Half-Yearly Financial Report 2010

AIB

For the half-year ended 30 June 2010, Allied Irish Banks, p.l.c.

Colm Doherty, Group Managing Director

Forward looking statements

A number of statements we will be making in our presentation and in the accompanying slides will not be based on historical fact, but will be “forward-looking” statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected in the forward looking statements. Factors that could cause actual results to differ materially from those in the forward looking statements include, but are not limited to, global, national and regional economic conditions, levels of market interest rates, credit or other risks of lending and investment activities, competitive and regulatory factors and technology change. Any ‘forward-looking statements made by or on behalf of the Group speak only as of the date they are made.

The following commentary is on a total group operations basis. The growth percentages are shown on an underlying basis, adjusted for the impact of exchange rate movements on the translation of foreign locations’ profit, the loss on transfer of the first tranche of assets to NAMA, profit on disposal of branches as part of the sale and leaseback programme, the gain on redemption of subordinated liabilities as part of the capital exchange offerings completed in both periods and excluding interest rate hedge volatility (hedging ineffectiveness and derivative volatility).

Agenda

2010 interim results overview

Loan profiles and trends

Key priorities and targets

Key financial features

€m	Jun * 2010	Jun * 2009
Total operating income	1,997	2,781
- Loans ↓ 5% #		
- Deposits ↓ 4 % #		
- Net interest margin %	1.56	2.03
Total operating expenses	1,021	1,043
Operating profit	976	1,738
Credit provisions – non-NAMA	(1,094)	(960)
Associated undertakings / other	275	(237)
Profit before tax (pre NAMA)	157	541
Nama - credit provisions	(1,221)	(1,413)
- loss on transfer	(963)	
Loss before tax	(2,027)	(872)

Funding %	Jun 2009	Dec 2009	Jun 2010
Loan / deposits			
- incl NAMA loans	156	146	143
- excluding NAMA loans	156	123	127
Wholesale funding **			
- duration > 1 year	41	30	46
(as % of total wholesale funding)			

Capital %	Jun 2009	Dec 2009	Jun 2010
RWAs (€bn)	131	120	113
Tier 1 ratio	7.8	7.2	6.0
Core tier 1 ratio	8.5	7.9	6.9
Equity tier 1 ratio	5.8	5.0	3.8
Total capital ratio	10.7	10.2	9.0

* *excludes NAMA effects except where stated*
** *excludes repo / includes sub debt*
\# *movement since Dec 2009*

Profit / loss by division – pre-NAMA

June 2010	Pre-provision operating profit €m	Profit / loss before tax €m
AIB Bank RoI	170	(545)*
Capital Markets	307	178
AIB Bank UK	111	(57)
CEE	197	115

* *excludes NAMA provisions of €1,220m*

NAMA eligible loans

€ bn	Landbank & Development	Associated	Total
AIB Bank RoI	11.6	5.0	16.6
Capital Markets	0.1	0.2	0.3
UK	2.3	1.2	3.5
Sub total	14.0	6.4	20.4
UK reclassified loans	2.0	1.2	3.2
Total	12.0	5.2	17.2
Risk weighted assets			c. 8.0
Impaired at 30th Jun 2010			c. 10.6
Balance sheet provisions at 30th Jun 2010			c. 4.5

NAMA eligible loans previously reported as €23.2bn. The quantum has reduced to €17.2bn* at 30/6/2010 due to:

- In H1 2010 gross loans of c. €3.3bn transferred to NAMA (gross loans of c. €2.7bn subsequently transferred to NAMA in July 2010 will be recorded in H2 2010)
- UK NAMA eligible loans of Stg£2.6bn (€3.2bn) at December 2009 may be included in sale of UK business
- Financial Regulator's €7.4bn capital requirement incorporates €23.2bn NAMA loans
- Balance sheet provisions partly offset losses on loan transfers to NAMA

* *currency movements have added €0.3bn*

Non NAMA loans – credit trends

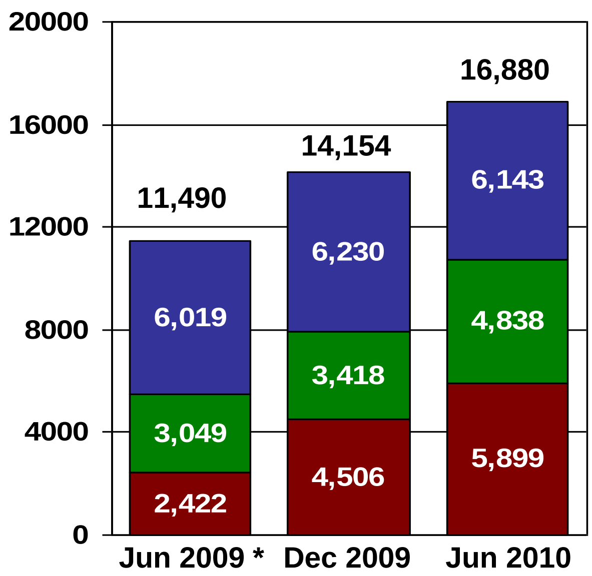
June 2010	Watch €m	Watch %	Vulnerable €m	Vulnerable %	Impaired €m	Impaired %	Total Criticised €m	Total Criticised %
AIB Bank RoI	6,143	11	4,838	8	5,899	10	16,880	29
Capital Markets	339	1	359	2	644	3	1,342	6
AIB Bank UK	2,262	13	2,220	13	1,086	6	5,568*	32
CEE	910	11	305	4	547	6	1,762	20
Sub total	9,654		7,722		8,176		25,552	
UK reclassified **	550	17	580	18	1,040	33	2,170	69
Group	10,204	9	8,302	8	9,216	8	27,722	25

Dec 2009	Watch €m	Watch %	Vulnerable €m	Vulnerable %	Impaired €m	Impaired %	Total Criticised €m	Total Criticised %
AIB Bank RoI	6,230	11	3,418	6	4.506	8	14,154	24
Capital Markets	241	1	411	2	559	3	1,211	5
AIB Bank UK	1,892	11	1,878	11	912	5	4,682*	27
CEE	1,002	14	241	3	519	6	1,762	20
Group	9,365	9	5,948	6	6,496	6	21,809	20

* *underlying constant currency increase of c. €0.5bn (Stg£0.4bn)* ** *eligible loans may be included in sale of UK business*

- Criticised loans, both stock and increases, remain heavily weighted to AIB Bank RoI
- Capital Markets showing clear signs of stability and exposures are well spread across sectors and geographies
- Portfolios in “for sale” businesses stabilising and performing in line with expectations

Non NAMA – AIB RoI criticised loans



* *management estimate*

Watch

- Credit exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflow

Vulnerable

- Credit where repayment is in jeopardy from normal cash flow and may be dependent on other sources

Impaired

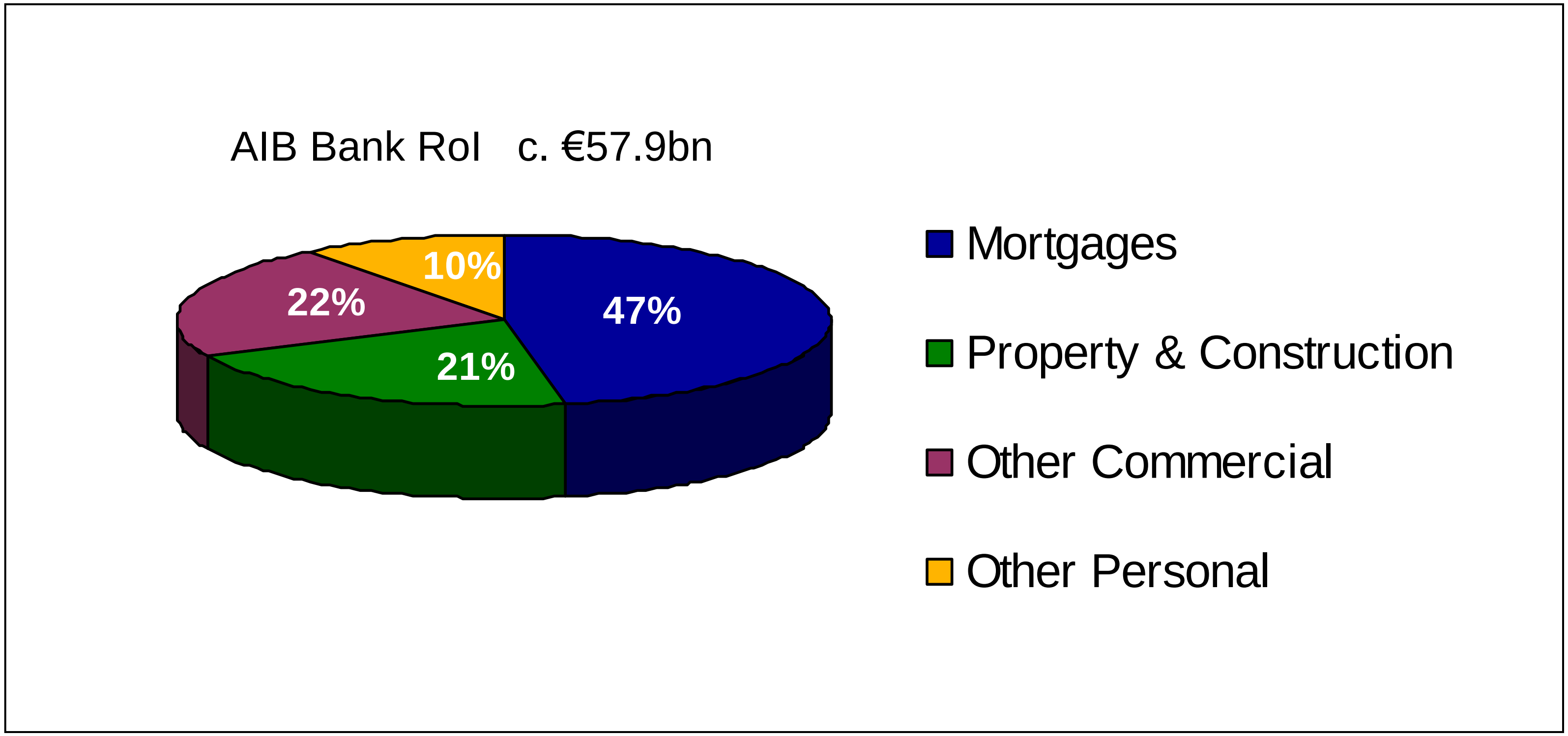
- A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event") and that loss event (or events) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets i.e. requires a provision to be raised through the profit and loss

Balance sheet provisions

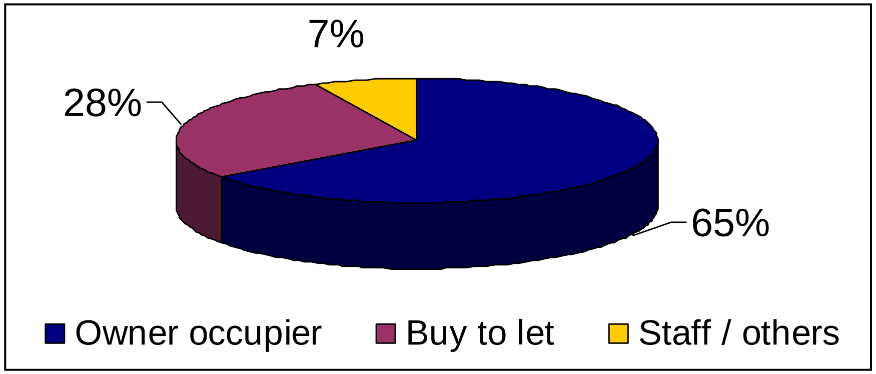
€m	Dec 2009	Jun 2010
Specific	1,427	2,077
IBNR	510	510
Total	1,937	2,587
Total provisions / total loans %	3.3	4.5
Total provisions / impaired loans %	43	44

- Total criticised loans in H1 2010 continued to increase at a broadly stable rate in line with our expectations, reflecting a credit environment that remains challenging
- In H1 2010 impaired loans increased by €1.4bn (51% of increase in criticised loans). In H2 2009, impaired loans increased by €2.1bn (78% of increase in criticised loans).
  - Notwithstanding this slowdown in the growth of impaired loans, the level of specific provision cover has increased from 32% (€1,427m) to 35% (€2,077m) at June 2010 compared to December 2009.
- The earliest lead indicator of credit trends are watch loans and balances in this category are broadly stable at c. €6.1bn at June 2010. However, trends in vulnerable loans have deteriorated in H1 2010 to c. €4.8bn
  - IBNR stock of €510m is broadly unchanged since December 2009 and represents provisions already made for credit losses not yet recognised

Non NAMA loans – AIB RoI sector profile



Non NAMA loans – AIB RoI mortgages



Balance sheet provisions

€m	Jun * 2009	Dec 2009	Jun 2010
Specific	62	75	106
IBNR	27	53	94
Total	89	128	200

* *includes NAMA loans*

- Total book €27.1bn
- Arrears profile remains better than peers
  - 90+ days 3.21% including impaired loans of €608m
    - Owner occupier 90+ days arrears of 2.12% (1.58% Dec '09) vs overall market owner occupier arrears of 5.1% (March 2010)
    - Buy-to-let 90+ days arrears of 5.92% (3.28% Dec '09)
  - Specific provision charge of €42m in H1 2010, up from €29m in H2 2009
  - Higher IBNR charge of €41m in H1 2010, up from €26m in H2 2009, providing for losses not yet recognised

Non NAMA loans – AIB RoI property & construction

	Dec 2009 € bn	Dec 2009 %	Jun 2010 € bn	Jun 2010 %
Pro-forma post NAMA	12.2		12.2	
(incl c. €1.4bn loans for UK assets in June 2010)				
<u>Sector profile</u>				
Investment property	8.7		8.8	
Land & development	3.5		3.4	
<u>Credit profile</u>				
Satisfactory	7.0		5.8	
Watch	2.0		2.1	
Vulnerable	1.1		1.6	
Impaired	2.1		2.7	
Total provisions	0.8		1.0	
Total provisions / loans		6.6		8.2
Specific provisions / impaired loans		25		29
Total provisions / impaired loans		37		37
Bad debt charge		3.83		4.30

Non NAMA loans – AIB RoI property & construction

Contd…

	Dec 09 € bn	% of book %	Jun 2010 € bn	% of book %
Property investment				
Satisfactory	5.9	68	4.9	56
Watch	1.3	15	1.5	17
Vulnerable	0.5	6	1.0	11
Impaired	1.0	11	1.4	16
	8.7	100	8.8	100
Residential investment	1.6		1.7	
Commercial investment	7.1		7.1	
	8.7		8.8	
Land & development				
Satisfactory	1.2	35	0.9	29
Watch	0.7	19	0.6	16
Vulnerable	0.5	15	0.6	17
Impaired	1.1	31	1.3	38
	3.5	100	3.4	100

Non NAMA – AIB RoI other loan portfolios

	Dec 2009 € bn	Dec 2009 %	Jun 2010 € bn	Jun 2010 %
Proforma post NAMA	19.2		18.6	
SME / Business	13.2		12.9	
which includes at June '10				
hotels 1.7				
pubs 1.1				
retail / wholesale 2.9				
other services 2.8				
agriculture 1.9				
Other personal	6.0		5.7	
<u>Credit profile</u>				
Satisfactory	12.9		11.2	
Watch	2.7		2.7	
Vulnerable	1.6		2.2	
Impaired	2.0		2.5	
Total provisions	1.0		1.4	
Total provisions / loans		5.2		7.5
Specific provisions / impaired loans		40		48
Total provisions / impaired loans		50		56
Bad debt charge		3.61		4.40

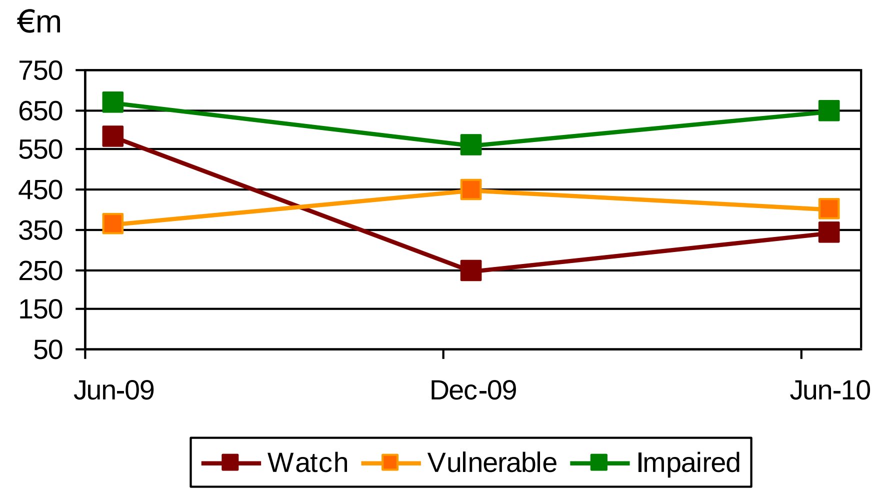
AIB Capital Markets loan portfolios

Geographies		**€ bn**
North America	c.	6.2
Britain	c.	3.2
International	c.	6.4
Ireland	c.	6.3
Other	c.	1.0
Total	c.	23

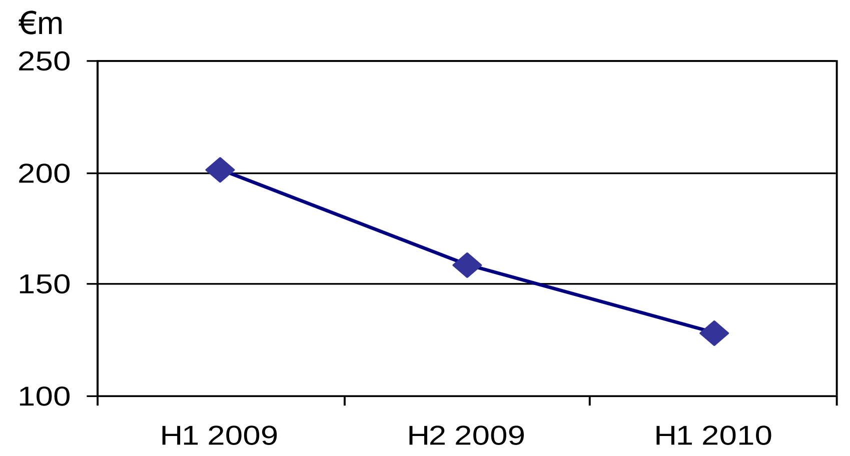
Sectors		**€ bn**
Property	c.	6.0*
Leveraged finance	c.	4.6 **
General corporate	c.	12.4
Total	c.	23

* *90% investment property, primarily in UK & US, €300m in Ireland*
** *50% US, 50% Europe*

- Criticised loans



- Bad debt rate reducing



Credit charges

€m	H1 2009	H2 2009	H1 2010
AIB Bank RoI	1,911	2,562	1,962
NAMA eligible	1,311	1,904	1,220
Other	600	658	742
AIB Bank UK	188	207	169
Capital Markets	201	155	128
CEE	73	53	56
Group	2,373	2,977	2,315

Clear priorities for new senior management team

Rebuilding our business on solid foundations

- Raising capital
- Improving funding profile

Restoring AIB to path of sustainable profit

- Increasing product pricing and margins
- Improving risk governance and management
- Reducing costs
- Supporting customers

Rebuilding our business on solid foundations

Priority	Current status, actions and targets
Capital	Meet Financial Regulator's requirement to generate the equivalent of €7.4bn equity capital
	AIB passed CEBS stress test
	Key business disposals process is ongoing • results of process will be disclosed on achievement of each disposal
	Post disposals plan in place to raise additional equity in Q4 2010 through placing / rights issue
	Implement EU restructuring plan requirements. Discussions well advanced, substantive engagement and progress achieved with the EC not expected to have any major objections to the terms and measures in the restructuring plan proposed by AIB
	Equity capital expected to trough at c. 8% post plan implementation and rising thereafter

Rebuilding our business on solid foundations

Priority	Current status, actions and targets
Funding	Strong customer deposit franchises account for 53% of total funding (51% at Dec 2009)
	Quantum of wholesale funding* reduced from c. €44bn to c. €41bn at 30 June 2010, loan / deposit ratio 143% • will reduce as a consequence of expected business disposals • loan / deposit ratio expected to reduce to < 120% by 2013 ** excluding repo / including sub debt*
	Current wholesale funding profile - acute risk aversion has shortened funding duration across the global banking sector AIB wholesale funding comprises: • 46% of wholesale funding > 1 year duration • €6bn of term funding raised in H1, full year target almost complete • 2011 term funding maturities very low, c. €2bn • wholesale funding < 1 year spread across a wide range of counterparties and accounts for c. 14% of total funding
	Growing levels of QLA / collateral stock underpinning our liquidity • continue to hold a significant surplus to regulatory liquidity ratios
	Eligible Liabilities Guarantee (ELG) remains under review to confirm financial stability and funding access are underpinned • currently extended to 29 Sept 2010, modified version extended to 31 Dec 2010; • motivated and incentivised to disengage from the ELG at the earliest prudent date

Restoring AIB to path of sustainable profit

Priority	Current status, actions and targets
Product pricing and margins	Net interest margin down 25 bps to 1.56% vs H2 2009, down 47 bps vs H1 2009

Key drivers include:

bps *(management estimate)*	*vs H2 2009* (movement)	*vs H1 2009* (movement)
increased cost of customer deposits	-10	- 16
increased cost of wholesale funding	-9	- 13
treasury income	+8	- 7
lower return on capital	-9	- 10
higher loan margins	+10	+ 14
Subtotal	- 10	- 32
cost of ELG	-15	- 15
Total	- 25	- 47

Reprice liabilities and assets to commercial levels at a pace consistent with market and economic development

- now achieving margins in 2-4% range for all new / repriced loans
- emerging signs of stability in cost of customer deposits

Net interest margin target of c. 180 bps by 2013. Expected to trough in 2011 post disposal of higher margin businesses and full year effect of replacing NAMA loans with lower yielding NAMA bonds

Priority	Current status, actions and targets
Improving risk governance and management	Complete transfer of assets in line with NAMA timetable
	Embed sound risk management policy and practice in an increasingly diversified loan book that incurs a progressively reducing loss rate to c. 40 bps by 2013 • Post NAMA / business disposals loan book c. €81bn of which: Business banking €32bn* Residential mortgages €27bn Commercial / SME banking €16bn Personal banking €6bn * *now under direct management by Capital Markets, includes corporate banking and all RoI exposures > €10m*
	Post NAMA loan book will contain c. €18bn loans to property & construction (Ireland c. €11bn, RoW c. €7bn) of which €15bn is investment property

Restoring AIB to path of sustainable profit

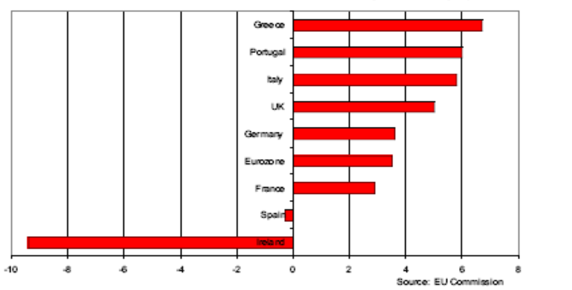
Priority	Current status, actions and targets
Improving risk governance and management *contd....*	Cumulative bad debt charge is expected to be c. €2.9bn for 3 years 2010 - 2012 inclusive (H1 2010 €1.1bn). Charge rate expected to have peaked in H1 2010 and to progressively reduce thereafter • assumes no change to business ownership for 2010; 2011 and 2012 incorporates RoI and CM businesses but assumes disposal of UK and CEE • provision levels through to 2012 independently validated by Oliver Wyman during Q2 2010 • prudential buffer of €1.1bn required by Financial Regulator is in addition to our outlook

Economic assumptions underpinning impairment charges

GDP % volume	2010 (f)	2011 (f)
Ireland	0.0	2.5
UK	1.0	1.8
EU	1.1	1.7
US	3.0	2.5

Source: AIB ERU

Unit Labour Costs 2009-2011 (% Change)

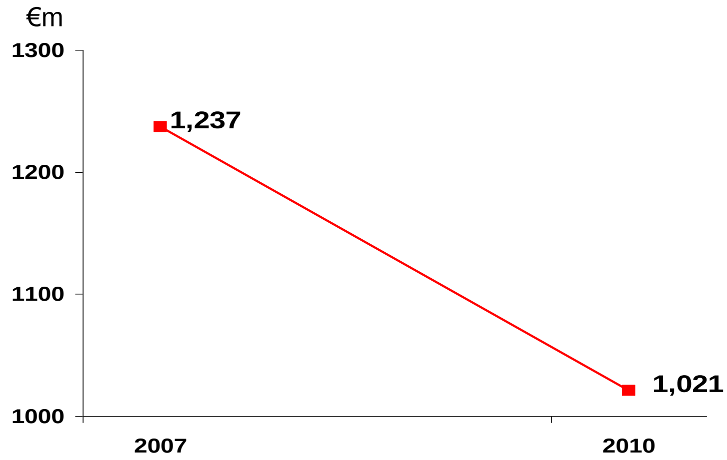


Ireland

- Convincing steps taken in an ongoing austerity programme
- Improving productivity and competitiveness
- Recovery being driven by the traded sector & assisted by a weaker euro
- Drag effect of over reliance on construction now abating
- Unemployment expected to level off at below 14%, job gains to lag economic recovery

Restoring AIB to path of sustainable profit

Priority	Current status, actions and targets
Reducing costs	Operating cost flexibility continued in H2 2010, costs ↓5%



Costs have reduced by c. 18%* in the 3 years to June 2010

* *not currency adjusted*

Implement cost reduction programme that progressively achieves a lower cost / income ratio to c. 50% by 2013

- cost base will reflect a smaller bank, employing less people post disposals and business reorganisation
- cost plan developed; details of savings will be discussed and agreed with key stakeholders over the coming months

Restoring AIB to path of sustainable profit

Priority	Current status, actions and targets
Customer	Committed and positioned to support customers and economic recovery
	€3bn new / additional credit to SMEs in both 2010 and 2011
	€500m small business recovery scheme launched in May
	Additional €20m seed capital fund, in addition to €53m AIB/EI seed capital funds
	€100m EIB loan funding allocated over past year to 1,100 SMEs; additional €150m tranche now being sought from EIB
	€100m SME environmental, clean energy & innovation loan fund being launched
	1,000 SME applications processed per week
	Wide range of initiatives to provide further support to SMEs including leadership, development of specialist lending skills and communication
	Internal appeals process in place; full support of new Credit Review Office
	€4.4bn of mortgages sanctioned in 18 months to June 2010; 36% share of sanctions in overall market
	Wide ranging support to mortgage customers in difficulty

Summary

Reorganisation and coordination of policies and practices now showing positive results

Remainder of 2010 will be a vital period for AIB

All resources fully committed to restore confidence in AIB

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Our Group Investor Relations Department will be happy to facilitate your requests for any further information

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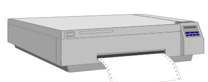 +353-1-641 2075

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