DESCRIPTION OF AIB GROUP

Allied Irish Banks, p.l.c., originally named Allied Irish Banks Limited, was incorporated in Ireland on 21 September 1966 with registered number 24173 as a result of the amalgamation of three long established banks: the Munster and Leinster Bank Limited (established 1885), the Provincial Bank of Ireland Limited (established 1825) and the Royal Bank of Ireland Limited (established 1836). The Group conducts retail and commercial banking business in Ireland through an extensive branch network across the country, as well as its head office in Dublin. Following the disposals in 2010 and 2011 of a number of overseas businesses in the USA and Poland, AIB Group now has a limited but focused overseas presence which includes operations in the UK.

For further information on the business activities of the Group, please see the section entitled Financial Review – Business Description on pages 13-20 of the Annual Financial Report 2010, which is incorporated by reference into these Listing Particulars. AIB's registered office is at Bankcentre, Ballsbridge, Dublin 4, Ireland with telephone number + 353 1 660 0311.

Strategy and update on AIB's EU restructuring plan

Strategy

As outlined in the Annual Financial Report 2010, the Group's strategy is to establish a new core bank with a restructured balance sheet. The Group intends to achieve this through the separation, progressive disposal and winding down of non-core assets through a deleveraging plan, in order to achieve a target loan to deposit ratio of 122.5 per cent. by December 2013.

In May 2011, the Group outlined its new operating model and announced a number of appointments to its executive leadership team. The former divisional structure has been replaced by an integrated bank comprising the following customer-facing units: Personal & Business Banking and Corporate, Institutional and Commercial Banking. AIB (UK) will be managed as a separate unit. Control and support functions are in the process of being streamlined and centralised.

To manage the deleveraging process, the Group has set up a non-core unit to oversee the disposal and run-off of selected non-core assets. This unit has been operational with its own management team since 1 July 2011. The team has a strong emphasis on governance, risk, performance measurement and oversight reporting and the entire organisational transformation process is supported by a dedicated team.

Through its deleveraging plan and organisational changes, the Group intends to develop a strong foundation from which a profitable business can be rebuilt and to be well positioned in the market as one of two pillar domestic Irish banks. The Group expects that the acquisition of EBS on 1 July 2011 will contribute to a return to economic viability.

Update on AIB's EU restructuring plan

The financial support provided to the Group by the Government, including the support provided most recently as part of the July 2011 recapitalisation, is subject to review and approval by the European Commission under EU state aid rules. The Group's original restructuring plan was submitted to the European Commission in November 2009. An updated plan was submitted in May 2010. Following the capital injection from the Government in December 2010, and the recapitalisation of the Group by the Government in July 2011, a revised restructuring plan was necessary. This plan, which incorporated the acquisition of EBS, was submitted by the Group to the European Commission on 29 July 2011. The European Commission may require the Group to undertake structural and behavioural measures, including measures to support the development of competition in the Irish market.

Developments in Recent Years

Since August 2007, global financial markets have experienced significant volatility and turmoil which have caused a breakdown of wholesale banking markets, large write-downs among financial institutions, a major change in the banking landscape and a credit crisis that has extended into some sovereign debt markets. The impact of the financial crisis has been very damaging. Since mid-2008, the Group has experienced many challenges as a result of issues arising from the financial crisis. Since the onset of the global and Irish financial crisis, the Group's relationship with the Government has changed significantly.

On 28 November 2010, it was announced that the Government had agreed in principle to the provision of €67.5 billion of financial support to Ireland by certain EU Member States through the European Financial Stability Fund ("**EFSF**") and the European Financial Stability Mechanism, together with bilateral loans from the UK, Sweden and Denmark, use of the International Monetary Fund's ("**IMF**") Extended Fund Facility and a commitment of €17.5 billion from the NPRFC and other domestic cash resources. That agreement was subsequently formalised and the resulting EU/IMF Programme (the "**EU/IMF Programme**") included up to €35 billion to support the Irish banking system, including the Group, €10 billion of which was for immediate recapitalisation and up to €25 billion of which is available on a contingency basis. It also set out a programme to deleverage and reorganise the Irish banking sector and provided for new regulatory capital requirements for the Irish banking system at a level which is in line with the highest international standards.

In tandem with the announcement of the EU/IMF Programme, the Central Bank announced that it had set new capital targets for the Irish banking system. The Group was requested to generate a further increased level of Core Tier 1 Capital by 28 February 2011, being a Central Bank estimate at that time of the amount needed to achieve a target Core Tier 1 Capital Ratio of 12 per cent. (calculated by reference to the position as at 31 December 2010) and to maintain a Core Tier 1 Capital Ratio of greater than 10.5 per cent. That 28 February 2011 deadline was postponed on 9 February 2011 pending the outcome of the Irish general election on 25 February 2011 and the outcome of the PCAR 2011 and PLAR 2011 results on 31 March 2011.

On 23 December 2010, upon the Minister's application, the High Court issued a direction order under the Stabilisation Act with the consent of AIB, directing AIB to issue approximately €3.8 billion (before taking account of fees) of new equity capital to the NPRFC. The purpose of that capital injection was to increase the Group's Core Tier 1 Capital prior to 31 December 2010; it resulted in the Group's Core Tier 1 Capital being increased by €3.7 billion (net of expenses).

PCAR 2011 and PLAR 2011

On 31 March 2011, the Central Bank published its Financial Measures Programme report, which detailed the outcome of the PCAR 2011 and PLAR 2011 review for certain Irish credit institutions. The review, a requirement of the EU/IMF Programme, involved three separate but complementary exercises:

- an independent loan loss assessment exercise performed by BlackRock Solutions, the results of which informed the calculation of capital requirements under PCAR 2011;
- the PCAR 2011 exercise to stress-test the capital resources of Irish banks, in a given stress scenario, for the purposes of determining the level of recapitalisation required to meet certain minimum capital ratios imposed by the Central Bank; and

- the PLAR 2011 exercise to establish funding targets for the credit institutions participating in PCAR 2011 in order to reduce the leverage of the Irish banking system and short-term central bank funding. In addition, the exercise set out targets to ensure convergence to Basel III liquidity standards over time.

PCAR 2011

PCAR 2011 relied heavily on the independent loan loss assessment exercise performed by BlackRock Solutions. For elements of the income and expenditure accounts, it relied, in part, on each bank's own forecasts based on Central Bank-specified parameters. Additional buffers to ensure sufficient capital to cover post-2013 events and other contingencies were also included. The Central Bank set a new capital target for the enlarged AIB Group including EBS which requires that the Group maintains a minimum capital target of 10.5 per cent. Core Tier 1 Capital in the base scenario, and in excess of 6 per cent. Core Tier 1 Capital in a stress scenario. As a result, the Group was required to raise capital necessary to fulfil the new capital target applicable under PCAR 2011 by 31 July 2011. This resulted in a total capital requirement of approximately €14.8 billion Core Tier 1 Capital, of which approximately €1.6 billion was raised through the issuance of the CCNs. This requirement was satisfied in full by the target date of 31 July 2011.

PLAR 2011

PLAR 2011, undertaken by the Central Bank together with the EU, the IMF and the ECB, is an assessment of measures to be implemented with a view to gradually deleveraging the Irish banking system and reducing reliance on short-term wholesale funding and liquidity support from monetary authorities.

PLAR 2011 assessed the funding and liquidity structure of the balance sheets of Irish credit institutions. It focuses on the loan to deposit ratio, with the explicit purpose of reducing the assets held by Irish banks. Each of the credit institutions participating in PLAR 2011 must achieve a target loan to deposit ratio of 122.5 per cent. by December 2013. To achieve that target, the Group is required to sell assets in a controlled manner between now and the end of 2013. In doing so, the Group is likely to incur losses relative to book value. An estimate of losses is included in the overall assessment of the capital needs of the Group as part of PCAR 2011.

Increase in Government shareholding and recapitalisation

As described in the Annual Financial Report 2010, on 8 April 2011, following the disposal of BZWBK by AIB, all of the convertible non-voting ("**CNV**") shares of AIB that were issued to the NPRFC on 23 December 2010 were converted into Ordinary Shares on a one-for-one basis, which resulted in the NPRFC holding approximately 92.8 per cent. of the issued Ordinary Shares of AIB at that date.

On 13 May 2011, 484, 902,878 Ordinary Shares were issued to the NPRFC in part satisfaction of the bank's obligation to issue Ordinary Shares in lieu of a dividend on the 2009 Preference Shares held by the NPRFC. Following this issue of ordinary shares, the NPRFC held approximately 93.1 per cent. of the total issued ordinary shares of AIB at that date.

In addition, having obtained the required approvals from shareholders at an Extraordinary General Meeting held on 26 July 2011, AIB issued the following capital:

- On 27 July 2011, AIB issued (i) 500 billion Ordinary Shares of €0.01 each (following renominalisation of AIB's Ordinary shares from €0.32 each to €0.01 each) to the NPRFC at a subscription price of €0.01 per share; and (ii) €1.6 billion of CCNs at par to the Minister, raising a total of €6.6 billion.

- Further to its announcement on 13 May 2011, AIB issued an additional 762,370,687 Ordinary Shares to the NPRFC on 27 July 2011, being the remainder of the bonus shares due as a result of the 2011 annual cash dividend on the 2009 Preference Shares not being satisfied in full on 13 May 2011.
- On 28 July 2011, AIB received capital contributions totalling approximately €6.1 billion from the Minister and the NPRFC. No new shares were issued to the Minister and the NPRFC in return for these capital contributions.

At the date of these Listing Particulars the NPRFC holds approximately 99.8 per cent. of the total issued Ordinary Shares of AIB. The NPRFC also holds 3.5 billion 2009 Preference Shares at the date of these Listing Particulars.