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2 October 2017

ALLIED IRISH BANKS, P.L.C. (“AIB BANK”)

Update on the resolution strategy for AIB Bank and its subsidiaries (“AIB” or the “AIB Group”)

Further to AIB Bank’s announcement on 3 February 2017, AIB Bank has today filed an application with the High Court of Ireland (the “**Court**”) to commence the process for AIB Bank shareholder and Court approval for the introduction of a new holding company of the AIB Group.

The new company, AIB Group plc (“**AIB HoldCo**”), is a recently incorporated company registered in Ireland. It is intended that this new corporate structure will be implemented by means of a scheme of arrangement under Chapter 1 of Part 9 of the Companies Act 2014 (and a related reduction of capital of AIB Bank) (the “**Scheme**”). The Scheme requires approval by shareholders of AIB Bank and by the Court.

A subsequent reduction of capital of AIB HoldCo, which is expected to be concluded shortly after the Scheme has become effective, will, if approved by the Court, be used to create distributable reserves in AIB HoldCo.

Subject to Court approval for this application, a special Court-convened meeting of shareholders in AIB Bank (other than AIB HoldCo, which holds one share in AIB Bank) and an extraordinary general meeting of all shareholders in AIB Bank are expected to be convened and further information will be made available in due course through the publication of a circular by AIB Bank and of a prospectus by AIB HoldCo.

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ADDITIONAL INFORMATION

1. Introduction

On 3 February 2017, Allied Irish Banks, p.l.c. (“**AIB Bank**”) announced that it had been notified by the Single Resolution Board (the “**SRB**”) that the preferred resolution strategy (“**PRS**”) under the EU Bank Recovery and Resolution Directive (“**BRRD**”) for the group currently comprising AIB Bank and its subsidiaries (“**AIB**” or the “**AIB Group**”), as determined by the SRB (as the AIB group level resolution authority for the purposes of the BRRD and the EU Single Resolution Mechanism Regulation) and the Bank of England, as the resolution authority for AIB Group (UK) p.l.c. (together, the “**Resolution Authorities**”), consists of a single point of entry via a holding company. Implementation of the PRS would require the introduction of a new AIB Group holding company and mean that any future bail-in of instruments held by external creditors would be expected to take place in the first instance at the level of that holding company.

The new company, AIB Group plc (“**AIB HoldCo**”), is a recently incorporated company registered in Ireland. It is intended that this new corporate structure will be implemented by means of a scheme of arrangement under Chapter 1 of Part 9 of the Companies Act 2014 (the “**Companies Act**”) and a related reduction of capital of AIB Bank under sections 84 to 86 of the Companies Act (the “**Scheme**”). A subsequent reduction of capital of AIB HoldCo, which is expected to be concluded shortly after the Scheme has become effective, will be used to create distributable reserves in AIB HoldCo.

2. Reasons for and benefits of the Scheme

In order to comply with the Resolution Authorities’ requirements under the BRRD framework and ensure that the AIB Group is in a position to issue instruments that meet minimum requirement for own funds and eligible liabilities (“**MREL**”) requirements, AIB Bank is proposing to undertake a group reorganisation which will involve the establishment of a new group holding company (AIB HoldCo) directly above AIB Bank. AIB HoldCo will have the usual activities of a holding company (including the overall stewardship and governance of the AIB Group) and will also become the primary issuer of AIB’s external capital and debt instruments which are expected to be eligible for MREL purposes. The AIB Group has received the necessary permissions from its financial service regulatory supervisors to establish AIB HoldCo where such permissions are required in advance. Any post-establishment notifications required to be made to such supervisors will be made by the relevant AIB Group member within the permitted periods.

Establishing AIB HoldCo as the new group holding company will ensure that AIB implements the PRS as determined by the Resolution Authorities, has available to it a platform for the issuance of capital and debt instruments that are expected to meet MREL requirements under the BRRD framework and provides clarity to the market in relation to AIB’s resolution strategy and the expected structural form of its future MREL-eligible issuances.

3. Principal features of the Scheme

A scheme of arrangement is a formal procedure under the Companies Act that is commonly used to carry out corporate reorganisations and is, in the view of the directors of AIB Bank (the “**AIB Bank Board**”), the best way of achieving the proposed reorganisation of the AIB Group.

Under the Companies Act, a scheme of arrangement must be approved at a special meeting or meetings of shareholders convened by either the directors of the company or the High Court of Ireland (the “**Court**”) for the specific purpose of approving the Scheme (the “**Court Meeting**”). All shareholders in AIB Bank (other than AIB HoldCo, which for technical reasons under the Companies Act acquired and holds one share in AIB Bank) at the applicable record time (being the “**Scheme Shareholders**”) will be entitled to attend and vote at the Court Meeting.

An extraordinary general meeting (the “**Extraordinary General Meeting**” or “**EGM**”) of the shareholders of AIB Bank (“**AIB Bank Shareholders**”) will also be convened for immediately after the Court Meeting,

in order to authorise the AIB Bank Board to take such action as it considers necessary or appropriate to put the Scheme into effect, including to give effect to the related reduction of capital of AIB Bank under sections 84 to 86 of the Companies Act (the “**Scheme Resolution**”). It will also consider and, if thought fit, approve, an advisory and non-binding ordinary resolution to acknowledge, approve and confirm the proposed reduction of capital of AIB HoldCo. See paragraph 5 below for further details on the proposed reduction of capital of AIB HoldCo. All AIB Bank Shareholders at the applicable record time will be entitled to attend the Extraordinary General Meeting.

The Scheme requires the approval of the Scheme Shareholders at the Court Meeting and approval of the Scheme Resolution by AIB Bank Shareholders at the Extraordinary General Meeting and the subsequent approval of the Court.

If the Scheme becomes effective, all ordinary shares in AIB Bank (other than the one ordinary share held by AIB HoldCo) (the “**Scheme Shares**”) will be cancelled, or (as the case may be) transferred to AIB HoldCo, and the Scheme Shareholders at the applicable record time will receive one ordinary share in AIB HoldCo (the “**AIB HoldCo Shares**”) for each Scheme Share cancelled, or (as the case may be) transferred to AIB HoldCo, under the Scheme.

Applications will be made (i) to the Irish Stock Exchange plc and to the Financial Conduct Authority for all of the AIB HoldCo Shares to be admitted to listing on the primary listing segment of the Official List of the Irish Stock Exchange plc and to the premium listing segment of the Official List of the Financial Conduct Authority; and (ii) to the Irish Stock Exchange plc and London Stock Exchange plc for all of the AIB HoldCo Shares to be admitted to trading on the Irish Stock Exchange plc’s main securities market and London Stock Exchange plc’s main market for listed securities (“**Admission**”).

4. Expected timetable of key events

AIB Bank has today applied to the Court and requested that it convene the Court Meeting. That application is expected to be heard on Wednesday, 4 October 2017.

AIB Bank will publish and post to AIB Bank Shareholders a circular setting out details of the Scheme and all related matters, including notices of the Court Meeting and the EGM, shortly following receipt of the required Court approval to convene the Court Meeting. A prospectus relating to AIB HoldCo prepared in accordance with Directive 2003/71/EC (as amended) and all other applicable laws and regulations will be published, subject to the approval of the Central Bank of Ireland. The Court Meeting (if convened by the Court) and the Extraordinary General Meeting are expected to be held on Friday, 3 November 2017. A further announcement will be made by AIB Bank confirming the timing for publication of the AIB Bank circular and the AIB HoldCo prospectus and the date and times for the Court Meeting and the Extraordinary General Meeting.

If the relevant approvals are obtained, the Scheme is expected to become effective at some time in December 2017. Admission is expected to occur shortly after the Scheme becomes effective. The admission of the AIB Bank ordinary shares to trading on the Irish Stock Exchange plc’s and London Stock Exchange plc’s main markets for listed securities is expected to be cancelled immediately prior to Admission.

5. AIB HoldCo Reduction of Capital

Since AIB HoldCo is a recently incorporated company, it will not initially have distributable reserves. Therefore, the directors of AIB HoldCo will seek the approval of the Court for a proposed reduction of the capital of AIB HoldCo under sections 84 to 86 of the Companies Act (the “**AIB HoldCo Reduction of Capital**”), which (if approved) will create distributable reserves in AIB HoldCo. This will involve the nominal value of each AIB HoldCo Share being reduced from €2.47 (its nominal value at the time the Scheme becomes effective) to €0.625, thereby replicating the nominal value per share of the existing AIB Bank ordinary shares.

This is a legal and accounting adjustment and will, if approved, create a new distributable reserve on the balance sheet of AIB HoldCo of approximately €5 billion (assuming no further shares of AIB Bank are issued after the date of this announcement and before the Scheme becomes effective). The AIB HoldCo Reduction of Capital will not, of itself, result in the return of any capital to AIB HoldCo shareholders and should not have any impact on the market value of the AIB HoldCo Shares.

The implementation of the AIB HoldCo Reduction of Capital is conditional upon confirmation by the Court. At the Extraordinary General Meeting, AIB Bank Shareholders will be asked to vote on the creation of distributable reserves by AIB HoldCo (on an advisory and non-binding basis). The implementation of the Scheme is not conditional upon the AIB HoldCo Reduction of Capital becoming effective.

6. Corporate governance and board of directors

AIB HoldCo has the same board of directors as AIB Bank. From the time the Scheme becomes effective (the “**Scheme Effective Time**”), AIB HoldCo will have the same standing board committees as AIB Bank. All directors of AIB HoldCo have been appointed on the basis that, with effect from the Scheme Effective Time, the terms of their appointment will be substantially the same as those that are currently in place with respect to their appointments to the AIB Bank Board. No additional remuneration will be paid to the directors of AIB Bank in respect of their appointment to the board of directors of AIB HoldCo (the “**AIB HoldCo Board**”). With effect from the Scheme Effective Time, certain of the senior executives who are employed by AIB Bank will perform senior executive functions in respect of AIB HoldCo.

7. Impact of the Scheme on regulatory capital

Under Regulation 575/2013 on prudential requirements for credit institutions and investment firms (the “**CRR**”), upon the establishment of AIB HoldCo as the new holding company of AIB, a portion of the regulatory capital instruments issued by an AIB subsidiary (including AIB Bank) to third party investors will not be recognised in full for AIB consolidated regulatory capital purposes. Upon the establishment of AIB HoldCo as the holding company of AIB Bank (the current principal operating company and holding company of the AIB Group), a portion of the regulatory capital reserves represented by the existing additional tier 1 and tier 2 capital instruments issued by AIB Bank will as a consequence not qualify as regulatory capital at consolidated AIB level.

Had a new holding company for the AIB Group been implemented as of 30 June 2017, it is estimated that the AIB’s consolidated tier 1 capital ratio (transitional basis) would reduce by approximately 0.4 per cent. and its consolidated total capital ratio (transitional basis) would reduce by approximately 0.9 per cent., both of which are within capital planning capacity for the AIB Group. If, subject to regulatory approval at the relevant time, the principal existing non-equity capital instruments issued by AIB Bank were called at their first call dates, the impact of any reductions would be expected to be substantially eliminated by the end of December 2020. It should be noted that while the introduction of AIB HoldCo as a new holding company of AIB Group is expected to have a negative impact on the consolidated tier 1 and total capital positions of AIB, it is not expected to have an impact on the consolidated AIB CET1 capital position as, upon the Scheme becoming effective, all of AIB’s external shareholders will be at the level of AIB HoldCo.

8. Risks and consequences if the Scheme is not implemented

If the Scheme does not proceed, AIB Bank will remain the principal operating company and holding company of the AIB Group and the AIB Bank ordinary shares will continue to be admitted to trading on the main markets of the Irish Stock Exchange plc and London Stock Exchange plc. In this scenario, AIB will be unable to implement the Resolution Authorities’ PRS for the AIB Group. This could have significant regulatory and financial consequences, including:

- an inability of the AIB Group to meet MREL requirements applicable under the BRRD framework in a manner set out by the Resolution Authorities;

- the adoption by the Resolution Authorities of a different resolution strategy for the AIB Group that could have adverse (including financial) consequences for the AIB Group;
- the potential exercise by the AIB Group's regulatory authorities of other regulatory powers (including the setting of capital requirements) which may have adverse (including financial) consequences for the AIB Group; and
- enforcement actions against the AIB Group by the regulatory and/or resolution authorities.

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FORWARD-LOOKING STATEMENTS

This announcement may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the AIB Group and certain plans and objectives of the AIB Bank Board or the AIB HoldCo Board. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “believe”, “will”, “may”, “should”, “would”, “could”, their negative or other variations or other words of similar meaning. These statements are based on assumptions and assessments made by the AIB Bank Board or (as the case may be) the AIB HoldCo Board in light of their respective experiences and its perceptions of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty and the factors described in the context of such forward-looking statements in this announcement could cause actual results or developments to differ materially from those expressed in, reflected or contemplated in, or implied by, such forward-looking statements. As a result, investors should not rely on such forward-looking statements in making their investment decisions. No representation or warranty is made as to the achievement or reasonableness of, and no reliance should be placed on, such forward-looking statements.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this announcement. None of AIB Bank, the AIB Bank Board, AIB HoldCo or the AIB HoldCo Board assume any obligation to update or correct the information contained in this announcement, whether as a result of new information, future events or otherwise, except to the extent legally required.

The statements contained in this announcement are made as at the date of this announcement, unless some other time is specified in relation to them, and publication of this announcement shall not give rise to any implication that there has been no change in the facts set out in this announcement since such date. Nothing contained in this announcement shall be deemed to be a forecast, projection or estimate of the future financial performance of the AIB Group except where expressly stated.

IMPORTANT NOTICES

The information contained in this announcement is for background purposes only and does not purport to be full or complete. No reliance may be placed for any purpose on the information contained in this announcement or its accuracy, fairness or completeness.

The contents of this announcement are not to be construed as legal, financial or tax advice. Each prospective investor should consult his own legal adviser, financial adviser or tax adviser for legal, financial or tax advice, respectively.

NOTICE TO OVERSEAS INVESTORS

The release, publication or distribution of this announcement and the documents referred to herein in jurisdictions other than Ireland and the United Kingdom may be restricted by law and therefore persons into whose possession any of this announcement and the documents referred to herein come should inform themselves about, and observe, any applicable restrictions or requirements. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, AIB Bank and AIB HoldCo disclaim any responsibility or liability for the violation of such requirements by any person.

This announcement and the documents referred to herein do not constitute an offer or form part of any offer or invitation to purchase, subscribe for, sell or issue, or a solicitation of an offer to purchase, subscribe for, sell or issue, any securities pursuant to this announcement or otherwise in any jurisdiction in which such offer or solicitation is unlawful. This announcement does not comprise a prospectus or a prospectus equivalent document.

NOTICE TO INVESTORS IN THE UNITED STATES

The Scheme relates to the shares of an Irish company (a “foreign private issuer” as defined under Rule 3b-4 under the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”)) and is proposed to be made by means of a scheme of arrangement and related reduction of capital of AIB Bank provided for under, and governed by, Irish law. Neither the proxy solicitation rules nor the tender offer rules under the Exchange Act will apply to the Scheme. Accordingly, the AIB HoldCo Shares to be issued pursuant to the Scheme have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) or under the relevant securities laws of any State or territory or other jurisdiction of the United States, and are expected to be offered in the United States in reliance upon the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof and exemptions provided under the laws of the States of the United States in which eligible Scheme Shareholders may reside.

For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof with respect to the AIB HoldCo Shares issued pursuant to the Scheme, AIB Bank will advise the Court that its sanctioning of the Scheme will be relied upon by AIB HoldCo as an approval of the Scheme, following a hearing on its fairness to Scheme Shareholders at which hearing all Scheme Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such Scheme Shareholders.

The AIB HoldCo Shares to be issued under or in connection with the Scheme to a Scheme Shareholder who is neither an affiliate, for the purpose of the Securities Act, of AIB Bank or AIB HoldCo on or prior to the time the Scheme becomes effective nor an affiliate of AIB HoldCo at the Scheme Effective Time would not be “restricted securities” under the Securities Act. Scheme Shareholders who are affiliates of AIB Bank or AIB HoldCo on or prior to the Scheme Effective Time or affiliates of AIB HoldCo after the Scheme Effective Time may, under Rule 145(d) under the Securities Act, be subject to timing, manner of sale and volume restrictions on the sale of AIB HoldCo Shares received in connection with the Scheme. For the purpose of the Securities Act, an affiliate of either AIB Bank or AIB HoldCo is any person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with AIB Bank or AIB HoldCo. Whether a person is an affiliate of either AIB Bank or AIB HoldCo for the purpose of the Securities Act depends on the circumstances. Persons who believe that they may be affiliates of either AIB Bank or, after the Scheme Effective Time, AIB HoldCo should consult their own legal advisers prior to any sale of the AIB HoldCo Shares received upon the implementation of the Scheme.

The Scheme is subject to the disclosure requirements and practices applicable in Ireland to schemes of arrangement and capital reductions, which differ from the disclosure and other requirements of U.S. securities laws.

AIB Bank and AIB HoldCo are both incorporated under the laws of Ireland. Some or all of the officers and directors of AIB Bank and AIB HoldCo may be residents of countries other than the United States. It may not be possible to sue AIB Bank and AIB HoldCo in a non-U.S. court for violations of U.S. securities laws. It may be difficult to compel AIB Bank, AIB HoldCo and their respective affiliates to subject themselves to the jurisdiction and judgment of a U.S. court. It may not be possible to enforce in Ireland a judgment of a U.S. court in respect of violations of U.S. securities law.

None of the securities referred to in this announcement have been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this announcement. Any representation to the contrary is a criminal offence in the United States.