

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the contents of this document, or about the action you should take, you are recommended to immediately seek your own personal financial and taxation advice from your stockbroker, solicitor, accountant, fund manager or other appropriate independent financial adviser (being, in the case of Shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos. 1 to 3) 2007 or the Investment Intermediaries Act 1995 and, in the case of Shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000 of the United Kingdom (the "FSMA") or from another appropriately authorised independent financial adviser if you are in a territory outside Ireland or the United Kingdom.

If you sell or have sold or have otherwise transferred all of your Ordinary Shares, please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

The Irish Stock Exchange has not examined or approved the contents of this document.

This document is not a prospectus and does not contain an offer to the public to purchase or subscribe for securities within the meaning of the Prospectus (Directive 2003/71/EC) Regulations 2005. This document has not been approved by the Central Bank. This document does not constitute a prospectus and a copy of this document has not been, and will not be, delivered to the Registrar of Companies in Ireland.



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

*(incorporated and registered in Ireland under the Companies Act 1963 with registered number 24173)*

### Proposed Capital Reorganisation

### Circular and Notice of Extraordinary General Meeting

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**Your attention is drawn in particular to the letter from your Chairman, which is set out on pages 5 to 9 of this document and which recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting referred to below. Please read the whole of this document.**

Notice of an Extraordinary General Meeting of the Bank, to be held on Thursday 19 June 2014 at 12 noon (or immediately following the conclusion of the AGM of the Bank to be convened for 10:00 a.m. on the same day and at the same location, whichever is later) at Bankcentre, Ballsbridge, Dublin 4, is set out at the end of this document. A Form of Proxy for use at the Extraordinary General Meeting is enclosed. To be valid, Forms of Proxy should be completed, signed and returned by no later than 12 noon on Tuesday 17 June 2014 in accordance with the notes to the Notice of EGM (at the end of this document) and the Form of Proxy itself. Completion and return of a Form of Proxy will not prevent the Shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should the Shareholder wish to do so.

Electronic proxy appointment is available for the Extraordinary General Meeting. This facility enables a Shareholder to lodge its proxy appointment by electronic means by logging on to the website of the Registrar, Computershare Investor Services (Ireland) Limited: [www.eproxyappointment.com](http://www.eproxyappointment.com). Additionally, for those who hold Shares in CREST, a Shareholder may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Computershare Investor Services (Ireland) Limited (CREST participant ID 3RA50) so that it is received by no later than 12 noon on Tuesday 17 June 2014. The completion and return of either an electronic proxy appointment notification or a CREST Proxy Instruction (as the case may be) will not prevent the Shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should the Shareholder wish to do so.

Circular dated 27 May 2014

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## IMPORTANT INFORMATION

### WEBSITES

Neither the content of the Group's website, the content of any website accessible from hyperlinks on the Group's website nor any other website is incorporated into, or forms part of, this document.

### TIME

All references in this Circular to times are to Irish time.

### DEFINITIONS

Certain capitalised terms used in this document (including the letter from the Chairman in Part I of this document) have the meanings ascribed to them in Part II ("*Definitions*") of this document.

### FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference certain "forward-looking statements" within the meaning of Section 27A of the US Securities Act of 1933 (as amended) and Section 21E of the US Securities Exchange Act of 1934 (as amended), with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the AIB Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning.

Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to: the Group's access to funding and liquidity which may be adversely affected by further financial instability within the Eurozone; the outcome of the ECB Comprehensive Assessment; contagion risks disrupting the financial markets; constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy in particular in relation to its leaving the financial support package from the EU/International Monetary Fund; the Group's markets, particularly for retail deposits which are at risk from more intense competition; the Group's business being adversely affected by a further deterioration in economic and market conditions; general economic conditions being very challenging for the Group's mortgage and other lending customers and the increased risk of payment default and depressed Irish property prices. In addition, the Group also faces market risks (including non-trading interest rate risk). The Group is subject to rigorous and demanding government supervision and oversight, the Group may be subject to the risk of having insufficient capital to meet increased regulatory requirements, the Group's business activities must comply with increasing levels of regulation and the Group's participation in the National Asset Management Agency programme gives rise to certain residual financial risks, the Group may be adversely affected by further austerity and budget measures introduced by the Irish Government. Furthermore, the value of certain financial instruments recorded at fair value is determined by the Group using financial models incorporating assumptions, judgements and estimates that may change over time, or may ultimately not turn out to be accurate, the Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years, adverse changes to tax legislation, regulatory requirements or accounting standards could impact the Group's capital ratios, the Group is subject to inherent credit risks in respect of customers, the Group faces heightened operational and reputational risks, the restructuring of the Group entails risk, the Group's risk management strategies and techniques may be unsuccessful and there is a risk of litigation arising from the Group's activities.

No statement in this document or any document incorporated by reference herein should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. AIB cautions that the foregoing list of important factors is not exhaustive. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

|   |  |
|---|--|
| Despatch of this Circular and Form of Proxy .....                             | 27 May 2014  |
| Latest time and date for receipt of Forms of Proxy .....                      | 12 noon on 17 June 2014  |
| Annual General Meeting .....  | 10:00 a.m. on 19 June 2014   |
| Extraordinary General Meeting .....   | 12 noon on 19 June 2014<br><i>(or immediately following the conclusion of the AGM, whichever is later)</i> |
| Subdivision becomes effective .....   | 8:00 a.m. on 20 June 2014*   |
| Application to the High Court for confirmation of the Capital Reduction ..... | July 2014*   |
| Capital Reduction becomes effective .....                                     | Subsequent to confirmation by the High Court<br>(if received) of the Capital Reduction*                    |

\* Each of the times and dates in the table above is indicative only and may be adjusted by the Bank (for example, to take account of any necessary regulatory consents), in which event details of the new times and dates will be notified by way of an announcement issued via a Regulatory Information Service to the Irish Stock Exchange.

## PART I

### LETTER FROM THE CHAIRMAN OF ALLIED IRISH BANKS, P.L.C.



*Directors\*\*:*

David Hodgkinson\*            Chairman  
Simon Ball\*  
Bernard Byrne  
David Duffy  
Tom Foley\*  
Peter Hagan\*  
Jim O'Hara\*  
Dr Michael Somers\*        Deputy Chairman  
Dick Spring\*  
Thomas Wacker\*  
Catherine Woods\*

*Head and Registered Office:*

Allied Irish Banks, p.l.c.  
  
Bankcentre  
Ballsbridge  
Dublin 4  
Ireland

27 May 2014

\* Denotes Non-Executive Director

\*\*As explained in the Chairman's Letter to Shareholders in respect of the AGM, Mark Bourke will be co-opted to the Board on 29 May 2014. Biographical information in respect of Mr. Bourke is provided in the notice of AGM.

### Proposed Capital Reorganisation

Dear Shareholder,

#### Introduction

I am writing to you to provide you with details of the Board's proposal for a reorganisation of the Bank's share capital, comprising a subdivision of the existing Ordinary Shares and, subject to the confirmation of the High Court, a capital reduction, to generate distributable reserves of €5,000,000,000. Further details in relation to the Capital Reorganisation are set out below.

Implementation of the Subdivision and the Capital Reduction require Shareholder approval and, accordingly, the Bank has today announced that an Extraordinary General Meeting of the Bank will be held on Thursday 19 June 2014 at 12 noon (or immediately following the conclusion of the AGM to be convened for 10:00 a.m. on the same day and at the same location, whichever is later) to consider and, if thought fit, pass the necessary Resolutions to give effect to the Capital Reorganisation.

The Capital Reorganisation will result in the reallocation of issued share capital and share premium to distributable reserves. Under Irish company law, such a reallocation can only be undertaken with shareholder approval and with the confirmation of the High Court. In the absence of sufficient distributable reserves, Irish company law places restrictions on the payment of dividends on issued shares, such as the Ordinary Shares and the 2009 Preference Shares, and on the Bank's ability to redeem the 2009 Preference Shares otherwise than out of the proceeds of a new share issue.

The Board believes that the creation of distributable reserves through the Capital Reorganisation is an important step for the Bank, which will provide greater flexibility for the Bank in respect of measures that it may take to simplify and strengthen the Group's capital structure and enable the resumption of dividend payments to Shareholders over time, as and when conditions permit. The Capital Reorganisation will have no impact on the number of Ordinary Shares held by Shareholders or on their proportionate interests in the issued Ordinary Shares, nor will there be any change in the number of Ordinary Shares in issue. Except for a change in nominal value of each Ordinary Share, the rights attaching to the New Ordinary Shares will be identical in all respects to those attaching to the Existing Ordinary Shares.

The purpose of this document is to provide you with information on, and to outline the reasons for, the Capital Reorganisation and to explain why the Board considers it to be in the best interests of the Bank and Shareholders as a whole, and why it recommends that you vote in favour of the Resolutions to be proposed to give effect to it.

## **Background to and reasons for the Capital Reorganisation**

As stated in the Group's 2013 Annual Financial Report, the Board is committed to re-establishing AIB as a customer-focused, profitable and investable bank with a strong equity profile. Achieving these objectives will help the Bank to continue to build profitability, deliver sustainable returns to Shareholders, support the Irish economy and provide a platform to enable the Irish Government to begin to recover the State's investment in AIB. As reported in its Interim Management Statement, the Bank has returned to underlying profitability during the first quarter of 2014 and this achievement, together with receiving clearance from the European Commission for its Restructuring Plan, are important steps towards making the Bank attractive to investors over time. There are further steps which the Bank will need to take to achieve these objectives, including resolving the long term future of the 2009 Preference Shares and simplifying and rationalising the Group's capital structure to meet regulatory requirements and to more closely align it with market norms and investor expectations.

While the Group is not in a position to achieve all of these objectives immediately, the Board is focused on ensuring that the necessary building blocks are put in place to enable these objectives to be met.

The availability to the Bank of sufficient distributable reserves is an important first step in enabling a number of measures that will facilitate the simplification and rationalisation of the Bank's capital structure, including providing flexibility with respect to:

- a) the potential conversion (or redemption for the purposes of conversion) into Ordinary Shares and/or the redemption of some or all of the 2009 Preference Shares;
- b) the payment of cash dividends on both the 2009 Preference Shares and Ordinary Shares, subject to legal and regulatory requirements, at a time when the Board considers it appropriate and prudent to do so; and,
- c) the issue of Additional Tier 1 (AT1) securities.

These are discussed further below.

### *Flexibility with respect to the potential conversion into Ordinary Shares and/or redemption of some or all of the 2009 Preference Shares*

While the 2009 Preference Shares are "grandfathered" for a transitional period under CRD IV, they will no longer qualify as Common Equity Tier 1 (CET1) Capital under CRD IV after 31 December 2017. A range of key stakeholders, including both debt and equity investors, as well as certain rating agencies, are increasingly attributing less value to the 2009 Preference Shares when assessing the capital strength of the Bank as they evaluate banks on a fully loaded CRD IV basis which excludes the 2009 Preference Shares from Common Equity Tier 1 (CET1) Capital. In the context of preparing the Bank for a possible return to private ownership, the Board believes that the capital structure of the Bank will need to be stronger, and simpler, and will potentially require conversion of some or all of the 2009 Preference Shares into Ordinary Shares. This would immediately enhance the Bank's Common Equity Tier 1 (CET1) Capital position on a fully loaded basis and help to alleviate investor concerns around the de-recognition, as Common Equity Tier 1 (CET1) Capital, of the 2009 Preference Shares under CRD IV.

As also stated in the Group's 2013 Annual Financial Report and reiterated in its Interim Management Statement, AIB, in consultation with the Department of Finance, is actively assessing a range of options in relation to the 2009 Preference Shares, including a potential full or partial conversion of the 2009 Preference Shares into Ordinary Shares. While no decision has been made yet, the Bank hopes to reach agreement with the Department of Finance in relation to the 2009 Preference Shares during the second half of 2014. Any decisions in this regard will take account of the interests of the State and other stakeholders, investor expectations, the regulatory capital position of the Group and the overarching objective of preparing the Group for a successful return to private ownership. Under the Articles of Association, the 2009 Preference Shares are redeemable, in whole or in part, at the option of the Bank and with the consent of the Central Bank, from distributable profits and/or the proceeds of an issue of shares in the Bank constituting Common Equity Tier 1 (CET1) Capital at a redemption price of €1.25 per share. The 2009 Preference Shares are not currently convertible under the Articles of Association and any such conversion would be subject to any necessary Board, Shareholder and regulatory approvals. Any such conversion would also require a conversion price to be agreed between the Bank and the State.

The Board has concluded, as part of its planning in relation to the Bank's future capital structure (including the future status of the 2009 Preference Shares), that the Bank should have available to it a sufficient level of distributable reserves so that it is not constrained from converting or redeeming (including redemption for the purpose of conversion) some or all of the 2009 Preference Shares by a lack of distributable reserves in circumstances where, subject to any necessary approval of Shareholders and the Central Bank, it would otherwise be in a position to do so.

#### *Flexibility with respect to the future payment of cash dividends*

Under Irish company law, dividends on the Ordinary Shares or 2009 Preference Shares may only be paid from distributable reserves. This requirement is independent of whether or not the Bank has sufficient cash to pay a dividend. The 2009 Preference Shares, under the Articles of Association, carry a fixed non-cumulative dividend at a rate of 8% per annum, payable annually in arrears at the discretion of the Bank. However, if the dividend is not paid in cash, the Bank must issue bonus Ordinary Shares to the holders of the 2009 Preference Shares by capitalising the relevant portion of its reserves. As announced on 25 April 2014, the Board has resolved, in line with previous years, not to pay the 2014 dividend on the 2009 Preference Shares in cash. Accordingly, 2,177,293,934 bonus Ordinary Shares were issued to the NPRFC on 13 May 2014 in lieu of the 2014 dividend on the 2009 Preference Shares. Given the requirement to issue bonus Ordinary Shares in lieu of the dividend on the 2009 Preference Shares if it is not paid in cash, the Board believes that it is desirable to have flexibility to pay future dividends on the 2009 Preference Shares in cash, should the Board wish to do so.

While the payment of dividends on the Ordinary Shares is not currently contemplated, the Board believes that it is important to have the flexibility to enable the Bank to resume such dividend payments over the longer term. The Capital Reorganisation will create a pool of distributable reserves which, subject to applicable legal and regulatory requirements, will allow the Board to resume the payment of dividends should the Board deem this to be appropriate. The resumption of dividend payments would be an important mechanism to remunerate Shareholders (of whom the State is, by far, the largest, holding approximately 99.8% of the Bank's Ordinary Share capital). Furthermore, as noted by the Bank in its announcement on 7 May 2014 in relation to the approval by the European Commission of its Restructuring Plan, the Bank has made certain commitments in respect of the repayment of State aid prior to the end of the restructuring period, being 31 December 2017, subject to operating performance, regulatory capital requirements and regulatory approval. To this end, the ability to pay dividends represents a potential mechanism for such repayment of State aid. An appropriate level of distributable reserves is also an important prerequisite to creating a stronger and more investable equity proposition should the State choose to commence a privatisation of the Bank over time.

Therefore, the Board has concluded that the Bank should have available to it a sufficient level of distributable reserves so that, subject to legal, regulatory and capital requirements, it is not constrained from paying the dividend on the 2009 Preference Shares in cash on future dividend payment dates, or from paying dividends on its Ordinary Shares at a future date should the Board deem this to be appropriate, due to a lack of distributable reserves where it would otherwise choose to do so.

#### *Flexibility to issue Additional Tier 1 (AT1) securities*

CRD IV makes provision for Additional Tier 1 (AT1) securities. Broadly speaking, these are subordinated debt capital instruments that absorb losses at certain Common Equity Tier 1 (CET1) Capital levels and are eligible as Tier 1 capital provided that the instruments meet certain conditions prescribed in CRD IV. The issuance of Additional Tier 1 (AT1) securities would assist in achieving the Bank's objective of enhancing its capital structure over time. Given the particular characteristics that coupons on Additional Tier 1 (AT1) securities must have in order to be eligible as Tier 1 capital under CRD IV (including being fully discretionary, payable out of distributable reserves and subject to potential restrictions where Common Equity Tier 1 (CET1) Capital ratios deteriorate), potential investors can be expected to pay particular attention to the risk that distributions could be restricted due to the Bank's or the Group's Common Equity Tier 1 (CET1) Capital levels falling below the relevant thresholds where distribution restrictions would apply. In this context, the Board wishes to ensure that it has a sufficiently large pool of distributable reserves such that the Bank is not constrained from making distributions solely due to a lack of distributable reserves when it would otherwise be in a position to do so. While the Bank has not made any decision in relation to future issuance of Additional Tier 1 (AT1) securities, a substantial pool of distributable reserves, combined with a track record of secured and unsecured debt issuance and a strong equity profile (including clarity in relation to the continuance or otherwise of the 2009 Preference Shares in the capital structure), will help the Bank to more confidently position any such issuance that it may contemplate at a future date.

## **Details of the Capital Reorganisation**

It is proposed to implement the Capital Reorganisation in two steps: (1) the Subdivision and (2) the Capital Reduction.

### *Subdivision*

The nominal value of each of the Existing Ordinary Shares is €0.01. Pursuant to the Subdivision, subject to Shareholder approval and any necessary approvals of the Central Bank, each Existing Ordinary Share will be sub-divided into one New Ordinary Share of €0.0025 nominal value and one Deferred Share of €0.0075 nominal value, from the time at which the Resolution in respect of the Subdivision becomes effective (which is expected to be 8:00 a.m. on Friday 20 June 2014, or such other time and date as the Directors may determine and notify to Shareholders, by way of an announcement issued via a Regulatory Information Service, to the Irish Stock Exchange).

Shareholders should note that their proportionate interests in the issued Ordinary Shares will remain unchanged as a result of the Subdivision. Except for the change in nominal value of each Ordinary Share, the rights attaching to the New Ordinary Shares (including voting and dividend rights and rights on a return of capital) arising on the Subdivision will be identical in all respects to those attaching to the Existing Ordinary Shares at the date of this document. Nor will there be any change in the number of Ordinary Shares in issue as a consequence of the Subdivision or the Capital Reduction.

No new share certificates will be issued in respect of the New Ordinary Shares, as existing share certificates will remain valid in respect of them.

The Deferred Shares created on the Subdivision becoming effective will have effectively no economic value. Under the Articles of Association, as proposed to be amended by the Resolutions, the Deferred Shares resulting from the Subdivision becoming effective will have no voting or dividend rights. On a return of capital on a winding-up of the Bank, holders of Deferred Shares will have the right to receive the amount paid up thereon only after holders of New Ordinary Shares have received an amount equal to the amount paid up on each of the New Ordinary Shares held by them plus €10 million per New Ordinary Share, the purpose of which is to ensure that the Deferred Shares have no economic value. Immediately upon the Subdivision becoming effective, subject to any necessary approvals of the Central Bank, AIB intends to acquire for nil consideration, pursuant to the terms of the Deferred Shares, all of the resulting Deferred Shares not held by it, to cancel all of the Deferred Shares and to transfer an amount equal to the aggregate nominal amount of the Deferred Shares to the Bank's capital redemption reserve.

### *Capital Reduction*

In order to create the desired level of distributable reserves, the Bank proposes, following the Subdivision becoming effective and the cancellation of the resulting Deferred Shares, to carry out the Capital Reduction. In the Capital Reduction, it is proposed that the Bank will cancel, subject to any necessary approvals of the Central Bank and the confirmation of the High Court, all of the capital redemption reserve created as a result of the cancellation of the Deferred Shares and an amount of €1,073,944,058.37 standing to the credit of the Bank's share premium account. If the Resolution in respect of the Capital Reduction is approved by Shareholders and the Capital Reduction is confirmed by the High Court, the effect of the cancellation will be to create distributable reserves of €5,000,000,000 which will be available to the Bank for the purposes explained above.

## **Extraordinary General Meeting**

A notice convening an Extraordinary General Meeting of the Bank, to be held at Bankcentre, Ballsbridge, Dublin 4 at 12 noon on Thursday 19 June 2014 (or, immediately following the conclusion of the AGM of the Bank to be convened for 10:00 a.m. on the same day and at the same location, whichever is later) at which the Resolutions will be proposed, is set out at the end of this document.

The Resolutions are being proposed as special resolutions and are summarised as follows:

### **Resolution 1**

Resolution 1 effects the subdivision of each Existing Ordinary Share into one New Ordinary Share and one Deferred Share and amends the Articles of Association to include the rights to be attached to the Deferred Shares. It also reduces the Bank's authorised but unissued share capital by cancelling the now obsolete class of deferred shares resulting from a

previous capital reorganisation exercise carried out by the Bank in 2011 and a nominal amount (a total of €0.21) of authorised but undesignated share capital which arose from rounding adjustments resulting from that capital reorganisation. Resolution 1 also amends the capital clause of the memorandum of association of the Bank accordingly.

## **Resolution 2**

Resolution 2 approves, subject to confirmation of the High Court, the cancellation of the capital redemption reserve resulting from the cancellation of the Deferred Shares and the cancellation of an amount of €1,073,944,058.37 standing to the credit of the Bank's share premium account. Subject to the Capital Reduction becoming effective, Resolution 2 also reduces the authorised but unissued share capital of the Bank by cancelling all unissued Deferred Shares and tidies up the Articles of Association by deleting the Deferred Shares and by making other consequential amendments.

## **Action to be Taken**

You will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the EGM, you are requested to complete the Form of Proxy in accordance with the instructions printed thereon and to return it as soon as possible and, in any event, so as to be received by the Registrars, Computershare Investor Services (Ireland) Limited, at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland (if delivered by post or by hand) by not later than 12 noon on Tuesday 17 June 2014. Completion and return of the Form of Proxy will not preclude you from attending and voting at the EGM in person if you so wish.

Electronic proxy appointment is available for the EGM. The procedure for appointing (or removing) a proxy electronically is set out in the notes to the EGM Notice.

## **Recommendation**

The Board believes that it is in the best interest of Shareholders to enable the Bank to have the flexibility to undertake the measures required to simplify and strengthen the capital structure of the Bank which will facilitate the Bank in, amongst other things, delivering sustainable shareholder returns over time and supporting the Irish economy. Having reviewed the capital position of the Bank, and taking account of items that the Board does not view as distributable, the Board believes that there are currently insufficient distributable reserves to enable the Bank to have such flexibility and therefore the Board is recommending the Capital Reorganisation which, subject to the approval of the High Court, will create distributable reserves of €5,000,000,000. The Board believes that the non-availability of a significant level of distributable reserves could significantly impede the Bank's plans to simplify and strengthen its capital structure and consequently make the Bank less attractive for private investment.

For the reasons explained above, the Directors believe that the Capital Reorganisation is in the best interests of the Bank and the Shareholders as a whole. Therefore, the Directors unanimously recommend that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting on Thursday 19 June 2014, as the Directors who hold shares in the Bank intend to do in respect of their own beneficial shareholdings.

Finally, you should note that the Capital Reorganisation is an important first step in the process of simplifying and rationalising the Bank's capital structure. Throughout this process, AIB will be monitoring external factors and developments, including decisions by regulators, the behaviour of its peers both domestically and across the EU, and market conditions. The Bank will continue to update you as work continues in relation to its preparation for a return to private ownership.

Yours faithfully,

**DAVID HODGKINSON**  
Chairman

## PART II

### DEFINITIONS

|  |   |
|--|---|
| <b>1983 Act</b>                              | the Companies (Amendment) Act 1983.   |
| <b>2009 Preference Shares</b>                | the 3,500,000,000 non-cumulative preference shares of €0.01 each in the capital of the Bank issued to the NPRFC on 13 May 2009.   |
| <b>Additional Tier 1 (AT1) Capital</b>       | all items that constitute additional tier 1 capital, less deductions from and after any other adjustments to additional tier 1 capital, under CRD IV.   |
| <b>Additional Tier 1 (AT1) securities</b>    | securities that qualify as additional tier 1 (AT1) capital under CRD IV.  |
| <b>AGM or Annual General Meeting</b>         | the annual general meeting of the Bank to be held at 10:00 a.m. on Thursday 19 June 2014 at Bankcentre, Ballsbridge, Dublin 4.  |
| <b>AIB or the Bank</b>                       | Allied Irish Banks, p.l.c.  |
| <b>AIB Group or the Group</b>                | AIB and each of its subsidiaries and subsidiary undertakings from time to time.   |
| <b>Articles of Association</b>               | the articles of association of the Bank, as amended from time to time.  |
| <b>Basel III</b>                             | the rules issued by the Basel Committee on Banking Supervision in December 2010 (revised June 2011 and January 2013) entitled “Basel III: A global regulatory framework for more resilient banks and banking systems”, “Basel III: International framework for liquidity risk measurement, standards and monitoring” and “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools”.   |
| <b>Board</b>                                 | the board of directors of the Bank.   |
| <b>Capital Reduction</b>                     | the cancellation, subject to confirmation of the High Court and to any necessary Central Bank approval, of the Bank’s capital redemption reserve resulting from the Bank’s cancellation of the Deferred Shares and an amount of €1,073,944,058.37 standing to the credit of the Bank’s share premium account, as set out in Part I of this Circular.  |
| <b>Capital Reorganisation</b>                | together, the Subdivision and the Capital Reduction.  |
| <b>Capital Requirements Regulation (CRR)</b> | see CRD IV.   |
| <b>Central Bank</b>                          | the Central Bank of Ireland.  |
| <b>Chairman</b>                              | the chairman of AIB as appointed from time to time.   |
| <b>Circular</b>                              | this document.  |
| <b>Common Equity Tier 1 (CET1) Capital</b>   | the highest quality form of regulatory capital under CRD IV, comprising all items that constitute common equity tier 1 capital less deductions from, and after any other adjustments to, common equity tier 1 capital under CRD IV.   |
| <b>Companies Acts</b>                        | the Companies Acts 1963 to 2013.  |
| <b>Computershare</b>                         | Computershare Investor Services (Ireland) Limited, Registrar and Receiving Agent for the Bank.  |
| <b>CRD IV</b>                                | the (fourth) Capital Requirements Directive (2013/36/EU), provisions of which commenced from 1 January 2014 and the related Capital Requirements Regulation (Regulation (EU) No. 575/2013), (which together prescribe financial service regulatory requirements for banks (including, capital adequacy and liquidity requirements) and implement Basel III in the EU) as implemented in Ireland by the European Union (Capital Requirements) Regulations 2014 (SI 158 of 2014) and the European Union (Capital Requirements) (No. 2) Regulations 2014 (SI 159 of 2014). |
| <b>CREST</b>                                 | the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations).  |
| <b>CREST Manual</b>                          | the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrar Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms).   |
| <b>CREST Member</b>                          | a person who has been admitted to Euroclear as a system-member (as defined in the CREST Regulations).   |
| <b>CREST Participant</b>                     | a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations).  |
| <b>CREST Proxy Instruction</b>               | the appropriate CREST message for a proxy appointment or instruction made by means of CREST, properly authenticated in accordance with Euroclear’s specifications, containing the information required for such instructions as described in the CREST Manual, and to be transmitted so as to be received by the Registrars as issuer’s agent (CREST Participant ID 3RA50) by the latest time(s) for receipt of proxy appointments as specified in the EGM Notice.  |
| <b>CREST Regulations</b>                     | the Companies Act 1990 (Uncertificated Securities) Regulations 1996 (SI No. 68 of 2008).  |
| <b>CREST Sponsor</b>                         | a CREST Participant admitted to CREST as a CREST Sponsor.   |
| <b>CREST Sponsored Member</b>                | a CREST Member admitted to CREST as a sponsored member.   |

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| <b>Deferred Shares</b>                                       | the deferred shares of €0.0075 each in the capital of the Bank resulting from the Subdivision.   |
| <b>Directors</b>   | the directors of the Bank, whose names appear in the letter from the Chairman of the Bank contained in Part I of this Circular.  |
| <b>ECB</b>   | the European Central Bank.   |
| <b>ECB Comprehensive Assessment</b>                          | the comprehensive assessment, announced on 23 October 2013, being carried out by the ECB and participating national competent authorities (including the Central Bank in the case of AIB) on certain EU banks, including AIB, and comprising three elements: (a) a supervisory risk assessment to review, quantitatively and qualitatively, key risks in a bank's balance sheet, including liquidity, leverage and funding; (b) an asset quality review of a bank's assets, assessment of data quality, asset valuations and collateral valuation and provisions; and (c) a stress test to examine the resilience of a bank's balance sheet to stress scenarios and involving a forward-looking view of a bank's shock-absorption capacity under stress scenarios. |
| <b>EGM or Extraordinary General Meeting</b>                  | the extraordinary general meeting of the Bank to be held at 12 noon on Thursday 19 June 2014 (or immediately after the conclusion of the AGM of the Bank to be convened for 10:00 a.m. on the same day and at the same location, whichever is later) at Bankcentre, Ballsbridge, Dublin 4 to consider and, if thought fit, to approve and pass the Resolutions.  |
| <b>EU</b>  | the European Union.  |
| <b>Euro or €</b>   | the single currency of the EU member states that adopt or have adopted the Euro as their lawful currency under the legislation of the European Union or European Monetary Union.   |
| <b>Euroclear</b>   | Euroclear UK & Ireland Limited, the operator of CREST.   |
| <b>Existing Ordinary Shares</b>                              | the existing ordinary shares of €0.01 each in the capital of the Bank.   |
| <b>Form of Proxy</b>   | the form of proxy which (where relevant) accompanies this Circular for use by Shareholders for the purposes of the Extraordinary General Meeting.  |
| <b>fully loaded basis</b>                                    | when a measure is presented or described as being on a "fully loaded basis", it is calculated for CRD IV purposes without applying the transitional provisions set out in CRD IV.  |
| <b>Interim Management Statement</b>                          | the interim management statement of the Bank released on 12 May 2014.  |
| <b>Irish Stock Exchange or ISE</b>                           | The Irish Stock Exchange plc.  |
| <b>New Ordinary Shares</b>                                   | ordinary shares in the capital of the Bank having a nominal value of €0.0025 each.   |
| <b>Notice of Extraordinary General Meeting or EGM Notice</b> | the notice of the Extraordinary General Meeting set out at the end of this Circular.   |
| <b>NPRF</b>  | the National Pensions Reserve Fund, a fund established under the NPRF Act.   |
| <b>NPRF Act</b>  | the National Pensions Reserve Fund Act 2000.   |
| <b>NPRFC</b>   | the National Pensions Reserve Fund Commission, as established by the NPRF Act to, <i>inter alia</i> , control, manage and invest the assets of the NPRF (or any replacement successor agency or authority).  |
| <b>Ordinary Shares or Shares</b>                             | the Existing Ordinary Shares or, as the context may require, the New Ordinary Shares.  |
| <b>Registrar</b>   | Computershare Investor Services (Ireland) Limited, or such other share registrar as AIB may appoint from time to time.   |
| <b>Resolutions</b>   | the resolutions to be proposed at the Extraordinary General Meeting, as set out in the EGM Notice.   |
| <b>Restructuring Plan</b>                                    | the restructuring plan of AIB approved by the European Commission, the subject of an announcement by the Bank on 7 May 2014.   |
| <b>Subdivision</b>   | the subdivision of the Existing Ordinary Shares as set out in Part I of this Circular.   |
| <b>Shareholder</b>   | a holder of Ordinary Shares.   |
| <b>Tier 1 capital</b>  | means all items that constitute tier 1 capital, less deductions from and after adjustments to tier 1 capital, under CRD IV.  |
| <b>United Kingdom or UK</b>                                  | the United Kingdom of Great Britain and Northern Ireland.  |
| <b>US</b>  | the United States of America, its territories and possessions, any state of the United States and the District of Columbia.  |

**Notes:**

- (1) Unless otherwise stated in this Circular, all reference to statutes or other forms of legislation shall refer to statutes or forms of legislation of Ireland. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.
- (2) Words importing the singular shall include the plural and *vice versa* and words importing the masculine gender shall include the feminine or neuter gender.
- (3) Expressions defined in the manual published by Euroclear from time to time in connection with the operation of CREST bear the same meaning when used in this Circular.

# ALLIED IRISH BANKS, P.L.C.

(incorporated and registered in Ireland under the Companies Act 1963 with registered number 24173)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting of Allied Irish Banks, p.l.c. (the “**Company**”) will be held at Bankcentre, Ballsbridge, Dublin 4 at 12 noon on Thursday 19 June 2014 (or immediately following the conclusion of the AGM of the Company to be convened for 10:00 a.m. on the same day and at the same location, whichever is later) to consider and, if thought fit, pass the following Resolutions, both of which will be proposed as special resolutions. The Resolutions are inter-conditional and both must be passed to enable the Subdivision and the Capital Reduction (as such terms are defined in the Circular dated 27 May 2014 of which this Notice forms part) to proceed.

### Special Business:

#### 1. As a special resolution (Resolution 1)

That, with effect from 8.00 a.m. on 20 June 2014 (or at such other time and date as is notified by the Company by way of an announcement issued via a Regulatory Information Service to the Irish Stock Exchange):

- (a) subject to any necessary approvals of the Central Bank of Ireland, each of the Ordinary Shares of €0.01 in the capital of the Company be subdivided into one Ordinary Share of €0.0025, each carrying the same rights and obligations as an existing Ordinary Share of €0.01, save as to nominal value, and one Deferred Share of €0.0075, each carrying the rights and obligations as set out in the Articles of Association of the Company, as amended by paragraph (d) of this Resolution;
- (b) in accordance with Section 68 of the Companies Act 1963, the authorised share capital of the Company be reduced from €11,092,752,297 to €7,055,000,000 by the cancellation of 403,775,229,679 Deferred Shares of €0.01 each and €0.21 of undesignated share capital, which have not been taken or agreed to be taken by any person;
- (c) the Memorandum of Association of the Company be amended by deleting the existing wording of Regulation 5 and replacing it with the following:

"The share capital of the Company is €7,055,000,000 divided into 702,000,000,000 Ordinary Shares of €0.0025 each, 3,500,000,000 2009 Non-Cumulative Preference Shares of €0.01 each and 702,000,000,000 Deferred Shares of €0.0075 each."; and

- (d) the Articles of Association of the Company be amended by:

- (i) deleting the existing definition of “Deferred Shares” in Article 2 and replacing it with the following definition:

**“Deferred Shares.....** the deferred shares of €0.0075 each in the capital of the Company.”;

- (ii) deleting the existing definition of “Ordinary Shares” in Article 2 and replacing it with the following definition:

**“Ordinary Shares.....** the ordinary shares of €0.0025 each in the capital of the Company.”;

- (iii) deleting the existing wording of Article 3 and replacing it with the following:

"The share capital of the Company is €7,055,000,000 divided into 702,000,000,000 Ordinary Shares of €0.0025 each, 3,500,000,000 2009 Non-Cumulative Preference Shares of €0.01 each and 702,000,000,000 Deferred Shares of €0.0075 each."; and

- (iv) deleting the existing wording of Article 6 and replacing it with the following:

"6. The rights attaching to the Deferred Shares shall be as follows:

#### 6(A) Income

- (1) A Deferred Share shall not entitle its holder to receive any dividend or distribution declared, made or paid or any return of capital (save as provided for in Article 6(B)) and shall not entitle its holder to any further or other right of participation in the assets of the Company.

- (2) The Deferred Shares are perpetual securities, subject to Article 6(C) below.

## 6(B) Capital

On a winding up of the Company or other return of capital (other than a redemption or purchase of shares of any class in the capital of the Company) by the Company, the holders of Deferred Shares shall be entitled to participate in such return of capital or winding up of the Company, such entitlement to be limited to the repayment of the amount paid up or credited as paid up on such Deferred Shares and shall be paid only after the holders of Ordinary Shares shall have received payment of such amount as is paid up or credited as paid up in respect of those Ordinary Shares held by them at that time, plus the payment in cash of €10,000,000 on each such Ordinary Share.

## 6(C) Acquisition of Deferred Shares

- (1) The resolution adopting this Article shall be deemed to confer the authority on the Company, at any time after the adoption of this Article:
  - (a) to acquire all or any of the fully paid Deferred Shares otherwise than for valuable consideration in accordance with Section 41(2) of the Companies (Amendment) Act 1983 and without obtaining the sanction of the holders thereof;
  - (b) to appoint any person to execute, on behalf of the holders of the Deferred Shares remaining in issue (if any), a transfer thereof and/or an agreement to transfer the same otherwise than for valuable consideration to the Company or to such other person as the Company may nominate; and
  - (c) to cancel any acquired Deferred Shares.
- (2) The Company shall, not later than three years after any acquisition by it of any Deferred Shares in accordance with Article 6(C)(1) above, cancel such Deferred Shares by either:
  - (a) seeking to have such acquired Deferred Shares cancelled in a High Court sanctioned capital reduction in accordance with Sections 72 and 73 of the Companies Act 1963; or
  - (b) in accordance with Section 43(3) of the Companies (Amendment) Act 1983, cancelling such Deferred Shares and reducing the amount of the share capital by the nominal value of the shares so cancelled and the Directors may take such steps as are requisite to enable the Company to carry out its obligations under that subsection without complying with Sections 72 and 73 of the Companies Act 1963, including passing resolutions in accordance with Section 43(5) of the Companies (Amendment) Act 1983.

## 6(D) Voting

The holders of Deferred Shares shall not be entitled to receive notice of, or attend, speak or vote at, any General Meeting.

## 6(E) Variation of Class Rights

Without prejudice to Article 7, the rights attached to the Deferred Shares shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or *pari passu* with or subsequent to such shares, any amendment or variation of the rights of any other class of share of the Company, the Company reducing its share capital or the surrender, or purchase of any share, whether a Deferred Share or otherwise. The Company shall have the irrevocable authority to cancel any Deferred Share without making any payment to the holder and such cancellation shall not be deemed to be a variation or abrogation of the rights attaching to such Deferred Share. The Company shall have the irrevocable authority to appoint a single holder or any person on behalf of all holders of Deferred Shares to exercise any vote to which holders of Deferred Shares may be entitled in any circumstances at a meeting of the class of holders of Deferred Shares or for any other matter connected to the Deferred Shares.

## 6(F) Transfer and Certificates

The Deferred Shares shall not be transferable at any time other than with the prior written consent of the Directors and, unless otherwise determined by the Directors, no share certificates shall be issued in respect of the Deferred Shares."

## 2. As a special resolution (Resolution 2)

That, subject to Resolution 1 becoming effective and to the cancellation by the Company of all of the issued Deferred Shares of €0.0075 each arising from the subdivision the subject of that resolution:

- (a) subject to any necessary approvals of the Central Bank of Ireland and to the confirmation of the High Court, (i)

the share premium account of the Company be reduced by cancelling €1,073,944,058.37 of the share premium account of the Company and (ii) the capital redemption reserve of €3,926,055,941.63 arising from the cancellation by the Company of all of the issued Deferred Shares of €0.0075 each resulting from the subdivision (the subject of Resolution 1) be reduced by cancelling all of that reserve, and the reserve resulting from (i) and (ii) be treated as profits available for distribution, as defined by Section 45 of the Companies (Amendment) Act 1983; and

(b) subject to the capital reduction referred to at paragraph (a) above becoming effective, that:

(i) in accordance with Section 68 of the Companies Act 1963, the authorised share capital of the Company be reduced from €7,055,000,000 to €1,790,000,000 by the cancellation of 702,000,000,000 Deferred Shares of €0.0075 each which are no longer in issue;

(ii) the Articles of Association of the Company be amended by:

a. deleting the definition of Deferred Shares inserted into Article 2 by Resolution 1 above;

b. deleting the wording of Article 3 inserted by Resolution 1 above and inserting a new Article 3 as follows:

"The share capital of the Company is €1,790,000,000 divided into 702,000,000,000 Ordinary Shares of €0.0025 each and 3,500,000,000 2009 Non-Cumulative Preference Shares of €0.01 each."; and

c. deleting the existing wording of Article 6 and replacing it with the words "Left intentionally blank"; and

(iii) the Memorandum of Association of the Company be amended by deleting the existing wording of Regulation 5 and replacing it with the following:

"The share capital of the Company is €1,790,000,000 divided into 702,000,000,000 Ordinary Shares of €0.0025 each and 3,500,000,000 2009 Non-Cumulative Preference Shares of €0.01 each.".

By Order of the Board

**David O'Callaghan**  
Company Secretary  
Bankcentre  
Ballsbridge  
Dublin 4

27 May 2014

## Notes:

### Entitlement to attend and vote

- (1) Pursuant to Regulation 14 of the Companies Act 1990 (Uncertificated Securities) Regulations 1996, only those Shareholders registered on the Company's register of members: (i) at the close of business on the day two days prior to the Extraordinary General Meeting; or (ii) if the Extraordinary General Meeting is adjourned, at the close of business on the day two days prior to the adjourned Extraordinary General Meeting, shall be entitled to attend and vote at the Extraordinary General Meeting or, if relevant, any adjournment thereof. Changes to entries on the Company's register of members after that time will be disregarded in determining the rights of any person to attend and vote at the Extraordinary General Meeting.

### Attending in person

- (2) The Extraordinary General Meeting will be held at Bankcentre, Ballsbridge, Dublin 4. If you wish to attend the Extraordinary General Meeting in person, you are recommended to attend at least 15 minutes before the time appointed for holding of the Extraordinary General Meeting to allow time for registration. Please bring the attendance card attached to your Form of Proxy and present it at the shareholder registration desk before the commencement of the Extraordinary General Meeting.

### Appointment of proxies

- (3) A Shareholder who is entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy or more than one proxy as alternates to attend, speak and vote instead of the Shareholder. A proxy need not be a Shareholder.
- (4) A Form of Proxy for use by Shareholders is enclosed with this Notice of Extraordinary General Meeting (or is otherwise being delivered to Shareholders). Completion of a Form of Proxy (or submission of proxy instructions electronically) will not prevent a Shareholder from attending the Extraordinary General Meeting and voting in person should the Shareholder wish to do so.
- (5) To be valid, a Form of Proxy and any power of attorney or other authority under which it is signed (or a notorally certified copy of any such power of attorney or other authority) must be lodged with the Company's Registrar, Computershare Investor Services (Ireland) Limited, of Heron House, P.O. Box 954, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, not later than 48 hours before the Extraordinary General Meeting or adjourned Extraordinary General Meeting or (in the case of a poll taken otherwise than at or on the same day as the Extraordinary General Meeting or adjourned Extraordinary General Meeting) at least 48 hours before the taking of the poll at which it is to be used.
- (6) To appoint (or remove) a proxy electronically, log on to the website of the Registrar, Computershare Investor Services (Ireland) Limited at [www.eproxyappointment.com](http://www.eproxyappointment.com). To log in, you will require your unique PIN (which will expire at the end of the voting period), and your Shareholder Reference Number (SRN) and the Control Number, all of which are printed on the face of the accompanying Form of Proxy.
- (7) CREST members may appoint proxies through the CREST electronic proxy appointment service in accordance with the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members and those CREST Members who have appointed a voting service provider(s) should refer to their CREST Sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (8) In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message (whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by the Company's Registrars, Computershare Investor Services (Ireland) Limited, as issuer's agent (CREST Participant ID 3RA50) by the latest times(s) for receipt of proxy appointments specified in this Notice of Extraordinary General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services (Ireland) Limited is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
- (9) CREST members and, where applicable, their CREST Sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or Sponsored Member or has appointed a voting service provider(s), to procure that his CREST Sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST Sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- (10) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Companies Act 1990 (Uncertificated Securities) Regulations 1996.

### Issued shares and total voting rights

- (11) The total number of issued ordinary shares in the Company on the date of this notice of Extraordinary General Meeting is 523,438,445,437 (excluding Treasury Shares).
- (12) Voting on each of the resolutions will be decided on a poll. This means that shareholders who attend the Extraordinary General Meeting, as well as those who are not able to attend but have sent proxy forms, may have their votes taken into account according to the number of shares they hold.
- (13) Resolutions 1 and 2 are special resolutions and require at least 75 per cent. of votes cast at the meeting to be passed.

