

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

**October 2012**

*Presentation to*

Joint Committee on Finance, Public Expenditure and Reform



### **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.

# AIB – Material Change and Restructuring Since 2008

Restructure

Rebuild

Sept 2008	May 2009	Jun 2009	Mar 2010	Sept 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	Jul 2011	Dec 2011	May 2012	Jul 2012
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Introduction of State Guarantee

LME - €1bn\*

Sale of M&T- €0.9bn\*

LME - €1.5bn\*

Sale of BZWBK - €2.3bn\*\*

New CEO Appointed

€3.5bn Preference Share Injection #

€3.7bn Capital Injection #

PCAR Exercise 2011 €14.8bn capital required

Severance Programme Launched

PCAR Exercise 2010 - €7.4bn capital requirement  
LME - €0.4bn\*

Anglo Deposit book acquisition - €1.4bn\*

-Merger with EBS  
-LME - €2.1bn\*  
-Equity/Capital Contrib/CoCo#

New Strategy & Structure Announced

**A combination of significant government capital, burden sharing with subordinated bondholders, asset sales and fundamental restructuring has stabilised AIB and positioned the bank to start making a meaningful contribution to Irish economic growth**

\* Capital Benefit

\*\* Capital Benefit including RWA reduction

# Government Capital



# Significant Progress in Execution of Key Initiatives Across the Bank

## Restructuring & Governance

- Commercial Relationship Framework in place with State ✓
- Revised Strategy & Org Structure Implemented ✓
- Board / State Authorities Approval of Strategy ✓
- Creation of Financial Solutions Group to manage arrears ✓
- New senior appointments to Leadership Team & Board ✓
- Restructuring Plan Submitted to EU Authorities ✓

## Business / Control Initiatives

- Expanded Distribution MoU with An Post Agreed ✓
- SME lending standards revised to focus on cashflow lending ✓
- Mortgage Arrears Solutions announced and operational ✓
- Focus on SME and Mortgage lending campaigns ✓
- Withdrawal from ELG in the UK in August 2012 ✓
- Completed first unguaranteed corporate deposits since '08 ✓
- Closed a securitisation of prime UK residential mortgages ✓
- Reduction in pricing of the deposit book underway ✓
- Significant Progress in Risk Mitigating Actions ✓
- Revised Risk, Governance & Audit Structures ✓
- Addition of significant risk control experience with appointments of new CRO and Head of Audit ✓



## Cost Saving Initiatives

- Severance Scheme Announced & Phase 1 initiated Phase 2 ongoing ✓
- Material changes to Pay & Benefits ✓
- Reduction in Branches announced in ROI and UK ✓
- Review of all outsourcing opportunities underway →
- Review all variable expenditure and reduce where possible →

## Overall Summary

- AIB has made significant progress over the last 12 months in returning the bank to viability in parallel with steps to embed a long term risk based lending ethos
- The Leadership Team has been significantly refreshed across all areas with the addition of broad based experience in restructurings and change agendas
- The bank's new structure and strategy is designed to simplify operations, reduce complexity, increase accountability & cross bank communication and allow for better arrears management, drive operational and systems performance
  - The bank is now focused on the future whilst incorporating lessons from the past
- Careful management of the severance program is designed to minimise staff disruption and operational risk



 - Completed  
 - Ongoing

## Balance Sheet Restructuring Well Advanced

	Dec 2007	June 2012	% Change
Total Assets	€178bn	€130bn	↓ 27%
Gross Loans	€129bn	€95bn	↓ 26%
Net Loans	€128bn	€80bn	↓ 39%
Customer Accounts	€81bn	€64bn*	↓ 21%
Loan to Deposit Ratio	157%	125%	↓ 20%
Shareholder's Equity	€9bn	€13bn	↑ 44%
Core Tier 1 Ratio	6%	17.3%	↑288%
Total Capital Ratio	10.2%	19.9%	↑95%
Number of Employees	25,898	14, 600	↓56%

\* €2.9bn growth in deposits to June 2012

### Non-Core Deleveraging Achieved

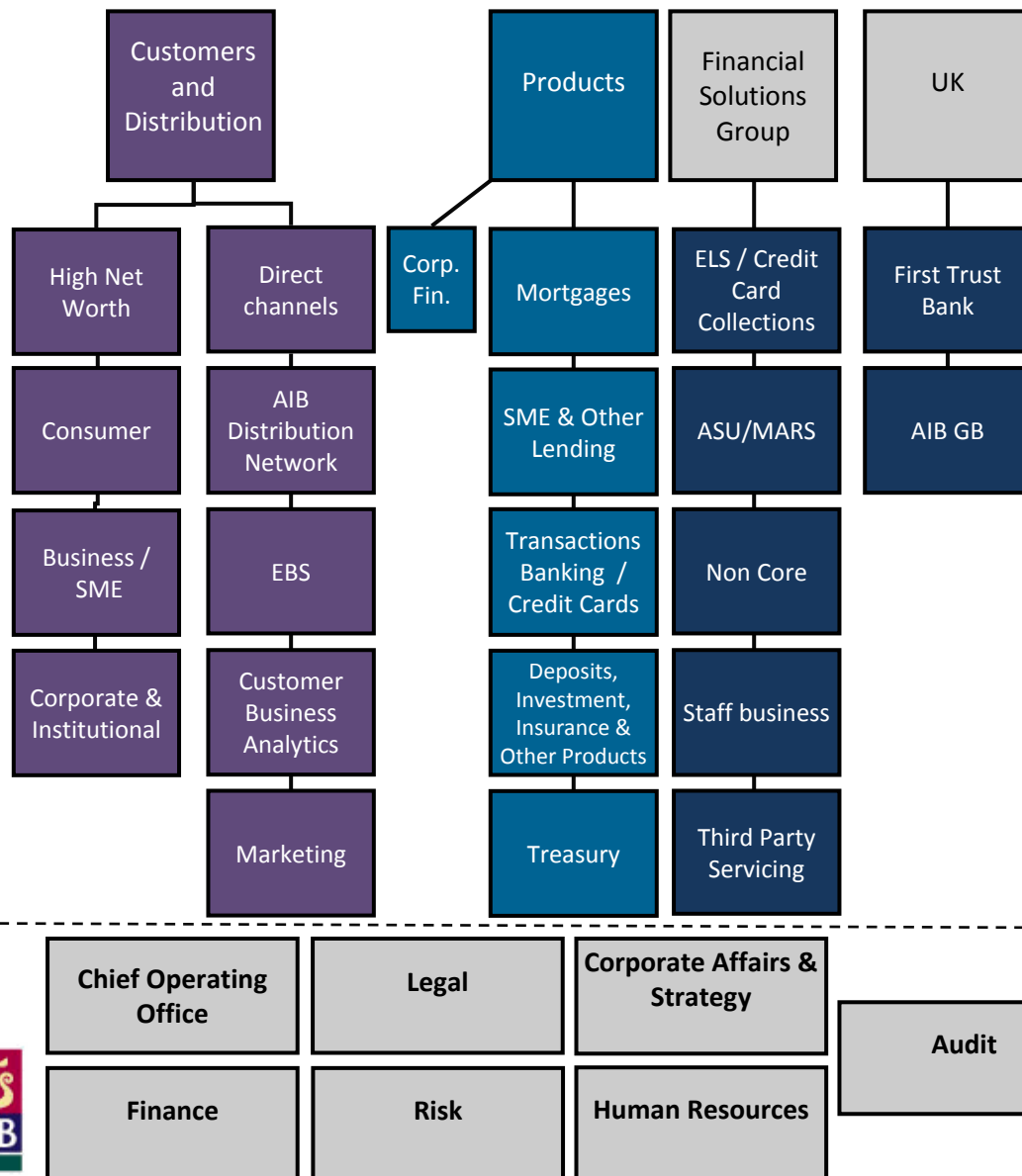
- €16.1bn of non-core deleveraging achieved YTD Sept 2012
  - Additional transactions completed during the month of October brings total deleveraging ytd to 80% of PLAR 3-year non-core of €20.5bn
- Expect LDR to be at or below target of 122.5% by year end

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

## Key Elements of Delivery

Restructuring	<ul style="list-style-type: none"> <li>• Customer focused operating structure</li> </ul>	<ul style="list-style-type: none"> <li>• Revised operating structure designed to simplify and unencumber AIB</li> <li>• Core domestic bank built around two pillars of Product and Customers and Distribution</li> <li>• Financial Solutions Group focused on customers in difficulty and returning them to normal client coverage where possible</li> <li>• Restructure FTB and GB operations to focus on business customers and community bank presence aligned to cost reductions</li> <li>• Branch closures in Ireland, GB and FTB while expanding necessary relationship with An Post for Republic of Ireland</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Continued development of key stakeholders</li> <li>• Focus on concentration risks &amp; lending practices</li> <li>• Strong and inclusive leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Broaden and develop relationships with Government, Troika and Investors</li> <li>• Actively learn from mistakes of the past</li> <li>• Target economic and risk based lending</li> <li>• Improve internal controls and credit decision rigour and timing</li> <li>• Broadened leadership team across the bank incorporating talent from inside and outside the bank</li> <li>• Identification of talent across the organisation to become the next generation of AIB leaders</li> </ul>
Markets	<ul style="list-style-type: none"> <li>• A renewed commitment to our customers</li> <li>• A fresh emphasis on Technology and Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Build on existing relationships and attract new business and retail clients</li> <li>• Seeking to ensure customers in difficulty return to viability where economically possible</li> <li>• AIB to be a leader of technology enabled banking in Ireland</li> <li>• Modify legacy internal systems to ensure delivery of revised strategy</li> </ul>
Financial	<ul style="list-style-type: none"> <li>• A return to sustainable profitability by 2014</li> </ul>	<ul style="list-style-type: none"> <li>• Aggressive cost saving initiatives to realign operating model</li> <li>• Repricing and product simplification and better balance sheet management</li> </ul>

# 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
- 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**

# New Operating Structure – Key focus Areas

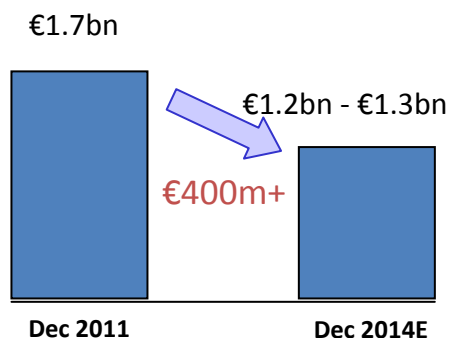
Business Segments	Key Priorities / Focus
<ul style="list-style-type: none"> <li>● <b>Customers &amp; Distribution</b></li> </ul>	<ul style="list-style-type: none"> <li>• Leading the organisation's engagement with Customers with one unified approach to relationship management and front line customer service</li> <li>• Develop leading customer segmentation expertise and delivery while targeting most valuable customers</li> <li>• Significant increase in use of technology whilst maintaining best in class physical network</li> <li>• Sustainable, risk adjusted, at market pricing, matched to deposit funding levels</li> <li>• Aggressively manage the bank's cost base</li> </ul>
<ul style="list-style-type: none"> <li>● <b>Products</b></li> </ul>	<ul style="list-style-type: none"> <li>• Development and delivery of innovative best in class products that support our customers and assist in economic recovery</li> <li>• Delivery of stable and sustainable funding base with "core bank" predominantly funded by customer deposits</li> <li>• Balance sheet management and better capital allocation decisions</li> <li>• Focus on risk adjusted returns whilst providing competitive and relevant products</li> </ul>
<ul style="list-style-type: none"> <li>● <b>Financial Solutions Group</b></li> </ul>	<ul style="list-style-type: none"> <li>• Delivery of the Non-Core deleveraging plan</li> <li>• Unified structure responsible for the delivery of restructuring and refinancing solutions for customers in difficulty</li> <li>• Specialist teams focused on supporting customers in financial difficulty               <ul style="list-style-type: none"> <li>• Restore customer stability and rehabilitate back to financial health, where economically viable</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>● <b>UK</b></li> </ul>	<ul style="list-style-type: none"> <li>• SME focused relationship banking in Britain; community based, full service bank in Northern Ireland</li> <li>• Focus on cost reductions whilst returning the operations to sustainable risk adjusted profit</li> </ul>



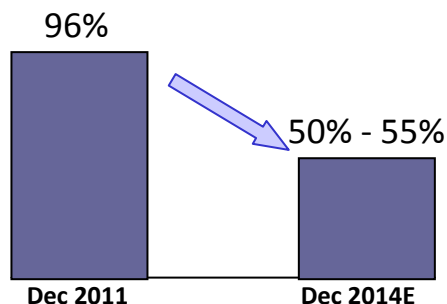
# Aggressive Focus on Cost Saving Initiatives

## 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
    - Transfer of assets to pension scheme funded the MFS deficit created
  - The voluntary severance has been instituted on a phased basis with an initial focus on the branch network
- 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
  - c. 1,700 staff expected to depart by end Dec 2012
  - 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

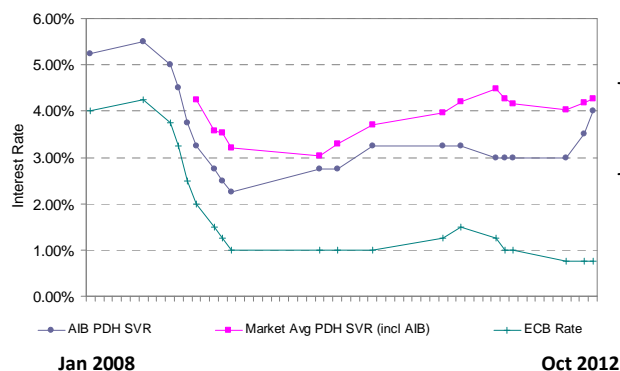
- Reduction in professional fees and focus on utilising in-house talent
- Further cost efficiencies to be achieved through:
  - Outsourcing of non core banking activities and functions
  - Simplification of systems and products
  - Reduction in size of branch network in Ireland and the UK
    - Ireland: 45 sub office closures and 4 of 6 branch amalgamations now completed with a further 16 branches to close in 2013
    - UK: 7 branches in GB, 4 sub offices and 1 branch in FTB

# Product Repricing – Actions to Return to Sustainable Operating Levels

## Mortgages - Standard Variable Rate

<b>AIB **</b>	<b>PDH SVR</b>
<b>AIB (market position Vs. Peers)</b>	<b>4.00%</b>
	<b>Lowest</b>
<b>Irish Market Average rate</b>	<b>4.3%</b>
<b>(including AIB)</b>	

PDH SVR vs ECB and Market Average



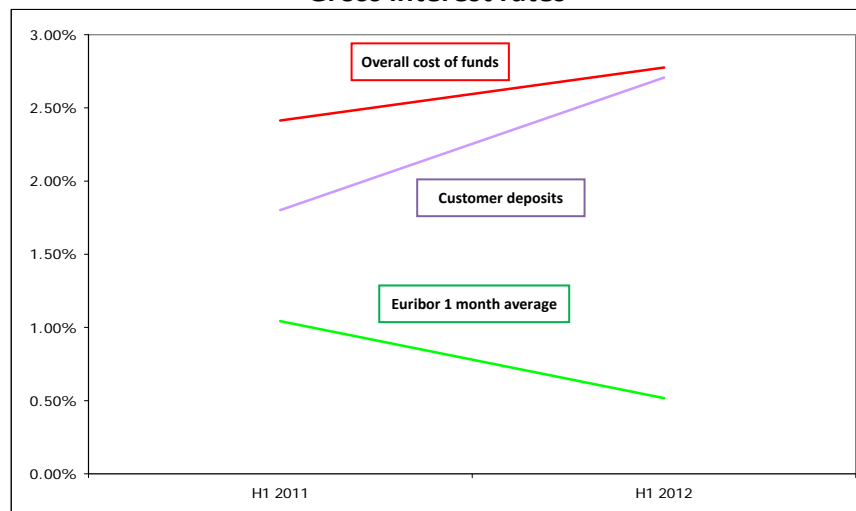
- AIB has announced two variable rate increases of 50bps since July 2012
- The analysis of the incremental expected losses arising do not indicate a substantial rise in arrears however, products and staff in place to help mortgage customers in financial difficulty
- Rates remain under constant review as AIB charts a path back to viability
- AIB funding costs largely decoupled from ECB base rate due to focus on deposit gathering



\*\* Excludes EBS

## Deposits – Pricing levels stabilising to half year

### Gross interest rates



- Overall cost of funding\* for the bank was up by 0.36% to 2.79% due to increased costs of customer deposits partially offset by lower 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 bringing deposit levels into line with UK and European norms

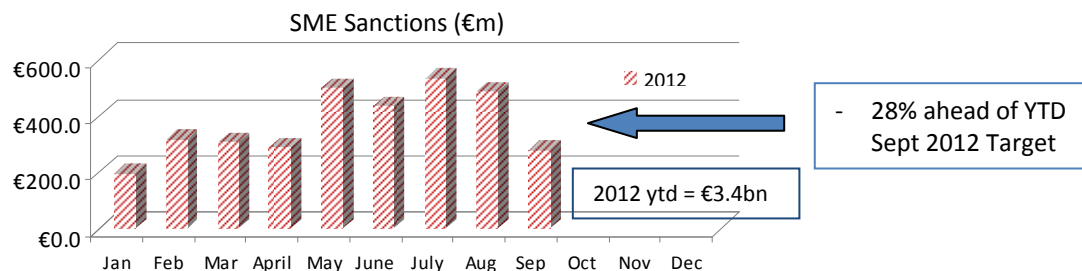
\*Cost of funding excludes CoCos amortisation of €30m

# 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
  - Approval activity is 28% ahead of target ytd Sept 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%)
- New Money Stimulus at €587m from over 19k transactions
- 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
  - Set up Emerging Sectors Team – Unit focused on export orientated SMEs selling software, IT driven services, life sciences, medtech, cleantech, bio tech and food science
- 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

### ▪ Promoting Credit Availability

- *Agri Investment Fund*
  - Fund size: €250m
  - 625 Sanctions to date for €47m
- *Job Creation Fund*
  - Fund Size: €100m
  - 2,661 Sanctions to date for €58m

### ▪ Supporting Government Initiatives

- *Temporary Partial Loan Guarantee Scheme*
  - Launched : 24<sup>th</sup> October 2012
- *Micro Finance Ireland Fund*
  - Launched: 27<sup>th</sup> September 2012

### ▪ Joint Funds

- *Seed Capital Funds (EI)*
  - Total Size: €75m
  - AIB commitment: €50m
  - Status: 65 investee companies to date
- *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

- *Additional tranche of EIB SME Loan Fund*

# Delivering on lending commitments to Mortgage customers

## Mortgage activity

### Sanctions

- Number of total approvals YTD Aug 2012 increased by 72% year on year
- Value of total approvals YTD Aug increased by 64% year on year
- Levels of approvals (including Sanctions in Principle) currently 70% of applications

### Drawdowns

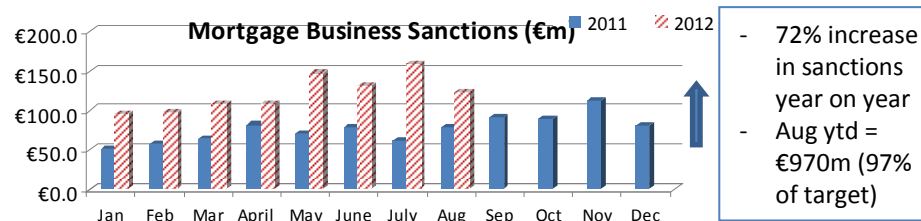
- Market share of drawdowns estimated\* to be excess of 44% ytd July 2012
- First time buyers comprise approximately 50% of drawdowns
- New Business campaign September/October
  - Marketing campaign, targeting First Time Buyers



\*Management estimate

## AIB / EBS Mortgage Sanctions

- Clear Momentum in our mortgage business with significant gains year on year
- Will comfortably exceed internal target of €1bn in sanctions for 2012



## 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
- Negative Equity Trade Up Mortgage launched in September 2012

# One Customer Debt Management Strategy

## Develop and Implement Treatment Strategies

- Support and rehabilitate customers back to finance health, where feasible
  - Proposals on “whole of customer treatment”
- Ensure policies deal consistently and fairly with the debt obligations of each customer (SME,PDH,BTL,CRE,L&D)
- Minimise time to solution
- The combination of all these initiatives will have a very significant impact on our ability to provide long term sustainable solutions to our customers

## Step by Step approach

### STABILISATION – Alleviate short term issues

Customer Engagement

Information Gathering

### SUSTAINABILITY – Assess the level of debt which is sustainable

PDH

SME

BTL, CRE and L&D

Personal Debt

### DEBT MANAGEMENT SOLUTION – Provide a solution to address all debts

Sustainable Debt

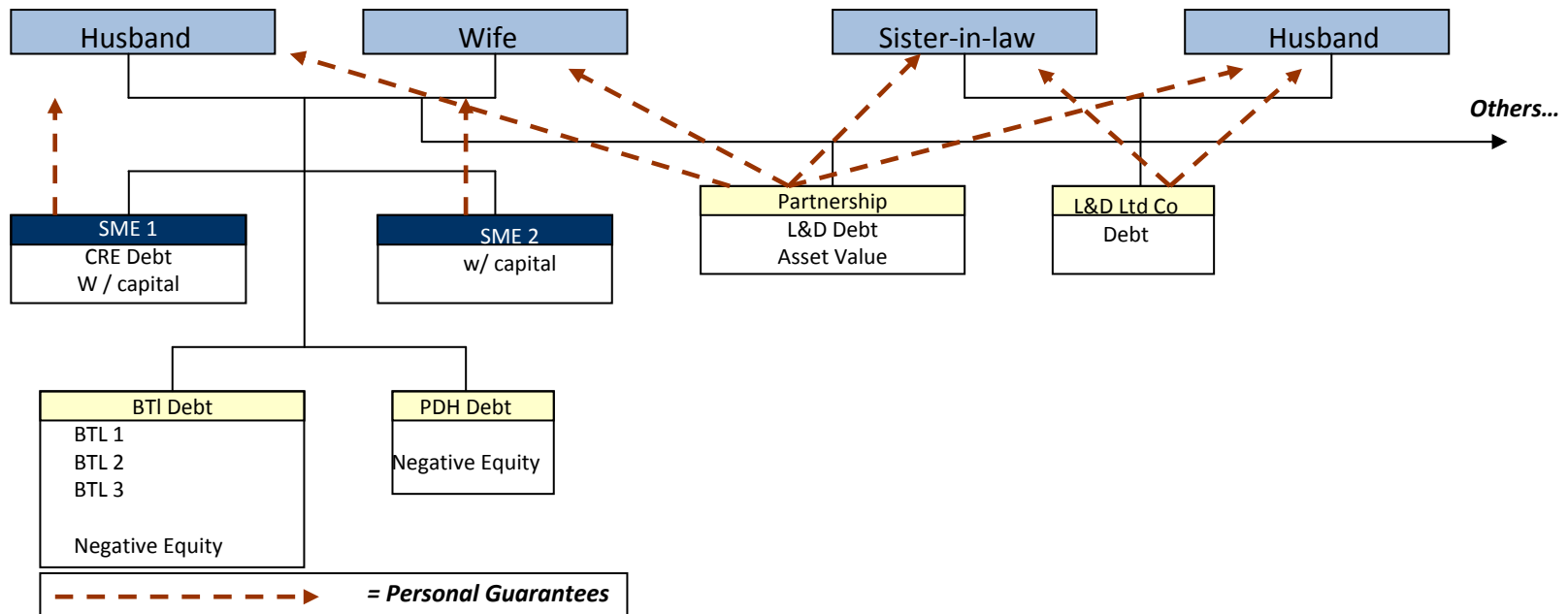
Asset Disposals

Unsustainable Debt

# Sample Application of Treatment Strategy – Complexity of Many Situations Requires Case By Case Assessment

The diagram below represents a sample connections structure

- Debt is serviced by BTL rent and drawings from two SME trading businesses

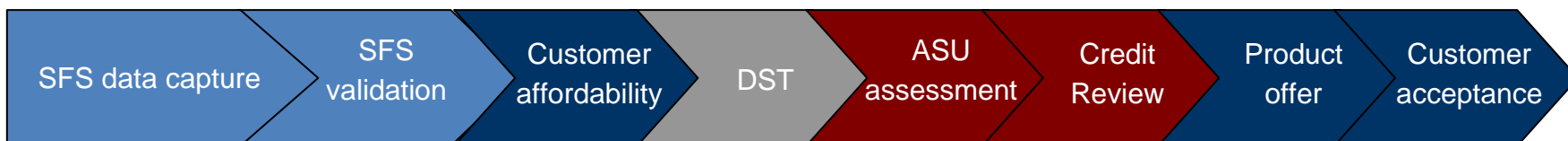


- Typical challenges include assessments of two SME trading businesses, and disentangling personal property related debt, particularly in the context of Personal Guarantees in place

## Customers in Difficulty – PDH Strategy

- Significant progress has been made to date, with over 33,742 cases worked on from the arrears and pre-arrears portfolio by the Arrears Support Unit
- The Advanced Forbearance options (Split Mortgage, Trade Down, Voluntary Sale for Loss and Mortgage to Rent), together with the Decision Support Tool have been made available to case managers to support customers in difficulty on a pilot basis since July 2012.
- Full roll out currently in train. It is anticipated that we will assess c. 1500 customer's Standard Financial Statements on a monthly basis using the Decision Support Tool per the following process.

The MARS programme is now fully operational with advanced forbearance and forbearance strategies approved by AIB Board with migration from pilot to roll-out underway from October 2012



- Over 1000 central support staff dealing with customers in difficulty and 750 staff in the retail network have received training to equip them with the required skills to review completed Standard Financial Statements; 141 Arrears Support Unit staff trained on Assessment & Decision forbearance requests; reviewing outsourcing options to increase capacity
- On average it takes 7- 8 weeks for the customer to complete a Standard Financial Statement (SFS)
- Standard Forbearance options offered will resolve arrears in some cases, however, customer is assessed for Advanced Forbearance requirements and reviewed at end of Standard Forbearance term

### New Legislation

- AIB has set up a project team to prepare for the implementation of Personal Insolvency legislation
- The major outstanding item from the Bank's perspective is a resolution of the law precedent set by the Justice Dunne Ruling last year in respect of home repossessions

# SME & BTL Arrears Treatment Strategies

## SME Treatment Strategy

AIB's approach to managing SMEs in financial difficulty is through a 5 stage process, as summarised below:

	Stage	Key Actions	Treatment
BAU	1: Identification	<ul style="list-style-type: none"> <li>Monitoring "Days Past Due"</li> <li>Monthly Watch Case review</li> <li>Borrower downgrade</li> </ul>	<ul style="list-style-type: none"> <li>Pre-arrears management</li> </ul>
	2: Temporary Financial Difficulty	<ul style="list-style-type: none"> <li>Active customer engagement</li> <li>Assessment of likelihood of short term recovery</li> </ul>	<ul style="list-style-type: none"> <li>Short-term forbearance (if required) to allow SME recover</li> </ul>
ELS	3: Stabilisation	<ul style="list-style-type: none"> <li>Active customer engagement</li> <li>Information gathering</li> <li>Assessment</li> </ul>	<ul style="list-style-type: none"> <li>Short-term forbearance (if required) to facilitate full financial assessment</li> </ul>
	4: Sustainability	<ul style="list-style-type: none"> <li>Establish SME Viability</li> <li>Establish SME sustainable direct debt</li> <li>Identify requirement to disentangle indirect debt</li> </ul>	<ul style="list-style-type: none"> <li>Medium-term forbearance measures</li> </ul>
	5: Fundamental Restructure	<ul style="list-style-type: none"> <li>Right-size direct SME debt of over-leveraged, viable SMEs</li> <li>Disentangle indirect SME debt</li> </ul>	<ul style="list-style-type: none"> <li>Fundamental Restructuring and/or Compromise Settlements / Arrangements if required and appropriate</li> </ul>

- Key delivery risks include:
  - A further deterioration in the Macro Economic environment
  - High market demand for skilled and experienced recovery experts. AIB continues to recruit to fill the demand in the business.
  - Market response –
    - (i) the impact of the new Personal Insolvency Act)

## Buy- to-Let Mortgages Treatment Strategy

- The AIB BTL Strategy can be summarised as follows:
  - Work with the borrower to maximise repayments
  - Where the borrower has short term affordability issues, provide a short term forbearance solution
  - Where the loan cannot be returned to sustainability, engage with the borrower to assess options to sell the property to repay the loan, while maximising the revenue from the asset during the period to disposal
  - Where there are market constraints to a sale of the property, the strategy seeks to ensure the borrower manages the asset by agreeing short or medium term forbearance
  - Both the marketability of the property and affordability of the loan will be reviewed on an annual basis
  - Customers cooperation is critical in either the management phase or voluntary sale process and AIB will seek to protect its economic rights including the use of legal means where absolutely necessary



# Mortgages – largest sector exposure at €45bn at June 2012

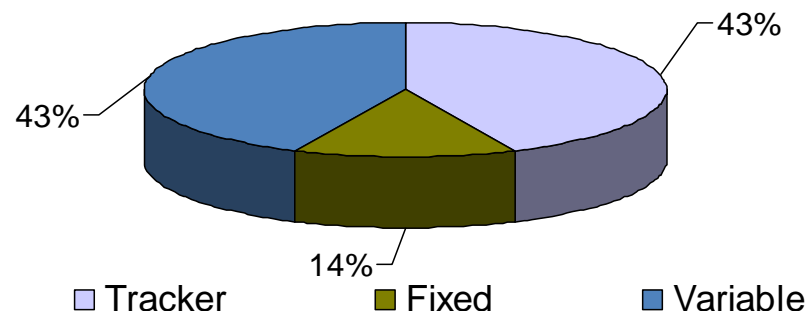
## Republic of Ireland Mortgages

- 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
    - 1,460 average monthly forbearance requests
- Quantum of negative equity is €6.8bn
    - €1.9bn 90days past due and /or impaired

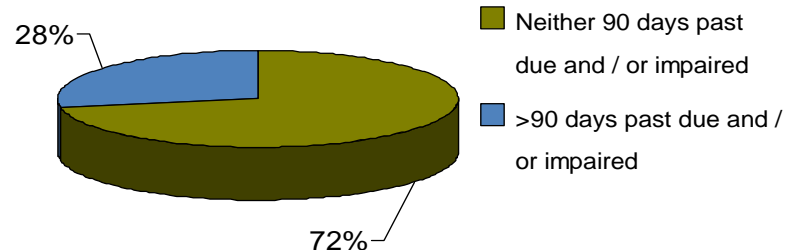
## UK Mortgages

- 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%

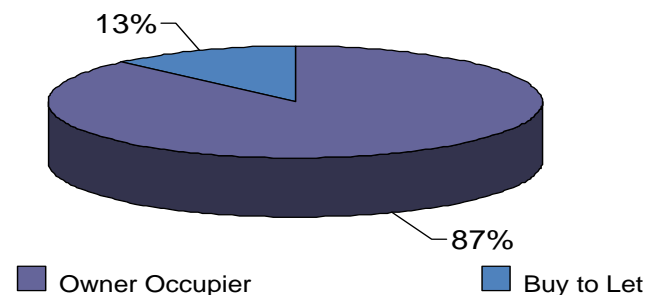
## Republic of Ireland - €41bn



## Quantum of Negative Equity - €6.8bn



## UK Mortgages - €3.2bn



# Republic of Ireland mortgages – Gross Loans of €41bn at June 2012

## 90+ days arrears and / or impaired

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

Source : Central Bank of Ireland

Loan Value	12.3	14.7
Number of Loans	9.2	10.9

### AIB – Owner Occupier

Loan Value	10.8	12.9
Number of Loans	7.9	9.4

### AIB - Buy to Let

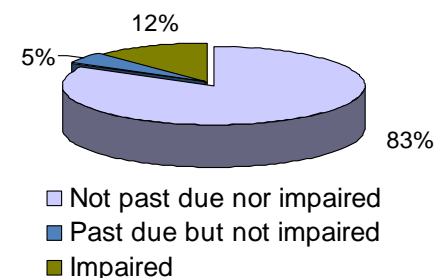
Loan Value	31.4	37.2
Number of Loans	20.6	24.9

€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%

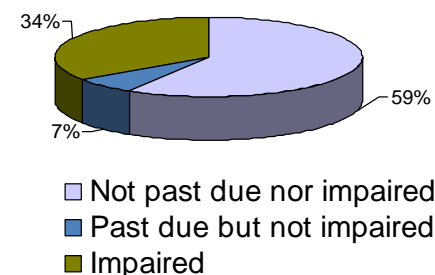
## Impairment Charges and Provisions

€bn	Dec 2011	Jun 2012
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

## Key Summary Financials June 2012

Income Statement		
€m	Jun 2012	Jun 2011
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%

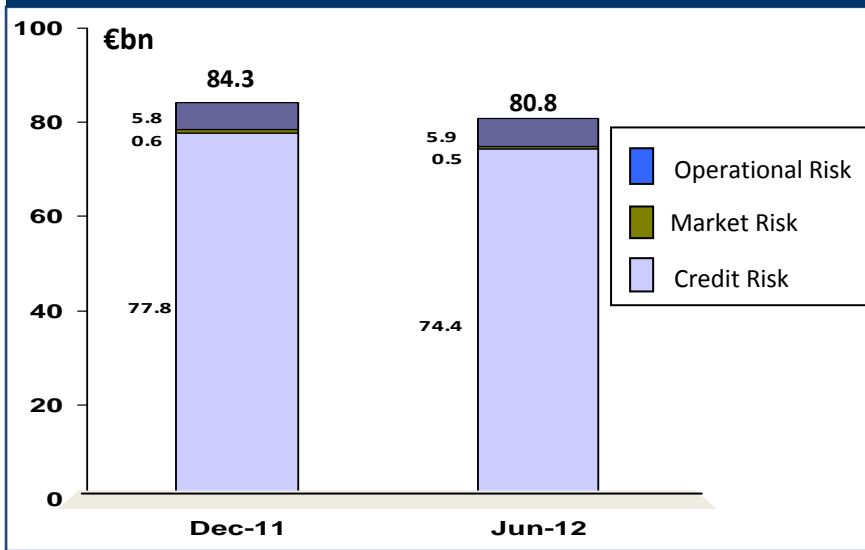
- Loss before exceptionals of €1.1bn in H1 2012, (€3.0bn in H1 2011)
  - Reduction in credit provisions charge to €0.9bn from €3bn in H1 2011, a 70% reduction
- Net interest income including ELG down €36m due to higher cost of deposits and an increase in non-performing loans partially offset by lower ELG fees
- 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
  - Deposit growth of €2.9bn at June 2012 vs. Dec 2011
  - ECB funding YTD reduction of €6bn at June 2012 vs. Dec 2011
- Core Tier 1 capital ratio of 17.3% at June 2012 (CBI target minimum 10.5%)
- Performance metrics remain sensitive to overall economic performance

# Capital & Funding – June 2012

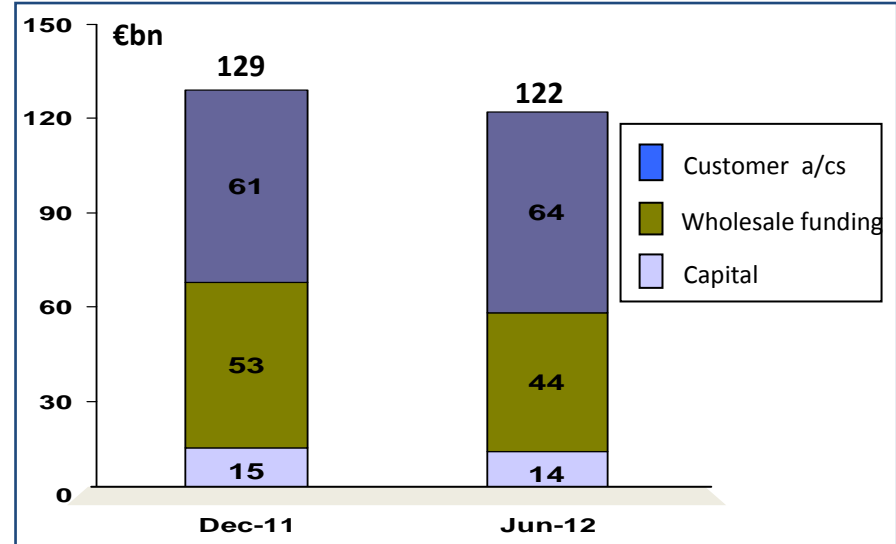
## Capital

- Core Tier 1 ratio of 17.3%, above target regulatory minimum level of 10.5%
- Risk Weighted Assets (RWAs) 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

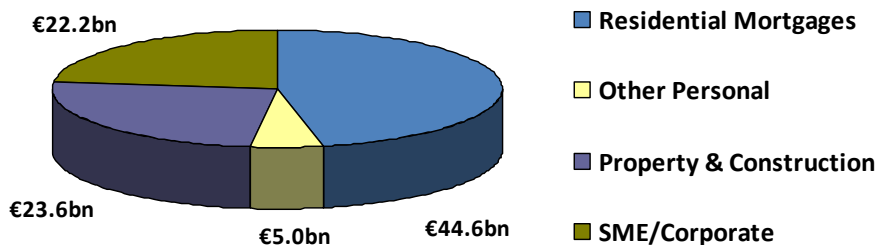


- Customer accounts represent the largest source of funding at 52%
- Deposit volumes increased by €2.9bn; steady growth across all major franchises
- LDR reduced to 125% from 138% at Dec 2011
- Reliance on ECB funding reduced by €6bn to €25bn since Dec 2011
- Wholesale funding reduced by €9bn in H1 2012 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

# June 2012 Loan Book Composition – Significant Restructuring

## Components

Total Gross Loans €95.4bn

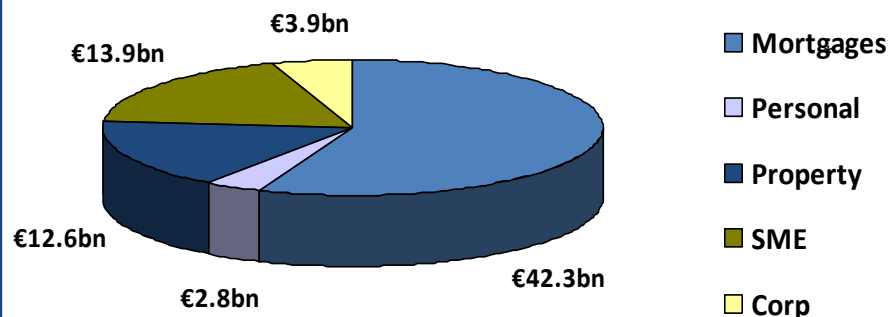


- Total gross loans and advances have reduced by €3bn since Dec 2011 to €95bn at June 2012
  - Includes €1.4bn asset disposals
- Mortgages remain the largest component at 47% of total gross loans

## Split significantly de-risks Core Bank

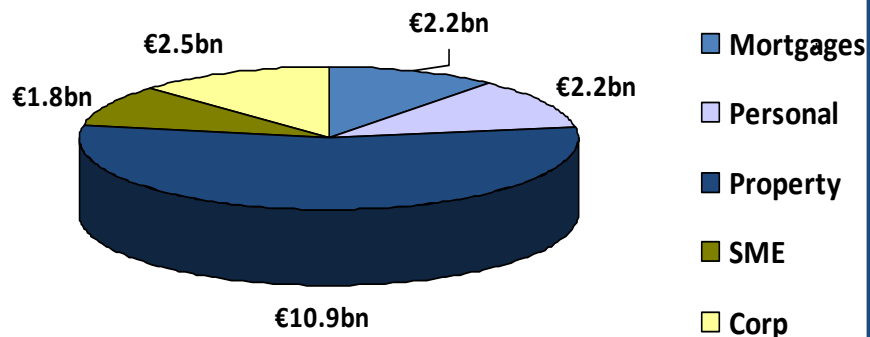
€75.6bn

Core



€19.7bn

Non-Core



# Customer Loan Book – Impairment and Provisioning as at June 2012

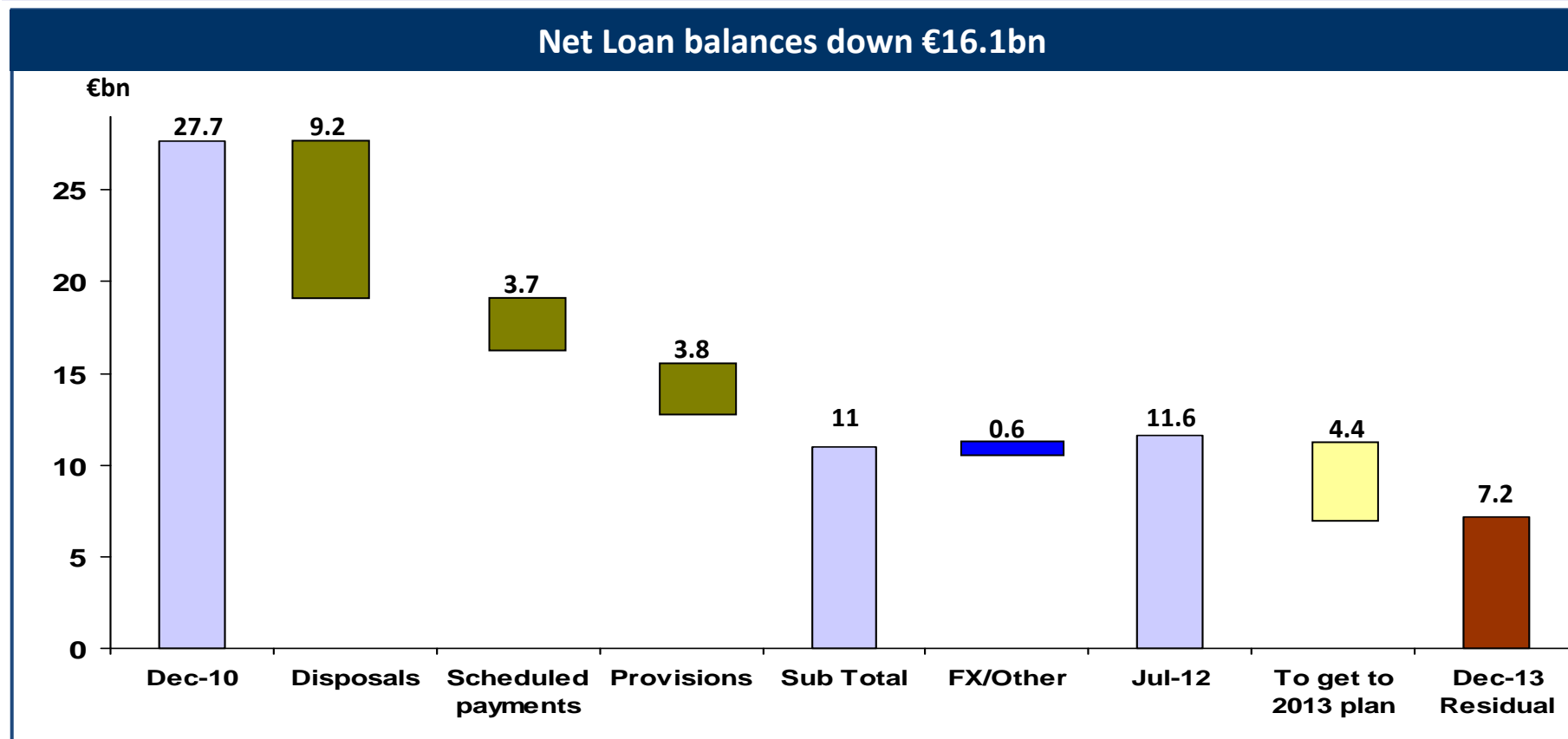
The following tables show key credit metrics for AIB Group as at Dec 11 and June 12.

<b>Loan Book</b> <b>Sectoral Profile - June 2012</b> Amount in €bn's	<b>ROI Mortgages</b>	<b>UK Mortgages</b>	<b>Land &amp; Development</b>	<b>Investment Property</b>	<b>SME / Other Commercial</b>	<b>Personal</b>	<b>Corporate</b>	<b>Total</b>
Advances	41.3	3.2	7.0	16.6	15.8	5.0	6.5	<b>95.4</b>
Impaired	7.3	0.2	5.7	6.7	4.9	1.4	0.6	<b>26.8</b>
Impairment Charge (6 Months P&L)	0.3	0.0	0.2	0.1	0.1	0.1	0.0	<b>0.9</b>
Balance Sheet Provisions (Specific + IBNR)	2.9	0.2	4.2	3.6	3.1	1.1	0.5	<b>15.6</b>
Specific Provisions / Impaired Loans (%)	30%	36%	71%	43%	57%	70%	64%	<b>50%</b>
Total Provisions / Impaired Loans (%)	39%	78%	74%	54%	64%	79%	82%	<b>58%</b>

<b>Loan Book</b> <b>Sectoral Profile - December 2011</b> Amount in €bn's	<b>ROI Mortgages</b>	<b>UK Mortgages</b>	<b>Land &amp; Development</b>	<b>Investment Property</b>	<b>SME / Other Commercial</b>	<b>Personal</b>	<b>Corporate</b>	<b>Total</b>
Advances	41.9	3.3	7.1	17.4	16.3	5.3	7.4	<b>98.6</b>
Impaired	6.2	0.2	5.6	6.3	4.5	1.3	0.7	<b>24.8</b>
Impairment Charge (12 Months P&L)	1.5	0.1	1.7	1.9	1.7	0.5	0.5	<b>7.9</b>
Balance Sheet Provisions (Specific + IBNR)	2.5	0.2	4.1	3.5	3.1	1.1	0.5	<b>14.9</b>
Specific Provisions / Impaired Loans (%)	28%	35%	69%	41%	58%	68%	62%	<b>49%</b>
Total Provisions / Impaired Loans (%)	41%	86%	72%	56%	68%	80%	77%	<b>60%</b>

- Levels of Impaired Loans have increased (+€2bn) in H1 2012, with Residential Mortgages up €1.1bn, Property Investment up €0.4bn, SME / Commercial up €0.4bn and Land and Development up €0.1bn. The pace of increase has reduced compared with an increase of €6.6bn in Q4 2011 and €2.0bn in Q3 2011.
- The P&L Impairment charge in H1 2012 of €0.9bn compares with €2.9bn for H1, 2011 and €7.9bn for the full year to Dec 2011.

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



- €28bn of non-core loans identified
  - €16.1bn of deleveraging achieved YTD Sept 2012
    - Transactions completed during month of Oct brings total deleveraging to 80% of PLAR
    - 3-year non-core deleveraging target of €20.5bn
  - €3.4bn non-core deleveraging achieved YTD Sept 2012
  - Overall cumulative discounts within PCAR assumptions

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## Progress Achieved But Material Challenges Remain

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- AIB has made significant progress year to date in terms of execution delivery
  - Revised strategy and organisational structure implemented
  - Significant cost reduction initiatives announced to achieve target operating model by 2014
  - Product repricing ongoing on lending
  - Reduction in deposit pricing is ongoing
    - LDR targets ahead of expectations
  - Creation of Financial Solutions Group (FSG) to better manage customers in difficulty under one unified strategy
    - Advance forbearance products now in place to address mortgage arrears issues and strategy in place for BTL and SME portfolios
  - Improvements in Governance Framework and Bankwide Leadership:
    - New CEO, CRO, COO, Head of HR, Audit, Corporate Affairs, Legal and appointment of new Board Members
- 2013 and 2014 will be focused on delivery of the Restructuring Plan (once finalised), helping customers in difficulty and supporting the return to economic growth
- However significant challenges remain:
  - Macro environment in Europe is impacting Ireland and AIB's economic recovery
  - Personal insolvency legislation could have an impact on the bank if there is a popular move to utilise this option rather than accept position of negative equity
  - Elevated deposit pricing dynamics across the industry and ability to achieve sufficient return on new lending in a strained macro environment
  - Other risks to the business includes ongoing provisions, regulatory workload, staff change and cultural dynamics