Allied Irish Banks p.l.c.

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<u>Proposed Capital Reorganisation:</u>

Why is AIB proposing a capital reorganisation at its EGM of 19 June 2014?

AIB returned to profitability in Q1 2014 and as noted in the bank's Interim Management Statement of 12 May 2014, it is in discussions with the Department of Finance regarding the simplification of the bank's capital structure. AIB believes that a simplified and strengthened capital structure will better enable returns to shareholders over time as well as helping to meet regulatory requirements.

As part of this, a sufficient level of distributable reserves is required to ensure the bank is not constrained with respect to the payment of cash dividends in the future, or from converting or redeeming some, or all, of the 2009 Preference Shares subject to any necessary approval from shareholders and regulators.

The capital reorganisation will result in the reallocation of capital redemption reserves and share premium to distributable reserves, subject to any necessary regulatory approvals and confirmation of the High Court. The bank believes this is an important first step in providing greater flexibility toward rationalisation of its capital structure in order to meet current and future regulatory requirements.

How will the capital reorganisation work?

There are two steps in the proposed capital reorganisation:

i. **A Subdivision of shares-** this means that each ordinary share of €0.01 will be sub-divided into one New Ordinary Share of €0.0025 nominal value and one Deferred Share of €0.0075 nominal value. The Deferred Shares will have no economic value and, subject to any necessary regulatory approval, AIB intends to acquire, for nil consideration, all the resulting Deferred Shares after subdivision, cancel them and transfer an amount equal to the aggregate nominal amount of the Deferred Shares to the bank's capital redemption reserve. The creation and cancellation of Deferred Shares is an established mechanism for converting a portion of the par value of shares into a capital redemption reserve.

ii. **A Capital Reduction** – this will create distributable reserves of €5billion. These will be created by applying to the High Court to reduce the share premium account by c. €1.074 billion and reduce the capital redemption reserves by c. €3.926 billion (arising from the cancellation of the Deferred Shares of €0.0075**).** The effect of which will be the creation of €5 billion in distributable reserves.

How will this impact shareholders?

There will be no change to any shareholders' position as a result of this sub-division as their proportionate interest in the issued Ordinary Shares will remain unchanged. The nominal value of each Ordinary Share will change, but the rights attaching to the New Ordinary Shares will be identical in all respects to those attaching to the Existing Ordinary Shares.

No new share certificates will be issued as the existing certificates remain valid.

What will happen next?

Subject to Shareholder approval at the EGM on 19 June 2014 and any necessary regulatory approvals, the existing ordinary shares will be subdivided with effect from 20 June 2014. AIB will then apply to the High Court for approval of the capital reduction which if confirmed, would create €5 billion of distributable reserves which will be an important first step in providing the bank with the flexibility to undertake measures to simplify and strengthen the capital structure of the bank.

For full details in relation to this capital reorganisation please see the EGM Circular which is available on our website at www.aibgroup.com/investorrelations or contact our investor relations team at investor.relations@aib.ie

Important Information and Forward Looking Statement

AIB has c.523 billion ordinary shares, 99.8% of which are held by the National Pensions Reserve Fund Commission (NPRFC), mainly following the issue of 500 billion ordinary shares to the NPRFC at €0.01 per share in July 2011.

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