

**Allied Irish Banks, p.l.c.**

# Preliminary Interim Results

For the 6 Months Ended June 30 2012

27 July 2012



### **Important Notice**

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 Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934. 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, financial instability within the Eurozone, global, national and regional economic conditions, further national austerity and budget measures, levels of market interest rates, credit or other risks of lending and investment activities, competitive, legislative 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.

**David Duffy**

Chief Executive Officer



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## Group Summary

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- Strong capital base; Core Tier 1 ratio of 17.3% and Total Capital ratio of 19.9%
- Deposit increase of €2.9bn since Dec 2011; increases across all business segments
  - Loan to deposit ratio reduced to 125% from 138% at Dec 2011
  - €6bn reduction in reliance on ECB funding to €25bn
- Over 70% of three year non-core deleveraging target of €20.5bn achieved to date
  - Expect to be at or below LDR target of 122.5% by year end
- Significant cost reduction initiatives announced
  - Early retirement and Severance Programme
  - Review of Pay & Benefits complete
  - Distribution strategy announced and branch footprint changes underway
  - Operating cost reduction target of €350m+ by 2014; efficiency to be achieved in every cost area
- Operating loss before exceptionals of €1.1bn for H1 2012; compared to a loss of €3bn in H1 2011 reflects
  - lower credit provision charge of €0.9bn (€3bn June 2011)
    - Provision charge remains high due to weak economic environment
    - 2011 was the peak for credit provision charges
    - PDH Mortgage 90+ days arrears including impaired loans have increased to 9.4% by number of mortgages at June 2012 compared to 7.9% at end 2011
    - Advanced forbearance strategies are being implemented
  - Lower income due to lower loan levels and elevated cost of deposits & funding
- Sustainable profitability by 2014 remains a key priority

# Significant Progress in Execution of Key Initiatives

## Restructuring & Governance

- Relationship Framework in place with State ✓
- Revised Strategy & Org Structure announced ✓
- Board / State Authorities Approval of Strategy ✓
- Creation of Financial Solutions Group ✓
- Review of IT Systems for robustness ✓
- Senior appointments to Leadership Team ✓

## Cost Cutting

- Severance Scheme Announced & Phase 1 initiated ✓  
Phase 2 scheduled for late Q3
- Pay & Benefits restructured ✓
- Branch Closures announced in ROI and UK ✓
- Review of all outsourcing opportunities underway →
- Review all variable expenditure and reduce where possible →

## Business Initiatives

- Expanded Distribution MoU with An Post Agreed ✓
- 101 seminars for SMEs reaching 4,400 customers ✓
- Customers identified for advice & consultancy services ✓
- SME lending standards revised to focus on cashflow lending ✓
- MARS Solutions announced and operational ✓
- Announced intention to withdraw from ELG in the UK in August 2012 ✓
- Completed first unguaranteed corporate deposits since '08 ✓
- Closed a securitisation of prime UK residential mortgages ✓
- Easing of pricing of the deposit book underway ✓
- 50bps increase in AIB SVR announced ✓

## Active AIB Fund Participation

### Active Funds to Promote Credit



- Job Creation Fund launched (€100m) ✓
- Agri Investment Fund launched (€250m) ✓
- First Trust SME Fund launched (£50m) ✓

### Enterprise Ireland Funds

- 2 Seed Capital Funds Operational (AIB €50m) ✓
- Social Finance Fund – Operational (AIB €18m) ✓
- Development Capital Fund – 2H 2012 Target launch →

### Other Pipeline

- AIB Microfinance fund – Target 2012 →
- EIB Loan Fund (3rd Tranche) – Target 2012 →

 - Completed  
 - Ongoing



# Revised Strategy – Simplify and Adapt to Current Changing Market Dynamics

## Key Elements of Delivery

### Restructuring

- **Customer focused operating structure**
  - Revised operating structure designed to simplify and unencumber AIB
  - Core domestic bank built around two pillars of Product and Customers and Distribution
  - Financial Solutions Group focused on customers in difficulty and returning them to mainstream coverage where possible
  - Restructure FTB and GB operations to focus on business customers and community bank presence aligned to cost reductions
  - Targeted branch closures in Ireland, GB and FTB while expanding move to online and relationship with An Post for ROI

### Financial

- **A return to sustainable profitability by 2014**
  - Aggressive cost saving initiatives to realign operating model
  - Repricing and product simplification and better balance sheet management

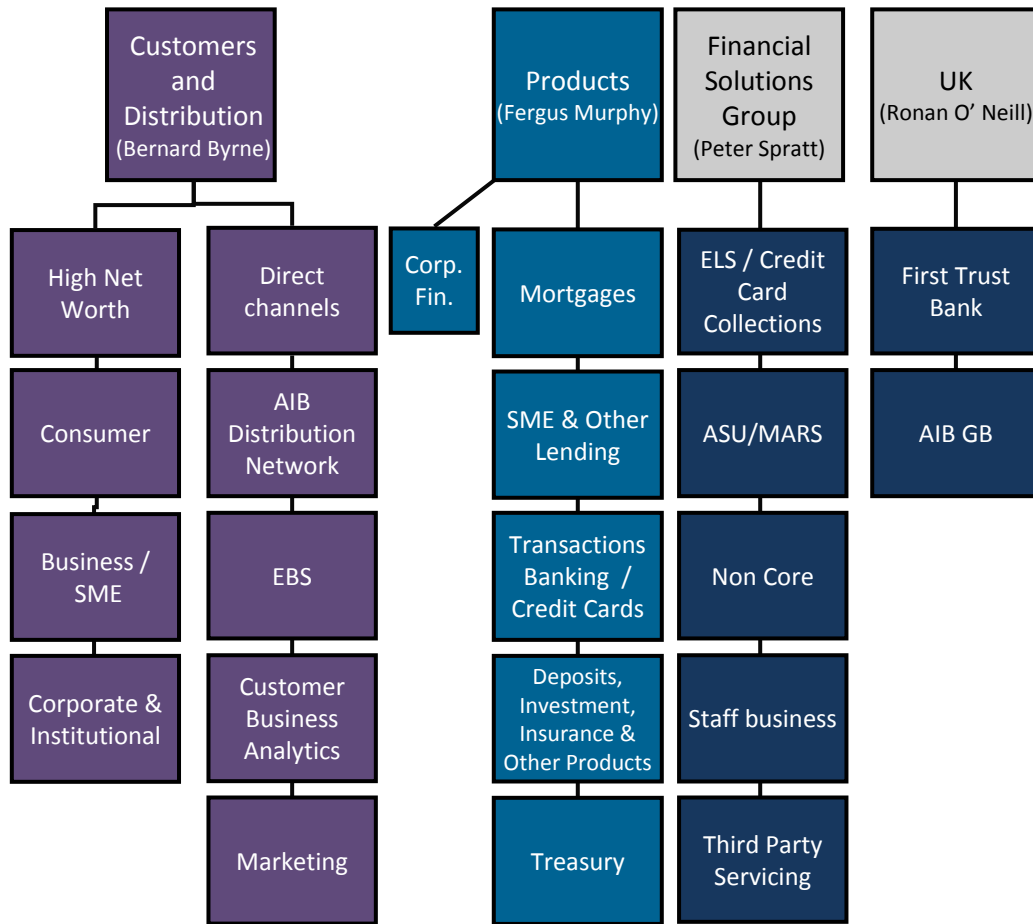
### Governance

- **Continued development of key stakeholder relationships**
- **Focus on concentration risks & lending practices**
  - Actively learn from mistakes of the past
  - Target economic and risk based lending
  - Improve internal controls and credit decision rigour and timing
- **Strong and inclusive leadership**
  - Broadened leadership team across the bank incorporating talent from inside and outside the bank
  - Identification of talent across the organisation to become the next generation of AIB leaders

### Market Focus

- **A renewed commitment to our customers**
  - Build on existing relationships and attract new business and retail clients
  - Seeking to ensure customers in difficulty return to viability where economically possible
- **A fresh emphasis on Technology and Innovation**
  - AIB to be the leader of technology enabled banking in Ireland
  - Modify legacy internal systems to ensure delivery of revised strategy

# New Operating Structure – Customer Centric for Both New and Existing Business



## Key Benefits

- Simplification of overall structure
- Targeted cost savings as duplication removed and non core activities outsourced
- Greater control over key viability levers
- End to end ownership of products, pricing, customers & distribution
- More effective balance sheet management
- Dramatic change in cultural dynamics in the bank
- Silo structures removed
- Greater visibility on accountability and responsibilities
- AIB GB, FTB and EBS retained as integral but differentiated components of the brand

**Significant Leadership Team renewal has also taken place**

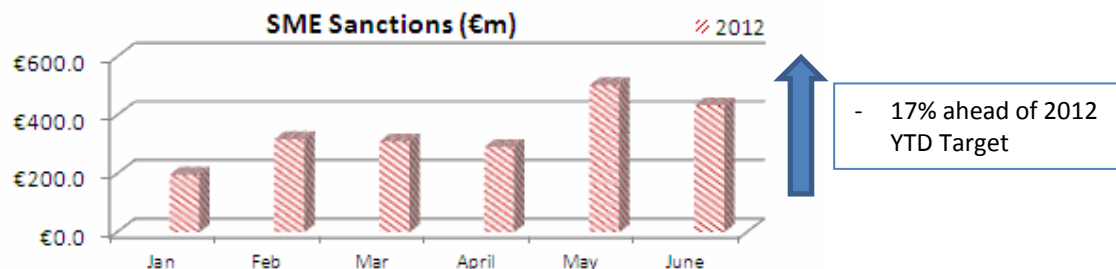


# AIB is fulfilling its lending commitments to SMEs and wants to do more

## Business Activity

### Sanctions

- Lending target of €3.0bn for 2011 surpassed
- AIB lending target for 2012 is €3.5bn
  - Sanction activity is 17% ahead of target ytd 2012
- **Formal applications improve accessibility to credit**
  - **YTD AIB has sanctioned 92%** of formal applications received



- Increased number of internal and external customer appeals; however not material relative to overall number of applications and sanctions (<1%)
- Actively messaging the fact that AIB is open for business

### Business Initiatives

- “Big Drive for Small Business” Campaign launched in Q1 2012
  - New Business Start-Up campaign launched
- Revised lending standards introduced at the beginning of June to reduce complexity
- Provision of advice and consultancy services to customers
  - 101 customer seminars with 4,400 participants
  - Further 2,500 customers identified for business coaching for SMEs



## AIB Fund Participation

### Funds to promote credit

- *Agri Investment Fund*
  - Fund size: €250m
  - AIB Commitment: All
- *Job Creation Fund*
  - Fund Size: €100m
  - AIB Commitment: All
- 1,393 sanctions for a value of €62m achieved to end of June 2012
- FTB SME Fund
  - Fund Size: €50m
  - AIB Commitment: All

### Joint Funds

- *Seed Capital Funds (EI)*
  - Total Size: €75m
  - AIB commitment: €50m
  - Status: Operational
- *Development Capital Fund (EI)*
  - Target Size: €150m
  - AIB commitment: €20m
  - Status: H2 2012 launch
- *Social Finance Fund (SFF)*
  - Total Size: c.€100m
  - AIB Commitment: €18m
  - Status: Operational since 2007

### Other Pipeline

- *AIB Finance for Micro Enterprises Fund*
- *EIB Loan Fund*



# Delivering on lending commitments to Mortgage customers

## Mortgage activity

### Sanctions

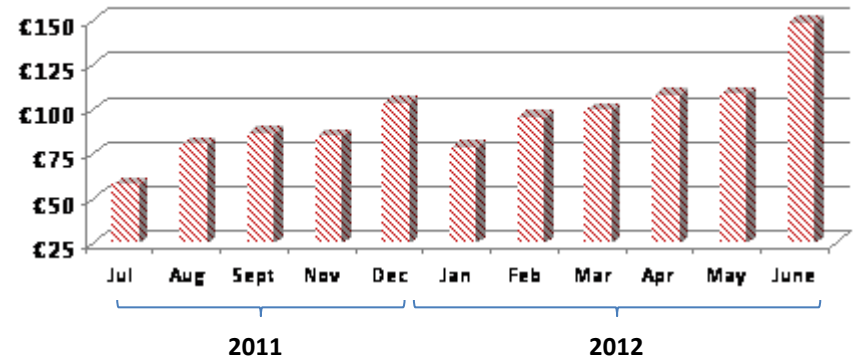
- Number of total sanctions YTD June 2012 increased by 70% year on year
- Value of total sanctions YTD June increased by 70% year on year
- Levels of approvals (including Sanctions in Principle) currently 70% of applications

### Drawdowns

- Market share of drawdowns estimated\* to be excess of 40%
- First time buyers comprise approximately 50% of drawdowns
- Market drawdowns (by value) in Q1 2012, excluding AIB, have dropped 20% year on year

## AIB / EBS Mortgage Sanctions

- Clear Momentum in our mortgage business with significant gains year on year



## Business Initiatives

- EBS channel re-entered market based on group policy at start of July '12
- Building on success from AIB 'Mortgage Month' targeting first time buyers
- Participation in NAMA 80/20 deferred consideration pilot initiative
- Full review of lending policy, sustaining current proposition
- New negative equity policies for non-forbearance customers – target Aug '12



\*Management estimate

# Supporting customers in difficulty – Open & Early Engagement Critical

## SMEs

- Financial Solutions Group established in July 2012
  - Focusing on challenged assets and returning customers to viability where possible
- Specialist teams set up to deal with SME customers in difficulty
  - Over 1,000 staff dealing with customers from 44 locations nationwide
  - Strategy is to cure problems, restructure loans and restore customer stability if economically possible
  - Restructure requests mainly for short term forbearance however long term solutions will be introduced

### Operating Model

- Approach is to work with our customers to support them through the different phases of development towards fundamental debt restructuring aligned to customers individual circumstances whilst maintaining the bank's economic position

### *Restructuring Phases*

- Stabilisation – Full disclosure required, maximisation of income
- Sustainability – Identification of sustainable and non-sustainable debt components. Cash flow assessment, development of strategy with customer. Identification of other assets
- Fundamental Restructure – Implementation

## Mortgages – MARS update

- The MARS programme is now operational with advanced forbearance strategies approved by the Board and operational in Q3
- Specialist staff to deal specifically with customers in difficulty
- Short term forbearance solutions in place for c. 34,000 customers
  - Portion of these customers will migrate to advanced forbearance options over time

### Advanced Forbearance Strategies

#### Advanced Forbearance Options

- Split Mortgage
- Trade Down
- Voluntary Sale for Loss
- Mortgage to Rent



#### Implementation Timeline

- Phase 1 - July*
  - Initially targeted to subset of customers
- Phase 2 – August/September +*
  - Extended to larger volume of customers

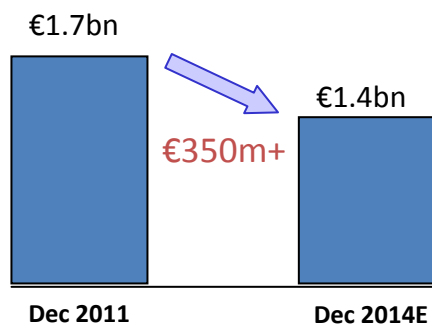
#### Supporting Initiatives in Place

- Decision support tool including Affordability Matrix
- Enhancement of staff expertise through recruitment and training
- Quality control function in place
- Outsource project for arrears management of €3bn portfolio underway
- Outreach programme in place

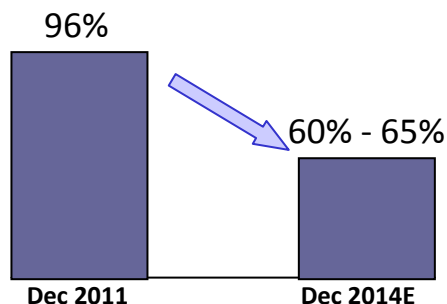
# Aggressive Focus on Cost Saving Initiatives

## Target Cost Model

### Significant cost reductions by 2014



### Cost / Income Ratio



## Severance Scheme

- Severance scheme launched in May
  - The minimum target headcount reduction was 2,500
  - The early retirement scheme was opened to all staff in the UK and Ireland
  - The voluntary severance has been instituted on a phased basis with an initial focus on the branch network
- Take up levels in phase 1 have been very high for both VS and ER
- AIB has announced that it will facilitate the departure of 1,900 staff as part of the early retirement scheme and phase 1 of the voluntary severance
  - AIB expects the minimum target of 2,500 reductions by 2014 to be met
- **Expected €200m+ annual savings**

## Pay & Benefits

- Changes to the pay and benefits structure in the bank announced in June as follows:
  - An aggregate 15% reduction to salary and pay related allowances for members of the Leadership Team
  - A reduction of up to 10% in salary and pay related allowances for other Executives
  - A reduction of up to 7.5% in salary and pay related allowances will apply to those in Senior Manager roles
- Discussions ongoing with the Unions to implement a general pay freeze until the end of 2014 for other staff
- All employees who are members of a Defined Benefit Pension scheme will be moved to a Defined Contribution Pension scheme
  - De-risks overall pension scheme
  - Reduces future pension contributions
- **Expected €30m + annual savings**

## Other cost cutting Initiatives

- Aggressive reduction in professional fees
- Further cost efficiencies to be achieved through:
  - Outsourcing of non core banking activities and functions
  - Simplification of systems and products
  - Rationalisation of branch network in Ireland and the UK

# A Redefined Distribution Network

## Branch Closures

- AIB is continuing to develop its Integrated Distribution Network
  - Wider integration of branch and direct channels
  - Delivery of seamless, cost efficient banking
  - Emphasis on technology and innovation
- As part of this, AIB is today announcing 45 sub offices closures and 6 branch amalgamations in Q4 2012, with a further 16 branches to close in 2013
  - An Post to offer customers additional AIB services
  - Mobile Banks to operate in 31 rural locations
    - 8 new locations in rural Ireland
  - AIB will also be opening 2 branches in new locations
  - No job losses as a result of these closures
  - Customers to be individually contacted with detail on changes and services available to them
- AIB will continue to have the largest distribution network in Ireland
  - 200 branch outlets
  - An Post outlets
  - 15 Campus outlets at Third Level Colleges
  - Mobile Banks
- EBS will retain its separate brand identity and branch network, focusing on mortgages and deposits
- 7 branch closures in AIB GB and other amalgamations have been announced
  - Residual branch network of 21
- 4 sub offices and 1 branch closure in FTB announced today
  - Residual branch network of 42

## An Post

- Memorandum of Understanding agreed with An Post in relation to extension of banking services in selected post offices in areas where branches will close
- Over 1,100 An Post outlets across Ireland already offering services to personal and business customers
  - Wider range of “over the counter” banking services available to customers at 90 An Post locations from Q3 2012
  - Majority of branch transactions will be available through An Post outlets
- For every 1 sub-office closed, an average of 2 An Post outlets will offer customers additional AIB Services

### Current Services at any An Post outlet:

- Cash lodgements for personal & business customers
- Bill payment to an AIB Credit Card
- ATM card cash withdrawals (up to €600)
- Availability of An Post own branded services including bill payments, postal drafts and foreign currency

### Additional Service from October 2012:

- Cheque lodgement capability at 90 An Post outlets
- Availability of other services over time

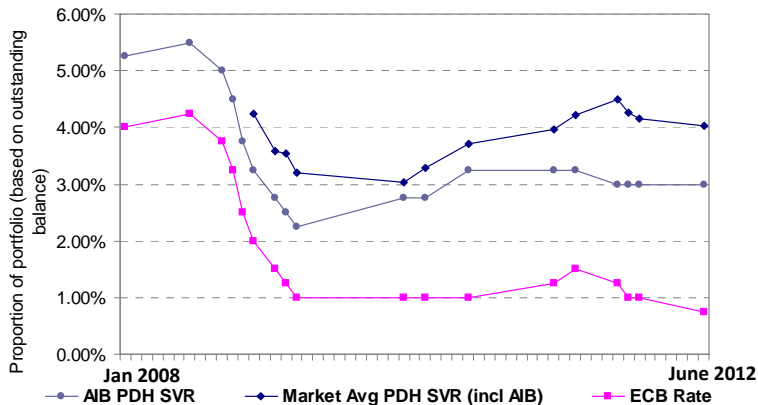


# Product Repricing – Actions to Return to Sustainable Operating Levels

## Mortgages - Standard Variable Rate

	<u>PDH SVR</u>	<u>BTL SVR</u>
AIB (Current rate)	3.00%	3.95%
AIB (+0.50%)	3.50%	4.45%
AIB (current market position)	Lowest	Lowest
AIB (market position post increase of +0.50%)	Lowest	Lowest

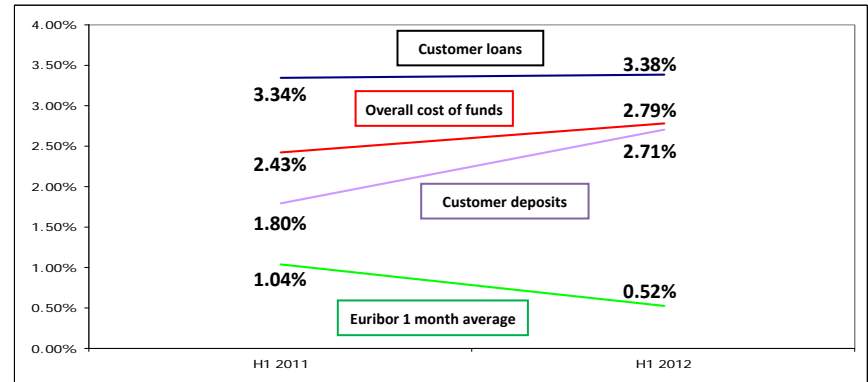
### PDH SVR vs ECB and Market Average



- AIB today announcing that SVR is to increase by 50bps
- Post the rise, AIB will retain the lowest SVR in the domestic market
  - SVR change applies to c. 20% of total mortgage portfolio
- The analysis of the incremental expected losses arising from a rate increase does not indicate a substantial rise
- Products and staff in place to help mortgage customers in financial difficulty
  - EBS rates to remain unchanged

## Deposits – Pricing levels stabilising

### Gross interest rates



- Average gross interest rate on customer loans increased 0.04% reflecting improvement in pricing offset by an increase in non-earning loans
- Overall cost of funding\* for the bank is up by 0.36% to 2.79% due to increased costs of customer deposits partially offset by the availability of lower cost ECB funds
- ELG costs represent 15% of total funding cost
- Euribor 1 month average rates have halved to 0.52%. On average 45% of funding in H1 was from customer deposits which are not pegged to Euribor rates
- The average rate on customers deposits increased by 0.91% to 2.71% reflecting the repricing of the back book and increase in extension of maturities by customers
- Management pricing decisions to continue to focus on deposit pricing and are expected to positively impact cost of funding in H2 2012

\*Cost of funding excludes CoCos amortisation of €30m

**Paul Stanley**

Acting Chief Financial Officer



## Key Summary Financials – Operating Performance Stabilising

Income Statement		
€m	Jun 2012	Jun 2011
Net Interest Income (before ELG)	783	860
ELG Fees	(215)	(256)
Net Other Income	203	247
Total Operating Income	771	851
Operating Expenses	(887)	(832)
Operating (loss) / profit	(116)	19
Provisions	(973)	(3,049)
Assoc Undertakings / Business disposals	(1)	(1)
<b>Operating Loss (before exceptionals)</b>	<b>(1,090)</b>	<b>(3,031)</b>
Exceptionals	(241)	3,291
<b>( Loss) / Profit before tax</b>	<b>(1,331)</b>	<b>260</b>

Other Key Metrics		
	Jun 2012	Dec 2011
Loans / Deposits ratio	125%	138%
Deposits / Total Funding	52%	47%
Wholesale funding with maturity >1 year	42%	25%
RWAs	€81bn	€84bn
Core Tier 1 Capital Ratio	17.3%	17.9%
Total Capital Ratio	19.9%	20.5%

- Loss before exceptionals of €1.1bn in H1 2012, (€3.0bn in H1 2011)
  - Reduction in credit provisions charge to €0.9bn from €3bn in H1 2011, a 70% reduction
- Net interest income including ELG down €36m due to higher cost of deposits and an increase in non-performing loans partially offset by lower ELG fees
- Other income down €44m due to lower fees and commissions, business divestments and security valuation impacts
- Operating expenses increased by 7% (1% excl. EBS)
  - €43m EBS costs (acquisition 1 July 2012)
  - Higher pension & personnel related costs
  - Lower professional fees and other operating costs
- Exceptional items include
  - €211m related to Early Retirement & Voluntary Severance schemes
  - €112m positive valuation on previous transfers of assets to NAMA
  - €141m loss on loan disposals as part of the bank's deleveraging programme
- Significant decrease in Loan to Deposit ratio to 125% from 138% at Dec 2011
  - €14.5bn of non-core deleveraging completed
  - YTD deposit growth of €2.9bn
  - ECB funding YTD reduction of €6bn
- Core Tier 1 capital ratio of 17.3% (CBI target minimum 10.5%)

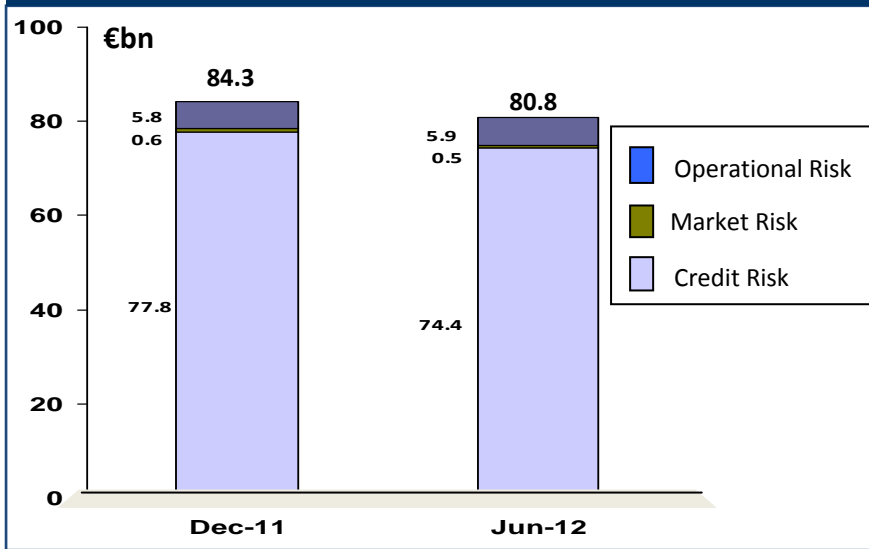


# Capital & Funding

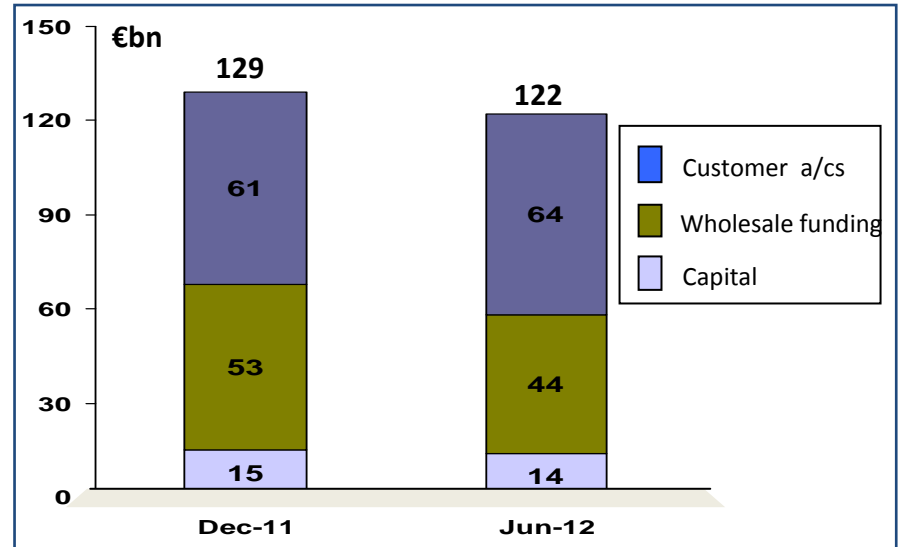
## Capital

- Core Tier 1 ratio of 17.3%, comfortably above target minimum level of 10.5%
- Risk Weighted Assets (RWA) down €3.5bn to €80.8bn
  - Non – core deleveraging accounted for a decrease of c. €3.1bn
  - Other movements (including increased provisions and credit grade migration) caused a decrease in RWA of €0.4bn

## Risk Weighted Assets



## Funding



- Customer accounts represent the largest source of funding at 52%
- Deposit volumes increased by €2.9bn; steady growth across all major franchises
- LDR reduced to 125% from 138% at Dec 2011
- Reliance on ECB funding reduced by €6bn to €25bn since Dec 2011
- Wholesale funding reduced by €9bn in H1 2012 following deleveraging and increase in deposits
- €0.3bn securitisation of Prime UK residential mortgages completed in May 2012
- Maturity profile extended with €11bn total participation in 3-year LTRO
- Managing to interim LCR and NSFR targets set by Central Bank of Ireland



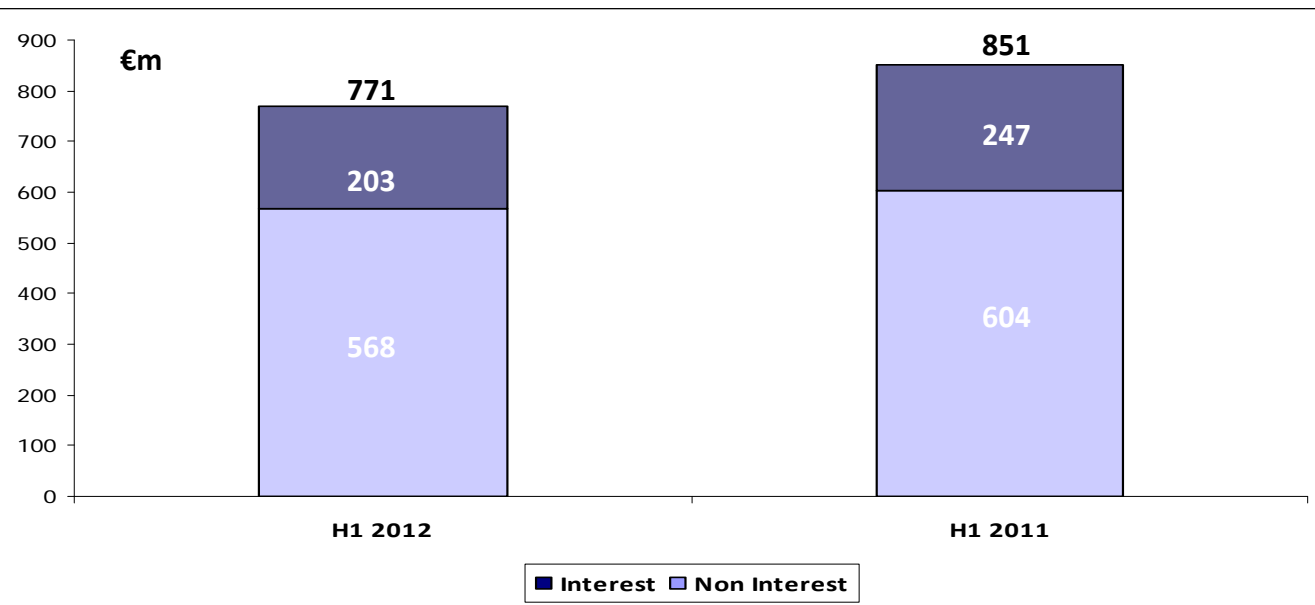
## Operating Income – Continued Challenges with Funding Costs

Total income down  
€80m, 10% on H1 2011

Deposit market  
remained heated in H1  
but now stabilising

Fee & commission  
subdued due to  
economic conditions

Positive pricing  
decisions on loans and  
deposits will take  
further effect in H2  
2012



- Net interest income including ELG down €36m / 6%:
  - Overall net interest margin declined by 12bps to 1.24% (excl. ELG)
  - Increased funding costs through the customer deposit base (which contributed to reduced reliance on ECB)
  - Lower wholesale funding costs mainly due to ELA not being required in 2012 and benefit of recapitalisation in 2011
  - ELG costs down by 16% to €215m (€190m or 25% reduction excluding EBS)
  - Increased loan margins largely offset negative impact of higher impaired loans
- Non interest income down €44m / 18%:
  - Lower fee & commission income of €50m due to subdued economic activity and disposal of fee generating businesses
  - Negative trading income of €32m on fair value of credit derivatives
  - Partially offset by net gains of €33m on the disposal of European sovereign bonds

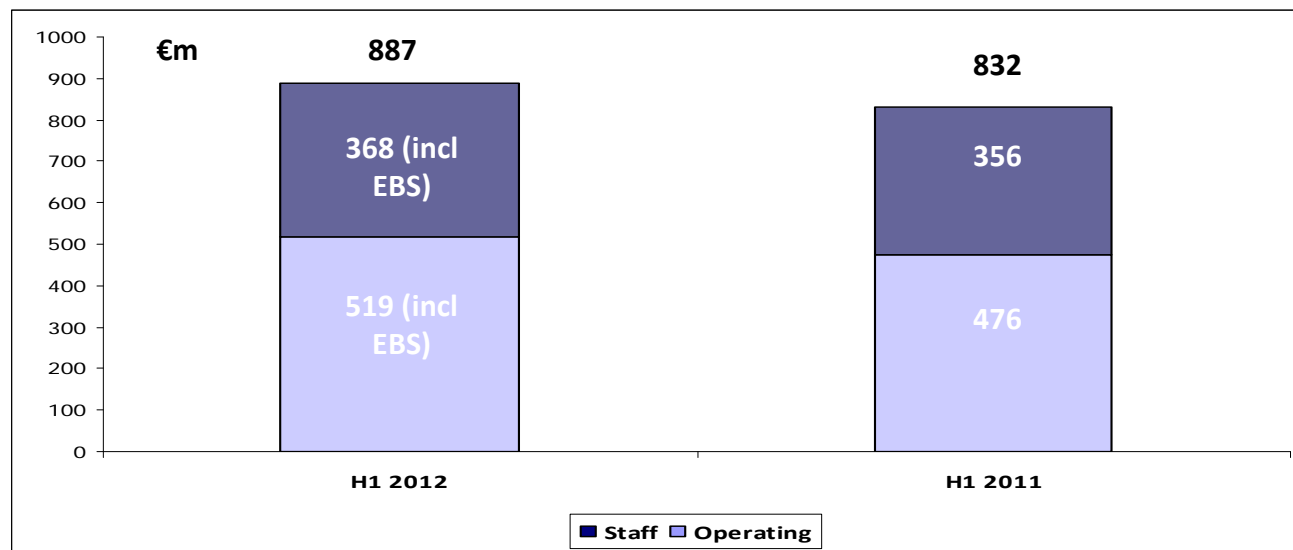
## Costs -- Aggressive Focus Ongoing to Reduce Costs in Future Periods

Total H1 costs up 1% on H1 2011 (excl. EBS)

€43m additional costs due to EBS consolidation

Driving down operating costs

Staff costs poised for major reduction on implementation of early retirement and voluntary (annual saving expected to be €200m+)

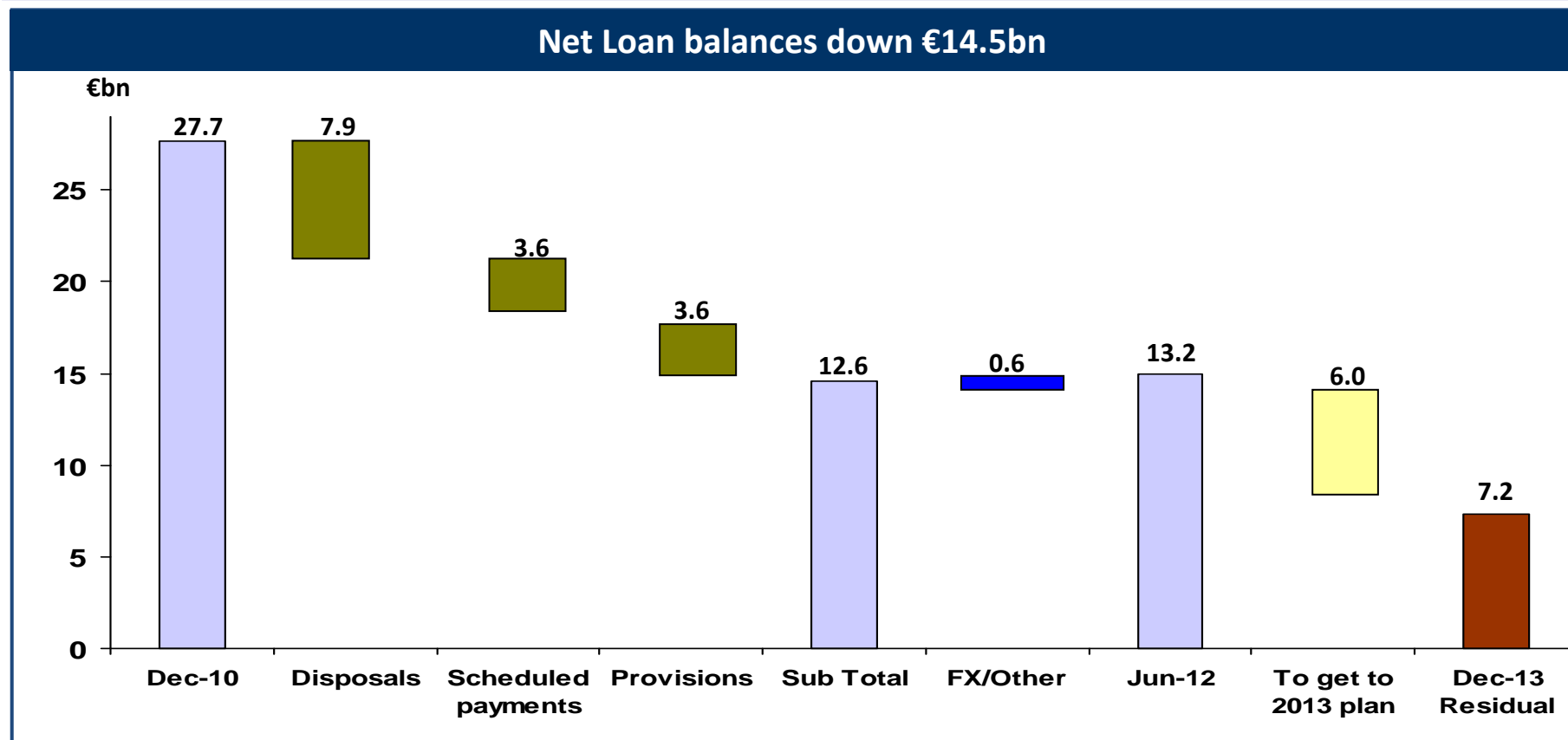


- Total costs up €55m which include EBS costs of €43m not included in H1 2011
- Excluding EBS, costs are up 1% on H1 2011
- Staff costs up 5% (excl. EBS) due to higher pension and Personnel related costs
- Operating costs down 4% (excl. EBS) due to reduced professional / consultancy fees and lower restitution expenses
- Costs expected to materially decrease in the coming periods

### Early Retirement and Voluntary Severance

- €211m termination costs accrued for at H1 and not included above (treated as an exceptional item)
- Projected annual saving of €200m+
- First round complete with an estimated 1,900 exits during the period August 2012 through to December 2013

## Deleveraging Plan – Expect LDR to be at or below target of 122.5% by year end



- €28bn of non-core loans identified
  - €14.5bn of deleveraging achieved to date; 70% of PLAR 3-year non-core deleveraging target of €20.5bn
  - €1.8bn non-core deleveraging achieved in H1 2012
  - Overall cumulative discounts of 4% (which includes non-refinancing) and amortisations, within PCAR assumptions

**Peter Rossiter**

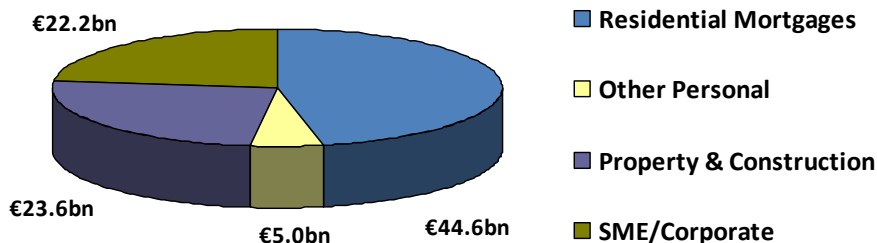
Chief Risk Officer



# Loan Book Composition and Credit Profile

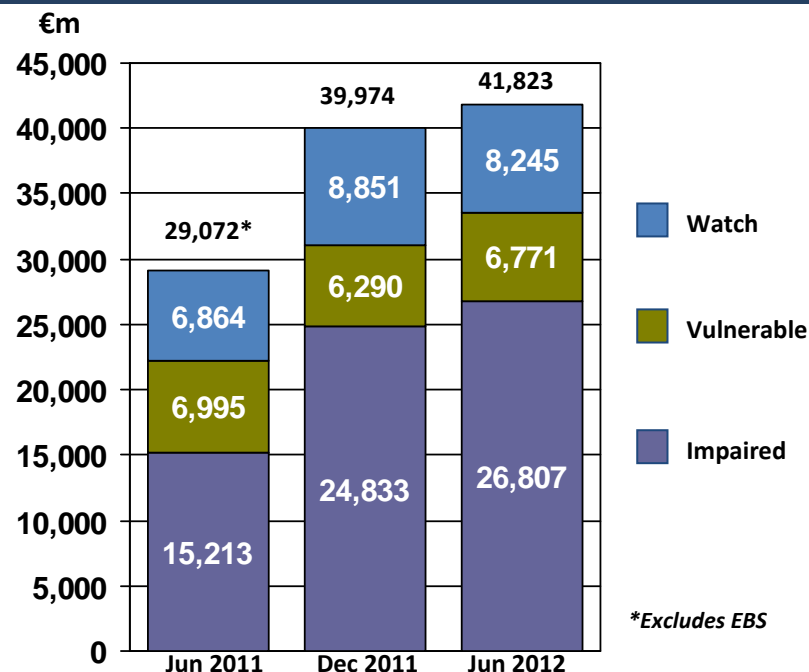
## Components

Total Gross Loans €95.4bn



- Total gross loans and advances have reduced by €3bn to €95bn since Dec 2011
  - Includes €1.4bn asset disposals
- Mortgages remain the largest component at 47% of total gross loans

## Credit Profile



- Criticised loans have increased by €1.8bn and are now 44% of total gross loans
- Impaired loans increased by €2bn since Dec 2011 to €26.8bn; 28% of total gross loans
  - Lower pace of increase in impaired loans compared to H2 2011
- Total Balance sheet provisions of €15.6bn
  - Specific provisions of €13.4bn
  - Specific provisions / impaired loan cover of 50%
  - IBNR provisions of €2.2bn representing 3.25% of non-impaired loans

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## Credit Provisions

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- Provision charges peaked in 2011; significant reduction expected for full year 2012
- Bad debt provision charge of €890m to June 2012 (€2,907m\* to June 2011)
  - Specific provision of €1,355m; IBNR writeback of €465m
  - Reduced provision charge reflects extent of impairment / provisions recognised in 2011
- Overall credit quality continues to weaken reflecting
  - Continued increase in arrears on mortgages in Ireland due to economic climate impact on repayment capacity
  - Continued lack of sustained activity in property sector transactions
- Focus on active loan recovery strategies and ongoing arrears management across the bank

# Loan Book Profile – Asset Quality

June 2012 €bn	Rol Mortgages	UK Mortgages	Land & Development	Inv. Property	SME	Personal	Corporate
Advances	41.1 <sup>(1)</sup>	3.2	6.6 <sup>(2)</sup>	16.0 <sup>(3)</sup>	15.8	5.0	6.4
Impaired	7.2	0.2	5.5	6.7	4.9	1.4	0.6
Impairment charge	0.3	0.01	0.2	0.1	0.1	0.1	0.03
<b>Balance sheet provisions</b>							
Specific	2.1	0.1	3.9	2.9	2.8	1.0	0.4
IBNR	0.7	0.1	0.2	0.7	0.3	0.1	0.1
<b>Specific provs / impaired loans</b>	30%	36%	71%	43%	58%	70%	64%

## Mortgages - 90+ days arrears

%

Dec 2011    Jun 2012

### Industry\* - Owner Occupier

\* Source : Central Bank of Ireland

	Dec 2011	Jun 2012	Mar 2012
Loan Value	12.3	NA	13.7
Number of Loans	9.2	NA	10.2

### AIB – Owner Occupier

Loan Value	10.8	12.9
Number of Loans	7.9	9.4

- (1) Excludes residential mortgage pools of €176m in AIB and deferred costs of €60m for EBS
- (2) Excludes €0.5bn contractors
- (3) Includes €0.4bn in Housing Associations in the UK



# Mortgages – largest sector exposure at €45bn

## Republic of Ireland Mortgages

- Total residential mortgages of €41bn
- Owner Occupier 77% - €32bn
- Buy-to-let 23% - €9bn

▪ c. 34k mortgage accounts or €6.4bn RoI mortgages subject to forbearance as at June 2012

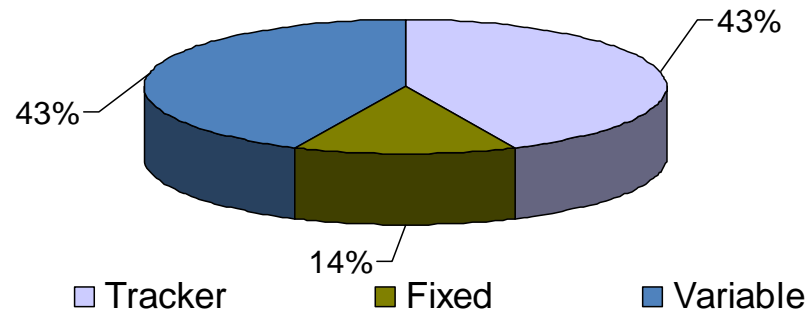
- 66% interest only
- €2.8bn >90 days past due and/or impaired

- Quantum of negative equity is €6.8bn
  - €1.9bn 90days past due and /or impaired

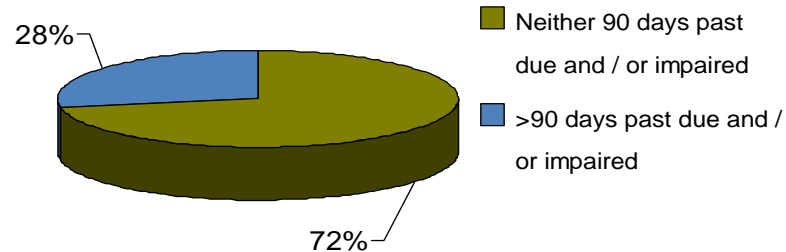
## UK Mortgages

- UK mortgages of c. €3.2bn; N.I. €2.1bn & GB €1.1bn
  - 90+ days arrears of €282m of which €234m is impaired
  - €11m impairment provision charge in 1H 2012
  - €182m balance sheet provisions
  - Specific provisions / impaired loans coverage of 36%

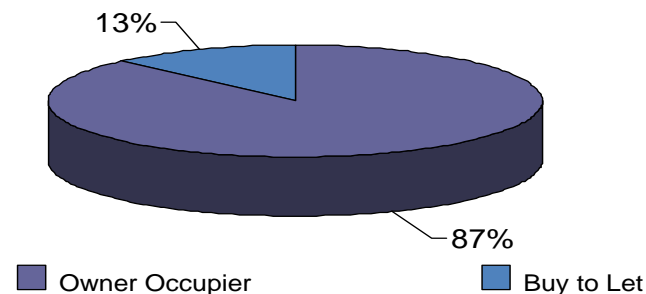
## Republic of Ireland - €41bn



## Quantum of Negative Equity - €6.8bn



## UK Mortgages - €3.2bn





# Republic of Ireland mortgages – Gross Loans of €41bn

## 90+ days arrears and / or impaired

%	Dec 2011	Jun 2012	Mar 2012
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### Industry - Owner Occupier

Source : Central Bank of Ireland – data as at March 2012

Loan Value	12.3	NA	13.7
Number of Loans	9.2	NA	10.2

### AIB – Owner Occupier

Loan Value	10.8	12.9
Number of Loans	7.9	9.4

### AIB - Buy to Let

Loan Value	31.4	37.2
Number of Loans	20.6	24.9

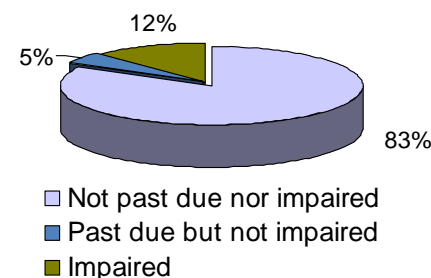
€m	Jun-11 *	Dec-11	Jun-12
<b>Neither past due nor impaired</b>	<b>23,392</b>	<b>33,505</b>	<b>31,803</b>
1 - 30 days	683	1,014	1,024
31 - 60 days	317	460	428
61 - 90 days	185	235	256
91+ days	416	415	426
Total loans in arrears	1,601	2,124	2,134
<b>Impaired</b>	<b>1,668</b>	<b>6,038</b>	<b>7,156</b>
Total loans past due plus impaired	3,269	8,162	9,290
<b>Total residential mortgages</b>	<b>26,661</b>	<b>41,667</b>	<b>41,093</b>
30+ days past due plus impaired	9.8%	17.2%	20.2%
90+ days past due plus impaired	7.9%	15.5%	18.5%

## Impairment Charges and Provisions

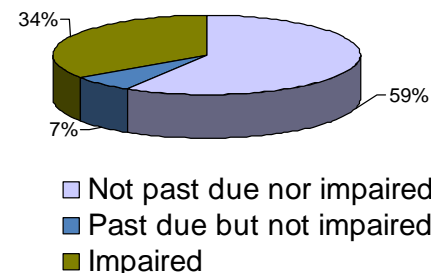
€bn	Dec 2011	Jun 2012
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Impaired Loans	6.0	7.2
Impairment charge	1.5**	0.3
Impairment charge (bps)	356	165
Total Balance Sheet Provisions	2.5	2.8
Specific Provisions / Impaired Loans	28%	30%

### Owner Occupier - €32bn



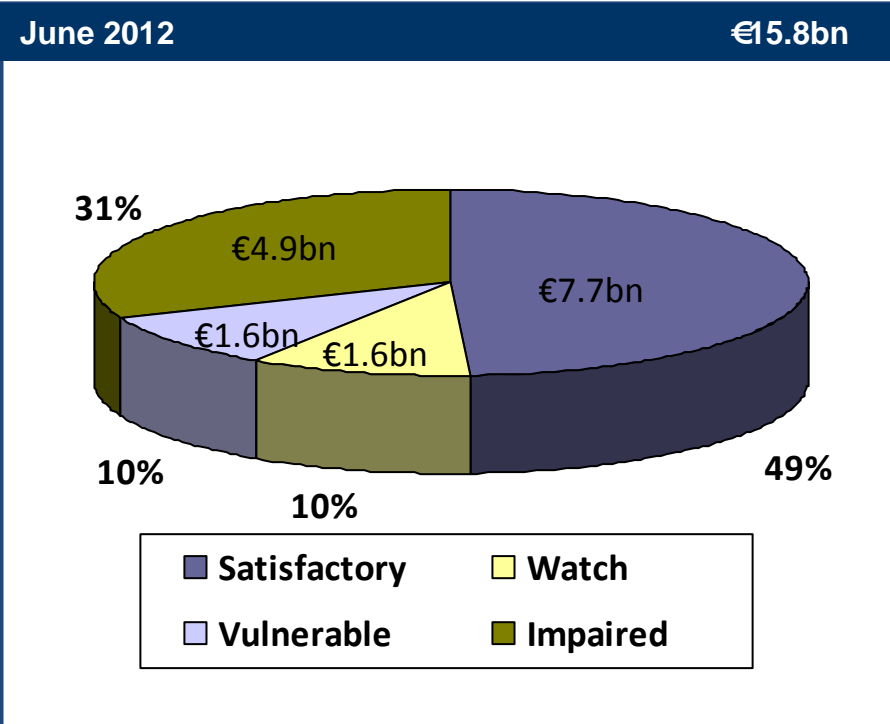
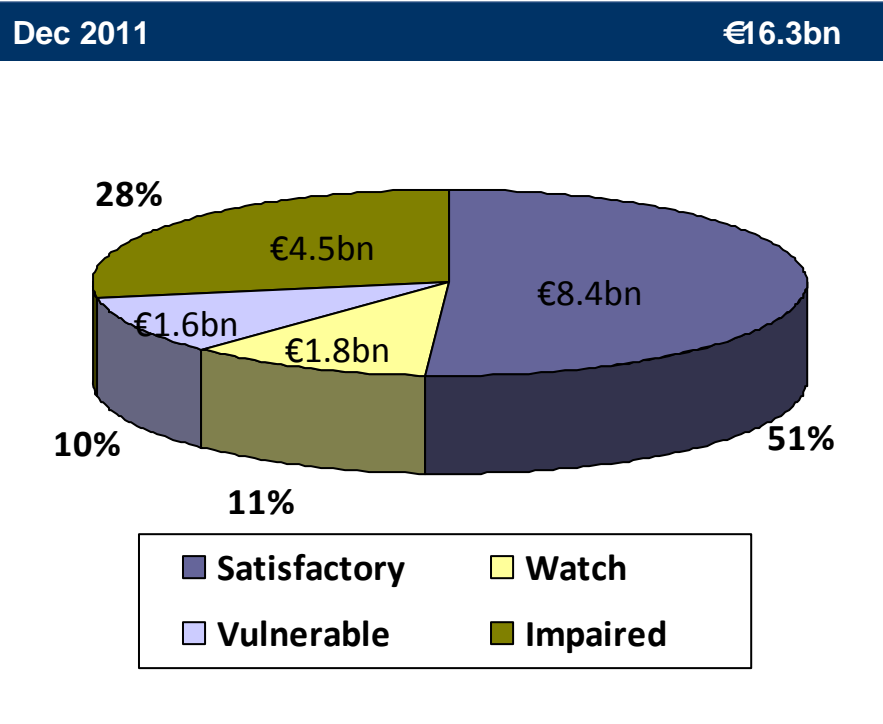
### Buy To Let - €9bn



\*Excludes EBS

\*\*Full year 2011 charge

# SME / Commercial

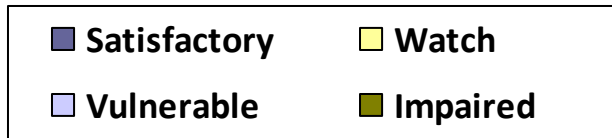
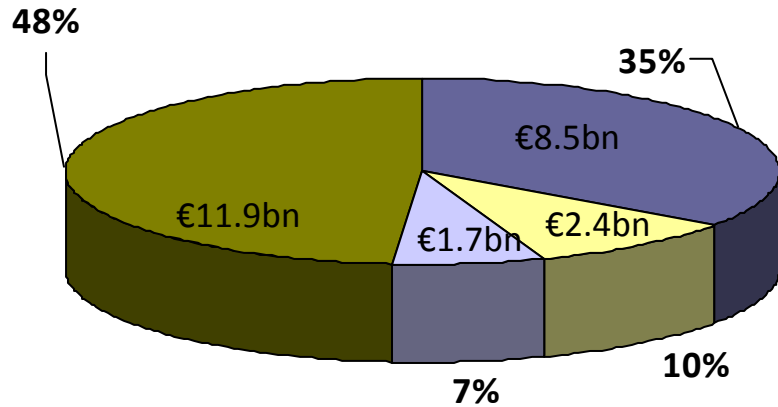


Full Year 2011 Impairment charge	€1.6bn	➡	Impairment charge to June 2012	€0.1bn
Total balance sheet provisions	€3.1bn	➡	Total balance sheet provisions	€3.1bn
Specific provisions / impaired loans	58%	➡	Specific provisions / impaired loans	58%

# Property & Construction

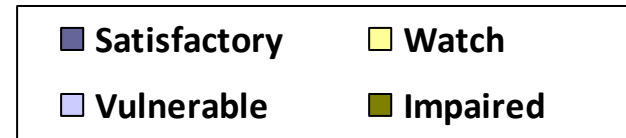
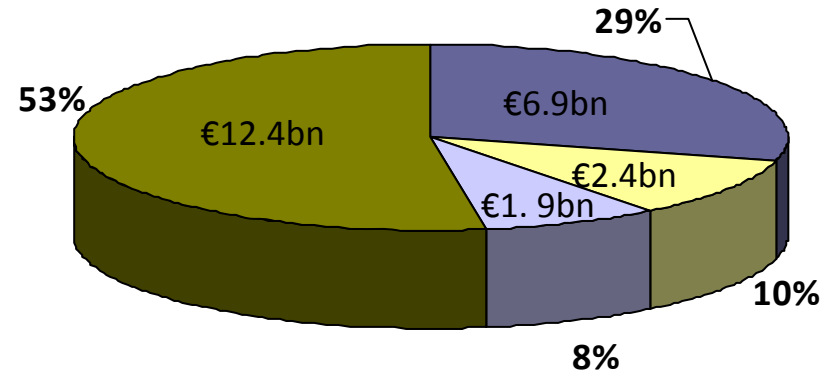
Dec 2011

€24.5bn

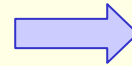


June 2012

€23.6bn

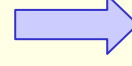


Full Year 2011 Impairment charge €3.6bn



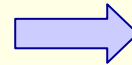
Impairment charge to June 2012 €0.3bn

Total balance sheet provisions €7.6bn



Total balance sheet provisions €7.8bn

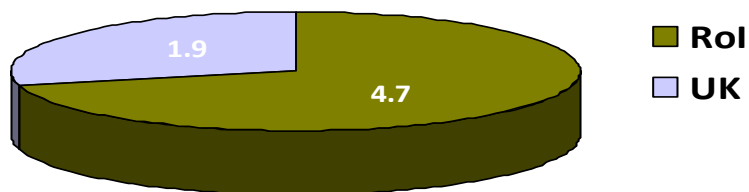
Specific provisions / impaired loans 54%



Specific provisions / impaired loans 56%

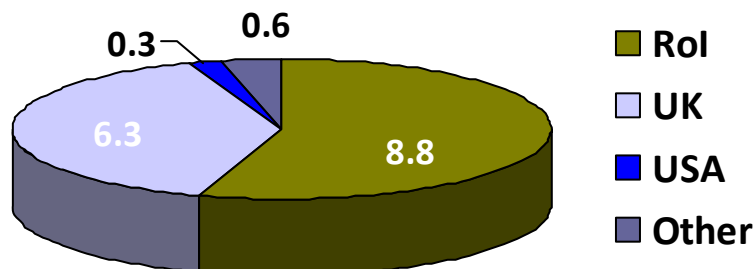
## Property & Construction

- Land & development €6.6bn



- €6.1bn is criticised, 92% of portfolio, with 83% impaired
- Impairment charge of €0.2bn to June 2012 (€1.7bn year to Dec 2012)
- Specific provision / Impaired loans cover now 71% (69% at Dec 2011)

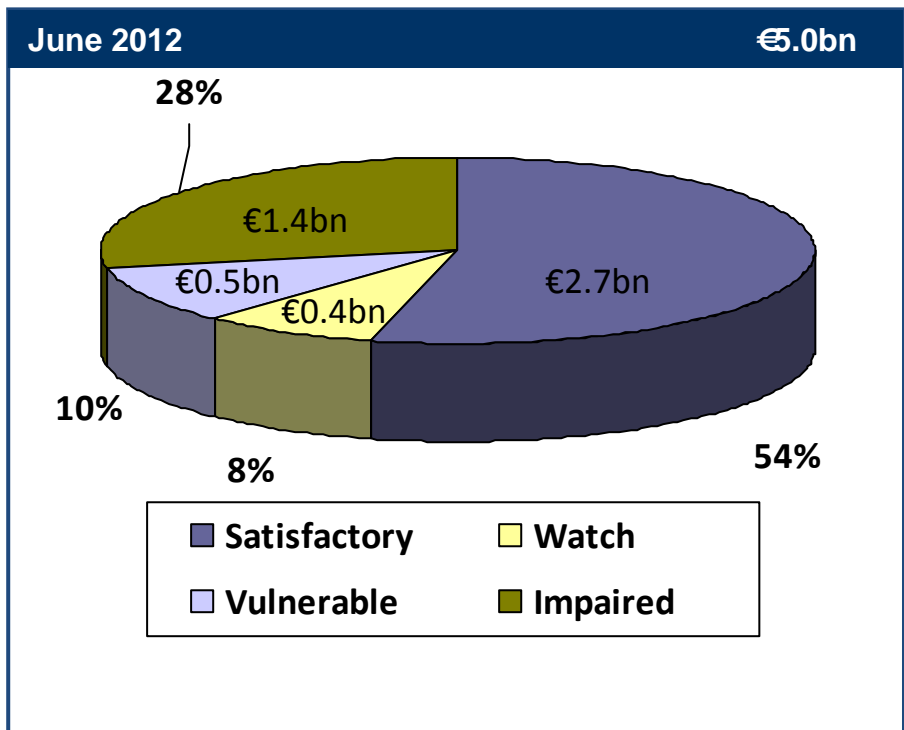
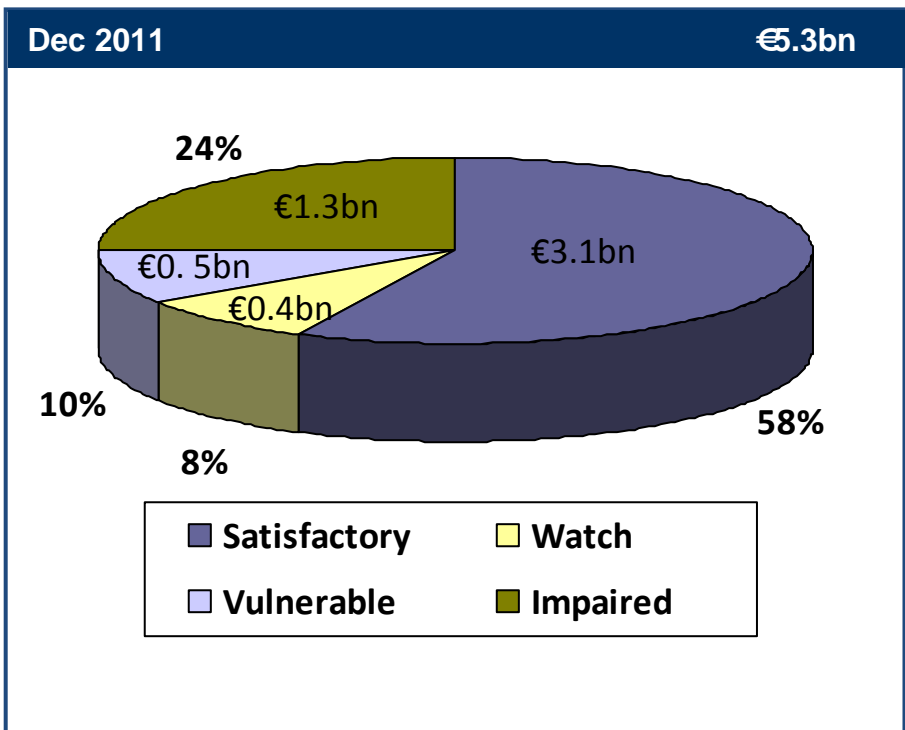
- Investment property €16bn\*



- €6.7bn or 42% of investment property portfolio now impaired
- Impairment charge of €0.1bn to June 2012 (€1.9bn year to Dec 2012)
- Specific provision / impaired loan cover now 43% (41% at Dec '11)

\* Includes €0.4bn in Housing Associations in the UK

# Personal Loans



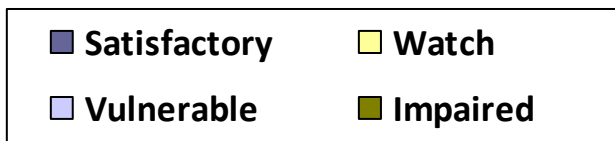
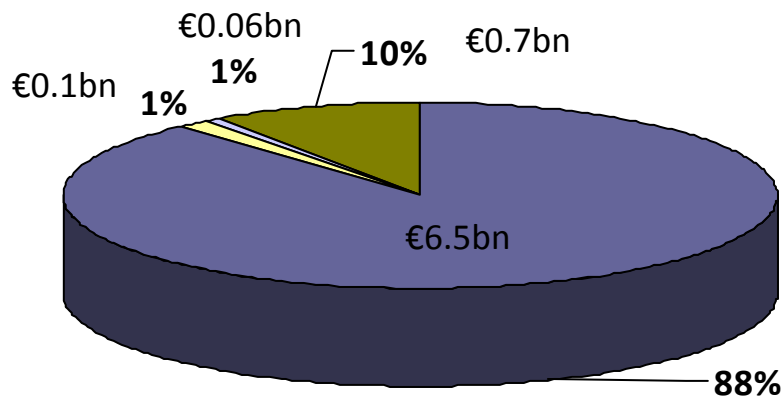
Full Year 2011 Impairment charge	€0.5bn	➔	Impairment charge to June 2012	€0.1bn
Total balance sheet provisions	€1.1bn	➔	Total balance sheet provisions	€1.1bn
Specific provisions / impaired loans	68%	➔	Specific provisions / impaired loans	70%



# Corporate Loans

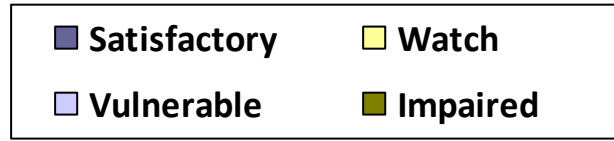
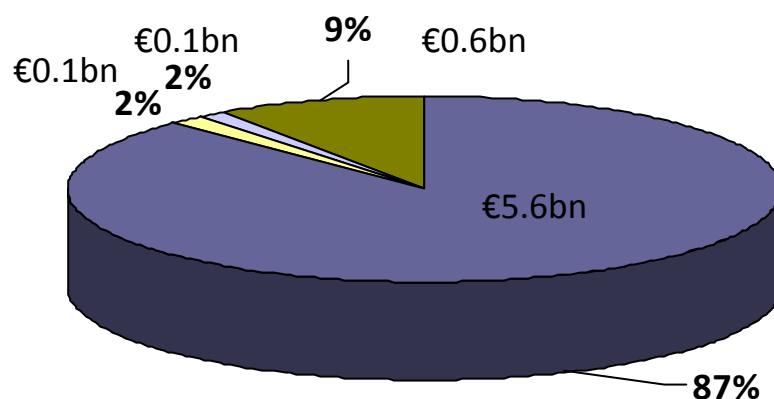
Dec 2011

€7.4bn

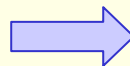


June 2012

€6.4bn

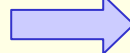


Full Year 2011 Impairment charge €0.5bn



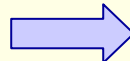
Impairment charge to June 2012 €0.03bn

Total balance sheet provisions €0.5bn



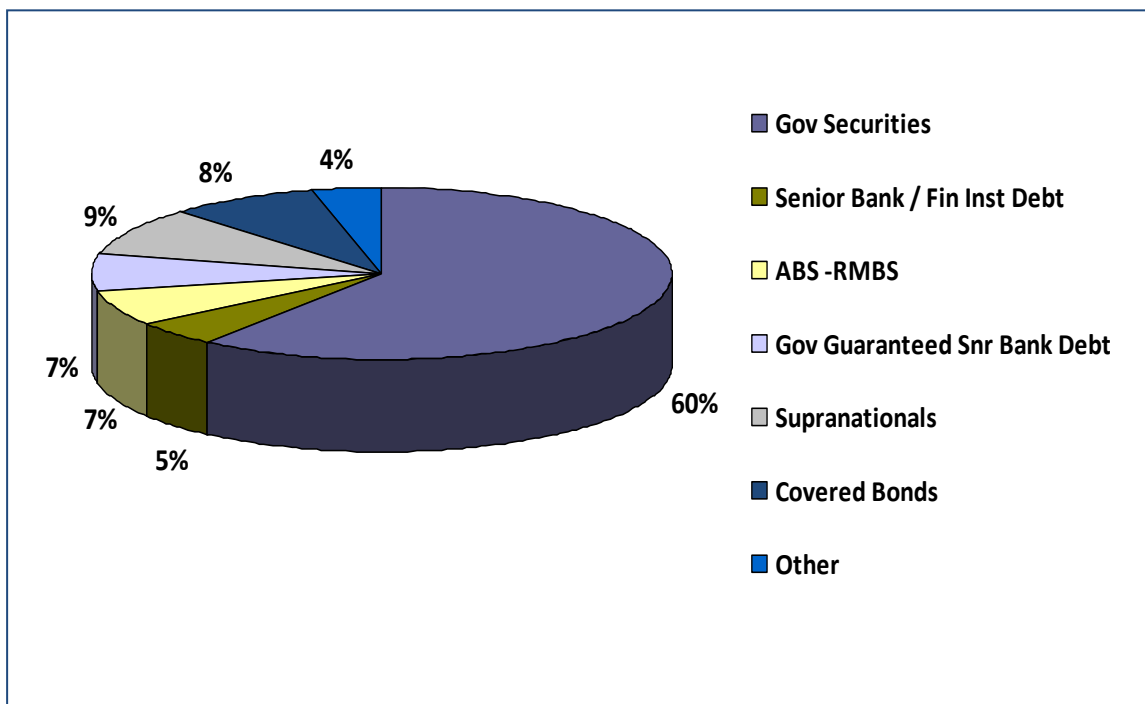
Total balance sheet provisions €0.5bn

Specific provisions / impaired loans 62%



Specific provisions / impaired loans 64%

# Available for Sale Portfolio



Large exposures	
<u>Jun 2012</u>	<u>€bn</u>
Ireland	6.3
Core Europe	3.9
UK	1.1
Spain	1.0
Italy	0.2
Portugal	0.1

- Total debt securities portfolio\* reduced to €13.3bn from €15.2bn at Dec 2011 due to disposals and maturities
  - Exposures selectively reduced; sale of exposures to vulnerable European economies
  - Profit on disposals net c. €33m
- Excludes NAMA bonds of c. €18.4bn which are held in loans and receivables
- 96% is investment grade
- Specific impairment charge of €84m; primarily relating to a further writedown in the value NAMA subordinated bonds



\*Excludes equity securities

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# Group Outlook

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- Challenging economic environment remains evident however profitability is on track for 2014
  - 2014 target dependent on economic recovery in both Ireland and the wider Eurozone
- Impairment charges peaked in 2011 and material decrease seen in H1 2012
  - AIB continues to expect impairment charges to decline year on year
    - However, levels will remain elevated through 2013 relative to historic norms
- Over 70% of three year non-core deleveraging target of €20.5bn achieved to date
  - Expect to be at or below LDR target of 122.5% by year end
- Revised organisation structure and strategy being implemented to align the business to focus on customers
- Focus will remain on aggressively cutting operating expenses
  - Severance programme announced and phase 1 initiated; headcount to reduce by at least 2,500
  - Review of pay and benefits announced
  - Redefining the distribution network in Irish and UK business through branch closures and amalgamations
  - Review of all variable expenditure underway and further reductions to be implemented where possible
  - Target reduction of c.€350m+ in operating expenses by 2014 relative to 2011 levels
- Normalising of funding costs and lending margins
  - 50bps increase in mortgage standard variable rate announced today
  - Stabilisation of the cost of customer deposits with management actions to further reduce rates
  - Reduction in quantum of ELG covered liabilities
    - UK withdrawal announced for Aug 2012 with a view to a full withdrawal by 2014 for the rest of the business