debt	65.3	41%	68.6	42%	74.2	44%	67.9	40%
Customer accounts	82.9	53%	84.0	51%	82.7	49%	92.6	54%
Total shareholders' equity including non-controlling interests	9.5	6%	11.3	7%	12.1	7%	10.3	6%
Total Group Funding	157.7	100%	163.9	100%	169.0	100%	170.8	100%

Note:

- (1) The information as at 31 December 2008 has been extracted from the 2008 Annual Financial Report.
- (2) The information as at 30 June 2009 has been extracted from the unaudited 2009 Half-Yearly Financial Report.
- (3) The information as at 31 December 2009 has been extracted from the 2009 Annual Financial Report.
- (4) The information as at 30 June 2010 has been extracted from the unaudited 2010 Half-Yearly Financial Report.

Residual Maturity Funding Analysis

— Excluding secured bank deposits

	Total wholesale funding including subordinated debt as at 30 June 2010 ⁽¹⁾		Total wholesale funding including subordinated debt as at 31 December 2009 ⁽¹⁾		Total wholesale funding including subordinated debt as at 30 June 2009 ⁽¹⁾		Total wholesale funding including subordinated debt as at 31 December 2008 ⁽¹⁾	
	(€ billion)							
Less than one year	21.9	54%	31.1	70%	24.9	59%	41.9	71%
One to two years	5.4	13%	1.7	4%	5.5	13%	6.1	10%
Two to five years	7.4	18%	5.2	12%	5.1	12%	5.1	9%
More than five years	6.0	15%	6.3	14%	6.4	15%	6.2	10%
Total wholesale funding including subordinated debt . .	40.7	100%	44.3	100%	41.9	100%	59.3	100%

Note:

- (1) The residual maturity funding analysis excluding secured bank deposits has been extracted for the relevant period end, from AIB's books and records and has not been published or audited.

Compared to a six-month decline at 30 June 2009 of 12 per cent., excluding currency factors, the Group's customer deposits recovered in the second half of 2009, with a full-year decline of 9 per cent. (11 per cent. excluding currency factors) (as against 31 December 2008). The reduction in deposits was concentrated in the first quarter and the start of the second quarter of 2009, with conditions improving as the second quarter progressed. Retaining and gathering customer deposits was a key focus for the Group in 2009, with good progress made in the second half of that financial year as deposits grew by €1.3 billion over this period despite challenging market conditions. Net customer loans, including AIB's NAMA Assets, decreased by 7 per cent. (excluding currency factors) over 2009, which, when combined with the year-on-year decline in customer deposits, resulted in a loan-to-deposit ratio of 146 per cent. at 31 December 2009 (156 per cent. at 30 June 2009 and 140 per cent. at 31 December 2008). The loan-to-deposit ratio was 123 per cent. (excluding loans held for sale to NAMA) as at 31 December 2009 and 127 per cent. (excluding loans held for sale to NAMA) as at 30 June 2010.

The decrease in net customer loans reflected a combination of higher provisions for impairments and successful de-leveraging within AIB's international loan portfolios. The decreases in customer deposits and commercial certificates of deposit between 31 December 2008 and 30 June 2009 were attributable to a number of factors, including the continuing impact of the economic downturn, sovereign and bank credit rating downgrades and negative sentiment towards Ireland, impacting the Group's market activities in general and its overseas franchises in particular in the first quarter of 2009. This negative sentiment receded to a point where the reduction in customer deposits stabilised in the second quarter of 2009. At 31 December 2009, customer deposits represented 51 per cent. of the Group's total funding, up from 49 per cent. at 30 June 2009 (54 per cent. at 31 December 2008). At 30 June 2010, customer deposits increased to 53 per cent. of the Group's total funding.

In a difficult market environment, the Group continued to diversify its funding across currencies, geographies, investor base and products through a range of programmes. During 2009, AIB successfully issued over €6.0 billion under the CIFS Scheme through a series of public and private placements. The Group also issued senior unsecured unguaranteed bonds totalling €1.75 billion in 2009 and it received a €3.5 billion equity capital injection from the Government in May 2009 under the NPRFC Investment. Over the second half of 2009, AIB reduced its secured funding from €32.3 billion at 30 June 2009 to €24.3 billion at 31 December 2009 and increased its medium- and long-term funding activity. Secured funding remained similar at €24.5 billion as at 30 June 2010.

The delivery of NAMA Bonds for AIB's NAMA Assets on the basis of loan transfers undertaken in the first and second tranche of transfers to NAMA by AIB will materially increase the Group's Qualifying Liquid Assets and Contingent Funding. At 30 June 2010, the Group held €49 billion (including pledged assets) in Qualifying Liquid Assets and Contingent Funding. Liquidity levels continue to represent a surplus over the liquidity requirements set for AIB by the Central Bank of Ireland.

The funding profile at 30 June 2010 highlights the ongoing de-leveraging in the Group's balance sheet with AIB's total funding requirement decreasing by €6.2 billion since 31 December 2009. Term funding increased in the first half of 2010 due to issuances under AIB's European medium-term note programme totalling a net increase of €4.6 billion. Customer deposits fell €1.1 billion (1.3 per cent.) in the first half of 2010, principally represented by a fall in the Capital Markets division (primarily driven by concerns in relation to sovereign ratings which resulted in a decrease mainly in deposits from non-bank financial institutions (NBFIs) and international corporates), with an increase in the UK division, while the Republic of Ireland division and Poland were relatively unchanged over the six months ended 30 June 2010 in difficult market conditions.

The residual maturity funding position at 30 June 2010 highlights the Group's efforts to increase the duration of its funding, with 46 per cent. of wholesale funding (including subordinated debt, excluding secured bank deposits) classified in the greater than one-year time period, up from 30 per cent. at 31 December 2009.

Since 21 January 2010, the Group has issued term bonds totalling €6.6 billion under the ELG Scheme, thereby enhancing the underlying duration of its term debt funding profile. However, more recently, the Group has not issued term bonds due to market conditions. AIB continues to develop contingent collateral and liquidity facilities to further support its ongoing funding requirements.

The Basel III package also endorses the liquidity package announced by the Basel Committee in July 2010. Phase-in arrangements for the leverage ratio announced by the Basel Committee in its proposals in July 2010 outlined that the supervisory monitoring period in relation to leverage ratios will commence on 1 January 2011. After the observation period, a new liquidity coverage ratio will be introduced on 1 January 2015, while the net stable funding ratio will apply as a minimum standard from 1 January 2018. As mentioned above, the detailed impact of the Basel III proposals for the Continuing Group is not entirely clear and future review in this context may require changes to the Continuing Group's funding profile and strategy.

The potential impact of EU state aid review by the European Commission

In order to comply with EU state aid requirements, a number of European banks that received state aid have been required by 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 details on the issue of EU state aid are outlined in Part II ("Risk Factors") of this document.

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

In connection with the European Commission's May 2009 approval of the €3.5 billion capital injection under the NPRFC Investment, AIB was required to prepare a restructuring plan, which was submitted to the European Commission in November 2009. An updated plan was submitted by the Department of Finance to the European Commission on 4 May 2010 to reflect AIB's capital raising initiatives, which include its intention to raise additional equity capital and undertake a number of asset and business disposals. The announcement by AIB on 30 September 2010 relating to increased capital requirements, an equity capital raising plan and management and board changes represents additional and alternative measures to achieve viability which is likely to result in a requirement to submit an amended restructuring plan to the European Commission.

That assessment is conducted by reference to the basic principles set out in the European Commission's communication on the assessment under the EU state aid rules of restructuring measures in the financial sector in the current crisis. Those principles require, first and foremost, that restructuring aid should lead to the restoration

of viability in the longer term without state aid. They also require restructuring aid to be accompanied, to the extent possible, by adequate burden sharing (including the disposal of assets) and by measures that minimise distortions of competition. The updated restructuring plan submitted by the Department of Finance on behalf of AIB reflects these measures. The European Commission, in its working paper dated 30 April 2010 on the phasing out of EU Member State bank guarantee schemes from 30 June 2010, has indicated that, in the case of a bank, such as AIB, that is already obliged to prepare a restructuring plan under EU state aid rules, the award of additional state aid will have to be taken into account within the framework of the ongoing restructuring/viability review process.

AIB, through the Department of Finance, is involved in detailed negotiations and discussions with the European Commission in relation to the terms of the existing restructuring plan, and substantive engagement and progress has been achieved. AIB expects the decision of regarding approval of the proposed measures, including the terms of the restructuring plan, to be taken by the European Commission in late 2010/early 2011.

In accordance with the European Commission's policy relating to EU state aid rules on restructuring aid to banks, AIB agreed not to pay discretionary dividends on its Tier 1 Capital instruments (including the 2009 Preference Shares and the RCI Securities) and Tier 2 Capital instruments.

A deferral of a coupon under the RCI Securities triggers the "dividend stopper" provisions under those securities which prevent any dividend or coupon payments being made on the Ordinary Shares or preference shares of AIB, including the 2009 Preference Shares, until the deferred coupon is satisfied through the issue of Ordinary Shares.

As a result of the "dividend stopper" provisions of the LP3 Securities (and subsequently under the commitments to be made under the EU restructuring plan), the AIB Group is currently precluded, for a period of one calendar year from and including 14 December 2009, from making discretionary payments of coupons or exercising voluntary call options on hybrid capital securities. As a result, on 13 May 2010, AIB issued Bonus Shares to the NPRFC following the Board's decision not to pay the cash dividend on the 2009 Preference Shares on 13 May 2010. This issue resulted in the dilution of the existing Shareholders' proportionate ownership by 18.33 per cent.

At the date of this document, there can be no certainty as to the outcome of the state aid proceedings involving AIB and the content of the final EU restructuring plan. In the event that the Continuing Group determines not to pay coupons on the LP3 Securities, thereby triggering the "dividend stopper" provisions for further one-year periods, or AIB otherwise elects not to pay a cash dividend otherwise due on the 2009 Preference Shares, RCI Securities or any other series of securities which include a "dividend stopper" provision within their terms which would preclude payment of coupons under the RCI Securities, AIB would be required to issue further Ordinary Shares to the NPRFC and/or for the purposes of funding deferred coupons on the RCI Securities. See also *"The equity capital raising announced by AIB is to be fully underwritten by the NPRFC. If the structure of the transaction does not enable AIB to retain its ISE and LSE listings as a result of the Government acquiring more than 75 per cent. of AIB's issued ordinary share capital, then AIB could be delisted from the ISE and LSE and Shareholders could lose the value of their Shareholding"* for further risks associated with the issue of additional Ordinary Shares.

Working Capital

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, support by the Minister for Finance 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 the uncertainty surrounding the implementation and/or continuation of the Government schemes, and the stated intention of AIB to raise the equivalent of €10.4 billion of equity capital by 31 December 2010 following the completion of the revised PCAR, the UK Listing Authority has agreed that a statement regarding the adequacy of working capital for at least the next 12 months should not be required in this document. Due to the uncertainty surrounding the implementation and/or continuation of the Government schemes, the Irish Stock Exchange has 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 VI

PRINCIPAL TERMS OF THE DISPOSAL

1 Structure

AIB has considered a number of ways in which it could monetise its M&T Shareholding and maximise the sale proceeds by retaining flexibility as to the timing of the transaction so as to take advantage of favourable market conditions. Given the need for Shareholders to approve the Disposal and the requirement for the M&T Shares to be registered under the US Securities Act prior to their offer and sale in the United States, the sale of the M&T Shareholding has been structured by way of an issue by AIB of the Notes to investors who, upon receipt of Shareholder approval and in the absence of an AIB Regulatory Event, will receive AIB's M&T Shares in exchange for the Notes. The Notes constitute AIB debt instruments and investors have been issued one Note for each underlying M&T Share, in return for payment of a price of US\$77.50 per Note. The issue price has been principally based on the market price of AIB's M&T Shares at the time of the pricing of the Notes. The Notes are governed by New York law and are listed on the New York Stock Exchange.

If Shareholder approval is obtained, and in the absence of an AIB Regulatory Event, each Note will be mandatorily exchanged for one M&T Share (subject to anti-dilution adjustments for stock splits and stock combinations with respect to the common stock of M&T) on the Exchange Date. If Shareholder approval is not obtained or an AIB Regulatory Event occurs, each Note will be automatically redeemed on 15 November 2010 at its Redemption Price, provided that the Redemption Price will be reduced by the amount of any Cash M&T Distribution Adjustment per Note in excess of US\$0.515 per Note. The Redemption Price per Note, together with any Cash M&T Distribution Adjustment, will not exceed 101 per cent. of the Note's principal amount. The total Redemption Premium will in no case exceed US\$6.9 million.

Whether or not Shareholder approval is obtained, investors in the Notes will have the right to receive any Cash M&T Distribution Adjustment on the later of the Exchange Date or the date on which the Notes are redeemed, as applicable, and the business day immediately following AIB's receipt of the Cash M&T Distribution from M&T. In the event that the Notes are redeemed, the Redemption Price will be reduced by the amount of the excess of any Cash M&T Distribution Adjustment over US\$0.515 per Note. For the avoidance of doubt, investors in the Notes will have no right in or entitlement to any benefit triggered by a dividend declared by M&T having an ex-dividend date prior to the pricing of the Notes or a record date on or after the Exchange Date or the Maturity Date, as applicable.

Pending exchange of the Notes, an amount of cash representing approximately 101 per cent. of the aggregate principal amount of the Notes will be held in a Control Account pursuant to the terms of the Security Agreement. If the Notes are exchanged for M&T Shares, on the Exchange Date, AIB expects to receive, upon the release of the Note Proceeds from the Control Account, net proceeds (following deduction of relevant expenses, discounts and fees) of approximately US\$2.0 billion (€1.5 billion) (representing US\$76.24 per M&T Share). As of the close of business on 7 October 2010 (being the latest practicable date prior to the publication of this document), the aggregate value of the M&T Shareholding was US\$2.1 billion (based on a market price of US\$76.87 per M&T Share as reported by the New York Stock Exchange on that date). Any redemption of the Notes will be funded exclusively from the amounts held in the Control Account.

Shareholders should note that they are only being asked to vote on whether or not AIB should proceed with and complete the Disposal. The issue of the Notes by AIB did not require Shareholder approval.

2 Principal features of the Notes

2.1 Listing and exchange: The Notes are listed on the New York Stock Exchange. If Shareholder approval is received, and in the absence of an AIB Regulatory Event on the Exchange Date, each Note will be automatically and mandatorily exchanged for one M&T Share (subject to any anti-dilution adjustments for stock splits and stock combinations with respect to the common stock of M&T) with the right to receive any Cash M&T Distribution Adjustment which will be payable to holders of the Notes on the record date for any Cash M&T Distribution.

2.2 Gross note proceeds: US\$2.1 billion (€1.5 billion) (which equates to US\$77.50 (€55.48) per M&T Share). Each Note has a principal amount of US\$77.50 (€55.48), which represents the original purchase price of the Notes. The total gross proceeds received by AIB from the issue of the Notes are expected to be US\$2.1 billion (€1.5 billion) (before deduction of the payments or transfers described in paragraph 2.5 below) and will be deposited into the Control Account subject to security arrangements as described in paragraph 2.3 below.

2.3 Security arrangements: An amount of cash representing 101 per cent. of the aggregate principal amount of the Notes will be deposited into the Control Account on closing of the issuance of the Notes. The Control Account is an account held in New York with The Bank of New York Mellon and is subject to a security agreement among AIB, The Bank of New York Mellon (as trustee) and The Bank of New York Mellon (as account bank). In order to minimise its exposure to the risk of currency fluctuations, AIB intends to enter

into forward sale contracts in relation to some or all of the outstanding balance in the Control Account. The Control Account has been pledged by AIB to the trustee for the benefit of the holders of the Notes to secure any cash payments that AIB is required to make to holders of the Notes in the event that Shareholder approval is not obtained by 8 November 2010 or if AIB is prevented from delivering its M&T Shares due to an AIB Regulatory Event (as described in paragraph 2.6 below) or in the event of a Cash M&T Distribution Adjustment (as described in paragraph 2.5 below). Paragraph 8.3.2 of Part VII (“Additional Information”) of this document contains further details regarding the security arrangements. The exchange of the Notes for AIB’s M&T Shares and release of amounts in the Control Account (in excess of the amount of any potential cash payments in respect of a Cash M&T Distribution Adjustment, if any, and any amounts then payable to The Bank of New York Mellon in its capacities as account bank and as trustee, pursuant to the Indenture or the Security Agreement) to AIB are conditional only on receipt of Shareholder approval by 8 November 2010 and the non-occurrence of an AIB Regulatory Event.

- 2.4 Maturity:** The Notes mature on 15 November 2010 unless exchanged earlier for AIB’s M&T Shares.
- 2.5 M&T distributions:** The Notes are structured so that purchasers of Notes benefit from (1) any Cash M&T Distribution Adjustments and (2) if the exchange takes place, non-cash distributions by M&T with an ex-dividend date after the pricing date of the Notes and a record date prior to the Exchange Date.
- For any distribution to trigger a potential benefit for the purchaser of Notes, such distribution must have an ex-dividend date after the pricing date of the Notes (being 6 October 2010) and a record date prior to the Exchange Date or the Maturity Date, as applicable. Any Cash M&T Distribution Adjustment will be made to the holders of Notes on the record date of any Cash M&T Distribution to be made by M&T on the underlying M&T Shares. Such payment will be funded from the Control Account and will be equal to the cash amount received by AIB on its M&T Shares (before any deduction for withholding or other taxes) and will be paid from the Control Account or by AIB, as applicable, to holders of the Notes as of such record date, on the later of (i) the Exchange Date or the Maturity Date, as applicable, and (ii) the business day immediately following receipt of the Cash M&T Distribution.
- If the Notes are exchanged for AIB’s M&T Shares on the Exchange Date, in the event that any such distribution includes property other than cash, AIB will deliver such property (before any deduction for withholding or other taxes) to the record holders of the Notes as of the Exchange Date following the later of the Exchange Date and the business day immediately following AIB’s receipt of the distribution from M&T.
- If the Notes are redeemed on the Maturity Date, the Redemption Price will be reduced by the amount of any Cash M&T Distribution Adjustment in excess of US\$0.515 per Note.
- 2.6 Redemption:** If Shareholders do not approve the Disposal by 8 November 2010 or an AIB Regulatory Event occurs on the Exchange Date, the Notes will be redeemed by AIB at the Redemption Price, provided that the Redemption Price will be reduced by the amount of any Cash M&T Distribution Adjustment per Note in excess of US\$0.515. The Redemption Price per Note, together with any Cash M&T Distribution Adjustment, will not exceed 101 per cent. of the Note’s principal amount. The total Redemption Premium will in no case exceed US\$6.9 million. In the event that Shareholders approve the Disposal and the Notes are exchanged for AIB’s M&T Shares, the balance of the Control Account reduced by the amount of any Cash M&T Distribution Adjustment will be returned to AIB and AIB will be entitled to retain the Cash M&T Distribution received on the underlying M&T Shares.
- 2.7 Anti-dilution provisions:** The Notes contain customary anti-dilution adjustments that provide for the adjustment of the exchange ratio of the Notes only in the case of stock splits and stock combinations with respect to the common stock of M&T. The anti-dilution adjustments will not result in AIB becoming obligated to deliver more M&T Shares than the number of M&T Shares held by it (as split or combined, if applicable) and will result only in *de minimis* expenses for AIB.
- 2.8 Governing law:** The Notes are governed by the laws of the state of New York, without regard to any principles of conflicts of laws.

3 Underwriting arrangements

AIB offered the Notes through underwriters, among whom Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. are acting as Lead Underwriters. Subject to the terms and conditions contained in the Underwriting Agreement, the underwriters have severally agreed to purchase, and AIB has agreed to sell to the underwriters, 26.7 million Notes in the form of a firm commitment underwriting.

If an underwriter defaults, the Underwriting Agreement provides that the underwriting commitments of the non-defaulting underwriters may be increased or the Underwriting Agreement may be terminated, depending upon the level of default. Paragraph 8.3.1 of Part VII (“Additional Information”) of this document contains further information on the Underwriting Agreement.

PART VII

ADDITIONAL INFORMATION

1 Responsibility

The Directors, whose names are set out in paragraph 3.1 below, 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 head office and registered office is at Bankcentre, Ballsbridge, Dublin 4 (Tel. No. 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 Directors and Senior Executives of the Company

3.1 Directors

The Directors and their principal functions are as follows:

Dan O'Connor	Executive Chairman
Colm Doherty	Group Managing Director (Executive Director) and acting Group Chief Risk Officer
David Pritchard	Chairman, AIB (UK) p.l.c. and Senior Independent Non-Executive Director
Declan Collier	Non-Executive Director (Government appointee)
Kieran Crowley	Non-Executive Director
Stephen L. Kingon	Non-Executive Director
Anne Maher	Non-Executive Director
Dr. Michael Somers	Non-Executive Director and Deputy Chairman (Government appointee)
Dick Spring	Non-Executive Director (Government appointee)

Originally under the terms of the CIFS Scheme and now under the ELG Scheme, AIB must, during the period of the guarantee, 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 on 22 January 2009.

In accordance with the terms of the NPRFC Investment, the NPRFC (or any other Government Preference Shareholder) has the following rights in AIB's Articles of Association to appoint Directors to the Board: (i) four Directors where the total number of Directors on the Board is 16, 17 or 18 (that number includes any other Directors appointed by the Government (including under the CIFS Scheme or the ELG Scheme); and (ii) 25 per cent. of the Directors (including any Directors appointed by the Government (including under the CIFS Scheme or the ELG Scheme)) rounded up or down to the nearest whole number (with the number 0.5 rounded up to the nearest integer), 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.

Dr Michael Somers was appointed to the Board under the terms of the NPRFC Investment on 14 January 2010. 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, Mr Dick Spring and Dr Michael Somers are, for the purposes of the NPRFC's entitlement to appoint Directors to the Board described above, to be treated as appointees of the NPRFC.

On 30 September 2010, AIB announced that the Board has agreed with Mr Dan O’Connor that he will step down as Executive Chairman within the coming weeks and that the Board has agreed with Group Managing Director, Mr Colm Doherty, the termination of his contract on existing terms. Mr Doherty will depart AIB before the end of 2010. On 4 October 2010, AIB received notification from Mr Robert Wilmers of his resignation from the Board to take effect immediately in light of the Disposal. In addition, on 4 October 2010, Mr Kieran Crowley notified AIB of his intention to resign from the Board at its next meeting on 13 October 2010. There may be additional changes to composition of the Company’s Board and the Senior Executives in due course.

3.2 Senior Executives

The Senior Executives and their principal functions are as follows:

Bernard Byrne	Group Chief Financial Officer
Gerry Byrne	Managing Director, AIB Central & Eastern Europe
John Conway	Head of Group Human Resources
Robbie Henneberry	Managing Director, AIB Bank Republic of Ireland
Marcel McCann	Head of Operations and Technology
Jerry McCrohan	Managing Director, AIB Capital Markets
Joseph O’Connor	Group Chief Credit Officer
Maelfosa ÓhÓgartaigh	Head of Corporate Development and Government Relations
Nick Treble	Managing Director, AIB Bank UK

4 Significant shareholdings

4.1 As at 7 October 2010 (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 7 October 2010 (being the latest practicable date prior to the publication of this document)</u>	
	<u>Ordinary Shares</u>	<u>Percentage of issued share capital</u>
The National Pensions Reserve Fund Commission	201,112,776	18.61

4.2 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. The NPRFC, as the holder of the 2009 Preference Shares, has voting rights equal to 25 per cent. of all the votes 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 (including the NPRFC) in respect of any Ordinary Shares they may hold). To the extent the NPRFC holds Ordinary Shares, it is not restricted from exercising its voting rights in respect of those Ordinary Shares at a general meeting of the Company. If 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.

4.3 In accordance with the European Commission’s policy relating to European Union state aid rules on restructuring aid to banks, AIB agreed not to pay discretionary coupons on its Tier 1 Capital instruments and Tier 2 Capital instruments. This had the result that the coupon due on the LP3 Securities, which would otherwise have been payable on 14 December 2009, was not paid by AIB. The effect of this non-payment was to trigger the “dividend stopper” provision in the LP3 Securities, which precludes AIB from declaring and paying any distribution or dividend on certain securities, including the 2009 Preference Shares, for a period of one calendar year. AIB was accordingly precluded from and resolved not to pay the 2009 Preference Dividend on 13 May 2010 in respect of its holding of 2009 Preference Shares. As a result, pursuant to the terms of its Articles of Association, AIB Group allotted 198,089,847 new Ordinary Shares to the NPRFC by way of the bonus issue on 13 May 2010. Following the issue of those Bonus Shares, AIB has been notified by the NPRFC that it now holds 18.61 per cent. of the

issued Ordinary Shares (excluding any shares which the NPRFC would be allotted if it were to exercise the 2009 Warrants granted to it when it subscribed for the 2009 Preference Shares).

- 4.4 Save as disclosed in this paragraph 4, AIB is not aware of any person who, as at 7 October 2010 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which equals or exceeds 3 per cent. or more of the total voting rights attaching to its issued share capital.

5 Directors' and Senior Executives' interests, options and awards

Save as set out in paragraphs 5.1 and 5.2, no Director or Senior Executive has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

5.1 Directors' and Senior Executives' shareholdings

As at 7 October 2010 (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 and Senior Executives, as well as their spouses and minor children, are as follows:

	As at 7 October 2010 (being the latest practicable date prior to the publication of this document)	
	Number of Ordinary Shares	Percentage of issued share capital ⁽¹⁾
Directors and Senior Executives		
Directors		
Dan O'Connor	14,000	0.001
Colm Doherty	97,544	0.01
David Pritchard	53,500	0.005
Declan Collier	Nil	—
Kieran Crowley	12,520	0.001
Stephen L. Kingon	4,500	0.0004
Anne Maher	1,600	0.0001
Dr Michael Somers	13,437	0.001
Dick Spring	Nil	—
Senior Executives		
Bernard Byrne	Nil	—
Gerry Byrne	38,761	0.004
John Conway	22,417	0.002
Robbie Henneberry	59,245	0.005
Marcel McCann	13,417	0.001
Jerry McCrohan	2,254	0.0002
Joseph O'Connor	62,475	0.006
Maelíosa ÓhÓgartaigh	11,329	0.001
Nick Treble	24,477	0.002

Notes:

(1) Excluding Treasury Shares.

(2) Robert Wilmers, who resigned from the Board on 4 October 2010, had beneficial interests in 440,059 Ordinary Shares, being 0.04 per cent. of the issued share capital as at 7 October 2010 (being the latest practicable date prior to the publication of this document).

5.2 Directors' and Senior Executives' options and awards

5.2.1 Share options

As at 7 October 2010 (being the latest practicable date prior to the publication of this document), the Directors and Senior Executives held options to subscribe for Ordinary Shares under the AIB Group Share Option Scheme as shown in the table below. The vesting of those options in the individuals concerned is dependent on EPS targets being met. Subject thereto, the options outstanding are exercisable at various dates between 2010 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 Executives</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	—	—	—	—	—
Colm Doherty	26/04/2001	75,000	11.98	Vested	26/04/2004-25/04/2011
	26/06/2002	75,000	13.55	Vested	26/06/2005-25/06/2012
	28/04/2004	30,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	5,000	16.20	Vested	26/04/2008-25/04/2015
Senior Executives					
Bernard Byrne	—	—	—	—	—
Gerry Byrne	26/04/2001	25,000	11.98	Vested	26/04/2004-25/04/2011
	26/06/2002	30,000	13.55	Vested	26/06/2005-25/06/2012
	23/04/2003	40,000	13.30	Vested	23/04/2006-22/04/2013
	28/04/2004	20,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015
John Conway	26/04/2001	10,000	11.98	Vested	26/04/2004-25/04/2011
	26/06/2002	4,000	13.55	Vested	26/06/2005-25/06/2012
	23/04/2003	8,985	13.30	Vested	23/04/2006-22/04/2013
	28/04/2004	10,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015
Robbie Henneberry	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015
Marcel McCann	26/06/2002	6,000	13.55	Vested	26/06/2005-25/06/2012
	28/04/2004	10,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	7,500	16.20	Vested	26/04/2008-25/04/2015
Jerry McCrohan	26/06/2002	3,000	13.55	Vested	26/06/2005-25/05/2012
	23/04/2003	10,000	13.30	Vested	23/04/2006-22/04/2013
	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015
Joseph O'Connor	26/04/2001	10,000	11.98	Vested	26/04/2004-25/04/2011
	26/06/2002	15,000	13.55	Vested	26/06/2005-25/06/2012
	23/04/2003	10,000	13.30	Vested	23/04/2006-22/04/2013
	28/04/2004	20,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015
Maelíosa ÓhÓgartaigh	26/04/2001	5,000	11.98	Vested	26/04/2004-25/04/2011
	26/06/2002	5,000	13.55	Vested	26/06/2005-25/06/2012
	23/04/2003	13,000	13.30	Vested	23/04/2006-22/04/2013
	28/04/2004	10,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015
Nick Treble	26/04/2001	30,000	11.98	Vested	26/04/2004-25/04/2011
	26/06/2002	20,000	13.55	Vested	26/06/2005-25/06/2012
	23/04/2003	16,000	13.30	Vested	23/04/2006-22/04/2013
	28/04/2004	40,000	12.60	Vested	28/04/2007-27/04/2014
	26/04/2005	10,000	16.20	Vested	26/04/2008-25/04/2015

5.2.2 Long-term incentives

Details of the Directors' and Senior Executives' conditional grants of awards of Ordinary Shares under the AIB Group Performance Share Plan 2005 are shown below. Those conditional awards are subject to certain performance targets being met, in terms of EPS growth and total shareholder return. The conditional grants of awards outstanding as at 7 October 2010 (being the latest practicable date prior to the publication of this document) may wholly or partly vest between 2010 and 2011, depending on the date of the grant and the grant conditions being met.

As at 7 October 2010
(being the latest practicable date prior to
the publication of this document)

Conditional Grants of
Awards of Ordinary Shares

Directors and Senior Executives

Directors

Dan O'Connor	—
Colm Doherty	71,606

Senior Executives

Bernard Byrne	—
Gerry Byrne	45,248
John Conway	16,310
Robbie Henneberry	42,232
Marcel McCann	18,250
Jerry McCrohan	23,868
Joseph O'Connor	—
Maelíosa ÓhÓgartaigh	21,870
Nick Treble	56,561

6 Directors' employment contracts and letters of appointment

6.1 General provisions

Details of the Executive Directors' notice periods under their employment 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

Mr Colm Doherty is employed under an employment contract which will expire only upon notice from the Company or Mr Doherty. The terms of Mr Doherty's current contract came into effect on 30 November 2009 by virtue of a letter of appointment dated 18 November 2009. On 30 September 2010, AIB announced that the Board has agreed with Mr Dan O'Connor that he will step down as Executive Chairman within the coming weeks and that the Board has agreed with Group Managing Director, Mr Colm Doherty, the termination of his contract on existing terms. Mr Doherty will depart AIB before the end of 2010.

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

	<u>Date first appointed</u>
Dan O'Connor	11/01/2007
Colm Doherty	13/02/2003
David Pritchard	21/06/2007
Declan Collier (Government appointee)	22/01/2009
Kieran Crowley	24/08/2004
Stephen L. Kingon	06/09/2007
Anne Maher	11/01/2007
Dr Michael Somers (Government appointee)	14/01/2010
Dick Spring (Government appointee)	22/01/2009

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. Paragraph 3.1 above contains further details relating to schemes pursuant to which the Government appointees have been appointed. 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.

6.2 Severance provisions

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

7 Litigation

7.1 Continuing Group

Neither the Company nor any member of the Continuing Group is or has been involved in any governmental, legal or arbitration proceedings nor, so far as the Company is aware, are any such proceedings pending or threatened against any member of the Continuing Group which may have, or have had during the 12 months immediately preceding the date of this document, a significant effect on the financial position or profitability of the Continuing Group.

7.2 M&T

In so far as the Directors are aware and as set out in M&T's quarterly report for the three months ended 30 June 2010 on Form 10-Q (which is publicly available at www.sec.gov):

- 7.2.1 M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted; and
- 7.2.2 the management of M&T, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability arising out of litigation pending against M&T or its subsidiaries will be material to M&T's consolidated financial position, but at the present time M&T's management is not in a position to determine whether such litigation will have a material adverse effect on M&T's consolidated results of operations in any future reporting period.

7.3 M&T Shareholding

There are no governmental, legal or arbitration proceedings relating to the M&T Shareholding nor, so far as the Company is aware, are any such proceedings pending or threatened, relating to the M&T Shareholding which may have, or have had during the 12 months immediately preceding the date of this document, a significant effect on the financial position or profitability of the AIB Group.

8 Material contracts

8.1 Continuing Group

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 Continuing Group: (i) within the two years immediately preceding the date of this document which are, or may be, material to the Continuing Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Continuing Group as at the date of this document:

8.1.1 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 AIB North America Inc. (the "**AIB CIFS covered institutions**") 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 in which each of the AIB CIFS covered institutions agreed to the terms and conditions of the CIFS Scheme and agreed to indemnify the Minister against any payments the Minister is required to make under the CIFS Scheme in respect of the liabilities of the AIB CIFS covered institutions. The CIFS Scheme expired on 29 September 2010.

The CIFS Scheme gave effect to the bank guarantee announced by the Government on 30 September 2008. Under the CIFS Scheme, the Minister for Finance guaranteed the following liabilities of certain participating institutions, including AIB and certain of its subsidiaries, for a two-year period from 30 September 2008:

- (a) all retail and corporate deposits (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction);
- (b) interbank deposits;
- (c) senior unsecured debt;

- (d) asset-covered securities; and
- (e) dated subordinated debt (lower Tier 2 Capital),

excluding any intra-group borrowing and any debt due to the European Central Bank arising from Eurosystem monetary operations.

Covered bonds and dated subordinated debt issued by a participating institution after the date it joined the ELG Scheme were not guaranteed by the Minister.

If AIB defaulted in respect of a guaranteed liability during the period of the guarantee, the Minister committed to pay to the creditor an amount equal to that liability. There was no monetary cap on the guarantee and it covered all guaranteed liabilities of AIB which became due for payment up to 29 September 2010. AIB was obliged to pay a quarterly charge to the Government for the guarantee. The cost of the CIFS Scheme to the Group for the year ended 31 December 2009 was €146.4 million. On 8 January 2010, an amount of €58.4 million was paid by AIB to the Minister in respect of fees for the CIFS Scheme. This payment was in respect of (a) the liabilities covered by the CIFS Scheme for the period from 1 January 2010 to 21 January 2010, the date on which AIB joined the ELG Scheme and (b) following AIB joining the ELG Scheme, the liabilities outstanding after 21 January 2010 that continued to have the benefit of the guarantee under the CIFS Scheme, up to 29 September 2010, or their maturity, whichever was the earlier.

Originally under the CIFS Scheme and now under the ELG Scheme, the Minister and/or the Central Bank of Ireland may or must (as the case may be) exercise the following rights and powers over AIB:

- (I) 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 of Ireland, 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);
- (II) 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 of Ireland, increase the liability of the Government under the guarantee;
- (III) 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;
- (IV) the Minister may, after consultation with the Governor of the Central Bank of Ireland, direct AIB to prepare a restructuring plan to ensure compliance with the objectives of the CIFS Scheme or, as appropriate, the ELG Scheme. The Minister, in consultation with the Governor of the Central Bank of Ireland, 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;
- (V) 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 Central Bank of Ireland 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 Central Bank of Ireland or both to take steps to restructure its executive management responsibilities, strengthen its management capacity and improve its corporate governance;
- (VI) if, in the opinion of the Minister, AIB is in breach of its obligations under the CIFS Scheme or, as appropriate, the ELG 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);
- (VII) the Central Bank of Ireland, 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 Central Bank of Ireland, following consultation with the Minister, may direct;
- (VIII) to progressively reduce the risk to the Irish exchequer under the guarantee, AIB must: (i) appropriately manage the Group's balance sheet in a manner consistent with the CIFS Scheme or, as appropriate, the ELG 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 of Ireland, after consultation with the Minister;

- (IX) AIB must comply with targets set for AIB by the Central Bank of Ireland, 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;
- (X) AIB may not engage in buy-backs or redemptions of its shares without the approval of the Central Bank of Ireland, given after consultation with the Minister; and
- (XI) originally, the CIFS Scheme and now the ELG Scheme imposes restrictions on guaranteed institutions in relation to directors' and executives' remuneration and termination payments during the guarantee period.

8.1.2 ELG Scheme agreements

On 20 January 2010, the Company and its subsidiaries, AIB Group (UK) p.l.c., AIB Bank (CI) Limited and Allied Irish Banks North America Inc. (the “**AIB ELG Covered Institutions**”) each executed an eligible liabilities guarantee scheme agreement with the Minister for Finance in accordance with the terms of the ELG Scheme, and on 21 January 2010 each was issued a participating institution certificate by the NTMA, the ELG Scheme operator, specifying each as a participating institution in the ELG Scheme.

The ELG Scheme commenced on 9 December 2009 and an extension of the ELG Scheme to 31 December 2010 was most recently approved by the Oireachtas (the Irish Parliament) and signed into law by the Minister on 29 September 2010. The ELG Scheme is a guarantee scheme designed to facilitate credit institutions in Ireland that wish to issue debt securities and take deposits with a maturity of up to five years before, originally, 29 September 2010 and which has now been extended to 31 December 2010.

By entering into an ELG Scheme agreement, each AIB ELG Covered Institution has agreed to be bound by the terms of the ELG Scheme and to indemnify the Minister against all payments which the Minister may be required to make under the ELG Scheme in respect of the liabilities of the AIB ELG Covered Institutions.

Eligible liabilities under the ELG Scheme comprise the following:

- all deposits (to the extent not covered by deposit protection schemes in Ireland or in any other jurisdiction);
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with European Union state aid rules and the European Commission's Banking Communication (2008/C 270/02) and subject to prior consultation with the European Commission,

incurred by a participating institution during the period from the date it joined the ELG Scheme (i.e. 21 January 2010 in the case of AIB ELG Covered Institutions) up to, originally, 29 September 2010 and which has now been extended to 31 December 2010.

An eligible liability must not have a maturity in excess of five years and must be incurred during an “issuance window”.

On 28 June 2010, following a request from the Minister, the European Commission approved a modification of the ELG Scheme to provide for an extension of the issuance period from 29 September 2010 to 31 December 2010 (subject to the introduction of new pricing rates for participating institutions) for (a) liabilities of between three months' and five years' duration (other than inter-bank deposits), (b) retail deposits of any duration up to five years and (c) corporate deposits with a maturity of between three months and five years.

On 21 September 2010, following a further request from the Minister, the European Commission approved an amendment to the ELG Scheme to extend the “issuance window” in respect of inter-bank deposits and short-term liabilities (zero to three months) (including corporate deposits) of a participating institution, from 29 September 2010 to 31 December 2010. On 29 September 2010, the Minister, following the approval of the Oireachtas (the Irish Parliament), signed into law a statutory instrument that gave effect to the changes to the ELG Scheme approved by the European Commission on 28 June 2010 and 21 September 2010. Accordingly, the “issuance window” in respect of every eligible liability of a participating institution under the ELG Scheme (including retail deposits over €100,000 for any duration up to five years and corporate and inter-bank deposits for any duration up to five years) has been extended from 29 September 2010 to 31 December 2010 so that a State guarantee is now available for short- and long-term liabilities issued or accepted up to the end of 2010. Retail deposits of an amount up to €100,000 remain outside the ELG Scheme but continue to be guaranteed indefinitely under the Deposit Guarantee Scheme.

The Minister for Finance has amended the rules of the ELG Scheme so that the pricing of the ELG Scheme guarantee will increase in line with the recommendations of the Governing Council of the European Central Bank

on government guarantees for bank debt dated 20 October 2008, the European Commission DG Competition staff working document entitled “The Application of State Aid Rules to Government Guarantee Schemes Covering Bank Debt to be Issued after 30 June 2010” dated 30 April 2010 and any Eurosystem guidelines. The Minister has also said that progress in relation to the phasing out of the ELG Scheme guarantee will be achieved over time consistent with any requirement for continued support of the funding conditions of participating institutions and the maintenance of financial stability overall. The rules of the ELG Scheme have also been amended to reflect the changes to the ELG Scheme approved by the European Commission on 28 June 2010 and 21 September 2010. The ELG Scheme remains subject to six-monthly review and approval by the European Commission in accordance with EU state aid rules. The next review of the ELG Scheme is due to take place before 31 December 2010, although the result of any such review will not affect the status of guaranteed liabilities that are, by then, already in place.

Under the terms of the ELG Scheme, a participating institution must apply to the Minister for an eligible liability or eligible liabilities issued under a programme to be guaranteed under the ELG Scheme and those eligible liabilities will only be guaranteed if the NTMA, with delegated authority from the Minister, accepts an application from a participating institution for the inclusion of that eligible liability or those eligible liabilities in the ELG Scheme.

From the time that a participating institution is designated as such under the ELG Scheme, any liabilities incurred or contracted for thereafter by that participating institution may be guaranteed under the ELG Scheme only. Dated subordinated debt and asset-covered securities issued after a covered institution joined the ELG Scheme will not be guaranteed under the ELG Scheme.

The Minister, in consultation with the Governor of the Central Bank of Ireland, may issue directions to a participating institution which are necessary to ensure that the objectives of the ELG Scheme are met. Those directions may include directions to comply with some or all of the provisions on conduct, transparency and reporting requirements which were applicable to covered institutions pursuant to the CIFS Scheme, including restrictions on the declaration and payment of dividends (summarised in paragraph 8.1.1 above). Each participating institution will be required to comply with such directions even though the CIFS Scheme has expired.

The Minister may, after consultation with the Governor of the Central Bank of Ireland, direct AIB to prepare a restructuring plan to ensure compliance with the objectives of the ELG Scheme. The Minister, in consultation with the Governor of the Central Bank of Ireland, may direct AIB to make changes to such restructuring plan and to implement such plan.

As described above, participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Participating institutions will also be required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution’s guarantee under the ELG Scheme.

In respect of the period from 21 January 2010 to 30 June 2010, AIB paid the Minister €118.9 million in respect of fees for the ELG Scheme.

8.1.3 Arrangements in relation to the NPRFC Investment

(a) The 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 2009 Warrants to subscribe for Ordinary Shares to the NPRFC on the terms summarised below:

- (I) 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;
- (II) 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;
- (III) 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;
- (IV) 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;
- (V) 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; and

(VI) 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.

(b) *The Subscription Agreement*

(I) 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;

(II) 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;

(III) 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 Central Bank of Ireland;

(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 to it by means of the NPRFC Investment. That restructuring plan, which was prepared by the Group, was submitted to the European Commission by the Government in November 2009. A revised plan, prepared by AIB to reflect AIB's capital raising initiatives, which include its intention to raise additional equity capital and undertake a number of asset and business disposals, was submitted by the Government to the European Commission on 4 May 2010.

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

(IV) 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;

(V) AIB undertook in the Subscription Agreement that application would be made in due course for any Warrant Shares and Bonus Shares issued by AIB 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;

(VI) in addition to agreeing to allow the Government Entity 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; and

(VII) the Subscription Agreement provides that the Company shall ensure that the aggregate remuneration of the Group's senior executives employed by the Group at any time during the financial year ended 31 December

2009 for that year shall be 33 per cent. less than the aggregate remuneration of each of these senior executives for the preceding financial year, and the aggregate fees paid to any Non-Executive Director during the year ended 31 December 2009 for that year shall be 25 per cent. less than the aggregate fees paid to that Non-Executive Director during the preceding financial year. The fees payable to any new Non-Executive Director appointed during the year ended 31 December 2009 were also to be adjusted accordingly. The Subscription Agreement also provides that no bonus calculated on the basis of or related to the performance of any individual, any team or department or division of AIB or the Group as a whole shall be paid to any of the Group's senior executives in respect of either of the financial years ended 31 December 2009 or 31 December 2010, and that the annual base salary of any employee or service provider or appointee or officer of the Group shall not, for a period of two years from 13 May 2009, exceed a maximum amount equal to the lower of €500,000 and the amount recommended by the Covered Institution Remuneration Oversight Committee in the CIROC Report in any financial year. Further, from 13 May 2011, any proposal to increase base salary for any employee or service provider or appointee or officer of the Group to a level which would otherwise exceed the cap described in the preceding sentence or to pay an annual bonus to any of the Group's senior executives will be subject to agreement between the Company and the NPRFC. No pension augmentation which enhances the retirement benefits of a senior executive under the current rules of the Group's pension scheme of which he is a member may be awarded by AIB without the prior consent of the NPRFC.

8.1.4 Application to participate in the NAMA Programme

On 12 February 2010, the Minister, under section 67 of the NAMA Act, designated AIB as a Participating Institution. In consequence, AIB is subject to a range of constraints and obligations (including in terms of its freedom of commercial action) and is subject to additional powers of (as the case may be) the Central Bank of Ireland and the Minister.

(a) Synopsis of the NAMA Programme

Under the NAMA Programme, NAMA is, on a phased basis, acquiring NAMA Assets from AIB. NAMA Assets include performing and non-performing land and development loans, together with associated loans. AIB must identify for NAMA every AIB NAMA Asset and NAMA may then choose which NAMA Assets to acquire from AIB. The NAMA Assets that NAMA acquires from AIB will be valued on a loan-by-loan basis, using the valuation methodology specified in the NAMA Act and in regulations made by the Minister. AIB has a limited right to seek a review of a valuation that has been determined by NAMA. AIB transferred its first and second tranches of NAMA Assets to NAMA on 2 April 2010 and 12 July 2010 respectively.

NAMA has, in the first and second acquisition tranches, acquired the largest systemic exposures to the Irish banking system. In the first and second tranches, AIB transferred €6.0 billion of NAMA Assets in total (being the value of those assets on a gross loan basis) to NAMA, receiving in exchange NAMA Bonds and Subordinated NAMA Bonds with a nominal value of €3.3 billion in total. Outline terms and conditions of those NAMA Bonds are provided on NAMA's website at www.nama.ie. On 30 September 2010, the Minister announced changes to the NAMA Programme, including that, in relation to AIB, where the total exposure of a debtor is below a €20 million threshold, that debtor's loans will not now be transferred to NAMA, whereas the threshold had previously been set at €5 million. AIB expects this to result in approximately €4.4 billion of AIB loans previously designated as NAMA Assets no longer being transferred. AIB expects that it has €13.5 billion of NAMA Assets still to be transferred to NAMA (being eligible NAMA Assets as at 30 June 2010 of €20.4 billion including the €3.2 billion of eligible NAMA Assets of AIB Group (UK) p.l.c. which were not classified or held for sale to NAMA in the unaudited 2010 Half-Yearly Financial Report as they may be, subject to certain conditions specified by NAMA, included in the sale of AIB Group (UK) p.l.c., less the second tranche of €2.7 billion that was transferred in July 2010, less eligible NAMA Assets below €20 million that will no longer be transferred of €4.4 billion, plus other movements of €0.2 billion).

If, on a winding-up of NAMA or after 10 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. Any such surcharge would be:

- applied proportionately to each Participating Institution, on the basis of the book value of the NAMA Assets acquired from each of them as a proportion of the total book value of the NAMA Assets acquired from all Participating Institutions; and
- subject to prescribed ceilings relating to the actual loss incurred by NAMA and to the amount of corporation tax paid by any particular Participating Institution in the relevant surcharge period.

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 of AIB's NAMA Assets or from the enforcement of any security concerning a NAMA Asset and other matters.

While the NAMA draft business plan provides that a Participating Institution will continue to conduct routine loan administration work in respect of NAMA Assets that NAMA acquires from the relevant institution, NAMA may, under the NAMA Act, terminate any such servicing arrangement if it wishes.

(b) Additional constraints and regulatory powers, procedures and oversight

As a Participating Institution, AIB is subject to a range of constraints and obligations as to the conduct of its business and is subject to additional powers of (as the case may be) the Central Bank of Ireland and the Minister. AIB is also subject to additional regulatory procedures and oversight. These include:

- (I) AIB must act in relation to its NAMA Assets in good faith, having regard to the purposes of the NAMA Act, and must administer, service and deal with its NAMA Assets as would a prudent lender acting reasonably;
- (II) AIB requires the prior written approval of NAMA to do any of a range of things in respect of a NAMA Asset, such as to amend or vary any contract relating to a NAMA Asset, unless contractually obliged to do so;
- (III) following its acquisition of a NAMA Asset from AIB, NAMA may direct AIB to deal in a specified way with any part of that NAMA Asset that is not acquired by NAMA;
- (IV) the Central Bank of Ireland may, with the approval of the Minister, give a direction to AIB in order to achieve the purposes of the NAMA Act. Such a direction may restrict balance sheet growth, restrict AIB's ability to take over other credit institutions, require balance sheet reductions, or restrict or require consolidations and mergers of Participating Institutions (including AIB);
- (V) the Central Bank of Ireland may direct AIB in writing to make any report that the Central Bank of Ireland considers necessary to monitor AIB's compliance with the obligations under or by virtue of the NAMA Act;
- (VI) the Minister may direct AIB to draw up, or amend, a restructuring or business plan and to take reasonable steps to ensure that any draft business plan submitted to the Minister accurately contains all relevant information. If the Minister approves a draft business plan, AIB must take reasonable steps to implement it; and
- (VII) the Minister has, under the NAMA Act, introduced statutory guidelines on lending practices and procedures of Participating Institutions and on the review of their decisions to refuse credit facilities to SMEs (including farmers and sole traders) where the relevant sum is greater than €1,000 and does not exceed €250,000. After exhausting any credit appeal procedures within the Participating Institution, an SME customer may require a review of a decision of a Participating Institution to refuse credit or to reduce an existing credit facility by applying to a Government-appointed "Credit Reviewer" who will investigate the decision and may make a non-binding recommendation to the Participating Institution. The Credit Reviewer may also review the lending policies (including from the perspective of a particular sector) of a Participating Institution and may issue reports to the Minister following such a review.

Various initiatives taken by AIB to support customers and economic recovery include, amongst others, €3 billion of planned new or additional credit lines to the SME market in 2010 and 2011, a €500 million small business recovery scheme launched in May 2010, the launch of a €100 million fund for personal and business customers to support environmentally friendly initiatives in June 2009 and the provision of wide ranging support facilities to mortgage customers in difficulty. Additional contingent liabilities arise in the normal course of the Group's business. It is not currently anticipated that any material loss will arise from these transactions.

8.1.5 *The BZWBK Share Purchase Agreement*

On 10 September 2010, AIB, AIB European Investments Limited, AIB Capital Markets p.l.c. and Banco Santander S.A. (together the "**Parties**") entered into a share purchase agreement (the "**BZWBK Share Purchase Agreement**"), pursuant to which: (i) AIB European Investments Limited agreed to sell, and Banco Santander S.A. agreed to purchase, the BZWBK Shares; and (ii) AIB Capital Markets p.l.c. agreed to sell, and Banco Santander S.A. agreed to purchase, the BZWBK AIB Asset Management Shares.

The total consideration payable by Banco Santander S.A. to AIB European Investments Limited for the purchase of the BZWBK Shares is PLN 11,665,274,813.10, representing PLN 226.89 per BZWBK Share, payable in cash on

completion. AIB has hedged the foreign exchange risk on the consideration for the sale of the BZWBK Shares such that AIB will receive proceeds of €2,937,500,000, representing approximately €57.13 per BZWBK Share.

The total consideration payable by Banco Santander S.A. to AIB Capital Markets p.l.c. for the purchase of the BZWBK AIB Asset Management Shares is €150,000,000 plus an amount equal to €88,057 multiplied by the number of days from and including 30 June 2010 to and including the date on which completion of the transaction takes place, payable in cash on completion.

Completion of this transaction is conditional on the following:

- (i) the approval by the KNF of the acquisition by Banco Santander S.A. of the BZWBK Shares;
- (ii) clearance of the BZWBK Disposal by the European Commission in accordance with European Union merger control rules;
- (iii) the approval by the KNF of the acquisition, directly or indirectly, by Banco Santander S.A. of the BZWBK Subsidiary Shares; and
- (iv) approval of the BZWBK Disposal by Shareholders at a general meeting convened for the purposes of approving the BZWBK Disposal.

If the conditions listed above have not been satisfied or waived on or before 10 September 2011 (or such later date as agreed between the Parties) any of the Parties may terminate the BZWBK Share Purchase Agreement.

If the condition listed in (iv) above has not been satisfied as a result of either: (i) Shareholders voting against a resolution to approve the BZWBK Disposal; or (ii) a general meeting is not convened for the purposes of approving the BZWBK Disposal by 10 September 2011, AIB European Investments Limited shall pay to Banco Santander S.A. a break fee of €7,500,000.

Each of AIB European Investments Limited and AIB Capital Markets p.l.c. has undertaken that, subject to certain exceptions, for a period of seven months after the general meeting convened for the purposes of approving the BZWBK Disposal, neither they nor any other member of the AIB Group will solicit or negotiate with a third party with a view to such third party acquiring the BZWBK Shares and/or the BZWBK AIB Asset Management Shares.

AIB shall tender, and Banco Santander S.A. shall purchase, the BZWBK Shares through the BZWBK Tender Offer.

AIB European Investments Limited and AIB Capital Markets p.l.c. have provided certain warranties to Banco Santander S.A. which are customary for a transaction of this nature.

AIB has, subject to certain exceptions, agreed to certain restrictions in relation to carrying on or being economically interested in any business in Poland which is of a similar type to that carried on by the BZWBK group. AIB has also agreed not to solicit the custom of any person, firm or company who has within two years prior to completion been a customer of the BZWBK group. AIB has agreed not to induce or seek to induce certain existing employees of the BZWBK group to become employed by the AIB Group.

8.2 M&T

As stated in M&T's annual report on Form 10-K and M&T's current report on Form 8-K, filed on 25 January 2010, which are publicly available at www.sec.gov, the following are material contracts (being every contract not made in the ordinary course of business which is material to M&T and is to be performed in whole or in part after the filing of the report or was entered into not more than two years before such filing) that have been entered into by M&T:

- 8.2.1 Credit agreement, dated as of 15 December 2000, between M&T Bank Corporation and Citibank, N.A.
- 8.2.2 Amendment no. 1, dated 9 December 2003, to the credit agreement, dated as of 15 December 2000, between M&T Bank Corporation and Citibank, N.A.
- 8.2.3 Amendment no. 2, dated 30 January 2009, to the credit agreement, dated as of 15 December 2000, between M&T Bank Corporation and Citibank, N.A.
- 8.2.4 Amendment No. 3, dated 4 December 2009, to the credit agreement, dated as of 15 December 2000, between M&T Bank Corporation and Citibank, N.A.
- 8.2.5 M&T Bank Corporation 1983 stock option plan as last amended on 20 April 1999.
- 8.2.6 M&T Bank Corporation 2001 stock option plan.
- 8.2.7 M&T Bank Corporation annual executive incentive plan.
- 8.2.8 Supplemental deferred compensation agreement between Manufacturers and Traders Trust Company and Robert E. Sadler, Jr. dated as of 7 March 1985.

- 8.2.9 First amendment, dated as of 1 August 2006, to the supplemental deferred compensation agreement between Manufacturers and Traders Trust Company and Robert E. Sadler, Jr. dated as of 7 March 1985.
- 8.2.10 Supplemental deferred compensation agreement between Manufacturers and Traders Trust Company and Brian E. Hickey dated as of 21 July 1994.
- 8.2.11 First amendment, dated as of 1 August 2006, to the supplemental deferred compensation agreement between Manufacturers and Traders Trust Company and Brian E. Hickey dated as of 21 July 1994.
- 8.2.12 Supplemental deferred compensation agreement, dated 17 July 1989, between The East New York Savings Bank and Atwood Collins, III.
- 8.2.13 First amendment, dated as of 11 August 2006, to the supplemental deferred compensation agreement, dated 17 July 1989, between The East New York Savings Bank and Atwood Collins, III.
- 8.2.14 M&T Bank Corporation supplemental pension plan, as amended and restated.
- 8.2.15 M&T Bank Corporation supplemental retirement savings plan.
- 8.2.16 M&T Bank Corporation deferred bonus plan, as amended and restated.
- 8.2.17 M&T Bank Corporation 2008 directors' stock plan.
- 8.2.18 Restated 1987 stock option and appreciation rights plan of ONBANCorp, Inc.
- 8.2.19 1992 ONBANCorp Directors' stock option plan.
- 8.2.20 Keystone Financial, Inc. 1997 stock incentive plan, as amended on 19 November 1998.
- 8.2.21 Keystone Financial, Inc. 1992 stock incentive plan.
- 8.2.22 Keystone Financial, Inc. 1988 stock incentive plan.
- 8.2.23 Keystone Financial, Inc. 1995 non-employee directors' stock option plan.
- 8.2.24 Keystone Financial, Inc. 1990 non-employee directors' stock option plan, as amended.
- 8.2.25 Keystone Financial, Inc. 1992 director fee plan.
- 8.2.26 Financial Trust Corp non-employee director stock option plan of 1994.
- 8.2.27 Progressive Bank, Inc. 1993 non-qualified stock option plan for directors.
- 8.2.28 Premier National Bancorp, Inc. 1995 incentive stock plan (as amended and restated effective 13 May 1999).
- 8.2.29 M&T Bank Corporation employee stock purchase plan.
- 8.2.30 M&T Bank Corporation 2005 incentive compensation plan.
- 8.2.31 M&T Bank Corporation 2009 equity incentive compensation plan.
- 8.2.32 M&T Bank Corporation employee severance plan.
- 8.2.33 Provident Bankshares Corporation amended and restated stock option plan.
- 8.2.34 Provident Bankshares Corporation 2004 equity compensation plan.
- 8.2.35 Southern Financial Bancorp, Inc. 1993 stock option and incentive plan (as amended and restated in 2001).
- 8.2.36 Letter agreement including the securities purchase agreement — standard terms incorporated therein, between M&T Bank Corporation and the US Department of Treasury, dated 23 December 2008.
- 8.2.37 Form of stock base salary award agreement.

8.3 M&T Shareholding

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

8.3.1 Underwriting Agreement

AIB entered into the Underwriting Agreement on 6 October 2010 pursuant to which AIB has offered the Notes through underwriters, among whom Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated are

acting as Lead Underwriters. Subject to the terms and conditions contained in the Underwriting Agreement, the underwriters have severally agreed to purchase, and AIB has agreed to sell to the underwriters, 26.7 million Notes in the form of a firm commitment underwriting.

If an underwriter defaults, the Underwriting Agreement provides that the underwriting commitments of the non-defaulting underwriters may be increased or the Underwriting Agreement may be terminated, depending upon the level of default.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Underwriting Agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The Company has made certain customary representations and warranties to the underwriters, such as the Underwriting Agreement being duly authorised, executed and delivered. Additionally, the Company has covenanted with the underwriters to do certain things, such as listing the Notes on the New York Stock Exchange. The Notes are listed on the New York Stock Exchange under the symbol "MTC".

Prior to the Notes offering, there has been no public market for the Notes. Consequently, the initial public offering price for the Notes was determined by negotiations between AIB and the underwriters.

The underwriters have advised AIB that they propose initially to offer the Notes to the public at the public offering price of US\$77.50 per Note and to dealers at that price less a concession not in excess of US\$0.34875 per Note. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before advisory fee and expenses attributable to AIB.

Issue price	US\$2,069,250,000
Underwriting discount and commissions	US\$15,519,375
Proceeds, before expenses and advisory fee, to AIB	US\$2,053,730,625
Advisory fee ⁽¹⁾	US\$10,346,250

Note:

(1) AIB may elect to pay to the underwriters an advisory fee of up to US\$10,346,250, payable on the fifth business day immediately following the EGM, such fee to be payable at the sole discretion of AIB.

AIB estimates that its expenses in connection with the offering of the Notes, not including the underwriting discount, will be approximately €5.6 million in aggregate.

In connection with the Notes offering, the underwriters are permitted to engage in transactions that stabilise the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. If the underwriters create a short position in the Notes in connection with the offering, i.e., if they sell more Notes than are on the cover page of the prospectus published in connection with the offering, the underwriters may reduce that short position by purchasing Notes in the open market. Purchases of a security to stabilise the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

AIB has agreed to indemnify the underwriters against certain customary liabilities, including liabilities under the US Securities Act or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

Other than in the United States, no action has been taken by the Company or the underwriters that would permit a public offering of the Notes in any jurisdiction where action for that purpose is required. The Notes offered may not be offered or sold, directly or indirectly, nor may the prospectus or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction.

8.3.2 Security Agreement

AIB, The Bank of New York Mellon (as trustee) and The Bank of New York Mellon (as account bank) will enter into a security agreement to be dated 13 October 2010 (the "**Security Agreement**") pursuant to which AIB will grant a continuing security interest to the trustee for the benefit of the holders of the Notes in the Control Account and all cash deposited therein (including an amount equal to 101 per cent. of the aggregate principal amount of the Notes placed in the Control Account on closing of the issuance of the Notes) for the purpose of securing any cash payments that AIB is required to make to holders of the Notes in the event that Shareholder approval is not obtained by 8 November 2010, or if AIB is prevented from delivering its M&T Shares due to an AIB Regulatory Event or in the event of a Cash M&T Distribution. Pursuant to the Security Agreement, The Bank of New York Mellon, in its

capacities as account bank and as trustee, will have a lien on funds in the Control Account as security for any obligations AIB may owe it pursuant to the Indenture or the Security Agreement. Those obligations are payable out of the funds in the Control Account only after the later of (a) the Exchange Date or the Maturity Date, as applicable, and (b) the date certain Cash M&T Distribution Adjustments become due, if applicable, and only out of funds in the Control Account in excess of all amounts payable to or for the benefit of the holders of the Notes pursuant to the terms of the Indenture on such date. It is a condition to the underwriters' obligations under the Underwriting Agreement that AIB enter into the Security Agreement and grant the security interest as described therein.

8.3.3 Indenture

The Notes are to be issued under an indenture for senior debt securities dated as of 2 June 2008, as supplemented by the first supplemental indenture to be dated 13 October 2010 (collectively, the "**Indenture**"), between AIB and The Bank of New York Mellon, as trustee. The Indenture governs the terms of the Notes, which are more fully described in Part VI ("Principal Terms of the Disposal") of this document.

9 The Reorganization Agreement

On 1 April 2003, M&T completed the acquisition of Allfirst, a bank holding company headquartered in Baltimore, Maryland from AIB. Under the terms of the Reorganization Agreement, M&T combined with Allfirst through the acquisition of all of the issued and outstanding Allfirst stock and AIB received 26,700,000 M&T Shares and US\$886,107,000 in cash, of which US\$865,000,000 was received by way of a pre-sale dividend from Allfirst. In addition, there were several M&T corporate governance changes that resulted from the transaction. While AIB maintains a significant ownership in M&T, it has representation rights on the M&T board, the M&T Bank board and key M&T board committees and has certain protections of its rights as a substantial M&T shareholder. In addition, AIB has rights that facilitate its ability to maintain its proportionate ownership position in M&T. M&T also has representation rights on the AIB Board while AIB remains a significant shareholder. A summary of the key provisions of the Reorganization Agreement is set out below. The Reorganization Agreement was filed by M&T with the SEC and is publicly available at www.sec.gov.

9.1 Board of Directors and Management

At 7 October 2010, AIB held approximately 22.4 per cent. of the issued and outstanding shares of M&T common stock. M&T has the right to one seat on the AIB Board for so long as AIB holds at least 15 per cent. of the outstanding shares of M&T common stock. Pursuant to the Reorganization Agreement, AIB has the right to nominate four members to serve on the boards of directors of M&T and M&T Bank, each of whom must be reasonably acceptable to M&T (collectively, "**AIB Designees**"). Further, one of the AIB Designees may serve on each of the executive committee, nomination, compensation and governance committee, and audit and risk committee (or any committee or committees performing comparable functions) of the M&T board of directors. In order to serve, AIB Designees must meet the requisite independence and expertise requirements prescribed under applicable law or stock exchange rules. In addition, the Reorganization Agreement provides that the board of directors of M&T Bank will include four members designated by AIB, each of whom must be reasonably acceptable to M&T. In anticipation of the Disposal, the AIB Group Managing Director, Mr Colm Doherty, resigned from the board of directors of M&T on 16 June 2010.

As long as AIB remains a significant shareholder of M&T, AIB will have representation rights on the boards of directors of both M&T and M&T Bank as follows:

- 9.1.1 as long as AIB holds at least 15 per cent. of the outstanding shares of M&T common stock, AIB will be entitled to designate four persons to serve on both the M&T and M&T Bank boards of directors and to serve on the committees of the M&T board described above;
- 9.1.2 if AIB holds at least 10 per cent., but less than 15 per cent., of the outstanding shares of M&T common stock, AIB will be entitled to designate at least two people to serve on both the M&T and M&T Bank boards of directors;
- 9.1.3 if AIB's ownership interest in M&T is at least 5 per cent., but less than 10 per cent., of the outstanding shares of M&T common stock, AIB will be entitled to designate at least one person to serve on both the M&T and M&T Bank boards of directors;
- 9.1.4 as long as AIB holds at least 15 per cent. of the outstanding shares of M&T common stock, neither M&T's board of directors nor M&T Bank's board of directors will consist of more than 28 directors without the consent of the AIB Designees; and

9.1.5 if AIB's holdings of M&T common stock fall below 15 per cent., but not lower than 12 per cent. of the outstanding shares of M&T common stock, AIB will continue to have the same rights that it would have had if it owned 15 per cent. of the outstanding shares of M&T common stock, as long as AIB restores its ownership percentage to 15 per cent. within one year. Additionally, as M&T has agreed to repurchase shares of M&T common stock in order to offset dilution to AIB's ownership interests that may otherwise be caused by issuances of M&T common stock under M&T employee and director benefit or stock purchase plans. Dilution of AIB's ownership position caused by such issuances will not be counted in determining whether the Sunset Date has occurred or whether any of AIB's other rights under the Reorganization Agreement have terminated. The "Sunset Date" is the date on which AIB no longer holds at least 15 per cent. of M&T common stock.

9.2 Amendments to M&T's Bylaws

Pursuant to the Reorganization Agreement, M&T amended and restated its bylaws. The following is a description of the amended bylaws:

9.2.1 The amended bylaws provide that until the Sunset Date, the M&T board of directors may not take or make any recommendation to M&T's shareholders regarding the following actions without the approval of the executive committee of M&T, including the approval of the AIB Designees serving on the committee:

- (a) any amendment of M&T's Certificate of Incorporation or bylaws that would be inconsistent with the rights described herein or that would otherwise have an adverse effect on the board representation, committee representation or other rights of AIB contemplated by the Reorganization Agreement;
- (b) any activity not permissible for a US bank holding company;
- (c) the adoption of any shareholder rights plan or other measures having the purpose or effect of preventing or materially delaying completion of any transaction involving a change in control of M&T; and
- (d) any public announcement disclosing M&T's desire or intention to take any of the foregoing actions.

9.2.2 The amended bylaws also provide that until the Sunset Date, the M&T board of directors may only take or make any recommendation to M&T's shareholders regarding the following actions if the action has been approved by the executive committee of M&T (in the case of the first four items and sixth item below) or nomination, compensation and governance committee of M&T (in the case of the fifth item below) and the members of such committee not voting in favour of the action do not include the AIB Designees serving on such committee and at least one other member of the committee who is not an AIB Designee:

- (a) any reduction in M&T's cash dividend policy such that the ratio of cash dividends to net income is less than 15 per cent., or any extraordinary dividends or distributions to holders of M&T common stock;
- (b) any acquisition of any assets or businesses, (1) if the consideration is in M&T common stock, where the stock consideration paid by M&T exceeds 10 per cent. of the aggregate voting power of M&T common stock and (2) if the consideration is cash, M&T stock or other consideration, where the fair market value of the consideration paid by M&T exceeds 10 per cent. of the market capitalisation of M&T, as determined under the Reorganization Agreement;
- (c) any sale of any assets or businesses in which the value of the aggregate consideration to be received exceeds 10 per cent. of the market capitalisation of M&T, as determined under the Reorganization Agreement;
- (d) any liquidation or dissolution of M&T;
- (e) the appointment or election of the Chairman of the board of directors or the Chief Executive Officer of M&T; and
- (f) any public announcement disclosing M&T's desire or intention to take any of the foregoing actions prior to obtaining the requisite committee approval.

9.2.3 The provisions of the bylaws described above may not be amended or repealed without the unanimous approval of the entire M&T board of directors or the approval of the holders of not less than 80 per cent. of the outstanding shares of M&T common stock. The provisions of the bylaws described above will automatically terminate when AIB holds less than 5 per cent. of the outstanding shares of M&T common stock.

9.3 Investment Parameters

- 9.3.1 The Reorganization Agreement provides that through the second anniversary of the Sunset Date, without prior written consent of the M&T board of directors, AIB will not, directly or indirectly, acquire or offer to acquire (except by way of stock dividends, offerings made available to M&T shareholders generally, or pursuant to compensation plans) more than 25 per cent. of the then outstanding shares of M&T common stock. Further, during this period, AIB and AIB's subsidiaries have agreed not to participate in any proxy solicitation or to otherwise seek to influence any M&T shareholder with respect to the voting of any shares of M&T common stock for the approval of any shareholder proposals.
- 9.3.2 The Reorganization Agreement also provides that, during this period, AIB will not make any public announcement with respect to any proposal or offer by AIB or any AIB subsidiary with respect to certain transactions (such as mergers, business combinations, tender or exchange offers, the sale or purchase of securities or similar transactions) involving M&T or any of the M&T subsidiaries. The Reorganization Agreement also provides that, during this period, AIB may not subject any shares of M&T common stock to any voting trust or voting arrangement or agreement and will not execute any written consent as a shareholder with respect to the M&T common stock.
- 9.3.3 The Reorganization Agreement also provides that, during this period, AIB will not seek to control or influence the management, the board of directors or policies of M&T, including through communications with shareholders of M&T or otherwise, except through non-public communications with the directors of M&T, including the AIB Designees.
- 9.3.4 These restrictions on AIB will no longer apply if a third party commences or announces its intention to commence a tender offer or an exchange offer and, within a reasonable time, the M&T board of directors either does not recommend that shareholders not accept the offer or fails to adopt a shareholders rights plan, or if M&T or M&T Bank becomes subject to any regulatory capital directive or becomes an institution in "troubled" condition under applicable banking regulations. However, in the event the tender offer or exchange offer is not commenced or consummated in accordance with its terms, the restrictions on AIB described above will thereafter continue to apply.

9.4 Anti-Dilution Protections

- 9.4.1 M&T has agreed that until the Sunset Date, in the event M&T issues shares of M&T stock (other than certain issuances to employees pursuant to option and benefit plans), subject to applicable law and regulatory requirements, AIB will have the right to purchase at fair market value up to the number of shares of M&T common stock required to increase or maintain its equity interest in M&T to 22.5 per cent. of the then outstanding M&T common stock.
- 9.4.2 M&T has also agreed that until the Sunset Date, in connection with any issuance of M&T stock pursuant to employee option or benefit plans, M&T will as soon as reasonably practicable, taking into account applicable law, regulatory capital requirements, capital planning and risk management, take such necessary actions so that AIB's proportionate ownership of M&T common stock is not reduced as a result of such issuances, including by funding such issuances through purchases of M&T common stock in the open market or by undertaking share repurchase programs.
- 9.4.3 Sale of M&T Common Stock and Right of First Refusal in Certain Circumstances

As long as AIB holds 5 per cent. or more of the outstanding shares of M&T common stock, AIB will not dispose of any of its shares of M&T common stock except, subject to the terms and conditions of the Reorganization Agreement and applicable law:

- (a) in a widely dispersed public distribution;
- (b) a private placement in which no one party acquires the right to purchase more than 2 per cent. of the outstanding shares of M&T common stock;
- (c) an assignment to a single party (such as a broker or investment banker) for the purpose of conducting a widely dispersed public distribution on AIB's behalf pursuant to Rule 144 under the US Securities Act;
- (d) pursuant to a tender or exchange offer to M&T's shareholders not opposed by M&T's board of directors, or open market purchase programs made by M&T; or
- (e) with the consent of M&T, which consent will not be unreasonably withheld, to a controlled subsidiary of AIB or pursuant to M&T's right of first refusal.

The Disposal as currently structured is not subject to M&T's right of first refusal.

10 Related party transactions

The related party transactions which must be disclosed in accordance with the standards adopted pursuant to the European Commission Regulation (EC) No. 1606/2002 are set out below.

Other than as disclosed in this document and the information incorporated by reference herein, no related party transactions were entered into by AIB or any other member of the Group during the financial periods ended 31 December 2007, 31 December 2008, 31 December 2009 or the six-month period ended 30 June 2010 or during the period between 1 July 2010 and 7 October 2010 (being the latest practicable date prior to the publication of this document). A number of banking transactions are entered into between Allied Irish Banks, p.l.c. and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions and the provision of guarantees on an “arm’s length” basis.

Associated undertakings

The Group provides certain banking and financial services for its associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present any other unfavourable features. The amounts outstanding as at 7 October 2010 (being the latest practicable date prior to the publication of this document) are set out below:

	<u>Associates and joint ventures</u>
	(€m)
Loans and advances to customers	117.9
Customer accounts	1,413.5

Sale and leaseback of Blocks E, F, G and H Bankcentre to Aviva Life and Pensions Ireland Limited

On 9 June 2006, the Group agreed the sale and leaseback of blocks E, F, G and H at Bankcentre in Dublin (as set out in note 14 to the financial statements in the 2009 Annual Financial Report). The lease is for 20 years. The blocks were sold to Aviva Life and Pensions Ireland Limited for a total consideration of €170.5 million. AIB holds a 24.99 per cent. share of Aviva Life Holdings Ireland Ltd. which is the holding company for Ark Life and Aviva Life Pensions Ireland Limited. The initial annual rent payable on blocks E, F, G and H is €7.1 million. The rent is paid through Wallkav Ltd, a wholly-owned subsidiary of AIB.

Government

The Government, as a result of both the Group’s participation in the CIFS Scheme and the NPRFC Investment and the ongoing relationship between the Government and the Company, became a related party of AIB. An amount of €147 million was paid by AIB to the Government for fees due under the CIFS Scheme for the period from 1 January 2009 to 31 December 2009. This payment was disclosed in the 2009 Annual Financial Report (as set out in note 5 to the financial statements in the 2009 Annual Financial Report). On 8 January 2010, an amount of €58.4 million was paid by AIB in respect of the CIFS Scheme. This payment was in respect of (a) the liabilities covered by the CIFS Scheme for the period from 1 January 2010 to 21 January 2010, the date on which AIB joined the ELG Scheme and (b) following AIB joining the ELG Scheme, the liabilities outstanding after 21 January 2010 that continued to have the benefit of the guarantee under the CIFS Scheme, up to 29 September 2010, or their maturity, whichever is the earlier. The payments made in respect of the ELG Scheme (for the period from 21 January 2010 to 30 June 2010) amounted to €118.9 million. Details of the NPRFC Investment are set out at paragraph 8.1.3 of this Part VII and in note 55 to the financial statements in the 2009 Annual Financial Report.

From time to time, AIB provides certain banking and financial services to the Irish Government in the normal course of business. AIB may also hold Government securities in both its trading and available for sale investment portfolios.

Transfer of AIB’s NAMA Assets to NAMA

In April 2010, AIB transferred €3.3 billion of assets to NAMA, representing the first tranche of its NAMA Assets. AIB received €1.9 billion in consideration for the assets in the form of NAMA Bonds and Subordinated NAMA Bonds from NAMA, which represented a discount of approximately 42 per cent. to the gross value of the assets transferred. The transfer of the second tranche of €2.7 billion of AIB’s NAMA Assets to NAMA occurred in July 2010. AIB received €1.4 billion in consideration for these assets in the form of NAMA Bonds and Subordinated

NAMA Bonds from NAMA, which represented a discount of approximately 48.5 per cent. to the gross value of the assets transferred.

Pension funds

As at 7 October 2010 (being the latest practicable date prior to the publication of this document) the Group provided banking and financial services, including asset management and money transmission services, to various pension funds operated by the Group for the benefit of its employees (principally the AIB Group Irish Pension Scheme and the AIB Group UK Pension Scheme), which are conducted on similar terms to third party transactions and are not material to the Group.

National Asset Management Agency Investment Ltd. (“NAMAIL”)

In March 2010, a subsidiary of AIB made an equity investment in 17 million “B” shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to €17 million, of which €12 million was invested on behalf of the AIB Group Irish pension scheme with the remainder invested on behalf of clients.

Transactions with key management personnel

Key management personnel comprises 23 persons, 17 of whom had loans outstanding as at 7 October 2010, being the latest practicable date prior to the publication of this document, who are or were directors (executive and non-executive) and senior executive officers (namely, members of the Group Executive Committee) of the Company during 2010.

Other than as set out in: (i) Notes 57(e) and 57(f) (Related Party Transactions on page 166) and Note 56 (Report on directors’ remuneration and interests on page 160) of the 2007 Annual Financial Report; (ii) Notes 60(e) and 60(f) (Related Party Transactions on page 240) and Note 59 (Report on directors’ remuneration and interests on page 234) of the 2008 Annual Financial Report; (iii) Notes 63(e) and 63(f) (Related Party Transactions on page 267) and Note 62 (Report on directors’ remuneration and interests on page 262) of the 2009 Annual Financial Report; and (iv) Note 43 (Related Party Transactions on page 95) of the 2010 Half-Yearly Financial Report, no transactions with key management personnel were entered into by the Group during the financial periods ended 31 December 2007, 31 December 2008, 31 December 2009 or the six-month period ended 30 June 2010. Other than the changes in loans to key management personnel set out below, no transactions with key management personnel were entered into during the period between 1 July 2010 and 7 October 2010 (being the latest practicable date prior to the publication of this document). AIB maintains information regarding Directors’ loans constituting related party transactions, as required by the Central Bank of Ireland’s disclosure requirements introduced in March 2009.

The aggregate amounts outstanding, and the number of persons concerned, in respect of all loans between AIB and its key management personnel, as defined above, including businesses influenced by them, together with the disclosure of the balances as at 7 October 2010 (being the latest practicable date prior to the publication of this document) are shown in the table below. Loans to key management personnel, namely executive and non-executive directors and senior executive officers, are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to executive directors and senior executive officers are also made, in the ordinary course of business, on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case-by-case basis.

<u>Key management personnel</u>	<u>Balance as at 7 October 2010</u>	<u>Number of persons as at 7 October 2010</u>
Loans outstanding	€7,209,392	17

Since 30 June 2010, there have been no material changes to the terms of loans to key management personnel, including interest rates and collateral, which existed at that time.

Since 30 June 2010, there have been no material changes in guarantees entered into by key management personnel in favour of the Group as existed at that time, and there were no calls on those guarantees since that date.

AIB has not made any provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which, having fallen due on the above loans, has not been paid.

11 No significant change

11.1 The Continuing Group

From 30 June 2010 (being the date of the 2010 Half-Yearly Financial Report) to the date of this document, there has been no significant change in the trading of the Continuing Group, save as disclosed in respect of the estimated after-tax loss attributable to Shareholders which was realised on the transfer of the second tranche of NAMA Assets by AIB in July 2010, as referred to in Part IV (“Unaudited Pro Forma Financial Information”) of this document and no significant change in the financial position of the Continuing Group save for changes in the overall funding profile, being i) a reduction in debt securities in issue, ii) a reduction in customer accounts and iii) an increase in deposits by banks. Notwithstanding the change in profile, the overall funding requirement remains in line with June 2010. This reflects the challenging funding environment faced by Irish financial institutions which has deteriorated since June 2010 as referred to in Part V (“Capital Resources and Liquidity”) of this document.

11.2 M&T and M&T Shareholding

In so far as the Company is aware, from 30 June 2010 (being the date of M&T’s unaudited quarterly report for the three months ended on 30 June 2010 filed on Form 10-Q with the SEC on 4 August 2010, which is publicly available at www.sec.gov) to the date of this document, there has been no significant change in the trading or financial position of M&T or in the M&T Shareholding.

12 Documents available for inspection

12.1 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):

- (a) from the date of publication of this document until 1 November 2010, being the date of the Extraordinary General Meeting, and 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 2009 Annual Financial Report, the 2008 Annual Financial Report, the 2007 Annual Financial Report 2007, the 2010 Half-Yearly Financial Report and the re-presented financial statements of AIB for the three years ended 31 December 2009;
 - (iii) the consent letters referred to in paragraph 15 below;
 - (iv) the report on the unaudited pro forma financial information of the AIB Group by KPMG set out in Part IV (“Unaudited Pro Forma Financial Information”) of this document;
 - (v) the Underwriting Agreement;
 - (vi) form of the Indenture;
 - (vii) form of the Security Agreement; and
 - (viii) this document.
- (b) from 13 October 2010 until 1 November 2010, being the date of the Extraordinary General Meeting, and at the Extraordinary General Meeting for at least 15 minutes prior to and during the meeting:
 - (i) the executed Indenture; and
 - (ii) the executed Security Agreement.

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>
2010 Half-Yearly Financial Report . . .	Key information — AIB Group interim results 2010	1-2
	Interim management report — Commentary on results	3-23
	Interim management report — Divisional commentary	24-32

<u>Document</u>	<u>Section</u>	<u>Page numbers in such document</u>
	Interim financial statements — Basis of preparation	33-35
	Condensed consolidated income statement	36
	Condensed consolidated statement of comprehensive income	37
	Condensed consolidated statement of financial position	38
	Condensed consolidated statement of cash flows	39-40
	Condensed consolidated statement of changes in equity	41-42
	Notes to the Interim financial statements	43-96
	Capital adequacy information	97
	Responsibility statement	98
	Independent review report of KPMG to Allied Irish Banks, p.l.c.	99
2009 Annual		
Financial Report . . .	Note 5 to the financial statements: Net Fee and Commission Income	164
	Note 14 to the financial statements: Construction contract income	177
	Note 35 to the financial statements: Interest in M&T Bank Corporation	219-220
	Note 55 to the financial statements: Summary of the Relationship with the Irish Government	243-246
	Note 62 to the financial statements: Report on director's remuneration and interests	262-266
	Notes 63(e) and (f) to the financial statements: Related Party Transactions	267-271
2008 Annual		
Financial Report . . .	Note 33 to the financial statements: Interest in M&T Bank Corporation	201-202
	Note 59 to the financial statements: Report on director's remuneration and interests	234-240
	Notes 60(e) and (f) to the financial statements: Related Party Transactions	240-241
2007 Annual		
Financial Report . . .	Note 56 to the financial statements: Report on directors' remuneration and interests	160-165
	Notes 57(e) and 57(f): Related Party Transactions	166-167

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 Historical share price information in respect of M&T Shares

14.1 The following table shows the last reported sale price (high and low), as reported on the New York Stock Exchange, for M&T Shares as at the end of each quarter from 30 June 2008 to 30 September 2010.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
	(US\$)	
2010		
30 September	92.38	81.81
30 June	96.15	74.11
31 March	85.00	66.32
2009		
31 December	69.89	59.09
30 September	67.46	50.33
30 June	61.87	43.50
31 March	59.08	29.11
2008		
31 December	99.50	52.30
30 September	108.53	53.61
30 June	98.38	69.90

14.2 M&T's share price on the following key dates was as follows:

14.2.1 On 5 October 2010 (being the date of announcement of the issue of the Notes): US\$85.26 (high), US\$82.35 (low).

14.2.2 On 7 October 2010 (being the latest practicable date prior to the publication of this document): US\$78.94 (high), US\$76.16 (low).

The issue price of the Notes on 6 October 2010, being the day of pricing of the Notes, was US\$77.50.

15 Consents

15.1 Morgan Stanley, independent adviser, has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of the references to its name in the form and context in which they appear.

15.2 AIB Corporate Finance has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of the references to its name in the form and context in which they appear.

15.3 Citigroup Global Markets Inc., in its capacity as a Lead Underwriter, has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of the references to its name in the form and context in which they appear.

15.4 KPMG, Chartered Accountants, has given and has not withdrawn its written consent to the inclusion of its report on the Pro Forma Financial Information set out in Part IV ("Unaudited Pro Forma Financial Information") of this document and the references to its name in the form and context in which they appear.

Dated: 11 October 2010

PART VIII

DEFINITIONS

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

2007 Annual Financial Report	the audited consolidated financial report of AIB for the year ended 31 December 2007
2008 Annual Financial Report	the audited consolidated financial report of AIB for the year ended 31 December 2008
2009 Annual Financial Report	the audited consolidated financial report of AIB for the year ended 31 December 2009
2009 Half-Yearly Financial Report	the unaudited consolidated financial report of AIB for the six months ended 30 June 2009
2010 Half-Yearly Financial Report	the unaudited consolidated financial report of AIB for the six months ended 30 June 2010
2009 Preference Dividend	the non-cumulative cash dividend on the 2009 Preference Shares at the fixed rate of 8 per cent. per annum of the amount paid up on the 2009 Preference Shares (including premium) that is payable annually in arrears on the Annual Dividend Payment Date in each year where the Directors have passed a resolution to pay such a dividend
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 on 13 May 2009 pursuant to the Subscription Agreement
2009 Warrants	the 294,251,819 warrants to subscribe for Ordinary Shares issued to the NPRFC on 13 May 2009 pursuant to the Subscription Agreement, as constituted by the Warrant Instrument
AIB or the 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 Board	the Board of Directors of the Company
AIB CIFS Covered Institutions	has the meaning given to it in paragraph 8.1.1 of Part VII (“Additional Information”) of this document
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 Central Bank of Ireland
AIB Designees	has the meaning given to it in paragraph 9.1 of Part VII (“Additional Information”) of this document
AIB ELG Covered Institutions	has the meaning given to it in paragraph 8.1.2 of Part VII (“Additional Information”) of this document
AIB Group or the Group	the Company and each of its subsidiaries and subsidiary undertakings from time to time
AIB Group Irish Pension Scheme	the defined benefit pension scheme established for employees of the Group in Ireland
AIB Group Performance Share Plan 2005	the AIB Group Performance Share Plan that was approved by Shareholders at the 2005 annual general meeting of AIB
AIB Group Share Option Scheme	the AIB Group Share Option Scheme approved by Shareholders at the 2000 annual general meeting of AIB, which has been replaced by the AIB Group Performance Share Plan 2005, which was approved by Shareholders at the 2005 annual general meeting of AIB
AIB Group UK Pension Scheme	the defined benefit pension scheme established for employees of the Group in the United Kingdom
AIB Regulatory Event	the existence at 9.00 a.m. (New York City time) on the Exchange Date of an order, direction or decree by an official of the Government, any Irish governmental or regulatory body, an Irish court or any officer appointed by an Irish court, the Government or an Irish statutory entity preventing AIB from delivering the M&T Shares to holders of the Notes on the Exchange Date
Allfirst	Allfirst Financial Inc.
Annual Dividend Payment Date	each anniversary of 13 May 2009 (or on the next business day where such date falls on a Saturday, Sunday or public holiday in Ireland)
Articles of Association	the articles of association of the Company

Aviva TUO Shares	2,225 shares of PLN 2,000 each in the share capital of Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., a company incorporated under the laws of Poland (registered under number KRS 0000002561), with its registered office at Warsaw 00-838, ul. Prosta 70, Poland
Aviva TUZ Shares	4,125 shares of PLN 2,000 each in the share capital of Aviva Towarzystwo Ubezpieczeń na Życie S.A., a company incorporated under the laws of Poland (registered under number KRS 0000009857), with its registered office at Warsaw 00-838, ul. Prosta 70, Poland (constituting 10 per cent. of the share capital of Aviva Towarzystwo Ubezpieczeń na Życie S.A.)
BACB	Bulgarian American Credit Bank
Basel III	the press release issued by the Basel Committee on 12 September 2010 titled "Group of Governors and Heads of Supervision announces higher global minimum capital standards"
Basel Committee	the Basel Committee on Banking Supervision
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 the annual dividends on the 2009 Preference Shares, in accordance with the Articles of Association
Bonus Shares Settlement Period	the period between the Annual Dividend Payment Date and the date on which AIB Group next: (a) pays a cash dividend on the 2009 Preference Shares, on any other share capital of AIB Group constituting Core Tier 1 Capital or on the Ordinary Shares or makes a cash distribution on the LPI Securities (or any replacement securities issued by AIB Group); or (b) redeems or purchases any of the 2009 Preference Shares, Core Tier 1 Capital, Ordinary Shares or the LPI Securities
BZWBK	Bank Zachodni WBK S.A., a Polish bank
BZWBK AIB Asset Management Shares	the shares of PLN 100 each in the share capital of BZWBK AIB Asset Management S.A.
BZWBK-Aviva TUO Shares	13,500 shares of PLN 1,000 each in the share capital of BZWBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., a company incorporated under the laws of Poland (registered under number KRS 0000310719), with its registered office at Poznań 61-894, Plac Andersa 5, Poland (constituting 50 per cent. of the share capital of BZWBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.)
BZWBK-Aviva TUZ Shares	10,875 shares of PLN 1,000 each in the share capital of BZWBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A., a company incorporated under the laws of Poland (registered under number KRS 0000310692), with its registered office at Poznań 61-894, Plac Andersa 5, Poland (constituting 50 per cent. of the share capital of BZWBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.)
BZWBK Disposal	the proposed disposal of the BZWBK Shareholding to Banco Santander S.A.
BZWBK Shareholding	the 51,413,790 BZWBK Shares held by AIB European Investments Limited (representing as at 7 October 2010 being the latest practicable date prior to the publication of this document, approximately 70.36 per cent. of BZWBK's issued share capital) and the 67,500 BZWBK AIB Asset Management Shares S.A. held by AIB Capital Markets p.l.c. (representing as at 7 October 2010 being the latest practicable date prior to the publication of this document, 50 per cent. of BZWBK's issued share capital)
BZWBK Shares	the shares of PLN 10 each in the share capital of BZWBK
BZWBK Share Purchase Agreement	the share purchase agreement entered into in respect of the BZWBK Disposal, details of which are set out in paragraph 8.1.5 of Part VII ("Additional Information") of this document
BZWBK Subsidiary Shares	the BZWBK AIB Asset Management Shares, the Dom Maklerski Shares, the TFI Shares, the BZWBK-Aviva TUO Shares; the BZWBK-Aviva TUZ Shares; the Aviva TUO Shares, and the Aviva TUZ Shares
BZWBK Tender Offer	the tender offer expected to be launched by Banco Santander S.A. for the entire issued share capital of BZWBK pursuant to the law on public procurement
Cash M&T Distribution	any cash distributions on M&T Shares that are declared and have an ex-dividend date after the pricing date of the Notes (being 6 October 2010) and, a record date prior to the Exchange Date or Maturity Date, as applicable
Cash M&T Distribution Adjustment	the amount equal to a Cash M&T Distribution to be paid by AIB (without any deduction for withholding or other taxes) to the holders of Notes on the record date of the relevant Cash M&T Distribution upon receipt by AIB
CEBS	the Committee of European Banking Supervisors

Central Bank	the Central Bank, as part of the Central Bank and the Financial Services Authority of Ireland, which was replaced by the Central Bank of Ireland on 1 October 2010
Central Bank of Ireland	the Central Bank of Ireland established pursuant to the Central Bank Acts 1942 to 2010
CIFS Scheme	the bank guarantee scheme introduced in Ireland pursuant to the Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008) which expired on 29 September 2010
Circular	this circular to Shareholders dated 11 October 2010, issued by the Company in connection with the Disposal
CIROC Report	the Covered Institutions Remuneration Oversight Committee report to the Minister for Finance dated 27 February 2009
Commission of Investigation	the Statutory Commission of Investigation announced by the Government on 9 June 2010 appointed to investigate certain matters in the Irish banking sector during the period 1 January 2003 to 15 January 2009
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 Disposal
Control Account	the account held in New York with The Bank of New York Mellon and subject to a security agreement between AIB and The Bank of New York Mellon in its capacities as account bank and as trustee. The Control Account has been pledged by AIB to the trustee for the benefit of the holders of the Notes to secure any cash payments (including any amount payable in respect of the Redemption Premium and Cash M&T Distribution Adjustment as described in Part VI (“Principal Terms of the Disposal”) of this document) that AIB is required to make to holders of the Notes in the event that Shareholder approval is not obtained by 8 November 2010 or if an AIB Regulatory Event occurs or is continuing on the Exchange Date or in the event of a Cash M&T Distribution
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 Central Bank of Ireland requirements at such time or equivalent)
Core Tier 1 Capital Ratio	the amount of AIB’s Core Tier 1 Capital as a proportion of its RWAs on a consolidated basis
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 1996 (S.I. No. 68 of 1996), as amended
Deposit Guarantee Scheme	the deposit protection scheme operated in accordance with the Financial Services (Deposit Guarantee Scheme) Act 2009, the European Communities (Deposit Guarantee Schemes) Regulations 1995 (as amended) and the European Communities (Deposit Guarantee Schemes) (Amendment) Regulations 2009
DG Competition	the Competition Directorate General of the European Commission
Directors	the Executive Directors and Non-Executive Directors, whose names appear in paragraph 3.1 of Part VII (“Additional Information”) of this document
Disposal	the proposed disposal of AIB’s 26.7 million M&T Shares (representing as at 7 October 2010, being the latest practicable date prior to the publication of this document, approximately 22.4 per cent. of M&T’s outstanding common stock)
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Dom Maklerski Shares	449,743 shares of PLN 100 each in the share capital of Dom Maklerski BZWBK S.A., a company incorporated under the laws of Poland (registered under number KRS 0000006408), with its registered office at Poznań, 60-967, Plac Wolności 16, Poland (constituting 98.78 per cent. of the share capital of Dom Maklerski BZWBK S.A.)

EGM Notice	the notice of the Extraordinary General Meeting set out in this document
ELG Scheme	the eligible liabilities guarantee scheme introduced in Ireland pursuant to the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (S.I. No. 490 of 2009) as amended by the Credit Institutions (Eligible Liabilities Guarantee) (Amendment) Scheme 2010 (S.I. No. 470 of 2010) and the Rules of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (as amended)
EPS	earnings per share
Equity Tier 1 Capital	the amount of AIB's Core Tier 1 Capital less the amount (including premium) paid up on the 2009 Preference Shares
Equity Tier 1 Capital Ratio	the amount of AIB's Equity Tier 1 Capital as a proportion of its RWAs on a consolidated basis
EU	the European Union
EU Capital Requirements Directive III	the proposal for a Directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies
EU Capital Requirements Directive IV	the proposals to amend Directives 2006/48/EC and 2006/49/EC supplementing the two sets of revisions adopted by the European Commission in October 2008 and July 2009 as regards liquidity standards, definition of capital, leverage ratio, counterparty credit risk, countercyclical measures, systemically important financial institutions and single rule book in banking
Euro or €	the single currency of the EU Member States that adopt or have adopted the euro as their lawful currency under the legislation of the European Union or European Monetary Union
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
European Economic Area or EEA	the European Union, Iceland, Norway and Liechtenstein
Eurosystem	the central banking system of the euro area comprising the European Central Bank and the national central banks of the EU Member States whose common currency is the Euro
Eurozone	the 16 EU Member States that have established an economic and monetary union
Exchange Date	the third business day following receipt of approval by Shareholders of the Disposal
Executive Chairman	the executive chairman of AIB, as appointed from time to time
Executive Directors	the executive directors of AIB
Extraordinary General Meeting or EGM	the extraordinary general meeting of AIB to be held at 11.00 a.m. on 1 November 2010 at Bankcentre, Ballsbridge, Dublin 4, notice of which is set out in this document
FDIC	the US Federal Deposit Insurance Corporation
Financial Regulator	the Irish Financial Services Regulatory Authority, as part of the Central Bank and Financial Services Authority of Ireland, which was replaced by the Central Bank of Ireland on 1 October 2010
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
GDP	gross domestic product
Government	the Government of Ireland
Government Entity	(i) any of the NTMA, the NPRFC, the Minister for Finance or 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
IASB	the International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICS	the Investor Compensation Scheme

IFRS	International Accounting Standards and International Financial Reporting Standards (collectively IFRS) both as issued by the International Accounting Standards Board and subsequently adopted by the European Union
Indenture	has the meaning set out in paragraph 8.3.3 of Part VII (“Additional Information”) of this document
Ireland	the Republic of Ireland, and the word “Irish” shall be construed accordingly
Irish Stock Exchange or ISE	Irish Stock Exchange Limited
KNF	Komisja Nadzoru Finansowego, the Polish Financial Supervision Commission
KPMG	KPMG, a firm of chartered accountants registered with the Institute of Chartered Accountants in Ireland
Lead Underwriters	Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. acting as joint book-running managers pursuant to the Underwriting Agreement
Listing Rules	the Listing Rules of the Irish Stock Exchange and the Listing Rules made by the FSA under Part VI of the FSMA
London Stock Exchange or LSE	London Stock Exchange plc
LPI Securities	the £1,000,000,000 Fixed Rate/Floating Rate Guaranteed Non-Voting Non-Cumulative Perpetual Preferred Securities issued by AIB UK 1 LP in 2004
LP2 Securities	the £500,000,000 Fixed Rate/Floating Rate Guaranteed Non-Voting Non-Cumulative Perpetual Preferred Securities issued by AIB UK 2 LP in 2006
LP3 Securities	the £350,000,000 Fixed Rate/Floating Rate Guaranteed Non-Voting Non-Cumulative Perpetual Preferred Securities issued by AIB UK 3 LP in 2006
M&T	M&T Bank Corporation, a company incorporated under the laws of New York and having its registered office at One M&T Plaza, Buffalo, New York
M&T Bank	M&T Bank, National Association
M&T Shareholding	the 26.7 million M&T Shares held by AIB (representing as at 7 October 2010, being the latest practicable date prior to the publication of this document, approximately 22.4 per cent. of M&T’s outstanding common stock)
M&T Shares	shares of the common stock of M&T with a par value of US\$0.50
Maturity Date	15 November 2010, being the maturity date of the Notes unless earlier exchanged
Minister or Minister for Finance	the Minister for Finance of Ireland
Morgan Stanley	Morgan Stanley & Co. Limited
NAMA	the National Asset Management Agency, established by the NAMA Act and, where the context permits, other members of NAMA’s group, including subsidiaries and associated companies
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
NAMA Bonds	notes, bills, bonds or other financial instruments issued and to be issued by NAMA or a NAMA Group Entity (and guaranteed by the Minister) or by the Minister to a participating institution in consideration for the acquisition of NAMA Assets by NAMA or a NAMA Group Entity in accordance with the NAMA Act
NAMA Group Entity	means either (a) a subsidiary of NAMA or (b) 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 purpose of performing any of its functions under the NAMA Act
NAMAIL	National Asset Management Agency Investment, Ltd.
NAMA Participation	the participation by AIB in the NAMA Programme
NAMA Programme	the programme through which NAMA has acquired or will acquire NAMA Assets from Participating Institutions on the terms specified in or pursuant to the NAMA Act
Non-Executive Directors	the non-executive directors of AIB
Note(s)	the contingent mandatorily exchangeable notes issued by AIB to investors who, following receipt of Shareholder approval and in the absence of an AIB Regulatory Event, will receive one M&T Share in exchange for each Note,

	subject to anti-dilution adjustments as set out in paragraph 2.7 of Part VI (“Principal Terms of the Disposal”) of this document and the principal amount of which is principally based on the market price of M&T Shares at the time of issuance of the Notes
Noteholders	the holders of the Notes
Note Proceeds	the gross proceeds of the Notes issuance
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	the ordinary shares of €0.32 each in the share capital of the Company
Participating Institution	a credit institution that has been designated by the Minister under section 67 of the NAMA Act as being a participating institution for the purposes of the NAMA Act and, unless otherwise stated or the context otherwise requires, includes (a) every subsidiary of that institution that is not expressly excluded by the Minister, and (b) AIB and every subsidiary of AIB that is not expressly excluded by the Minister
PCAR	the Prudential Capital Assessment Review, including any future Prudential Capital Assessment Review or revisions, as relevant, carried out by the Central Bank, the Financial Regulator or, as the case may be, the Central Bank of Ireland on the prudential capital requirements of certain Irish credit institutions, including AIB, announced by the Financial Regulator on 30 March 2010 and revised on 30 September 2010
PLN	the Polish zloty, the lawful currency of Poland
Pro Forma Financial Information	the unaudited pro forma financial information of the AIB Group as at 30 June 2010, set out in Part IV (“Unaudited Pro Forma Financial Information”) of this document, illustrating how the Disposal, the transfer of the second tranche of NAMA Assets to NAMA and the BZWBK Disposal might have affected the financial position of the Group if they had each occurred on that date
Prospectus Directive Regulation	Commission Regulation (EC) No 809/2004
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
RCI Securities	the €500,000,000 Step-up Callable Perpetual Reserve Capital Instruments issued by AIB in 2001
Redemption Premium	the redemption premium of US\$0.26 to be paid by AIB upon redemption of each Note to the holders of such Note if Shareholders do not approve the Disposal by 8 November 2010 or if an AIB Regulatory Event occurs and is continuing on the Exchange Date
Redemption Price	the principal amount of the Notes together with the Redemption Premium less the amount of any Cash M&T Distribution in excess of US\$0.515 per Note as set out in paragraph 2.6 of Part VI (“Principal Terms of the Disposal”) of this document
Registrar or Computershare Investor Services	Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18
Reorganization Agreement	the Agreement and Plan of Reorganization dated 26 September 2002 entered into by and among AIB, Allfirst and M&T
Resolution	the resolution set out in the EGM Notice in respect of the approval of the Disposal by Shareholders
RWAs	risk weighted assets

SEC	the US Securities and Exchange Commission
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
Security Agreement	has the meaning set out in paragraph 8.3.2 of Part VII (“Additional Information”) of this document
Senior Executives	the senior executives of AIB whose names appear in paragraph 3.2 of Part VII (“Additional Information”) of this document
Shareholder	a holder of Ordinary Shares
S.I.s	statutory instruments
S.I. No. 661 of 2006	European Communities (Capital Adequacy of Credit Institutions) Regulations 2006
Sterling or £	sterling, the lawful currency of the United Kingdom
Statement on Banking	the announcement entitled “Minister’s Statement on Banking 30 September 2010” issued on 30 September 2010
Subordinated NAMA Bonds	subordinated notes, bills, bonds or other financial instruments issued and to be issued by NAMA or a NAMA Group Entity in consideration for the acquisition of bank assets by NAMA 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
Sunset Date	has the meaning set out in paragraph 9.1.5 of Part VII (“Additional Information”) of this document
TARP	the US Troubled Asset Relief Program
TFI Shares	132,020 shares of PLN 100 each in the capital of BZWBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., a company incorporated under the laws of Poland (registered under number KRS 0000001132), with its registered office at Poznań, 61-967, Plac Wolności 15, Poland (constituting 100 per cent. of the share capital of BZWBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.)
Tier 1 Capital	securities that constitute, under the regulatory framework then applicable to the Company, tier 1 capital (within the meaning of the Central Bank of Ireland’s requirements at such time or equivalent)
Tier 1 Capital Ratio	the amount of AIB’s Tier 1 Capital as a proportion of its RWAs on a consolidated basis
Tier 2 Capital	the undisclosed reserves, revaluation reserves, general provisions, loan loss reserves, hybrid debt-equity instruments and subordinated long-term debt
Total Capital	Tier 1 Capital plus Tier 2 Capital
Total Capital Ratio	AIB’s Total Capital as a proportion of its RWAs on a consolidated basis
Treasury Shares	Ordinary Shares that 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
Underwriting Agreement	the agreement entered into between Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc. and AIB on 6 October 2010, details of which are set out in Part VII (“Additional Information”) of this document
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
US GAAP	generally accepted accounting principles in the United States
US Securities Act	the US Securities Act of 1933, as amended
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 1 November 2010 at Bankcentre, Ballsbridge, Dublin 4 to consider and, if thought fit, pass the following Resolution, which will be proposed as an ordinary resolution:

Ordinary Resolution

THAT the proposed disposal by the Company of all of its holding of shares of M&T common stock upon the terms described in a circular to the shareholders of the Company dated 11 October 2010 (the “Disposal”), being 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 Disposal upon such terms and in such manner as they determine to be necessary, expedient or desirable, including, agreeing such modifications, revisions, amendments, variations or waivers (not being modifications, revisions, amendments, variations or waivers that are of a material nature) as the Directors (or any duly authorised committee thereof) may in their absolute discretion deem necessary, expedient, appropriate or desirable.

By Order of the Board

David O’Callaghan

Company Secretary
Bankcentre
Ballsbridge
Dublin 4

11 October 2010

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, will 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 the 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 time(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 CREST 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 1,080,845,303 (excluding Treasury Shares).
- (13) Voting on the resolution 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) The resolution is an ordinary resolution and requires a simple majority 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.
- (16) The Extraordinary General Meeting is being convened to consider a specific resolution as incorporated in this Notice of Extraordinary General Meeting. As the text of the resolution 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.

