



TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

Volume 1: Report
Volume 2: Inquiry Framework
Volume 3: Evidence

AIB: Core Book 1

January 2016

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THEME: B1

Effectiveness of banks' board governance,
client relationships and business models

LINE OF INQUIRY: B1a

Composition, skills and experience of the
board and board subcommittees

Copy No: 5

Issued to: David O'Callaghan

**Report into allegations concerning
Foreign Exchange practices in
Branches of Allied Irish Banks, p.l.c.**

Regulatory Compliance

27 June 2006

Section 1 Executive Summary

Background to Investigation

A number of allegations were raised through the Financial Regulator and the Office of the Group Chief Executive, AIB during the course of 2004 in relation to Foreign Exchange rates charged on customer transactions. The allegations were that foreign exchange rates were deliberately adjusted to the disadvantage of customers. These allegations concerned:

- (a) [redacted] Oireachtas-P
"In the late 1980's and early 1990's, foreign exchange rates in [redacted] Oireachtas-P [redacted] Oireachtas-P were manipulated, which resulted in customers of that Branch, being charged a higher rate than customers of other Branches nationwide..."
- (b) Branches in the [redacted] Oireachtas-P
"During the 1990's AIB branches in the [redacted] under the control of Mr. X ('Mr. X' – a named senior official, now retired) were instructed by him to engage in unethical practices relating to foreign exchange charges. ... Mr. Y ('Mr. Y' – a named junior official at the time), assistant to Mr. X at the time and now an AIB Executive ... visited branches to demonstrate how the foreign exchange money changer was to be programmed".
- (c) AIB Branches in general – "rigging a concealed margin in FX".
" ... that AIB branches, under profit targets where revenues were reported frequently at regional level, and where questions would be raised if revenues dipped, engaged in "rigging" the FX rates ..."

Group Internal Audit undertook an investigation based on the above allegations and issued a report in April 2005 entitled 'Restitution Programme – Report on The Investigation of FX Rate Manipulation Related Allegations'. As a result of the findings, a more detailed investigation, to be undertaken by Regulatory Compliance was initiated.

Summary Findings

1. The [redacted] Oireachtas-P allegation has been found to have substance and there is evidence of the manipulation of exchange rates. The manipulation found involved:
 - (i) the adjustment of rates input to the Forde Money Changer machine, described as **shading** for the purposes of this report and
 - (ii) the application to higher value transactions of rates appropriate to lower value transactions described as **banding** for the purpose of this report
2. With regard to the [redacted] Oireachtas-P allegation, there is a direct conflict between the recollections of Mr. X and Mr. Y as to whether an instruction issued and, if so, who authorised it. From an examination of data, the practice of **shading** was occurring in the [redacted] Oireachtas-P region in 1991 and **banding** was evidenced in the period 1991 to 1994.
3. The investigation did not find any evidence of the 'rigging a concealed margin' as described. However, **shading** and **banding** resulted in an equivalent negative impact for customers.

4. The investigation found evidence that *shading* occurred in 8 branches in the period 1991 through to 1994. It has also been alleged, in interviews or anonymously, that *shading* occurred in a further 5 branches, but sufficient records are not available in these branches to substantiate this.
5. The investigation found that *banding* was widespread in the period 1991 to 1994 but ceased in 1994.
6. The investigation identified a further matter (outside the original Terms of Reference) which involved the application of incorrect margins on foreign exchange transactions, which were in excess of regulatory approvals. For the purposes of this report, this is referred to as the *margin issue*.
7. The incidence of *shading*, *banding* and the *margin issue* resulted in the imposition of 'charges' on foreign exchange transactions that were at variance with charges previously notified to the Central Bank as required under S.28 Central Bank Act 1989
8. The investigation has found no evidence to suggest that *shading* or *banding* was authorised or advocated as a matter of official policy by Bank Management
9. The matters identified were contrary to Bank policy and procedures and the Bank has benefited as a result of unauthorised practices and the incorrect application of charges.

Estimated Financial Impact

The estimated financial impact of the three issues identified is set out in the table below:

	Estimated Impact €m	Interest €m	Total Payment €m
<i>Shading</i>	0.3	0.3	0.6
<i>Banding</i>	7.1	5.7	12.8
<i>Margin Issue</i>	<u>3.1</u>	<u>1.3</u>	<u>4.4</u>
	10.5	7.3	17.8

Bank records available will not enable such payments to be made to individual customers disadvantaged in these transactions.

In the circumstances, the Bank may wish to consider a payment in line with the principles outlined by the Financial Regulator in January 2005 and set out below.

“As we have dealt with charging issues over the last year, it has become apparent that it may not always be reasonable or possible to effect an individual refund, e.g. where the relevant customer cannot be identified or located or where doing so would have a disproportionately

negative effect on customer service given the amount of refund involved. Accordingly, we have established a set of general principles in relation to the reimbursement of customers who have been erroneously charged for financial services. These principles seek to ensure that regulated financial service providers:

- 1. Make all reasonable efforts to effect a refund (with appropriate interest) to all customers who have been affected by the charging issues whether they arise from contraventions of the Consumer Credit Act or contract breaches.*
- 2. Commit indefinitely to paying legitimate claims arising from the charging issues referred to at 1 above, with appropriate interest.*
- 3. Will not benefit from any balance out of the claims (arising in 1. above), which cannot be repaid.*
- 4. Will keep available for our inspection a file of any cases where any affected customer is not happy with the approach taken to reimbursement, arising from the charging issues. Each case will state how the firm has sought to bring about a resolution to the issue. This file will be subject to periodic review by Internal Audit."*

Section 9 – Banding

As set out earlier, the term **banding** is used in this report to describe the application to higher value transactions of rates appropriate to lower value transactions. For example, a foreign currency transaction equivalent to £1,500 which should have qualified for the >£500 FX rate (band 2), was instead charged the <£500 rate (band 1) which was more expensive for the customer. As outlined in Section 4, the official rate sheets set out the applicable bands (i.e. the ranges of transactions to which specific rates and margins were applicable) and rates.

Section 9.1 Findings

Based on an examination of available records, the investigation identified widespread incidence of **banding** over each of the years 1991 to 1994.

Year	Number of Branches Examined	Number of Branches where Banding Identified	Number of Transactions Examined	% value of transactions evidencing banding
1991	9	9	372	24.3%
1992	20	20	1,750	40.4%
1993	26	26	4,558	36.5%
1994	29	20	4,156	14.3%

The predominant transaction sizes affected were:

- Transactions between IR£1,000 and IR£10,000 in the period 1991 to September 1993
- Transactions between IR£500 and IR£2,500 in the period September 1993 to June 1994

As shown in the table above, **banding** was found in the period 1991 to 1993 in all branches examined. In 1992 **banding** was found in all 20 branches reviewed (representing 9% of all branches) and in 1993 **banding** was found in all 26 branches reviewed (representing 12% of all branches). In the 1994 sample the reduction in the number of branches where **banding** was evidenced coincided with the introduction of an enhanced Forde Moneychanger ‘chip’ which reduced the requirement for daily manual intervention at branches.

Bandings was found in branches in the following counties: Donegal, Sligo, Mayo, Galway, Clare, Limerick, Kerry, Cork, Kildare, Offaly, Westmeath, Meath and in different Dublin regions. Accordingly, in the absence of any mitigating evidence, the investigation team, for the purposes of calculating an estimate of the financial consequences of the **banding** issue, have assumed that **banding** occurred in all branches for the period 1991 to 1994 inclusive at the percentage error rate for each year shown in the table above. For the years 1997, 2000 and 2003 the number of transactions examined and the error rates found were as follows:

Year	Number of transactions	Error rates
1997	3,024	2.28%
2000	17,806	0.07%
2003	13,869	0.06%

The investigation team did not find any evidence to suggest that **banding** was an issue in these years. The review did identify a number of transactions where the rates did not align with the designated band rate. These could be attributable to a number of factors such as (i) dealer rates sought, (ii) forward transactions, (iii) human error (iv) processing of 'late' transactions on the following day or (v) revised rates advised by Treasury due to significant rate movements during the day. The percentage error rate was not deemed sufficiently significant to merit further investigation.

Additionally, while not forming part of the original scope of the investigation, a review of c.1,200 transactions was performed for 1995 and identified a small number of transactions (2.3)% where the rates did not align with the designated band rate. As set out in the preceding paragraph, this could be attributed to a number of reasons and again the percentage error rate was not deemed sufficiently significant to merit further investigation.

Section 9.2 Possible Reasons for the incidence of *Banding* Identified

As set out in Section 6, the absence of documentation (either from AIB records or those of the FMC vendor) on operating procedures and the technical specifications for the various FMC chips and the conflicting recollections of staff interviewed presented significant limitations on the investigation. Similarly, the unavailability of legacy FMC chips (prior to 2001) did not facilitate the retesting of transactions or the inbuilt functionality of the various chips.

Notwithstanding this, a number of possible reasons for banding errors have been identified and are discussed below:

- (a) In three branches (Buncrana, Gweedore and Leixlip), the banding errors were effected by the Band 1 rate being entered as a Band 2 rate to the FMC during the morning set-up. This could have been deliberate or accidental.
- (b) An attachment to a memorandum dated 6th June, 1991 issued by a junior official in the Regional Office – North East & Donegal contained details of ideas to improve business practices was sighted. This included a suggestion by Moville branch that '*Rate less than £1000 used for all purchases.*' The memorandum does not state whether the suggestions were to be acted upon.

The then Regional Manager in North East & Donegal has stated that he had no knowledge or recollection of the memorandum outlined above.

- (c) The manual nature of the system enabled officials to select the 'special' function key on the FMC and input an incorrect rate (Band 1 or other rate) for higher value transactions. This was identified in an interview in respect of Blanchardstown branch.
- (d) More than one type of FMC was in operation in different Branches at the same time. Three FMCs were in operation at the same time in a variety of locations as late as 1999. Each machine had its own model of chip. From a review of documentation supplied by the FMC vendor, it is possible that chips in each of the FMCs may not have been upgraded when a change was instigated.

- (e) The process for implementing new chip changes varied and no independent verification exists that changes had been effected. Failure to effect a change would result in errors in rates applied
- (f) In addition, Circular 1994/167 dated 1 July 1994 outlined instructions on how to reprogramme the FMC in order to effect a reduction in the margin for the sale of certain foreign currency notes. It cannot be determined whether similar instructions or knowledge of such instructions were available in earlier years.
- (g) Updates in technology lagged the introduction of changes to bands and margins leading to the use of additional manual procedures on an interim basis. One instance of the additional manual procedures was evidenced in May 1992 where the instructions issued lacked clarity resulting in a clarifying circular having to be issued subsequently
- (h) The control framework relied solely on Branch Management ensuring adherence to official procedures and no central monitoring of foreign exchange transactions was undertaken during the period.
- (i) Inadequate training might be suggested as a possible reason causing or contributing to the errors, but, as there is no available evidence as to whether training was provided (or indeed whether it was necessary), or the extent of any such training, the investigation team has been unable to reach a conclusion on this point.
- (j) The audit programme of the time did not include Foreign Exchange as one of the 8 key risk areas. Outside of the key risk areas, the Audit Programme focused on seeking evidence that Management Control procedures were being implemented. Accordingly, in relation to foreign exchange, the Audit work was confined to checking whether the input of rates to the Forde Moneychanger had been signed off by a second official as evidence of correct input

Section 9.3 Conclusion

In summary, the investigation team discovered a significant level of mistakes in the application of rates to the appropriate bands between 1991 and 1994. It is not possible to reach a definitive conclusion as to what caused these but it appears likely that inadequate processes and controls were both the cause of the mistakes and were also the cause of failure to discover the mistakes.

Banding was contrary to Bank policy and procedures and resulted in charges on customer foreign exchange transactions that were not aligned with Central Bank approvals. The investigation team concludes that **banding** ceased in 1994. An estimate of the Financial Impact of the Banding issue for the years 1991 to 1994 is set out in **Section 12**.

It is not possible to identify the individual customers disadvantaged by the incidence of banding from the information that is available. Where applications for bank drafts are available, the customers in some cases may be capable of being identified but there is not sufficient information to identify all affected customers or all affected transactions.

In the circumstances, it is not considered practical or equitable to effect partial refunds to a small number of customers and in addition, the costs of such an exercise would exceed the amounts that could be identified.

Section 9.4 Changes in Band Widths

The following table summarises the bands for foreign exchange transactions between 22nd April 1991 and 31st December 1994. The figures in red represent the rates that were required to be manually keyed in by the Branches to the Forde Money Changers (FMC) each morning, see Section 4 (History of Forde Money Changers). The information to be inputted came from the rate sheets.

		BAND 1	BAND 2	
		Up To	Up To	
22nd April 1991 – 14/5/92 (No rate sheets prior to 22/4/91)	Buy Note – STG	IR£1,000	IR£10,000	
	Buy Note – USD	IR£10,000		
	Sell Note	1 rate	1 rate	
	Buy Chq – STG	STG1,000	STG10,000	
	Buy Chq – USD	USD1,000	USD10,000	
	Sell Draft STG	IR£10,000		
	Sell Draft USD	IR£2,500		
31/3/92 – 14/5/92	Buy Note – USD	IR£1,000	IR£10,000	
		BAND 1	BAND 2	BAND 3
		Up To £	Up To £	Up To £
15/5/92 – 14/9/1993	Buy Note	1,000	10,000	
	Sell Note	1 rate	1 rate	1 rate
	Buy Chq	1,000	10,000	
	Sell Draft STG	500	10,000 (Input as special)	
	Sell Draft USD	500	2,500 (Input as special)	
14/9/1993 - June, 1994	Buy Note – STG	500	2,500	10,000 (Input as special)
	Buy Note – USD	500	2,500	
	Sell Note	500	2,500 (Input as special)	
	Buy Chq	500	2,500	10,000 (Input as special)
	Sell Draft STG	500	2,500	10,000 (Input as special)
	Sell Draft USD	500	2,500	10,000 (Input as special)
Post June, 1994	Buy Note – STG	500	2,500	10,000
	Buy Note – USD	500	2,500	
	Sell Note	500	2,500	
	Buy Chq	500	2,500	10,000
	Sell Draft STG	500	2,500	10,000
	Sell Draft USD	500	2,500	10,000
		Only Remit Rates required to be inputted		

(The term 'input as special' is the instruction that was issued by way of circular dated 13 May 1992 requesting FX officials to apply these rate categories using the 'Special' function key on the FMC)

The Chairman's Committee

Proposal

That the Terms of Reference of the Chairman's Committee be amended, as per the marked-up resolution attached.

Background

1. The Chairman's Committee was established by the Board in 2004 to deal mainly with routine/housekeeping issues arising between Board meetings. This effectively formalised arrangements that have operated for many years under which "mini" 3-man Boards were convened, generally comprising the Chairman and two Executive Directors, to deal with housekeeping-type issues. This arrangement had the advantage of keeping this type of routine business away from the Board, so that its time could be devoted to weightier issues.
2. The Chairman's Committee is now used quite frequently to approve exceptions to the Group's Large Exposure Policy. This effectively involves approving very large credits, on the recommendation of Management. In these circumstances, it is felt that the Committee should be strengthened. This is provided for in the amended resolution, which requires that, when considering exceptions to Group Large Exposure Policy, the Committee should comprise 5 Directors, at least two of whom, apart from the Chairman, should be Non-Executive Directors.
3. The amended resolution also provides that the Chairman's Committee shall not meet on Board day or the two business days before and after Board day. This is to ensure that the Board is not circumvented, and it is in keeping with the spirit of the establishment of the Chairman's Committee, which is to provide a formal mechanism to deal with urgent issues between scheduled meetings of the Board.
4. The Nomination & Corporate Governance Committee has considered this matter and has approved the proposed amendments.

LK
5 March 2008

CORPORATE BANKING INTERNATIONAL

REGISTER OF GIFTS, BENEFITS AND INDUCEMENTS (INCLUDING ENTERTAINMENT)
RECEIVED IN EXCESS OF €500

Business Unit: Corporate Banking International

Month : February 2006

<u>Date</u>	<u>a) Name of Recipient</u>	<u>b) Received from</u>	<u>Relationship with b)</u>	<u>*Value €</u>	<u>Comment</u>
NIL RETURN FOR CBI - February 2006					

- Copy of pre-approval (in each case) to be included with this return for amounts in excess of €1,000.

Monthly Sign Off:



Head of Business Unit

24/3/06.

Date

MINUTES OF THE BOARD MEETING

of
ALLIED IRISH BANKS, p.l.c.

held on Thursday, 19 June 2008,
at Bankcentre, Ballsbridge, Dublin 4 at 8.00 a.m.

PRESENT: Dermot Gleeson Chairman
Kieran Crowley
Colm Doherty
Donal Forde
Stephen L. Kingon
Anne Maher
Dan O'Connor
John O'Donnell
Sean O'Driscoll
David Pritchard
Eugene Sheehy
Bernard Somers
Michael J. Sullivan
Robert G. Wilmers
Jennifer Winter

IN ATTENDANCE: W. M. Kinsella, Secretary
Michael O'Farrell, GM, Retail Banking, AIB Bank Rol – Item 5
Eamonn Hackett, MD, Global Treasury – Item 6
Brendan O'Connor, Head of Global Treasury Services – Item 6
Donal Murphy, Head of Wholesale Treasury – Item 6
Kevin Garvey, Head of Group Credit Review – Item 7
Paul Stanley, Head of ALM, Group Finance – Item 7



2. Group Chief Executive's Report

Mr. Sheehy presented his Report, which commented on the Group's financial performance to April 2008, Divisional business developments, loan growth, loan quality, operational risk, market risk and other issues, including a commentary on M&T's financial performance to April 2008. The list of exceptions to the Group Large Exposure Policy greater than €250m approved by Management during May 2008 was appended, together with the Board Dashboard dealing with the top Risk, Internal Audit, and Compliance issues, and the top Enterprise projects.

Mr. Sheehy reported on the recent successful Tier 2 capital issuance which had raised £700m, and he indicated that any opportunity that arose over the remainder of the year for a further issue would be availed of. He then reported on an initiative being developed to assist the housing market under which the banks and the Government would jointly contribute to a fund to increase the availability of Social and Affordable Housing. He then commented on the trading conditions being experienced by the UK and Poland Divisions.

Mr. Forde reported on the difficult conditions being experienced by AIB

CHAIRMAN'S INITIALS

2. **Group Chief Executive's Report** (Continued)

Bank RoI; access to, and cost of, funding were critical issues; there was no loan growth in Business Banking, and Wealth Management was stagnant; the mortgage market was slowing; and Divisional activity was heavily concentrated on managing the loan portfolio.

Mr. Doherty reported that the Bank's liquidity was strong, being €5bn surplus to internal policy and €12bn surplus to regulatory requirements, and that it was intended to maintain or strengthen that position. He advised that, in aggregate, Capital Markets Division was doing well; Corporate Banking was having considerable success in raising deposits, and the loan book was being grown in line with deposit growth; close attention was being paid to margins, and credit quality was robust. Global Treasury's recent performance had been strong, and a new asset valuation methodology for the Traded Credit portfolio had been approved by the Audit Committee and would be positive for the reported profit figures. Investment Banking was experiencing very difficult conditions. In general, the prognosis for the second half of the year was poor.

Mr. Wilmers reported that M&T's performance for May 2008 had been \$16m adverse to plan. Charge-offs were adverse to plan and non-performing loans had increased. The major issues for M&T were the management of the Alt-A portfolio and the Construction/Real Estate portfolio. He advised that liquidity was being closely managed, and that Mr. Doherty had assisted M&T to strengthen its liquidity.

There was then an exchange of views on the state of the economy in Ireland and internationally and the outlook.

3. **Chairman's Report**

The Chairman reported that he had attended a number of international meetings of Bank Chairmen since the previous Board meeting. These had included private sessions with top US and European regulators, and the key messages emerging included the following:

- More regulation is to be expected, including higher capital and liquidity requirements.
- There are serious questions about the US economy.
- Inflation is the big risk worldwide.
- The shortcomings of stress testing have been exposed.
- The days of 20%+ RoEs are over.
- Oil and steel price increases do not reflect a bubble, but, rather, real demand.
- US Dollar weakness is expected to continue.
- Housing is the key issue; the fundamental proposition is that unless you know where the bottom of the housing market is you do not know the value of mortgage-backed securities; and until you know the value of mortgage-backed securities, you do not know the condition of many banks' balance sheets.

The Chairman then reported on a number of the issues discussed at the Non-Executive Directors' session held during the 15 May 2008 Board meeting. These included expressions of confidence in Management; concerns regarding Compliance and Audit costs (to include indirect costs, such as diversion of front-line energy, the danger of blunting competitive instincts, etc.) and a desire to continue to debate the appropriateness of those costs; reservations regarding the freeze on graduate recruitment; questions with respect to the value of incremental cost growth generally, and cost over-runs on projects.

CHAIRMAN'S
INITIALS


AIB01B01

4. Group Management Accounts

Mr. O'Donnell presented the Group Management Accounts to April 2008, noting that the profit figures therein were marginally lower than those reported in the Indicative April 2008 Accounts reviewed by the Board on 15 May 2008.

He then commented on the Indicative Accounts to May 2008, advising that year-to-date EPS growth was in line with the guidance given to the market for the half-year when the Traded Credit portfolio mark-to-market losses, other than the €30m loss included in that guidance, were excluded.

Mr. Sheehy reported that investors were expressing concerns with respect to capital adequacy and dividend policy. He considered the capital position to be satisfactory and he did not foresee a need to go the market for equity. With respect to the dividend, he advised that, in due course, Management was likely to recommend a 10% increase in the interim dividend. Some Directors expressed reservations in relation to such an increase.

The position was noted. The Chairman indicated that it would be premature to reach any conclusions with respect to the interim dividend, and that the matter would be considered on 24 July 2008 in the light of all relevant information.

5. Retail Banking Business Review – AIB Bank Rol

Mr. O'Farrell presented a paper under the above title. At the outset, he provided an update on the re-orientation of the Retail Banking Operating Model (Programme Alpha), which had been endorsed by the Board on 24 May 2007. This involved, inter alia:

- The establishment of specialist service centres, to enhance customer experience and create additional branch capacity for relationships, sales and service.
- A more focussed Credit Management approach.
- A refined Customer Management Model.
- Redesign of physical branch environment.
- Re-inforcing the Service Culture.
- Enhancing Branch Operational Excellence.
- Enabling staff to deliver to their full potential.

These changes had been implemented while delivering strong financial results, and, in that regard he reported that Branch Banking net profit had increased from €608m in 2004 to €940m in 2007. He commented on competitive performance in terms of market share changes in key product areas. He then discussed the new strategic challenges and how these were being addressed; he reported on the approaches being taken by the main competitors in the market; and he indicated that AIB was protecting and developing customer relationships and sustaining its commitment to staff. At the conclusion of the presentation, he advised that the new realities with respect to cost management, the difficult credit environment, and scarce funding were recognised, and that the work done in re-orienting the Retail Operating Model had been timely and would help to sustain and develop AIB's business through the cycle.

Mr. O'Farrell responded to questions and was thanked for his report.

6. AIB Global Treasury Business Review

Mr. Hackett, in a presentation, outlined the role of Global Treasury ("GT"), as follows:

CHAIRMAN'S
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6. **AIB Global Treasury Business Review** (Continued)

- To manage the funding and liquidity of AIB Group in all locations.
- To act as price maker for all market risk incurred across AIB Group.
- To deliver treasury risk solutions to institutional, corporate and commercial customers.
- To trade profitably and professionally in selected Wholesale Markets.

He commented on GT's strategic objectives, including maintaining its position as number one Treasury services provider in Ireland, its organisation structure, control framework, and financial performance over the 2004 – 2008 period.

Mr. O'Connor discussed the role of Global Treasury Services, which provided treasury products and services to a broad range of customers. He reported on its strong position in the domestic market, its business in the UK and North America, its financial performance, and the challenges and opportunities facing it.

Mr. Murphy reported on the responsibilities of Wholesale Treasury ("WT"), including the management of the funding and liquidity of the Group, and the generation of profit from taking discretionary positions in wholesale markets. He discussed the current strong focus on liquidity and funding, the markets for which had changed dramatically since Q3, 2007 and which remained distressed, and the need for active management of all aspects of AIB's positions. He commented on the services offered to internal customers, proprietary activity, and the material impact which the credit crises had had on the WT credit portfolios (in respect of which an alternative valuation approach had been developed in recognition of the inactive nature of current markets and the value and strength of the underlying assets), and on WT's income. He then discussed the challenges and opportunities facing WT.

Mr. Hackett reported on the operations and performance of BZWBK's Treasury, discussing its functions, profitability, customer business and services, and the challenges and opportunities it faced.

Messrs. Hackett, O'Connor and Murphy responded to questions, and were thanked for their report.

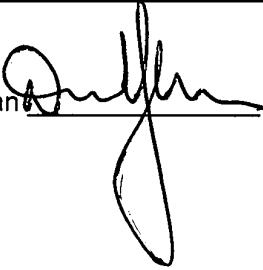
The Chairman thanked Mr. Hackett and his Team in Global Treasury for the critical role they had played, and were continuing to play, in prudently managing the Group's liquidity and funding and in capital raising, and he expressed the Board's appreciation of their work and professionalism in that regard.

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19. Directors' Share Dealings (Continued)



Chairman 

Date 18th 11th 08

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BY EMAIL

**STRICTLY PRIVATE AND CONFIDENTIAL –
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Ciarán Lynch, TD
Chairman of the Joint Committee of Inquiry
Into the Banking Crisis
Leinster House
Dublin 2

2 March 2015

**Disclosure of material by Allied Irish Banks, plc (“AIB”) to the Joint Committee of Inquiry into the
Banking Crisis (“the Joint Committee”) on a Voluntary Basis**

Dear Chairman

Further to the Joint Committee’s request for disclosure of material by AIB on a voluntary basis as set out in your letter of 19 February (“the Request for Voluntary Disclosure”), I confirm that AIB remains committed to assisting the Joint Committee with its deliberations and has today provided representatives of the Joint Committee with a USB flash drive containing documents being disclosed by AIB in response to the Request for Voluntary Disclosure in the format required by the Joint Committee, together with a completed checklist and confirmation of compliance. In order to assist the Joint Committee I draw attention to the following points in respect of those documents:

Corporate Hospitality/Entertainment/Marketing (or equivalent) Register

Prior to 2011 AIB did not maintain a centralised register of corporate hospitality, entertainment and marketing (or equivalent) or a centralised register of hospitality and gifts received by staff. Until this date each division and group support function was required by AIB’s policy (see below) to devise and implement its own procedures for recording these activities. Since receiving the Request for Voluntary Disclosure we have recovered copies of the registers and records maintained by certain divisions and group support functions between 2004 and 2010 and these have all been disclosed

under cover of this letter. It has not been possible to locate registers covering other business areas in the time made available to us in the Request for Voluntary Disclosure.

AIB Group Policy on Gifts, Benefits and Inducements

The AIB Group Policy on Gifts, Benefits and Inducements (which is disclosed under cover of this letter), came into force in 2003 and set out the ethical standards for the offering, giving, soliciting or accepting or any gift benefit or inducement and applied to all employees of AIB Group. This policy was updated in 2008 and 2010 before being replaced in 2012 by AIB's Conflicts of Interest Policy, which remains the current relevant policy.

Data Protection Acts 1988 and 2003 ("the Data Protection Acts")

As the materials being disclosed under cover of this letter are being provided to the Joint Committee on a voluntary basis AIB is precluded from disclosing personal data by the provisions of the Data Protection Acts. Personal data has therefore been redacted from the documents disclosed under cover of this letter.

Yours sincerely


Derek Hegarty
Banking Inquiry Unit



THEME: B1

Effectiveness of banks' board governance,
client relationships and business models

LINE OF INQUIRY: B1b

Integrity of financial reporting

MINUTES OF THE BOARD MEETING
of
ALLIED IRISH BANKS, p.l.c.

held on Wednesday, 5 December 2001 at Bankcentre,
Ballsbridge, Dublin 4 at 9.30 a.m.

PRESENT:

- | | |
|---------------------|-----------------------|
| Lochlann Quinn | Chairman |
| Michael Buckley | Group Chief Executive |
| Adrian Burke | |
| Padraic M. Fallon | |
| Dermot Gleeson | |
| Don Godson | |
| Derek A. Higgs | |
| Gary Kennedy | |
| John B. McGuckian | |
| Carol Moffett | |
| Michael J. Sullivan | |

IN ATTENDANCE:

- W. M. Kinsella, Secretary
- D. P. McSweeney, Chief Financial Officer - Items 3 and 4
- C. A. O'Sullivan, Head of Group Finance & Corporate Services
- Items 3 and 4
- M. J. Lewis, Head of Strategic Human Resources – Item 5
- S. C. Keating, President and Chief Executive Officer, Allfirst
Financial Inc. – Item 6 (*via videolink*)
- C. E. Doherty, Managing Director, AIB Capital Markets – Item 7
- J. O'Donnell, Head of Investment Banking – Item 7

An apology for inability to attend was conveyed on behalf of Mr. Frank P. Bramble.

2780

2. **Group Chief Executive's Report**

The above Report, which outlined key business, banking industry and management and staff issues, had been circulated in advance of the meeting.

Mr. Buckley commented on the matters in the Report, including Group operating performance to October 2001, steps taken by the Revenue Commissioners to obtain information from AIB and AIB Finance Ltd. in respect of certain non-resident accounts, a loss incurred by Treasury, New York, on its Collateralised Mortgage Obligations trading account, and the level of Group exposures to Enron Corporation. He referred to the need to reshape support functions to eliminate duplication, measurably improve service, and reduce costs, and, in that regard, reported on proposals to combine the Risk and Finance functions at Divisional and Group levels, and on the need to make a significant capital investment in the development of a single information management architecture. He advised that the head of the new function would be appointed shortly, following consultation with the Chairman.

Mr. Buckley responded to questions and his Report was noted.

7. **Strategic Responses**

A paper entitled "Defence Planning" had been circulated in advance of the meeting.

Mr. Doherty commented on the importance of defence planning, and referred to the Defence Manual previously circulated to the Directors.

Mr. O'Donnell reported on the status of the key action plans outlined in the paper. These included the establishment of a Defence Committee of the Board to act on the Board's behalf immediately upon the receipt of an unsolicited bid for the Bank and in advance of a meeting of the Board. Following a discussion,

IT WAS RESOLVED THAT, pursuant to Article 108 of the Articles of Association of the Bank, a Committee ("the Defence Committee") be and is hereby constituted, consisting of the following Directors, namely, Mr. Michael Buckley, Mr. Don Godson, Mr. Gary Kennedy, and Mr. Lochlann Quinn together with the following Officers, namely, Mr. Colm Doherty, Managing Director, AIB Capital Markets and Mr. Cornelius O'Sullivan, Head of Group Finance & Corporate Services, and that, in the event of any actual, proposed, threatened or otherwise possible unsolicited bid for the Bank, the authorities, discretions, functions and powers of the Board be and are hereby delegated to the Defence Committee insofar as concern the taking of such preliminary actions (including the making of announcements) as shall appear necessary or desirable to the Defence Committee in advance of a meeting of the full Board and, thereafter, with such powers, authorities and discretions as may then be delegated to it by the Board.

Chairman Quin

Date 15/16/02

The Irish Perspective and AIB's reactions.

11. Much has been written about the rose-coloured spectacles through which the Irish Government and nearly all private sector participants viewed the Irish economy for much of the first decade of this century. The monetary policy set in the euro zone provided the basis for local banks to be able to offer large amounts of new credit at what were very low interest rates by historical standards. Until well into 2008, Irish banks and the Government had no real doubts about the sustainability of the policies being pursued. The potential for further growth seemed self-evident and, if there were to be macro problems of any kind, it was generally agreed that the landing would be soft, not hard, and need not last any great length of time.
12. It is not for a report like this to dwell on these circumstances which have been well documented elsewhereⁱⁱ. But it is important to remember that this was the environment in which, up to 2008, the board and senior executive of a bank like AIB operated. In particular, rapid growth of the bank's balance sheet and its profitability were seen as both necessary (to compete with rivals and satisfy shareholders) and as eminently deliverable.
13. Among the Irish rivals that AIB monitored closely, the seeming success of Anglo Irish was manifestly a particular spur to their own actions. Numerous executives and directors have drawn our attention to the pressure they and their predecessors came under from shareholders and commentators to emulate Anglo, particularly after it had been named as Irish Bank of the Year by *The Banker* in 2007. AIB's Chief Executive at the time is said to have talked of Anglo having joined them for breakfast but that Anglo was now eating AIB's lunch. Based on our interviews with management, it appears that AIB lending policies became significantly more aggressive between 2005 and 2008.
14. Through this same period, there appears to have been considerable reluctance among senior management to give any priority to robust governance and risk practices. This was despite the past serious indications of governance weaknesses (such as the Rusnak and Faldor cases) and the growing number of restitution issues being found. In the Republic of Ireland (ROI) Division of AIB, it should have concerned them (but clearly did not) that they were also accepting and signing off on frequent and major breaches of lending policies. These breaches collectively were on a scale we have rarely encountered.
15. The Board knew much less than senior management about the state of affairs within, especially, the ROI Division where the damaging results of the governance weaknesses eventually proved to be by far the greatest. This was partly because of the difficulty of obtaining timely and accurate data, a problem that has been vigorously tackled in the

3. Group Chief Executive's Report (Continued)

update in respect of M&T for the ten months to October 2008. The list of exceptions to the Group Large Exposure Policy greater than €250m approved by Management during November 2008, and the Dashboard commenting on the top Risks and top Internal Audit and Compliance issues, and the top Enterprise projects, were appended; the Report also contained a Credit Risk Summary commenting on advances growth and credit quality.

Mr. Sheehy commented on recent meetings with the Financial Regulator ("FR") and Minister for Finance. The former meeting had been requested by the FR to review AIB's 2009 Business Plan, and it had been indicated that the FR would monitor performance against the Plan and write to AIB with queries about the Plan. AIB had requested that the pension fund Minimum Funding Standard deficit should not be deducted from capital, and that the 'expected loss' deduction should be effected on an 'after-tax' basis; the FR had undertaken to respond on these issues.

He reported that at the meeting with the Minister for Finance, who had been accompanied by his officials and a representative of Merrill Lynch, Mr. O'Donnell had made a presentation in respect of capital, and it had been indicated to the Minister that AIB would accept capital from the Government if the terms were acceptable. Arising from that meeting, he and Mr. O'Donnell had arranged to meet the National Treasury Management Agency on 12 December 2008.

Mr. O'Donnell reported on his meetings with the rating agencies; he indicated that AIB was considered to be adequately capitalised and the ratings were not under threat for so long as AIB delivered on the guidance given to the market with respect to bad debt provisions, impairment and profit.

Mr. Wilmers advised that M&T: (a) had applied to the U.S. Department of the Treasury for \$600m under the TARP Capital Purchase Program and understood that this would be provided; and (b) had submitted a bid for a bank in Maryland.

Mr. Forde advised that, during November, AIB Bank RoI had experienced an outflow of resources, some of which was seasonal; advances had increased modestly, card spend was down, but credit arrears had increased. He commented on the recent ECB interest rate cut which had been passed on to customers, and to his Division's recent launch of an SME support package.

Mr. Doherty reported that lending in his Division had slowed significantly, but that the Division had been very successful in raising corporate deposits and had recently raised its first deposits in Australia. Funding was well in excess of policy, albeit at increased cost.

4. Chairman's Report

The Chairman advised Management that the issues raised during the earlier Non-Executive Directors' session included:

- (a) concerns with respect to the Kallakis fraud referred to in the minutes of the Chairman's Committee meeting of 20 November 2008 and the apparent tardiness in bringing this matter to the Board's attention;
- (b) a desire for an early, detailed review of the 2009 Business Plans; and
- (c) the need for speedy action to update the Credit Grading System with respect to grading changes in RoI, which matter had been raised by Group Internal Audit at the Audit Committee.

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Loan Deposit Ratio

	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09
Net Loans	136,192	137,371	135,677	129,489	131,595	131,104	129,212	129,947	129,129	129,031	128,434	126,867	124,951
Deposits	86,546	93,959	91,052	92,604	88,068	85,346	81,938	81,721	81,711	82,710	83,033	83,729	82,234
LDR	157%	146%	149%	140%	149%	154%	158%	159%	158%	156%	155%	152%	152%

- YTD, AIB Group deposits are down 11%, whilst loans are down 4% as at September 09 v December 08.
- The fall in deposits is mainly due to a decline in volume (-11.5%), partially offset by FX movements (+0.3%), principally reflecting a weakening of the Euro against its elevated Dec '08 GBP levels.
- YTD ROI customer accounts have decreased €2.8bn, mainly in term deposits, current accounts and Offshore.
- YTD GBNI customer accounts have decreased £2.4bn (€2.0bn). GBNI deposit outflows remained broadly constant for the month of September 2009.
- YTD Global Treasury Services (GTS) customer accounts have decreased €4.6bn, mainly in NBFi's. Corporate Banking customer accounts are down €0.3bn YTD September, with a €0.2bn decrease in September after strong performances in July and August.
- YTD Poland customer deposits have decreased PLN1.7bn (€0.6bn), mainly due to the expected withdrawal in quarter 1 of short term deposits raised in December 2008 from energy company IPO's. Poland resource growth was positive in quarter 2 and negative in quarter 3.

REGULATORY AND OPERATIONAL RISK REPORT - OCTOBER 2009

KEY REGULATORY AND EXTERNAL DEVELOPMENTS

- The Renewed Programme for Government has been agreed which will form the basis of operation of the Government until expiry of its term of office in 2012. The Programme sets out proposals in a number of different areas. Banking reform proposals include:
 - A 'root and branch' reform of the banking system;
 - Submission of detailed restructuring and lending plans;
 - A new code of conduct for the treatment of non-performing loans for small and medium businesses;
 - The principles set out in the Combined Code on Corporate Governance will be put on a statutory footing. In addition, the Government and Financial Regulator will develop new statutory rules in relation to the governance of major financial institutions;
 - The legislation establishing NAMA will be amended to provide for the payment of a levy by participating banks should NAMA make a loss on its eventual winding up or after 10 years. The programme states that the levy would be "carefully judged so as not to disrupt the stability and sustainability of the banking system";
 - The Code of Conduct on Mortgage Arrears and the protocol between the IBF and MABS will be reviewed with a view to expanding the options available for dealing with debt situations, including the use of more flexible mechanisms to avoid foreclosure, where appropriate.
- The Minister for Finance has signed regulations to transpose the Payment Services Directive. The European Communities (Payment Services) Regulations 2009 (S.I. No. 383 of 2009) will apply from 1st November 2009.
- Matthew Elderfield has been appointed as Head of Financial Supervision in the new Central Bank of Ireland. Mr. Elderfield, currently the Chief Executive Officer of the Bermuda Monetary Authority, will be responsible for all regulatory activities in the Central Bank.
- AIB has submitted a Remuneration Policy Statement to the FSA. This is in response to a requirement set out by the FSA in August 2009 when they published their response to the Consultation on 'Reforming Remuneration Practices in Financial Services'.

REGULATORY COMPLIANCE

PRESS RELEASE

31 March 2011 - ECB welcomes the Irish authorities' decision to strengthen Irish banks

The Governing Council of the European Central Bank (ECB) welcomes the Irish authorities' rigorous assessment of the capital needs of Irish banks and supports the government's commitment to ensure that these capital needs are met in a timely manner. As a result of this process, €21 billion of core Tier 1 capital and €3 billion of contingent capital will be injected into Irish banks. This will substantially strengthen the banks and give them a sound capital basis. Such a situation of solvency is a prerequisite for continued access to Eurosystem refinancing. Against this background, the Eurosystem will continue to provide liquidity to banks in Ireland.

The Governing Council also supports the Irish banks' plans to deleverage and downsize their balance sheets. This will help these banks over time to regain market access and to play their important role in providing credit to the Irish economy.

The aforementioned measures are to ensure the full implementation of the EU/IMF programme.

European Central Bank

Directorate Communications

Press and Information Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404

Internet: <http://www.ecb.europa.eu>

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PRESS RELEASE

31 March 2011 - EC, ECB and IMF welcome the Irish authorities' banking system announcements

The European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) today issued the following statement on the Financial Measures Programme in Ireland.

“Today’s comprehensive announcements by the Irish authorities are a major step toward restoring the Irish banking system to health which is crucial for sustained revival of growth and employment.

Consistent with the program supported by the EU and IMF, the Central Bank of Ireland, together with leading international consulting firms, has identified the banks’ capital needs, based on thorough and transparent valuations of bank assets and stringent stress tests conducted with an appropriately high minimum capital ratio, which will ensure a sound capital basis of the banks. The process was conducted in close consultation with the staff of the EC, ECB and IMF, who have reviewed the methodology utilized.

The EC, ECB and IMF staff welcome the rigorous capital needs assessment and strongly support the authorities’ plans to ensure that these capital needs are met in a timely manner. The capital needs can be funded comfortably under the program supported by the EU and IMF.

The related plans to deleverage bank balance sheets, including through phased sales of non-core assets over time, will reinforce the benefits of higher capital and help banks regain access to the market sources of financing needed to enable renewed lending.

The Irish government also made important announcements on the future structure of the banking system, and the staff of the EC, ECB and IMF endorse this strategy to focus on the development of two strong pillar banks with sound business models able to serve the Irish economy’s needs. The detailed restructuring plans for the banks are to be notified to the EC for approval under state aid rules; the EC will assess the plans based on established criteria, taking into account market structures and the need to keep markets open.

The staff of the EC, ECB and IMF look forward to discussing progress with implementing the measures announced today, together with a broader range of economic issues, during the program review mission starting next week.”

European Central Bank

Directorate Communications

Press and Information Division

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THEME: B1

Effectiveness of banks' board governance,
client relationships and business models

LINE OF INQUIRY: B1c

Quality of business model setting process

Key issues

Funding

- AIB faces a number of significant funding challenges with an acquisition of [REDACTED] due to:
 - Likely reduction in concentration limits for wholesale/banking providers on a combined basis;
 - Loss of customer deposits either through attrition/churn;
 - Availability of a range of funding at any particular point;
 - The impact of the high proforma combined LTD of 1.7x.

- AIB needs to clearly understand the funding structure of the business in order to (i) properly assess the risks, (ii) plan to restructure and integrate the funding base of [REDACTED] into AIB's plans, (iii) determine the optimal structure of the balance sheet, and (iv) estimate possible synergies (possible for the medium term).

- In order to properly assess the funding position of [REDACTED] the following key information is required for [REDACTED]:
 - Detailed contractual cashflows of all funding maturities;
 - Details of all eligible (and non-eligible) collateral for ECB/CB/UKT and all amounts drawn and available to draw down;
 - Maturity profile of all term debt;
 - Profile of all interbank funding and maturity;
 - All short term paper programmes.

- In order to ensure the protection and management of the balance sheet, AIB would need to be comfortable that it can fully fund the balance sheet and, in addition, it would need to reduce its LTD ratio to 1.5x, requiring the elimination of at least €24BN of loans:
 - This is a significant challenge that requires full investigation before a transaction is agreed in order to fully assess the options, their impact and the timings of those options;
 - However in the current market and without Government support, there is likely to be limited appetite for these loans. 12

Key issues (continued)

Investor Relations

- Addressing investor concerns will be a key requirement and is a vital lesson from recent transactions. These issues include:
 - Funding concerns and balance sheet stretch;
 - Loan book risks, particularly buy-to-let impairments and poor margin on tracker/fixed exposures;
 - Further concentration in the Irish economy, which investors are already wary about;
 - Impact of the transaction on capital, including the impact of FV adjustments and fears that capital raising could arise as a result.



- Exiting the [REDACTED] will require careful planning to ensure that it does not impact adversely on the ability to undertake the transaction (possibly arising from [REDACTED] legal actions). Assuming an orderly exit (which assumes an acquisition of the Ark business), costs including acquisition of €230M are estimated.

Financial implications

The following analysis excludes the impact of the charges arising under the Government funding guarantee scheme and the impact of any sell down of assets off the balance sheet

- Following FV adjustments, the TBV acquired is estimated at €2.3BN. As we are assuming an acquisition value of €1.6BN, negative goodwill arises (€0.6BN) which we assume can form part of AIB's capital (consistent with the LTSB/HBOS approach).
- Based on an acquisition value of €1.6BN on a consolidated approach, the transaction is positive at a Core Tier 1 level (6.22% to 6.36%, giving a surplus of c.€227M). Due to the supervisory deductions of the investment in the life business, the transaction is negative at a Total Capital level (10.57% to 10.16%, a deficit of c.€672M).
- The transaction is EPS accretive by c.18% by year 3, based on a value of €1.6BN, AIB's share price of €6.67 and full synergies being achieved.

		2011 EPS Accretion / (Dilution)					
		Level of Synergies Utilised					
		100%	75%	50%	25%	0%	
		€215m	€161m	€108m	€54m	€0m	
Acquisition Price	€1,300m	€4.69	23.4%	19.0%	14.7%	10.3%	6.0%
	€1,400m	€5.05	21.7%	17.4%	13.1%	8.8%	4.5%
	€1,500m	€5.41	20.0%	15.8%	11.6%	7.4%	3.1%
	€1,600m	€5.77	18.4%	14.3%	10.1%	5.9%	1.8%
	€1,700m	€6.14	16.9%	12.8%	8.6%	4.5%	0.4%
	€1,800m	€6.50	15.3%	11.3%	7.2%	3.2%	-0.9%
	€2,000m	€7.22	12.4%	8.5%	4.5%	0.6%	-3.4%

Financial implications (continued)

- The EPS analysis is based on broker estimates for AIB which indicate net income of c.€900M in 2011. Based on the above valuation assumptions (value of █████ of €1.6BN, AIB's share price at €6.67), a 5% change in the level of AIB profits in 2011 will impact EPS accretion by c.2% (assumes full synergies achieved).
- The following table outlines the proportion of the enlarged AIB entity that AIB's shareholders would have based on current assumptions:

Share of Enlarged Entity Held By Existing AIB Shareholders						
Acquisition Price per Share						
€1,300m	€1,400m	€1,500m	€1,600m	€1,700m	€1,800m	€2,000m
€4.69	€5.05	€5.41	€5.77	€6.14	€6.50	€7.22
81.9%	80.8%	79.7%	78.6%	77.6%	76.5%	74.6%

MINUTES OF THE BOARD MEETING
of
ALLIED IRISH BANKS, p.l.c.

held on Tuesday, 13 January 2004 at Bankcentre,
Ballsbridge, Dublin 4, at 9.00 a.m.

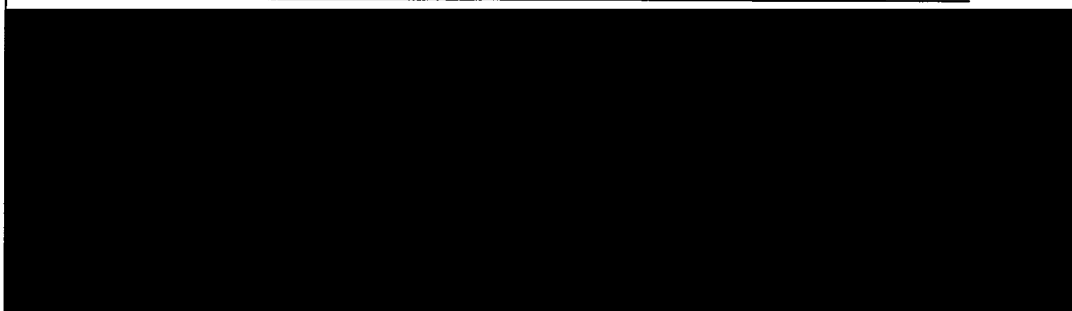
PRESENT:

Dermot Gleeson	Chairman
Michael Buckley	Group Chief Executive
Adrian Burke	
Colm Doherty	
Padraic M. Fallon	
Sir Derek Higgs	
Gary Kennedy	
John B. McGuckian	
Aidan McKeon	
Carol Moffett	
Jim O'Leary	
Michael J. Sullivan	

IN ATTENDANCE:

W. M. Kinsella, Secretary
Cyril Brennan, Head of Group Management Information
- Item 3
Alan Kelly, Head of Group Investor Relations - Item 4
Donal Forde, M.D., AIB Bank Rol – Items 5 and 7
Michael O'Farrell, General Manager, Business and Personal
Credit, AIB Rol - Item 5
Vincent Clifford, Head of Credit Risk Management, AIB
Bank Rol - Item 5
Philip Brennan, Group General Manager, Regulatory
Compliance and Business Ethics - Items 6 and 7
Diarmuid Lynes, M.D., AIB Offshore - Items 6 and 7
Mike Lewis, Head of Group Strategic HR - Item 8
Keith Adams, Manager, HR Business Transformation - Item 8

Apologies for inability to attend were conveyed on behalf of
Mr. Don Godson and Mr. Robert G. Wilmers



2. Group Chief Executive's Report

The Group Chief Executive's Report had been circulated in advance of the meeting. It commented on the Group's financial performance for November 2003, credit growth and credit quality, market risk and operational risk, and **Divisional business developments.**

CHAIRMAN'S
INITIALS


AIB01B01

MINUTE BOOK

2. **Group Chief Executive's Report** (Continued)

Mr. Buckley commented on a number of matters dealt with in his Report, including management changes being made in BZWBK's Treasury; M&T's fourth quarter financial results announced on 12 January 2004; and his recent meeting with the Chairman of the Revenue Commissioners. The latter had asked that AIB request its offshore subsidiaries to write to past and present Irish-resident customers to advise them of an intended imminent Revenue investigation and the potential benefits of early voluntary disclosure for customers with outstanding Irish tax liabilities. Mr. Buckley advised that the requested communication had been sent to the Bank's subsidiaries in Jersey and the Isle of Man and would be considered shortly by their respective Boards, with the benefit of local legal advice. The Revenue had made similar requests to all Irish financial institutions with offshore subsidiaries or branches, and that, although not raised at the above-mentioned meeting, they wanted to include Northern Ireland in the scope of this initiative. He also reported on the up-to-date position in respect of Project Ripley.

Mr. McKeon discussed business developments in AIB Bank GB&NI, and Mr. Doherty discussed business developments in Capital Markets.

The position was noted and it was agreed that the Board should receive a presentation on AIB's offshore business in the near future.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4.

5. **Residential Mortgages Lending**

A paper entitled 'AIB Bank ROI: Residential Mortgage Lending' had been circulated in advance of the meeting. The stated purpose of the paper was:

- to review the letter dated 1 December 2003 from IFSRA, concerning AIB's residential mortgage lending;
- to advise changes made to Policy documents, for the consideration of, and approval by, the Board; and
- to agree future arrangements for reporting to the Board.

The paper contained a copy of the above-mentioned IFSRA letter, two Policy documents (entitled 'Home Mortgages Policy' and 'Buy-to-Let Residential Investments'), and the proposed format for quarterly reporting to the Board. The paper (a) outlined the actions taken since consideration of this matter by the Board on 3 September 2003; (b) commented on the AIB-specific issues raised in the above-mentioned IFSRA letter, including those relating to retention of documentary evidence of balance funding, and revised policy in respect of valuations; and (c) stated that the Policies as submitted to the Board, together with the procedures in place/in train, reflected the requirements of IFSRA as outlined in the schedule to their above-mentioned letter and as set out in the Central Bank's letter of July 2001. A note was circulated at the meeting proposing amendments to the proposed Policies and reporting arrangements as set out in the above-mentioned paper.

Following comments by Mr. Forde and Mr. O'Farrell, approval was sought for the Policies and proposed reporting arrangements.

Following a wide-ranging discussion, during which Mr. Forde, Mr. O'Farrell and Mr. Clifford responded to the Directors' questions, the proposed Policies, as amended by the note circulated at the meeting, were approved; the proposed format for reporting to the Board on a quarterly basis was also approved, subject to the following:

- (a) If the proportion of referred sanctions exceeds 25%, by number, this will trigger an automatic review by the Board. In addition, if the arrears experience of referred sanctions demonstrates a material adverse deviation from the experience of the wider mortgage portfolio, this will be brought to the attention of the Board and will trigger a Policy review.
- (b) To the extent reasonably practicable, the quarterly report to the Board should include information in respect of the following: demographic trends, unemployment, and external market developments; table 3 should include the percentage of referred sanctions by amount as well as by number; table 4 should include trend data, using 2003 as the base; table 5 should be split to show arrears on the basis of referred and non-referred sanctions; and table 6 should include information on Debt Service ratios above certain income thresholds.

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6.

Regulatory Issue

Two reports, prepared by Mrs. Jane Richardson, Head of Compliance, AIB Bank (CI) Limited, had been circulated in advance of the meeting; one was

6. Regulatory Issue (Continued)

titled 'Report following Special Investigation "Faldor" of the Jersey Subsidiaries of Allied Irish Banks, p.l.c. in the period 1989 to 2003', and was dated 26 November 2003, the other report was titled 'Summary Report following Special Investigation of the Jersey Subsidiaries of Allied Irish Banks, p.l.c. in the period 1989 to 2003', and was dated 3 December 2003.

Mr. Brennan read to the meeting the entry he had made in the Confidential Register, maintained by Regulatory Compliance and Business Ethics, recording the detailed chronology of events since the review by the Board, at its previous meeting, of a Report prepared by Mr. Brennan and the Group Internal Auditor. These events included meetings with IFSRA, including a meeting at Chairman level, and the appointment of Mr. Maurice O'Connell to provide independent assurance to the Board and the Audit Committee that the investigation undertaken by Mr. Brennan and the Group Internal Auditor had been properly conducted.

Following a discussion, the position was noted.

Mr. Lynes joined the meeting at this juncture, and the above-mentioned reports, prepared by Mrs. Richardson, were noted.

7. Overseas Subsidiaries in Isle of Man and Channel Islands: Compliance Review for IFSRA

A paper from the Group General Manager, Regulatory Compliance and Business Ethics had been circulated in advance of the meeting. It stated that, by letter dated 29 July 2003 to the Group Chief Executive, IFSRA had requested Board confirmation that, to be best of its knowledge, having caused reasonable enquiries to be made, the overseas subsidiaries of AIB located in the Isle of Man and the Channel Islands were in compliance with their obligations under local company law, taxation law, anti-money laundering law and regulatory requirements, and to confirm that any known material instances of non-compliance had been reported to the relevant authorities.

The paper stated that reports had been prepared for the Managing Director, AIB Bank Rol and the Managing Director, Capital Markets, in respect of the overseas subsidiaries for which they were responsible, to enable them to provide assurance to the Board so that the requested confirmation could be given to IFSRA. Mr. Brennan stated in his paper that he was satisfied that the processes undertaken by AIB Bank Rol and AIB Capital Markets Divisions in compiling those reports were adequate, and indicated that it was proposed to furnish IFSRA with the aforementioned reports (being the Report and memorandum referred to below).

Also circulated with the above paper was a Report, dated 23 December 2003, in respect of Allied Irish Offshore ("the Report") summarising the company law, taxation law, anti-money laundering law, regulatory requirements and related internal controls, and instances of non-compliance by AIB subsidiaries in Jersey and Isle of Man. The Report, which was signed by Mr. Forde, Managing Director, AIB Bank Rol, and Mr. Lynes, Managing Director, Allied Irish Offshore, (and other executives in respect of their own areas of responsibility) stated that, with the exception of the matters referred to in the Report, to the best of their knowledge and belief, having caused reasonable enquiries to be made, the Isle of Man and Jersey companies listed in the Report were in compliance with the obligations in their respective jurisdictions under local company law, taxation law, anti-money laundering law and regulatory requirements, and confirmed that any material instances of

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7. **Overseas Subsidiaries in Isle of Man and Channel Islands: Compliance Review for IFSRA** (Continued)

non-compliance had been reported to the relevant authorities.

A memorandum from Mr. Colm Doherty, Managing Director, Capital Markets, had also been circulated with the above paper, confirming that the overseas subsidiaries managed by Capital Markets Division were in compliance with applicable local company law, taxation law, anti-money laundering law and regulatory requirements.

Mr. Brennan commented briefly on the background to the above, and Mr. Burke reported that the Audit Committee had considered this matter with the benefit of the Report and memorandum, and the attendance of Mr. Doherty and Mr. Forde, and was satisfied with their assurances, noting a small number of exceptions, which were not of significance, as listed in the Report. Accordingly, he advised that the Audit Committee had recommended that the Board should give the requested confirmations to IFSRA.

Following a discussion, it was agreed that the requested confirmations should be given to IFSRA, subject to the exceptions listed in the Report.

8.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]	[Redacted]
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[Redacted]

[Redacted]

MINUTE BOOK

10. [REDACTED]

[REDACTED]

[REDACTED]

11. **Building and Construction Lending**

On the suggestion of Mr. O'Leary, it was agreed that policy in respect of lending to the Building and Construction sector should be reviewed by the Board in the near future.

12. [REDACTED]

Chairman *Don Flynn*
Date 26-7-04

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MINUTES OF THE BOARD MEETING

of

ALLIED IRISH BANKS, p.l.c.

**held on Wednesday, 5 December 2007, at Bankcentre,
Ballsbridge, Dublin 4, at 8.00 a.m.**

PRESENT:

Dermot Gleeson	Chairman
Adrian Burke	
Kieran Crowley	
Colm Doherty	
Donal Forde	
Don Godson	
Anne Maher	
Dan O'Connor	
John O'Donnell	
Sean O'Driscoll	
Jim O'Leary	
David Pritchard	
Eugene Sheehy	
Bernard Somers	
Michael J. Sullivan	
Robert G. Wilmers	
Jennifer Winter	

IN ATTENDANCE:

W. M. Kinsella, Secretary
 Nick Treble, Group Chief Risk Officer-Designate – Item 4
 Shom Bhattacharya, Group Chief Risk Officer – Item 4
 Eamonn Hackett, MD, Global Treasury – Item 4
 Alan Kelly, GM, Group Finance – Items 5 and 6
 Tommy Hopkins, Head of Business Banking,
 AIB Bank Rol– Items 7 and 8
 Noel Murphy, Chief Credit Officer, AIB Bank Rol – Item 7
 Kieran Bennett, Group Chief Credit Officer– Items 7 and 8
 Paul Stanley, Head of Asset & Liability Management – Item 9
 Kevin Garvey, Head of Group Credit Review – Item 9
 Joe McCarthy, Head of Banking Support Services – Item 10
 Catherine Slattery, Head of Currency Services – Item 10
 Brendan McHugh, Group Financial Controller – Item 11
 Brendan Atkins, Group Insurance Manager – Item 11

An apology for inability to attend was conveyed on behalf of
Mr. Stephen L. Kingon.

1.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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2. **Group Chief Executive's Report**

Mr. Sheehy presented his Report, which commented on the Group's financial performance to October 2007, Divisional business developments, loan growth, operational risk, market risk and other issues, including a financial update in respect of M&T for Q3, 2007. Appending to the Report was the list of exceptions to the Group Large Exposure Policy greater than €250m approved by Management during November 2007, and the Board Dashboard commenting on the top Risk, Internal Audit, and Compliance issues, and the top Enterprise projects.

Mr. Sheehy reported on investors' concerns about the fall in AIB's share price and the general negativity about Ireland, and commented on a number of promising enquiries from potential long-term investors based in the USA. He reported on:

- further contact with the Central Bank and Financial Regulator concerning the stressed market conditions and the progress those authorities had made in preparing to deal with any related systemic problem that might arise in the Irish market;
- the responses expected from the Group's regulators in respect of AIB's application to use an Internal Rating Based approach in the calculation of regulatory capital;
- his decision to withdraw from the strategic project in Georgia, having regard to the volatility of the local political situation. He advised that it would be difficult to make an acquisition in Eastern Europe because of the nervousness in the financial markets generally arising from the US sub-prime crisis.

Mr. Doherty and Mr. Forde commented on the key issues affecting their respective Divisions, and responded to questions.

3.

[REDACTED]

4. **Liquidity, Funding, Credit and Market Conditions**

Mr. Treble presented a paper reporting on market developments and AIB perspectives over the previous month. He advised that the difficult market conditions had not improved, and that, while a liquidity surplus over policy of €6bn was being maintained, funding remained difficult and maturities were shortening. He commented on AIB Mortgage Bank's postponement of an asset covered security transaction as a result of the deterioration of market conditions after the order book had opened.

4. **Liquidity, Funding, Credit and Market Conditions** (Continued)

He reported that the level of mark-to-market loss on the Traded Credit Desk portfolio had increased to €102m; that a review of that portfolio had been undertaken; and that all the assets were considered to be "money good" and had an average life of 2.8 years. Having regard to the extent of those losses, Mr. Bhattacharya requested that the Board-approved, temporary 'Earnings at Risk' review trigger of €100m applicable to that portfolio should be increased to €150m.

Mr. Treble and Mr. Hackett responded to questions, and the proposed temporary 'Earnings at Risk' review trigger of €150m applicable to the Traded Credit Desk portfolio was approved.

5. **Group Management Accounts and Financial Forecast 2007**

Mr. O'Donnell presented the Group Management Accounts to October 2007 and the Financial Forecast for 2007. He commented on the principal changes made to the Forecast since the previous presentation to the Board, and reported on discussions held with the Auditors in respect of year-end asset valuations. He advised that the adjusted EPS figure of 205.8c (+6%) shown in the Forecast was consistent with the guidance given to the market, and he indicated that, subject to no unknown factors emerging before 31 December 2007 and no further deterioration in the mark-to-market portfolios by that date, he was comfortable with the aforementioned EPS figure.

6. **Trading Statement**

Mr. Kelly presented a draft, pre-close period, Trading Statement in respect of the Group's performance for 2007. He commented on its key elements and reported that he expected that it would be well received by the markets. He then advised that the main issues being raised by the investors related to global market conditions, the state of the Irish economy, and the Irish property market.

The Statement was discussed and Mr. Kelly, Mr. O'Donnell and Mr. Sheehy responded to questions.

With the approval of the Board, the Chairman asked Mr. Kelly to modify the draft in the light of the Directors' comments and to present the final draft of the Trading Statement to the Chairman's Committee, later that afternoon, for approval.

7. **Property, Building and Construction**

Mr. Bennett introduced a paper reporting on the Group's exposure to the Property, Building and Construction sector, with specific emphasis on the Rol Division. He advised that the sector represented 35% of Group advances at September 2007, having grown by 292% since December 2003 when the sector concentration represented 22% of advances. He commented on the Divisional profile of the exposure and its categorisation into five sub-sectors, the largest of which, 'Commercial Investment', amounted to €17bn.

Business Banking

Mr. Hopkins reported on the focus of Business Banking, Rol Division, which had a Property & Construction loan book of €26bn, representing 37% of Rol loan assets at September 2007. Some 50 customers accounted for 35% of

CHAIRMAN'S
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7. **Property, Building and Construction** (Continued)

Business Banking (Continued)

the aforementioned loan book. These relationships were managed centrally, and the facilities provided were approved at Group Credit Committee level. He discussed the Residential Development ("RD") sub-sector of the portfolio, which had loans amounting to €9.071bn, and advised that €6bn thereof was managed centrally through Sector Teams/Business Banking. He analysed that €6bn by sub-segment, and advised that 25 customers accounted for €3bn thereof. The grading profile was reported as strong, albeit with some evidence of grade deterioration in recent reviews. He then discussed Business Banking's advances and profitability growth, and margin trends, over the 2000 – 2007 period.

At the conclusion of his presentation, he commented on the challenges faced by the sector, the state of the market, and future strategy. With respect to the latter, limited growth in Residential Building and Construction was expected in the short term (12/18 months), while a return to more normal output levels was expected in the medium/longer term.

Commercial/Branch Banking

Mr. Murphy reported with respect to the €3bn of the RoI RD portfolio that was managed through Commercial/Branch Banking. He advised that this €3bn portfolio included 650 borrowers with exposures greater than €1m, and that those exposures were currently under review. The early results from the reviews completed, which accounted for €1.5bn, categorised some 15% (€450m) of the portfolio as requiring "intensive management". This was being addressed. The review was scheduled to be completed by mid-Jan 2008.

During the course of a discussion, the advisability of contingency planning for a much delayed pick-up in Residential Building and Construction activity, with consequential increased bad debts, was adverted to, and the Chairman asked that this be dealt with in the planning context in the New Year.

Messrs. Bennett, Hopkins and Murphy responded to questions, during the course of which it was indicated that the quality of the security held represented AIB's main backstop against loss. The presenters were thanked for their report, and Mr. Murphy was asked to revert to the Board as soon as he had completed his above-mentioned review of part of the RD portfolio.

Mr. Hopkins presented a paper seeking approval for an increase in the total exposure to the [REDACTED] €789m to €991m, as an exception to the Group Large Exposure Policy limit of €150m applicable to this customer. The details in respect of the increased facilities sought were set out in the paper, and Mr. Hopkins commented on the purpose of the increase, which was to participate in a syndicated facility [REDACTED] in relation to [REDACTED]

Following a discussion, the increased facilities were approved.

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13. Corporate Governance

13.1 Board Performance Evaluation

The Chairman reported that in response to comments and suggestions made in the Board Performance Evaluation Questionnaires completed by Directors and during the Chairman's one-to-one meetings with Directors, the following actions were planned:

1. Strategy would be discussed three times each year: (a) as the central part of the annual away Board Seminar; (b) in October, when the Board would review the individual Division's strategic plans through local management presentations; and (c) in January, shorter-term strategy would be reviewed in the context of the presentation of one year plans and budgets.
2. The current, twice-yearly, Divisional Reviews of Strategic and Competitive Issues would be continued, and the Division Heads were asked to refocus their presentations to give a greater competitor analysis in terms of what the best competitors were doing.
3. The paper presenting the Budget for the year ahead would provide more commentary with respect to the previous year's variances against budget.

CHAIRMAN'S INITIALS

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13. Corporate Governance (Continued)**13.1 Board Performance Evaluation (Continued)**

4. Commencing Q1, 2008, an analysis of costs by Division v Budget would be provided quarterly.
5. With the exception of the papers provided in respect of the following, Board papers would generally be limited to 4 pages (excluding the cover page), plus appendices:
 - the monthly Management Accounts;
 - the half-yearly Risk Review.
 - Credit Reports.
 If slides were being used, they would be limited to 15 slides.
6. The two Non Executive Directors-only Board sessions would be held at the commencement of the Board meetings, in February and July.
7. To strengthen inter personal relationships, there would be two Board dinners annually, (in addition to the two Board dinners held annually with different Divisional Management teams).

The above changes were noted with approval.

13.2 Directors' Remuneration

The Chairman reported that the Non-Executive Directors' fees had been reviewed by the four persons charged by the Board with that task, namely, the Chairman, the Group Chief Executive, the Head of Group Strategic HR, and the Secretary. That review had been conducted with the help of Kepler Associates, the Remuneration Committee's external consultants, who, based on different comparisons, had suggested a fee level for AIB ranging from a high of €118,000 to a low of €81,000 per annum.

The Chairman reported as follows with respect to the review:

- (a) The average fee (excluding Committee Chair and the SID fees) paid by AIB to a Director in 2007 would be c.€77,000 (excluding Mr. Wilmers who was not available for Committee work). It was estimated that the highest fee would be €123,000 and the lowest €50,000.
- (b) The outcome of the review was a proposal to restructure Directors' remuneration, and to target individual remuneration to be of the order of €80,000 to €100,000 per annum. This might be by way of a more substantial basic fee, together with a fee for being a member of a Board Committee.
- (c) The restructuring of Directors' remuneration would require shareholder approval.
- (d) Steps had been taken to sever the link between the Non-Executive Directors' Pension Scheme and the basic fee paid to Directors, such that in future there would be no connection between the two. The Scheme's pensioners had been informed that, henceforth, their pension increases would be based on increases in the CPI and would no longer be linked to increases in the Directors' basic fee. The Pension Scheme's lawyers had advised, however, that it would be preferable not to increase the basic fee shortly after severing the link between increases in that fee and pension increases, lest it precipitate a claim from the pensioners for a similar increase.

Accordingly, the Chairman proposed that any necessary approvals should be sought at the Annual General Meeting in 2009 and that, immediately thereafter, the Directors' remuneration should be restructured on a basis that would give a per Director fee of €80,000 to €100,000 per annum.

The proposed approach was approved.

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13. Corporate Governance (Continued)**13.3 Directorate**

The Chairman reported that Mr. O'Leary's term as a Director would expire on 19 December 2007 and that he had agreed to remain on the Board until the 2008 Annual General Meeting. Accordingly, on the proposal of the Chairman, IT WAS RESOLVED THAT James O'Leary, whose term as a Director would expire on 19 December 2007, be re-appointed a Director of the Bank from that date until the conclusion of the Annual General Meeting on 22 April 2008.

It was noted that, for reasons related to his non-AIB work, Mr. O'Leary was resigning from the Remuneration Committee with immediate effect.

Mr. O'Leary did not participate in the decision of the Board with respect to his re-appointment.

13.4 Independence of Non-Executive Directors

The Secretary presented a paper reporting that the Board was required, on foot of the Combined Code on Corporate Governance, to identify in the 2007 Annual Report each Non-Executive Director it considered to be independent; the considerations that the Code had suggested were relevant in making determinations of independence were outlined in the paper.

The position was noted, and IT WAS RESOLVED that all the Non-Executive Directors, except Mr. Robert G. Wilmers, were considered to be independent for the purposes of the Combined Code on Corporate Governance.

13.5 Audit Committee Financial Expert

The Secretary presented a paper under this heading, reporting on the concept of Audit Committee Financial Expert, as introduced by regulations made by the US Securities and Exchange Commission, and indicating that, having reviewed the matter, Mr. Kingon had indicated that he possessed the attributes of such an Expert. Accordingly, IT WAS RESOLVED THAT Mr. Stephen L. Kingon be and is hereby designated an Audit Committee Financial Expert for the purposes of the regulations of the US Securities and Exchange Commission and that a disclosure to this effect be made in the Annual Report on Form 20-F filed with the SEC.

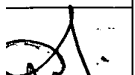
13.6 Directors' Share Dealing

The Secretary presented a paper reminding the Directors that the period during which they, and persons connected with them, were prohibited from dealing in the Bank's shares and the shares of M&T Bank Corporation ("M&T") would commence on 1 January 2008 and end:

- (a) in the case of AIB's shares, on the announcement of the Group's financial results for the year to 31 December 2007 on 20 February 2008; and
- (b) in the case of M&T's shares, and subject to the exemption of the M&T designee whose dealings in M&T's shares are governed by M&T's procedures, in mid-January 2008 on the announcement of M&T's financial results for 2007.

The position was noted.

The Chairman, the Executive Directors and the Secretary left the meeting at the end of item 13.6 and, with the consent of the meeting, Mr. Michael J. Sullivan, Senior Independent Director, took the Chair, pursuant Article 107.

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Chairman *[Signature]*

Date 24 May 08

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MERCER OLIVER WYMAN

22 March 2007

Senior management conference Poised on the edge of greatness



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- 3. 'Monday morning'**

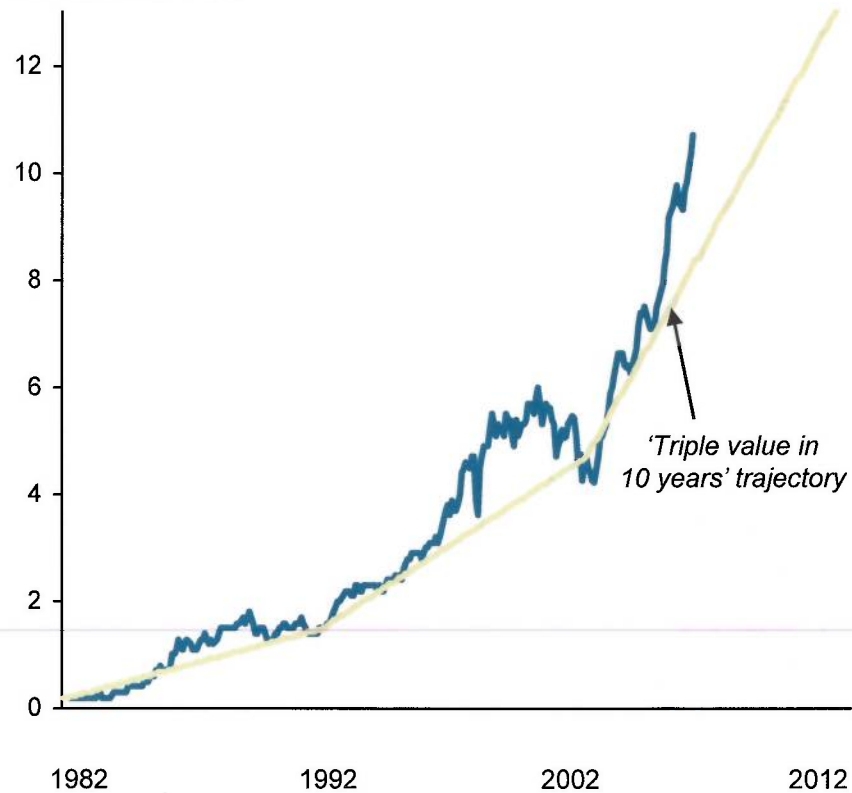
Section 1

Performance

Performance – the bar is high!

Value growth in global financial services

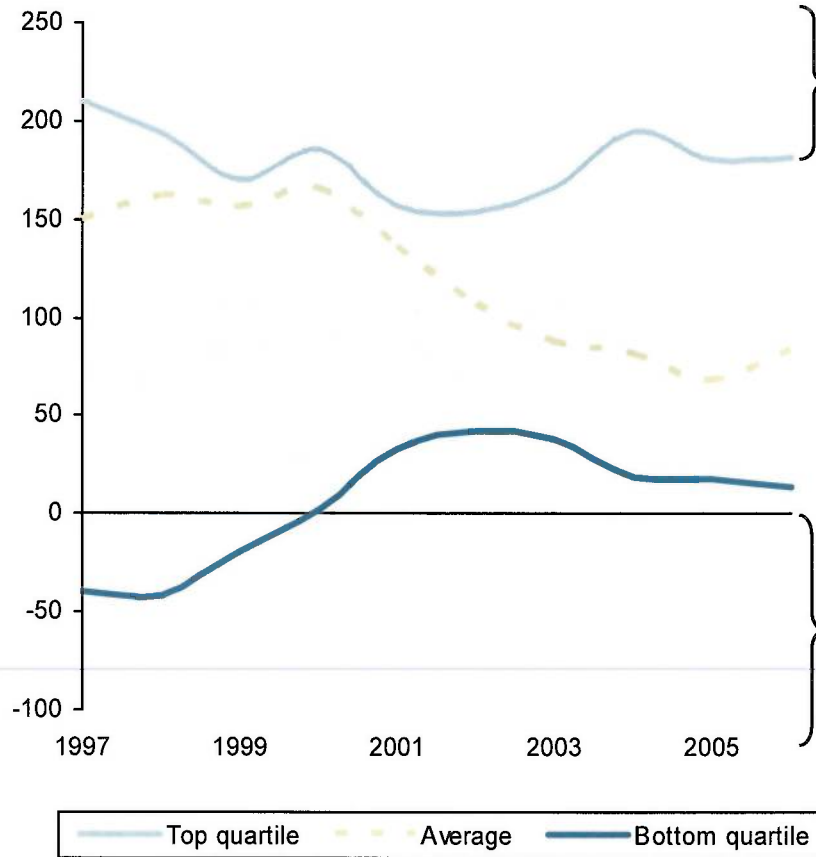
Market value (\$TN)



**Performance norm =
Triple value in ten years**

Comparison page

Global SPI performance by quartile



Consistent out-performers – why?

- Anglo Irish Bank
- Bank of America
- Danske Bank
- Erste Bank
- KBC Group
- Manulife Financial
- MAN Group
- St. George Bank

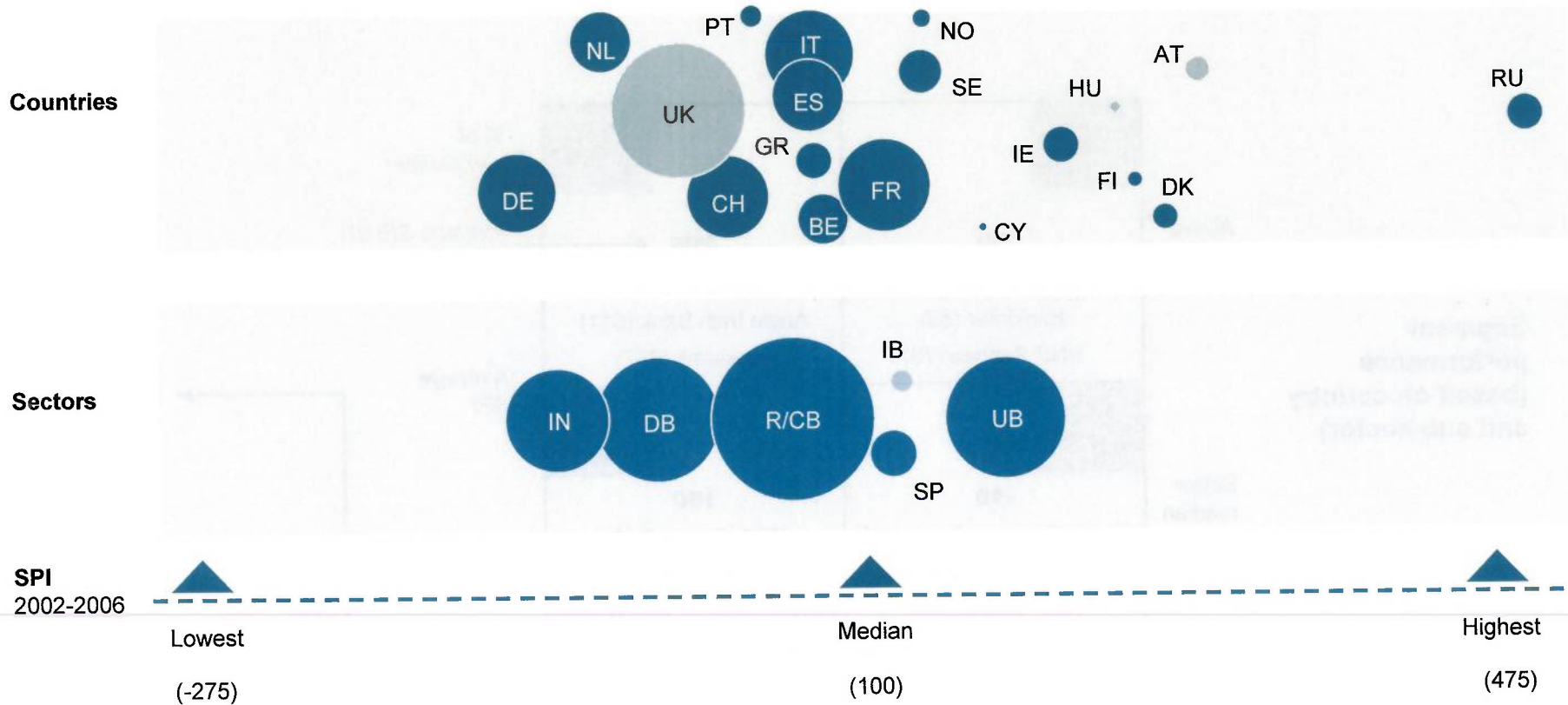
Domicile
Execution
Sometimes both

- ABN Amro
- Allianz
- Deutsche
- Fortis
- Lloyds TSB

Conglomerate
Poor execution
Often both

Performance – we can quantify the ‘luck’ element of performance

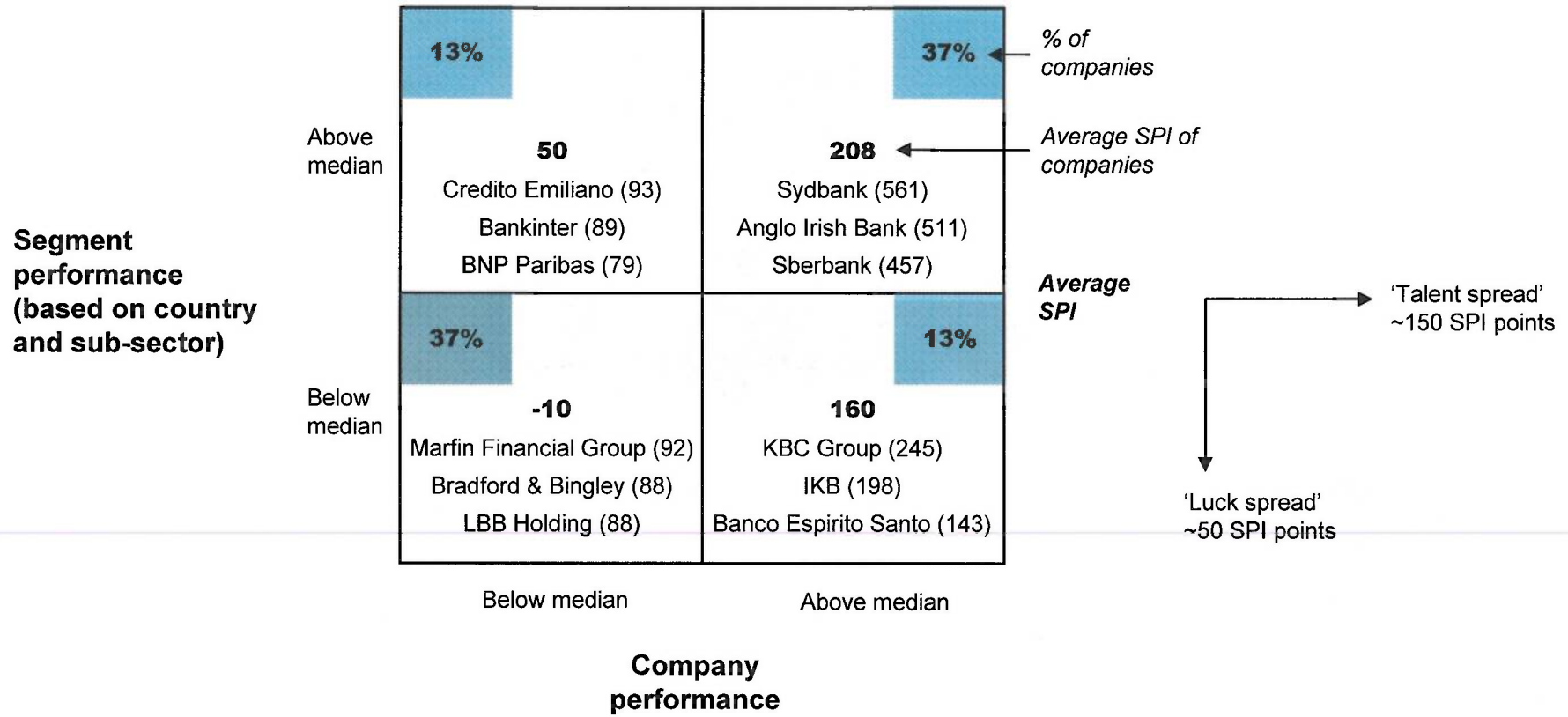
‘Position’ performance in Europe



Legend
 Better than 2001-2005 ●
 Worse than 2001-2005 ●
 Bubble size – YE06 market value (e.g. R/CB = \$700 BN)

Performance – lucky or good?

‘Execution’ performance in Europe



Consistent high performance globally – lessons from recent past

- Premier performers deliver on several fronts simultaneously:
 - Faster-than-market revenue growth (12% vs. 6% p.a.), largely organic, turbo-charged with small/selective acquisitions
 - Effective cost and capital management (C:I <60%; ROE >15%)
- Common themes across premier performers
 1. Selective conglomerate, not 'monoline' and not 'full service'
(MAN vs. Schwab vs. F&C)
 2. Execution discipline on cost and financial risks
(Popular vs. ABN Amro)
 3. Managing strategic risk
(Sampo vs. LTSB)

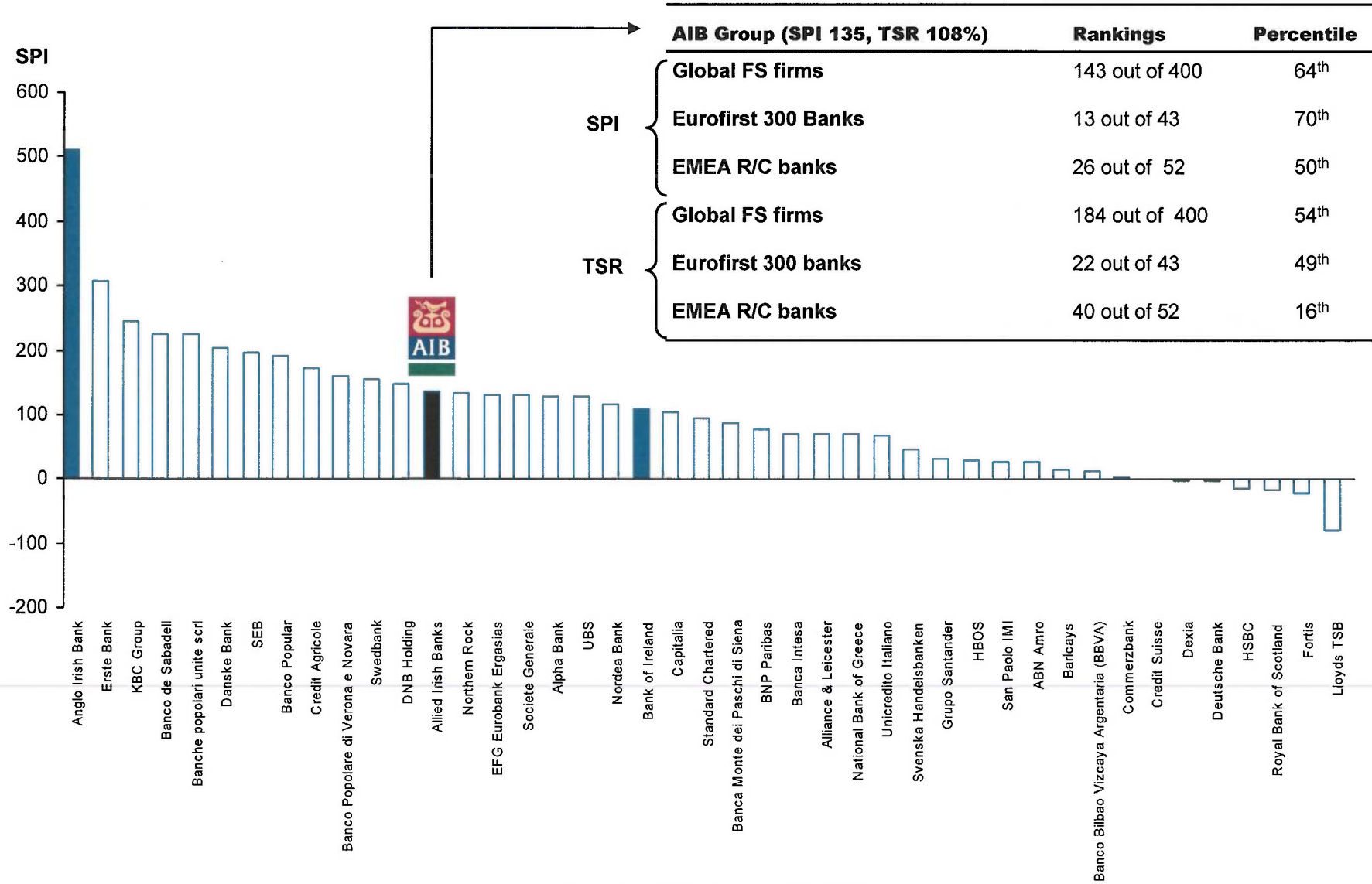
Forward-looking high performance in Europe

- After several years of low returns, average performance of EMEA banks is rapidly improving
 - Structural strength in certain regions/products (e.g. Spain, consumer finance)
 - Case-specific upgrades (e.g. CASA, Intesa, BBVA)
 - Rapid expansion in the East
 - Growing sense of need for single EU-FS market
- Likely winners will
 - Decouple from the credit and insurance cycles, and highly skewed economic stagnation (e.g. SEB)
 - Selectively participate in the consolidation process (e.g. Santander)
 - Sharply define their business models away from 'end to end' providers (e.g. Anglo Irish)
 - Have an increasing exposure to emerging markets (e.g. KBC)
- What is not important: country, sector, cost: income, fee: NI income ratio, size
- Biggest risk factors: public policy and regulatory pressures

Section 2

Marking AIB to market

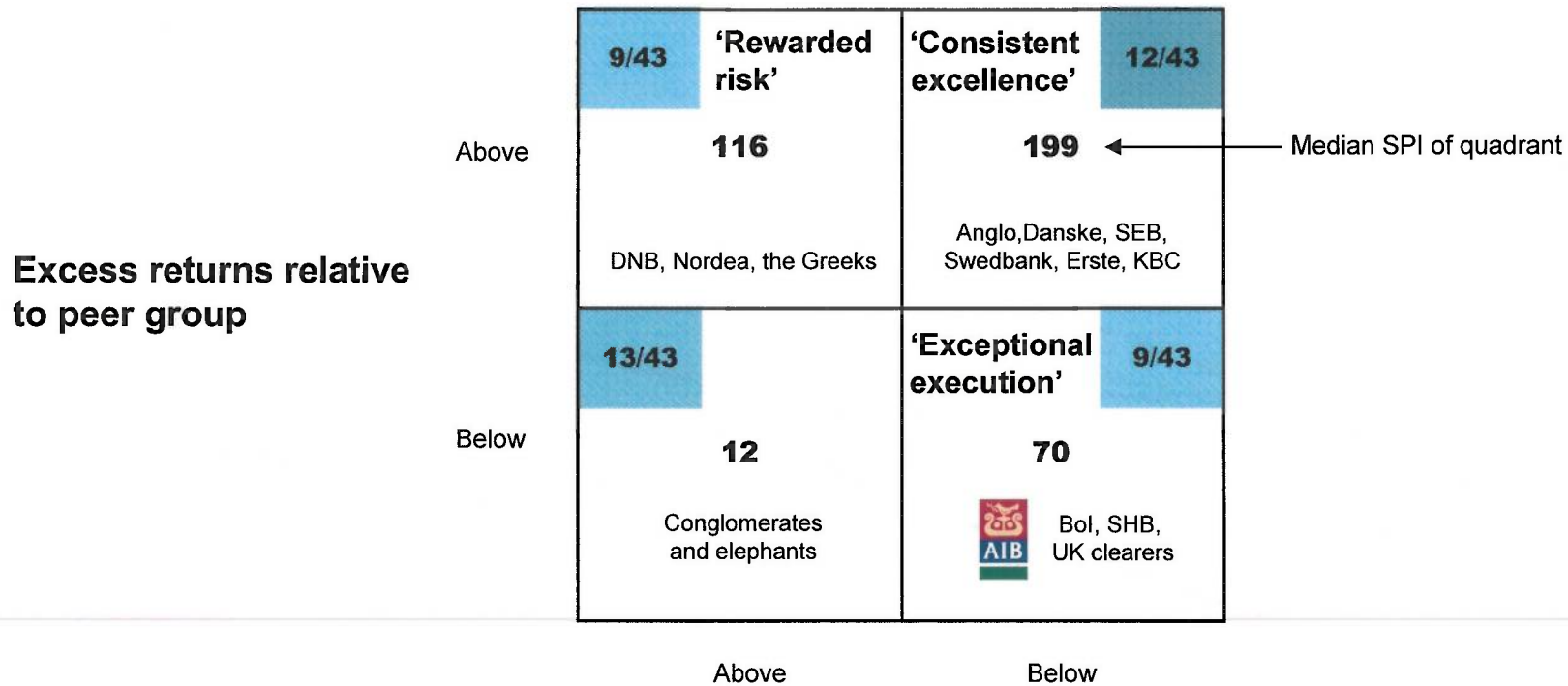
AIB has been a solid second quartile performer



Eurofirst 300 Banks 2006 SPI

AIB's current position can be improved through faster growth without sacrificing risk discipline – good precedents exist

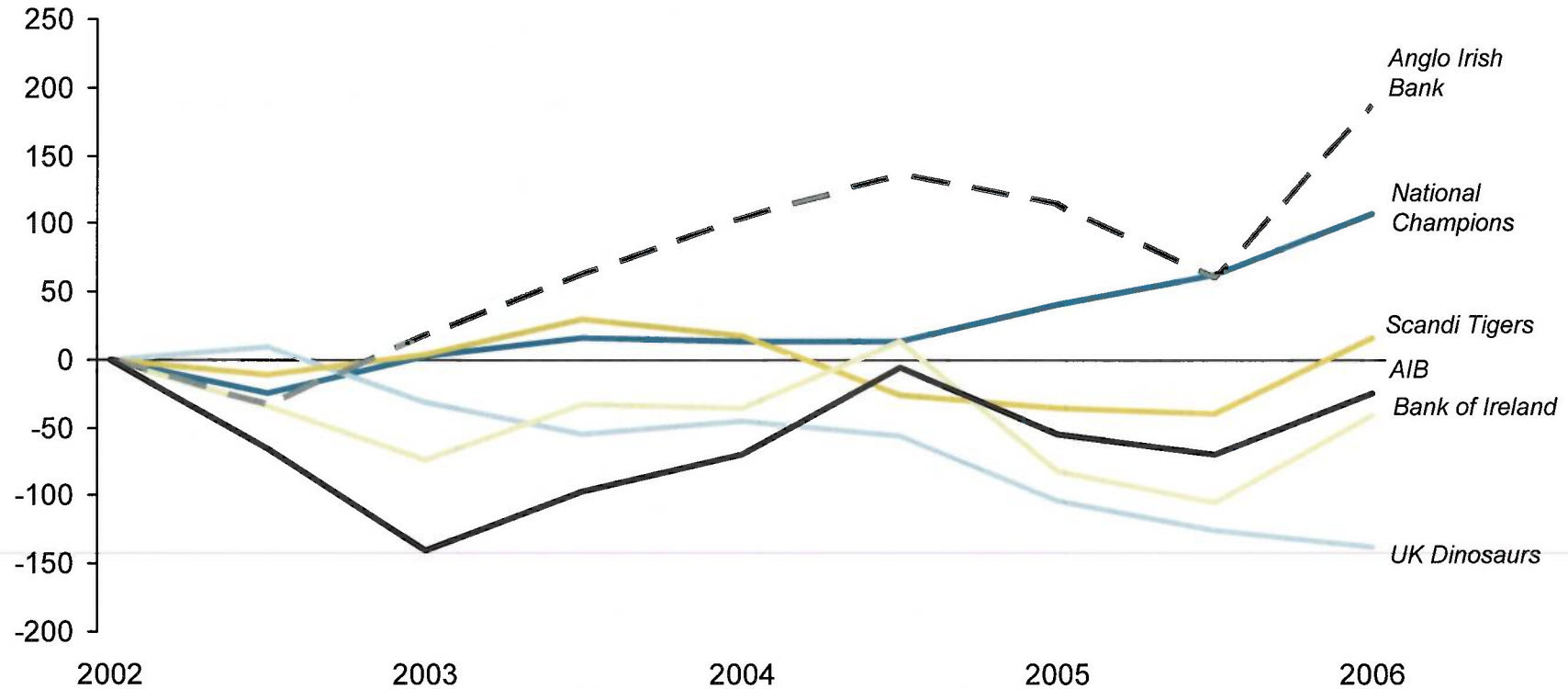
Returns vs. volatility among the Eurofirst 300 banks



Excluding the 'UK dinosaurs', some of your peers seem to be on a steeper performance trajectory

European SPI trajectories

SPI in given year –
SPI in 2002

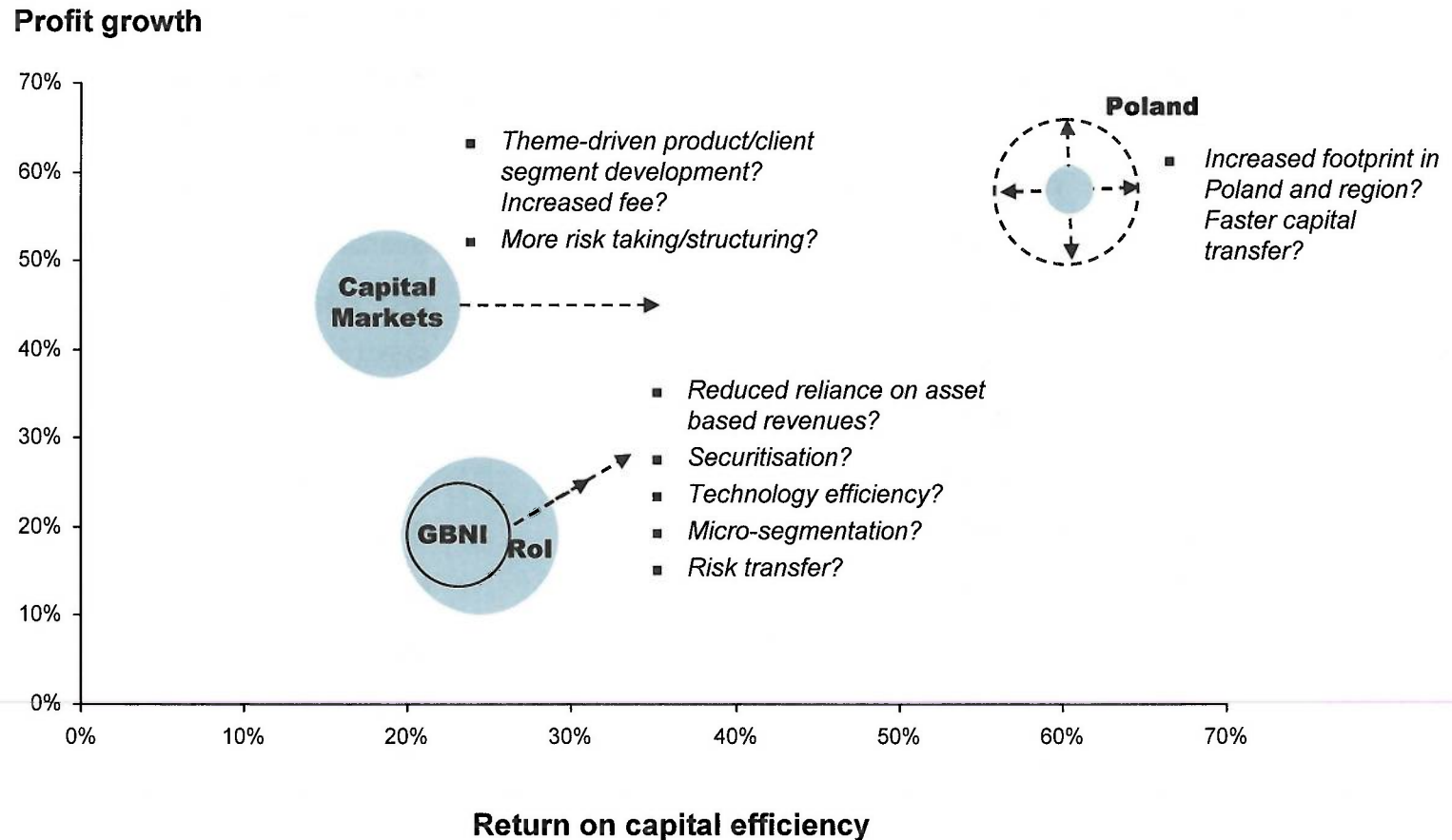


Highways and blind alleys – the fate of national champions

Country	SPI	Top company	Bottom company
Denmark	260	Sydbank (561)	Danske Bank (203)
Ireland	204	Anglo Irish Bank (511)	Bank Of Ireland (109)
Sweden	127	SEB (196)	Svenska Handelsbanken (47)
France	107	CIC (247)	BNP Paribas (79)
Belgium	74	KBC Group (245)	Fortis (-20)
Greece	69	Bank Of Piraeus (135)	Agricultural Bank Of Greece (-227)
Italy	67	Gruppo Banca Carige (377)	San Paolo-IMI (28)
Spain	66	Banco De Valencia (366)	BBVA (12)
Portugal	35	Banco BPI (257)	Millennium BCP (-137)
UK	-5	Bradford & Bingley (88)	Lloyds TSB (-79)
Netherlands	-46	ABN Amro (26)	ING Group (-12)
Germany	-93	IKB Deutsche Industriebank (198)	Allianz (-263)

AIB's business portfolio shows several areas of opportunity

Profit growth vs. capital efficiency



Bubble size = percentage of assets

Note: Based on annualised H1 2006 data and Basel 1 RWAS

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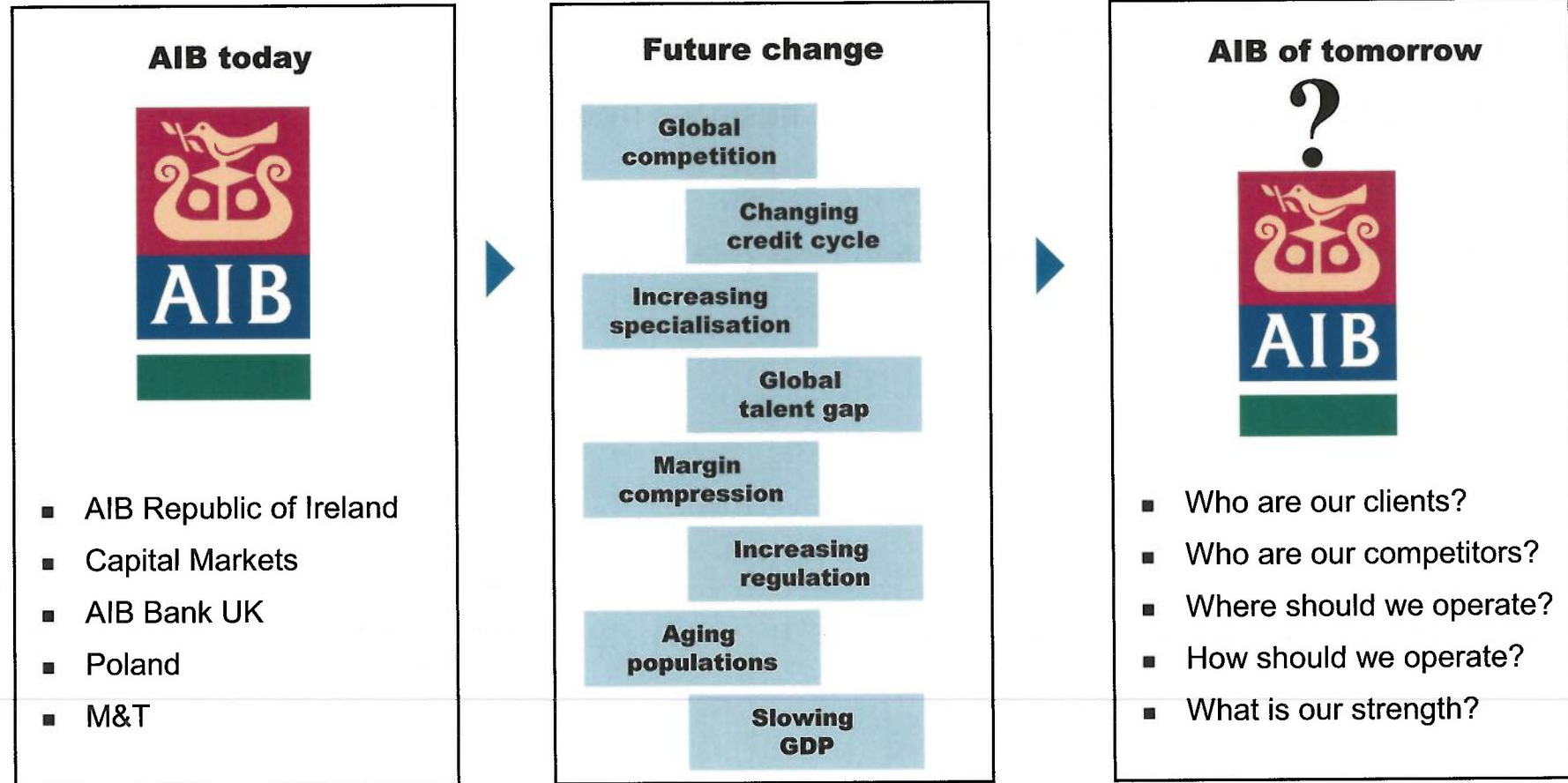
To become first quartile – and stay there – AIB needs to address ‘the big elephants in the room’

	Value growth vectors (EMEA 2010 and beyond)	AIB relative to potential/peers	
Important	1. Decouple from credit/insurance cycles	+	More emphasis on liability-side products
		-	Less evidence of micro-segmentation/balance sheet efficiency
	2. Selectively participate in consolidation	=	Neutral, but game is moving very fast
	3. Sharply defined business models	+	Strong vertical business lines
		-	Less evidence of micro-segmentation, value optimisation, non-organic turbo-charging of business lines
	4. Increasing exposure to emerging markets	+	Foothold in EE
Less important	1. Country	+	Visible diversification away from ‘Irish tiger’
	2. Sector	+	Good position in retail/commercial
	3. Cost:income	=	Improving ratios along with the pack
	4. Fee:interest income	+	Increasing share of non-B/S revenues
	5. Size	=	No obstacles

Section 3

'Monday morning'

The changing market environment is creating many challenges and opportunities for AIB



Four specific ‘Monday morning’ actions are likely to improve AIB’s performance under most future market scenarios

- Pushing performance to new heights (funding, clients, costs)
- International expansion (Emerging Europe, business model export)
- Targeted risk taking (existing and new portfolios)
- Active balance sheet management (defensive and offensive)

Pushing performance to new heights

- **What?**
 - Relentless innovation to make relative gains
- **Why?**
 - Funding: Deposit and asset gathering at the centre of customer relationships
 - Clients: Micro-segmentation to drive prospection/cherry picking, pricing, resource allocation
 - Distribution: Value aligned performance management, staff empowerment/'franchising'
 - Products: Product and service innovation; Wealth management, Structured products etc.
 - Costs: Front to back cost alignment to drive platform integration, complexity reduction, value chain selectivity/outsourcing
- **Case study – Danske domestic**
 - Present in all key retail markets (banking, mortgages, insurance/pensions, asset management/wealth products)
 - Cost ratchets on 'run the bank', disciplined investments for 'change the bank'
 - Continuous investment in expanding the wallet of key customer segments (e.g. affluent urbanites, middle market corporates, FIG clients)
 - Continuous investment in customer experience across branches and internet
 - Hardwired co-operation among divisions

International expansion

- **What?**
 - Take advantage of the potential of Emerging Markets (expected to generate 43% of financial services growth in next five years)
 - Exporting value added capabilities into new markets
- **Why?**
 - Revenue growth: Tap in to fast growing economies to maintain eps growth
 - Revenue diversification: Diversify earnings stream
 - Efficiency: Leverage existing skills, little acquisition premium, no need for initial major bets
- **‘Buy’ case study – Erstebank**
 - Branched from Austria into neighbouring Eastern Europe (‘logical extension of the home market’) early, when assets were cheap
 - Two core strategies ‘Focusing on and exploiting core business potentials’ and ‘Transferring the multi-channel distribution model throughout Central Europe’
- **‘Export’ case study – Barclays**
 - Purchase of ABSA in South Africa
 - Rapid exporting of Barclays skills and capabilities; Credit Process, Performance Management etc

Targeted risk taking

- **What?**
 - Identify adjacent higher risk portfolio opportunities
 - Selectively increase appetite for risk on existing portfolios
- **Why?**
 - Revenue/Value growth: Tap into lucrative high value opportunities
 - Revenue diversification: Diversify product set and earnings stream
 - Risk Management platform: Increase return on risk/capital through risk optimisation
- **Case study – RBS**
 - Credit portfolio purchases in Germany and other European countries
 - Build up of principal finance business alongside core middle market corporate franchise
 - Selective FIG participation where small, high return tranches are available
- **Case study – Anglo Irish Bank**
 - Once poor performing subscale bank lacking strategy
 - Targeted higher risk commercial property and development market
 - Caught the wave of Irish property boom combined with outstanding execution
 - # 1 performer for institutions of market cap > \$10BN - SPI 510

Active balance sheet management

- **What?**
 - Active utilisation of balance sheet capacity (not just ‘buy and hold’ risk)
- **Why?**
 - Defensive: Maintain capital ratios
 Sustain RoE
 - Offensive: Free up balance sheet to facilitate sustainable EPS growth
 Increase ability to quickly react to growth/acquisition opportunities
 Decouple from the credit cycle (in particular credit concentrations)
 - Other: Realise major benefits from foregone regulatory compliance spend . . .
- **Case study – Barclays**
 - Early adopters of Economic Capital and understood differences between that, Regulatory and Actual Capital and managed buffers accordingly
 - Internal active credit portfolio management function optimises return on employed capital
 - Advanced user of cutting edge risk transfer techniques
 - Usage of balance sheet capacity to increase non-domestic revenues (e.g. Banca Zaragozano, ABSA etc) and to fund Barclays Capital (the group’s ‘growth engine’)

Summary

- Global/European performance norms are high; some of your key peers are on a steeper trajectory than the AIB
- You have made the most of your 'position' and your 'execution' has earned you the options to improve performance further
- To become a sustainable first quartile firm, you need to **grow faster** without losing cost or risk discipline
- AIB is poised on the edge of greatness – to get there the Divisions and Group need to push themselves harder
 - Executing the current (busy) pipeline of initiatives
 - Launching and executing selected 'Monday morning'-like initiatives
 - Relentlessly building future-oriented capabilities (talent, M&A, platform, analytics)

banks had lost the run of themselves and there were certain issues in their institutions such as limits on lending. Successive Governments were responsible to step in if there were any regulatory gaps. The role of the auditors and, as has emerged in the crisis, the rules auditors worked by, were too narrow and backward looking, rather than forward looking and pointing out risks which existed in particular institutions. Regarding when they should have shouted “Stop”-----

Chairman: Both in terms of what would have been the optimum intervention point and what point you think it was actually too late.

Mr. Simon Carswell: -----you have to look at the credit growth in the banks and when that was at its peak. There are a number of periods when that happened. There were two big bursts in lending from 1997 to 2001 and then again from 2002 to 2007 when the rate of credit growth and the amount of lending going on was over 20% in that period. Within that there were two significant bursts. It was more than 30% for six months in 2004 and nearly 30% again in 2006. The warning bells should have gone off in the early 2000s. At that point they should have stepped in and said it was excessive.

Chairman: Who should have stepped in?

Mr. Simon Carswell: The regulator should have stepped in. The regulatory authority said there were issues. The Central Bank warned in 2003 there was excessive credit growth. The Central Bank should have stepped in and told the regulator that something needed to be done.

Chairman: I first invite Senator Michael D’Arcy, you have 15 minutes.

Senator Michael D’Arcy: I welcome Mr. Carswell and thank him for coming. His book is a very good read, one of the best reads I have come across to date. What is his interpretation of the Anglo business model in terms of risk, which some of the other banks have struggled to get a handle on?

Mr. Simon Carswell: I believe Anglo had two fatal flaws regarding its concentration in the property market. It had convinced itself it was not a property lender. It also got too close to its borrowers. Simply put, it had too many eggs in one basket. The bank had four main areas of cover in how risk was approached and how it protected its loans. The first was cash flow and rental income from buildings and properties. The second was the value of the property itself. The third was cross-collateralisation where Anglo had borrowers’ other assets in its portfolio. If the first three areas did not work out then the fourth area of cover was the personal guarantee where Anglo itself could go after the developer or builders.

Stripped away, all those securities it believed it had all centred around property. I believe the bank recognised this and that it was getting too heavily into the property market. An internal instruction was issued that Anglo would try to bring property development on the loan book down to 20% and reduce this over time to 15%. That it was unable to stick to those limits shows how close the bank was to its borrowers. It was unable to pull back from that sector. Later credit reports in 2005, 2006 and 2007 show the bank could not meet the restraint it wanted. At that stage, the risk was its closeness to borrowers. In the book I quote a former senior Anglo executive where he felt that customers were running the bank. I would tend to agree with that.

Senator Michael D’Arcy: On page No. 57 of *Anglo Republic - Inside the Bank That Broke Ireland*, Mr. Carswell states that AIB established a win-back team. He wrote, “In 2004 AIB chief executive [who I will not name] established a win-back team as part of the bank’s efforts to understand why the bank was losing business.” Were the other banks outside of Anglo



THEME: B1

Effectiveness of banks' board governance, client relationships and business models

LINE OF INQUIRY: B1d

Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored



Interim

Review of Credit Management in AIB

Prepared by Group Chief Credit Officer – Joe O'Connor

June 10

Report to AIB Group Executive Committee



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2. Background / Objectives	3
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1. Executive Summary

- The report assesses the strengths and weaknesses in AIBs credit / lending management processes and recommends changes to assist AIB back to good health.
- Credit losses were incurred by AIB in 2008 and 2009 of €7.2bn. Expected to be even higher in 2010 as a result of NAMA transfers (c.€8bn).
- AIB forced to seek support from Government
- AIB has had to significantly curtail its lending activities and restructure by selling off large parts of the Group to replenish capital.
- **Formidable challenges still remain.** AIB Capital Markets and ROI will have a combined total book of €80.9bn, €15.4bn or 19% of which is criticised. €18.6bn of this is in property of which c.36% is criticised.
- Ability to recover is dependent on the future of the Irish economy
- The following are the key actions that must be implemented
 - **Key Principles for Professional Credit Management** must be adopted and embedded at all levels in the Bank
 - Credit Portfolios must be subject to continuous review
 - Credit policy and end to end credit processes must be realigned to facilitate improved MIS to (a) manage the portfolio (b) perform stress testing and (c) enable securitisation of portfolios
- These actions will have to be implemented at a time when most functions are working at full capacity but there is no sustainable alternative. **“we need to change the engine mid flight”**
- Taking action now will enable us to
 - Manage problem loans
 - Continue to satisfactorily service our customers
 - Help create a vibrant and supportive bank for the future
 - Honour our Government Obligations

2. Background and Objective

Background

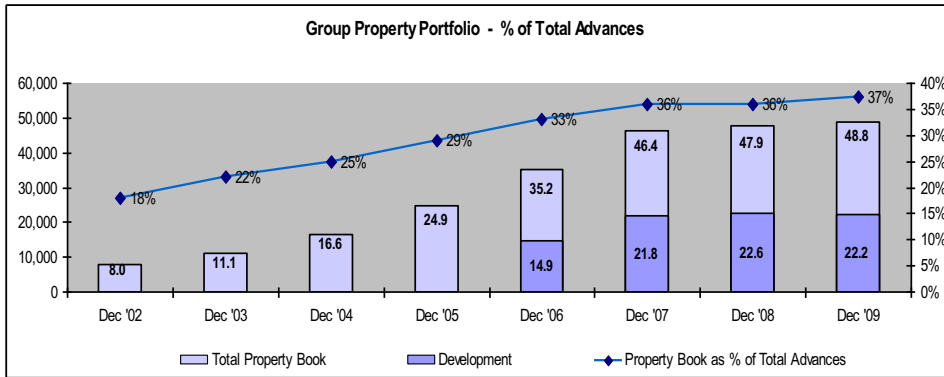
- AIB recorded an after tax loss of €2.3bn in 2009 after loan impairment charge of €5.4bn.
- This may increase to €8bn in 2010 following transfer of assets to NAMA
- 30 March 2010, Financial Regulator announces AIB requires additional Capital of €7.4bn
- AIB is in the process of selling BZWBK, AIB (UK) Ltd and M&T Bank
- AIB likely to be much smaller, mainly domestic orientated bank
- Impact on shareholders, employees and other stakeholders has been devastating.

Objective

- Against the above background, the Chairman and the Group MD requested the GCCO to review and recommend how the operation and management of credit could be improved across the organisation.
- GCCO convened a task force with members selected from Group Credit, Capital Markets Credit and ROI Credit
 - Review of Divisional Credit Portfolios (size, composition, quality and grading);
 - Review of Credit Policies and Best Practices (Divisional and Group);
 - Credit Structures, including reporting lines, within the Group;
 - Operation of Credit Committees (Divisional and Group), effectiveness, volumes, efficiencies and authority levels;
 - Credit Management Information Systems (MIS) at portfolio and individual case level;
 - Credit Training – review existing training plans to identify what gaps exist;
 - Roles and function of Credit and Risk Management (implementation of newly defined roles)
 - Review of Staff Loans credit operations.

3. Historical Financial Review

This slide contains some key performance measures at Group and Divisional levels

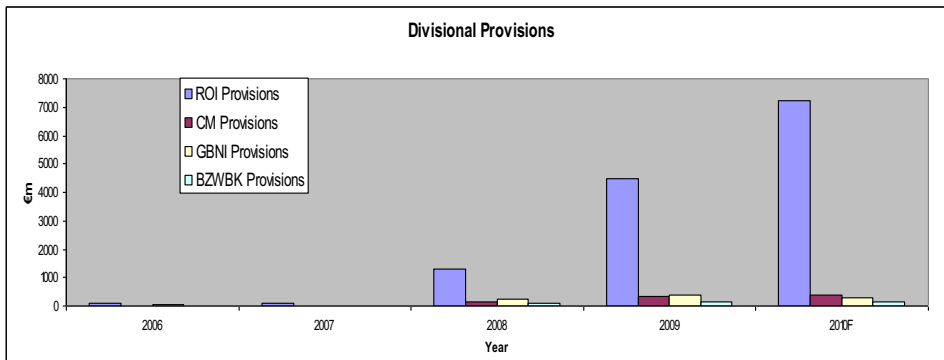


- In December 2009 total Group Property loans stood at €48.8bn or 37% of total Group advances compared to 18% in 2002.

- An exceptionally high 46% or €22.2bn of this was concentrated in land and development ROI accounted for € 17bn (77% of the total).

- ROI accounted for 63% or €30.9bn of total Group Property.

- In December 2009 ROI accounted for 60% of the total top 50 property exposures compared to 4% in 2000.



- In 2009 ROI provisions accounted 83.5% of total Group provisions for loans

- Provisions increased from €0.1bn in 2007 to €5.35bn in 2009.

- In the two following years Criticised Loans grew to 11.7% of total loans in 2007 and to 29.4% in 2008



4. Key Principles for Credit Management

The following Key Principles were tabled by the Task Force and approved by the GEC

- *It is our belief that these Key Principles, if fully implemented, would represent a durable Credit Framework that should enable AIB to be resilient through the credit cycle. In effect these are the enduring guidelines for operating a credible/professional lending business.*

Objectives

- Adopt a credit culture that is resilient through the cycle
- Deliver a professional lending service to our customers

Approach

- We respect and adhere to agreed standards, Credit Policy and Best Practices
- Policies incorporate explicit tolerance levels
- All new loans written to a standard that will facilitate securitisation
- We operate with integrity and Professionalism
- Effective Credit Governance and Structures should be in place

Key Principles

- We research and evaluate borrowers fully, repayment capacity, security, industry analysis, management, track record (if applicable)
- Set standards are followed in preparation and discussion of credit applications
- Pricing is adequate for risk undertaken
- Robust grading undertaken at least annually and signed off by independently of sponsoring personnel by Credit Personnel
- We make quality decisions in a balanced way
- Documentation and Conditions Precedent are met and security put in place pre-drawings
- Ongoing case management and grading is dynamic reflecting borrowers circumstances
- Management reports on credit are prepared monthly and discussed at Divisional Management Board Level and Group Credit Level
- Problem loans are identified and issues escalated appropriately
- Credit professionals have an appropriate level of credit skills and competence.



5. Summary of main findings

Below are the summary findings of the review focused at Enterprise and ROI level.

- *The commentary has been made in relation to its pre-June 2009 position. Since then there have been significant changes as noted in the main report on page 9.*

In short the main thrust of the Business in ROI was to focus and volume / market share-driven loan origination. This was achieved by growing property advances and related income in an unbalanced manner

At Enterprise level there is evidence that the growth agenda was strongly embraced

- Lack of oversight in terms of credit concentrations. Growth of property portfolio was not inhibited despite reports that indicated we were out of line with peers and heavily concentrated in land and development
 - Sporadic property concentration risk analysis was performed and recommendations were often bland and ambiguous.
 - Credit policies, best practices and guidelines did not provide an appropriate framework for lenders
 - Large exposure grew disproportionately in ROI Commercial Banking
 - Inadequate MIS to gain insight into portfolio, enable securitisations and perform meaningful sensitivity analysis
 - Shortcomings in credit skills / experience. Credit training became fragmented and largely neglected
 - Inappropriate credit structures / reporting lines
 - Allowed too much interest roll up
 - Poor credit management / review of individual cases
 - Ineffective segregation of credit origination and approval in many areas
 - Security perfection was not always achieved
 - Independent file reviews did not identify many of the serious control issues above
 - Breaches of policy became common and were treated as routine events even if they were escalated
-

5. Summary Recommendations

Below are the summary recommendations of the review. These are the abbreviated actions only containing the headings. See main report page 10 and Appendix 9 page 18 for full details

Culture	<ul style="list-style-type: none"> 10 Key principles to be embedded throughout the organisation
Governance / Standards	<ul style="list-style-type: none"> Review the efficacy of all Divisional and Group Credit Policies Segregate relationship and credit functions Credit management of large cases to be brought under management of corporate banking Annual review of cases to be intensified Business Units must devise plans to ensure that 95% of borrowers are reviewed at least annually Extend the lessons learned questionnaire process across all Divisions Assess the efficacy of how independent Credit file reviews are undertaken Group wide Credit Risk Appetite Statement to be developed and implemented
Information	<ul style="list-style-type: none"> Design a strategic solution end to end Credit Operation System and fully populate the required data fields While the strategic solution is being developed examine tactical solutions to plug the management information gaps
Skills / training	<ul style="list-style-type: none"> Establish dedicated credit training programme to meet the credit training requirements for lenders A dedicated training panel to be established to deliver and review training content
Resourcing	<ul style="list-style-type: none"> Quantify level and experience needed post transfer of cases to corporate banking and in ROI Credit Unit
Staff Business	<ul style="list-style-type: none"> Overall structure for operation and management of staff loans has been agreed
Pricing	<ul style="list-style-type: none"> Standardised approach to pricing should be implemented throughout the Group

Group Internal Audit

“making a difference to governance, risk management & control”

PROPERTY BUILDING & CONSTRUCTION



March 2006

INDEX

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II	Results	2
III	Objective & Scope	6
IV	Issues	7
V	Distribution List	20

“making a difference to governance, risk management & control”

I Background

Over the last 12 months GIA has audited the key lending processes of Sanctioning and Credit Monitoring across areas within Capital Markets and the Retail divisions. We have also audited the Credit Risk Management Framework at a Group level. During these audits we did not concentrate on the oversight and specific risk profile of any one individual lending sector rather we looked at the general transactional control frameworks in place. Given the Group exposure to property risk across the various countries in which we operate and the potential risk associated with market realignment within this sector, GIA committed to undertaking a pan-group property specific audit.

AIB Group is exposed to the property-lending sector across the Republic of Ireland, GB&NI, Capital Markets {including mainland Europe and the US} and Poland.

The numbers involved are large. At 30 June 2005 AIB Group had €75 billion in advances of which 26% (€19b) are advances to Property Building and Construction (PB&C) sector and 25% (€19b) relate to home mortgages [not included in the scope of this audit]. Together with the rapid growth in Group lending, the PB&C sector has increased by 19% in the first six months of 2005 alone.

At 30 June 2005, PB&C advances across the divisions were as follows: Republic of Ireland, €11,071m, AIB GB/NI, €5,541m, Capital Markets, €2,722m and Poland €449m. This was categorised as follows:

Commercial Investment	€7,913m (40%)
Residential Investment	€2,770m (14%)
Commercial development	€3,363m (17%)
Residential development	€4,748m (24%)
Contractor	<u>€989m</u> (5%)
	€19,783m

In addition, at 30 June 2005, 15 out of a total of 22 large exposures related to the property, building & construction sector.

II Results

The audit found that the management of Property, Building & Construction (PB&C) related lending differs throughout the Group. Each division is autonomous in terms of risk appetite, policy, procedures and processes used to manage P&C related exposure. This has resulted in differing standards of control in place, with some divisions placing more reliance on individual lenders in the sanctioning and control processes whilst others have more formal oversight inherent within their processes. **The audit did not include an assessment of property related credit quality. In addition we did not raise an issue around the management of concentration risk at a Group level as this was raised in a previous audit of the Credit Framework in 2005.**

The table below summarises the results of the audit:

		Material	Significant	Important	Minor	Total
Issues identified in this audit report	CM	-	1	-	1	2
	GB&NI	-	2	2	1	5
	Poland	-	1	3	5	9
	ROI		2	3	-	5
Issues that have been RISK ACCEPTED		(-)	(-)	(-)	(-)	(-)
Issues already corrected		(-)	(1)	(3)	(5)	(9)
Issues that remain outstanding	CM	-	-	-	-	-
	GB&NI	-	2	2	-	4
	Poland	-	1	-	2	3
	ROI		2	3	-	5

Although Property, Building & Construction related lending is administered differently throughout AIB, Group Credit Risk {GCR} has in the past provided an advisory role to ROI, GB/NI, Capital Markets and Poland Divisions. Consequently, standards across the Group are not uniform or consistent, however GCR accepts that through the reporting lines of the divisional Chief Credit Officers they have the ability to directly shape policy across the Group. While not included in this audit, a previous audit in 2005, around the *Group Credit Risk Framework* highlighted the need for improved portfolio management information to assist in assessing group wide concentrations. The resolution of this issue is still ongoing and is particularly relevant in terms of property portfolio information. While our audit did identify a number of individual audit issues in each Division tested a theme raised in the audit was one of differing methods used by each Division to control and monitor property and construction related risks. While some, for example Capital Markets, applied a more structured format to the process in terms of external input from Valuers or formalisation of Site Visits others relied more on the knowledge and experience of the lenders.

Consideration should be given to adopting a more formal framework which promotes an appropriate level of consistency in terms of sanctioning policy and control & monitoring processes and less reliance on the discretion of individual lenders. Apart from Capital Markets and Poland, decisions are made on a case-by-case basis on whether an independent valuation should be required. Within ROI testing highlighted 13 cases out of 25 tested without valuations, Oireachtas-P. Similarly within GB&NI formal independent project monitoring may be waived based on the track record and experience of the developer. While these practices do not contravene divisional policy, and Group Credit Risk are satisfied with the situation, we believe a tighter framework is required to justify deviation from accepted lending practices.

In our opinion, valuation of security by a qualified independent party should be standing requirement for sanction at Credit Committees, or IDL committees. Where the Committee waives this requirement, for whatever reason, the rational or perceived mitigants should be clearly documented in the Committee minutes. This would provide a degree of rigour to the valuation process while taking into account the differing risks associated with different financing, for example, development or investment finance. It is worth noting however that in order to receive the benefits of credit risk mitigation under the IRB approach {which is the approach AIB is adopting} property over €3 million must be revalued by an independent valuer every three years. Therefore it may be prudent to consider carrying out this valuation prior to sanction.

Management has accepted the need to improve the level of formality around other issues raised particularly stage payments and stress testing and action is being take to address the issues raised.

Divisional Summary

Capital Markets

The design of the PB&C related processes is strong within Capital Markets with few testing exceptions highlighted. They have an independent credit committee and no facilities are approved without agreement from a Credit Unit representative. Information on Mark Ups is consistent across the division with thorough, detailed independent valuations obtained for PB&C deals. An independent professional valuer undertakes valuations. For all loans where drawdown occurs in stages an independent confirmation of progress was present prior to funds release. The only significant issue related to the mis-categorization of €263m of US mortgage backed securities within Corporate International. This issue has now been closed as a result of management action.

Poland

The design of PB&C related processes is strong within the Poland Division, although a number of exceptions were noted in audit testing. They have an independent credit committee, no PB&C facilities are approved without agreement from a Credit Unit representative. Mark Ups contain differing amounts of information. Thorough, detailed, independent valuations are obtained for all property and construction deals. An appropriate independent professional valuer values all security. For all loans where drawdown occurs in stages, Poland Division obtains detailed independent confirmation of the progress of construction. The key exception highlighted were categorization errors where audit found that sector codes are input based on the clients main activity rather than the category of the project to be financed. We have not included our results around the valuation process in Poland as work was not yet complete. This will be reported separately. Management Action plans are in place for all issues raised.

GB&NI

The design of PB&C related processes could be strengthened and some audit issues were noted during testing. Lenders have individual discretion limits whereby they can sanction a facility within their relevant IDL {which can be up to €15m} without reference to an independent credit committee approval. Mark ups contain differing levels of detail. There is no requirement to obtain independent valuations in all cases it is left to the lenders / Credit Committees discretion. Testing highlighted 6 out of 36 cases had no valuations {3 out of 25 in GB Commercial & 3 out of 11 in GB Corporate}. Total connections in many of these cases are material with exposures over €100m as the requirement for a valuation is often waived for a long-standing customer. In addition detailed independent confirmation of the progress of construction is not obtained for all loans where drawdown occurs in stages. This is left to the lenders discretion.

Republic Of Ireland

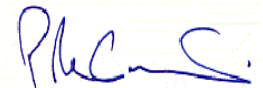
The design of the process in ROI could be strengthened and a number of issues were noted during testing. Lenders have individual discretions limits which allow them to sanction facilities within their relevant IDL {which can be up to €15m} without reference to an independent credit committee. Mark Ups contain differing levels of detail. There is no requirement to obtain independent valuations. In all cases it is left to the lenders / Credit Committees discretion. Property / sites financed normally has the property held as security although it is not independently valued. The requirement for independent confirmation of the progress of stage developments is left to lenders discretion. Of the 13 cases without valuations

Oireachtas-P

Oireachtas P In addition issues were also raised around no evidence of site visits {21 out of 25 tested} and strengthening processes around the control of stage payments, 2 out of 25 reviewed were not independently verified, one of which was a group large exposure.



Tony Schatzel
Group Internal Auditor



Paul Redmond
Group Internal Audit

Issues

As noted above, the issues contained in the body of this report relate to group-wide compliance risks, rather than individual divisions. A number of exceptions have been raised relating to the overall framework, RC&BE and divisional compliance functions and these underpin the Group-wide issues raised below. Each of the exceptions is actionable and will be tracked for resolution within the time line agreed with Management.

The following issues were identified as those that will need to be addressed to strengthen the overall compliance framework.

Governance

An essential element in the development of an effective and sustainable compliance framework is setting the right “tone from the top” through an appropriate compliance policy, mandate and code of ethics that drive and sustain the compliance culture across the organisation. Management continue to take positive steps towards developing this framework, the following should support these actions:

Board Compliance Policy

The compliance policy should define the scope and definition of compliance risk and the authorities, accountabilities and responsibilities for managing it. It provides the right corporate governance context by clearly articulating the Board and Executive Management’s commitment to a compliance culture and its implementation should be supported by an overarching programme of communication, promulgation and oversight. Currently no such Board approved policy exists.

MINUTES OF THE BOARD MEETING**of
ALLIED IRISH BANKS, p.l.c.****held on Thursday, 22 July 2004 at Bankcentre,
Ballsbridge, Dublin 4, at 8.30 a.m.****PRESENT:**

Dermot Gleeson	Chairman
Michael Buckley	Group Chief Executive
Adrian Burke	
Colm Doherty	
Don Godson	
Sir Derek Higgs	
Gary Kennedy	
John B. McGuckian	
Aidan McKeon	
Carol Moffett	
Jim O'Leary	
Michael J. Sullivan	
Robert G. Wilmers	

IN ATTENDANCE:

W. M. Kinsella, Secretary
 Eugene Ludwig, Promontory Financial Group - Item 7
 Michael Dawson, Promontory Financial Group - Item 7
 Deepak Haria, Partner, Deloitte & Touche - Item 7.1
 Nic Carrington, Partner, Deloitte & Touche - Item 7.1
 Shom Bhattacharya, Group CRO - Items 7.1 to 9, 13 and 14
 Mike Lewis, Head of Group Strategic HR - Item 7.5
 Peter Scott-Morgan, Concur Group (UK) - Item 7.5
 Philip Brennan, Group General Manager, Regulatory
 Compliance and Business Ethics - Item 8
 Paul Shantz, Group Internal Auditor - Item 8
 Declan McSweeney, Chief Financial Officer - Item 12.1
 Cyril Brennan, Head of Group Management Information
 - Item 12.1
 Kevin Garvey, Head of Credit Review & Standards, Group
 Risk Management - Item 12.2
 David Meagher, Chief Credit Officer, AIB Group - Item 13
 Joe Stanley, Group Head of ORM - Item 13
 Dave Mullins, GM, Change Development Unit - Item 14
 John Power, GM, Enterprise Information & Reporting
 - Item 14
 Frank McCooey, Head of Basel Implementation - Item 14
 Diarmuid Lynes, Managing Director, AIB Offshore - Item 15
 Donal Forde, MD, AIB Bank Rol - Item 15
 John Rice, GM, Investments & Protection, AIB Bank Rol
 - Item 15

An apology for inability to attend was conveyed on behalf of
Mr. Padraic M. Fallon.

CHAIRMAN'S
INITIALS

AIB01B01

7. **Investigation into Foreign Exchange and Other Charges**

The following documents had been circulated in advance of the meeting:

- A. "Independent Assurer's Report and Independent Investigating Accountants' Report to Allied Irish Banks, p.l.c., Irish Financial Services Regulatory Authority, Phase 1, 19 July 2004".
- B. Charts prepared by the Chief Risk Officer entitled "Controls/Governance Work Flow and Gap Analysis related to FX Charges and Other Matters".
- C. Paper marked draft, dated 16 July 2004, prepared by the Group Chief Executive titled "Management Action Recommendations Following FX Overcharging and related issues." (The final version of this paper, dated 21 July 2004, was circulated at the meeting.)
- D. Paper, dated July 2004, prepared by the Group Chief Executive titled "AIB Group Risk & Governance Programme 2002 - 2004."
- E. Paper prepared by the Head of Group Strategic Human Resources titled "An Independent View of the AIB Culture."
- F. Paper, dated July 21, 2004, prepared by Promontory Financial Group titled "Preliminary Assessment for the Board of Directors of Allied Irish Banks, p.l.c. Concerning Actions Proposed in Response to Investigations into Discrepancies in the Application of Regulated Foreign Exchange Charges and Certain Other Relevant Matters".

7.1 **Independent Investigating Accountants Report**

Mr. Haria and Mr. Carrington presented the Report, referred to at A above, prepared by Deloitte & Touche LLP ("D&T"), Independent Investigating Accountants.

A number of Directors expressed concern and disappointment that D&T had not addressed a central issue in their terms of reference relating to the quantification of the financial impact on customers of AIB's breach of Section 149 of the Consumer Credit Act 1995, and that their Report contained no analysis, opinion or judgement. In that regard, Mr. Haria was reminded that AIB's failure to notify its rates to the regulator had, in fact, no impact on customers, because those rates were competitive, and, if notified, would have been approved. Serious concern about the charge rates used by D&T for their work was also expressed.

Mr. Haria and Mr. Carrington, having responded to the Directors' questions, were thanked for their Report and left the meeting.

Mr. Ludwig advised that it was a mistake for D&T not to have recognised the impact on customers, and that, in consequence, their Report did not present a balanced view of the issue.

7.2 **Report of Independent Assurer**

The Report, referred to at A above, prepared by Mr. Lauri McDonnell, Independent Assurer, was noted.

7.3 **IFSRA Report**

A paper marked draft, titled "Irish Financial Services Regulatory Authority Progress Statement on Foreign Exchange and Other Charging Issues at AIB Group as at 22 July", was circulated at the meeting. Its content was reviewed and suggestions were made as to how it might be amended.

7.4 **Controls/Governance Work Flow and Gap Analysis related to FX Charges and Other Matters**

Mr. Bhattacharya presented a schematic indicating where control systems and processes had failed, and the breakdowns at operational, escalation and assurance levels. He also commented on the steps that needed to be taken in respect of personnel, processes and organisation, in order to avoid a recurrence. He responded to questions, and was thanked for his report.

CHAIRMAN'S
INITIALS

AIB01301

7. **Investigation into Foreign Exchange and Other Charges** (Continued)

7.5 **An Independent view of the AIB Culture**

Dr. Peter Scott-Morgan, in a presentation, set out the results of recent research he had conducted in respect of the AIB culture, through interviews conducted with staff. At the outset, he explained how AIB, like any other company, is managed according to written rules, and how, through factors beyond anyone's immediate control, parallel unwritten rules also develop. He advised that a company's culture is the sum of all unwritten rules, and that, by understanding what drives the unwritten rules, as well as how the unwritten rules combine to create unintended consequences for business performance, actions can be taken to ensure that behaviour is aligned with strategy. He then commented on AIB's unwritten rules which combined to create behavioural consequences that were perceived as the largely positive AIB "culture". He noted, however, that the concomitants of these unwritten rules were trade-offs, which he then discussed.

He noted that AIB had already commenced a programme to transform itself into a customer-focused enterprise, and, as a result of work done to date, was now in a position to move to the next, more difficult, phase of its change strategy, namely, to get full alignment of behaviour with strategy. The actions that required to be taken in that regard were as follows:

- Encourage an environment in which transparent, open and honest communication is the norm.
- Foster an environment where AIB can learn from its mistakes and sensible experimentation is natural.
- Increase accountability and transparency in performance management and reward systems.
- Balance the short-term approach to business with an appropriate emphasis on more strategic thinking.
- Align structures, systems and people to reinforce an agreed version of the Enterprise mindset.
- Ensure that talent is maximised to provide optimal "bench strength" at all levels and in all Divisions.
- Untap the potential of the top teams to create a legacy of sustainable growth in shareholder value.

At the conclusion of his presentation, Dr. Scott-Morgan advised that AIB did not need a major new Renewal Programme but, rather, that Management should send the following signals of continuity:

- A. "Our broad goals remain the same.
- B. We've significantly moved towards them in the last few years.
- C. The overall ways to achieve the goals remain very similar.
- D. We are now moving to the next (difficult) phase of our transformation, where we align everything with our strategy.
- E. That requires us to take account of lessons learned in the early phases and build those lessons into how we move forward."

Dr. Scott-Morgan responded to question, and was thanked for his report.

7.6 **Management Action Recommendations**

Mr. Buckley presented his paper, under the above title, setting out management's actions and recommendations designed to ensure greater alignment between growth and control. These were summarised under four main headings, as follows:

CHAIRMAN'S
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7. **Investigation into Foreign Exchange and Other Charges** (Continued)7.6 **Management Action Recommendations** (Continued)**Customers**

- Customer Complaints: Programme to raise the profile of customer complaints, including adoption of FSA standards for complaint handling; CEO to assume enterprise-wide accountability for the Programme; appointment of Divisional customer care champions; measurement of key performance indicators; quarterly analysis to Board; half-yearly review for Board of top 5 issues; annual summary for Annual Report; and quality assurance process.
- Fees and Charges: annual independent audit of a random sample of customers, the results to be published internally and sent to IFSRA.
- Products: all pricing to be automated; product range to be simplified.
- Competitor Comparison: communication to customers and staff of the level of competitiveness in respect of Fx transactions in Rol.
- Repayment Process: Programme of actions to repay affected customers, including relationship management contact and an advertising campaign.

People – Values and Behaviours

- Escalation of Problems/Issues: comprising a new 'Safe to Speak your Mind' policy, an ombudsman-like report to the Board of all escalation matters, details of specific cases to the Audit Committee on request.
- Understanding Compliance – Assurance: introduction of a 'Driving Licence' for employees, capturing Business Ethics, Money Laundering and other relevant matters which form part of the assurance process.
- Culture – Embedding the 'well managed growth' concept: broad agenda for action to be developed in the coming months by the GEC to address the issues at 7.5 above.
- The AIB Way Code of Leadership Behaviours: Code to be formally launched in September.
- Defending our Position: strong representation before Oireachtas Committee to address Fx rates value for money comparisons, etc.

Organisation and Control Environment

- Director of Operations: an appointment to be made to this new position, which will be responsible for defining an operations management strategy to reflect and meet current and emerging business needs.
- Frontline Quality Assurance: new function in first line of defence, covering all branch and non-branch front line and support activities.
- Control Functions: recommendations made by Mr. Declan Sheehan to be implemented, following review/endorsement by Audit Committee.
- Group Risk: the Operating Risk process to be upgraded.
- Group Compliance: core accountability for the Group function to be redefined and, on the basis of detailed statements of Divisional and Group accountabilities, to be signed-off at subsidiary board level and discussed with relevant regulators; reporting lines to be amended so that Divisional Compliance Officers will report to the Group Compliance Officer, with dotted line accountability to Divisional MDs.
- Group Finance: reporting lines to be amended to reflect Divisional Finance Officers reporting to Group Finance Officer, with dotted line accountability to Divisional MDs.
- Group Internal Audit: Group Internal Audit to take on more inspection audits during transition to 'first line of defence' Q.A. function.

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7. Investigation into Foreign Exchange and Other Charges (Continued)**7.6 Management Action Recommendations (Continued)****Regulators**

- Relationship with Regulators: Board to Board relationship-building programme to be commenced.
- Mr. Eugene Ludwig: Mr. Eugene Ludwig to be appointed by the Board with the following brief:
 1. "To advise the Board on the suitability of the remedial actions which will be proposed in the first and second stage output from current investigations into discrepancies in the application of regulated foreign exchange charges, to mitigate the risks of any recurrence of such a problem.
 2. To advise the Board on the adequacy and appropriateness of the overall action programme to be proposed by Management at the 22 July Board meeting, to deal with the governance and control issues arising from all relevant current matters under review.
 3. To provide assurance both to the Board and, as required, to IFSRA that AIB will address properly all relevant control, risk, compliance, and governance issues identified as existing within AIB.
 4. To assist in the development of a programme to address risk and control breaks that arise in the future".
- Incident Management Approach: to be developed and agreed with Mr. Ludwig.
- Phase 3 Programme: to be signed-off with IFSRA; will be carried out under the oversight of Mr. Ludwig and have strong involvement from Group Internal Audit.

Following an exchange of views on the various proposals, during which Mr. Buckley responded to the Directors' questions, the Board, having noted the assessment contained in the paper referred to at 7.F. above, approved the foregoing actions and recommendations:

8. Faldor/Armada

Papers setting out the up-to-date position in respect of the matters at caption had been circulated in advance of the meeting and were presented by Mr. Brennan and Mr. Shantz.

Mr. Burke paid tribute to the professionalism and sensitivity with which Mr. Brennan and Mr. Shantz, and their respective teams, had dealt with this matter. The Chairman noted Mr. Burke's heavy involvement as Chairman of the Audit Committee, and thanked him for his significant contribution also.

(Sir Derek Higgs left the meeting at this juncture.)

9. Mr. Eugene Ludwig

The Executive Directors, the Chief Risk Officer and the Secretary left the meeting at this juncture and Mr. Ludwig addressed the Board in Non-Executive Directors' session, following which the Executives returned to the meeting.

Mr. Ludwig advised that, in his judgement, the issues that had arisen were serious, having cultural and legal dimensions, and that the Board and Management had acted correctly as soon as the charging issue had transpired. He advised that the Bank should have a mechanism to deal with problems that arise in future, and he undertook to revert within 6/8 weeks with proposals in that regard.

CHAIRMAN'S INITIALS



[REDACTED]

11. Chief Executive's Report to the Board

The Group Chief Executive's Report had been circulated in advance of the meeting; a Foreign Exchange Competitor Rate Analysis paper was appended to it. The Report included Divisional business updates; a commentary on M&T's financial results for the half-year to June 2004; data in respect of credit growth, credit quality, market risk and operational risk; and other issues. Mr. Buckley commented briefly on a number of items in his Report, and Mr. Doherty and Mr. McKeon commented on business developments in Capital Markets Division and AIB Bank GB & NI, respectively.

(Mr. John B. McGuckian left the meeting at this juncture.)

[REDACTED]

[REDACTED]

12.2 Non-Performing Loans and Provision for Bad and Doubtful Debts: six months to 30 June 2004

A paper under the above title had been circulated in advance of the meeting, and was presented by Mr. Garvey. He commented on the provision charge for the period of 0.20%, the adequacy of provision cover levels, advances growth levels, and the forecast provision charge for the year. He discussed a major provision raised in respect of a Polish corporate case, the outlook in respect of that credit, and a review that had been undertaken in respect of it.

He then reviewed data in respect of the AIB Bank Rol Home Mortgage portfolio, including the growth trend, profile of new drawn balances, referred sanctions and their rationale, arrears, and loan/value profiles. The position was noted.

[REDACTED]

CHAIRMAN'S INITIALS


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13. Group-wide Review of Risk

A paper entitled "Group-wide Review of Risk: H1 2004" had been circulated in advance of the meeting and was presented by Mr. Bhattacharya. The paper reported on the principal vulnerabilities of the Group, and Management's actions in response. The conclusion in the paper was that the Bank was in a greater state of vulnerability than at the 2003 year-end risk review, and that, whereas recent events had revealed control gaps, the Management Action Plan to be presented to the Board (see 7.6 above), if vigorously and comprehensively implemented, would address those control gaps appropriately.

Mr. Bhattacharya commented on the top vulnerabilities, and Messrs. Meagher and Stanley commented on Credit Risk and Fraud, respectively.

Mr. Bhattacharya advised that the controls attestation process being undertaken with the Divisions had not yet been completed, and that he would write to the Chairman, and the Chairman of the Audit Committee, in the following week, as soon as the process had been concluded.

(Mr. Wilmers left the meeting at this juncture.)

14. Trinity Programme

A "PowerPoint" presentation under the above title had been circulated in advance of the meeting, and was introduced by Mr. Bhattacharya. The paper reported on the objectives of the Programme, as follows:

- "To achieve foundation level Basel 11 and IAS compliance for the enterprise by 1 January 2007.
- To achieve advanced level IRB for Capital Markets by 1 January 2007.
- To achieve IAS compliance by 1 January 2005.
- To put in place a supporting enterprise technology infrastructure to enable Basel 11 and IAS reporting requirements.
- To exercise the clear GEC mandate to prioritise the Programme".

The paper outlined the estimated cost of implementation, the strategic rationale for the Programme, the results of an external benchmarking of the status of AIB's preparations to date, the key risks to the Programme, and its current status.

Messrs. Mullins, McCooey and Power commented on various aspects of the Programme and responded to questions, and it was noted that the budget for the Programme would be presented to the Board in September/October, for approval, following further work to be undertaken by the Group Executive Committee.

15. Allied Irish Offshore

A paper, titled "Allied Irish Offshore, Position Paper, July 2004", together with a "PowerPoint" presentation, had been circulated in advance of the meeting, and was presented by Mr. Lynes. He commented on the Vision for the business, its history, its current structure and positioning – with a declining "legacy" business income stream and a growing "new" business income stream – and its "fit" with the Group. He discussed the financial performance, strengths and weaknesses of the business, and issues to be addressed in order properly to position the business for the future. The latter included Isle of Man trust

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15. **Allied Irish Offshore** (Continued)
business under investigation by the UK Inland Revenue, and in respect of which AIB was in discussions with the Inland Revenue.

Mr. Lynes and Mr. Forde responded to questions, and Mr. Lynes was thanked for his report and complimented on the progress made in managing the Offshore business.

■ [Redacted]

■ [Redacted]

■ [Redacted]

Chairman 
Date _____

CHAIRMAN'S INITIALS





THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2a

Appropriateness of property-related lending strategies and risk appetite



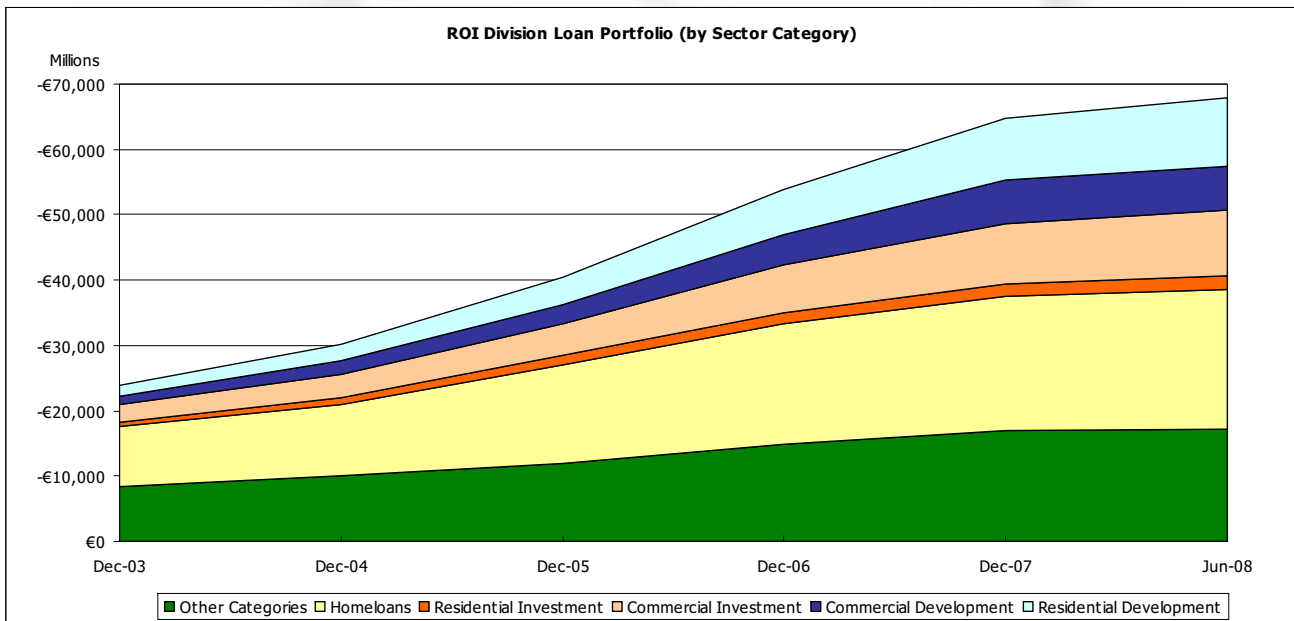
- **The Commercial Real Estate Sector in Ireland has been the subject of much commentary over the first 6 months of 2008. Commentators such as Merrill Lynch have estimated that Irish Commercial Real Estate is between 20% and 30% over-valued.**

- **Commercial Development and Investment Exposure of €15.6bn accounts for 22% of ROI Division's total loan exposure (@ 30th June 2008) and has experienced significant growth in recent years. The segment is a significant income contributor, both directly (circa €200m p.a.) and through related business generated from customers engaged in this segment.**

- **ROI Division has undertaken a review of customers in this segment with exposure >€1m, to determine the impact of current market conditions on the probability of default. The main objective of the review was to identify borrowers where credit risk is noticeably increasing, so that closer management and/or remedial actions can be applied to reduce the risk of future loss.**

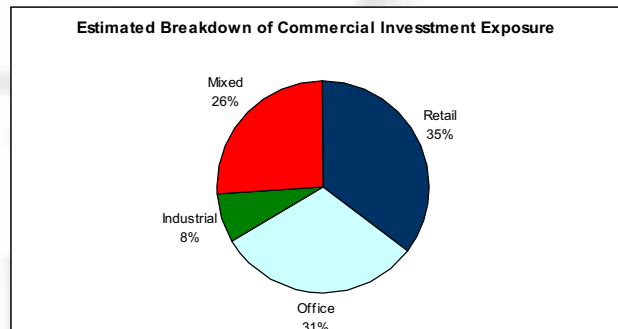
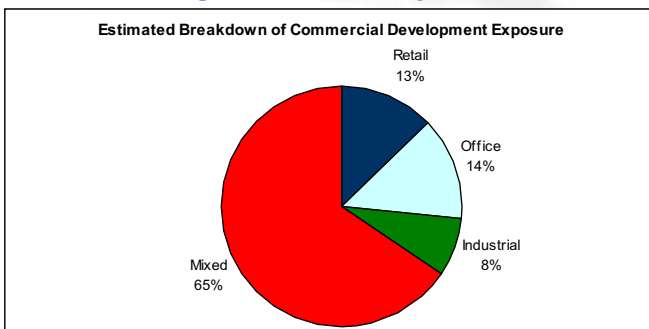


Commercial Development Exposure of €6.1 bn accounted for c9% of total loan exposure at June-08, up from €1.26bn/6% in Dec-03. Commercial Investment Exposure of €9.5 bn accounted for c 14% of total loan exposure at June-08, up from €2.6bn/12% in Dec-03. Overall this portfolio has grown by 300% in the 5.5 Years to June-08 while the remainder of the Loan Portfolio has grown by 162% in that period.





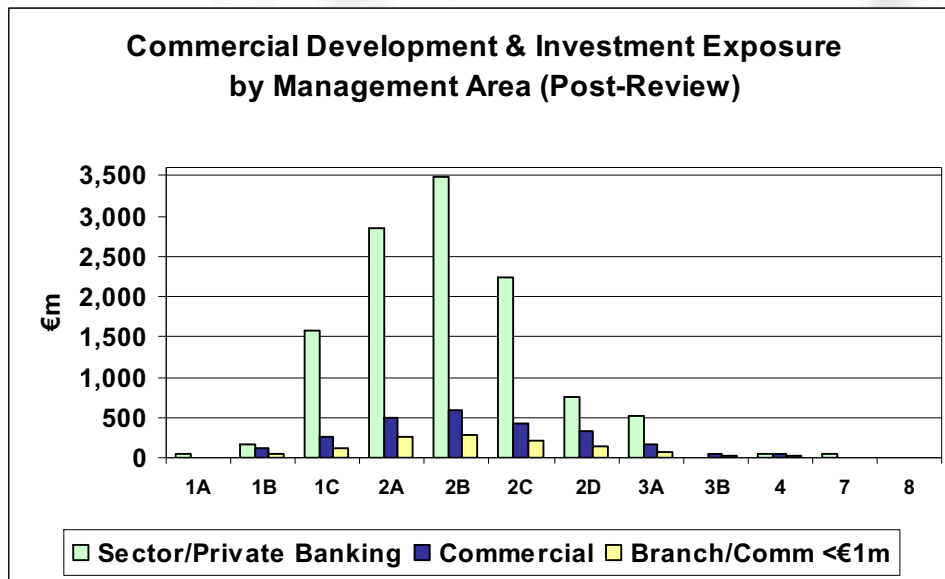
The pie-chart below indicates the sub-segments within Commercial Development & Investment Exposure. It is extrapolated from data in the Commercial Grading System, as Sector Codes do not distinguish between site and development finance. 39% of the exposure relates to Commercial site finance & development with the remaining 61% of the exposure in Commercial Investment.



Different risk characteristics influence each sub-segment. Site finance is vulnerable to holding costs and market risk (i.e. asset price fluctuations). Whereas development exposures are also vulnerable to completion, selling and letting risks, and also tend to have lower alternative use value. Financial risks associated with Commercial Investment include strength of tenants (i.e. ability to pay rent), quality/terms of lease and movement in interest rates.



The review of Commercial Development and Investment Exposure focused on customers with exposure above €1m, which totals €14.5 bn or 92% of total segment exposure. Credit management for these customers is undertaken by Business Banking Sector Teams (€10.6bn), Private Banking €1.2 bn, Commercial Banking >€1m (€2.5bn). In addition Branch/Commercial Banking has exposure <€1m (€1.2bn). The Information displayed on the chart below indicates a lower risk profile for customers with higher levels of exposure.

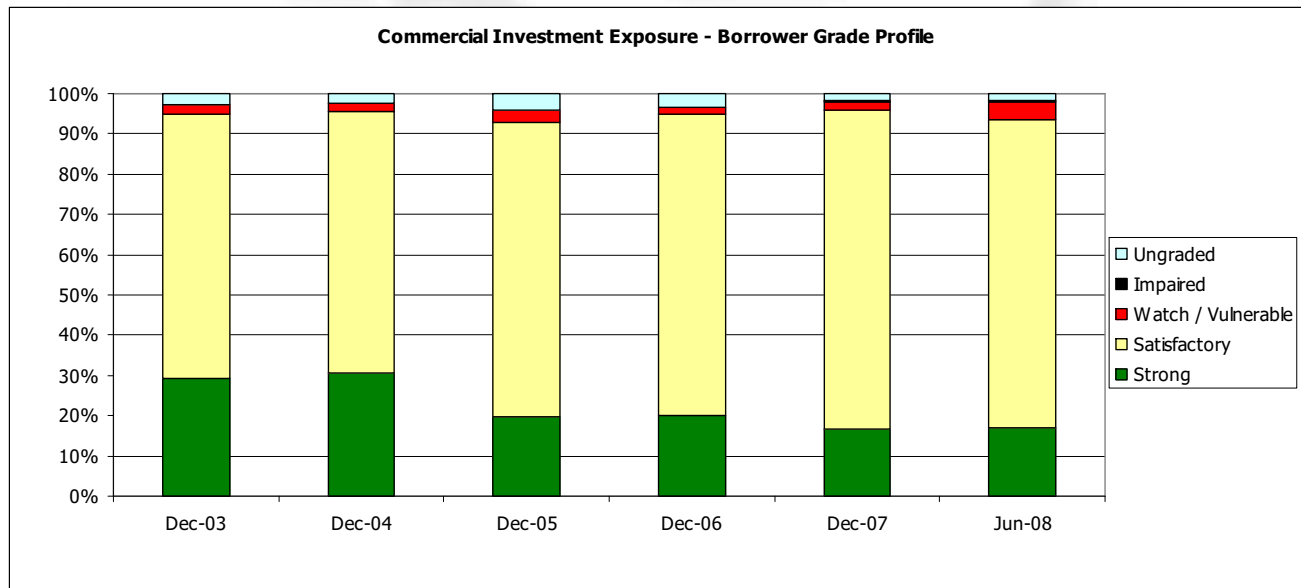




- **In Business and Private Banking, individual case reports were prepared for target customers, i.e. those customers to whom limits were approved for Commercial Development and Investment purposes. The Top 40 exposures in both Development and Investment totalling c €7bn were reviewed by Head of Credit Risk Management. For the remainder of the book (€4.8bn) the reports were reviewed by Senior Lending Executives/Senior Lending Manager (Private Banking) and in all cases the borrower grades were updated accordingly.**
- **In Commercial Banking, the case reports were reviewed by the next discretionary level to the original approver, e.g. Senior Lending Managers reviewed case reports for exposure originally sanctioned by Lending Managers. All reports were then reviewed by Senior Lending Executives**
- **In all cases, the reviews considered account performance, security perfection, level of pre-sales/pre-lets (Development) and level of Rental Income/Occupancy levels (Investment) . Cases assigned to vulnerable grades (3A/3B or worse) were to be placed on a watch list for special management and the overall review findings were to be reflected in changes to the borrower grade profile.**



The chart below displays long-term grading trends for Commercial Investment Exposure. Following the review, while most exposure remains "Satisfactory" at June-08 (€7.3bn / 76.8%), the level of exposure graded "Strong" has reduced from 29.1% (€0.8bn) at Dec-06 to 17% (€1.6bn) at June-08 and the level of exposure graded "Watch", "Vulnerable" or "Impaired" increased from 1.3% (€0.1bn) at Dec-06 to 6.2% (€0.6bn) at June-08).



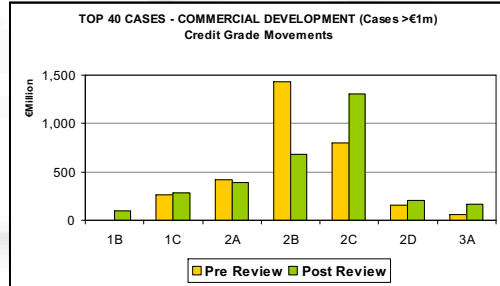
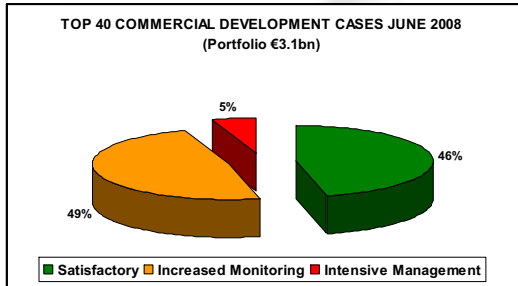
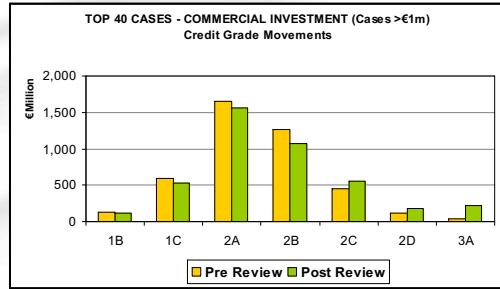
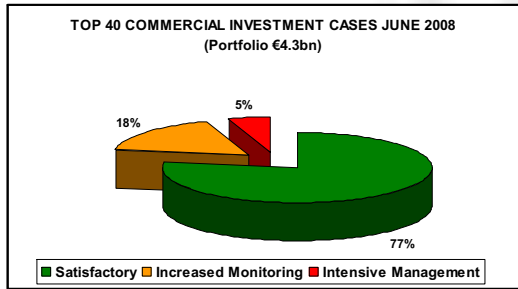
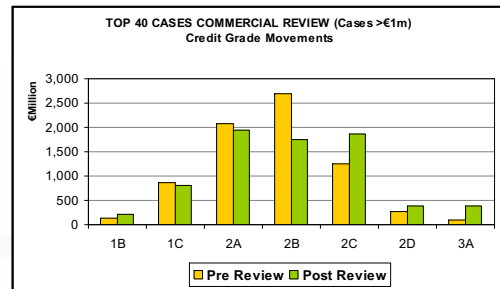
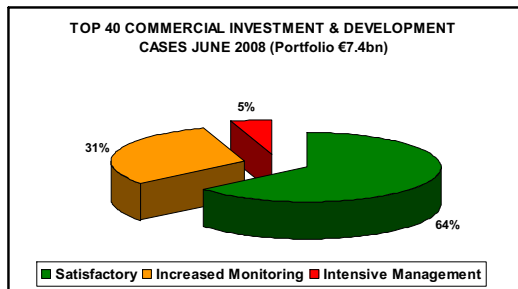


Commercial Property Exposure

Top 40 Investment & Development (€7bn)

Commercial Investment Top 40	
Current Bank Exposure - Breakdown	
Current Limits:	€000's
Interest Only	3,351,555
Capital & Interest	895,349
Total:	4,246,904
Current Gearing Analysis	
Total Value of Current Commercial Security	5,696,000
Level of Current Investment Exposure	4,246,904
Current Gearing:	75%
Analysis of Gearing re Security at Sanction	
Total Value of Security at Sanction	6,140,000
Level of Current Investment Exposure	4,246,904
Gearing re Security at Sanction	69%

Commercial Development Top 40	
Total Exposure €000	2,747,167
Current Bank Exposure - Active Development	
Current Limits:	€000's
Site Acquisition (current development)	764,130
Dev. Finance drawn/available to draw now	736,011
Total:	1,500,141
Current Bank Exposure - Hold Finance	
Current Limits:	€000's
Development Land - Hold (Not under active development)	1,247,026



Issues - Credit Support

Issue	Risk/Impact	Division	Issue Rating	Agreed Management Action (Manager Responsible)
<p>1. Appropriateness of Staffing Credit Support Dublin has a direct reporting line to Gerald Murphy, who in turn reports to Sean Heffernan. Credit Support South reports to Barry McCarthy, Head of Commercial Banking South. Credit Support Galway reports to Dermot Ryan, Head of Commercial Banking West.</p> <p>With the increase in the number of cases being coded as grade 4 accounts as a result of autograding and the number of grade 4 cases that are being managed by the branches, there is a requirement to increase the staffing levels within Credit Support to manage the additional cases.</p> <p>GI A noted the following:</p> <ul style="list-style-type: none"> • There is a heavy reliance on the experienced personnel within the Department in terms of day-to-day management of the cases. • There are only three staff members in place in the Galway office, who have the skills to manage cases on a daily basis, which includes the Assistant Manager with responsibility for the Unit. 	<p>Risk that the experience levels of staff are inappropriate, as staff have not experienced a credit cycle and/or there are not sufficient staff to manage cases. This could lead to the bank missing significant credit events on accounts and the subsequent financial loss.</p>	ROI	Important	<p>I agree with the point raised and agree to sit down by the 30th of June to develop and agree a staffing action plan.</p> <p>Sean Heffernan, Lending Executive, Commercial Banking</p>
<p>2. Operational Procedures There are Operational Procedures in place within Credit Support Dublin, which outlines the key procedures to be followed in relation to the hand-over, day-to-day management and upgrade/down grade of accounts. However there are no defined procedures in place in Galway or Cork.</p> <p>The procedures in place within Credit Support Dublin should be reviewed and rolled out to the Cork & Galway offices.</p>	<p>Risk that staff are not aware of the procedures to be followed in managing cases on a day-to-day basis, which could lead to inappropriate action being taken and/or no action being taken on a case.</p>	ROI	Minor	<p>Management have agreed an Action Plan</p> <p>Sean Heffernan, Lending Executive, Commercial Banking</p>

AIB GROUP – KEY CREDIT CONCENTRATIONS

Property, Building & Construction

Dec-07		DIVISION	Sept-08		FxN Growth
€m	% of Advances		€m	% of Advances	
27,804	22%	Republic of Ireland	30,301	22%	9%
10,054	8%	AIB GB/NI	10,189	7%	9%
6,696	5%	Capital Markets	6,842	5%	2%
1,857	1%	Poland	2,823	2%	42%
46,140	36%	Group Total	50,155	36%	8%

- Property, Building & Construction advances have increased by 8% (Fx Neutralised) since December 2007 with this sector representing 36% of Group Advances (At December 2007 the figure was also 36%).
- The growth in this sector has slowed in each division when compared with growth for the same period in 2007: ROI Division of 24%, GB/NI of 25%, Capital Markets of 23% and Poland of 43%.
- This broad sector category continues to be well diversified by sub-sector and geography.
- The single largest sub-sector is Commercial Investment which totals €20.7bn for the Group, of which the largest divisional components are €10.5bn in ROI and €5.3bn in Capital Markets. Commercial Investment by its nature has a strong element of tenant risk and is spread across the following property types:
 ROI: Retail 37%, Office 29%, Industrial 8% and Mixed 26%
 Cap Mkts: Retail 22%, Office 45%, Industrial 3% and Mixed 30%

The Group's Property, Building & Construction portfolio can be categorised into the following sub-sectors:

AIB Group – Property, Building and Construction					
	ROI	* GB/NI	CM	* Poland	Group
Commercial Investment	34%	36%	79%	42%	41%
Residential Investment	7%	17%	5%	1%	9%
Commercial Development	21%	12%	7%	26%	17%
Residential Development	35%	28%	8%	26%	30%
Contractors	2%	7%	1%	5%	3%
Total	100%	100%	100%	100%	100%
Balances €m	30,301	10,189	6,842	2,823	50,155
As a % of Divisional Advances	40%	43%	25%	30%	36%

Note: * An element of management estimation has been applied in this sub-categorisation.

Separate presentations on our exposure to the Residential & Commercial Property sector in ROI Division and on the UK Commercial Property sector are being made to the Board in November, by the ROI Divisional Chief Credit Officer and the UK Divisional Chief Risk Officer respectively.

Property Concentrations Prudential Reporting to FR

For Prudential reporting, the Financial Regulator currently applies a constraint on sector concentrations equating to 200% of own funds to one sector, or 250% to two related sectors. At December 2007, AIB Plc. (i.e. excluding Poland, UK and part of Capital Markets Divisions) investment exposure equated to 260% of own funds, and 380% when combined with development / land exposure, thus breaching constraints. The Financial Regulator is currently reviewing its Sectoral Concentration Framework, including the use of limits. AIB has input into this review.

As at September 2008, AIB continued to be in breach of these limits, (275% for investment exposures and 390% when combined with development). Part of the reason for the increase over December 2007 relates to a transition from Basel I to Basel II whereby assets were calculated under Basel I and Capital calculated under Basel II at December 2007, whereas both assets & capital were calculated under Basel II at September 2008.

MINUTES OF THE BOARD MEETING**of
ALLIED IRISH BANKS, p.l.c.****held on Wednesday, 14 June 2006,
at Bankcentre, Ballsbridge, Dublin 4, at 8.00 a.m.**
-----**PRESENT:**

Dermot Gleeson	Chairman
Eugene Sheehy	Group Chief Executive
Adrian Burke	
Kieran Crowley	
Colm Doherty	
Don Godson	
John B. McGuckian	
John O'Donnell	
Jim O'Leary	
Michael J. Sullivan	
Jennifer Winter	

IN ATTENDANCE:

W. M. Kinsella, Secretary
 Bob Cowell, Makinson Cowell – Item 5
 John Forbes, Makinson Cowell – Item 5
 Alan Kelly, GM, Group Finance – Item 5
 Maeliosa O'hOgartaigh, Head of Accounting and Finance,
 AIB Group – Item 6
 Kevin Garvey, Head of Group Credit Review – Item 6
 Mon O'Driscoll, Head of Investment Banking, AIB Capital
 Markets – Item 7
 Nicholas O'Gorman, Associate Director, AIB Corporate
 Finance – Item 7
 Eugene Ludwig, CEO, Promontory Financial Group, LLC
 – Item 8
 Jim Kamihachi, Senior Principal, Promontory Financial
 Group, LLC – Item 8
 Shom Bhattacharya, Group Chief Risk Officer
 – Items 8 and 10
 Steve Meadows, Director of Operations and Technology
 – Item 10
 Marcel McCann – GM, Enterprise Business Architect
 – Item 10
 Seamus Doherty – GM, Corporate Development and Cost
 Management – Item 11

Apologies for inability to attend were conveyed on behalf of Mr. Padraic M. Fallon
 and Mr. Robert G. Wilmers.

NUTE BOOK

2. **Group Chief Executive's Report**

The Group Chief Executive's Report had been circulated in advance of the meeting. It commented on the Group's financial performance to April 2006, Divisional business developments, credit growth, credit quality, operational risk, market risk, and other issues. There was appended to the Report a "Board Dashboard" summarising the top 10 risks, the top 5 Internal Audit Issues, the top 5 Compliance Issues, and the top 5 Projects.

Mr. Sheehy commented on some of the matters in his Report, and discussed the level of recent SSIA maturities, the continuing strength of the home mortgage market in Ireland, options being pursued as an alternative to the previously proposed JV investment with An Post, and the state of the Credit Union movement and regulatory concerns in that regard. He commented also on the Competition Commission's review of banking in Northern Ireland, the output of which was expected to be negative to income.

Mr. Doherty commented on the business of Capital Markets, noting the high levels of volatility in financial markets and uncertainty concerning future interest rate levels.

The Chairman referred to the Board Dashboard document, included at his initiative, and indicated that its next iteration would be refined to a more concise reminder of the top issues.

4. **Group Management Accounts**

The Group Management Accounts to April 2006 had been circulated in advance of the meeting and the indicative Accounts to May 2006 were circulated at the meeting, and were presented by Mr. O'Donnell.

He commented on the high-level Divisional results to April, variances against budget, and other key statistics. He discussed each Division with reference to the dynamics of its net interest income and profit and loss account, changes in aggregate deposit and loan volumes and margins, and the margins on, and income from, the different asset and liability classes. **He then reviewed the indicative Accounts to May 2006.**

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4. **Group Management Accounts** (Continued)

Mr. O'Donnell reported that, on foot of the Board's approval of 18 May 2006, some €1bn equivalent of Tier 1 Capital had been raised. He advised that while the sterling issue had been oversubscribed, demand for the euro issue had been weak and the pricing difficult. The amount raised would result in a 2006 year-end Tier 1 ratio of c. 8%, and a two-year horizon in respect of capital resource adequacy.

The above was noted, and Mr. O'Donnell was asked to revert to the Board with information about Balance Sheet interdependencies and modelled scenarios beyond a two-year time horizon.

5. **Investor Relations Study**

A paper, prepared by Makinson Cowell, summarising a report of interviews conducted by them in March and April 2006 with representatives of 25 fund management groups in Ireland, the UK and North America, had been circulated in advance of the meeting. The interviewees included 13 of AIB's top 25 shareholders, who collectively controlled 25% of AIB's shares. Mr. Cowell, in a presentation, commented on the key messages in the above paper, as follows:

- "Institutional investors have difficulty describing AIB's strategy at a Group level and quickly move to focus on individual divisions.
- The outlook for the Irish financial services market is judged to be very positive. Investors are confident that AIB will continue to compete effectively, will maintain its strong market positions, and will continue to prosper.
- The GB strategy is widely understood and meets with universal approval, 'SME' and 'niche' being frequently used to describe the scope of the business.
- Investors express a wide range of views about the positions of BZWBK in the AIB portfolio of businesses and the outlook for the Polish banking market. US-based investors are more enthused than their counterparts on this side of the Atlantic.
- The big question for investors is whether this Polish business should have a long-term future as part of AIB, given the need to build scale, or whether this asset would be better sold at an attractive price.
- Most interviewees see Capital Markets as a successful and well-run business which represents a natural extension to existing corporate relationships and which has an appropriately low risk appetite.
- Return on equity is the dominant measure used by investors to assess AIB's operating performance.
- In the case of M&T, the message is clearer; most would hope for an eventual exit, but there is no clamour for an immediate sale.
- AIB's relationship with the institutional investor has developed positively since late 2004. There are increased comfort levels with the strategy, management, financial performance and risk. As was the case in 2004, the biggest challenge is defining strategy regarding M&T and BZWBK, and the market would welcome clarity here."

Mr. Cowell and Mr. Forbes responded to questions, and were thanked for their report.

CHAIRMAN'S
INITIALS


AIB01B01

8. Review of Risk Governance at Allied Irish Banks, p.l.c.

A report under the above title, prepared by Promontory Financial Group, LLC, had been circulated in advance of the meeting and was presented by Mr. Ludwig. The report contained the following recommendations:

(a) "Compliance Risk Management

-that AIB review opportunities to speed-up compliance and compliance-related initiatives.

(b) Operational Risk

-that AIB take immediate steps to ensure business units implement comprehensive programmes to test and monitor the effectiveness of operational risk controls.
-that AIB enhance the killer risk process so that it can be used to identify the operational risks that have the largest impact on capital and to fully evaluate its exposure to tail risks.
-that the operational risk dashboard include measures that show AIB's cumulative operational risk losses over the past year and where operational losses are most significant.

(c) Credit Risk

-that AIB continue to manage its credit risk in a conservative and prudent manner as it seeks to increase the overall yield of the loan portfolio. This process is dependent on the use of models, a necessary tool of modern banking, but models can be wrong. We do not foresee any immediate difficulty for AIB resulting from the use of new quantitative tools; however, given the number and scope of the ongoing initiatives, it seems prudent for AIB to continue to manage assiduously and back test the performance and profitability of its loan portfolio while the Board and management become comfortable with the reliability of these tools.

(d) Internal Audit

-that Group Internal Audit extend and formalise its current practices for entity-wide risk assessments and audit planning so that identification of the audit universe, area-by-area risk assessments and risk ranking of the entire universe can be assessed holistically and can be presented to the Audit Committee for their review, consideration and feedback.
-that consideration be given to an alternative reporting structure for the Head of Internal Audit because the compensation of the Head of Internal Audit is, in part, determined within areas that are the target of significant levels of audit activity. We believe that AIB should adopt the suggestion of the Basel Committee whereby Internal Audit reports directly to the Audit Committee of the Board, and the Committee makes compensation decisions, etc.

(e) New Product Range

-that Group Risk clarify the requirements on the divisions for reviewing, approving, and reporting new products.

AIRMAN'S
INITIALS


AIB01B01

8. Review of Risk Governance at Allied Irish Banks, p.l.c. (Continued)**(f) Semi-annual Risk Review**

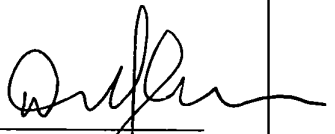
-that the half-yearly Risk Review include an overall risk profile of the enterprise, and that it incorporate some key metrics to support the risk descriptions. An interim risk review should be developed and presented to the Board in April and October. ”

Mr. Ludwig commented on the recommendations in his report and responded to questions. In the course of the discussion, a number of Directors expressed the view that it would be inappropriate for the Board or the Audit Committee to be involved in determining the salary and terms and conditions of middle management in control functions.

Mr. Ludwig was thanked for his report, and Management was asked to revert to the Board, within three months, with its response to the recommendations contained in the report.

9. Bank of Ireland: Financial Results y/e 31 March 2006

A paper summarising the principal features of the Bank of Ireland's performance for the year to 31 March 2006 had been circulated in advance of the meeting. Mr. O'Donnell reviewed the key figures and commented on relevant comparisons with AIB, and was thanked for his report.

Chairman: 
Date: 4th Sept 06

MINUTES OF THE BOARD MEETING
of
ALLIED IRISH BANKS, p.l.c.

held on Thursday, 27 July 2006 at Bankcentre,
Ballsbridge, Dublin 4, at 8.00 a.m.

PRESENT:

Dermot Gleeson Eugene Sheehy Adrian Burke Kieran Crowley Colm Doherty Don Godson John B. McGuckian John O'Donnell Jim O'Leary Robert G. Wilmers Jennifer Winter	Chairman Group Chief Executive
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IN ATTENDANCE:

W. M. Kinsella, Secretary
Kevin Garvey, Head of Group Credit Review – Item 4.2
Shom Bhattacharya, Group Chief Risk Officer – Item 4.3
Paul Quigley, Executive, Risk Integration & Measurement
- Item 4.3
Joe Stanley, Group Head of Operational Risk
Management - Item 4.3
David Meagher, Group Chief Credit Officer - Item 4.2, 4.3
and 5
Tony O'Mahony, Senior Manager, Credit, Legal and Bank
Relations, AIB Capital Markets - Item 5
Philip Brennan, GM, Group Regulatory Compliance &
Business Ethics - Item 6
Ray O'Connor, Head of Group Taxation - Item 7
Maeliosa O'hOgartaigh, Group Head of Accounting and
Finance - Item 8

Apologies for inability to attend were conveyed on behalf of Mr. Padraic M. Fallon
and Mr. Michael J Sullivan.

2. Group Chief Executive's Report

The Group Chief Executive's Report had been circulated in advance of the meeting. It commented on the Group's financial performance to 30 June 2006, Divisional business developments, operational risk, market risk, and other issues, including M&T's financial performance to 30 June 2006. There was appended to the Report a "Board Dashboard" summarising the top 5 Internal Audit Issues, the top 5 Compliance Issues, and the top 5 Projects.

Mr. Sheehy commented on a number of matters in his Report, including an apparent change of sentiment at the top end of the property market, where developers were turning to intermediaries to take equity positions on property financing. While mortgage demand remained strong, AIB was 1% below its normal market share, a position that was not of concern in the short term. He then commented on a recently published EU Report on Retail Banking, which showed the Irish banks as achieving relatively high levels of profitability, and advised that the EU Commission had invited industry participants and customers to submit comments on the Report. AIB had retained expert advice and was reviewing the matter.

Mr. Doherty commented on the expected underperformance of Wholesale Treasury in the second-half of the year, and on the very low level of provisions in the first half. He reported that he had approved the sale of Ketchum Canada to its management for CAD\$2.3m, and that its written-down book value was CAD\$1.6m.

He advised that, following a review of the returns being earned on Corporate Banking's credit portfolio, certain relationships in the UK and the USA were being exited because of the inadequacy of returns. In addition, the Group Executive Committee had decided that, in order to protect the Bank's Irish franchise, AIB should continue to do business with certain major Irish corporate customers, despite margins being below target levels. Mr. Doherty then reported the resignation of [REDACTED] MD, AIBIM, to take up a position in the National Treasury Management Agency.

Mr. Wilmers reported that M&T had bid for 21 Citibank branches in Buffalo and Rochester, and that this would result in M&T becoming the largest bank in the related metropolitan areas. Some 16 of those branches overlapped with M&T branches, which would be closed. He commented on a Federal Reserve Board examination of M&T, the findings of which had been reported to the Board of M&T in June; he advised that, apart from criticisms in respect of compliance-type issues and a view that real estate concentrations were high, the Federal Reserve report had been positive.

4. Financial Results: Half-year to 30 June 2006

4.1 Group Management Accounts

A paper containing the Group Management Accounts for the half-year to 30 June 2006 had been circulated in advance of the meeting. The paper included Divisional Profit Summaries and comments thereon, Operating Profit Summary (before provisions), the Group's Summary Profit and Loss Account, Operating Expenses Analysis, the performance of the main Business Units, the Balance Sheet, Provision Analysis, Total Shareholder Return, and other key statistics.

Mr. O'Donnell commenced his presentation by commenting on Divisional variances in comparison with the May 2006 forecast; he then reviewing the key highlights for the half-year, including:

- EPS growth +29%.
- Strong Divisional profit growth.
- Operating profit before provisions +24% on a constant currency basis.
- Income/cost gap 6%.
- Cost growth 11% (9% excluding mandatory regulatory costs and higher performance-related costs).
- Cost/income ratio down by 2.7% to 52.4%.
- Exceptional credit provision writebacks. Bad debt provision rate of charge 3 bps, down from 13 bps at June 2005.
- ROE 30.4% compared with 20.1% for the same half-year in 2005.

He advised that, in the light of the results for the half-year, it was proposed to change the EPS market guidance for the year from "mid to high teens growth", to "in excess of 20%".

He commented on Divisional performance and variances against budget, and other aspects of the figures, including a comparison of AIB's TSR with peer banks. AIB's relatively low rating (along with the other Irish banks), which was determined largely in London and New York, was regarded as a concern, and it was noted that Management was addressing the matter to the extent practicable.

The financial results for the half-year were noted with approval, and Management was congratulated on the outstanding performance **achieved**.

4. Financial Results: Half-year to 30 June 2006 (Continued)

(Ms. Winter left the meeting towards the commencement of Item 4.1 and returned during Item 8.)

4.2 Credit Review

The Credit Review had been circulated in advance of the meeting and was presented by Mr. Garvey. It contained the following highlights for the half-year:

- The provision charge was €12m, (0.03% of average advances). This was €67m favourable to Plan, and compared with €46m (0.13%) for the same period in 2005.
- Balance Sheet provision cover remained adequate; specific provision cover for identified impaired loans, at 59%, was unchanged. Provisions for unidentified impaired loans had reduced marginally to 0.18% of advances.
- Credit quality remained strong. Group Impaired Loans decreased by €81m (Fx neutralised: €66m), and had reduced to 0.8% of advances, from 1.0% in December 2005.
- Advances had increased by 12%; this was 1% ahead of Plan. The broad Property, Building and Construction sector continued to be a key driver of growth (+19%) and represented 31% of advances compared with 29% at December 2005. Residential Mortgages had grown by +11%, and represented 24.8% of advances, compared with 24.9% at December 2005.
- Provision experience to June 2006 continued to be exceptional and was assisted by strong recoveries, particularly in Capital Markets and GB&NI Divisions. Divisions were forecasting provisions of €117m (0.12%) for the year in comparison with a planned level of €158m (0.17%).

Mr. Garvey, commented on the above, and on the Home Mortgage report included in the paper, including Policy changes introduced in Q2, 2006.

Mr. Garvey then reported that, in respect to the broad Property, Building and Construction sector, AIB was in breach of the limit contained in the Central Bank's Licensing and Supervision Requirements and Standards for Credit Institutions ("the Standards"), which provided, inter alia, that a credit institution should not have risk assets amounting to more than 200% of 'Own Funds' concentrated in any one sector of business or economic activity which was subject to a common, predominant risk factor; where a common risk could be considered to apply to two or more separate sectors, the limit was 250% of 'Own Funds'. In that regard, he advised that AIB's exposures to the broad Property, Building and Construction sector amounted to 260% of 'Own Funds', while the limit was 250%.

He indicated that the matter had been discussed with IFSRA who did not regard it as a significant issue. IFSRA were informed that the breach was likely to continue, and had not requested that AIB change any of its existing practices. He suggested that other banks were also in breach. He then advised that the concept of sectoral concentration limits was under discussion at The Committee of European Banking Supervisors, as well as between the Irish Bankers' Federation and the Central Bank of Ireland. The Board requested that this issue be pursued with IFSRA, given that the Standards clearly required revision. It was noted that while a breach of the Standards might be fully understood at local regulatory level, it could potentially give rise to **issues on foreign filings.**

CHAIRMAN'S INITIALS



4. Financial Results: Half-year to 30 June 2006 (Continued)**4.2 Credit Review (Continued)**

The reported breach of the Standards was noted, and the Chairman directed that Mr. Garvey investigate forthwith, with relevant areas in the Bank, whether the breach had implications for the sign-off of the Form 20F, or SOX certification, or the like.

Mr. Garvey was thanked for his report for the half-year.

4.3 Enterprise-Wide Risk Review

A paper containing the Risk Review for the half-year to 30 June 2006 had been circulated in advance of the meeting and was presented by Mr. Bhattacharya. The paper set out the objectives of the Risk Review and the methodology employed, and commented on the operating environment for risk management. The paper also contained the CRO's 'Statement on Internal Controls', affirming that all material risks had been identified and that no major control gaps were known to Management.

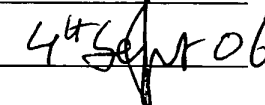
Mr. Bhattacharya commented on the top 10 risks as set out in the paper, and Messrs. Meagher, Quigley, and Stanley commented on the different aspects of risk.

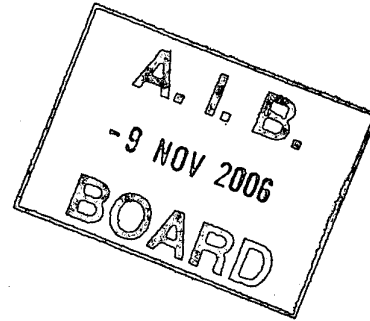
Mr. Bhattacharya responded to questions, and was thanked for his report. He circulated the Risk Dashboard, for information.

Chairman:



Date:





AIB BANK (ROI)
Review of Strategic and Competitive Issues
Board Meeting
9th November 2006

name

AIB BANK (ROI)
Review of Strategic and Competitive Issues

SNAPSHOT AT END 2006

Business performing well...

- Projected out-turn for the year is for profit growth of 23%+ ✓
- Principally reflects the buoyancy in the economy(GDP 5.5% --6.0%) ✓
- but also reflects strong competitive performance

AIB on the offensive...

- Stronger external focus, Re-pricing initiatives, Setting the agenda
- High confidence across the network

Generally sustaining/building market share in the face of growing competition...

Projected year-end growth rates;

end - Sept in line with Mtg. mkt.

	AIB %	Market %
Total Loans	32	29
Business Loans	39	35
Personal Loans	30	26
Mortgages	23	24
Total Resources	20	19
APE Life & Pensions	31	24

....But at the expense of margins and falling ROE ✓

Portfolio Interest margin contracting from 3.20% in 2005 to Forecast 2006 2.91%. ✓

The decline in NIM has been mainly driven by;

- (a) some reduction in overall product margins (7bps)
- (b) a business mix issue (9bps) - customer moving to narrow margin products viz. Prime, Market Loans, Term Deposits and
- (c) a technical factor (13bps) - growth in loans (the divisor in the calculation) being so much greater than any other aspect of our business.

ROE will fall from 37% to 34% driven by similar factors i.e. the rapid growth in assets (32%) attracts a capital requirement that is growing faster than the pace of profit growth (24%).

Internally, 2006 has seen a number of deliveries that are important building blocks

- Implementation of Performance-related pay(Career Framework) ✓
- Roll-out of new Banking Platform across network ✓
- Execution of Hibernian JV and building of Wealth Mgt capability ✓
- **Progress in developing Intermediaries and Alliances**

AIB BANK (ROI)
Review of Strategic and Competitive Issues

LOOKING AHEAD

Principal Issues and Challenges;

Branch Operating Model ✓

Branch resources are stretched, reflecting continuous growth in business volumes and regulatory/compliance requirements, but more fundamentally pointing to the need for a changed operating model which centralizes all activities other than customer sales and service. This problem is compounded by poor systems capability and growing staff turnover. This is restricting our Sales/Relationship Management effort, undermining our Service proposition and frustrating the push for Operational excellence.

*of transactions
- vol up 50%
- undermines its effort*

Core Banking Systems

Our Core Banking systems are 20-30 years old and incapable of meeting today's requirements for automated, reliable and efficient delivery of products and services that can adapt quickly to a more dynamic competitive environment. This is a contributory factor to the congestion in branches, a major obstacle to achieving a more confident position in terms of risk and compliance management and a growing issue in terms of keeping pace with market initiatives and developments. ✓

Competition

In terms of pricing we expect to see aggressive initiatives from the new players on mortgages, interest on current accounts and possible waiving of business current account fees.

Bank of Ireland and Ulster Bank are very focused on undermining our prime position in the Business Market, and PTSB /Ulster Bank are threatening our flow of new Personal Current Accounts ✓

The growing noise in the market also raises customer expectations in other respects—service standards, convenience, availability of credit etc. In this light the urgency of addressing the weaknesses in our Branch Operating model becomes more acute.

Credit Posture

We are at a point when we need to manage our loan book tightly and we are rightly concerned about the concentration of exposure to Property and Construction. However this needs to be balanced with the diminishing relevance of AIB for 25-35 year olds (First Time Buyer's in the Mortgage market) and the appetite of Bank of Ireland and Ulster Bank in particular to exploit any more restrictive approach by AIB to the big players in Property and Construction.

P+C that's where the bus is. If they bank, difficult to recover.

Staffing

Staff attrition has been growing-increasingly reflecting moves to competitors. The loss and turnover of good young people is an immediate issue in terms of branch service standards but worrying also in terms of longer term organizational capacity. Career Framework can play an important role in addressing this issue. ✓

More senior AIB staff are also regularly targeted by Ulster and NIB. Loss of key individuals or a Team could have serious consequences. We must ensure that high-contributing individuals in particular are well managed and well rewarded.

AIB BANK (ROI)
Review of Strategic and Competitive Issues

To Board 24/5/07 **Initiatives Underway**

Project Alpha

This three-year programme will transform our Branch Operating Model. 20 branches are in the early stages of implementation. The objective is to--

-Centralise support, administration, account maintenance, telephony and credit management activities out of branches

-Install more self-service units and Internet kiosks within branches and introduce a heavy promotion of self-service and assisted-service banking

-Harness the savings of time and resources to increase relationship management/ sales capacity by 25%, improve our service offering and drive operational excellence

-Focus the Relationship Management/Sales effort on more clearly defined market segments and create Segmental relationship management/sales teams across the network.

Project Beta

This is the replacement of our Core Banking System, which is a major step in addressing our systems weakness. Again this is a three-year programme which requires the complete redesign of our product architecture and product delivery processes. Project Beta is currently in the advanced stages of evaluating the IFLEX System before coming to the Board for approval to proceed.

Credit 2010

This project is focused on transforming and automating credit decisioning and fulfillment, centralizing credit management activities, and fully embedding the Basle risk management and pricing disciplines into our credit processes. We expect this will take two/three years for full completion.

Product Refreshment

We are integrating "Retailing" concepts and disciplines into our approach to product management. Product lines must position more aggressively in the marketplace with appropriate Spring and Autumn "refreshes"—pricing, promotional or marketing initiatives that are supported by continuous market research and performance evaluation. We have been pursuing this approach through 2006 but have much more to do to develop our capability.

New Revenue opportunities

Wealth Management-Divisional profits from Wealth Management will be 50 mil in 2006. We believe this is an area of rich opportunity and aim to grow profits to 150 mil by 2010

Internet Channel- 30% of personal customers are now "active" users and on-line sales are growing rapidly. We want to develop exclusive on-line product offerings and pursue this opportunity aggressively.

31% of customers using i/Net.

Cost Management

We have targeted all areas of third party expenditure for savings of 15 mil in 2007. Its intended that this will largely fund the Alpha programme implementation during the year.

Not touching B&B
Network: Needs investment.

AIB BANK (ROI)
Review of Strategic and Competitive Issues

In Summary

We have had a strong 2006 from a financial and competitive perspective and have also made good progress with our strategic agenda. Confidence and morale across the network are high. ✓

We must transform our Branch Operating Model and change our Core Banking System if we are to be adequately equipped to keep pace with the growing demands of the marketplace. These projects are underway but they are substantial three-year programmes of change, which will be very demanding of management time and attention. Credit 2010 is also a very necessary initiative and is a significant undertaking in its own right.

5 yr
new.
Big Ag.
for med
team.

Competition will become more intense in all respects and may feature aggressive re-pricing of some key product lines. Notwithstanding this, we believe that we can sustain our competitive positioning. From a pricing perspective, our judgement is that it will be enough for us to respond incrementally to any step-adjustment in pricing. This reflects current patterns of customer behaviour and market "elasticity". However early progress with Alpha will also be important in this regard, as will the development of our Product management/ "retailing" skills, a balanced credit posture, and a relatively stable staffing position.

If the character of the market doesn't change significantly, and we experience reasonable levels of economic growth, we are confident that we can continue to deliver double-digit earnings growth to the Group.

Short term - will feel
pressure in '07. Can absorb
easing & still do dd.

*Circulated at
Meeting*

Property Portfolio Management Framework

AIB Board – 25th April 2007

Shom Bhattacharya
Kieran Bennett
Sean Bree

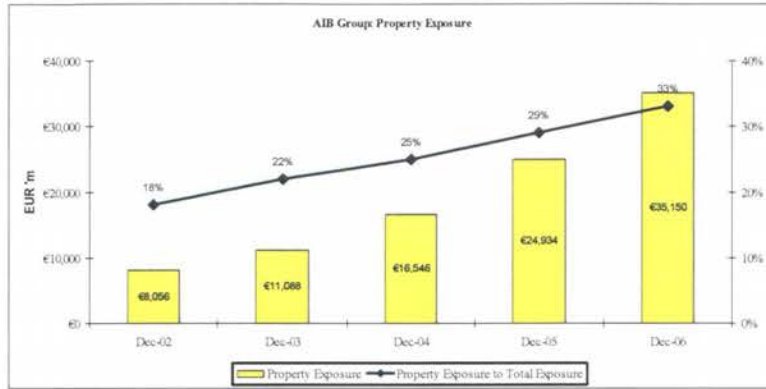


Background

- AIB has Robust Processes to Manage Individual Transactions (bottom up)
- Banks now require Enhanced Portfolio Management Processes (top down)
 - International Best Practice
 - Focus of Regulators & Rating Agencies

2

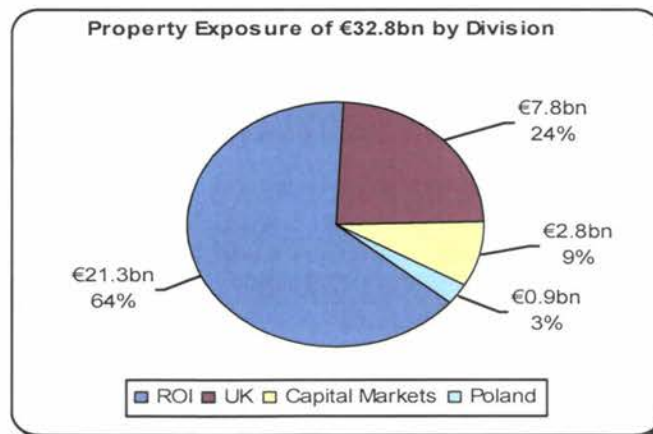
Property as % of Total Advances



- Current Income before Costs: c. €615m (1.9% Gross Yield)
- Business Trend: 37% by Dec '07, 40% by Dec '08

3

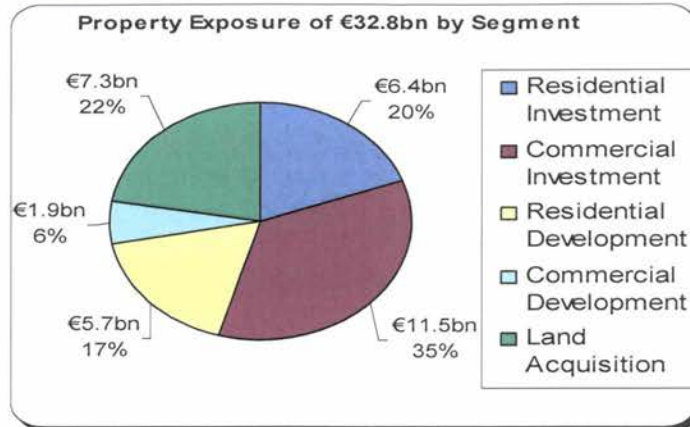
Exposure by Division



92% to ROI & UK Economies

4

Exposure by Main Segments



•ROI / UK – 55% Investment, 45% Development

•CM / Poland – 66%+ Commercial Investment

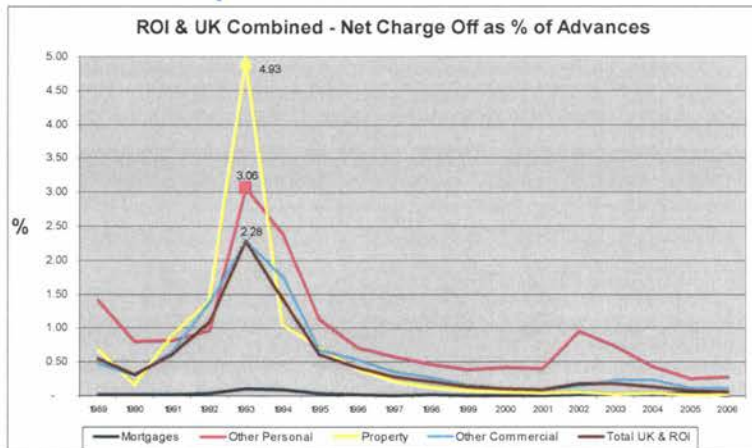
5

Div

✓

Robust process
 supported by
 specialist
 teams

AIB Experience since 1989



• Average Property = 0.12%. Average Commercial = 0.31%

• Property: Peak in 1993: 4.93% , Total 3 years ('92 -'94): 7.41%

• Commercial: Peak in 1993: 3.06% , Total 3 years ('92 -'94): 5.46%

6

Good record
 over 15 yrs.

Analysed +
 assessed the
 P/folio.

Robust Transaction Approval

- Specialist Lending Terms ✓
- Sub Sector Policies / Best Practice
- Property-specific Grading model
- Property-specific Pricing Model (WIP)
- Cross Collateral/ Pre-sales / Recourse / Experienced Sponsors - particularly if speculative purpose
- Approved by Seasoned Executives – generally at Credit Committees
- Regular Independent Credit Review

7

DF

Diff is narrowing in 1/2 mkt, don't have to size

Peer Comparison Property as a % of Total Advances

AIB.	33%
Bank of Ireland	18%
Anglo	81% (min)
HBOS	11%
RBS	11%
Barclays	7%
Lloyds TSB	7%

Rating Agency focus. Acknowledged in recent S & P / Moodys upgrades.

AIB = 42% Non-Mortgage Advances (BOI = 35%)

8

100%

Have 50% of book in
Resid mtgs.

kg

5 year
div.

35% in mtgs v AIB 22%.

S + y still it as
a weakness.

We talk than
more + div in bk.

ES We are up weight in consumer lending,
v a big bank. RBS while label for
Tesco.

kg Barclays have adopted an up w pol in Resp. for historical reasons.

Financial Regulator's Limits kg

- Limits one Sector (200% of Capital) & two Related Sectors (250%)
- AIB 231% (Investment) & 332% (All Property) @ Dec 2006
- FR reviewing its current approach / limits ✓
- Enquiring how AIB manages concentration
- Seeking Banks' input on future approach

Since Oct 2006

@ 231%
200%

- Being reviewed

Written to us +
asked for views on
if on how we
manage & monitor.

Into same frame.

*Just no equiv limits in EU.
Are in USA.*

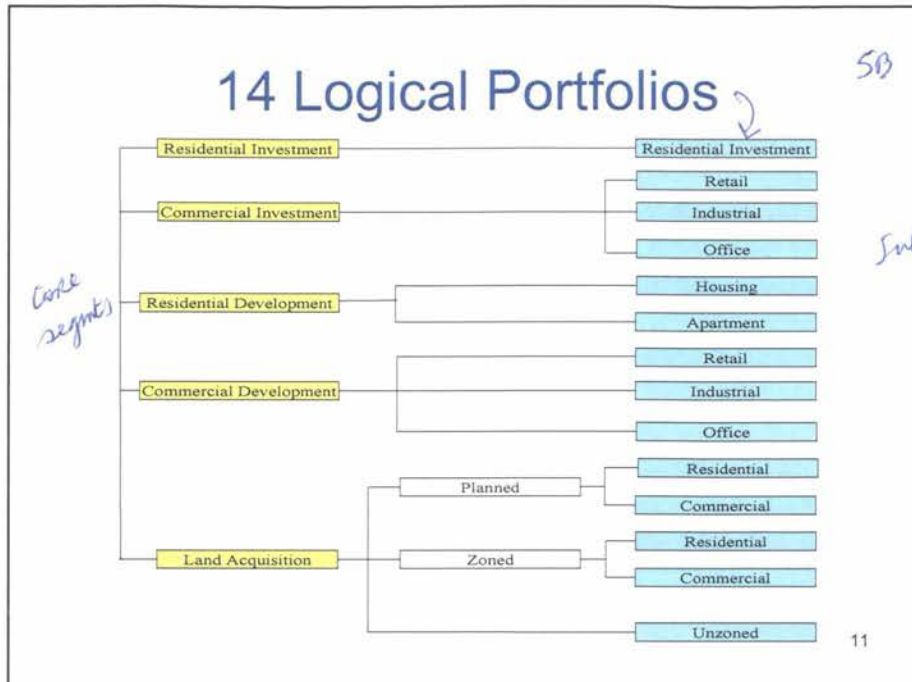
Stam: Blunt. The bank in base.

9

Stress Test Methodology SB

- 14 Logical Portfolios
- Economic Scenarios / Asset Value Falls
- Examples
 - Investment
 - Development & Land
- Methodology Enhancements
 - Diversification / Stressed PD

10



Economic Scenarios % Asset Value Falls

1/70/10 year

Logical Portfolio	Plausible	Extreme
Residential <i>buy to let included.</i>	15	30%
Investment Office	20	35
Investment Retail / Industrial <i>4/4</i>	15	25
Development Office	25	50
Development Retail / Industrial	20	35
Land + Planning	20 / 25	40 / 45
Land + Zoning	25	45 / 50
Land No Zoning	30	60

1/25 year

"nominal" falls, not real.

Potential drop over 3 years

Economic Ind. expr

Value of security

12

Example – Investment

SB

- Office Investment (Logical Portfolio)
 - Extreme Fall: 35% (Assumed)
 - Loan of €7m , Current Value of €10m
 - Stressed Value = €6.5m
 - Loan (€7m) less Stressed Value (€6.5m)
= €0.5m (LTV Shortfall)
 - Current PD = 2.5%, Stressed PD = 30%*
 - Provision = €0.5m x 30% = €0.15m
- * **Note:** Most Tenants will continue to pay rent

judgment, not all science,
get informed by?
SB.
Default: expn in
these situations,
but info on it is v
scarce. Not AIB expn.
KB Science + exp
budget + the multiple

13

Example – Development & Land

SB

- Office Development (Logical Portfolio)
- Extreme fall: 50% (Assumed)
- Loan of €7m , Current Value of €10m
- Stressed Value = €5m
- Loan (€7m) less Stressed Value (€5m)
= €2m (LTV Shortfall)
- Current PD = 2.5%, Stressed PD = 100%
- Provision = €2m x 100% = €2m

disregard only way out.

Note: Reduced by Cross Collateral (where applicable)
Disregards potential sponsor support / security

14

Methodology Enhancements (Diversification / Stressed PD)

- Current Methodology – Very Severe ✓
- Enhancements planned for benefits of ✓
 - Stressed PD below 100% (Devel. & Land) ✓
 - Geographic Diversification
 - Sub-sector Diversification
- Implement an Enhanced Version during Planning Process in Q4, 2007 ✓
 - Significant research still required

*Will be enhanced
version during
Planning*

15

Stress Test Results - Plausible

- 1 in 7 / 10 year cycle: 14% - 10% probability
- €250m provisions over 3 years
- 0.77% of Exposure
- 41% of current income of €615m *annual* *from Prop.*
- 13% of current Group Operating Profit *annual*
- Conclusion
 - Not a significant threat to Bank Profitability ✓

€250 v €1.8bn income

16

ABD
 Annual 100%
 in relation across all assets.
 So is very conservative

Stress Test Results - Extreme

SB

- 1 in 25 year cycle: 4% probability
- €1,965m provisions over 3 years
- 6.08% of Exposure *(2.74%)*
- 320% of current ^{annual} income of €615m
- 98% of Group Operating Profit in 2006 *annual*
- 15% of current Group Capital

SOD
 Is any of the
 14 policies
 disproportionately
 cause this
 provision?

JOS
 Why not impact/
 reduce capital?
 Don't see it. Huge on
 P72.

- **Conclusions**
 - Not a threat to Bank solvency / capital position (in isolation) ✓
 - However still a material impact on Capital

SB
 1/2 Land
 up to 50% part
 But generally uses
 collateralised against
 the property..

AB Are we too similar to Russia hit?
SB 60% of the 2bn will be in ya 1.

TCB
 Would benefits
 not be taken into A/C

17

Conclusions

- AIB has a significant property concentration that is likely to grow
- Extreme stress test would not threaten solvency or capital position
- Acceptable risk for return generated
- Needs careful monitoring & management
 - MIS Challenge
- Resilient and Profitable Portfolio

18

Proposed Management Actions

- Embed Measurement Capability
 - Enhance Methodology – Diversification / Stressed PD
 - Improve Data Quality & MIS
 - Automate Stress Testing
- Enhance Consistent Best Practice, Grading and Pricing Models
- Concentrations to be Reviewed by Senior Management in business as usual Process

19

Recommended Risk Appetite ✓

- Implement Risk-Sensitive Limits
 - Plausible Provisions < 15% Group Operating Profit
 - Extreme Provisions < 17% Group Capital
 - Higher risk / Speculative sub-sectors by Division
- Limits to be confirmed
 - once methodology enhanced, and
 - stress test redone in planning process

20

the average house price was about €310,000 and the average annual rent was €10,400. This translates into a rental yield of 3.3 percent (Chart 4).⁵ The price-rent ratio increased especially sharply over the period 2003-2005 as rents fell (Chart 5) and house prices continued to rise. Rents have begun to recover, registering gains of about 10 percent in the first quarter of 2007 compared with the same period a year earlier.

The rapid rise in the price-rent ratio does not necessarily mean that housing has become overvalued. Recall that in our framework, the price-rent ratio *should* be high, all else equal, when carrying costs are low. At least some of the run-up in prices relative to rents can therefore likely be explained by the drop in interest rates since 1998 (Chart 6), reflecting both Ireland's entry into Economic and Monetary Union and monetary easing by the European Central Bank in 2001-2003. However, the run-up in prices since 2002 appears to be greater than can be explained by interest rates, at least if we use the historical relationship between the two series as our guide. In addition, although mortgage interest rates have been rising since December 2005 as the ECB has pushed up its policy rate, the price-rent ratio has only barely nudged down. As a result, mortgage repayments have jumped relative to rents (Box 1). The elevated level of the price-rent ratio suggests that housing might be overvalued by as much as 30 percent.

Box 1: Is residential property still a good investment?

An increasingly important source of demand for new dwellings has come from those wishing to let the house or apartment on the rental market and expecting to make a capital gain. The share of outstanding residential mortgages accounted for by buy-to-let residential properties has grown from 17 percent in December 2003 to 25 percent in December 2006 (CBFSAI). Increases in prices and rising interest rates have pushed up the financing obligations on these investments. As a result, mortgage repayments on an average buy-to-let property have jumped over recent years to levels significantly higher than rents for such a property. According to estimates by the Central Bank and Financial Services Authority of Ireland, rents and mortgage repayments for an average buy-to-let property were roughly equal from 1998-2004. Prior to 1998, rents generally exceeded

⁵ The rental yield is calculated as rents as a percentage of house prices.

BS
X 6767437

Control Order 2007

DRAFT - Subject to GCE A

REQUEST FOR APPROVAL OF EXCEPTION TO GROUP LARGE EXPOSURE POLICY LIMITS

[Redacted]



1. Background

- [Redacted] He has a net worth of c.€3.2bn (net of total bank borrowing of c.€1.8bn) comprising residential / commercial developments and investment properties.
- Peak underwrite facilities of €0.79m approved by AIB in September 2007.
- The breakdown of the current exposure of €789m is as follows:
 - €84m against self financing investment assets (73% LTV)
 - €149m against site hold facilities (70% LTV).
 - €190m against the [Redacted] in respect of the purchase of ICG shares (€30m site refinance & €160m share purchase). LTV 61%.
 - €228m on the [Redacted] (68% LTV). €100m of this exposure relates to the development of 270,000 sq ft (100,000 sq ft pre-let to [Redacted]).
 - €138m against the Tallaght mixed development site. (63% gearing based on work completed to date. 45% gearing based on completed value of €305m. Development 75% complete)
- Interest is funded as it falls due either from rental income or the cashflow of the group. Account performance is satisfactory.
- To date AIB has primarily banked the [Redacted]. The current proposal is a good opportunity to bank the [Redacted] side of his operation at an acceptable risk level. The Bank will have recourse to the [Redacted] which has a net worth of €1.5bn.

2. Sought - Total underwrite facilities of €991m -new facilities of €202m [Redacted].

- Increase in exposure of €202m is sought to participate in a syndicated facility of €605m with BoSI and NIB in respect of [Redacted] site which is through his [Redacted] Group.
- A summary of the facilities sought is as follows:

	Total Debt €'m	AIB Debt (1/3) €'m
Investment Facility	100	33.33
Development Facility	195	65
Land Facility	145	48.33
Equity Release Facility	165	55
Total	605	201.6

789
202

991

- The site comprises 417 acres with zoning spread across commercial, district centre, residential and amenity.
- Client has completed c.586k sq ft of office space at this point of which 449k sq ft has been successfully let. This is generating a rental income of €6.8m for client which is satisfactory to provide interest cover of 119% on the investment facility sought of €100m in total (€33.33m per bank).
- A development loan facility of €195m (€65m per bank) is sought towards the completion of an additional 657k sq ft of office space and associated infrastructure / roads. The drawdown of the development loan will be capped based on client achieving satisfactory lettings with no more than 300k sq ft of speculative / vacant space at any one time.
- The land loan and equity release facility amount to €310m (€103.33m per bank) with all facilities to be cross collateralized.
- Overall peak gearing amounts to 43% including interest rollup of €20m (€6.67m per bank) on the equity release facility.
- With the exception of this equity release facility, interest is to be funded as it falls due.
- The facility is for a two year term and is subject to refinance / review at that stage. ✓

A. I. B.
5 DEC 2007
BOARD

Only pages 1 to 3 were presented to the Board.

Chairman also received the full pack - up

3. Group Large Exposure Policy - Grade 4 (Weighted Borrower Grade)

Proposed Underwrite Exposure	€991m	Large Exposure Policy Limit	€150m
------------------------------	-------	-----------------------------	-------

The proposed exception to Group Large Exposure is recommended in view of the following key risk mitigants:

- Divisibility of asset and project risk involving a mix of residential, commercial and office projects as outlined below.
- Track record and experience of promoter with effective recourse to a corporate entity with an estimated net worth of €1.5bn [REDACTED]
- Repayment of €138m exposure scheduled over the next 12 months [REDACTED]
- Overall gearing (including non AIB debt) for [REDACTED] and his associated companies is below 40% (based on statement of affairs 30/06/07).
- The facilities now sought relate to the [REDACTED] on a standalone basis is very lowly geared at 43% when the facilities are fully drawn (including equity release).

Exposure €m's	Comment
202	<ul style="list-style-type: none"> ▪ Well spread site in terms of zoning and development. The banks exposure is spread across investment, land, development ▪ Max gearing 43% with letting risk capped at 300k sq ft
228	<ul style="list-style-type: none"> ▪ Significant pre-lets. ▪ Low initial site LTV at 48%.
190	<ul style="list-style-type: none"> ▪ LTV of 61% ▪ Planning Permission refused for 737 apartments and 270,000 sq.ft. commercial space (rejected by An Bord Pleanala on the basis of infrastructure/ transport networks and these issues are now being addressed.) ▪ ICG shares represent long term strategic investment.
138	<ul style="list-style-type: none"> ▪ To clear in c.12 months. ▪ Designated site, substantially complete. ▪ 45% LTV based on completed development value.
90	<ul style="list-style-type: none"> ▪ LTV of 68% ▪ Sites at [REDACTED]
59	<ul style="list-style-type: none"> ▪ 70% LTV ▪ 5 distinct sites with interest being funded.
84	<ul style="list-style-type: none"> ▪ 73% LTV ▪ Self financing.
991	

4. Overall security position

The current proposal represents a gearing level of 43% with an LTV covenant to ensure that this position is maintained below 50%. The following table is a summary of the Banks position based on total hold facilities of €991m:

	Debt	LTV
[REDACTED]	202	43%
[REDACTED]	228	68%
[REDACTED]	190	61%
[REDACTED]	138	63%
[REDACTED]	149	70%
[REDACTED]	84	73%
[REDACTED]	991	

- Overall average gearing is 60% across the Banks total exposure to [REDACTED]. Average gearing excluding the [REDACTED]

5. Repayment Capacity

- Total annual interest payments amount to €27.28m based on peak drawdown of €605m. However, at peak drawdown clients will have additional leases in place which will generate additional rental income.
- On expiry of the facility in December 2009, it is anticipated that an additional 657k sq ft of office space will be fully completed and let with other blocks remaining under construction. Assuming client achieves an average rent of €22.7 psf (based on current average), this will generate additional rent of €10m for client.
- Worst case scenario is that the facility is fully drawn with 300k sq ft of the commercial space remaining unlet (as per condition of sanction). Based on this scenario, the additional rental income amounts to €5.4m (based on clients share).
- The table below summaries the position:

		<i>Scenario 1</i>	<i>Scenario 2</i>
	<i>Current €'000</i>	<i>Projected(657k sq ft let) €'000</i>	<i>Projected(357k sq ft let) €'000</i>
Rental Income	6,800	16,800*	12,200**
Interest (based on full drawdown excluding warehouse facility)	27,280	27,280	27,280
Shortfall	(20,480)	(10,480)	(15,080)

*this assumes that the additional 657k sq ft of space is built and let during the life of the facility (2 years).

** this assumes that 300k sq ft of the completed space remains vacant.

- The projected shortfall can be met from the cashflow of the group.
- The bank will also have recourse to the overall [REDACTED] which has an estimated net worth of €1.5bn.

6. Refinance Risk

- On expiry of the facility, client will have secured a minimum rent of €12.2m (assumes 300k sq ft remains vacant) which could service debt up to €177m at an all in rate of 6.2%.
- This would equate to an investment loan facility of €177m against a value of €256m, 69% gearing.
- The residual debt of €428m would be secured by vacant units / land with a value of €1.1 bn, 39% gearing.
- Based on above we feel that refinancing should not pose a difficulty for the customer.

7. Syndication Strategy

The current proposal is to participate in a syndicated club facility with BoSI and NIB. While the proposal increases AIB exposure by €202m, it is not proposed to further sell down given the low gearing level, the quality location of the site and the fact that the exposure is well spread across investment and development assets.

8. Income in 1st year

The projected EVA for the current proposal is €2.45m. This represents an EVA of 1.22% of exposure.

9. Recommendation

Divisional Credit Committee: Recommended.

Group Credit Committee: Recommended.



Executive Summary

- Flat (self imposed) limits on Commercial Property exposures for UK Division have been replaced by risk sensitive limits to achieve the same objectives (and additional objectives) more accurately
- The primary objectives of limitations on the portfolio size have always been prudential - to prevent inappropriately correlated downside risk in the event of a property crash
- Key limitations of the flat limits included:
 - Failed to distinguish volume from risk, assumed the portfolio was homogenous in risk terms (i.e. all property exposures carried similar downside risk)
 - Adherence provided inadequate risk assurance
 - Risk should be related to reward as well as measured in absolute terms
- With significant advancement in portfolio risk information, we can now more accurately discriminate between exposures and segments that provide inappropriately correlated risk in the event of a property crash
- New risk sensitive limits
 - Stressed Loss ("plausible") as a % of property limits not > 1%.
 - Stressed Loss ("plausible") as a % of Operating Profit not > 25%.
 - Stressed Loss ("plausible") as a % of Property Portfolio income not > 50%.
 - Stressed Loss ("Extreme") as a % of UK Divisional Capital not > 17%.
- Allows for selective growth in property exposure but requires active risk-based management of the portfolio composition *toxic sectors reduced.*

2

UK : Plausible Shock Scenario - October 07

Segment Analysis (£'000)

	Exposures	% of Exposures	Exposures with Shortfall	% of Sector Exposures	LTV Shortfall	Shortfall % of Exposure	Stressed Loss	SL % Exposure
Residential Investment	994,357	13.1%	107,159	10.8%	13,452	1.4%	1,812	0.2%
Comm Invest Retail	1,243,103	16.4%	278,076	22.4%	35,153	2.8%	1,139	0.1%
Comm Invest Industrial	603,835	7.9%	119,372	19.8%	15,513	2.6%	1,188	0.2%
Comm Invest Office	1,101,228	14.5%	287,140	26.1%	48,389	4.4%	2,556	0.2%
Prop Development Residential Housing	901,070	11.9%	97,176	10.8%	14,146	1.6%	3,484	0.4%
Prop Development Residential Apartment	614,469	8.1%	109,375	17.8%	16,546	2.7%	3,880	0.6%
Property Development Commercial	587,614	7.7%	160,261	27.3%	22,502	3.8%	12,100	2.1%
Land Acq Unzoned	49,396	0.7%	24,308	49.2%	3,577	7.2%	1,217	2.5%
Land Acq Zoned	798,123	10.5%	277,953	34.8%	40,452	5.1%	19,359	2.4%
Land Acq Planned	704,590	9.3%	156,277	22.2%	24,802	3.5%	7,060	1.0%
Total	7,597,785	100%	1,617,096	21.3%	234,532	3.1%	53,795	0.7%

Sectors

in plausible shock % of sector with some default.

how much of a shortfall?

after additional security

Exposures - Higher of Balance or Limit

Included in the above is c. £700m of cases which are graded as property during a construction stage but are not BOE coded property as they are coded in the relevant sectors e.g. Hotels.

over 3-yr period.

UK : Extreme Shock Scenario - October 07

Segment Analysis (£'000)

	Exposures	% of Exposures	Exposures with Shortfall	% of Sector Exposures	LTV Shortfall	Shortfall % of Exposure	Stressed Loss	SL % Exposure
Residential Investment	994,357	13.09%	261,770	26.33%	32,128	3.23%	11,716	1.18%
Comm Invest Retail	1,243,103	16.36%	725,368	58.35%	126,991	10.22%	26,890	2.16%
Comm Invest Industrial	603,835	7.95%	340,662	56.42%	57,936	9.59%	14,369	2.38%
Comm Invest Office	1,101,228	14.49%	684,834	62.19%	140,631	12.77%	26,170	2.38%
Prop Development Residential Housing	901,070	11.86%	216,476	24.02%	35,795	3.97%	18,772	2.08%
Prop Development Residential Apartment	614,469	8.09%	253,693	41.29%	46,699	7.60%	25,663	4.18%
Property Development Commercial	587,614	7.73%	308,661	52.53%	67,122	11.42%	55,196	9.39%
Land Acq Unzoned	49,396	0.65%	30,644	62.04%	8,406	17.02%	4,798	9.71%
Land Acq Zoned	798,123	10.50%	563,221	70.57%	130,310	16.33%	86,992	10.90%
Land Acq Planned	704,590	9.27%	472,101	67.00%	105,284	14.94%	62,970	8.94%
Total	7,597,785		3,857,430	50.77%	751,302	9.89%	333,536	4.39%

Exposure - Greater of Balance or Limit

16% of
U.K. Capital
1yr Dividend
profit.
6

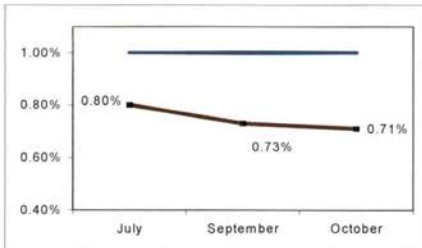
UK Commercial Property Portfolio - Exposures October 2007
Excludes Property Finance Unit

Plausible Stressed Loss / Risk Measurements

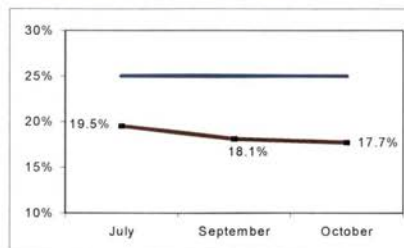
	GB	FTB	UK	Limits
Financial Measurements	£m's	£m's	£m's	
Operating Profit	166	138	304	
Property Income	114	47	161	
Risk Appetite Measurements	£m's	£m's	£m's	
Stressed Loss (SL)	37.69	16.10	53.79	
SL % of Property Exposures	0.89%	0.48%	0.71%	1%
SL % Operating Profit	22.7%	11.7%	17.70%	25%
SL % Property Income	33.1%	34.3%	33.41%	50%

Segment Analysis	SL (£m's)	SL % Sector Exp	SL (£m's)	SL % Sector Exp.	SL (£m's)	SL % Sector Exp.
Residential Investment	1,029	0.18%	783	0.19%	1,812	0.18%
Commercial Investment Retail	675	0.13%	464	0.06%	1,139	0.09%
Commercial Investment Industrial	1,148	0.26%	40	0.02%	1,188	0.20%
Commercial Investment Office	2,351	0.30%	205	0.07%	2,556	0.23%
Property Development Residential Housing	2,997	0.55%	487	0.14%	3,484	0.39%
Property Development Residential Apartment	3,787	0.74%	93	0.09%	3,880	0.63%
Property Development Commercial	12,004	3.01%	96	0.05%	12,100	2.06%
Land Acq Unzoned	616	2.74%	601	2.23%	1,217	2.46%
Land Acq Zoned	7,403	3.82%	11,956	1.98%	19,359	2.43%
Land Acq Planned	5,682	2.27%	1,378	0.30%	7,060	1.00%
Total	37,692	0.89%	16,103	0.48%	63,796	0.71%

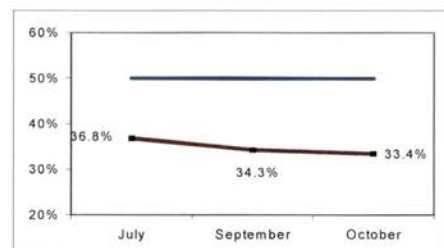
SL % of Property Exposures - Limit 1%



SL as % of Operating Profit - Limit 25%



SL as % of Property Income - Limit 50%



3. (a) Referred Sanctions (by number)

	Year to 31 Dec '04	Year to 31 Dec '05	Year to 31 Dec '06	Year to 31 Dec '07
Total No. of approvals	29,317	32,509	32,474	25,543
Total No. Referred	5,394	5,301	5,605	3,469
% Referred	18.4%	16.3%	17.3%	13.6%

(b) Referred Sanctions (by amount)

	Year to 31 Dec '04 €m	Year to 31 Dec '05 €m	Year to 31 Dec '06 €m	Year to 31 Dec '07 €m
Total Amt. of approvals	4,794	6,192	7,357	5,900
Total Amt. Referred	1,417	1,661	1,932	1,223
% Referred	30%	27%	26%	21%

(HMU / Commercial Banking, AIB F & L from March '04, Commercial & Credit Managers from July '07)

Comment

- In percentage terms, referred cases show a reduction, in both number and value, since December 2006. This reduction is most evident in the latter half of the year and coincides with the introduction of the revised policy criteria in June 2007 (established customers and sons / daughters of Premium customers).

4. Sanctioning Rationale for Referred Decisions

Rationale	Dec 2004	Dec 2005	Dec 2006	Sept 2007
	%	%	%	%
Good Savings/Track Record	26	28	38	28
Additional Supporting Security	13	9	3	6
Strong Connection/H.N. Worth	17	19	17	17
Professional/Good future potential	12	17	13	18
Other (e.g. marginally outside DSR)	32	27	29	31
Total % number	100%	100%	100%	100%

(HMU & AIB F & L and Commercial & Credit Managers September '07)

Comment

- Sanctions by Commercial Managers and Credit Managers were included, for the first, time in September 2007.
- The largest category continues to be 'Other' (33%), the main component of which (72%) is made up of customers who are marginally (< 3%) outside DSR criteria.



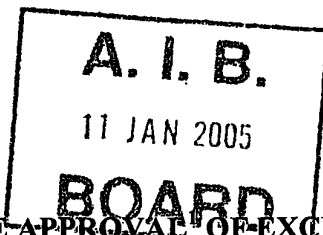
THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2B

Appropriateness of credit policies, delegated authorities and exception management

Board
11th January 2005



Agenda Item No.: 7

**ADVICE TO BOARD RE-APPROVAL OF EXCEPTION TO
GROUP LARGE EXPOSURE POLICY**

[REDACTED] - €11m increase to €322m

1. Background

- In June 2004 Board approved €359m (an increase of €253m) in total facilities to allow [REDACTED] bid for the purchase of the [REDACTED]. His bid was unsuccessful and [REDACTED] acquired the company.
- In July 2004 Board approved €254m in total facilities, including the purchase of the [REDACTED] site in [REDACTED].
- In September 2004 Board approved €311m that included additional facilities of €57m split between the company and personal borrowing.
- [REDACTED]. He has built up a total net worth of min. €500m comprising residential / commercial developments and investment properties. Total bank limits, including AIB proposal, are €639m of which €338m is undrawn.

2. Proposal

- [REDACTED] owned company with [REDACTED] purchased the 6.5-acre [REDACTED] site in September 2004 for €70m. Customer has now requested an additional €11m towards the €16.25m purchase of an adjoining 1.75-acre site.

[REDACTED] will continue to trade from the [REDACTED] location for 3 years pending relocation at a peppercorn rent. [REDACTED] will apply for commercial / mixed residential planning on the site in the meantime based on current zoning.

[REDACTED]	€87m	[REDACTED] Sites plus additional security – combined valued €126m – 69% gearing. There is an interest shortfall guarantee from [REDACTED].
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The positioning of the new site is strategically important, virtually doubling the overall water frontage, thereby enhancing the overall site. The client's operations are largely concentrated in the [REDACTED]. Key mitigants for this exception to Group Large Exposure Policy include spread of exposure on different projects/assets and divisible nature of security if need to realise.

- The Board previously approved debt of €135m against a personal property portfolio -valued at €202m (well spread with yield of 4.9%).

Drawings on this facility will now be restricted to €124m (to accommodate the additional €11m facility) until such time as 50% of sales are contracted (€10/11m) in the [REDACTED] developments – expected March '05. When the limit on the personal facility is reinstated at €135m there will be €10/11m contracted sales (spread over c85 residential units). So, in effect, the net overall incremental risk arising from current proposal for the Bank is the bridging risk in respect of these contracted sales. This is considered low risk and is expected to be cleared by end May 2005.

- Existing other sanctioned facilities of €100m relate to a residential/commercial development at [REDACTED]. There is considerable equity supporting this project. €53m is cash equity and €65m is site value equity.

3. Income in 1st year

The projected EVA (RAROC surplus) in year 1 on the [REDACTED] and [REDACTED] facilities is €1.1m (Gross income - €3.43m).

¹ As the customer required a response in a timescale that precluded advance consideration by the Board, the approval of the Group Chief Executive was sought and obtained on 22/12/04. Confirmation of the Group Chief Executive's decision is now sought from the Board.

Helen Hearnden



THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2C

Analysis of risk concentration in the base, the adverse economic scenarios and the impact on capital structure

The Good Times - AIB (1998-2007)

330%

(Increase in Loans and Advances)

191%

(Increase in Earnings)

25bp

(Average provision charge over period)

9bps

(Historic low provision charge in 2007)

Some extracts from the Senior Management Conference in 2001:

The diagnosis

“An extraordinary company producing ordinary performance.”

The Challenge

“Independence must be earned”

“Standing still is not an option”

The Goal

“Outperformance.”

The Objectives (between 2000-2005)

- double pre-tax profits
- grow EPS by an average of 15% per annum
- maintain ROE at 20% plus
- achieve EPS of 210c
- double market capitalisation to €20bn
- achieve share price of €25

Some extracts from the Senior Management Conference in 2004:

- Title “On the Way Back to Double Digit Growth”
- “Reported EPS Growth 2003:
AIB: 3%
Anglo: 30%”
- EPS Growth Forecasts 2004
AIB: 6%
Anglo: 30%”
- “Double digit growth is the benchmark”
- “We must deliver on stretching budget targets to legitimise our business model”

Business Plans presented to the Board by Management were always ambitious – extracts below

5 Nov 2002

- We confirm our intent to achieve top quartile performance relative to Eurotop 300 financial peer group.

3 Sept 2003

- In Ireland we must be the best bank by a distance.

3 Dec 2003 : 2004- 2006 Plan

- Produce mid single digit EPS growth in 2004 and double digit in 2005.
- RoI Produce double digit contribution growth in 2004/5.

19 Feb 2004 Strategic Direction to 2010

- Be the best bank in Ireland by a distance.

11 Jan 2005

- Strategic Intent to 2010
- Consistent double digit earnings growth during this period.

11 Jan 2006 : 2006 - 2008 Strategic Plan

- Consistent double digit earnings growth during this period.

11 Jan 2007

- Grow profit before tax (before disposals) by 12% and total assets by 16%.

23 May 2007 2007 - 2012 Strategic Plan

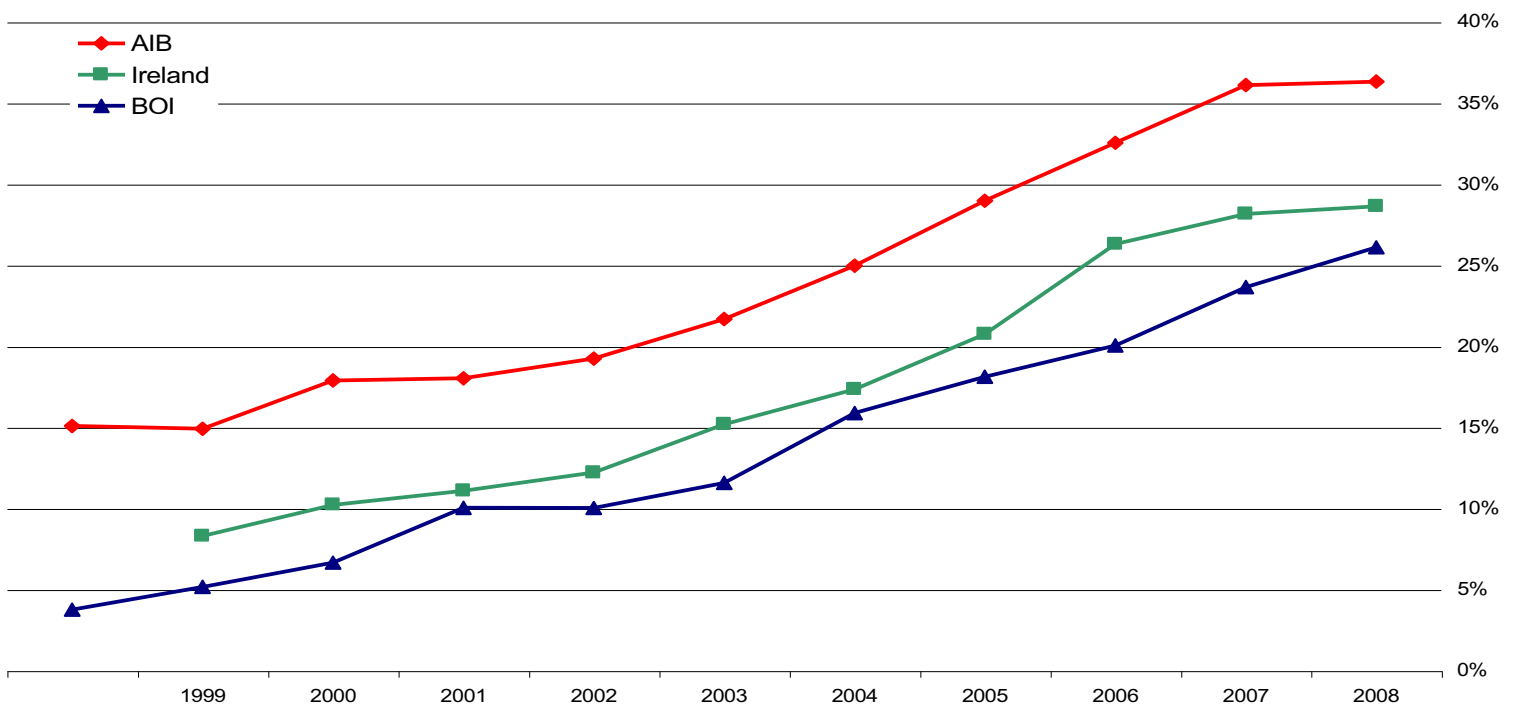
- Maintain our number 1 position in Ireland

Property Lending as the Vehicle of Asset Growth

- Substantial increase in bank lending in the Irish credit market. Aggregate loans and advances grew from **€92bn** in 1999 to **€392bn** in 2008.
- Most of this was property-related. Residential mortgages increased from **€25bn** to **€122bn** in the same period.
- However, a much stronger rate of growth was seen in property-lending (construction and development). This grew from **€8bn** to **€112bn**.
- Property had relatively high margins/fees which allied with significant market demand drove eps growth faster than other segments.
- AIB already had a material exposure to property (15% of advances in 1998) and significant long-term expertise in this area.
- As an indigenous Irish bank, difficult to separate AIB's growing exposure to property from Ireland's growing reliance on construction and development as the engine of economic growth.

Property Lending as the Vehicle of Asset Growth

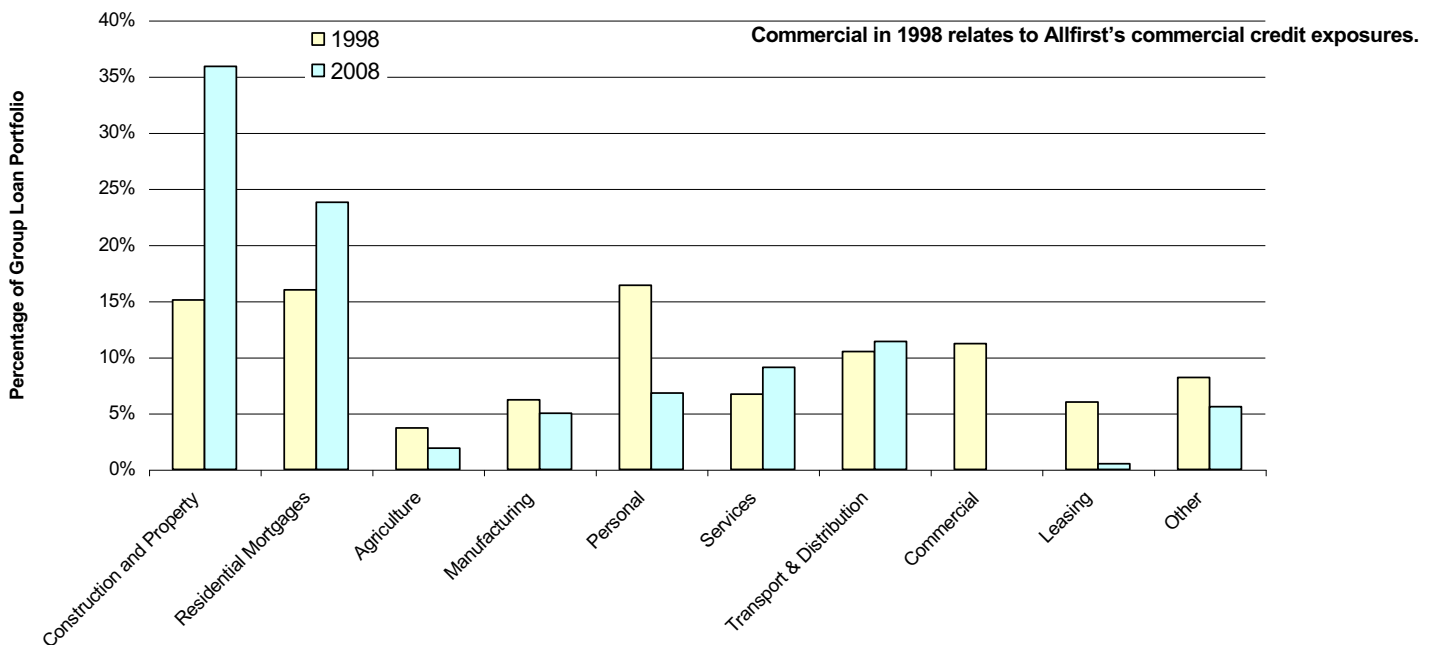
Property Advances as a % of Total Advances



- **As such, the Irish banking system became more concentrated in property lending.**
- **We started (15%) and ended (36%) the period overweight, but grew in line with the market.**

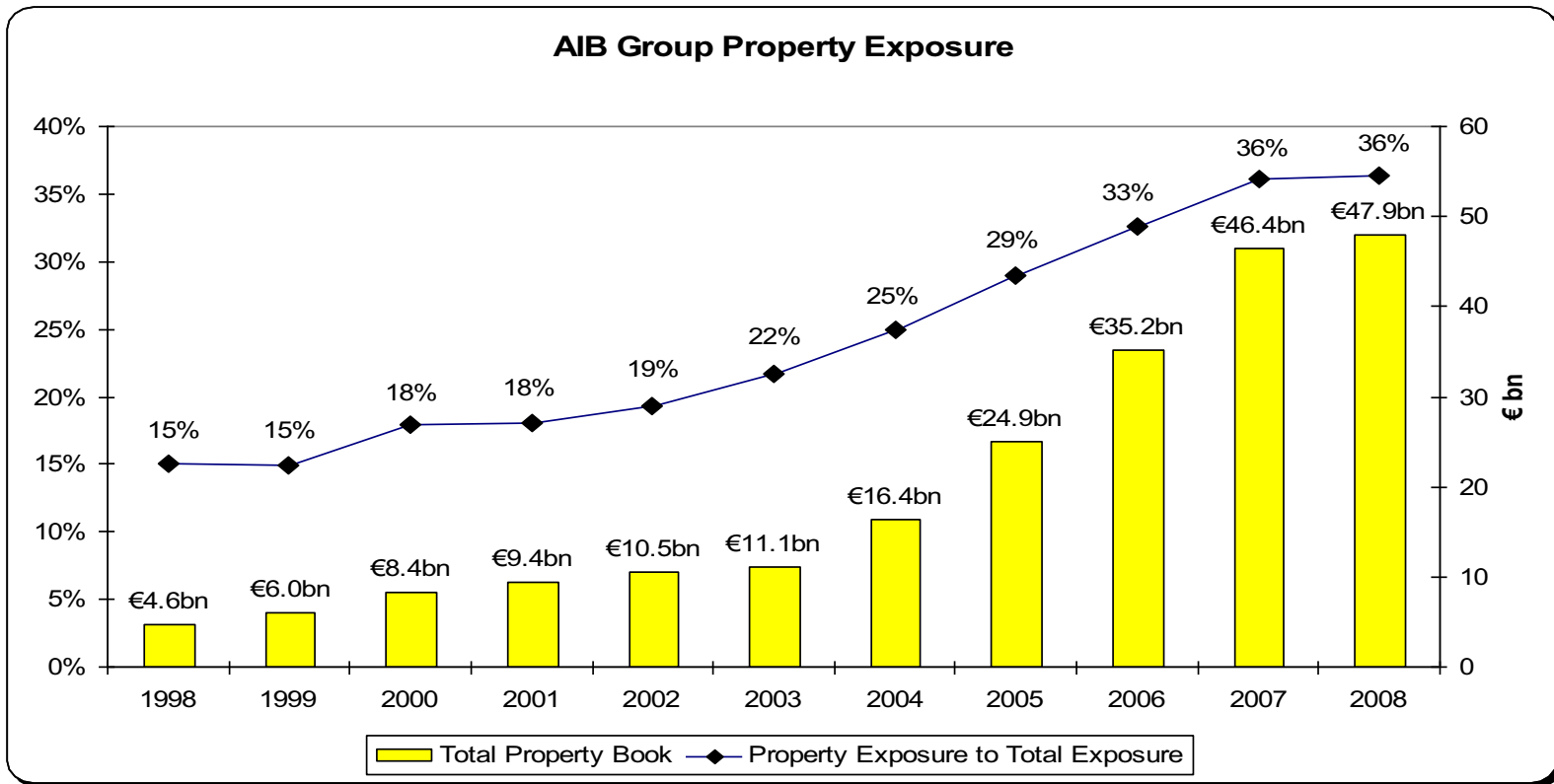
Consequences: Increased Concentration

AIB Sectoral Breakdown
1998 Vs 2008



- **We continued to lend to non-property sectors (commercial/personal), but these grew at a slower rate. Consequently, our loan book became less diversified.**
- **The residential mortgage book grew from 15% to 24% of advances. It could have grown at an even greater rate had we not made strategic decisions around 100% LTV mortgages, self-certified and sub-prime mortgages, etc.**
- **We grew our international lending book in relatively credit-worthy sectors and avoided the mistake that many international banks made in sub-prime, monolines, leveraged finance, etc.**

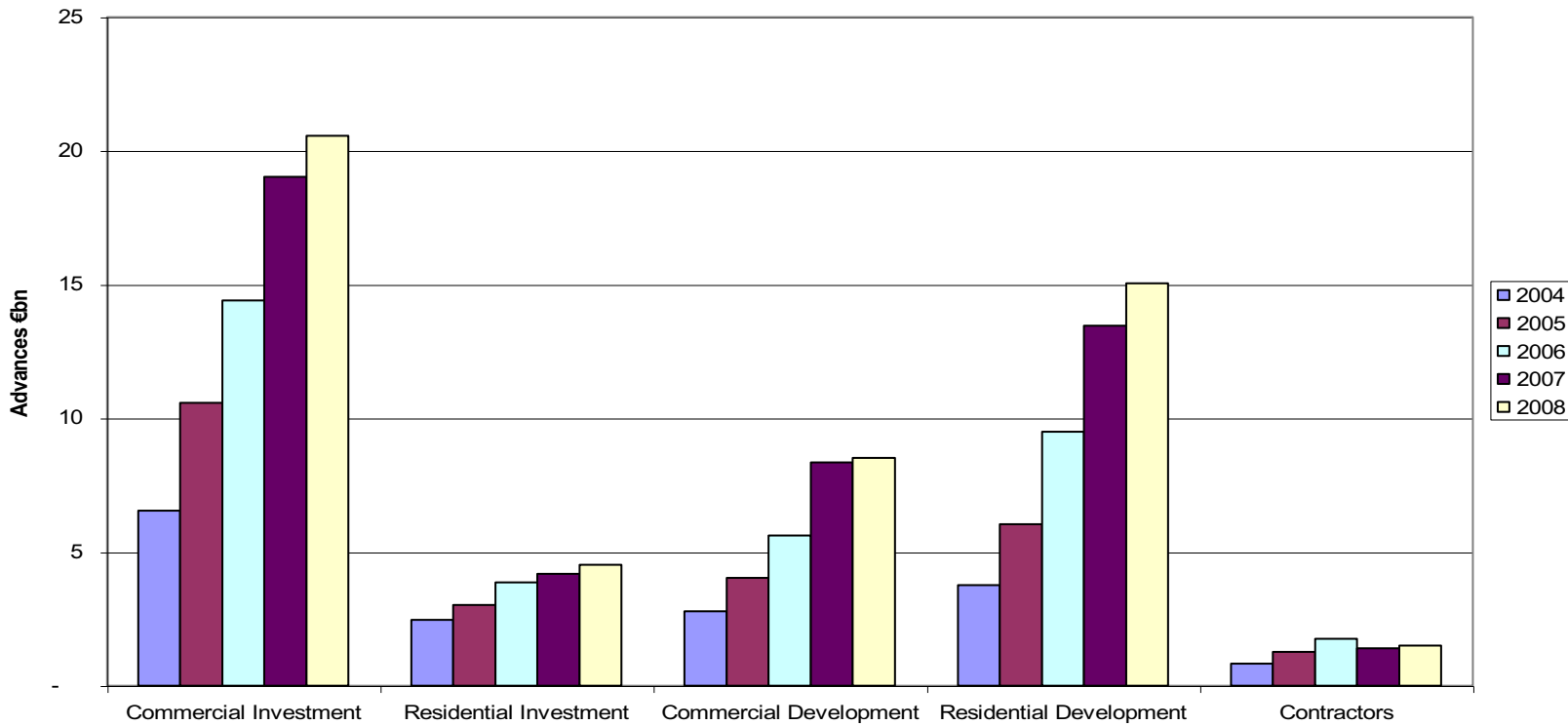
AIB's Growing Exposure to Property



- Between 2004-2007, 46% of the increase in Group advances was property-related.
- This rate of increase in property lending was magnified in ROI, where property lending grew from €10.1 billion in 2004 to €33.3 billion (2008), a compound annual rate of growth of 35%.

Beneath the Bonnet: Property Sub-Sectors

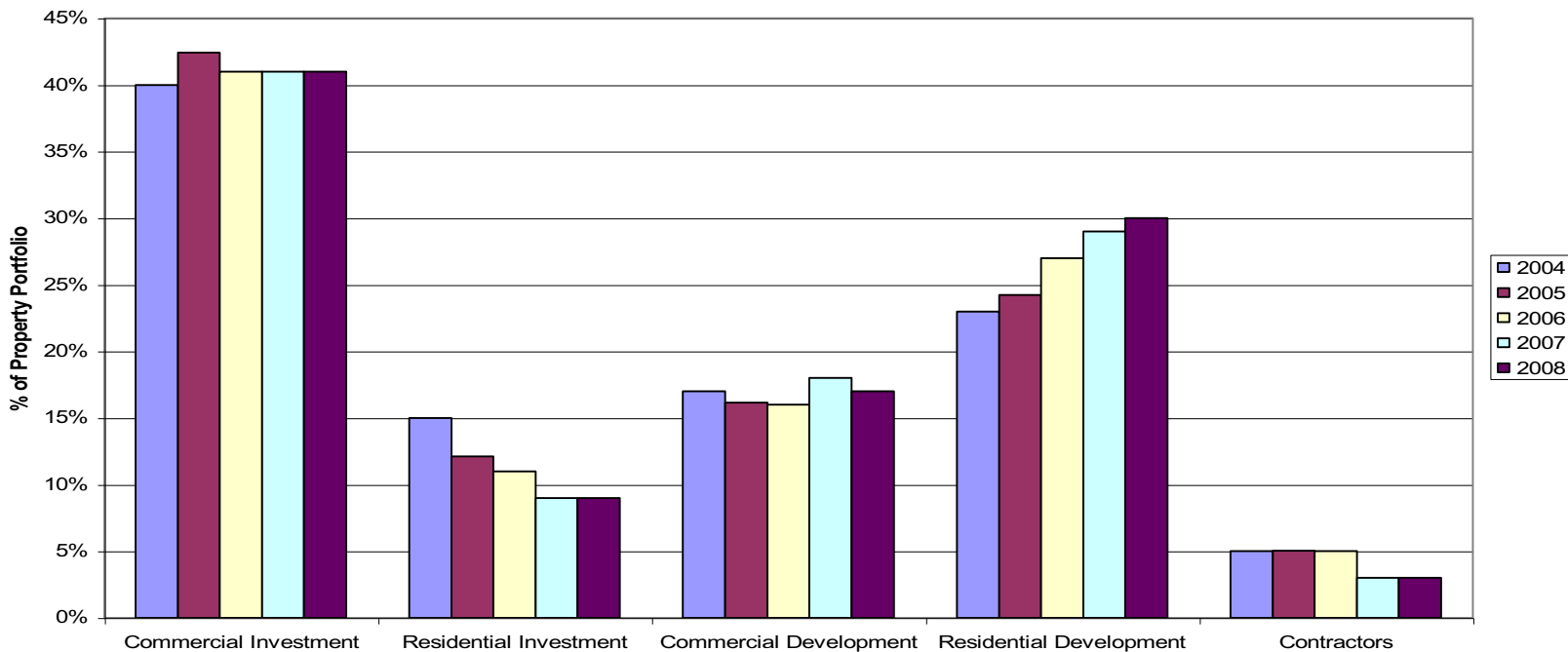
AIB Group Property Portfolio



- We were growing all sectors of our property exposure.
- But some faster than others – notably residential development.

Beneath the Bonnet: Property Sub-Sectors

AIB Group Property Portfolio



- As such, we moved from a 55:45 split of investment to development exposures in 2004 to a 50:50 split in 2008.
- All the increase in the share of development was due to the growth in the residential development book.
- And within development, we had an increasing concentration to **land**. Stood at €12bn as at end Dec 08, representing 25% of total property exposures.

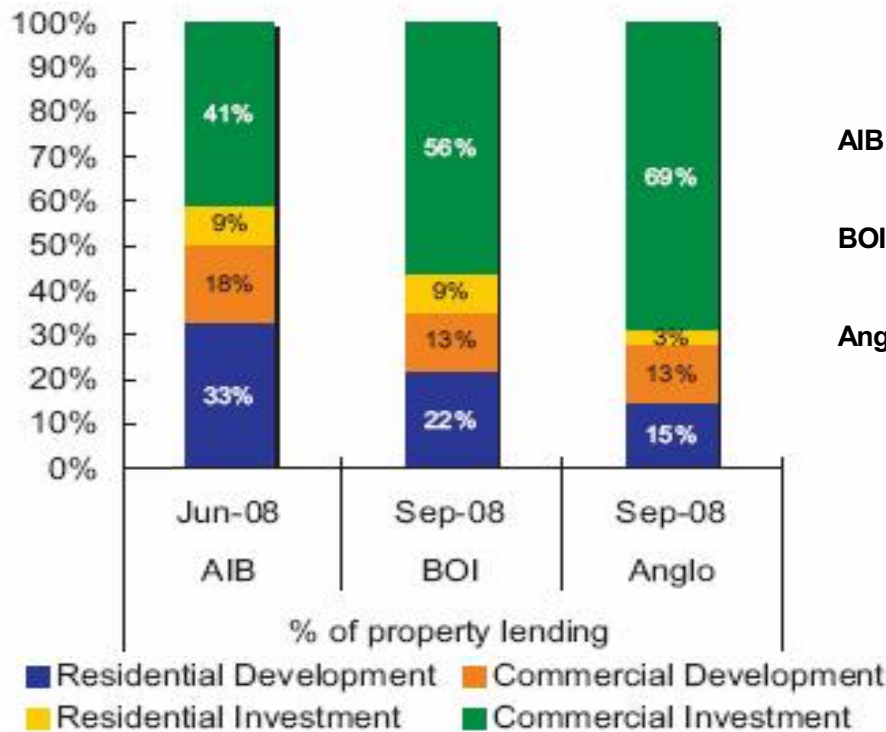
The Competitive Landscape

Bank	Loans & Advs 1998 €ms	Loans & Advs 2008 €ms	% Incr.	Prop Advs 1998 €ms	Prop Advs 2008 €ms	% Incr.	Property Conc 1998	Prop Conc 2008
AIB	30,680	131,992	330%	4,631	47,926	935%	15%	36%
BOI	31,960	135,738	325%	1,183	35,292	2884%	4%	26%
Anglo	3,521	72,151	1950%	2,816*	63,493	2155%*	80%*	88%

* estimated

Irish banks were growing both their balance sheets and their concentration to property at a rapid rate. However:

- AIB's rate of balance sheet growth was about the same as BoI and significantly behind Anglo
- AIB's rate of property growth was significantly less than both BoI and Anglo



AIB: 50% Development 50% Investment
33% Residential Development

BOI: 35% Development 65% Investment
22% Residential Development

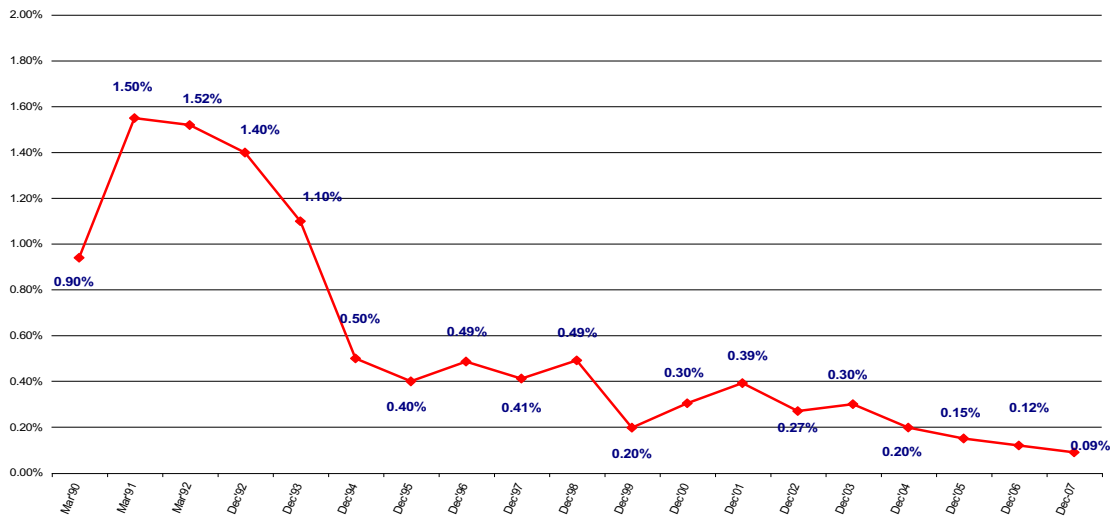
Anglo: 28% Development 72% Investment
15% Residential Development

- As the more risky residential development in particular increased, we were becoming increasingly out of line with our peers:
- We have 25% (€12bn) of our overall property exposure in the form of land. Bank of Ireland has 14% (€5.4bn)

- Earnings Growth was the key strategic goal.
- The means to achieve earnings growth was asset growth.
- Property was the fastest growing sector in the Irish economy. It was thus the vehicle to deliver asset growth and in turn double digit earnings growth.
- AIB grew in line with the market. Our increase in property concentration reflected an increase in Ireland Inc's dependence on and exposure to property.
- However, unlike our peers, we became increasingly exposed to development as opposed to investment property, particularly residential development.
- Within residential development, we became increasingly exposed to land. Land exposures (€12bn) represented 25% of overall property book at end of 2008.

Credit Risk Losses - Cyclicity

AIB Total Provision (P&L) for Impaired Loans Trend 1990-2007 (as a % of advances)



- Credit losses in general and property losses in particular are inherently cyclical. Over ten years of benign credit conditions.
- The provision charge for 2007 was 9bp. Our own internal estimates of expected loss on the portfolio (through the cycle) were around 35bp. New accounting rules meant that it was not possible to provide in advance for losses over the cycle.
- Assume that the cycle is 10 years. Assume that this consists of 7 'good' years and 3 'bad' ones. If we take the seven good years to be 2001-2007, the average loss rate in that period was just over 21bp. This means that, to average 35% over the cycle, loss rates in the three years from 2008-10 must average **66bp**.
- We anticipated higher loss rates because of where we were in the cycle, but not as severe as we are experiencing.
- The next question is whether the **structure** of our portfolio made the spike in these cyclical losses more acute than it might otherwise have been.

Credit Risk Losses - Concentration

- A concentration of exposure to borrowers or sectors which are very cyclical in nature serves to reduce losses in good times and accentuate losses in a downturn.
- As explained in the previous section, AIB had developed:
 - A concentration to the property sector of 36%.
 - Within that, an increasing exposure to the development as opposed to investment sector.
 - Within the development sector, an increasing concentration to residential development.
 - Within the development sector, an increasing concentration to land.
- We did not regard the 36% concentration in property as a homogenous portfolio, subject to the same risk factors. We believed that some diversification benefit accrued from having a mix of development and investment, commercial and residential, zoned, unzoned and planned land, etc, and across different geographies.
- However, the reality has been that, in this particular downturn, the correlation of risk across these portfolios, and between property and non-property portfolios, has been much greater than previously envisaged.

MINUTES OF THE BOARD MEETING

of
ALLIED IRISH BANKS, p.l.c.

**held on Wednesday, 8 October 2008, at Bankcentre,
Ballsbridge, Dublin 4, at 8.00 a.m.**

PRESENT:

Dermot Gleeson	Chairman
Kieran Crowley	
Colm Doherty	Items 2 to 11
Donal Forde	Items 2 to 11
Stephen L. Kingon	
Anne Maher	
Dan O'Connor	
John O'Donnell	Items 2 to 11
Sean O'Driscoll	
David Pritchard	
Eugene Sheehy	Items 2 to 11
Bernard Somers	
Michael J. Sullivan	
Robert G. Wilmers	
Jennifer Winter	

IN ATTENDANCE: W. M. Kinsella, Secretary - Items 2 to 11
Alessio Miranda, Group Internal Auditor - Item 1 (part of)
Alan Kelly, General Manager, Group Finance - Items 4 and 5
Alan Doherty, MD, AIB Corporate Finance - Item 6
Graham Reid, Director, AIB Corporate Finance - Item 6
Maeliosa ÓhÓgartaigh, Group Head of Accounting and Finance -
Item 6
Lorna Sherlock, Business Owner, Pentagon - Item 7
Steve Meadows, Director, O&T - Item 7
Rose Wallace, Head of Capital Management Unit - Items 8 and 9
Paul Stanley, Head of Asset & Liability Management - Items 8
and 9

1. Non-Executive Directors' only Session

The Non-Executive Directors held a confidential session in the absence of Management, and were joined for part thereof by Mr. Alessio Miranda, Group Internal Auditor.

The Executive Directors and the Secretary joined the meeting at the end of the confidential session.

The Chairman reported that the following issues, for the attention of Management, had emerged from the Non-Executive Directors' confidential session:

- A request for information with respect to the quantum of loans on which interest was not being paid or not being fully paid.
- A request for an update on the risk profile of the Polish lending.
- Concerns about cost overruns in large capital investment programmes.
- A request for monthly reporting with respect to the top 10 borrowers in the Property Development and Investment book and the level of non-performing loans.
- Evidence that savings were being achieved from IT investment.
- A view that the Audit Committee should preview the 'Credit Review to September 2008' and the update on Property Development/Investment exposures before presentation of these items to the Board on 12 November 2008.

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3. Group Chief Executive's Report

Mr. Sheehy presented his Report, which commented on the Group's financial performance to August 2008, Divisional business developments, credit growth, credit quality, operational risk, market risk and other issues. The list of exceptions to the Group Large Exposure Policy greater than €250m approved by Management in September 2008 was circulated at the meeting.

Mr. Sheehy reported, with reference to the share placement approved by the Board on 28 September 2008, that the approved placee did not wish to consummate a transaction immediately but continued to be interested in investing in AIB, and that they had agreed to speak again the following week.

He reported on his attendance at a Merrill Lynch CEO Conference in London on 7 October 2008 and on an approach he had received from a foreign bank which was seeking to contract its interests in Ireland and to expand them in Eastern Europe. He indicated that the proposals made to him in that regard held no apparent attractions for AIB.

Mr. Forde reported on the difficult trading conditions being experienced by his Division, and indicated that 2008 provision levels would be higher than forecast.

Mr. Doherty advised that the announced Government guarantee of Irish banks' liabilities had had little impact in the market, where term funding continued to be unavailable, and that he expected funding to become more difficult. He indicated that the trading performance of Capital Markets was satisfactory and that the loss reported in the September 2008 Management Accounts arose from technical factors and would substantially reverse before the year-end.

Mr. Wilmers commented on M&T's performance and advised that the Q3 2008 financial results would be in line with market expectations.

4. Group Management Accounts

At the outset Mr. O'Donnell reported that:

- (a) information about interest roll-up (mentioned at item 1 above) was not available from the Bank's accounting system and that a manual exercise would be required to obtain that information;
- (b) there had been two recent breaches of Internal Liquidity Policy, each for an amount less than €20m, but no breach of regulatory Liquidity Policy.

He presented the Group Management Accounts to August 2008 and the indicative Accounts to September 2008. He commented on the performance reported therein and variances against budget for each Division, and the position was noted.

Mr. O'Donnell referred to the 2008 EPS forecast of 186c, the market guidance range of 185c-190c, and positive and negative factors that had arisen since that forecast had been prepared. He advised that the net effect of those factors would be to pitch EPS slightly, but not materially, below 186c. There were other relevant issues, including uncertainty about the bad debt

CHAIRMAN'S INITIALS

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4. **Group Management Accounts** (Continued)

outturn for the year and accruals in respect of bonus schemes which were unlikely to trigger. He advised that, in the circumstances, he was satisfied that it was not necessary to give revised guidance to the market at that juncture, but that it might be necessary to bring forward the publication of the Interim Management Statement from 12 November 2008.

Mr. Kelly reported on the difficult conditions prevailing in equity markets following the UK Government's announcement of financial support for the banking industry. He advised that the prevailing sentiment was that banks would have to recapitalise.

5. **Capital**

Mr. O'Donnell reported that AIB's 6.2% core Tier 1 ratio (6.5% on the UK basis of computation) was strong in comparison to UK banks and that it would be premature for AIB to consider a share issue. He indicated that if the minimum requirement were increased such that additional capital was required, an equity issue would not be favoured by AIB's shareholders and the matter could be addressed through a preference share issue. However, there were options that could be pursued before such a share issue would be necessary. He indicated that while bad debts were expected to increase, the Bank would be able to absorb those bad debts through expected earnings and was not required to anticipate future bad debts.

Mr. Sheehy added that the options to strengthen the capital position included modification to dividend policy, Balance Sheet shrinkage, and sale of the M&T investment. He indicated that the capital position had been modelled to 2011, and that the bad debts expected over that period could be absorbed.

Mr. Kelly advised that an equity issue was not contemplated by the large investors and would not be welcomed by them; however, they had already presumed that no dividends would be paid.

6. **Project Indigo**

The Chairman advised that this matter was before the Board by way of a familiarisation exercise, and that Management was not contemplating the transaction and was not seeking a decision from the Board in the matter.

Mr. Alan Doherty presented a paper which contained a review of an investment opportunity for AIB and set out the strategic rationale for acquiring the entity in question. The paper commented on the business performance of the two main elements of the entity and the challenges it was facing, the valuation parameters, and the key transaction challenges. The latter included funding and investor perception. The financial impact on AIB was also outlined. The conclusion in the paper was that Indigo represented an attractive acquisition opportunity provided the various issues outlined, and, in particular, the funding issue, could be addressed and provided the acquisition price reflected the associated risks.

Following a discussion, during which the Directors' questions were answered, Mr. Sheehy advised that the challenges associated with the entity, in particular the funding issue and the entity's uneconomic banking model, made it impossible to contemplate a transaction at that juncture. This view was accepted by the Board.

Mr. Doherty was thanked for his report.

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CHAIRMAN'S INITIALS
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CHAIRMAN'S INITIALS

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9. Internal Securitisation – UK Mortgages: Parent Company Guarantee

Mr. Stanley presented a paper seeking approval for the issuance of a guarantee by Allied Irish Banks, p.l.c. in favour of Causeway Securities plc ("Causeway"), in respect of certain obligations of AIB Group (UK) plc. The paper explained that it was proposed to securitise the UK residential mortgage book through the sale of the mortgages to a special purpose entity, Causeway. AIB Group (UK) plc would purchase bonds issued by Causeway, and those bonds would be eligible for the Bank of England Special Liquidity Scheme. Mechanisms would be put in place to ensure that AIB had full control of Causeway throughout its lifespan. The need for the guarantee arose because of a Bank of England requirement that the bonds carry a AAA rating from two rating agencies, and Moody's had indicated that, because they did not rate AIB Group (UK) plc, they would require a parental guarantee for certain obligations that that company would undertake in the transaction. The paper stated that the level of liability under the guarantee would not exceed €112m, and proposed that the Board approve in principle the giving of the required guarantee and that final approval be delegated to the Chairman's Committee as soon as the guarantee document had been agreed with Moody's.

Following a discussion, IT WAS RESOLVED THAT approval be and is hereby given to the issuance of a guarantee in favour of Causeway Securities plc in respect of certain obligations of AIB Group (UK) plc, and that the Chairman's Committee be and is hereby authorised to approve the terms and execution of the said guarantee and to take any and all other actions necessary or desirable to give effect to the foregoing resolution.

10. Other Business

- (a) Mr. O'Driscoll requested that Management provide a short paper rebutting the contention in the J. P. Morgan paper of 7 October 2008 that recapitalisation of the Irish banks was necessary.
- (b) Mr. Sullivan advised that he would be contacting Directors shortly to discuss the Board Evaluation.
- (c) A memorandum, dated 7 October 2008, from Mr. Diarmuid Hanrahan, SEPA Programme Sponsor, was noted; it set out the information requested by the Board on 17 September 2008 when approving capital investment in respect of AIB's Single Euro Payment Area Programme (see minute 10 of the minutes of the Board meeting of 17 September 2008).

11. Federal Reserve Bank Application for Master Account and access to Liquidity Facilities

- 1. It was explained that the Company was proposing to apply to the Federal Reserve Bank of New York (the "Reserve Bank") to open a master account and borrow from the discount window. The documentation for this purpose (collectively the "documentation") was tabled at the meeting, including the following:
 - (a) the form of Foreign Banking Institution Account Agreement to be entered into by the Company with the Reserve Bank;
 - (b) the form of resolutions required by the Reserve Bank for Foreign Banking Institutions applying to open and maintain accounts with, and to borrow from, the Reserve Bank;
 - (c) a copy of the Reserve Bank's Operating Circular No. 1, Account Relationships;
 - (d) a copy of the Reserve Bank's Operating Circular No. 10, effective October 15, 2006;
 - (e) letter of agreement to be entered into between the Company and the Reserve Bank by which the Company will agree to the

CHAIRMAN'S
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11. Federal Reserve Bank Application for Master Account and access to Liquidity Facilities (Continued)

- (e) provisions of the Reserve Bank's Operating Circular No. 10, effective October 15, 2006, as amended and supplemented from time to time; and
- (f) the form of official OC-10 authorisation list to be completed by the Company setting out the names, titles and signatures of the individuals authorised to pledge collateral to/request to borrow money from the Reserve Bank on behalf of the Company.

2. The documentation was then considered and, in particular, it was noted that under the documentation, the Company would be required from time to time to grant security to the Reserve Bank in accordance with the terms of the Reserve Bank's Operating Circular No. 10, effective October 15, 2006, as amended and supplemented from time to time. After due consideration of the nature of the liabilities to be undertaken by the Company under the documentation it was resolved (further to, and without limiting the authorisations given under the resolutions of the board of directors of the Company passed on 17 December 2004 in relation to the "Execution of Agreements in respect of Treasury Business") to pass the following resolutions:-

- (a) RESOLVED, that
 - (i) it is in the best interest of and for the commercial benefit of the Company to apply for facilities to the Reserve Bank and to enter into the documentation;
 - (ii) the documentation in the form or substantially in the form of the drafts (subject to any further negotiation or amendment that any Executive Director of the Company or any Executive Vice President of the Company may approve) produced to the meeting be and are hereby approved for execution and that any Executive Director of the Company or any Executive Vice President of the Company be and is hereby individually authorised to execute (including, if applicable, by facsimile signature) and deliver the documentation and to execute all other documents and do all other acts and things as may be necessary and desirable in connection with the application to the Reserve Bank; and
 - (iii) the common seal of the Company be affixed, in accordance with the memorandum and articles of association, to any documentation to be executed as a deed or under seal.
- (b) RESOLVED, that the Company is hereby authorised to apply to any Federal Reserve Bank ("Federal Reserve Bank") to open, in the Company's name, one or more master accounts for its United States branches or agencies, to agree to all the provisions of the Federal Reserve Banks' Operating Circular No. 1, Account Relationships, to obtain services from any Federal Reserve Bank, and to agree to all the provisions of the Federal Reserve Bank circulars covering such services.
- (c) RESOLVED, that any Executive Director of the Company or any Executive Vice President of the Company be and is hereby individually authorised and directed to transmit to the Federal Reserve Banks the signatures of persons to be recognised and authorised to apply for accounts in the Company's name and to issue instructions on the Company's behalf.
- (d) RESOLVED, that to the maximum extent permitted by law the Company, with respect to its obligations to a Federal Reserve Bank, expressly and irrevocably waives any sovereign immunity (including without limitation immunity from service of process, from

CHAIRMAN'S
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11. Federal Reserve Bank Application for Master Account and access to Liquidity Facilities (Continued)

jurisdiction of any court or tribunal, from attachment in aid of execution, from execution upon a judgment, or from attachment prior to the entry of a judgment) in any legal proceedings in the Federal or State courts in the United States of America, in the courts in the country of the Company's chartering authority and in the country in which it principally conducts its banking business.

- (e) RESOLVED, that the Company submits to jurisdiction in Federal or State courts in the United States of America where the head office(s) of any Federal Reserve Bank at which the Company maintains a Master Account is located and in the courts of the Company's chartering country and in the country in which it principally conducts its banking business.
- (f) RESOLVED, that the officials designated in the foregoing resolutions are hereby authorized to do any and all acts that may be necessary or incidental to any transaction authorised by the relevant resolution, or that may be designed to carry out the purpose of such resolution; and that such resolution and all the powers hereby granted shall continue in full force until written notice of revocation has been received by the Federal Reserve Bank(s) relying on the resolutions.
- (g) RESOLVED, that the Company is authorised to request advance(s) from, incur indebtedness, including overdrafts, to and pledge and grant a security interest in the Company's property, whether now owned or hereafter acquired, to a Federal Reserve Bank.
- (h) RESOLVED, that the persons with the following title, Executive Vice President, and each of their successors in office, any one of whom is authorised to (1) take each of the actions listed in subparagraphs (i) to (v) (immediately below) and (2) send the names, titles, and signatures of individuals authorised to take such actions in the name and on behalf of the Company
 - (i) to borrow money from a Federal Reserve Bank and to incur indebtedness to a Federal Reserve Bank on the terms and security that such Federal Reserve Bank requires;
 - (ii) to discount, rediscount, or sell (with or without the Company's agreement to repurchase) and, for any of those purposes, to endorse and assign notes, drafts, bills of exchange, acceptances, other bills receivable, evidences of indebtedness, and securities, now or hereafter acquired by the Company;
 - (iii) to make, execute, and deliver any application, note, agreement, certificate, power of attorney, and any other document that any Federal Reserve Bank requires in connection with any transaction authorised by this resolution;
 - (iv) to grant, assign, pledge, and transfer to any Federal Reserve Bank security interests in any or all property of the Company, whether now owned or hereafter acquired, and to endorse, assign, deliver, deposit, and/or pledge any of such property to any Federal Reserve Bank as collateral to secure payment or performance of any obligation of the Company to a Federal Reserve Bank; and
 - (v) to do any and all other acts and things that may be necessary or incidental to any transaction authorised by the relevant resolution, or that may be designed or intended to carry out the purpose of such resolution.

CHAIRMAN'S
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MINUTE BOOK

11. Federal Reserve Bank Application for Master Account and access to Liquidity Facilities (Continued)

- (vi) RESOLVED, that a Federal Reserve Bank making an extension of credit to the Company is appointed as the Company's attorney-in-fact for it and in its place and stead, to endorse, assign, transfer and sell, set over and deliver collateral pledged to such Federal Reserve Bank, and to take any other action deemed necessary or advisable by the Federal Reserve Bank to exercise its rights with respect to any advance or indebtedness owed by the Company, in its capacity as secured party, including but not limited to accepting and endorsing payments on loans, preparing and/or filing of any documents necessary to perfect, protect, preserve, or release the interest of the Federal Reserve Bank or the Company in such collateral, or compromising disputes or handling insurance issues related to such collateral. The power of attorney is coupled with an interest and as such is irrevocable, and full power of substitution is granted to the assignee or holder. The Company ratifies any and all action authorised herein and taken by any such Federal Reserve Bank as the Company's attorney-in-fact. The rights, powers, and authority of the attorney-in-fact to perform any and all act(s) whatsoever necessary remains in full force and effect and binds the Company, its legal representatives, successors, and assigns until all indebtedness of the Company to any such Federal Reserve Bank has been fully satisfied and discharged.
- (vii) RESOLVED, that the Company approves and consents to be bound by the provisions of the Federal Reserve Bank of New York's Operating Circular No. 10, effective October 15, 2006, as amended and supplemented from time to time thereafter ("OC-10").
- (viii) RESOLVED, that the Company is authorised and approved to use any record (as such term is used in OC-10) to endorse or pledge to a Federal Reserve Bank the notes and other obligations offered as collateral for any advance or other indebtedness of the Company to a Federal Reserve Bank. The record will have the full force and effect of a manual endorsement.
- (ix) RESOLVED, that these resolutions and the powers and authorisations granted or confirmed by them continue in effect until written notice of revocation is received by each Federal Reserve Bank that has relied or is relying on such resolutions and the Company shall continue to be bound with respect to any outstanding obligations and pledges to any Federal Reserve Bank at the time the notice of revocation is received by such Federal Reserve Bank.
- (x) RESOLVED, that a duly certified copy of these resolutions be furnished to each Federal Reserve Bank to which the Company applies for an advance or has an account.
- (xi) RESOLVED, that the Company, with respect to any Federal Reserve Bank and the Company's obligations to any Federal Reserve Bank, to the maximum extent permitted by law, expressly and irrevocably waives any immunity that the Company now has or that in the future it may become entitled to, whether characterised as sovereign or otherwise (including, without limitation, immunity from set-off, from service of process, from jurisdiction of any court or tribunal, from attachment in aid

CHAIRMAN'S INITIALS



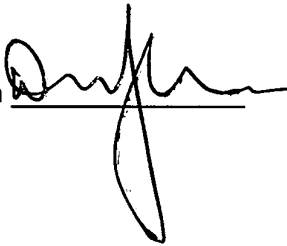
11. Federal Reserve Bank Application for Master Account and access to Liquidity Facilities (Continued)

of execution, from attachment prior to the entry of a judgment, or from execution upon a judgment), in any legal proceedings in the United States of America, the country where the Company is chartered, and the country in which the Company principally conducts its business and expressly submits to jurisdiction in Federal or State courts in the United States of America or in the courts of the Company's chartering country, or the country where the Company principally conducts its business.

- (xii) RESOLVED, that the above resolutions be substituted for the Resolutions passed by the Company on 23rd April, 2008.

[REDACTED]

Chairman



Date

16.11.08

CHAIRMAN'S INITIALS





Credit Review



Nine Months to September 2008

Kieran Bennett
Group Chief Credit Officer

Audit Committee
3rd November, 2008



AIB Group Provision Estimates

	Year End 2008		Year End 2009	
July 2008	€474m	(32bps)	€830m to €1,100m	(60bps to 80bps)
November 2008	€962m	(72bps)	€1,237m to €1,483m	(90bps to 110bps)

Principal Drivers of Change in Estimates

- Significantly greater uncertainty and volatility in global and local economies and markets
- Group Criticised advances have increased from €10bn (or 7.5% of advances) in June '08 to €11.9bn (or 8.7% of advances) as of September '08. Within Criticised, Impaired Loans have increased from €1.4bn to €1.7bn, in the same period, and are forecast to go to €2.5bn at year end 2008.
- The Property, Building & Construction portfolios in ROI and GB/NI have come under additional stress with forecasts of short term market recovery less likely. The increase in Criticised highlighted above reflects the ongoing case by case review of these portfolios.



Profile of AIB Group's €138bn Loans and Advances to Customers as of 30th September, 2008.

AIB Group Advances September 2008	All Amounts in €bn				
	ROI	GB/NI	CM	Poland	Total
Property	30.4	10.2	6.8	2.9	50.2
Other Commercial / Corporate	13.9	8.0	19.8	4.0	45.7
Residential Mortgages	25.1	4.3	0.9	1.4	31.7
Personal	7.4	1.2	0.3	1.0	9.9
Total	76.8	23.7	27.8	9.3	137.6

- The Property, Building & Construction concentration at €50.2bn or 36% of Group Advances. Within that ROI & GB/NI constitute €40.6bn or 29% of Group Advances.

Balance Sheet Provisions for P,B&C in ROI and GB/NI Divisions

€m's	September 2008 (Actual)		December 2008 (Forecast)	
	ROI	GB/NI	ROI	GB/NI
Impaired Loans	393	230	752	290
Specific Provisions	101	55	251	76
IBNR Provisions	324	47	324	81
Specific Provisions / Impaired Loans	26%	24%	33%	26%
IBNR / Performing Advances	1.1%	0.5%	1.1%	0.8%



Management Estimates of Provisions – Key Influences

- Recognition and interpretation of current market conditions, which are largely unprecedented.
- Knowledge and in-depth understanding of single cases at Division and Group. Specific case reviews overlaid by portfolio reviews. Recent PWC review further underpinned this process.
- Specific provision forecasts, which is a 'bottom up' driven process, influences the estimates of IBNR stock to be held.
- Ensuring at case and portfolio level, a balance between valuations (and hence LTV), cash flows (direct and indirect), recourse and time.
- Complying with Accounting convention and accepted provisioning methodology.

DRAFT Summary Note of NAMA Haircut Chronology – 8th November, 2010

On the 16th September 2009, the Minister for Finance announced the estimated overall industry haircut expected on assets transferring to NAMA for the first time (see first column of table below).

The key elements of the calculation were:

1. Quantum of eligible assets - AIB provided an estimate of these
2. Interest roll-up included in the figures provided in point 1 - AIB provided an estimate of this figure
3. Original Loan to Value Ratios (LTV) - AIB provided an estimate of this figure
4. Peak to trough fall in property values - AIB provided no input to this factor
5. Long term economic uplift adjustment (LEV) - AIB provided no input to this factor.

When the Minister's calculation is "flexed" for those inputs provided by AIB an expected haircut of 22% applies to AIB's NAMA assets (see second column of table below).

The Minister's public announcements throughout 2009 and into 2010 also stated that it was not the Government's intention to nationalise the banks which further supported the view that the actual NAMA haircuts would not be more severe than initially announced.

A small sample of draft property valuations had been received in December 2009 and incrementally to March 2010 which progressively suggested peak to trough property valuation falls could be in excess of the 47% previously indicated by the Minister. However, in December 2009 this small sample was not considered representative and the valuations at that time were draft and subject to challenge. There was also no indication of the final loan asset valuations for the loans related to the sample property valuations.

In April, 2010 the first Loan Asset Valuations and Final Acquisition Schedules from NAMA for Tranche 1 Connections confirmed for the first time that the 'Red Book' property valuation methodology was resulting in peak to trough property valuation falls far in excess of the 47% previously indicated by the Minister and that the LEV average uplift of 15% had also effectively been eliminated. The loan valuations basically represented the "Red Book" value of underlying property security only. The Tranche 1 and 2 (August 2010) average haircut of 45% overall further indicated that the NAMA haircut would be more severe than originally thought.

On the 30th September, 2010 the Minister announced that the AIB haircut for all remaining eligible assets to transfer to NAMA would be 60%. AIB provided information to NAMA, on request, that included the following:

- Breakdown of remaining NAMA eligible assets by €5ml thresholds with balances as at 31st July 2010
- Description of underlying security by type and location for Tranche 4 and Tranche 5, where available, showing little change by property type versus Tranche 1 to Tranche 3.
- Summary of factors impacting NAMA haircut which AIB are appealing.
- Summary of property valuations for completed Tranche 4 borrowers. Property valuations supporting Total Loan balances of €1.5bl were provided which valued the property security at 48% of the loan balances.

When the original calculation is “flexed” for the key factors that changed from the original announcement, i.e. more severe peak to trough property value falls and the effective elimination of the LEV uplift) a final estimated haircut of 56% results (see final column of table below). This is equivalent to the overall estimated haircut from the Minister based on the actual Tranche 1 and 2 valuation results and NAMA’s 60% estimate for the remainder of the assets to transfer.

A more detailed log of the history of events in respect of the NAMA Haircut is attached for your information.

NAMA Haircut Calculations

	Column 1	Column 2	Column 3
	Minister's Statement 16 Sep 2009 €bls	Applying the Minister's Methodology and Assumptions to AIB Data Sep 2009 €bls	Applying the Minister's Methodology and Assumptions to AIB Data 30 Sep 2010 €bls
Eligible Loan Balances	77	24	20
Interest Roll-up	9	1	1
	68	23	19
Original Loan to Value Ratio	77%	75%	75%
Original Value of Property Security	88	31	25
Peak to Trough Property Fall estimate	47%	47%	¹ 65%
CMV of Property	47	16	9
Estimate of Average LEV Adjustment	15%	15%	0%
Final Consideration for Loans	54	19	9
NAMA Haircut	30%	22%	56%

¹ For Tranches 1, 2 and 3 in AIB, the estimated average fall in peak to trough ‘RICS / Red Book’ property values ranged between 60% and 70%

- 2.14** In February 2009, in guidance issued to member states, the Commission defined an asset relief measure as arising where assets are transferred at a value higher than their current market value. The amount of state aid is the difference between a loan's current market value and its transfer value.
- 2.15** The Commission approved the establishment of NAMA in February 2010. The Commission pointed out that it would separately assess the compatibility with state aid rules (and, in particular, the actual transfer price) of the transferred assets when these were separately notified by the Irish authorities.
- 2.16** In August 2010, the Commission stated that it found the transfer of the first tranche of loans to be in line with the approved scheme and with its guidance on the treatment of impaired assets. It approved the valuations in the second tranche in November 2010. NAMA paid €13 billion for the loans transferred in the first two tranches — just over 40% of the total consideration paid. Commission approval for the transfer of the remaining two-thirds of the loans transferred had not been provided by mid-April 2014.
- 2.17** NAMA has pointed out that securing final European Commission approval for loan transfers is the responsibility of the Central Bank of Ireland (the Central Bank) and the Department of Finance and is beyond NAMA's direct control. The Department of Finance stated that it received the relevant documentation from the Central Bank in February 2014 and has submitted an application to secure European Commission approval for the loan tranche transfers.

Loan acquisition — outcomes

- 2.18** The total borrower debt acquired by NAMA amounted to €74.4 billion. The amount paid — €31.8 billion — represented a discount of 57% on the loans and crystallised losses of €42.6 billion for the banks. The discounts for individual banks varied between 44% and 61%, as shown in Figure 2.1.
- 2.19** In addition to the distressed property market, the size of the discounts applied also reflects the deficient administration of loans by the banks, including poor loan documentation, some collateral not being properly legally secured and inadequate stress testing of the borrowers and loans.

Figure 2.1 Loans acquired by NAMA

Participating bank ^a	Total borrower debt € billion	NAMA payment for loans € billion	Discount	
			€ billion	%
AIB	20.5	9.0	11.5	56
Anglo	34.4	13.4	21.0	61
Bank of Ireland	9.9	5.6	4.3	44
Educational Building Society	0.9	0.4	0.5	57
Irish Nationwide Building Society	8.7	3.4	5.3	61
Total	74.4	31.8	42.6	57

Source: National Asset Management Agency

Note: a In 2011, Allied Irish Banks merged with the EBS. Anglo merged with the INBS and was renamed the Irish Bank Resolution Corporation. The loan acquisitions were recorded under the names of each participating bank prior to the mergers.

ferent way. In terms of the economics literature, the use of fiscal policy to manage the cycle had gone out of fashion, as the Senator is probably aware, saying fine tuning is not possible. This is not fine tuning, this is stopping disaster by using fiscal policy differently. Hopefully we have learned our lesson. It is something which need not have happened but did happen.

Senator Sean D. Barrett: A Nervous Nellie man in the Department of Finance.

Professor John FitzGerald: It could be a whole section; I do not know.

Senator Sean D. Barrett: Were views expressed to Professor FitzGerald in the controversy about the regulator for the financial sector, whether it would be in the Central Bank or entirely separate? Were telephone calls made on that issue?

Professor John FitzGerald: On which?

Senator Sean D. Barrett: On the McDowell report on how to regulate the financial sector inside the Central Bank.

Professor John FitzGerald: I was in Warsaw so I do not know whether it was in writing or on the telephone that the communication came to the director. The director discussed with me the concerns of the Department and it made it very clear that this was political. If they come up with arguments rounded in evidence one takes it seriously; there was no evidence, they just did not like it. I cannot tell the Senator because I only became aware of this last night and have not had an opportunity to trawl through. No doubt, under FOI, the committee can ask the Department of Finance if there were any communications and go after that.

Senator Sean D. Barrett: Did Professor FitzGerald have a policy on the best way to regulate banks that caused this telephone call or how did it arise?

Professor John Fitzgerald: When Patrick Honohan left in 1997 it left a gap in terms of doing research in the financial sector and we still had some funding and Mr. Colm Kearney joined us in 1998-99 but only stayed a year and is now in Trinity College. He may have moved to Trinity on the day before I came back from Warsaw; I am not sure, it was around that time. He was doing research in this area. I went back and looked at his article last night in *The Irish Times* which was really good. In regard to the serious mistakes being made, his argument was that the report done on separating the regulator used no evidence, did not look at what was going on outside and it was a bad idea. The Senator can read it in *The Irish Times* of 15 October 1999. It was a good article. He had done research in the area and had expertise. It should have been published but it was published a few days later in *The Irish Times*.

Senator Sean D. Barrett: For my last question, did Professor FitzGerald meet any contrarians in the banking system itself? Did any of the bank economists express concern to him? Did they see their own companies going over a cliff?

Professor John Fitzgerald: I was approached soon after the medium term review was published in December 2005 by people from AIB who said that the board was concerned that the stress tests prescribed were not stressful enough and asked if we would be prepared to do work. I said: "Look, at what we have done in the medium term review with a 30% housing price crash. You can pay us to do more if you want, but I think that is probably enough to give you." Also it was consistent with unemployment rising to 11% and so on. They said they would go off with it. What they did with it, I do not know but as far as I can remember, this initiative did not come from the AIB team, this was coming from somewhere higher in the bank.



THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3A

Appropriateness of funding sources - the mix, maturity profile and cost



Group Funding Strategy

Nick Treble
 Managing Director Global Treasury

June 2004

TX RESULT REPORT

ME:office of the secretary
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 TE:APR.25'2005 10:21

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Group Funding Strategy

Nick Treble

Managing Director Global Treasury

June 2004

Executive Summary

Background

The Group (excluding BZWBK) is experiencing strong balance sheet growth which is expected to continue over coming years. The divergence in growth rates over the plan period to 2006 between customer loans (forecast to grow by 68%) and customer deposits (forecast to grow by 33%) increases the reliance on Wholesale Funding sources to bridge the projected incremental gap of €25.0bn.

Group Also requested a cross-divisional working group to review funding options over the plan period. A range of actions were identified including franchise resource initiatives (€7.0bn) and wholesale funding strategies (€31.0bn) giving rise to potential funding of €38.0bn.

The level of additional wholesale dependency requires Treasury to pursue a strategy of diversification with respect to currency, product, investor type and geography and to extend the maturity profile of the Group's liability base. The attached proposals in respect of the Commercial Paper and Certificate of Deposit programmes are in support of this objective.

Commercial Paper Programme

- The US\$ Commercial Paper market is well established and provides access to funding for a wide range of supra national agencies, financial institutions and corporates.
- In ~~1996~~¹⁹⁸⁷, AIB established a €0.5bn Commercial Paper programme, to be sold to investors pursuant to section 3(a)(3) of the US Securities Act of 1933, through its wholly owned Delaware registered North American subsidiary AIBNA Inc and increased the programme to \$1.0bn in 2000.
- Global Treasury is seeking Board approval to increase the programme from \$1.0bn to \$5.0bn. The programme will be sold to investors pursuant to section 4(2) of the US Securities Act of 1933.
- The proposed Commercial Paper programme has been specifically rated and received the highest available rating from both Moody's (P-1) and Standard and Poor's (A-1).

Certificate of Deposit Programme

- The US\$ Certificate of Deposit market is well established with a wide range of market participants and significant daily business volumes. AIB has not previously had a Certificate of Deposit programme in the US.
- Global Treasury are seeking Board approval to establish a US\$1.0bn Certificate of Deposit program to be sold via the banks New York branch to investors pursuant to section 3(a)(2) of the US Securities Act of 1933.
- Issued Certificates of Deposit represent a direct claim on the Bank.

Documentation

All documentation relating to the above programmes has been reviewed and approved by AIB's legal department, US and Irish lawyers, US Dealers and JPMorgan Chase.

A complete copy of programme documents is available for inspection and AIB's legal department has prepared Board resolutions.

Group Funding Strategy

Background

The Group's (excluding BZWBK) balance sheet continues to grow strongly and current business plans point to further strong growth. A key feature of this development is the diverging growth rates between customer advances and resources, which are forecast to rise by 68% and 33% respectively over the plan period to the end of 2006.

In cash terms, the funding gap generated by the imbalance between customer advances and resources was €7.1bn at the end of 2003 and is forecast to rise to €28.9bn at the end of 2006. In addition, as the Group is required to hold a stock of high quality unencumbered liquid assets for both regulatory and (prudent) internal liquidity policy purposes, the business plans include an additional liquid asset requirement of €3.0bn. The current policy requirement is for a holding of circa €9.0bn.

In the absence of any additional initiatives the impact of this business volume growth on the customer loan/deposit ratio is to increase it from 117% at the end of 2003 to 157% at the end of 2006. Based on peer analysis this would place the Group second only to HBOS on this measure. The Group Executive Committee has considered setting an internal limit for this ratio and has requested Group Alco to recommend an appropriate target. ||

In addition Group Alco sponsored a cross-divisional working group to review funding options over the plan period. This group identified a number of actions to be taken. These include initiatives to generate additional customer resources across all divisions of the Group, with a target customer loan/deposit ratio of less than 127% at the end of 2004 and less than 134% at the end of 2006. Also Global Treasury are taking a range of actions in both the secured and unsecured wholesale capital markets with the objective of meeting the Group's funding requirements in a prudent and cost efficient manner. The following table summarises the key elements of the Group's funding strategy during the plan period: |

Plan Period 2004-6

	<i>Total Funding Target (€s)</i>
<i>Franchise Resource Initiatives</i>	7.0bn
<i>Short Term Unsecured</i>	
Interbank Deposits	3.0bn
Commercial Paper	4.0bn
Certificates of Deposit	5.0bn
<i>Short Term Secured</i>	
Repos	3.0bn
<i>Long Term Unsecured</i>	
Senior Debt issues	10.0bn**
<i>Long Term Secured</i>	
Covered Bonds	4.0bn
Securitisations	2.0bn
<i>Overall Total</i>	38.0bn

**Papers and resolution requesting Board Approval to increase EMTN Programme from €5.0bn to €10.0bn will be tabled in August. *currently €5 bn*

Responsibility for each initiative rests with executive management and quarterly updates are provided to Group Alco. Specifically Global Treasury are responsible for the Wholesale and Capital Markets elements (€31.0bn) of the funding programme and the

above table highlights the importance of wholesale funding to meeting the Group's growth ambitions. The growing dependency on wholesale market funding is consistent with developments among our peer banks. Global Treasury are working to ensure that the wholesale market funding strategy incorporates diversification as to (a) currency, product, investor type and geography and (b) extends the maturity profile of the Group's liability base. **Key elements of this and for which board resolutions are being presented for approval are:**

- (a) an increase in the US\$ Commercial Paper program from \$1.0bn to \$5.0bn and
- (b) a new US\$1.0bn Certificate of Deposit program

Details for both programmes are set out hereunder.

US \$ Commercial Paper Programme

Proposed increase from US\$1.0 billion to US\$5.0 billion

Global Treasury manages the bank's US\$ Commercial Paper programme. It has proved to be a successful method for raising substantial sums of US Dollars. It is now being proposed, to update the documentation, to increase the programme from US\$1.0bn to US\$5.0bn and to increase the number of Dealers to three.

Structure of programme

- AIB plc has incorporated and guaranteed a special purpose subsidiary in Delaware (USA), named Allied Irish Banks North America Inc (AIBNA), solely for the purpose of issuing US Dollar denominated commercial paper. Global Treasury, Dublin, controls the operations.
- The subsidiary is supported by a guarantee provided by AIB plc. AIBNA has no earnings and has no exposure to taxation. The accounts are subject to audit by KPMG.
- In the opinion of Global Treasury's legal advisors, it is necessary to utilize a subsidiary to avoid the prospectus requirement provisions of the Irish Companies Acts.
- All the programme documentation has been reviewed and updated.
- The programme has been specifically rated by Moody's (P-1) and Standard & Poor's (A-1), these ratings are the highest possible grade for short-term credit ratings.

AIB's involvement in the US Commercial Paper Market.

- The Federal Reserve Bank of New York regulates the US commercial paper market. The market is a well-established provider of funding to supra-national agencies, financial institutions and corporations. Turnover is measured in trillions of US Dollars. The investor base is institutional and dominated by the major money market funds. The market provides investors with an abundant supply of highly rated short-term instruments. The average tenor is for between 10 and 60 days.
- In 1986, AIB established a US\$0.5bn programme, which was increased in 2000 to US\$1.0bn. The bank has experienced a strong demand for these securities and uses the programme to diversify its funding base. The cost of funds can be below the equivalent cost for US\$ achievable in the London or continental wholesale money markets and funds can be swapped in the Forward FX market to provide Euro and Sterling funding for the Group.
- The funds generated from the increased programme will be utilized to support the bank's liquidity management and balance sheet growth.

Expected utilization

- In the period 2002/3 the programme was fully utilized. Merrill Lynch were the previous programme arrangers but on reviewing dealer activity, Credit Suisse First Boston (CSFB) were requested to advise and arrange the new programme. Also, in light of the proposed scale of the programme, Morgan Stanley was requested to join the dealer panel. Global Treasury will continue to monitor performance of the three dealers and adjust the dealer panel accordingly.
- Once the documentation arrangements are in place, it is estimated that the amount outstanding should grow to US\$1.0bn within a month or so. Thereafter, growth will be affected by the economics offered but amounts outstanding are unlikely to reach US\$5.0bn for several years.
- Whilst the US Commercial Paper market has a strong reputation for supplying short term liquidity to issuers, Global Treasury's strategy is to build an investor base which requires longer maturities, such as 90 and 180 days. This facilitates the building of a more diverse investor base and a more varied range of maturity dates.

Restrictions

- The aggregate amount outstanding is limited to US\$5.0bn, and the maturity to a maximum of 365 days.
- Only the three designated dealers, being CSFB, ML, and MS, are permitted to market the securities.
- To facilitate S&P's rating requirements Global Treasury will confirm to the agency that :
 - a) no more than US\$300ml will mature on any one day
 - b) a portfolio of highly liquid securities will be maintained in New York
 - c) the portfolio will exceed at least 15% of maximum amount outstanding or the maximum that can mature over any three-day period.

These conditions are well within current procedures.

Allied Irish Bank p.l.c. New York Branch US\$1.0bn Certificate of Deposit Program

Global Treasury within AIB New York branch is proposing to initiate a US\$1.0bn Certificate of Deposit programme which will provide access to previously untapped U.S. wholesale funds. These liabilities will support balance sheet growth assist in diversifying funding sources and lengthen liability duration.

Program structure

- Certificates of Deposit (CD) will be issued by the Bank through its New York branch and sold to investors pursuant to section 3(a)(2) of the US Securities Act of 1933.
- The issue will be US dollar denominated, up to \$1.0bn outstanding, with maturities greater than one week and less than five years (less two days).
- Certificates will be issued in electronic book entry form via the Depository Trust Company (DTC).
- JPMorgan Chase Bank, New York will be the issuing and paying agent.

Expected utilization

- The US CD market is well established and secure. Supra-nationals, insurance companies, mutual fund companies, and financial institutions buy billions of dollars of CDs daily. A number of these investors have indicated their willingness and desire to purchase the bank's CDs.
- Initially, our targeted investors will be those willing to purchase our CDs for three months or longer, preferably in the 6 to 18 month maturity range.

- Upon completion of documentation and procedures, the amount outstanding would quickly reach US\$0.5bn and would average between US\$0.5bn – US\$0.7bn.
- These liabilities will be used to diversify funding sources and support balance sheet growth.

Restrictions

- Aggregate amount outstanding is limited to US\$1.0bn.
- Maturity restrictions require that the Certificates of Deposit be issued for a minimum of one week and a maximum maturity of five years (less two days).

Documents and Resolutions

Supporting documentation is of standard type and has been prepared and reviewed by AIB's legal department in consultation with US and Irish lawyers and other relevant parties. All documentation is available for inspection at the Board meeting.

Resolutions seeking Board approval for both programmes are attached and have been prepared by AIB's legal department.

Allied Irish Banks, p.l.c. (the “Bank”)

**Certified Copy Extract from the Minutes of a Meeting of Directors of the Bank held at
Bankcentre, Ballsbridge, Dublin 4 on 17th June, 2004**

Issue of Commercial Paper by Allied Irish Banks North America Inc. (“AIBNA”) pursuant to section 4(2) of the US Securities Act of 1933 to be guaranteed by the Bank

1. It was reported to the Meeting that:
 - (i) AIBNA, being a wholly owned subsidiary of the Bank, organised under Delaware law for the purpose of raising funds by various means including the issue of commercial paper, proposes to establish a new Commercial Paper Programme (the “Programme”).
 - (ii) Under the terms of the Programme, US Dollar denominated short term promissory notes (the “Notes”) in an aggregate principal amount at any time outstanding not exceeding US\$5 billion are intended to be issued by AIBNA and sold to certain investors from time to time pursuant to section 4(2) of the US Securities Act of 1933.
 - (iii) Under the terms of the Programme, the Bank is required to guarantee the payment in full of principal and interest on the Notes.

2. It was reported to the Meeting that the Bank is required to execute the following documents in connection with the Programme (drafts of which were tabled at the Meeting):
 - (i) the Guarantee of the Bank in respect of payment in full of principal and interest on the Notes (the “Guarantee”);
 - (ii) the Letter of Representations (the “Letter of Representations”) among AIBNA, the Bank, JPMorgan Chase Bank (as Issuing and Paying Agent) and The Depository Trust Company, a limited-purpose trust company organised under the New York Banking Law (“DTC”), providing for, amongst other things, DTC to act as a book-entry depository in connection with the Programme;
 - (iii) the Master Note (the “Master Note”) registered in the name of DTC or its nominee as book-entry depository which will evidence the book-entry Notes; and
 - (iv) the Commercial Paper Dealer Agreement (the “Dealer Agreement”) between AIBNA (as Issuer), the Bank (as Guarantor) and Credit Suisse First Boston LLC (“CSFB LLC”), Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPFS”), Merrill Lynch Money Markets Inc. (“MLMM”) and Morgan Stanley & Co. Incorporated (“MS & Co.”) (collectively known as “the Dealers”) providing for, among other things, the sale of Notes by the Dealers on behalf of AIBNA.

3. The following draft documents in connection with the Programme were also tabled at the Meeting:

- (i) The Private Placement Memorandum of AIBNA with respect to the Programme (the “**Private Placement Memorandum**”);
 - (ii) A copy of the Issuing and Paying Agency Agreement (the “**2000 IPA Agreement**”) dated as of 6 July 2000 between AIBNA, the Bank and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) which provides that AIBNA may establish one or more commercial paper programmes under the 2000 IPA Agreement;
 - (iii) The programme schedule to the 2000 IPA Agreement (the “**Programme Schedule**”) setting out the terms of the Programme.
4. The Guarantee, the Letter of Representations, the Master Note, the Dealer Agreement and the Programme Schedule have been negotiated and reviewed by Stradley, Ronon, Stevens & Young, LLP as advisers to the Bank in connection with the Programme and such documents together with the Private Placement Memorandum and the 2000 IPA Agreement are collectively known herein as the “**Programme Documents**”.
5. The Directors, having considered the terms of the proposed Programme and the Programme Documents, **RESOLVED:**
- (i) **THAT** the terms of the Programme Schedule in, or substantially in, the form presented to the Meeting be and are hereby approved;
 - (ii) **THAT** establishment of the Programme under the terms of the 2000 IPA Agreement be and is hereby approved and confirmed and the appointment of JPMorgan Chase Bank as Issuing and Paying Agent under the terms of the 2000 IPA Agreement in connection with the Programme be and are hereby approved;
 - (iii) **THAT** the giving of the Guarantee by the Bank is in the interests of and for the benefit of the Bank and that the terms of the Guarantee in, or substantially in, the form presented to the Meeting be and are hereby approved;
 - (iv) **THAT** the terms of the Letter of Representations in, or substantially in, the form presented to the Meeting, be and is hereby approved and that the appointment of DTC as book-entry depository in connection with the Programme be and are hereby approved;
 - (v) **THAT** terms of the Master Note proposed to be issued under the Programme in, or substantially in, the form presented to the Meeting be and are hereby approved;
 - (vi) **THAT** the appointment of CSFB LLC, MLPFS, MLMM and MS &Co as Dealers in connection with the offer and sale of the Notes be and is hereby confirmed and that the Dealer Agreement in, or substantially in, the form presented to the Meeting be and is hereby approved;

- (vii) **THAT** the draft Private Placement Memorandum of AIBNA in, or substantially in, the form presented to the Meeting be and is hereby approved and, when engrossed, that the Dealers be and are hereby authorised to distribute copies thereof to certain investors and bankers;
- (viii) **THAT** any one of the Authorised Officer(s) of the Bank named in the Schedule below is/are hereby jointly and severally authorised:
- (a) to negotiate and settle the terms of and approve such amendments and/or modifications to the Programme Documents as he shall in his absolute discretion consider appropriate;
 - (b) to execute and deliver for and on behalf of the Bank in, or substantially in, the form presented to the Meeting or in such form and with such amendments and/or modifications as may be negotiated, settled or approved in accordance with (a) above, (i) the Guarantee; (ii) the Master Note; (iii) the Letter of Representations; (iv) the Dealer Agreement, and (v) any other agreement(s), certificate(s), confirmation(s), letter(s) or document(s) as may otherwise be required, relevant or appropriate to the Programme by or on behalf of the Bank;
 - (c) to make such notice and other filings with United States federal and state governmental agencies as may be required from time to time with respect to the Programme, the Master Notes, the Notes and the Guarantee; and
 - (d) to do such things and take any other action as may be required or desirable on the part of the Bank in connection with the Programme and to effect the purposes of these resolutions and that all action taken by any such officers of the Bank for these purposes be and are hereby ratified and confirmed.

Schedule of Authorised Officers

Nick Treble, Managing Director of Global Treasury
Gerry O'Connor, Treasurer Funding and Liquidity
Duncan Farquhar, Chief Dealer Funding

Certified a true copy

Secretary

Allied Irish Banks, p.l.c.

**Certified Copy Extract from the Minutes of a Meeting of Directors of the Bank held
at Bankcentre, Ballsbridge, Dublin 4 on 17th June 2004**

Proposed Issue of Certificates of Deposit by Allied Irish Banks, p.l.c. (the “Bank”) acting through its New York branch pursuant to section 3(a)(2) of the US Securities Act of 1933

1. It was reported to the Meeting that:
 - (i) the New York branch of the Bank proposes to establish a new Certificates of Deposit Programme (the “Programme”);
 - (ii) under the terms of the Programme, certificates of deposit (the “Certificates”) in an aggregate principal amount at any time outstanding not exceeding US\$1 billion are intended to be issued by the Bank acting through its New York branch and sold to certain investors from time to time pursuant to section 3(a)(2) of the US Securities Act of 1933.

2. It was reported to the Meeting that the Bank acting through its New York branch is required to execute the following documents in connection with the Programme (drafts of which were tabled at the Meeting):
 - (i) the Programme Schedule outlining certain operational details regarding the Certificates;
 - (ii) the Issuing and Paying Agency Agreement (the “IPA Agreement”) by and between AIB and JPMorgan Chase Bank (“Chase”) pursuant to which the Bank acting through its New York branch would, amongst other things, issue Certificates and appoint Chase as its issuing and paying agent in connection with the issuance and payment of the Certificates;
 - (iii) the Letter of Representations (the “Letter of Representations”) by and among the Bank, Chase and the Depository Trust Company (“DTC”);
 - (iv) the Institutional Certificate of Deposit Master Note (the “Master Note”) by the Bank and countersigned by Chase in favor of Cede & Co. as nominee of DTC.

3. The Programme Schedule, the IPA Agreement, the Letter of Representations and the Master Note have been negotiated and reviewed by Windels Marx Lane & Mittendorf, LLP as advisers to the Bank in connection with the Programme and are together referred to herein as the “Programme Documents”.

4. The Directors, having considered the terms of the proposed Programme and the Programme Documents, **RESOLVED:**

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THAT the terms of the Programme Schedule in, or substantially in, the form presented to the Meeting be and are hereby approved;

THAT the terms of the IPA Agreement in, or substantially in, the form presented to the Meeting be and are hereby approved;

THAT the terms of the Letter of Representations in, or substantially in, the form presented to the Meeting, be and are hereby approved and that the appointment of DTC as book-entry depository in connection with the Programme be and is hereby approved;

THAT terms of the Master Note proposed to be issued under the Programme in, or substantially in, the form presented to the Meeting be and are hereby approved;

THAT any one of Gerry McGorman (Head of Treasury, New York branch), Kevin Abernethy (Senior Vice President) and Gerry O'Connor (Treasurer Funding and Liquidity) (each an "Authorised Officer") is hereby jointly and severally authorised:

- (a) to negotiate and settle the terms of and approve such amendments and/or modifications to the Programme Documents as he shall in his absolute discretion consider appropriate;
- (b) to execute and deliver for and on behalf of the Bank in, or substantially in, the form presented to the Meeting or in such form and with such amendments and/or modifications as may be negotiated, settled or approved in accordance with (a) above, (i) the Programme Schedule; (ii) the IPA Agreement; (iii) the Letter of Representations; (iv) the Master Note; and (v) any other agreement(s), certificate(s), confirmation(s), letter(s) or document(s) as may otherwise be required, relevant or appropriate to the Programme by or on behalf of the Bank; and
- (c) to do such things and take any other action as may be required or desirable on the part of the Bank in connection with the Programme and to effect the purposes of these resolutions and that all action taken by any such officers of the Bank for these purposes be and are hereby ratified and confirmed.

Certified a true copy

W.M. Kinsella
Secretary



Proposal to revise the Adjusted Loan Deposit Ratio

AIB Board Presentation – June 21st, 2007

Proposal to revise the Adjusted Loan Deposit Ratio - PowerPoint presentation to AIB Board June 21st, 2007. 1



Customer Loan Deposit Ratio

- The Customer Loan Deposit ratio is a widely reported measure of a bank's funding from its own customer base.
- Also highlights how much funding is provided from other wholesale market sources.
- Valued by the Rating Agencies.

- Simple formula :

$$\frac{\text{Customer Loans}}{\text{Customer Deposits}}$$

*Ratio reported by Bd:
"At or below average..."*

AIB Group Funding Trends					
	2003	2004	2005	2006	2007(fcast)
Balance Sheet (€bns)	78.2	99	128.1	158.5	188
Loan Deposit Ratio	114%	131%	136%	143%	162%



Adjusted Loan Deposit Ratio (ALDR)

- The formula in calculating the loan deposit ratio is adjusted to acknowledge the liquidity inherent in the Mortgage Trust Promissory Note and ACS issuance and to recognise that wholesale funding greater than 12 months is regarded as core liquidity.
- The current formula for calculating the Adjusted Loan / Deposit Ratio is:

$$\frac{\text{Customer Loans less Mortgage Trust Promissory Note Facility and Issued Covered Bonds}^{\text{with CS}}}{\text{Customer Deposits plus Wholesale Funding with greater than 12 months to maturity}}$$
- AIB Board has approved a limit for the Adjusted Loan deposit Ratio of 115%.

AIB Group Funding Trends					
	2003	2004	2005	2006	2007(fcast)
Balance Sheet (€bns)	78.2	99	128.1	158.5	188
Loan Deposit Ratio	114%	131%	136%	143%	162%
Adjusted Loan Deposit Ratio	103%	109%	112%	114%	115% ₃



Adjusted Loan Deposit Ratio (ALDR)

- The current formula has been applied since 2004. It has served the Group well by creating a framework which enabled Global Treasury develop a wholesale funding strategy. ✓
- However, the current formula has some shortcomings: ✓
 1. Uniform treatment in that all customer deposits qualify as a stable funding source ✓
 2. Inconsistent treatment of Cash Deposits and Certs of Deposit from corporate/institutional customers
 3. Maturity requirement of greater than 12 months for wholesale funds to qualify as a stable funding source ✓
- There has also been a number of developments in the business and operating environment which should also be incorporated into the formula of a revised ALDR.



This is a critical focus for Wholesale Treasury. The liquidity and funding markets have changed fundamentally since Q3 2007 and remain in a stressed situation. The unsecured funding markets have become significantly tighter in terms of both pricing and availability. Banks have engaged in liquidity hoarding and the traditional non-bank suppliers of liquidity have become materially risk averse.

- This has necessitated a relentless focus on:
 - Prudentially managing the Group's Funding and Liquidity requirements by geography, by currency, by investor type and by product.
 - Actively managing our liquidity clearing price in wholesale markets
 - Managing our liability duration profile
 - Actively managing our critical liquidity relationships – responsive, reassuring, prudent, price sensitive
- Current Liquidity and Funding market conditions - implications for AIB
 - Maturity Transformation Costs: cost of transforming longer term liabilities to the interest rate repricing period of the group – typically 1 month.
 - Higher interest rate cost of interbank liabilities versus official central bank interest rates (Basis Risk)
 - Cost of Senior and Capital Issuance has risen significantly and markets remain stressed with limited availability
 - Competition for customer sourced deposits has been intense and will remain so for the foreseeable future
 - Need to manage the Group Customer Loan/ Deposit ratio.

Swimby



Wholesale Treasury – Customer Focus

- Wholesale Treasury provide a competitive, professional pricing and advisory service to our internal customer universe to enable them to neutralise the market risks arising from delivering on their customer mandate and objectives. The focus is on providing tailored risk solutions, leveraging our capacity as the single interface to the wholesale markets to bring wholesale product for non-wholesale application.

- Products
 - Spot FX & FX Options
 - Loans & Deposits
 - Interest Rate Derivatives – Int Rate Swaps, Futures, Int Rate Options
 - Inflation Swaps
 - Structured Equity derivatives

- Customer Reach:
 - Internal: GTS – All locations, Corporate Banking – All locations, RoI Retail Deposit Centre, RoI ALM, Group ALM, GB ALM, BZWBK
 - External: Interbank reciprocal counterparties, Institutional counterparties, Futures Exchanges & Clearing Houses, Brokers and appropriate Intermediaries
 - Representation on appropriate ALCo's – Group, RoI, GB and Capital Markets
 - Central Banks, Quasi government agencies and supranationals
 - Quality economic research analysis – a Group-wide resource



Wholesale Treasury – New Structure

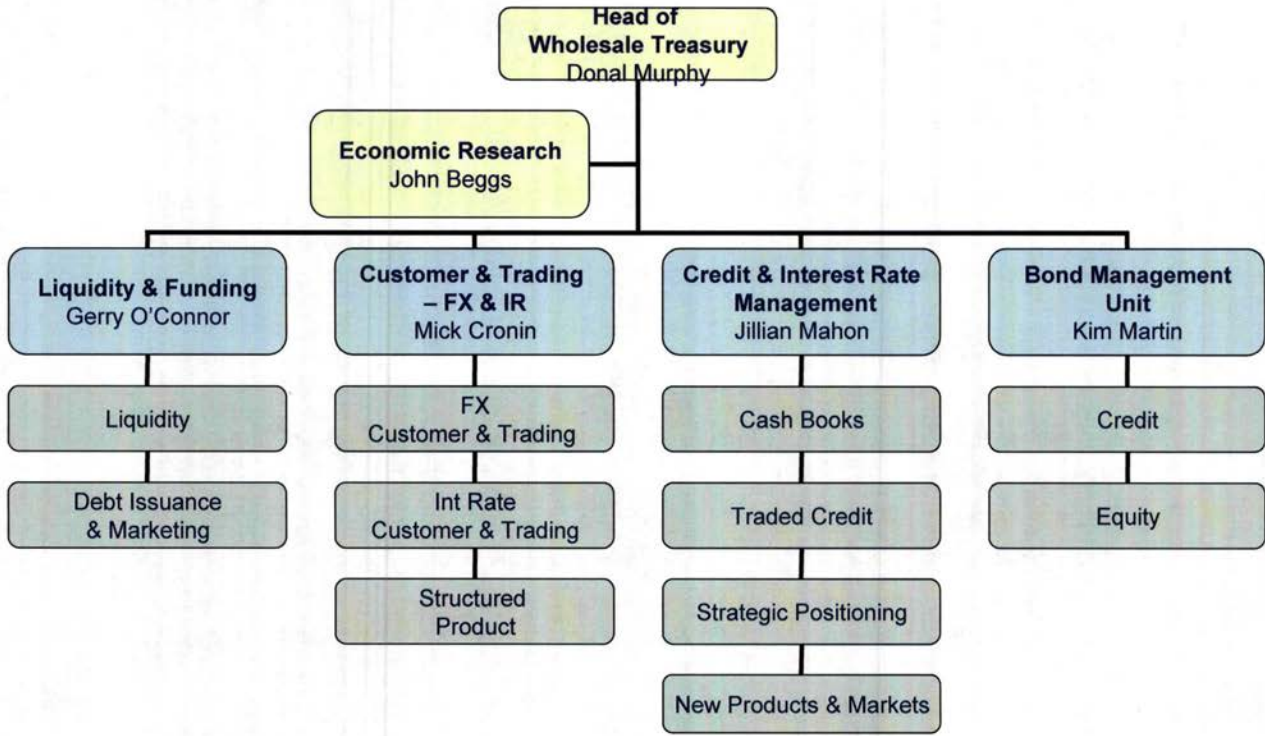
• Previous Structure:

- ✓ –Structured on Product lines at a high level: (FX, IRM, BMU, Liquidity & Funding)
- IRM further broken down into currency groupings
- Additional market risk classes managed on IRM Desk: (Credit, New Products/Inflation)
- Broad philosophy was to capture the synergies that apply in each individual currency market across all products

• The New Structure will:

- ✗ –Maintain the critical focus on Liquidity & Funding in exceptionally difficult markets.
- Focus on specialism
- Better leverage customer flow
- Drive greater income from Interest Rate trading activities
- Build on FX performance to date with increased focus on FX Options
- Increase the focus on New Markets & Products for Customer application, Liquidity and Risk Management.
- Have the right people doing the right thing

Wholesale Treasury - New Structure



*Del 20x
Ym 16
WPA*

- **Challenges:**

- Liquidity & Funding
 - Likely that current stressed market conditions will persist for some time ✓
 - Focus on managing our clearing price in difficult markets
 - Need to be self-funding for growth from our customer deposit base
- Market Conditions: ✓
 - Interest rate markets: current bearish phase will challenge funding of invested positions
 - Equity & Credit markets: current volatility may impact on P/L for the BMU/HYB
- Succession Planning ✓
 - Particular focus on managing succession risk in the BMU and NY HYB

High Yield Bonds

- **Opportunities:**

- Increase Trading focus & Revenues
 - New structure will support growing trading revenues by leveraging customer/franchise business and focusing on increased value from discretionary positioning ✓
- Interest rate positioning in major currencies
 - steeper curves present macro positioning opportunities ✓
- Credit Markets
 - Current extended asset pricing stress offer opportunities to selectively add to high grade assets holdings

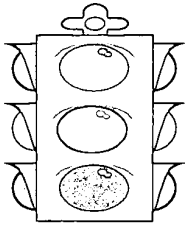


THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3B

Analysis of liquidity risks under adverse scenarios



Group Risk Report for Audit Committee

For: Audit Committee Meeting 18th June 2008

*Please note this paper is identical to the Risk inputs to the
Group Chief Executive's Board Report*

CREDIT RISK REPORT 30/04/2008

LOANS

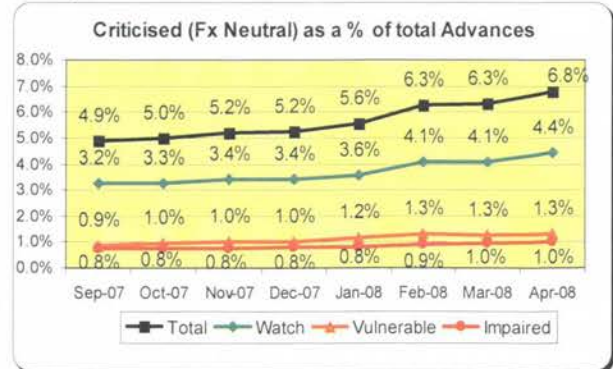
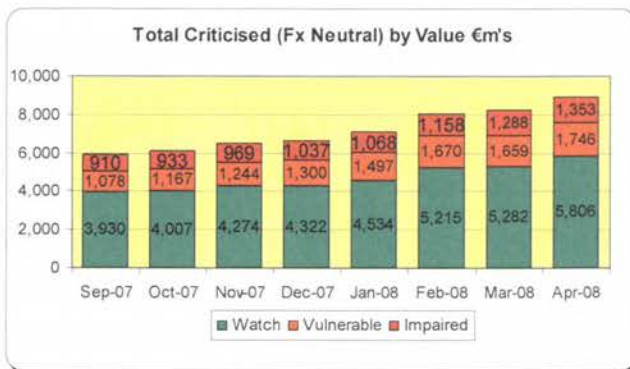
April 2008	€bn	Month Growth	YTD Growth	YTD Plan
AIB Group	131.1	0.9% (FX Neutral)	4.5% (Fx Neutral)	3.7%



- Group Advances have grown by **0.9% FX neutralised in the month**, (versus a plan of 0.9%) to **€131.1bn**. The YTD Growth rate is 4.5% and is currently ahead of the YTD plan of 3.7%. This 2008 YTD growth rate is behind the comparable 2007 YTD growth rate of 7.6%. ROI advances are currently behind plan, and has been impacted by a slowdown in Property & Construction loan demand and this portfolio has only grown by 3.8% YTD versus 12% in the same period in 2007.

CREDIT QUALITY – Criticised Loans (All amounts in €m and FX Neutralised)

AIB Group



Comment: Key portfolio indicators continue to show deterioration in Group Credit Quality. Group Criticised loans have increased in the month by €676m and are now at €8.9bn and represent 6.8% of advances (Dec '07 - 5.2%). Group Criticised loans at 6.8% are at their highest level since Q4, 2003.

- The key drivers of the increase in **Watch** in the month are; ROI (+€434m) – c. 80% of which relates to property related cases, and GB/NI (+€88m) – which is also 80% property related.
- Vulnerable** increased by €87m in the month mainly attributable to ROI which showed an increase of €61m. GB/NI was also up €9m and Poland up €17m. Of the total increase of €87m here across all divisions, c. 66% was Property related.
- Impaired** loans are up €65 m in the month. GB/NI impaired loans increased by €32m while Capital Markets increased by €17m, both driven largely by property cases. ROI increased by €16m but due to a number of small downgrades across various sectors.
- The two new large impaired loans in GB/NI and Capital Markets mentioned above are currently being assessed for the potential for provisions. At this point in time however, it is not anticipated that we will suffer any loss on the Capital Markets case (€13m).

Group Credit Information

*Corporate Credit
consistent*

29th May, 2008

OPERATIONAL RISK REPORT AS AT 30/05/08

1. Single Items over 100k

Technology and facilitates 3 digits in days past due!

(a) BZWBK sold a retail loan portfolio to a 3rd party in Nov '07 for PLN5.6m. The purchaser advised in Feb '08 that its valuation of the portfolio had been based on the average days in arrears (911 days) for the portfolio that had been provided to it prior to the purchase. It subsequently transpired that this information from BZWBK was incorrect and the actual number was 1513 days. The purchaser has submitted a claim for PLN2.4m. A provision for PLN1.2m has been raised and negotiations are underway with the purchaser.

(b) A customer of the Brokerage House in BZWBK is claiming PLN 4m for alleged unauthorised transactions on his account by a Brokerage House employee prior to 2006. The claim is similar to an unsuccessful claim by another customer in 2006 for PLN 653k regarding the same Brokerage House employee.

electronic banking systems

(c) Claim by a customer of BZWBK's MiniBank that one of his employees was erroneously given full access rather than 'Read Only' access in the system in the period 2005 to 2008. As a consequence, the employee effected a number of unauthorised transfers from the customer's account to the employee's personal account. Claim of €177k

2. For Noting

(a) Underpayment of €3.6m made to Revenue Commissioners regarding Corporation Tax payable by AIB Mortgage Bank by Jan '08. Underpayment arose because certain adjustments were not included in the P&L for 2007. Paid the €3.6m to Revenue 2 April 2008. Penalty interest of max €127k could arise if there are no surplus tax payments or group relief available from other group companies.

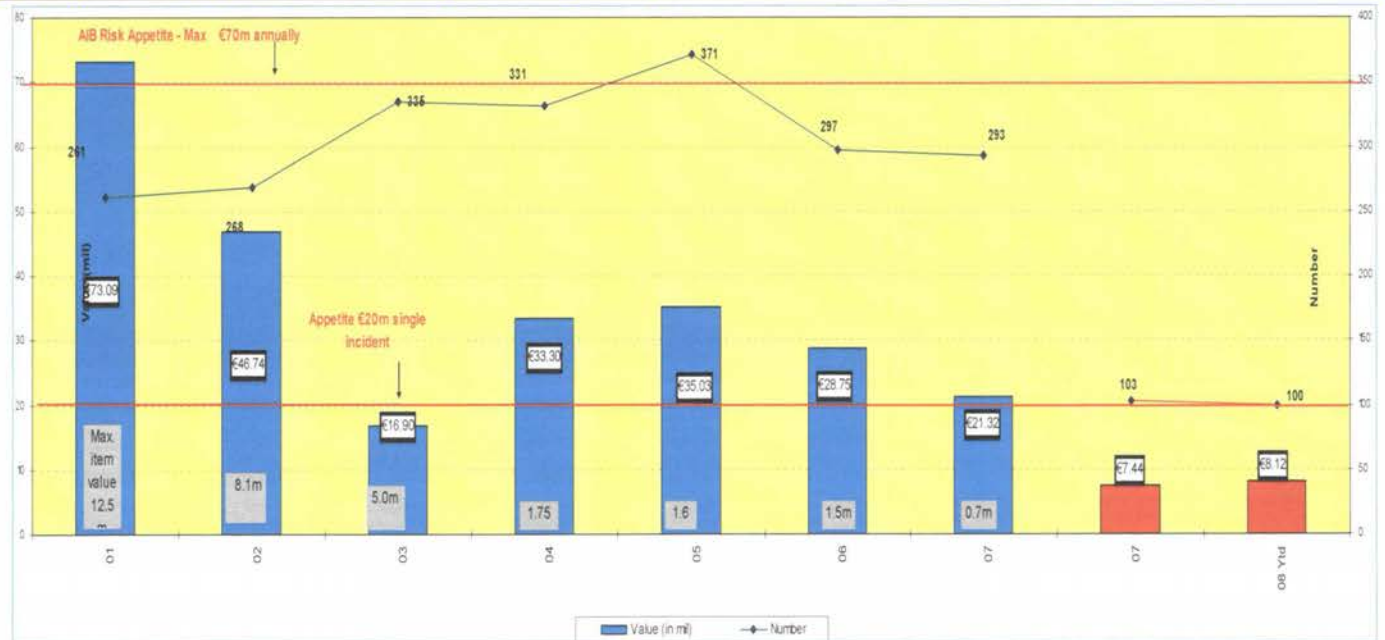
(b) AIB was advised by BOI of instances where cheques drawn on accounts of customers who had switched from AIB to BOI were being refused by AIB, i.e. potential non-compliance with the Account Switching Code. Communication issued by RBSO to all branches to ensure compliance with the Code.

Trends:

Value of incidents reported year-to-date at €8.1 million is €0.7m (8%) more than the same period last year and the volume of incidents reported (100) has decreased by 3%.

Overall Trends since 2001:

Group Internal Loss Database Analysis - Yearly Analysis of Value and Number of Losses (over €10k) *



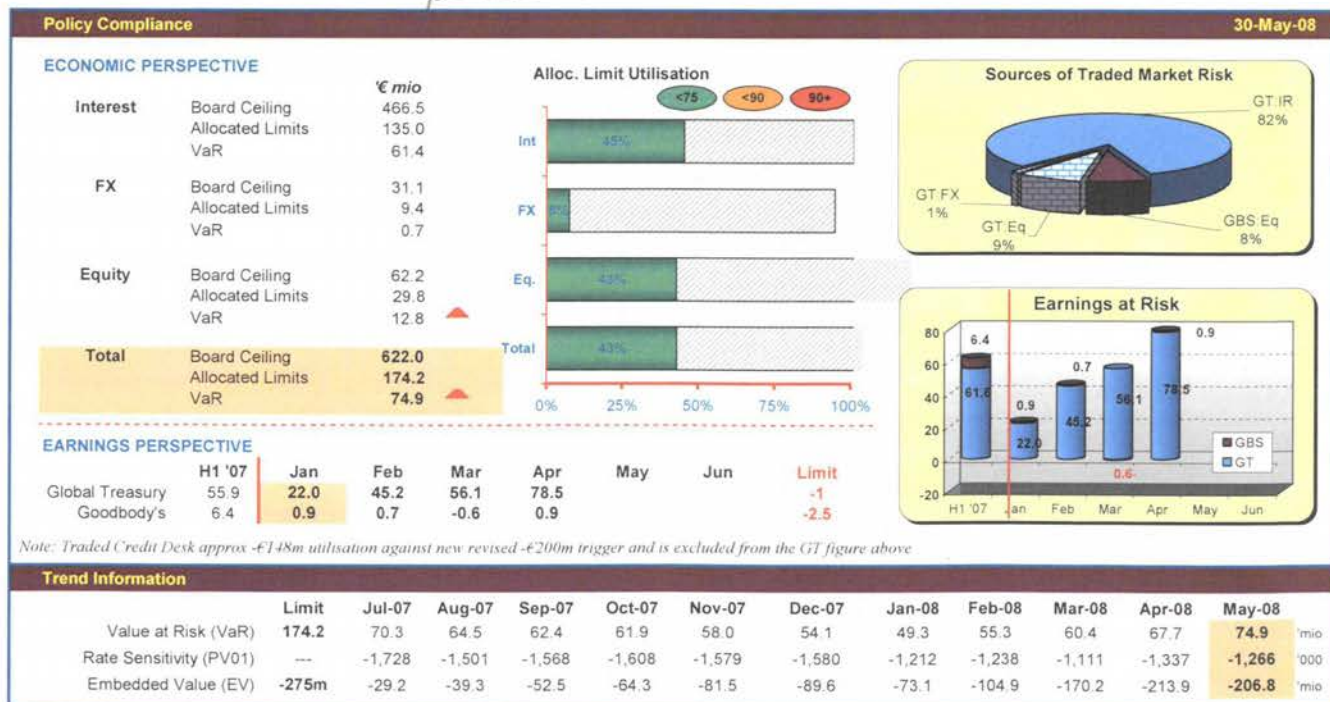
(1) Note: Chart excludes Dirt, Allfirst and FX charges restitution.

MARKET RISK – TRADED PORTFOLIOS (30/05/2008)

- In the US, the Fed has eased policy over the past two months (2% reduction in the Fed Funds rate). The minutes of the Federal Open Market Committee meeting confirmed that although downside risks to growth remained, committee members were also concerned about the upside risks to inflation, given the continued increase in oil and commodity prices and the fact that inflation expectations had risen in recent months. Therefore, it looks likely that the Fed will not rush into cutting rate again.
- In the FX markets, activity in the Dollar/Euro continued to be confined to a tight range. The dollar made some recent gains, helped by stronger than anticipated ADP¹ employment report and ISM² survey results. However, weak eurozone data provided little support to the Euro.
- In the EU, sentiment was affected by the release of data showing the third consecutive monthly drop in eurozone retail sales in April. The services sector PMI³ fell to its lowest level in over four years in May, while the PMI for manufacturing hit a three year low. The ECB is widely expected to leave rates unchanged, given the upward pressure on inflation, at its policy meeting on the 5th June.
- Against this background, the level of the Group's total market risk finished at €74.9m VaR on the 30th May '08, an increase of €9m since the last Board update (i.e. €65.9m on 29th April '08). **New risk positions were added to the EUR Fixed Interest and USD desks.** The position now represents a 43% utilisation of limits allocated to trading desks.
- The Embedded Value of Global Treasury's Available For Sale portfolio improved slightly during May. It now stands at approximately -€207m on 30th May, 76% of which relates to the Traded Credit portfolio (against a new revised €275m limit). In addition, the cumulative negative Mark to Market (MTM) on the Traded Credit portfolio (since 30th June '07) stands at approximately -€148m (as at 30th May '08) against a revised €200m trigger level. (Please note these figures are preliminary month-end figures).
- The positions within the Traded Credit portfolio remain under constant review by Management and the Market Risk Committee. Capital Markets and Group Finance are still in discussion with KPMG about a move away from direct use of, increasingly unsupportable screen prices for credit instruments. If agreed, the proposed changes would reduce pressure on both Traded Credit related limits.

Added and new positions

text at time gap?





THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4a

Adequacy of the valuation policies and assumptions to accurately assess loan security

7. **Residential Development Exposure, Rol Division** (Continued)
provisions in 2008, 2009 and 2010 amounting to €296.8m (0.4% of average advances), €622.8m (0.83%) and €536.3m (0.72%), respectively.

Mr. Murphy commented on the foregoing and responded to questions concerning interest roll-up policy and practice, LTV headroom, and the management of multiple banked clients, and was thanked for his report.

8. **Credit Review**

Mr. Garvey presented the Credit Review for the half-year to 30 June 2008, the key points of which were as follows:

- Advances had increased by €5.2bn to €133.7bn +7% (fx neutralised, v plan 5.6%). 'Property, Building and Construction' and 'Residential Mortgages' continued to be key concentrations representing 37% and 23% of advances, respectively.
- The provision charge was €137m, being 0.21% of average advances and €11m adverse to plan; this outcome reflected negatives variances in Rol and GB&NI, offset by lower than expected provisions in Capital Markets and Poland.
- Balance Sheet provision cover ratios had reduced since 12/2007; specific provision cover was 41% (down from 50% at 12/2007), while IBNR provisions remained at 0.17% of advances.
- Key portfolio indicators pointed to continued deterioration in credit quality; criticised loans, at €10bn, had increased by €3.3bn since 12/2007 and, as a percentage of advances, had increased from 5.2% to 7.5%; Rol Division represented 72% of the increase, heavily influenced by the downgrade of cases arising from the Residential Development portfolio review. Impaired Loans had increased by €391m, and stood at 1.1% of advances, up from 0.8% at 12/2007. The rate of gross new Impaired Loans (a key driver of provisions) had increased significantly from 0.45% of advances at 12/2007 to 0.93%.
- The Structured Securities portfolio (€2bn) included \$281m of US sub-prime securitised investments and \$175m of sub-prime Whole Loans. There had been further downgrades in the period and an additional \$10m had been taken in write-downs to P&L.
- The forecast provision rate for 2008 was 0.33% (v Plan 0.19%).

Mr. Garvey responded to questions and was thanked for his report.

9. **Enterprise Risk Assessment**

The 'Enterprise Risk Assessment ("ERA") as at 30 June 2008, together with a cover note, were presented by Mr. Treble. The ERA commented on the operating environment for risk management, the top 10 material risks, a comparison of these risks with external benchmarks, and included backward-looking and forward-looking commentaries. The ERA also reported on the top 5 Enterprise Compliance Risks and the top 5 Risks by Division and Group Function, and was signed-off by the Group CRO with an affirmation "that all material risks facing the Group have been identified and no major internal control gaps are known to Management currently".

The cover note explained how the ERA was different from the previous 'Enterprise-wide Risk Review'; how it had been compiled; and how it would be used. Mr. Treble proposed to present the ERA half-yearly to the Board and the Audit Committee and to bring detailed risk templates to the

CHAIRMAN'S
INITIALS

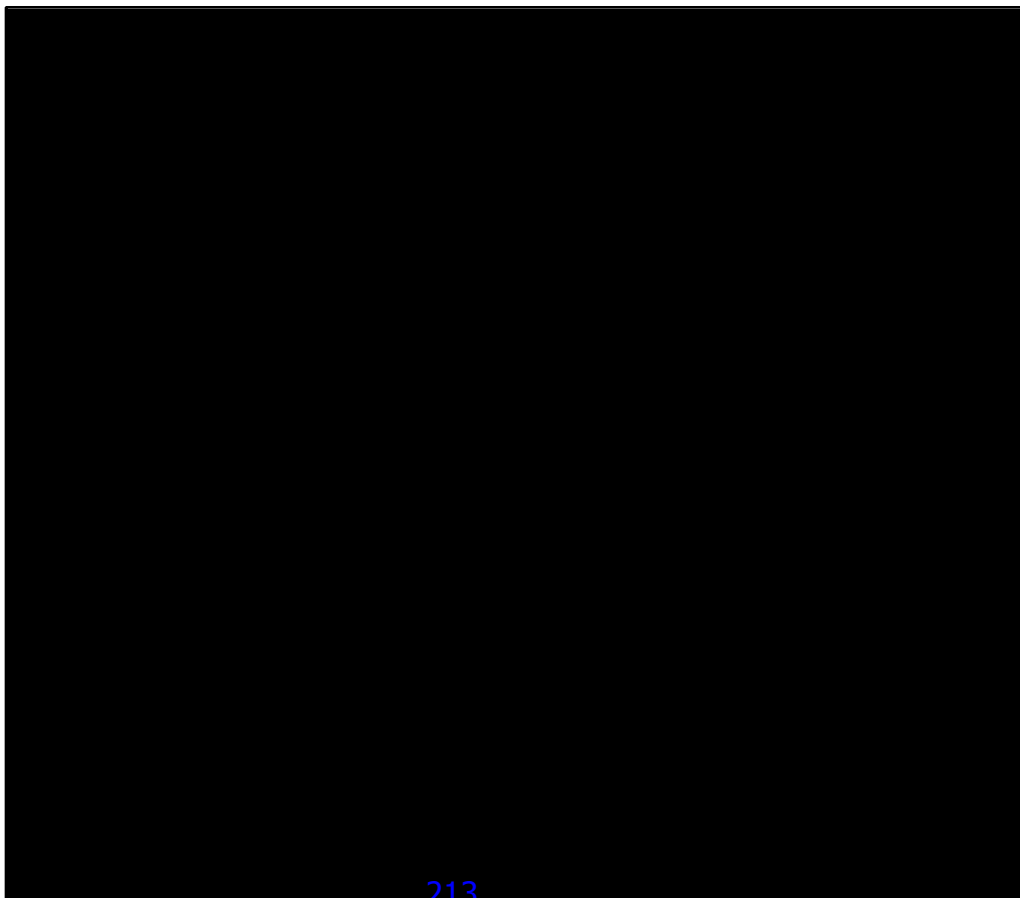
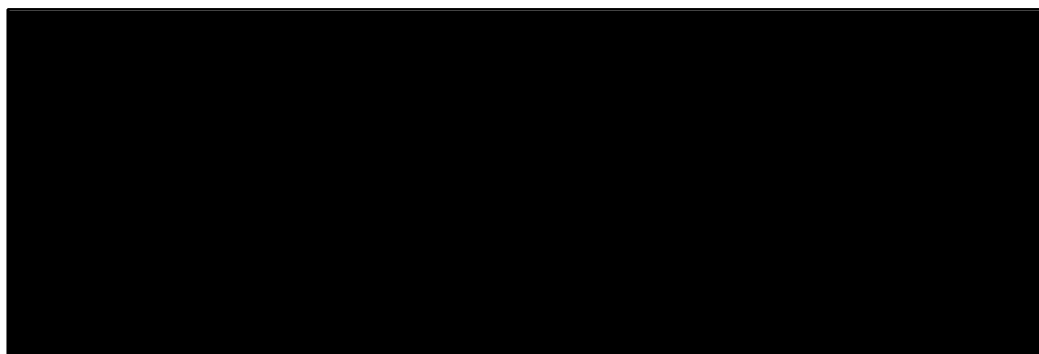
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9. **Enterprise Risk Assessment** (Continued)

Audit Committee (one per month) to facilitate deep analysis and review of specific risk types in a dynamic way. He commented on the top risks and on the highly uncertain outlook, noting that 2009 was expected to be more difficult than 2008.

The proposed new approach was endorsed, and the Chairman thanked Mr. Treble and asked that he note the Board's particular interest in early warning systems.

At the conclusion of the above presentation, there was a discussion about AIB RoI's practice of not seeking professional property valuations and whether this would have implications in terms of the Financial Accounts giving a true and fair view. Mr. O'Donnell advised that the accounting requirement was to take a view as to the future cash flows and to discount those cash flows to present values, and that he was satisfied, as were the Auditors, that AIB was undertaking its provisioning in a reasonably prudent way.



CHAIRMAN'S INITIALS



THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4c

Adequacy of internal controls over perfection of security and policy exceptions

Agenda Item No. 3

Addendum to Group Chief Executive's Report

Board Dashboard, incorporating:

Top 10 Risks

Top 3 outstanding Internal Audit issues

Top 5 Enterprise Compliance risks

Top 8 Enterprise Portfolio Projects

11 December 2008

“Top 10 Risks”

Top 10 Risks as at 30 June 2008	Category	Confidence in controls / mitigants	Status of Residual Risk	Further actions / mitigants	
1	Credit Risk	Financial	Medium	Increasing	<ul style="list-style-type: none"> Implement role and mandate of Special Credits Unit in RoI (CCO RoI). Undertake updated credit risk stress testing exercises (Group Credit) In addition to individual case reviews, undertake additional half-yearly portfolio reviews. (Divisional CCOs) Obtain Board approval for revised interbank exposure policy. (Global Treasury) Reduce threshold for monthly reporting of criticised loans to Group Credit from €50m to €25m. (Group Credit) Divisions to update GCC on a half-yearly basis on all Grade 7 exposures over €50m. (Divisional CCOs) Review of Poland property lending best practices (CCO BZWBK)
2	Liquidity & Funding Risk	Financial	Medium	Stable	<ul style="list-style-type: none"> Continued to compete aggressively for deposits across all market segments, including offshore. Deposit growth / retention a priority across the front line with stretch targets and incentives through transfer pricing. (Divisional MDs) Increase contingent collateral by being able to tap BoE Special Liquidity Facility (to run for 3 years, this scheme allows for mortgage bond assets to be converted into 9 month UK treasuries). (Global Treasury) Further domestic funding programmes planned for Australia, Canada and Japan. (Global Treasury)
3	Capital Adequacy	Financial	Medium	Increasing	<ul style="list-style-type: none"> Close liaison between Finance, Risk and Global Treasury to avail of capital issuance opportunities as and when they avail in current markets. (Finance, Risk, Global Treasury) Updated Pillar 2 stress testing exercise to be performed. (Group Finance & Group Risk) Development of a systemised solution (QRM) to assist in forecasting and managing future capital requirements. (Group Finance)
4	Business Risk	Financial	Medium	Increasing	<p><i>RoI:</i></p> <p>Task Teams continue to drive out cost/revenue agenda re:</p> <ul style="list-style-type: none"> Manpower/Costs Fees/Charges and related recovery rates Maximising return on assets Protecting the customer franchise. <p><i>UK:</i></p> <ul style="list-style-type: none"> Retail Transformation programme designed to re-align business model to economic outlook / new reality. ROE is being integrated into performance measurement in 2008, as well as differentiation of non-interest income and deposit income. <p><i>Capital Markets:</i></p> <p>(See actions in relation to liquidity/market risk)</p> <p><i>Poland:</i></p> <p>Planned re-launch of second-generation ARKA funds.</p>
5	Regulatory Compliance Risks	Operational	Medium	Stable	<ul style="list-style-type: none"> See separate review of Regulatory Compliance Risks for list of further actions / mitigants.
6	Risk of Catastrophic Service Interruption	Operational	Medium	Stable	<p>IT (ES&T)</p> <p>Further initiatives underway to reduce reliance on legacy systems through various programmes. Key milestones in period include:</p> <ul style="list-style-type: none"> Operations Transformation : Clearing Imaging ACORN: RDC module

“Top 10 Risks”

Top 10 Risks as at 30 June 2008	Category	Confidence in controls / mitigants	Status of Residual Risk	Further actions / mitigants	
				<ul style="list-style-type: none"> Pentagon: GB&NI Payments <p>Migration of front-end IT in BZWBK Payments (ES&T) Introduce necessary changes for full compliance with SEPA. Introduction of straight-through processing as part of roll-out of Pentagon, ACORN and SEPA programmes will reduce extent/scope of manual intervention. BCM (Group BCM) BCM testing regime developed, with additional planned tests for H2 2008. Outsourcing (Oversight by Group ORMCo) Implementation of Group outsourcing policy at business unit level.</p>	
7	Dealing with the tougher operating environment	Operational	Medium	Increasing	<p>Projects Portfolio of projects for 2008 of €274m under active management of EIC</p> <p>Staff Staff communication around operating environment and its implications to be launched post mid-year results. (Divisional MDs) Proactive retention strategy targeted at key skills (vulnerable to the market), particularly in credit areas in Rol. (Group / Divisional HR) Proactively identifying skills, particularly credit skills, that can be transferred to debt recovery and credit risk management areas. (Group / Divisional HR)</p> <p>Controls Control review of risk assurance processes due to commence Q3 2008</p> <p>Poland Close management and monitoring of Branch Network Development Programme. (BZWBK Man. Board Board) Monitoring of staff training and readiness to be carried out.</p>
8	Market Risk	Financial	Medium	Stable	<ul style="list-style-type: none"> Development of an improved suite of risk measures for the Goodbody equity trading business in response to increased equity volatility and reduced liquidity. (Goodbodys) Introduction of a Group policy and committee framework for Equity Investment and Underwriting and implementation within Divisions as required. (Group Head of Market Risk) Introduction of a Market Risk committee structure within BZ WBK to handle the market risk issues arising in the Brokerage House. (BZWBK Treasury) Development of improved market risk measures for Group Treasury, coupled with P&L attribution and risk model backtesting. (Group Treasury) Commence work on developing a Market Risk model validation Policy and its implementation. (Group Head of Market Risk)
9	Structural ALM Risks	Financial	Medium	Stable	<ul style="list-style-type: none"> Review use of VaR covariance approach for estimating IRRBB (Group ALM, Group Risk)
10	Pension Risk	Financial	Medium	Stable	<ul style="list-style-type: none"> Carry out updated valuation of Irish DB scheme for the benefit of the trustees. (Director of Pensions)

“Top 3 outstanding internal audit issues”

The list below summarises the top audit issues which have been extracted from the 7 outstanding audit issues rated as Significant as at 31 October 2008.

Audit Issue Title	Update
<p>1. Audit Report: 2006 ROI Securities Management-ROI Division</p> <p><u>Perfection of Security</u> The audit found that there is currently no process in place to identify the level of outstanding Solicitor Undertaking’s and the subsequent follow up of their execution. The review highlighted that Business Banking is relying on a solicitors undertakings in 35% (147) of security requested (410) and many of the undertakings have been outstanding for a considerable length of time, with some dating back to 1998. The following issues were also noted:</p> <ul style="list-style-type: none"> ▪ The current undertaking used highlights that the registration of security is required “as soon as practicable”, rather than specifying a specific time period, such as 6 months from the date of the undertaking. We would recommend that Business Banking discuss with the Group Law Agent a finite period of time, under which Undertakings are accepted. ▪ Undertakings are accepted in all cases and they relate to execution and perfection of security. There may be circumstances in which security can be created on the closing of a deal and thus the undertaking only relates to the perfection. However, this practice doesn’t appear to be adopted. For example, at the closing of a deal the deed of release should be in place, however the registration of the debenture with Companies Office would be the subject of the Undertaking as this is more time consuming. We would recommend that procedural policy is updated to reflect the defined circumstances in which undertakings are acceptable. <p><u>Professional Indemnity</u></p> <ul style="list-style-type: none"> ▪ Undertakings do not require the relevant solicitor to confirm its level of PI cover per claim at the date of the undertaking. As such their cover may not be sufficient to cover their potential exposure. Oireachtas-P A PI certificate indicated that there insurance cover is capped at €6.5m per claim. Recognising that the level of PI cover will never cover the full exposure of the bank for some transactions, it is prudent that the cover is confirmed and reviewed on an on-going basis. There is no minimum level set below which the bank will not accept an undertaking. <p><i>Original due date: 30th April 2007</i> <i>Revised due date: 31st March 2008</i> <i>Issue Owner: Leo Larkin</i></p>	<p><u>Perfection of Security</u> An updated set of actions to resolve the issue on perfection of security are in the process of being agreed as part of the current audit of Securities Management processes.</p> <p>A proposal was approved at BMT on 03 October 2008 to take a risk based approach to following up outstanding solicitor undertakings. Initially they will target all current grades 2C to 4 over €1.5m as at December 2008 and utilise the current manual follow-up process to obtain confirmation of registration. Although this will be an ongoing process they anticipate completion of the current stock of 2C to 4s > €1.5m by April 2009. In addition, where Management have specific concerns in relation to a solicitor, all solicitor undertakings currently held will be followed up and confirmation of registration obtained.</p> <p>Management are still considering what action to take on the remaining stock. This may result in a ‘risk accepted’ action. They will revert to GIA by 31st March 2009 with their proposals.</p> <p>The Irish Bankers Federation (IBF) are currently awaiting the outcome of discussions with the Law Society regarding proposed amendments to the content of solicitor undertakings, in particular the insertion of specific deadlines within which solicitors will be required to register an undertaking. It is anticipate that these discussions will be completed in Q1 2009. Upon completion of these discussions they will develop and implement an escalation process for those undertakings not registered within the defined deadline period. They will revert to GIA by 31 January 2009 with details on our escalation process including dates for implementation.</p> <p><u>Professional Indemnity</u> The Solicitors Working Group is still awaiting an opinion from the Group Law Agent on the issue of PI cover.</p>

“Top 3 outstanding internal audit issues”

Audit Issue Title	Update
<p>2. 2006 ROI Credit Sanctioning - Commercial Banking ROI Division</p> <p><u>Drawdown Process</u></p> <p>Primary responsibility for ensuring the correct implementation of all terms and conditions of sanction agreed by staff in Commercial Banking lies with the branch network, who maintains the primary customer relationship and are responsible for the release of customer funds. However, Commercial Banking perform a follow up on the drawdown function through the Commercial Banking teams with any issues identified being followed up directly with the branch and satisfactory resolution sought. These “breaches of process” are reported back to Senior Management on an ongoing basis as any are discovered. However, the audit identified differences in the level of detail of review associated with the follow up process within the Credit Management teams with backlogs evident and, in a limited number of cases, no evidence of follow up at all. The lack of follow up and independent review increases the associated risks of security not being in place, preconditions not being met, limits not set in line with that agreed etc, which increases the potential exposure to the Bank.</p> <p><i>Original due date: 31st January 2007</i> <i>Revised due date: 30th June 2009</i> <i>Issue Owner: Noel Murphy</i></p>	<p>RCMT (Regional Credit Management Teams) roll-out is largely complete, but not yet fully operational. RCMT implementation will result in segregation of duties on the lending process for facilities in excess of €30k. Automation of controls will continue to be progressed as part of the ongoing Credit Transformation Project. Estimated time for completion of roll-out is 30th June 2009.</p> <p>This issue will remain open until the project is fully implemented across the division.</p>
<p>3. 2006 Group Supports Audit of the Group Consolidation Process</p> <p><u>On-going sustainability of the Consolidation Process</u></p> <p>GIA noted that the current consolidation process is very manual and labour intensive relying on a significant number of manual processes and spreadsheets. Whilst controls have been designed and incorporated into the process, the manual nature of this process increases the inherent risk of errors being made and potentially undetected. This level of manual intervention also reduces the amount of time available to the GFC staff in their review and challenge of the numbers being received from the Divisions. Management are aware of this issue</p> <p><i>Original due date: 31st March 2009</i> <i>Revised due date:</i> <i>Issue Owner: Brendan McHugh</i></p>	<p>On Track.</p> <p>Implementation of the Finance Operating Model (FOM) including the Enterprise General Ledger (EGL) is planned to deliver a significant reduction in the reliance on manual financial reporting processes.</p> <p>The FOM project continues to meet its agreed milestones. GBNI and Group came on board effective 31 March 2008 following the ROI division on 1 October 2007. Capital Markets (excluding Treasury) migrated to the FOM with effect from 1 October 2008. Global Treasury and BZ WBK are on target for their agreed delivery dates.</p> <p>Detailed work commenced on 1 July 2008 for the Group consolidation process migrating to the FOM, which includes the replacement of Millennium with Hyperion, as per agreed deadlines.</p>

“Top 5 Enterprise Compliance Risks”

Top 5 Risks as at 30 June 2008	Category	Confidence in controls / mitigants	Status of Residual Risk	Further actions / mitigants
1 Failure to correctly execute and address regulatory and contractual obligations to customers	Regulatory Compliance	Medium/ Low	Stable	<ul style="list-style-type: none"> • Product Overhaul Programme (RoI) • Implementation of Pentagon & Acorn (RoI, CM and UK) • Look back exercise on products (UK) Division • Obligations register in RoI to be delivered for all risks (in conjunction with Acorn, where relevant) • Review of Terms and Conditions in conjunction with business owners, legal and compliance as part of TCF approach (UK) • Launch the Policies and Ethics COMeT course in Poland • Introduction of a workflow process to standardise communications with customers (Poland) • Standardisation of Loan Document Process in Poland
2 Mis-selling of products and services	Regulatory Compliance	Medium	Increasing	<ul style="list-style-type: none"> • Management review of Sales Model in BZWBK with report to BZWBK Audit Committee • Launch of documented Compliance procedures within sales process in Poland • Treating Customer Fairly (TCF) project (UK) • MiFID (Poland) • Payment Protection Policy on mortgage lending is now included as part of the Home Mortgages Stream within Project ACORN • COMeT Module on Mis-selling of Investment Products (Poland)
3 Risk of Financial Crime, particularly failure of anti-money laundering policies and procedures	Regulatory Compliance	Medium	Stable	<ul style="list-style-type: none"> • Project for single integrated AML solution to address the requirements of the 3rd EU AML Directive, and to provide sophisticated monitoring of suspicious transactions • Enhanced AML training to address additional requirements of the 3rd EU AML Directive. • Centralised verification of account opening documentation (RoI, Poland) • Develop strategic co-ordination between different roles in financial crime e.g. AML, Fraud and the relevant authorities • Review of information security controls across the enterprise, in light of issues raised by the FSA industry-wide review of information security • Terrorist name matching to be extended to SEPA bulk payments • Implement a remediation programme in relation to the issues raised in the Jersey Financial Services Commission review of AML processes and procedures in that jurisdiction.
4 Failure to manage regulatory and business driven change agenda and communicate upstream regulatory risks	Regulatory Compliance	High	Stable	<ul style="list-style-type: none"> • Projects at Divisional/Business Unit level to manage the implementation of MiFID (Poland) • Project to manage the AML 3rd EU Directive Programme (Enterprise) • SEPA – preparing for the introduction of the single payments area through planning in the Payments Council • Managing Director led project to manage the requirements of TCF (UK Division)

“Top 5 Enterprise Compliance Risks”

Top 5 Risks as at 30 June 2008		Category	Confidence in controls / mitigants	Status of Residual Risk	Further actions / mitigants
5	Failure to ensure the appropriate regulatory compliance governance of Polish subsidiaries	Regulatory Compliance	Medium	Stable	<ul style="list-style-type: none"> Implementation of action plans and associated controls to address the recommendations of the PwC review, to be overseen by Group Regulatory Compliance Ensure appropriate compliance risk framework is in place in BZWBK Subsidiaries



AIB Enterprise Portfolio Status

	Programme Name	GEC Owner	Investment Category	Status	Deliverables	Resources	Comments
1	Acorn (including Enterprise Mortgage System project)	S. Meadows, D. Forde, R. Henneberry	Critical to Performance (Transformational)	A	A	G	RDC - Go Live on track for 24th November. Some system defects have been identified during pilot, however ES&T, i-flex and Test teams actively working to resolve. Staff communication & training complete. Term Deposits - Planning progressing - proposed change in functionality delivery schedule is being evaluated currently. Release in Special Measures to close out remaining critical Change Requests. Mortgages - Site visit to India completed & comprehensive gap analysis nearing completion. Concern that there may be a large customization requirement, i-flex mgt travelling to Dublin 24th Nov. to discuss and agree next steps. Lending - Continuing to support Mortgages Release.
2	AML 3 rd Directive	J. O'Donnell S. Meadows	Critical to Regulation (Regulatory)	A	A	A-	The AML programme status is set to Amber. This reflects potential delays with the end to end testing of the Disclosures module due to an external dependency. Further all divisions and Group are experiencing resourcing constraints which may impact final deployment date of End January.
3	Finance Operating Model	J. O'Donnell	Critical to Regulation (Regulatory)	A+	G	G	FOM Wave 3 went live in October. This included Corporate Banking and Investment Banking units. The HFM consolidation product has also gone live as at end of Q3 and will be used for year end consolidation 2008. Testing is underway on the Polish FDM delivery which will remain in Pre-production until year end. The Global Treasury implementation and extended budget has been approved by EIC and is underway. The phased rollout will take place during the second half of 2009 on an Opics branch basis. The programme is amber currently due to developments impacting the datawarehouse from previous waves.
4	Information Lifecycle Management	Steve Meadows	Critical to Regulation (Regulatory)	A	A	A	Information Management Council agreed agenda and priorities for 2009. Archival environment Healthcheck completed - positive results. Poland IM restructure completed. Mahon Tribunal confirmed lift on legal hold (5th Nov), in place since 1999, which will put greater priority on the Retention Schedule initiative. Programme amber as behind on Retention schedules and some issues encountered on archiving CM's legacy email.

Enterprise Services



AIB Enterprise Portfolio Status

	Programme Name	GEC Owner	Investment Category	Status	Deliverables	Resources	Comments
5	Internal Securitisation Project (Residential Backed Securities)	John O'Donnell	Critical to Control (BAU)	G	G	G	GBNI RMBS - Bond launch confirmed for 18th Nov 08, on target. Following transition tasks will complete Nov / Dec 08, replenishment of new loans, repo AIB PLC terms agreed, transition SLAs TBA.
6	Pentagon	S. Meadows & C. Doherty	Critical to Performance (Transformational)	A	A	G	R3c SEPA Channels Technical live 30/08. Channels Business go live schedule: NBP end Sept, due to performance issues Internet Banking deferred, IBB Jan'09. R3a GBNI Payments Tech go live completed. Business go live progressing on phased basis. First R4 Corporate Banking go live (CGB branch) Feb'09.
7	Risk Weighted Assets (RWA) Forecasting & Stress Testing	M. O'Hogartaigh	Critical to Regulation (Regulatory)	A-	A	A-	Project is Amber minus with heightened risk to delivery date of 31/01/2009. Emergency steering held to review scope, resource allocation and external pressures. Prioritised scope agreed for 31/01/2009 delivery. Special measures meetings in progress to focus close management to this date.
8	Sepa 2008	S. Meadows	Critical to Regulation (Regulatory)	A	A	G	Agreed at GPC Oct meeting to extend delivery date for Business Priority 1 (SEPA DD via IBB) owing to additional complexity, revised iFlex drop dates, performance & capacity issues & resourcing limitations. AIB Senior Technical Review Group (STRG) formed to work with iFlex to address the capacity & performance issues in both the Single Shot CT and SEPA Bulk environments. The SEPA Bulk Programme is to advise GPC of revised BP1 delivery date by 31/12, pending confirmation of solution architecture to meet capacity and performance requirements. EIC date extended to allow for additional time to re-confirm capacity sizings & performance issues with i-flex.

Enterprise Services

61 22473/12 Loan Transfer 03/05/2012

To ask the Minister for Finance if he will provide an estimate of the financial loss to the State and taxpayer arising from the unsafe loan undertakings provided by solicitors to banks, made public by the National Assets Management Agency during March 2012.

- Clare Daly.

* For WRITTEN answer on Thursday, 3 May, 2012.

Ref No: 22473/12

REPLY

Minister for Finance (Mr. Noonan):

I am advised by NAMA that the estimated value of downward adjustments applied to the consideration paid to banks in respect of the acquisition of loans as a result of security defects identified in legal due diligence is €477 million. Only a minor part of this relates to legal undertakings provided by solicitors.

I understand that as a consequence of the defects identified during the legal due diligence, the valuation of the assets was reduced and a lesser amount was paid by NAMA. NAMA advise me that it does not expect to suffer a loss on these acquisitions arising from the solicitors undertakings.

To ask the Minister for Finance further to the recent publication of a special report by the Comptroller and Auditor General, if he has sought a report from the National Assets Management Agency on the standard of loan documentation available at the participating institutions and the degree by which the poor standard of documentation diminished the value of acquired loans, with a view to examining if it is appropriate to take action against auditors of those Institutions.

- Pearse Doherty

* For WRITTEN answer on Tuesday, 12 June, 2012.

Ref No: 27953/12

REPLY

Minister for Finance (Mr. Noonan): I am advised by NAMA that the valuation of loans acquired from Participating Institutions was based on an extensive due diligence process carried out by NAMA on the security held for the loans and the assets securing them. Legal due diligence reports submitted by the participating institutions were reviewed by NAMA's external legal panel with a view to highlighting any issues which would give rise to legal difficulties for NAMA in managing the loans or in engaging in enforcement actions in respect of them.

Arising from these reviews, questions were raised about the enforceability of security in certain cases and as a result, it was necessary to impose appropriate legal discounts. To account for these and to account also for financial obligations identified during the course of legal review, downward adjustments aggregating to €477m were made to the acquisition value paid by NAMA on these loans. As a direct consequence, the consideration paid to the participating institutions was duly discounted to take account of poor documentation.

The question of taking action against auditors of institutions for the poor standard of documentation at those institutions is a matter for the institutions themselves.



THEME: B5

Impact of the remuneration arrangements on banks' risk management

LINE OF INQUIRY: B5a

Adequacy of the incentive and remuneration arrangements to promote sound risk governance

ALLIED IRISH BANKS, p.l.c.

**MINUTES OF A MEETING OF THE
REMUNERATION COMMITTEE**

**held at Bankcentre, Ballsbridge, Dublin 4
on Thursday, 10 March 2005 at 8.00 a.m.**

Present: Sir Derek Higgs In the Chair (via audio link)
Dermot Gleeson
Don Godson
John B. McGuckian
Jim O'Leary

In Attendance: Michael Buckley, Group Chief Executive
Mike Lewis, Head of Group Strategic HR
Michael Quinn, Head of Performance and Reward
W. M. Kinsella, Secretary

AIB Group Performance Share Plan 2005

A paper had been circulated in advance of the meeting, setting out changes to the proposed Performance Share Plan discussed by the Remuneration Committee on 8 March 2005 and clarifying a number of issues. The following were the key points in the paper:

1. In 2005, as a transitional measure, it was proposed to make grants of performance shares to members of the GEC. As six members of the GEC had already been advised of awards of share options in 2005, the value of those awards would be taken into account in determining awards of performance shares. On the basis of a fair evaluation of both schemes, the maximum possible annual award of performance shares would not be exceeded by the combination of share options and performance shares. The IAIM would be so advised.
2. Annual awards would be made of performance-vesting shares. Dividends accruing during the performance period would be paid only in respect of shares that vested at the end of the period.
3. Annual grants to a maximum of 75% and 150% of salary, depending on grade, and up to 200% in the case of the Group Chief Executive; maximum of 150 participants in any year.
4. Vesting of each annual award to be based on two measures, namely, EPS performance and Total Shareholder Return ("TSR") over the three-year performance period.
 - 10% of awards will vest if the Bank's EPS growth over the three year period following the award exceeds the increase in the CPI by at least 5% per annum compound over that period. 50% of awards will vest if the Bank's EPS growth over that period exceeds the increase in the CPI by at least 10% per annum compound over that period.
 - The initial grant will be based on the Bank's TSR performance relative to the FTSE Eurotop 300 Banks (peer group), such that 10% of the awards will vest only if the Bank's TSR is at least as good as the median of the peer group. 50% of the award will vest if the Bank's TSR is at the 80th percentile.
5. The Remuneration Committee will review the performance conditions each time awards are granted, including the composition of the peer group, and may vary the conditions of such awards granted, provided they remain no less challenging and remain aligned with shareholders' interests.
6. The Remuneration Committee will review the operation of the Plan no earlier than 3 years and no later than 5 years from its introduction.
7. The Group Chief Executive, the members of the GEC and General Managers who receive awards under the Plan will be required to achieve a shareholding equivalent in value to 100% of base salary by the end of five years, with a minimum of at least 50% of base salary by the end of three years.

Following a discussion, the proposals were approved to be placed before the Board. The Chairman drew attention to the need for the clear articulation of remuneration policy, and where the Plan under review would fit into such a Policy. He indicated that these were matters that he intended to review with Messrs Lewis and Quinn in late April 200

56 Report on directors' remuneration and interests (continued)

The following tables detail the total remuneration of the Directors.

Remuneration							2007
	Fees ⁽¹⁾ € 000	Salary € 000	Bonus ⁽²⁾ € 000	Profit share ⁽³⁾ € 000	Taxable benefits ⁽⁴⁾ € 000	Pension contributions ⁽⁵⁾ € 000	Total € 000
Executive directors							
Colm Doherty	-	625	800	12	47	179	1,663
Donal Forde (<i>appointed 11 January 2007</i>)	-	575	600	12	43	164	1,394
John O'Donnell	-	480	600	12	44	137	1,273
Eugene Sheehy	-	916	850	12	65	262	2,105
	-	2,596	2,850	48	199	742	6,435
Non-executive directors							
Adrian Burke	141						141
Kieran Crowley	153						153
Padraic M Fallon (<i>retired 9 May 2007</i>)	17						17
Dermot Gleeson	475						475
Don Godson (<i>retired 31 December 2007</i>)	70						70
Stephen L. Kingon (<i>appointed 6 September 2007</i>)	31						31
Anne Maher (<i>appointed 11 January 2007</i>)	71						71
John B McGuckian (<i>retired 9 May 2007</i>)	45						45
Dan O'Connor (<i>appointed 11 January 2007</i>)	64						64
Sean O'Driscoll	57						57
Jim O'Leary	109						109
David Pritchard (<i>appointed 21 June 2007</i>)	86						86
Bernard Somers	50						50
Michael J Sullivan	70						70
Robert G Wilmers	-						-
Jennifer Winter	85						85
	1,524						1,524
Former directors							
Pensions ⁽⁶⁾							113
							113
Total							8,072