

*Half-Yearly
Financial Report 2008*



For the half-year ended 30 June 2008, Allied Irish Banks, p.l.c.

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 continuing operations basis. The growth percentages (excl. EPS) are shown on an underlying basis, adjusted for the impact of exchange rate movements on the translation of foreign locations’ profit and excluding interest rate hedge volatility.



Eugene Sheehy
Group Chief Executive

H1 2008 overview including key financial trends and business unit review

Outlook in a challenging environment

- Performance driven by high quality, diverse franchises operating in a difficult environment

- Resilience in key areas of market focus
 - Strong operating performance; actively managing costs as income growth slows
 - Vigilant management of deteriorating asset quality
 - Solid capital and funding positions though funding costs are high in dislocated markets

Basic earnings per share	114.0 c	
- basic adjusted *	104.9 c	↓ 4 % **
Positive income / cost gap		5%
Cost / income ratio		↓ 2%
Impaired loans		1.1%
Dividend		↑ 10%
Return on equity		21.9%
Tier 1 capital ratio		7.7%

* Basic earnings per share less profit on disposal / development of properties, business and hedge volatility

** Relative to June 2007 base figure of 108.8c

- Strong pre-provision operating performance; more difficult credit environment

	Pre-provision operating profit			Operating Profit		
AIB Bank Rol	€591m	↑	3%	€502m	↓	5%
Capital Markets	€313m	↑	4%	€295m	↓	7%
AIB Bank UK	£169m	↑	10%	£150m	-	
Poland	Pln 635m	↑	11%	Pln 615m	↑	3%
M&T *	US\$ 704m	↑	10%	US\$ 544m	↓	7%

* 100% M&T, AIB owns 24.2% @ Jun '08

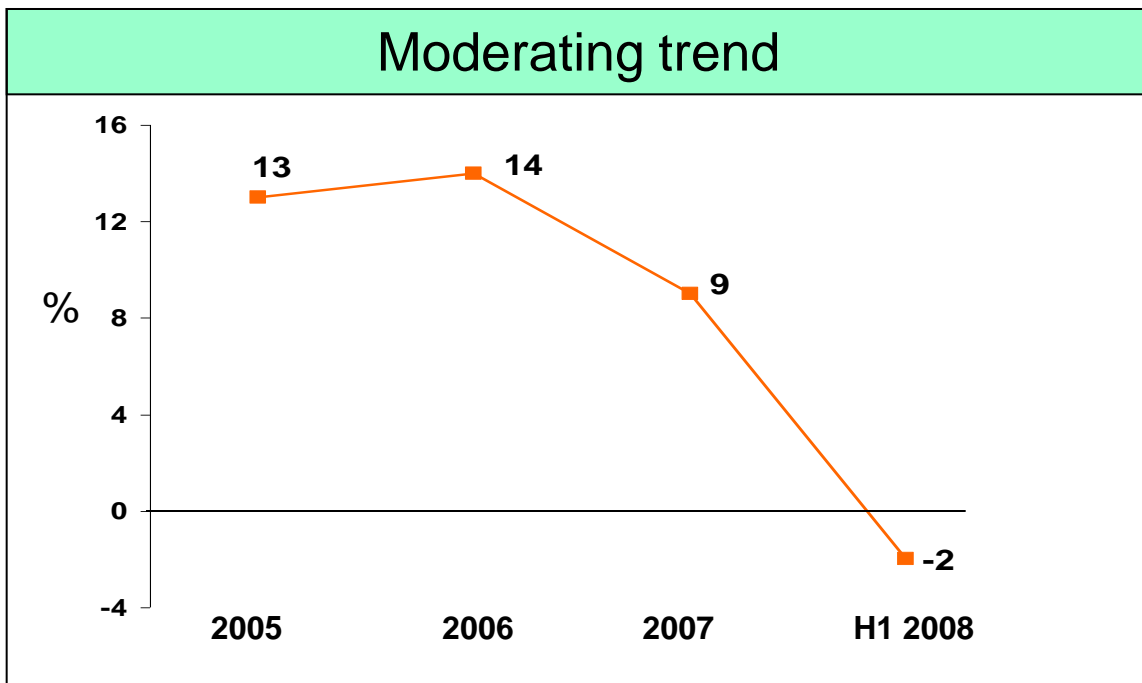
- Loans ↑ 6%; deposits ↑ 9% (6 months to June 2008)
 - Lower customer demand for loan products & services
 - Growth fully funded by customer deposits

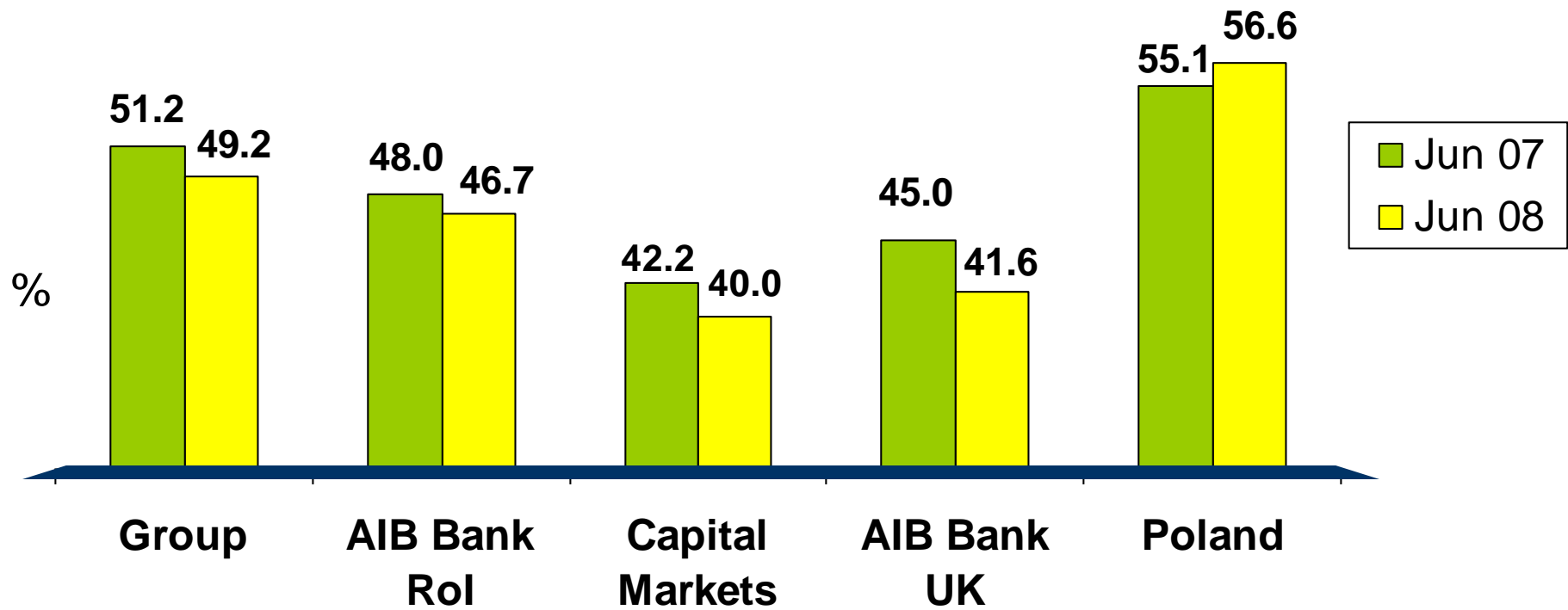
- Net interest margin 2.21%, ↑ 1 bp
 - Exceptional growth in Global Treasury interest income
 - Increased funding costs are persisting

- Continued market dislocation has affected trading income, asset valuations and asset management activities

€m	Jun 2008	Underlying yoy change %
Staff costs	761	(4)
Other costs	369	1
Depreciation & amortisation	<u>74</u>	4
Operating expenses	<u><u>1,204</u></u>	(2)

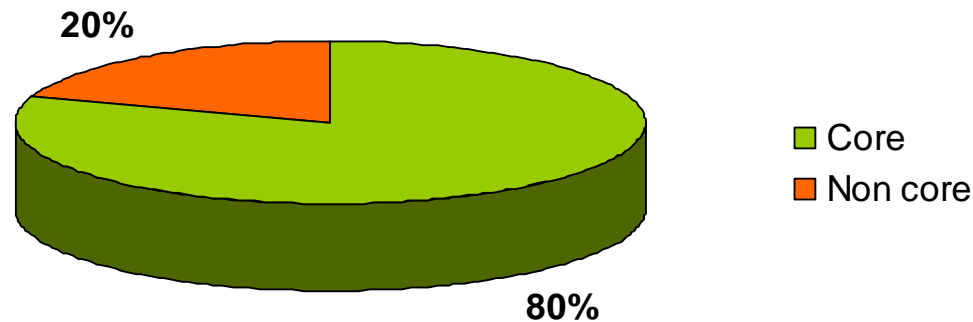
- Transformation of operations including new core banking and common operating systems
 - People redeployment to more productive roles
 - More efficient product and service delivery channels
 - Streamlined back office operations
 - Material reduction in error & re-work rate
- Continuing to invest for growth in Poland
 - Costs ↓ 6% excluding Poland
- Full year 2008 guidance: flat





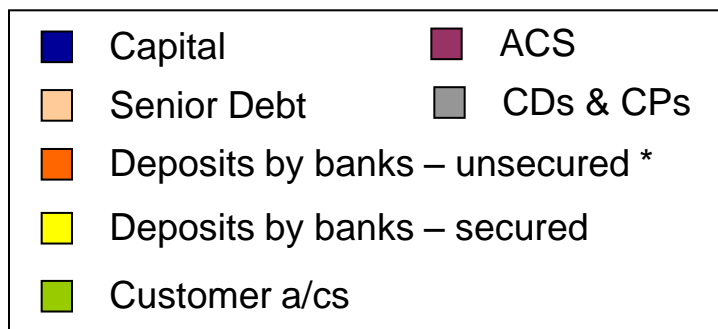
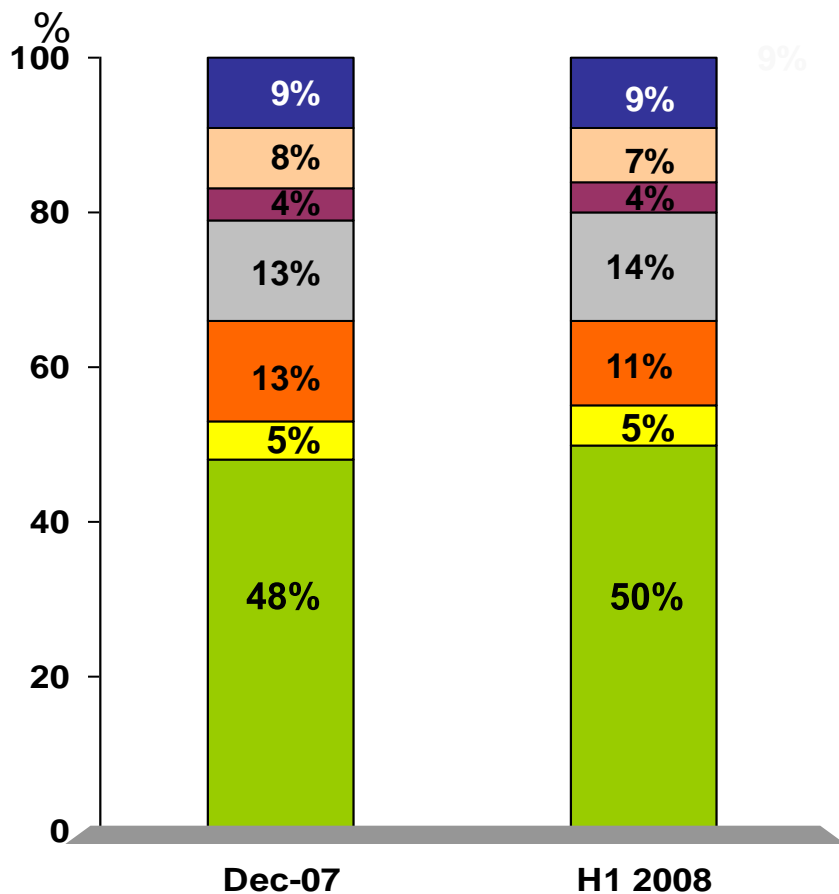
Dec 2007	%	June 2008
0.8	Impaired loans (ILs)	1.1
5.3	Criticised loans / total loans	7.6
0.45	Gross new ILs	0.93
71	Total provisions / ILs	57
9	Bad debt charge bps	21

- Tier 1 capital ratio 7.7%
- Core Tier 1 ratio 6.2%



- Total capital ratio 10.6%
- No requirement for recourse to shareholders
- Continuing progressive dividend policy

Strong and diverse funding sources



■ Steady improvement in key funding measurements

- 91% of customer loans funded by customer deposits & funding maturing beyond Dec '08

■ Incremental loan growth fully funded by €5.7bn increase in customer deposits

- Improved loan / deposit ratio 153% (157% Dec '07)

■ Diversified debt programmes; multiple geographies, investor types & tenors

■ Very robust liquidity position

- €37bn in qualifying liquid assets/contingent funding; significant surplus over regulatory requirement
- Ongoing successful refinancing of term funding maturities for 2008; €4bn completed in H1

* Deposits by banks unsecured when netted against "loans to banks" is 8% in 2007 and 6% in H1 2008

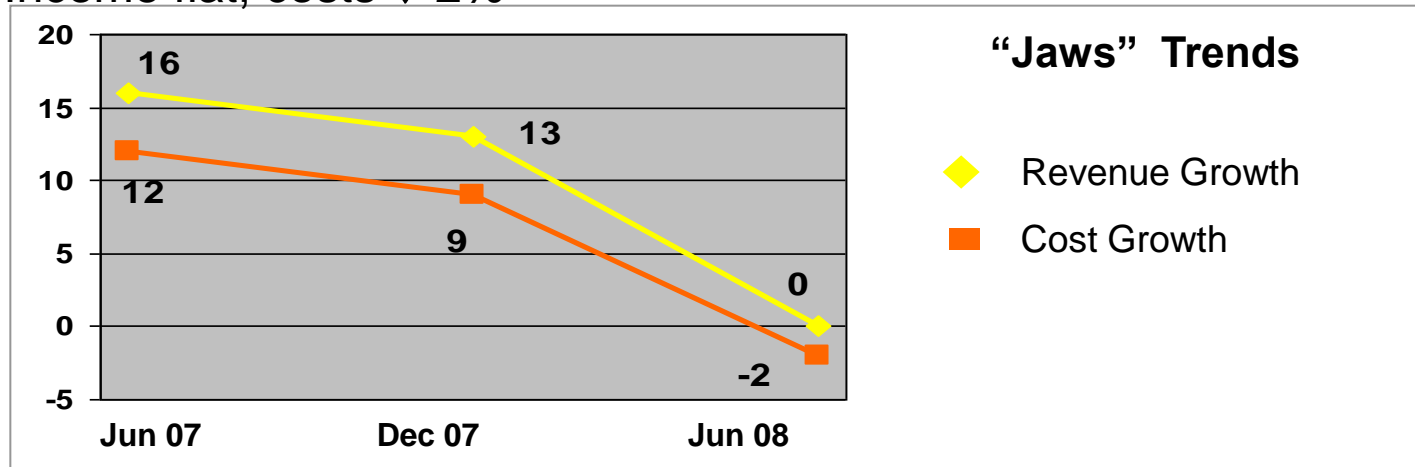
- No economic growth expected in Ireland in 2008; UK and USA expected to grow by c. 1%
- Poland a strong outperformer; 2008 growth forecast c.5%
- Ireland
 - Return to “trend” growth likely to be delayed until 2010
 - Low level of housing activity is continuing
 - Public finances enable essential investment programme
 - Long term growth and stability remains intact

- Lower volume growth reflects economic downturn

- Loans ↑ 4%, deposits flat
- Maintaining market shares
- Broadly stable product margins

- Strong focus on productivity

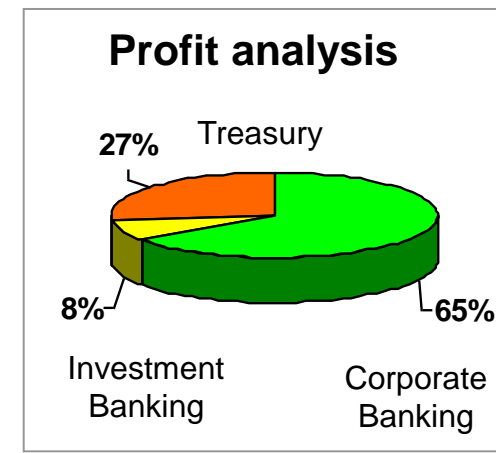
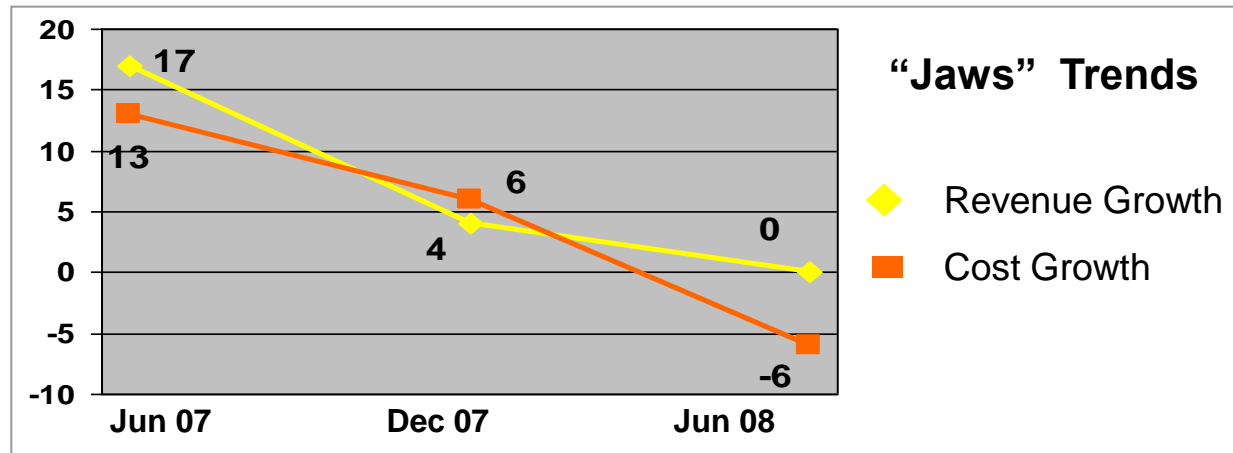
- Income flat, costs ↓ 2%



- Intensive management of asset quality

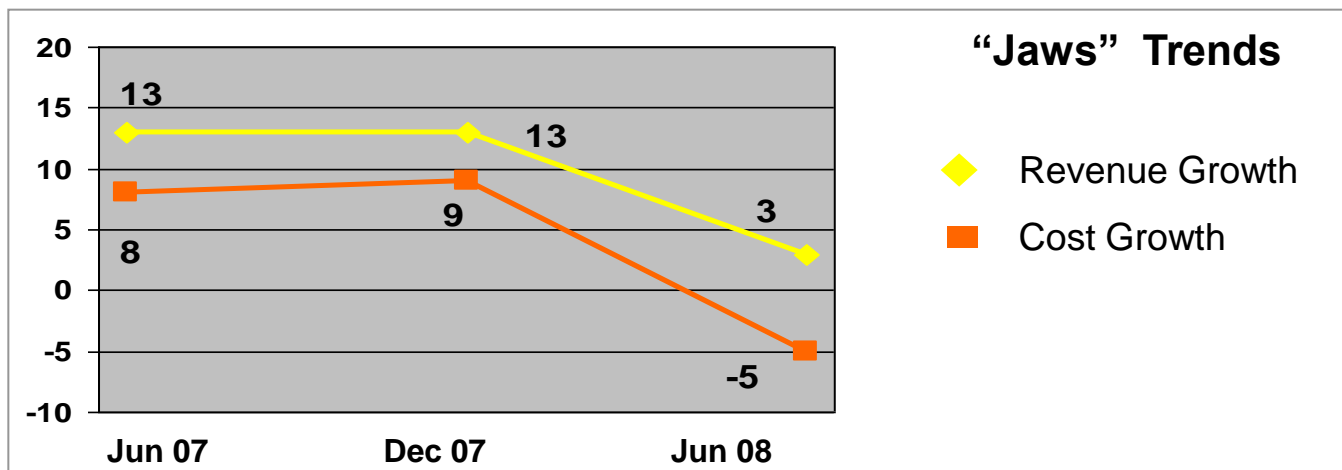
- Impaired loans 1% (0.7% Dec '07)
- Control framework and actions in place to mitigate bad debts as credit trends deteriorate

- €34m income write downs absorbed in dislocated markets
- Corporate Banking ↓ 13%
 - Pre-provision operating profit ↑ 4%; increased provisions following exceptionally benign 2007
 - Loans ↑ 8%; lower customer demand, improving margins
- Deposits ↑ 25%; well spread domestic & international growth
- Global Treasury ↑ 31%
 - Strong customer activity, well positioned in interest rate markets, difficult trading conditions
- Low activity levels in Investment Banking ↓ 49%
- Strong focus on productivity
 - Income flat, costs ↓ 6%



- Solid asset quality underpinned by focus on carefully chosen markets and niches; impaired loans 0.5% (0.3% Dec '07)

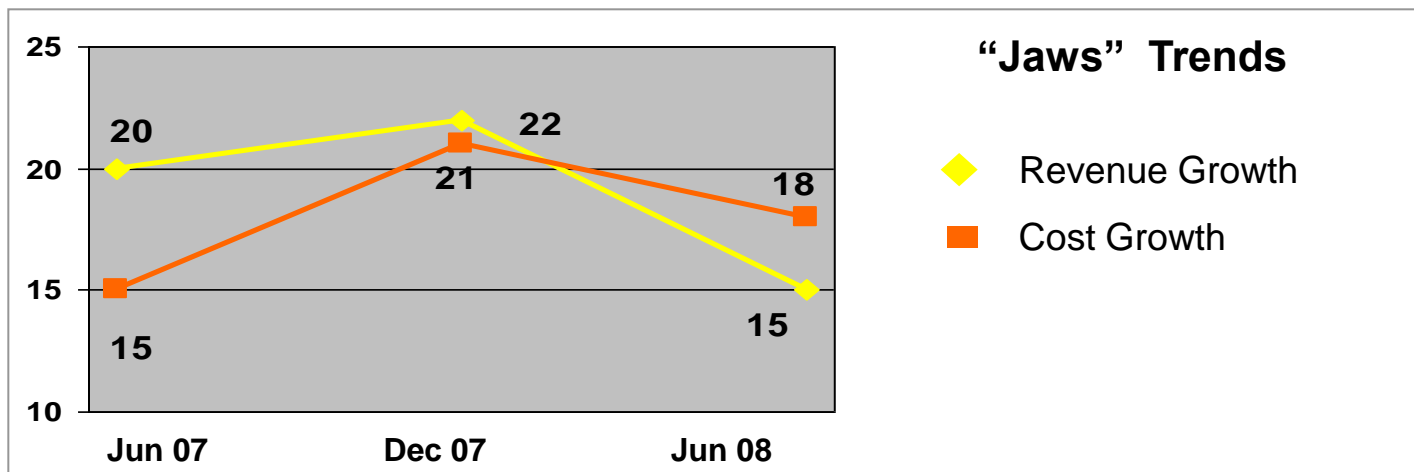
- High quality performance underpinned by a clear focus
 - Mid corporate sectors and niches in Great Britain; profit ↑3%
 - Improving efficiency in Northern Ireland franchise; profit ↓2%
- Productivity continuing to improve
 - Income ↑ 3%, costs ↓ 5%



	Loans	Deposits
Great Britain	↑ 8%	↑ 13%
Northern Ireland	↑ 1%	↑ 4%

- Solid asset quality; impaired loans 1.4% (1.1% Dec '07)
 - Minimal direct exposure to GB consumer market
 - Northern Ireland private sector income underpinned by high level of state employment

- Buoyant volume growth driven by customer demand
 - Loans ↑ 20%, deposits ↑ 15%
- Market conditions adversely affecting asset management and brokerage income
- Banking fees, commissions and dividend income all buoyant
- Substantial investment continues
 - People, branches, corporate centres
 - Enhanced wealth management proposition – Private Banking Teams; Aviva JV
 - Income ↑ 15%, costs ↑ 18%



- Asset quality remains strong
 - Impaired loans 2.4% (2.8% Dec 2007)

- Contribution ↓ 11%
- Satisfactory performance in a highly challenging environment
 - Net income \$362m (\$390m H1 2007) ↓ 7%
 - 3rd best performer amongst top 21 US banks*
- Average loans / leases ↑ 12%, deposits ↑ 6%
 - Net interest margin stable (Q2 v Q1 2008)
- Efficiency ratio 52.4% (50.2% Q2 2007)
- Increase in non-performing loans and credit costs
 - 4th lowest net charge off ratio amongst top 21 US banks*
 - Principally driven by weak housing market
 - Prudent and vigilant management; allowance for credit losses 1.58%
- High rate of internal capital generation

* *excludes trust banks*

Resilient business model founded on customer revenues

Diverse premium positions in chosen markets / niches

Proactive, disciplined cost management

Common, consistent and effective operating systems / platforms

Intense focus on risk management

Strong capital and funding positions



John O'Donnell
Group Finance Director

Jun 2007	€m	Jun 2008	ccy change %
2,417	Total operating income	2,445	3
1,237	Total operating expenses	1,204	-2
1,180	Group operating profit before provisions	1,241	8
30	Total provisions	138	346
1,150	Group operating profit	1,103	-1
1,318	Group profit before tax	1,279	-1 *
114.7c	EPS – basic	114.0c	-1
108.8c	EPS – basic adjusted *	104.9c	-4

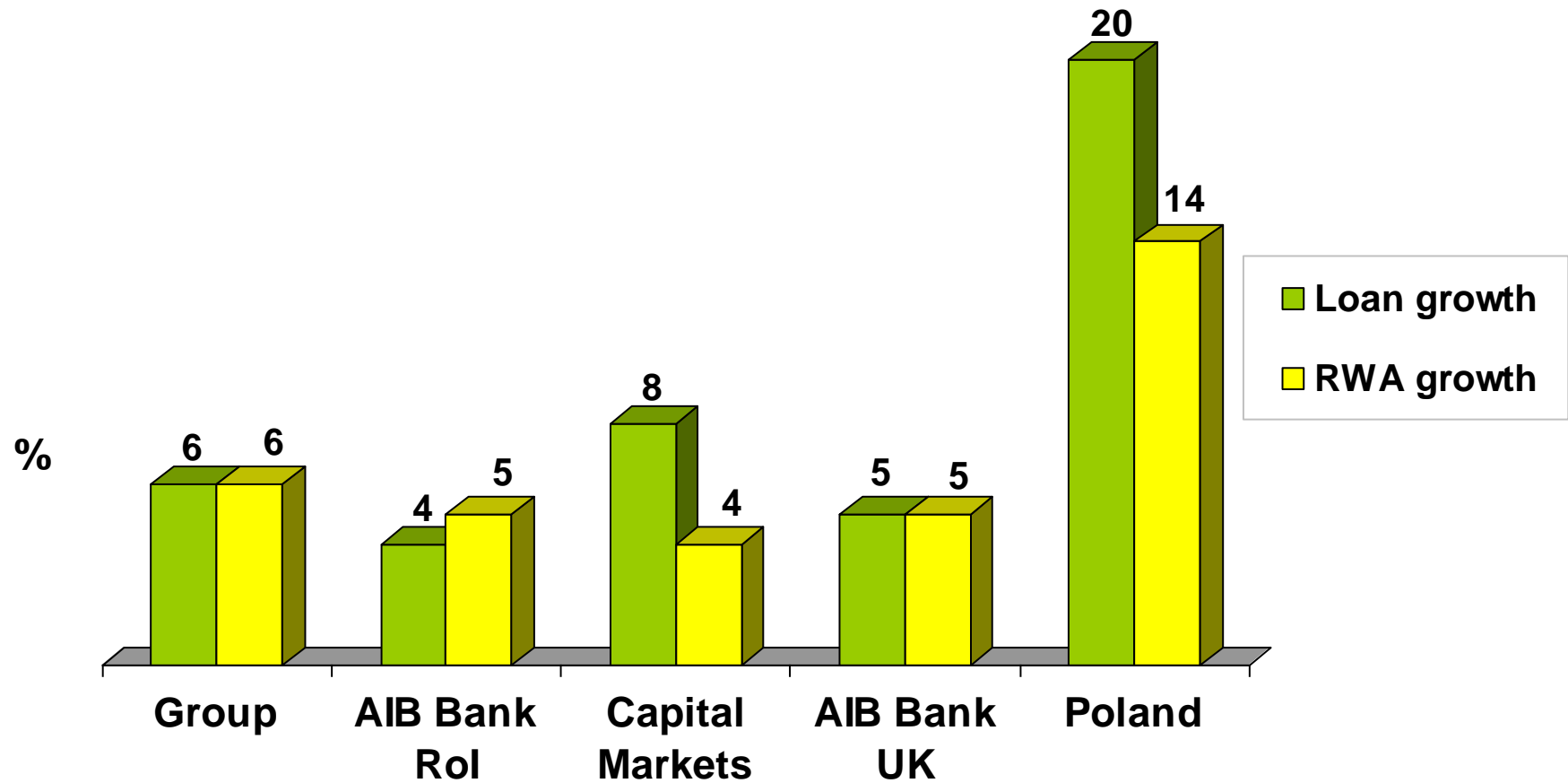
* excluding profit on disposal/development of properties, businesses and hedge volatility

■ Effective tax rate 15.2%

% vs June 2007

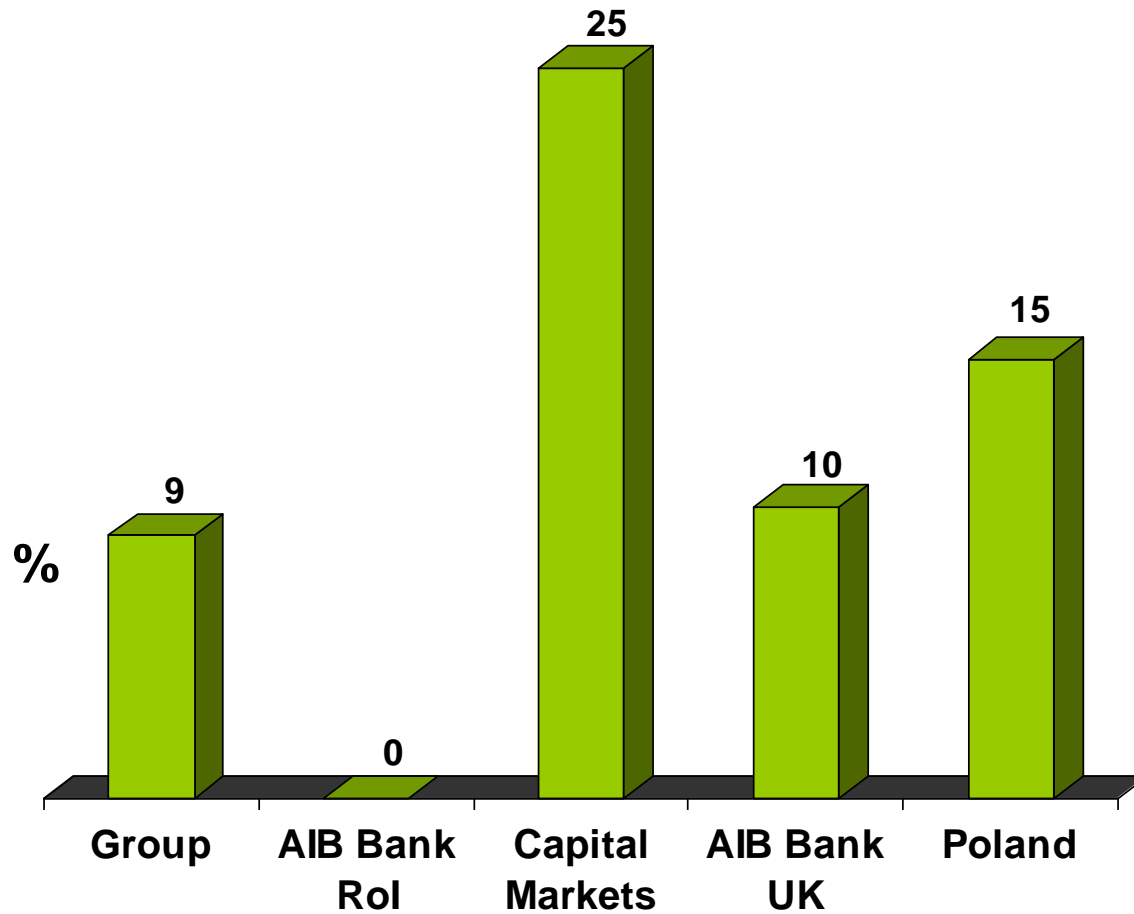
Basic earnings per share	114.0c	-1
Profit on disposal/development of property	(0.6c)	
Profit on disposal of business	(12.0c)	
Hedge volatility	3.5c	
Adjusted basic EPS	<u>104.9c</u>	-4

6 months to June 2008



■ Targeting loan growth of c.10% in 2008

6 months to June 2008



■ Targeting low teens % growth in 2008

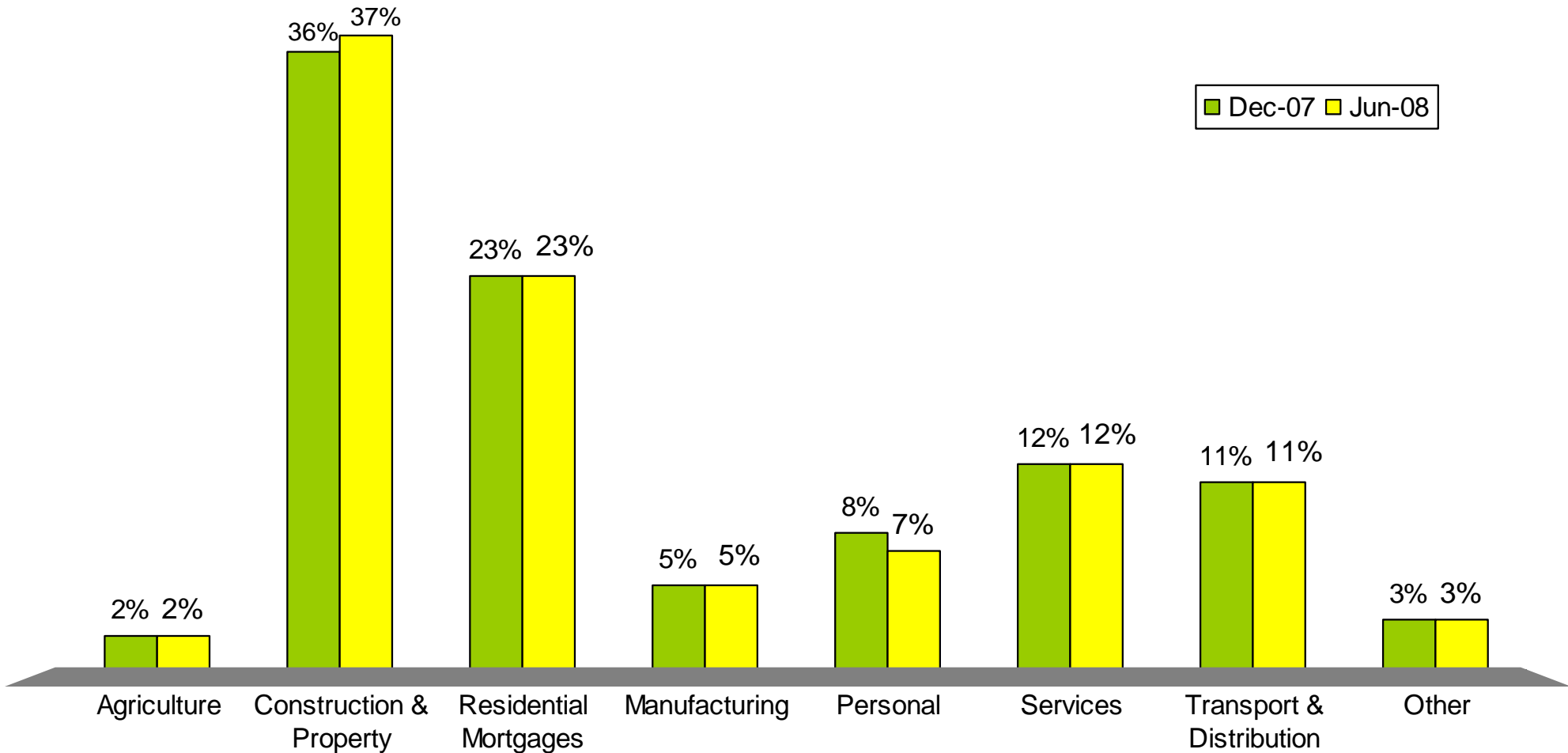
Jun 2007	Jun 2008	change
2.20%	2.21%	+1 bp

- Key factors Est.
 - Loans growing faster than deposits -4 bps
 - Increased cost of wholesale funding -8 bps
 - Treasury funding 12 bps
 - Re-investment of customer account funds; neutral effect 1 bp

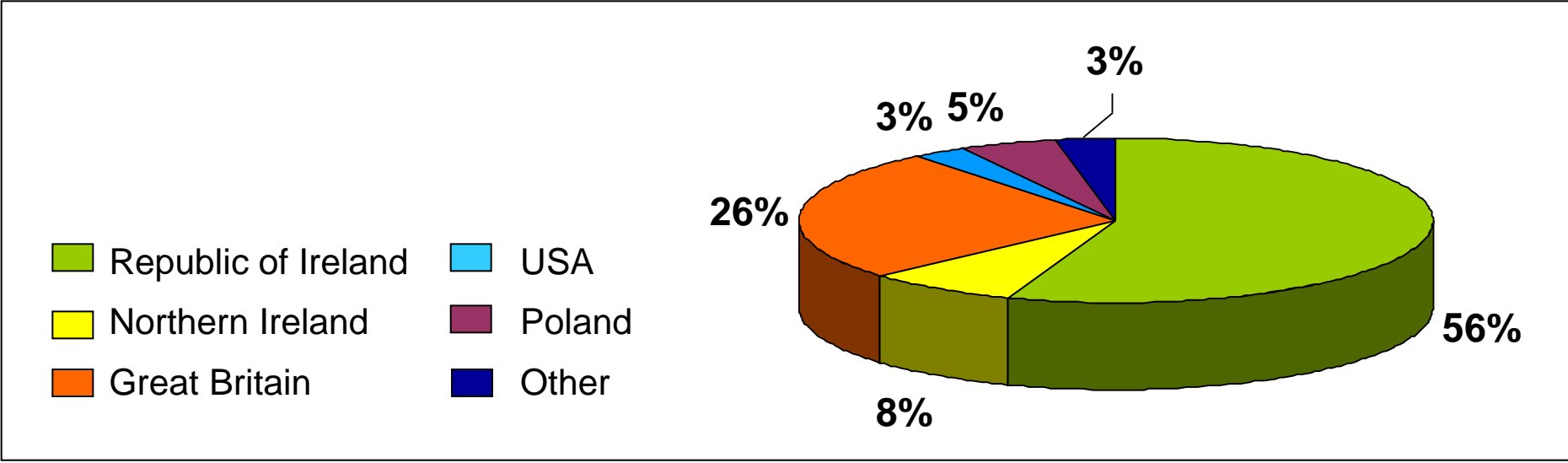
- Full year 2008 guidance: (5-10) bps *

* *excluding treasury*

% of Group loan portfolio



Loan book diversified by geography



Property & construction – sub sector diversity

%	ROI	UK*	CM	Poland*	Group
Commercial Investment	34	34	78	43	41
Residential Investment	8	16	4	1	8
Commercial Development	21	13	9	24	18
Residential Development	35	30	8	27	30
Contractors	2	7	1	5	3
Total	100	100	100	100	100
Balances €m	29,663	9,824	7,130	2,258	48,874

* An element of management estimation has been applied in this sub-categorisation

Overview

- Trends are deteriorating in all sub-sectors and the book is being very closely managed
- Many borrowers are involved in more than one sub-sector
- Each sub-sector carries different risk characteristics and loss potential
- Structuring, recourse to sponsor / independent cash flows, cross collateralisation are all key to risk mitigation

Commercial investment: (€10.1bn)

- Spread by sector, tenant & covenant
- Retail 35%, mixed 26%, office 31%, industrial 8%
- 45% of total loans to top 40 customers
- C. 90% occupancy levels
- Current reappraised average LTV c. 70%
- Typical interest cover 1.2 x

Bank risk overview:

- Assets generating income from independent 3rd parties
- Assets typically owned by private / personal entities
- Reduction in capital values only becomes a bank risk issue if asset ceases to generate income and LTV approaches 100%
- Resilient portfolio

Residential investment (€2.3 bn)

- Wide tenant spread, highly granular / small bite sizes, conservative approach to location, occupancy, repayment capacity and LTV (current average c.75%)

Bank risk overview

- Assets generating income from independent 3rd parties
- Book typically comprises professional investors and developers
- Residential rental market is stable
- Reduction in capital values only becomes a bank risk issue if asset ceases to generate income and LTV approaches 100%
- Resilient portfolio

Residential development (€10.4 bn)

- Difficult market conditions continue, no near term improvement
- Exposures comprise mix of undeveloped land and work in progress, ratio c. 65:35
Current reappraised average LTV c. 77%
- Duration prior to recovery of housing market will determine extent of loss
- Realistic assessment of increasing loss rates

Bank risk overview

- Unlike our investment portfolios, residential development is generating lower cashflows due to low buyer demand
- Risk assessment centres on borrowers capacity to meet interest pending resumption of more significant sales activity and / or level of prudent interest roll up
- Principal source of adverse shift in credit quality and progressive deterioration expected

Commercial development (€6.2 bn)

- Strong emphasis on pre-sales / pre-lets / recourse to independent cash flows
- Low exposure to speculative development
- Exposures comprise mix of undeveloped land and work in progress, ratio c. 40:60, Current reappraised average LTV c. 70%
- 50% of total loans to top 40 customers

Bank risk overview

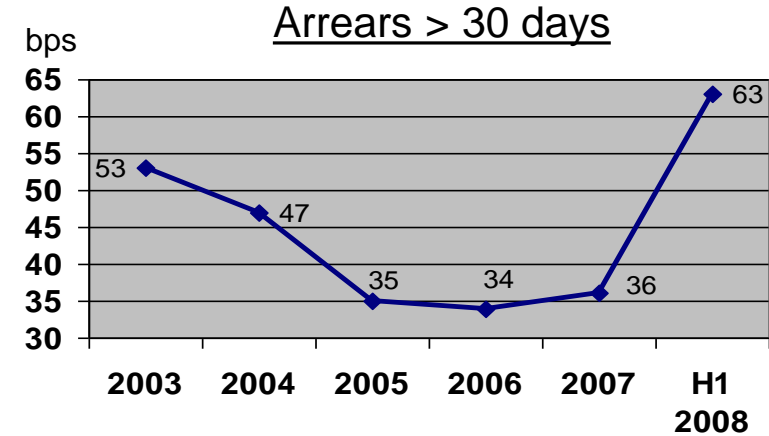
- Lower buyer demand is evident but work in progress is predominantly either pre-sold / pre-let or concentrated in premium locations to a small number of high quality customers to whom we typically have recourse
- Ongoing monitoring to ensure interest is paid by sponsors where required on undeveloped land exposure, prudent interest roll up permitted where appropriate
- Some deterioration expected

New Business

<u>LTVs</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>H1 08</u>
<i>(% no's of drawdowns)</i>				
< 75%	70	63	66	70
> 75% < 90%	17	22	20	18
> 90%	13	15	14	12
Total	100	100	100	100

Borrower Profile

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>H1 08</u>
<i>(New drawn balances)</i>				
First Time Buyer	13	10	9	8
Principal Residence	36	35	32	23
Investment	21	25	28	36
Holiday/2 nd Home	2	1	1	1
Take over Mortgage	3	3	5	7
Equity Release	25	26	25	25
<i>(Ext & Refurb, Top-Up, Refinance)</i>				
Total	100	100	100	100



- Very solid, resilient portfolio
 - Arrears profile remains low and consistent across borrower categories

- **Proactive in risk mitigation actions since early 2007**
 - Minimal new lending in vulnerable locations / sectors
 - Early mover in maintaining risk profile while market liquidity was strong
- **Commercial and residential investment (50% of property and construction portfolio) remains robust**
 - Underpinned by strong covenants, high occupancy levels, low average LTVs c. 62%
- **Commercial and residential development (43% of property and construction portfolio)**
 - Relationship (recourse & cross collateralised) rather than transactional business
 - Average LTV c. 57%
- **Stress tests incorporate 20-40% write down on cost values**
 - In this downside scenario, bad debt charge would not exceed current run rate by > low / mid tens of £ millions

■ **House Mortgages (£3.2bn portfolio)**

- £1.2bn in Great Britain; primarily facilitating high net worth and business banking client base
- £2.0bn in Northern Ireland; high level of state employment underpins quality
- Buy-to-let c. 8% (£260m); no material deterioration, impaired loans £2m

Capital Markets

- Principally investment property (c. 82% of total), well underpinned by quality and wide mix of covenants, tenants and sectors
- No material case due for repayment or refinance in 2008 and 2009 that is a significant cause for concern

Poland

- Building portfolio off a small base in a market underpinned by strong demand
- No significant deterioration evident / anticipated

Treasury assets

- Trading portfolio, credit assets €5.9bn
(€7.2bn end 2007)
- AFS portfolio, credit assets €8.5bn*
- Held for liquidity management purposes
- No deterioration, premium quality, average life 2.5 years
- Mark to market adjustments of €20m (€8m net) to income & €37m through equity account
 - Revised mark to market valuation methodology adopted in inactive

markets
* total AFS portfolio €22.8bn

- €576m portfolio (€550m Dec 2007)
- All held to maturity in Corporate Banking, performing in line with original expectations
- c.97% investment grade, no negative rating actions, no sub-prime
- Income write down of €2m on this portfolio due to credit spread movement
- One-off write down of €17m on disposal of the single transaction containing sub-prime

- ABS portfolio c.€150m equivalent (net of writedowns)
 - c.€5m writedown to income in H1
 - 26 transactions all held to maturity in Corporate Banking, overall performance remains above market average
 - Monthly monitoring, forward looking stressed evaluation

- Whole loans c.€111m equivalent
 - Further repayments of c.€9m year to date (c.€11m in 2007)
 - 883 loans purchased post onset of sub prime crisis reducing monthly
 - Deals include expectation of losses, minimal losses to date, continuing to closely monitor

Impaired loans by division

As at 31 December, 2007				As at 30 June, 2008		
ILs	ILs/ Actual	Total		ILs	ILs/ Actual	Total
€m	Advances	Provisions/ ILs		€m	Advances	Provisions/ ILs
	%	%			%	%
511	0.7	72	AIB Bank ROI	773	1.0	56
77	0.3	96	Capital Markets	124	0.5	58
274	1.1	51	AIB Bank UK	337	1.4	42
187	2.8	87	Poland	206	2.4	84
<u>1,049</u>	0.8	71	Total	<u>1,440</u>	1.1	57

Bad debt provisions by division

Jun 2007	Average Loans %	€m	Jun 2008	Average Loans %
46	0.15	AIB Bank ROI	89	0.24
(22)	(0.19)	Capital Markets	20	0.15
7	0.06	AIB Bank UK	25	0.21
(6)	(0.24)	Poland	3	0.07
<u>25</u>	0.04	Total	<u>137</u>	0.21

- Full year 2008 forecast bad debt charge c. 35 bps of average loans
 - Deterioration in Irish property development sub-sector the key catalyst;
 - Moderate deterioration expected in other portfolios, primarily reflecting slowing economies
 - IFRS rules magnify front end bad debt charges relative to previous GAAP rules; positive effect on income subsequently as discount unwinds

- Bad debt charge likely to peak in 2009
 - Driven by the same dynamics referred to for 2008
 - Guidance for bad debt charge: range 60 – 80 bps of average loans
 - Portfolio review incorporates an assumption of a peak to trough fall in a 30 – 40% range in Irish property asset values

- Basel II Internal Ratings Based (IRB) since January 2008
- IRB portfolio coverage c.65%, based on exposure at default
- Procyclicality a potentially significant change from Basel I
 - Little potential effect on standardised portfolios (c.€58bn, 47% of risk weighted assets)
 - Predominantly applies to IRB portfolios (c.€67bn, 53% of risk weighted assets)
 - Agreed timeframe with regulator to bring IRB to c.87% of risk weighted assets
- 2 IRB portfolios; Non-retail €42.5bn, Retail €24.5bn, (RoI mortgages)
 - Principal drivers of capital requirement in both portfolios are probability of default (PD) and loss given default (LGD)

Non-retail IRB

- LGD: 45%, determined by regulator, conservative and not subject to change
- PD: driven by central tendencies of through the cycle experience, typically back to early 1990s, relatively low cyclical, 1 year deterioration has modest effect

Retail IRB

- LGD: c. 30%, internally modelled, conservative and incorporates significant falls in house values
- PD: driven by central tendencies of through the cycle experience, typically back to early 1990s, relatively low cyclical, 1 year deterioration has modest effect

- Loans in both IRB portfolios attract different PDs as they migrate through credit grades

Capital stress test – extreme scenario

		Scenario A	Scenario B
Credit downgrade per qtr to 12/2010		9%	9%
Loan growth % (yoy)	2008	9	9
	2009	5	0
	2010	5	0
	2011	5	0
Bad debt provision (bps of avg. loans)	2008	35	35
	2009	100	100
	2010	100	100
	2011	100	100
Tier 1 ratio	Dec 08	7.19	7.19
	Dec 09	6.88	7.08
	Dec 10	6.39	6.85
	Dec 11	6.23	6.78
Core Tier 1 ratio	Dec 08	5.34	5.34
	Dec 09	5.15	5.27
	Dec 10	4.76	5.08
	Dec 11	4.61	5.01

- Credit grade deterioration by 1 grade of 9% exposures each quarter between Jun '08 and Dec '10. Effect is to downgrade all IRB by 1 credit grade
- Bad debt provision charge assumed for all loan portfolios (IRB and standardised)
- Both scenarios incorporate dividend growth of 10% each year
- No asset disposals or management actions assumed

Conclusion: strong resilience even in extreme scenario

- H1 performance underlines quality & diversity of our business
- Active cost control aligned to slowing revenue growth
- Intense focus on credit portfolios in a deteriorating environment
- Strong and resilient capital and funding bases
- Targeting 2008 EPS in a 185c – 190c range (*relative to 205.9c in 2007*)



AIB Bank RoI profit statement

Jun 2007	€m	Jun 2008	Change %
868	Net interest income	870	-
<u>238</u>	Other income	<u>239</u>	1
1,106	Total operating income	1,109	-
<u>531</u>	Total operating expenses	<u>518</u>	(2)
575	Operating profit before provisions	591	3
<u>48</u>	Total provisions	<u>89</u>	86
527	Operating profit	502	(5)
7	Associated undertakings	(2)	-
-	Profit on disposal of property	6	-
<u>-</u>	Profit on disposal of business	<u>68</u>	-
<u><u>534</u></u>	Profit before taxation	<u><u>574</u></u>	7

Capital Markets profit statement

Jun 2007	€m	Jun 2008	Change %
285	Net interest income	421	55
<u>254</u>	Other income	<u>101</u>	(60)
539	Total operating income	522	-
<u>227</u>	Total operating expenses	<u>209</u>	(6)
312	Operating profit before provisions	313	4
<u>(19)</u>	Total Provisions	<u>18</u>	-
331	Operating profit	295	(7)
<u>2</u>	Profit on disposal of business	<u>-</u>	-
<u><u>333</u></u>	Profit before taxation	<u><u>295</u></u>	(8)

Jun 2007	Stg£m	Jun 2008	Change %
229	Net interest income	238	4
52	Other income	51	(1)
<u>281</u>	Total operating income	<u>289</u>	3
127	Total operating expenses	120	(5)
<u>154</u>	Operating profit before provisions	<u>169</u>	10
4	Total Provisions	19	347
<u>150</u>	Operating profit	<u>150</u>	-
-	Associated undertaking	1	-
-	Profit on disposal of business	29	-
<u>150</u>	Profit before tax	<u>180</u>	20
223	Profit before tax €	233	20

Jun 2007	PLN m	Jun 2008	Change %
533	Net interest income	718	35
<u>738</u>	Other income	<u>745</u>	1
1,271	Total operating income	1,463	15
699	Total operating expenses	<u>828</u>	18
<u>572</u>	Operating profit before provisions	635	11
<u>(24)</u>	Total Provisions	<u>20</u>	-
596	Operating profit	615	3
<u>-</u>	Profit on disposal of property	<u>3</u>	-
<u>596</u>	Profit before tax	<u>618</u>	4
155	Profit before tax €	177	4

Jun 2007	€m	Jun 2008
36	Net interest income	60
(12)	Other income	(40)
<u>24</u>	Total operating income	<u>20</u>
110	Total operating expenses	84
<u>-</u>	Total provisions	<u>-</u>
(86)	Operating loss	(64)
74	Share of results of associates – M&T	58
<u>85</u>	Profit on disposal/development of property	<u>6</u>
<u><u>73</u></u>	Profit before tax	<u><u>-</u></u>

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

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