Half-Yearly Financial Report 2009

AIB

For the half-year ended 30 June 2009, Allied Irish Banks, p.l.c.

Eugene Sheehy

Group Chief Executive

Forward looking statements

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

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

visit www.aibgroup.com/investorrelations

2009 Key developments to date

- Recessionary conditions continue, recovery likely to be slow
- Productivity further improved with a strong focus on costs
- Weak customer loan demand, intense competition for deposits
- Some easing in wholesale funding availability in Q2 but markets remain dislocated
- Asset quality weakens, NAMA being developed
- Early success on capital initiatives; successful bond exchange
- Asset pricing power improving
- Irish competitive landscape changing as foreign banks withdraw
- Business as usual pending senior management changes

Tough economic conditions continue

GDP		
% volume	2009 f	2010 f
Ireland	-9.0	-3.0
UK	-4.4	1.0
Poland	0.5	1.5
Eurozone	-4.8	0.4
US	-2.8	0.9
World	-1.4	2.5

Source: AIB ERU Forecasts

Ireland

- Good initial progress in improving competitiveness, exports outperforming
- Difficult budget decisions must continue to be made
- Overdependence on construction rapidly diminishing
- Unemployment continues to increase; expected to average c.15.5% in 2010

Financial highlights

Basic loss/earnings per share	(43.2c)
- basic adjusted *	(164.4c)
Income	↓ 7%
Costs	↓ 7%
Cost / income ratio	↓ 0.9%
Impaired loans	8.1%
Core tier 1 capital ratio	8.5%
Total capital ratio	10.7%

* *Basic earnings per share less profit on disposal of properties, business, hedge volatility and capital exchange offer*

Solid operating performance

- €1.7bn pre-provision profit
  - €1.1bn underlying*, ↓ 6% in 6 months of unprecedented challenges
- Good profit mix from diverse franchises

		vs H1 08 %
AIB Bank RoI	€394m	(33)
Capital Markets	€475m	55
AIB Bank UK	£139m	(17)
Poland	Pln 609m	(4)
M&T	$451m **	

** Excludes capital exchange offer*
*** ↓ 36% on H1 2008*
AIB owns 22.8% of M&T

Income

€m	Jun 2009	Underlying yoy change %
Net interest income	1,691	(4)
Other income	1,090	(14)
Total income	2,781	(7)

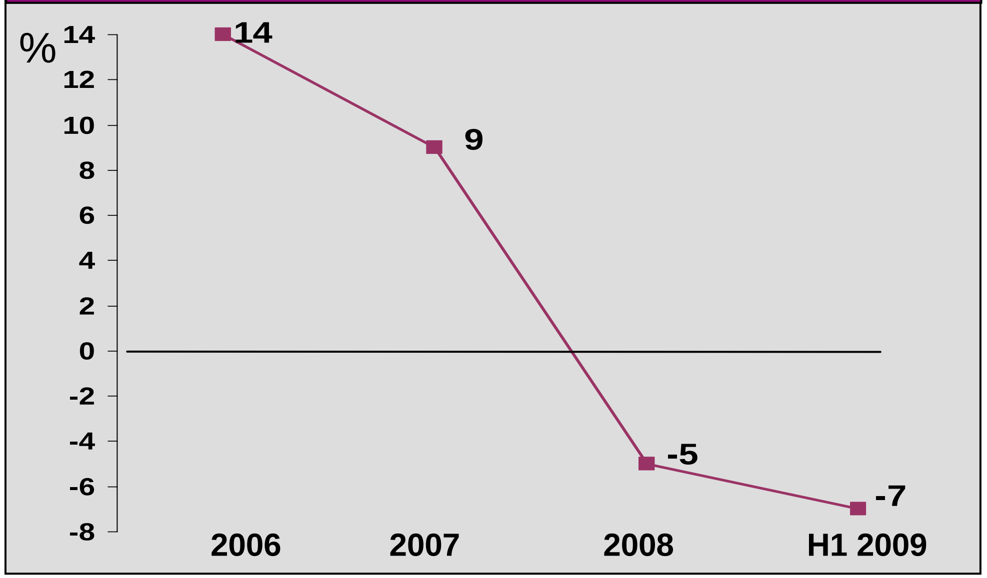
- Treasury well positioned for lower interest rates
- Loans ↓ 2%, deposits ↓ 12% (loans ↓ 1%, deposits ↓ 1% in year to June 09)
  - Low loan demand in recessionary conditions
  - Significant institutional deposit outflow in Q1, since stabilised
  - Lower credit current account volumes reflect reduced customer liquidity
- Net interest margin 2.03% ↓ 18bps
  - Better treasury and loan margins
  - Increased costs of customer deposits, wholesale funding and lower return on capital
- Other income adversely affected by lower customer activity, asset management, wealth management fees and cost of government guarantee

Costs

- Intense management focus on all expense lines.
- Widespread reductions
  - Staff numbers
  - Performance compensation
  - Discretionary spending
  - Payments and processing costs
- Cost reductions to continue
  - H1 helped by higher compensation costs in 2008 base period

	Jun 2009 €m	Underlying yoy chg %
Staff costs	654	(9)
Other costs	314	(8)
Depreciation & amortìsation	75	7
Operating expenses	1,043	(7)

Strong operating flexibility



Criticised loans - definitions

Watch

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

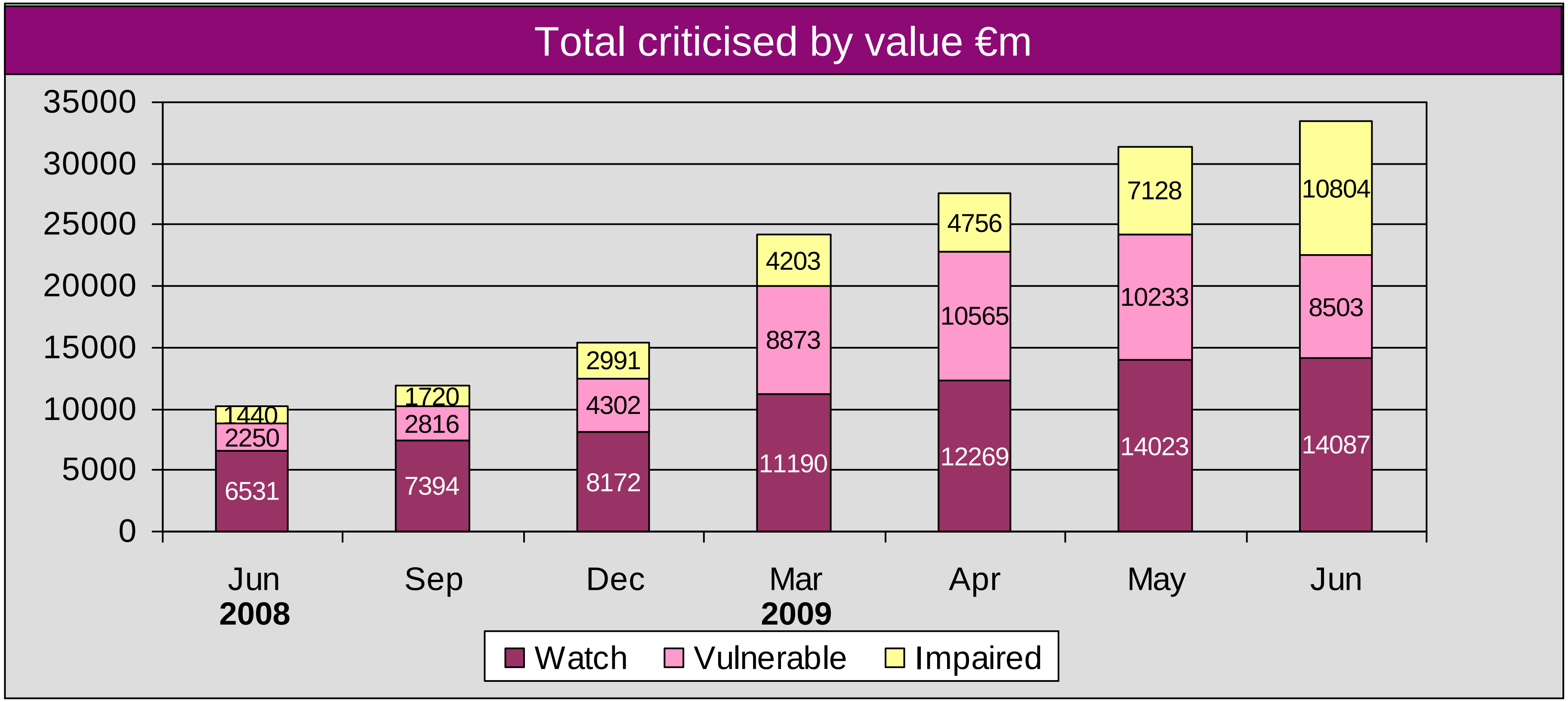
Vulnerable

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

Impaired

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

Credit deterioration



- Criticised loans have increased by €17.9bn since December 2008. AIB Bank RoI accounts for c. 75% of this increase, with AIB Bank UK 15%, Capital Markets 5% and CEE 5%
- Trajectory reflects a realistic and proactive approach to identification of early signs of distress, enabling us address and minimise loss
- Weakening trends evident across portfolios / sectors
- Property & construction sector 72% of year to date increase

Credit charges – H1 2009

	Specific Provision P&L €m	% of Avg Advs %	IBNR Provision P&L €m	% of Avg Advs %	Total Provision (P&L) €m	% of Avg Advs %
AIB Bank RoI	1,794	4.65	117	0.30	1,911	4.95
Capital Markets	171	1.31	30	0.23	201	1.54
AIB Bank UK	188	1.79	0	0.00	188	1.79
CEE	58	1.38	15	0.36	73	1.74
Group Total	2,211	3.33	162	0.25	2,373	3.58

Balance sheet provisions – June 2009

	Impaired Loans €m	% of Advs %	Specific Provision (B/S) €m	Cover %	IBNR Provision (B/S) €m	% of Earning Advs %	Total Provision (B/S) €m	% of Impaired Loans %
AIB Bank RoI	8,516	10.9	2,439	29	1,018	1.46	3,457	41
Capital Markets	667	2.6	282	42	50	0.20	332	50
AIB Bank UK	1,220	5.6	342	28	166	0.81	508	42
CEE	401	4.7	167	42	84	1.05	251	63
Group Total	10,804	8.1	3,230	30	1,318	1.07	4,548	42

NAMA update

- Focus on RoI and UK property & construction and land and development portfolios in particular
- Productive and detailed discussions progressing well
- Major work programmes ongoing, all information requirements being addressed
- Quantum of loans to be transferred and asset values not yet decided
  - Minimum loan cut off point likely; an element of the total RoI / UK land & development portfolio (€20.9bn) will not transfer
  - Transfers to be phased over 2009 / 2010
  - Top 50 cases nationally targeted to be transferred in phase 1 before end 2009 (AIB top 50 land & development cases c. €7.6bn)
  - Valuation on a bottom up, case by case basis
  - Part of associated loans portfolio (RoI c. €12bn, UK c. €750m) also likely to transfer to NAMA
- Capital position and pre-provision operating profit will be significantly influenced by NAMA outcome
  - Decisions pending on bond income & management cost contribution, possible incentive / clawback arrangements

Land & development – loss provisions June 2009*

€bn	Land	Development	Total
RoI	9.5	7.6	17.1
UK	1.8	2.0	3.8
RoI / UK total land & development loans			20.9
H1 2009 bad debt provisions			
(€1.2bn at 12/2008, c. €1.6bn charge in H1 2009)			2.8
Written down loan value			18.1
Typical loan to value at inception			c. 75%
Implied original land & development asset value			27.9
Net written down loans / original asset value			65%

* *Management estimation has been used in preparing this slide*

AIB Bank Republic of Ireland

- Operating profit €394m ↓ 33%
- Profit / loss before tax (€1,522m) driven by steep increase in bad debts to €1,911m
- Income ↓ 22%
  - Significant increase in cost of deposits and funding, partly offset by better loan pricing
  - Low customer demand for loans ↓ 1%; deposits ↓ 4%
- Costs ↓ 9%
  - Vigilant control of all expense categories will continue
- Developing our franchise by supporting customers and the economy
  - C. 30,000 credit facilities, €1.3bn extended to SMEs in H1
  - 8 out of 10 SME credit enquiries are approved *(independent customer research)*
  - Opening 15 dedicated SME business centres nationwide
  - Providing 1 in 3 of all mortgages, up from 1 in 6 a year ago
  - Zero forced repossessions of owner occupied homes

Capital Markets

- Operating profit €475m ↑ 55%
- High income growth combined with aggressive cost management
  - Income ↑ 31%, costs ↓ 6%; cost / income ratio ↓ from 40% to 29%
  - Deposits ↓ 23% reflecting some reversal in Q1 of very strong Q4 2008 institutional inflows
- Profit before tax ↓ 13% to €252m due to increased provisions
- Global Treasury delivering strong profit growth, pbt €235m ↑ 196%
  - Well chosen market positions, delivering continuing profits
  - Improving margins in customer business; well placed to benefit in higher demand environment
- Corporate Banking pbt €5m ↓ 98%, bad debt charge €201m
  - Pre-provision operating profit ↓ 2%
  - Loans ↓ 7%, focus on de-risking balance sheet, margins improving
  - Impaired loans spread across geographies / sectors, reflecting profit pressure in recessionary conditions
  - Franchises well placed for recovery in corporate demand
- Investment Banking pbt €12m ↓ 47%
  - Lower income from asset management and investment banking activities
  - Costs reduced in low revenue environment, ↓ 10%

AIB Bank United Kingdom

- Operating profit £139m ↓ 17%
- Profit / loss before tax (£28m) due to bad debts charge of £168m driven by property market downturn
- Strong management action in low income environment
  - Income ↓ 13%, costs ↓ 7% (excluding Financial Services Compensation Scheme, costs ↓ 9%)
  - Better loan prices, higher deposit and funding costs
- Great Britain pbt £13m
  - Profitable business banking franchise despite severe economic conditions
  - Operating profit £89m
  - Loans ↓ 1%, deposits ↓ 30% (↓19% year on year, Q1 deposit outflow now stemmed)
  - Provisions of £77m due to deterioration in property & construction with some contagion to other business sectors
- First Trust Bank pbt (£41m)
  - Operating profit £50m
  - Loans ↓ 5%, deposits ↓ 1%
  - Provisions of £91m largely driven by property & construction sector and landbank lending in particular

Central & Eastern European (CEE) Division

Poland

- Operating profit before provisions PLN 609m ↓ 4%
- Franchise investment coincided with significant economic downturn; 514 branches include 145 added since H2 2007
- Income ↓ 4%
  - Loans flat; underlying deposits increasing (excluding one-off large deposit held at end 2008)
- Speedy reaction to downturn underlined by cost reduction of 4%
- Encouraging margin, asset management and brokerage trends in Q2
- Increased provisions reduced pbt to PLN 316m ↓ 48%
  - Early management action to restrict further deterioration
- Strong liquidity, loan / deposit ratio 87%,
- Larger, well developed franchise set to outperform in next Polish growth phase

Remainder of CEE Division

- BACB: share of operating profit €5m, pbt (€40m) reflects value impairment of €45m
- AmCredit: flat operating profit before provisions, pbt (€8m)

- Strong outperformance continuing
  - Underlying EPS $.79c* in Q2, ↑ 34% on Q1
  - Core deposits ↑ 24% annualised on Q1
  - Net interest margin ↑ to 3.43% in Q2, 3.19% in Q1
  - Improved fee income and strong residential mortgage banking revenues
- Provident Bankshares Corporation acquisition completed – accretive in Q2
- Careful and conservative risk management
  - Nonaccrual loans ↑ to $1.1bn, 2.11% of total loans; $1bn, 2.05% in Q1
  - Q2 provisions $147m; lowest charge-off rate among peers
  - Prudent coverage ratio ; allowances for credit losses 1.62% of average loans
- €200m impairment charge to AIB investment

** Diluted net operating earnings per share*

Positioning for recovery

- Stronger competitive position improving our pricing power
  - Will increase profitability as we emerge from the global downturn
- Diversity of our business a key positive factor
  - Pace of recovery will vary between economies and businesses
- Firm resolve to manage our business efficiently
  - Cost reductions will continue
- Comprehensively dealing with credit issues
  - NAMA to play a vital role

John O’Donnell

Group Finance Director

Performance snapshot

Jun 2008	€m	Jun 2009	ccy change %
2,445	Total operating income	2,781	(7)
1,204	Total operating expenses	1,043	(7)
1,241	Group operating profit before provisions	1,738	(6)
138	Total provisions	2,396	
176	Associated undertakings / other	(214)	
1,279	Group profit / loss before tax	(872)	
114.0c	EPS – basic	(43.2c)	
104.9c	EPS – basic adjusted *	(164.4c)	

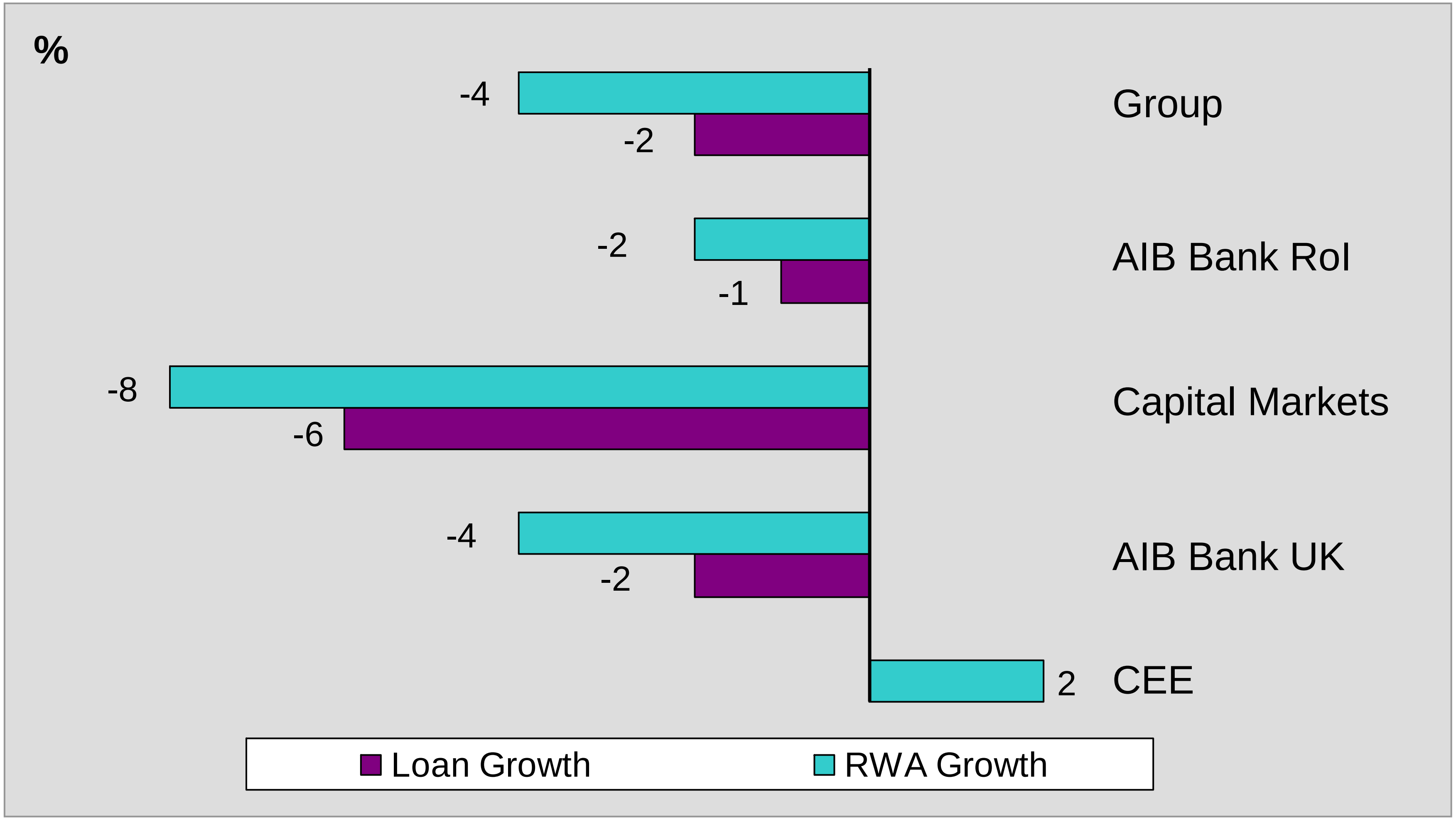
* *excluding profit on disposal / development of properties, businesses, hedge volatility and capital exchange offer*

Adjusted basic EPS

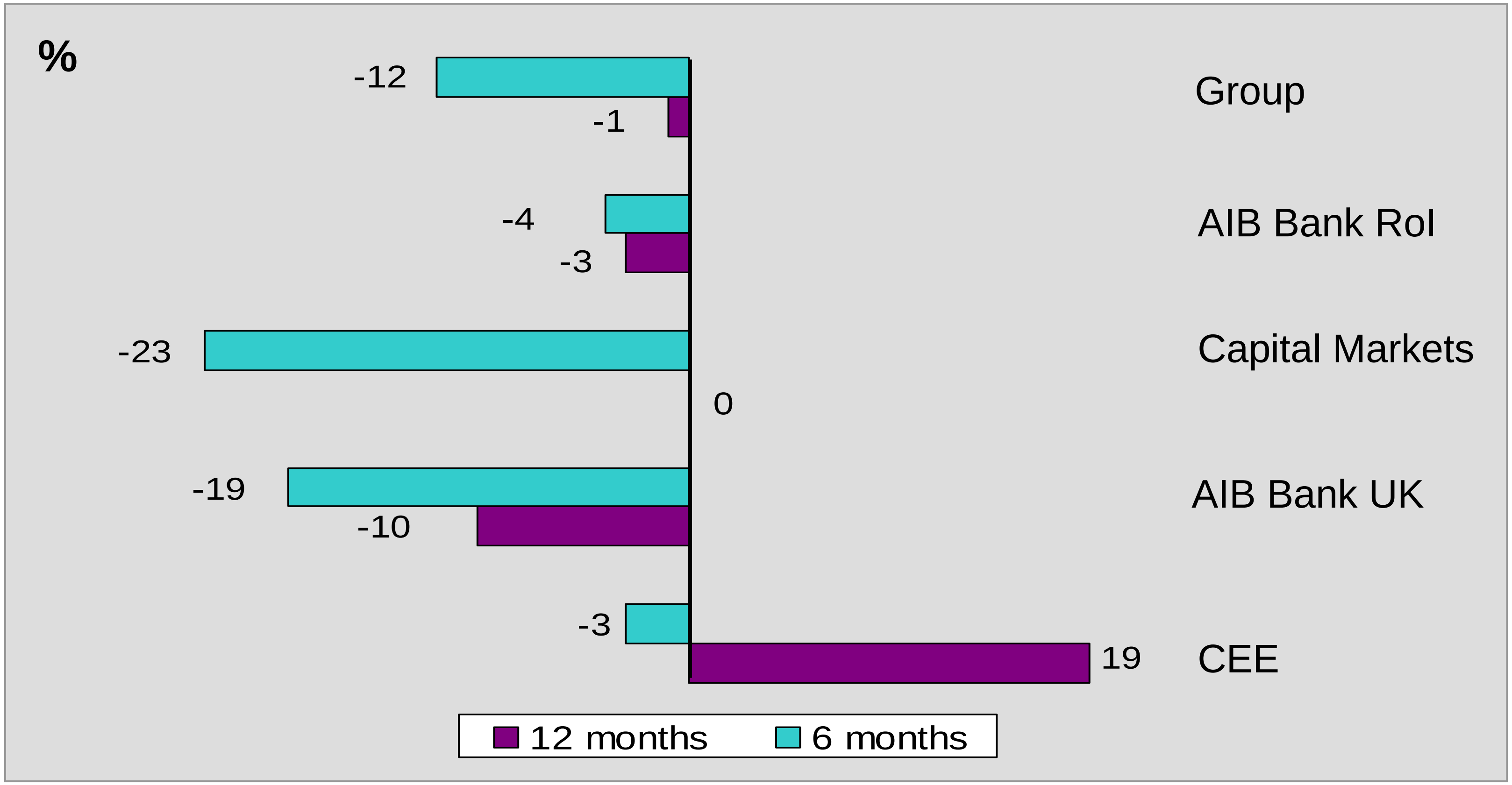
	Euro c	vs Jun 2008 %
Basic earnings / (loss) per share	(43.2)	-138
Profit on disposal / development of property	(0.9)	-59
Gain on redemption of capital instruments	(121.8)	-
Hedge volatility	1.5	-57
Adjusted basic EPS	(164.4)	

Loan and risk weighted asset growth

6 months to June 2009

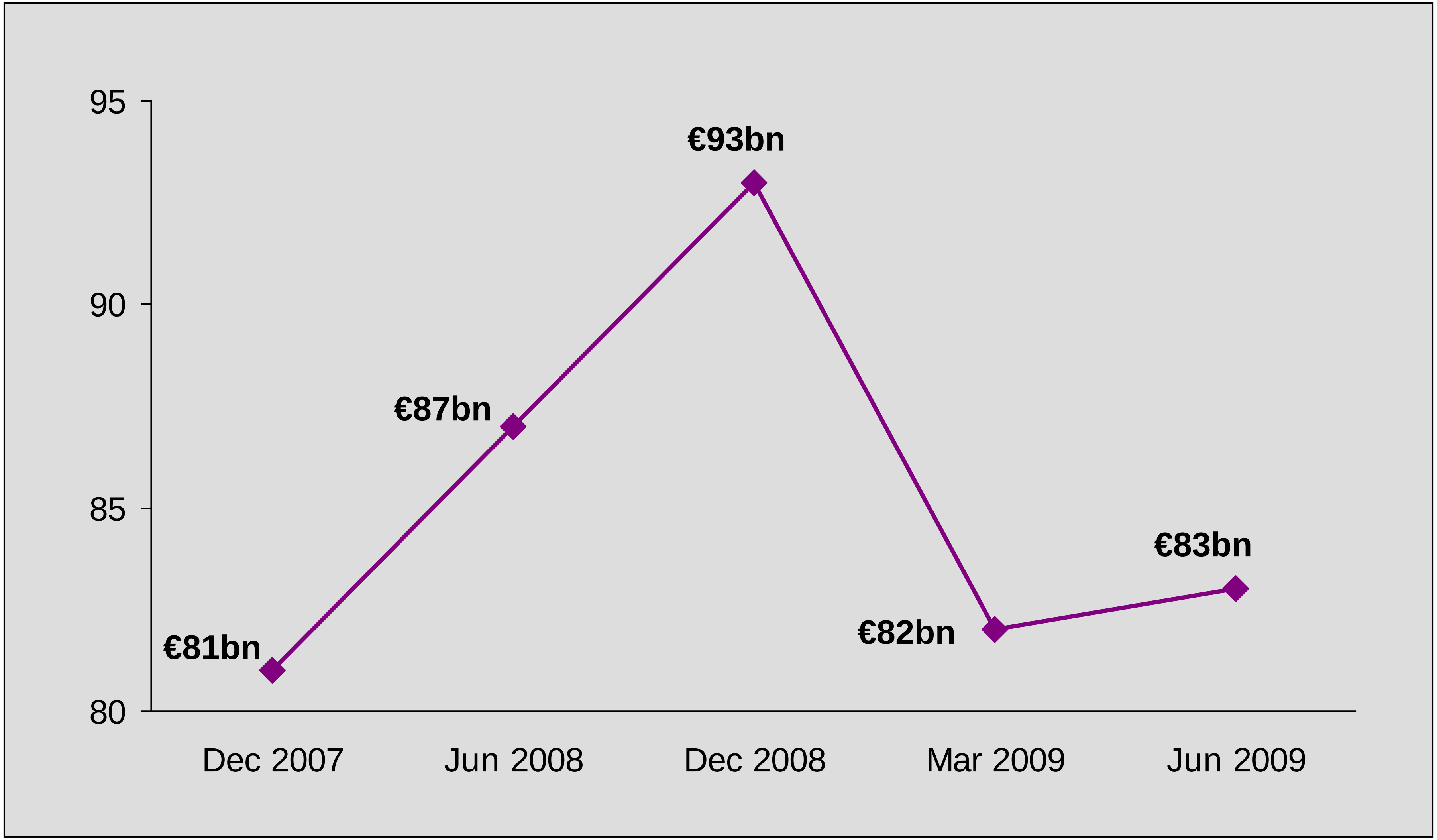


Deposit growth



- Deposits ↓ 1% year to June 2009
- Significant adverse movement in Q1
  - Reflects customer concern, primarily in the UK
  - Fuelled by negative publicity about “Ireland Inc” and nationalisation of Anglo Irish Bank
  - Position stabilised in Q2

Customer deposit trajectory



Net Interest Margin

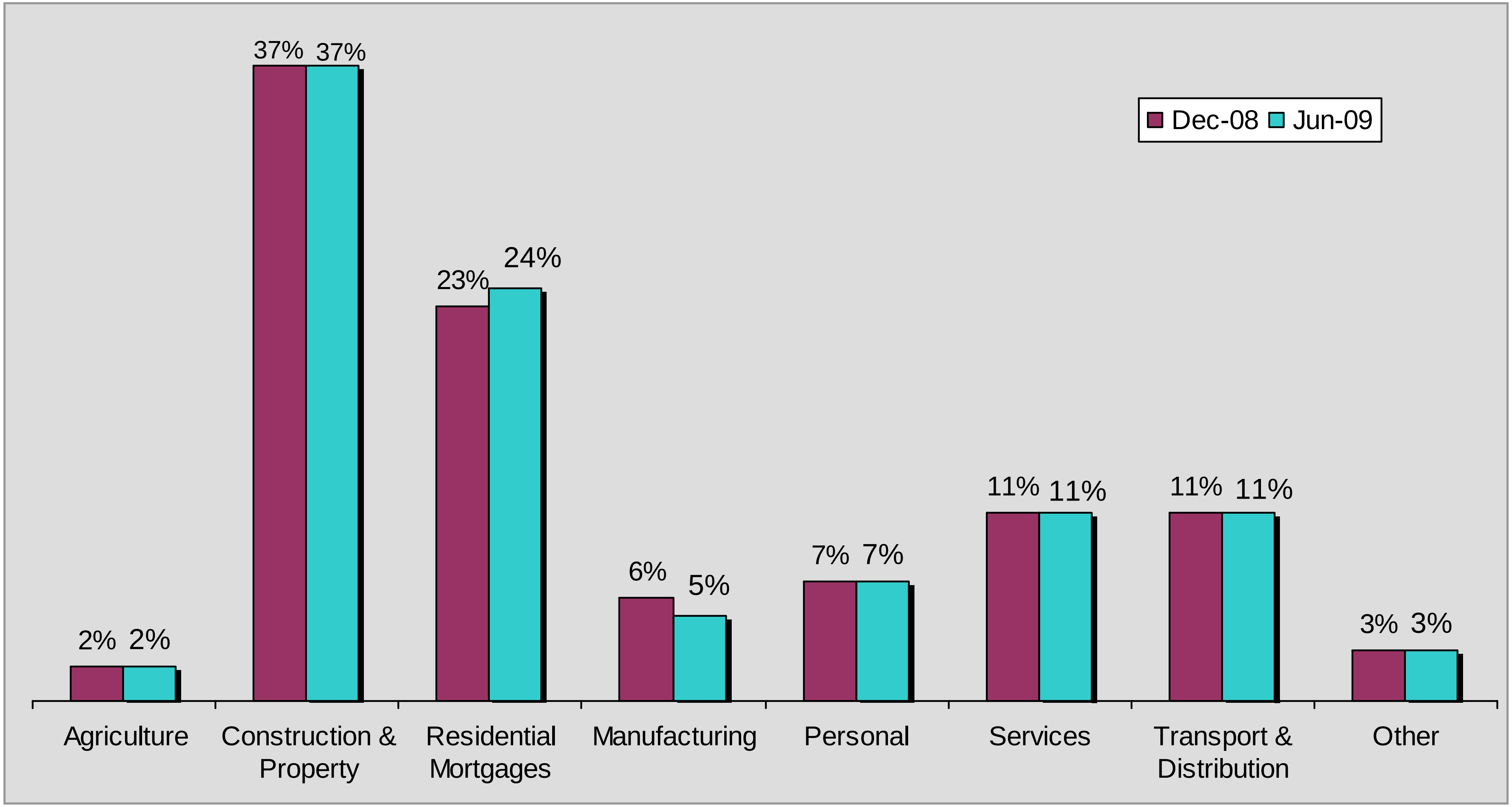
Jun 2008	Jun 2009	change
2.21%	2.03%	-18 bps

Key factors

Higher loan margins	+13 bps
Higher treasury margins	+17 bps
Increased costs of customer deposits	-39 bps
Increased cost of wholesale funding	-6 bps
Lower return on capital	-3 bps

Loan portfolios by sector

% of Group loan portfolio



Property & construction – sub sector profile *

€m	ROI	UK **	CM	Poland	Group
Commercial Investment	10,889	3,562	5,199	1,245	20,895
Residential Investment	2,407	1,317	483	36	4,243
Commercial Development	6,182	685	375	704	7,946
Residential Development	10,877	3,154	413	599	15,043
Contractors	674	334	41	140	1,189
Balances	31,029	9,052	6,511	2,724	49,316

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

** *excludes €0.6bn in Housing Associations*

Property & construction – credit profile

	Satisfactory €m	Watch €m	Vulnerable €m	Impaired €m	Total €m
AIB Bank RoI	14,633	5,762	3,751	6,883	31,029
Capital Markets	5,939	344	73	155	6,511
AIB Bank UK	5,523	1,570	1,126	833	9,052
CEE	2,040	435	93	156	2,724
Group	28,135	8,111*	5,043	8,027	49,316*

* *excludes €0.6bn in Housing Associations*

RoI Division property & construction

€m	Land & Development	Investment	Contractors
Watch / Vulnerable	6,103	3,336	74
Impaired	5,990	837	56
Total Criticised	12,093	4,173	130

- Property & construction criticised loans 67% of total RoI criticised
- Land & development criticised loans 74% of RoI property & construction criticised
- Property & construction criticised loans €16.4bn, up from €6bn at end 2008

UK Division property & construction

£m	Land & Development	Investment	Contractors
Watch / Vulnerable	1,177	1,035	86
Impaired	620	76	13
Total Criticised	1,797	1,111	99

- Credit loss most evident in N.I. land and development portfolios of £1.4bn
- In G.B. no compelling evidence yet of material improvement
- Property & construction criticised loans c. £3bn, up from £1.8bn at end 2008

International property & construction

Capital Markets

- Primarily an international investment portfolio, 87% of total

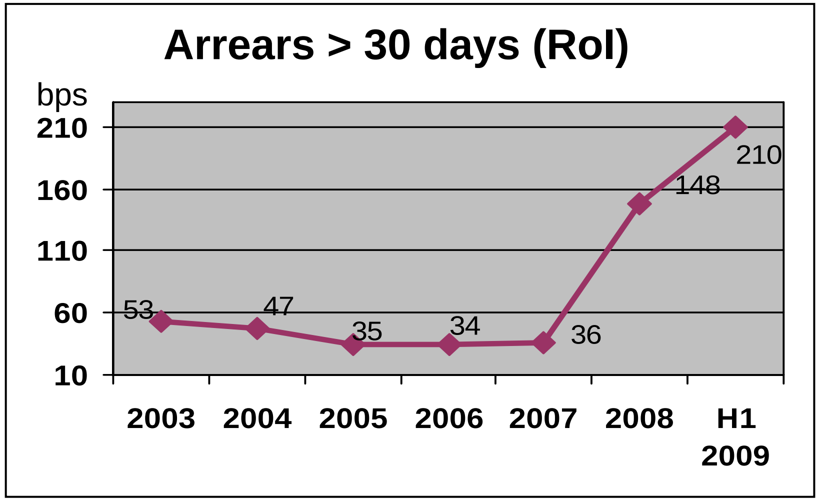
Poland

- €2.7bn portfolio, almost half in investment, less than €500m land exposure

Home mortgages

Republic of Ireland - €26.5bn

- Impaired loans 1.2% €322m up from €148m at Dec 08
- Bad debt charge 33 bps (16 bps Dec 08)
- Arrears profile remains better than peers
  - 90+ days arrears 1.4%



AIB Bank UK – Stg £3.2bn (GB £1.1bn, NI £2.1bn)

- Impaired loans down to 1.3% from 1.6% at Dec 08, now £41m
- Total arrears 2.8% £89m, down from 3.6% Dec 08

CEE

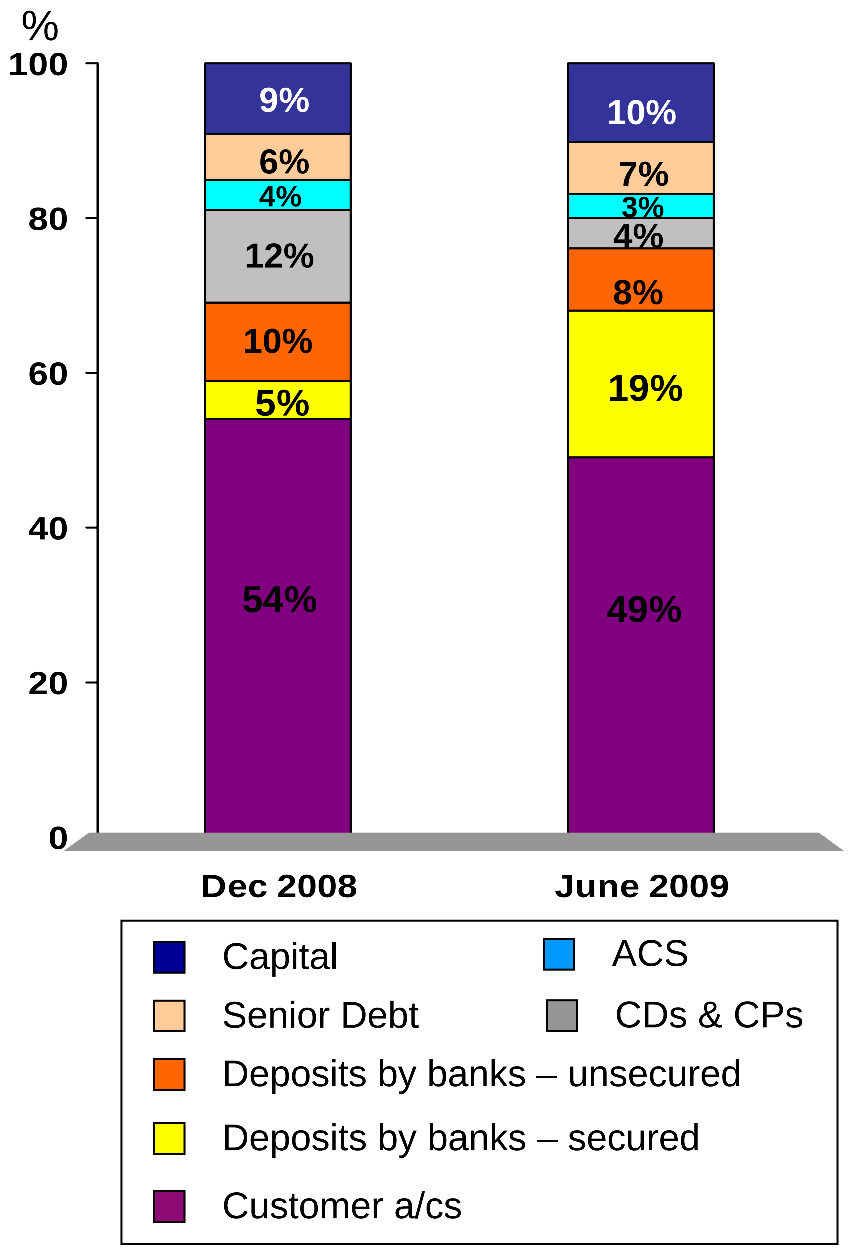
- Poland – PLN 5.9bn: impaired loans 0.9% vs 0.6% at Dec 08
- FX mortgages represents 45% of portfolio vs 71% for the market

Credit provisions by division & key portfolios – June 2009

	PLN m	Stg £m	€m	bps
AIB Bank RoI			**1911**	**495**
- residential development			1097	2,010
- commercial development			359	1,050
- investment			106	164
- property & construction			1562	1018
- other business			184	266
- residential mortgages			43	33
- other personal			122	351
AIB Bank UK		**168**	**188**	**179**
- residential development		96		704
- commercial development		8		268
- investment		18		86
- property & construction		122		329
- other		46		83
Capital Markets			**201**	**154**
CEE			**73**	**174**
- Poland	290		65	156
- Am Credit			8	
Total			**2,373**	**358**

** includes an element of management estimation*

Funding – conditions beginning to improve



- Solid funding base with significant customer resources and diversified debt programmes
- Customer deposits stabilised in Q2
  - Negative newsflow caused reversal in Q1 of strong Q4 2008 growth in institutional deposits
  - Resilient franchise deposits
  - Transaction current accounts down due to recessionary environment
- Loan / deposit ratio 156%
- Strong liquidity position
  - c. €54bn in qualifying liquid assets / contingent funding; significant surplus over regulatory requirement
- Term debt (1 yr+) issuance of €4bn year to date (excludes Government prefs €3.5bn)
  - Total 2009 term debt maturities €4.5bn
- NAMA bonds will be a further significant boost to liquidity

Capital – reinforcing the buffer

- Core tier 1 ratio 8.5%
- Tier 1 capital ratio 7.8%
- Total capital ratio 10.7%
- Capital ratios strengthened by €3.5bn Government investment and €1.1bn gain from the capital exchange offer
- Solid balance sheet; capital ratios well above regulatory requirements
- NAMA effect to emerge over coming months
- Procyclicality Basel II effect
  - Affects IRB portfolios only (c. 58% of RWAs)
  - Performing loans: deterioration in credit quality gives rise to an increase in RWA and expected loss (EL)
  - Impaired loans: carry 100% probability of default. Expected loss increases but RWA is reduced to zero
  - Net effect in H1 was to reduce RWAs; effect of increased impairment more than offsets effect of grade migration on RWAs

Managing and positioning for recovery

In a challenging environment we are

- Maximising efficiency
- Addressing credit issues
- Optimising our funding and capital bases
- Protecting and developing customer franchises

Appendices

AIB Bank RoI profit statement

Jun 2008	€m	Jun 2009	Change %
870	Net interest income	706	-19
239	Other income	160	-33
1,109	Total operating income	866	-22
518	Total operating expenses	472	-9
591	Operating profit before provisions	394	-33
89	Total provisions	1,911	-
502	Operating profit / loss	(1,517)	-
(2)	Associated undertakings	(7)	-
6	Profit on disposal of property	2	-67
68	Profit on disposal of business	-	-
574	Profit / loss before taxation	(1,522)	-

Capital Markets profit statement

Jun 2008	€m	Jun 2009	Change %
421	Net interest income	579	40
101	Other income	89	-8
522	Total operating income	668	31
209	Total operating expenses	193	-6
313	Operating profit before provisions	475	55
18	Total provisions	223	-
295	Operating profit	252	-13
295	Profit before taxation	252	-13

AIB Bank UK profit statement

Jun 2008	Stg £m	Jun 2009	Change %
238	Net interest income	217	-9
51	Other income	34	-33
289	Total operating income	251	-13
120	Total operating expenses	112	-7
169	Operating profit before provisions	139	-17
19	Total provisions	168	-
150	Operating profit / loss	(29)	
1	Associated undertaking	1	
29	Profit on disposal of business	-	
180	Profit / loss before tax	(28)	
233	Profit / loss before tax €m	(31)	

CEE Division profit statement*

Jun 2008	PLN m	Jun 2009	Change %
718	Net interest income	738	3
745	Other income	671	-10
1,463	Total operating income	1,409	-4
828	Total operating expenses	800	-4
635	Operating profit before provisions	609	-4
20	Total provisions	293	-
615	Operating profit	316	-48
-	Income from associated undertakings	(3)	-
3	Profit on disposal of property	-	-
618	Profit before tax	313	-49
177	Profit before tax €m	70	-49

* *Poland only*

Group profit statement

Jun 2008	€m	Jun 2009
59	Net interest income	(3)
(40)	Other income	652
19	Total operating income	649
81	Total operating expenses	72
-	Total provisions	-
(62)	Operating profit / loss	577
58	Associated undertaking – M&T	(181)
-	Profit on disposal / development of property	10
6	Construction contract income	1
2	Profit before tax	407

Republic of Ireland property investment

Commercial investment:

	Dec 2008 (€10.5bn)		Jun 2009 (€10.9bn)	
	€m	**%**	**€m**	**%**
Watch loans	700	6.8	1,601	14.7
Vulnerable Loans	172	1.7	927	8.5
Impaired Loans	51	0.5	618	5.7

Residential investment:

	Dec 2008 (€2.3bn)		June 2009 (€2.4bn)	
	€m	**%**	**€m**	**%**
Watch loans	312	13.6	491	20.4
Vulnerable loans	116	5.2	317	13.2
Impaired loans	27	1.2	219	9.1

Republic of Ireland land & development

Residential development

	Dec 2008 (€10.8bn)		Jun 2009 (€10.9bn)	
	€m	**%**	**€m**	**%**
Watch loans	1,419	13.1	2,097	19.2
Vulnerable loans	1,324	12.3	1, 604	14.7
Impaired loans	913	8.5	4,468	41.0

Commercial development

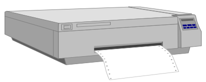
	Dec 2008 (€6.1bn)		Jun 2009 (€6.2bn)	
	€m	**%**	**€m**	**%**
Watch loans	656	10.7	1,523	24.6
Vulnerable loans	197	3.2	879	14.2
Impaired loans	138	2.3	1,522	24.6

Contacts

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

Alan Kelly	*alan.j.kelly@aib.ie*	☎	+353-1-6412162
Rose O’Donovan	*rose.m.o’donovan@aib.ie*	☎	+353-1-6414191
Pat Clarke	*patricia.m.clarke@aib.ie*	☎	+353-1-6412381
Maura Hodnett	*maura.n.hodnett@aib.ie*	☎	+353-1-6413469

☎ +353-1-660 0311

 +353-1-641 2075

Visit our website www.aibgroup.com/investorrelations