2010 Shareholders Report

2010 was a traumatic year for Ireland and its banking sector. This report covers the events of the last 12 months at AIB and how we are working to restore the organisation.

Executive Chairman's Statement

David Hodgkinson
Executive Chairman

2010 was an extremely difficult 12 months for AIB and the whole of the Irish banking industry. It was a year that culminated in the announcement that the Irish Government was to take a majority stake in AIB.

This report covers our performance in 2010 and outlines what we and the Government are doing to build a stronger and more stable organisation – one that we believe will over time return to profitability, justifying and rewarding the tangible support the taxpayers of Ireland have given us.

I know that our shareholders have been deeply angered and upset by the financial losses they have suffered and the traumatic effect of this decline on themselves and their families. Over the past three years we estimate that those losses amounted to more than €18 billion for private investors. I, along with my AIB Board colleagues, deeply regret this situation. I know there is little I can say that will alleviate the impact of these events. The road to recovery may well be a long one but we are determined to return the bank to stability and profitability as quickly as possible.

I acknowledge and reiterate our gratitude for the support of taxpayers. None of us at AIB underestimate its importance and all of us are very aware of the responsibility it places on us.

AIB's long term future as a viable bank has been validated by the commitment of state authorities to our future as one of two Irish pillar banks, as recently announced by the Minister for Finance, Michael Noonan. This support is being given because it is accepted AIB is of systemic importance to the domestic economy and that Ireland's future economic success requires a properly functioning banking system. We look forward to combining with the Educational Building Society ("EBS") to fulfil our role as one of the pillar banks which will support this country's economic recovery.

We are learning the lessons of the past and promise to show more empathy and be more in touch with our customers, staff and the general public in the future.

In the year ending this January, we approved more than 40,000 credit applications from small and medium-sized enterprises to a value of €2.8 billion, part of an overall commitment to lend €6 billion over two years.

We have held 116 customer information seminars for SMEs across the country in the past few months, attended by more than 6,000 business people. These events will continue this year.

We have also set up specialist units aimed at serving the needs of companies in key emerging sectors as part of our promise to work more closely with Enterprise Ireland. In addition, we are improving our credit structures, framework and processes and will involve 1,500 staff in enhanced credit skills training programmes.

We are also developing other initiatives to meet customer needs and help businesses and home owners under stress.

We recognise we have more to do to normalise the provision of credit going forward, and we know we must continue to develop new and better ways to support our customers. These ongoing actions demonstrate how AIB wants to be a business that makes a positive contribution to the economy and one which ensures Irish taxpayers see a real return on their enforced investment.

Financial performance in 2010

The financial performance of AIB in 2010 was extremely poor, though not unexpected given the events of the year and the continuing economic downturn. AIB made a loss after tax of €10.4 billion on continuing operations, including the losses on the transfer of assets to NAMA.

Bad debts, particularly in our Irish business, were the most significant negative feature of our performance in 2010.

AIB did make an operating profit before these bad debt provisions and losses on transfer to NAMA. But our profitability is severely curtailed by what we pay to secure our funding.

This funding includes our customer deposits and wholesale market borrowing and is the raw material for our business. The reality is when we lend out that money, the returns we are achieving are sometimes less than what we are paying for the raw material. AIB needs to achieve a fair but economic return on its products and services.

Capital

AIB's capital requirements increased significantly in 2010 and 2011. A series of stress tests were carried out on AIB in 2010 and again this year. It is important to note that it is the opinion of the regulatory authorities that Irish banks, such as AIB, need to be capitalised well in excess of minimum internationally agreed regulatory levels to protect against any future shocks to the financial system and to restore confidence in Irish banks.

The original capital target of €7.4 billion, or 8% core tier 1 capital, set in March 2010 after the European Commission stress test has been superseded by the new regulatory requirement for Irish banks to have core tier 1 capital ratio levels of at least 10.5% in a base case scenario and 6% in a stress scenario. The recent Prudential Capital Assessment Review ("PCAR") shows that, following a series of actions already taken, AIB requires total additional capital of €13.3 billion.

The State has confirmed its commitment to ensure AIB is recapitalised to the mandated extent. This level of recapitalisation would have seen AIB with a very strong pro-forma core tier one ratio of 22% at the end of 2010.

The PCAR, along with the Prudential Liquidity Assessment Review ("PLAR"), were the most onerous stress tests ever conducted on Irish banks and included highly adverse scenarios and assumptions designed to ensure the sector can withstand the most extreme market conditions.

AIB also raised €8 billion through its own capital raising programme. This programme incorporated various business disposals including the sale of our Polish interests, the sale of our share in M&T Bank Corporation ("M&T") in the United States, liability management exercises and the recent purchase of deposits from Anglo Irish Bank, which also contributed to capital.

The AIB loan book

AIB's loan book reduced during 2010 by approximately €34 billion reflecting loan transfers to the National Asset Management Agency, low customer demand and deleveraging actions we took in our international businesses. Our total loans at the end of the year, excluding NAMA, were €94 billion excluding €9 billion of loans from AIB's recently sold Polish interests.

The quality of our loan book continues to be a key issue for the AIB Board and its management team. In the three years from 2008 to 2010, AIB's loan losses totalled €20 billion. An in depth review of all our lending processes has been completed and we have set clear key objectives around our credit culture policies and processes to avoid the mistakes of recent times. In the past, AIB had too high an exposure to the construction and property sector. Loans to that sector have now reduced to €26 billion (excluding mortgages), out of the total loan book of €94 billion. This €26 billion consists of €7.4 billion in land and development loans with the remaining €18 billion of loans in investment property, more than half of which is outside Ireland.

Land and development loans have been the biggest source of bad debts for AIB. Furthermore, in the recently completed PCAR, the capital requirement for AIB has assumed a 60% hair cut for all residual land and development loans.

AIB's largest loan portfolio is Irish mortgages at €27 billion. This represents almost 29% of our total loans. Mortgage customer arrears have increased during 2010, although the pace of increase slowed in the second half of the year. We believe that arrears will continue to increase due to the high levels of unemployment in Ireland. Therefore we have increased our mortgage provision levels reflecting the additional bad debts we believe are present in our mortgage portfolios but have not been specifically recognised.

We have undertaken a comprehensive review of our loan portfolios in 2010 and set aside provisions of €7.3 billion for our continuing operations – a very high but prudent level that reflects the deteriorating economic environment in the latter part of 2010, particularly in Ireland, and further falls in property values.

Impaired loans now have 42% specific provision coverage and an additional €2.1 billion has been set aside for losses which we think are likely to emerge in our loan book. In addition, the capital we are required to hold by our regulator includes further material buffers for future losses. The scale of these figures is daunting but we are determined to draw a line under the past and move AIB forward.

> "We are learning the lessons of the past and promise to show more empathy and be more in touch with our customers, staff and the general public in the future"

Bad debts for all banks are closely related to the economic conditions prevailing within their markets. Therefore while future bad debt charges are subject to that important factor, we will be unstinting in endeavouring to ensure that AIB's policies, procedures and practices control the risks we take and that we seek to manage them to the highest international standard.

Funding and liquidity

AIB, in common with other banks, continues to face funding and liquidity issues. Funding conditions in the first part of 2010 were reasonable. But as the year progressed subsequent negative international sentiment about the Irish economy and the banking sector meant AIB's access to wholesale funding markets was much reduced.

There were also deposit outflows, most notably from our overseas institutional and corporate customers. This combination increased our reliance on funding

from monetary authorities and also increased our loan to deposit ratio to 165% at the year end.

On 24 February this year more than 120,000 Anglo Irish Bank customer deposits totalling €8.6 billion transferred to AIB. This move also saw NAMA bonds transfer to AIB along with the ownership of Anglo's operation in the Isle of Man.

These transfers are improving our liquidity and are reducing our loan to deposit ratio as we work towards the target ratio defined by the Central Bank of Ireland of 122.5% by the end of 2013.

This is welcome news but much more needs to be done to improve the funding of our business. Market access for the Irish state and the banks is an essential precondition for a return to normality.

Board changes

The AIB Board saw considerable change in 2010. Dr Michael Somers was appointed a Non-Executive Director in January.

Non-Executive Directors Sean O'Driscoll and Jennifer Winter resigned in April with Kieran Crowley and Bob Wilmers leaving in October.

Executive Chairman Dan O'Connor left the board in October and Group Managing Director Colm Doherty left in November. I want to record my thanks to them for their service to AIB.

In October, I was appointed as interim Executive Chairman and Jim O'Hara and Catherine Woods joined the AIB Board as Non-Executive Directors.

New management team

It is a priority of the AIB Board to ensure people with both the right mix of skills and of internal and external experience manage the organisation in the future. Our search for a new Chief Executive Officer has started and the AIB Board is working hard to ensure we attract the right person to this crucial role.

We have also carried out a comprehensive evaluation process to select a new top management team. The members of that team who have been selected from within AIB are currently going through the necessary approval processes and we are now actively seeking candidates externally for the remaining roles. Names will be announced as appointments are made.

Corporate Governance and Risk

AIB made progress last year in the way it handles its corporate governance and risk. I want to acknowledge the work Colm Doherty and Dan O'Connor instigated in these areas.

We must continue to build strong centralised governance which includes robust control standards and functions. The necessity to move away from fragmented divisional control to a centralised approach is underpinned by findings in reports commissioned from external parties including Promontory, Mazars and Deloitte.

AIB has initiated a major risk and governance transformation programme as part of the wider review of the organisation. The programme is designed to ensure our risk and control frameworks are fit for purpose and are fully compliant with new and additional regulatory requirements. These frameworks must be resilient and responsive to potential economic and financial shocks and other risks that might emerge in the future.

Rebuilding AIB – the strategy

When I took up the role of Executive Chairman, I made a commitment to undertake a review which would develop a new strategy for AIB.

Throughout this review process it has been clear that the challenges we face are enormous but, nevertheless, surmountable. To overcome these challenges will require radical change of a magnitude never before undertaken in AIB. This will happen across the organisation and this will involve difficult decisions and strong actions in relation to our structure, size and focus.

We will establish a new core bank with a restructured balance sheet achieved through the separation and progressive disposal and winding down of non-core assets. The present divisional structures will be dismantled and replaced by business units focused on our customers' needs. Credit, risk, control and support functions will be significantly restructured and consolidated.

The core business will concentrate on the Irish market including Northern Ireland. It will focus on the personal, small business, commercial and corporate sectors and also include a selective overseas presence, supporting expatriate Irish business as well as cross-border trade and investment flows.

Non-core will comprise assets that no longer fit with our new strategic direction and some businesses or portfolios which represent excessive risk or offer a poor return profile. These businesses will be wound down and reduced in size over time. Hasty disposals – or fire sales – of assets will be avoided.

To ensure AIB is best placed to serve our business and personal customers, our product ranges will be simplified and re-positioned to give value at an acceptable return.

We will invest in new technologies to increase our speed, reach and efficiency. All of this will be achieved without losing sight of the key objective of supporting our customers through this challenging period and helping to revitalise the national economy.

AIB will become a smaller organisation with a fresh leadership team, a restructured balance sheet, a redefined customer strategy and a new operating model.

This new AIB will form a strong foundation from which a profitable business can be rebuilt. This business will be well positioned to gain a significant share of the stronger national banking market which, we believe, will emerge in time. The combination with EBS will further strengthen this proposition.

People

The transformation to a more focused, more cost effective organisation will inevitably entail job losses. AIB is negotiating with state authorities to progress a programme of job cuts this year and into 2012.

In the meantime, there is much work to be done to address both AIB's problem loans and issues with our legacy processing and operating systems. This is a priority for 2011.

AIB will need also to attract and retain individuals with the specific skills needed for the future. Our competitive edge in this area must not be blunted. There is no reason that, in time, AIB cannot become, once again, a preferred employer with staff proud to work for the organisation.

Economic outlook

The speed at which AIB recovers and returns to profit is heavily influenced by Ireland's economic prospects, which remain challenging.

Throughout 2010 and into this year, demand for new loans from small firms and personal customers has been subdued. This together with a weak capital and funding position has reduced the ability of AIB to lend to these sectors. We are also seeing existing customers paying down existing debts rather than increase borrowing. However, AIB accepts it needs to do more to resume normal lending.

Latest official figures show that the economy contracted again last year. Real GDP declined by 1% in 2010 but there are hopeful signs that a positive rate of growth will be achieved in 2011.

Our exports are performing very strongly, increasing by almost 10% in real terms last year. Inward foreign direct investment is also very buoyant and global growth prospects remain favourable. These are good omens for the future as exports now form a very large part of the economy.

However, on the domestic side of the economy, demand continues to fall and may not stabilise until 2012 or later. The latest unemployment statistics were disappointing. Employment continues to fall (down almost 3.5% in the last quarter of 2010 in annual terms) and the unemployment rate is now well over 14%. Job losses, higher inflation and tighter budgetary measures will depress consumer spending in 2011. Investment spending will also fall again this year.

On a more positive note, the rate of decline in domestic demand is slowing and consumers are becoming slightly more optimistic. The underlying budget deficit has also been stabilised.
A resolution of the Irish banking crisis should also have a more profound positive influence on domestic and international confidence in Ireland's ability to recover from the deep economic and financial crisis of the past three years.

The future

In 2010, we have endured the heavy consequences of our problems. I want to thank customers for the tremendous support we have received from so many of them.

With the completion of our plan, the support of taxpayers, customers and shareholders, AIB has taken the first steps on the road to recovery to a future as a standalone, independent bank.

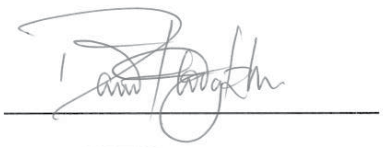
The energy, resilience and dedication shown by AIB staff in the last few months has been deeply impressive to me. I want to take this opportunity to pay tribute to the way they have faced the challenges of recent times with great patience, commitment and capacity for hard work.

> "I believe this bank will remain at the heart of the Irish financial sector"

Ireland needs healthy and vibrant financial services able to support economic recovery and growth. The Government proposals announced on 31 March 2011 give us a firm foundation to rebuild our business and return it to profitability.

I believe this bank will remain at the heart of the Irish financial sector. My colleagues and I are wholly committed to ensure this is the case.

AIB continues to face serious challenges and problems. The hard days are not over yet but I promise to do everything in my power to make sure that next year we have a more positive story to tell.



David Hodgkinson
Executive Chairman
11 April 2011

Consolidated income statement

for the year ended 31 December 2010

	Notes	2010 € m	2009 € m	2008 € m
Continuing operations				
Interest and similar income	2	**4,609**	5,854	9,317
Interest expense and similar charges	2	**2,765**	2,982	5,925
Net interest income	2	**1,844**	2,872	3,392
Dividend income	3	**1**	4	7
Fee and commission income	4	**585**	636	728
Fee and commission expense	4	**(88)**	(184)	(76)
Net trading loss	5	**(201)**	(40)	(86)
Gain on redemption of subordinated liabilities and other capital instruments	6	**372**	623	-
Loss on transfer of financial instruments to NAMA	7	**(5,969)**	-	-
Other operating income	8	**99**	195	176
Other (loss)/income		**(5,201)**	1,234	749
Total operating income		**(3,357)**	4,106	4,141
Administrative expenses	9	**1,469**	1,395	1,747
Impairment and amortisation of intangible assets	38	**126**	69	70
Depreciation of property, plant and equipment	39	**54**	58	68
Total operating expenses		**1,649**	1,522	1,885
Operating (loss)/profit before provisions		**(5,006)**	2,584	2,256
Provisions for impairment of loans and receivables	29	**6,015**	5,242	1,724
Provisions for liabilities and commitments	46	**1,029**	1	(4)
Provisions for impairment of financial investments available for sale	12	**74**	24	29
Operating (loss)/profit		**(12,124)**	(2,683)	507
Associated undertakings	35	**18**	(3)	2
Profit on disposal of property	13	**46**	23	10
Construction contract income	14	**-**	1	12
(Loss)/profit on disposal of businesses	15	**(11)**	-	106
(Loss)/profit before taxation from continuing operations		**(12,071)**	(2,662)	637
Income tax (income)/expense from continuing operations	17	**(1,710)**	(373)	69
(Loss)/profit after taxation from continuing operations		**(10,361)**	(2,289)	568
Discontinued operations				
Profit/(loss) after taxation from discontinued operations	18	**199**	(45)	322
(Loss)/profit for the period		**(10,162)**	(2,334)	890
Attributable to:				
Owners of the parent:				
(Loss)/profit from continuing operations		**(10,361)**	(2,309)	520
Profit/(loss) from discontinued operations		**129**	(104)	252
(Loss)/profit for the period attributable to owners of the parent		**(10,232)**	(2,413)	772
Non-controlling interests:				
Profit from continuing operations		**-**	20	48
Profit from discontinued operations	19	**70**	59	70
Profit for the period attributable to non-controlling interests		**70**	79	118
		(10,162)	(2,334)	890
Basic (loss)/earnings per share				
Continuing operations	20(a)	**(571.1c)**	(203.5c)	54.8c
Discontinued operations	20(a)	**7.1c**	(11.7c)	28.6c
		(564.0c)	(215.2c)	83.4c
Diluted (loss)/earnings per share				
Continuing operations	20(b)	**(571.1c)**	(203.5c)	54.7c
Discontinued operations	20(b)	**7.1c**	(11.7c)	28.6c
		(564.0c)	(215.2c)	83.3c

David Hodgkinson, Executive Chairman; Stephen Kingon, Director; Anne Maher, Director; David O'Callaghan, Secretary.

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Notes	2010 €m	2009 €m	2008 €m
(Loss)/profit for the period		**(10,162)**	(2,334)	890
Other comprehensive income				
Continuing operations				
Exchange translation adjustments	49	**89**	127	(512)
Net change in cash flow hedges, net of tax	49	**(41)**	(65)	686
Net change in fair value of available for sale securities, net of tax	49	**(813)**	219	(381)
Net actuarial gains/(losses) in retirement benefit schemes, net of tax	11	**1**	174	(706)
Share of other comprehensive income of associates, net of tax		**(13)**	-	-
Other comprehensive income for the period, net of tax, from continuing operations		**(777)**	455	(913)
Discontinued operations				
Exchange translation adjustments	49	**50**	31	(143)
Net change in cash flow hedges, net of tax	49	**-**	4	(8)
Net change in fair value of available for sale securities, net of tax	49	**3**	19	(2)
Share of other comprehensive income of associates, net of tax		**218**	(40)	73
Other comprehensive income for the period, net of tax, from discontinued operations		**271**	14	(80)
Total comprehensive income for the period		**(10,668)**	(1,865)	(103)
Attributable to:				
Owners of the parent:				
Continuing operations		**(11,138)**	(1,854)	(393)
Discontinued operations		**385**	(113)	231
		(10,753)	(1,967)	(162)
Non-controlling interests:				
Continuing operations		**-**	20	48
Discontinued operations		**85**	82	11
		85	102	59
Total comprehensive income for the period		**(10,668)**	(1,865)	(103)

David Hodgkinson, Executive Chairman; Stephen Kingon, Director; Anne Maher, Director; David O'Callaghan, Secretary.

Statement of financial position of Allied Irish Banks, p.l.c.

as at 31 December 2010

	Notes	2010 € m	2009 € m
Assets			
Cash and balances at central banks	59	**2,007**	2,589
Items in course of collection		**134**	127
Financial assets held for sale to NAMA	23	**578**	15,991
Disposal groups and non-current assets held for sale	24	**84**	43
Trading portfolio financial assets	25	**33**	120
Derivative financial instruments	26	**3,534**	5,465
Loans and receivables to banks	27	**45,961**	58,816
Loans and receivables to customers	28	**63,496**	67,928
NAMA senior bonds	31	**7,869**	-
Financial investments available for sale	32	**19,319**	22,178
Interests in associated undertakings		**15**	957
Investments in Group undertakings	37	**2,197**	1,969
Intangible assets	38	**185**	290
Property, plant and equipment	39	**295**	326
Other assets		**152**	245
Current taxation		**30**	61
Deferred taxation	40	**1,836**	469
Prepayments and accrued income		**499**	816
Total assets		**148,224**	178,390
Liabilities			
Deposits by central banks and banks[1]	41	**73,605**	62,268
Customer accounts	42	**49,489**	72,697
Financial liabilities held for sale to NAMA	23	**-**	3
Disposal groups held for sale		**2**	-
Trading portfolio financial liabilities	43	**-**	22
Derivative financial instruments	26	**3,399**	5,104
Debt securities in issue	44	**12,611**	23,261
Current taxation		**10**	24
Other liabilities	45	**414**	1,597
Accruals and deferred income		**861**	1,160
Retirement benefit liabilities	11	**342**	565
Provisions for liabilities and commitments	46	**386**	48
Subordinated liabilities and other capital instruments	47	**4,193**	4,450
Total liabilities		**145,312**	171,199
Shareholders' equity			
Share capital	48	**3,965**	329
Share premium	48	**5,089**	4,975
Other equity interests	51	**239**	389
Reserves		**(454)**	330
Profit and loss account		**(5,927)**	1,168
Shareholders' equity		**2,912**	7,191
Total liabilities and shareholders' equity		**148,224**	178,390

[1]This includes €35,866 million of Central Banks borrowings (2009: €12,042 million).

David Hodgkinson, Executive Chairman; Stephen Kingon, Director; Anne Maher, Director; David O'Callaghan, Secretary.

Corporate Governance statement

This is an abridged version of the Corporate Governance Statement. The complete statement is available in the 2010 Annual Financial Report which can be accessed on www.aibgroup.com.

Stock Exchange Listings

During 2010, AIB was listed on the Irish and London Stock Exchanges and had an American Depositary Receipt ("ADR") listing on the New York Stock Exchange. On 23 December 2010, AIB announced that, in response to a Direction Order issued by the High Court under the Credit Institutions (Stabilisation) Act 2010, directing AIB to issue new equity capital to the National Pensions Reserve Fund Commission as the agent of the Irish Minister for Finance, AIB would be (1) cancelling its listing of ordinary shares on the Main Securities Market of the Irish Stock Exchange ("ISE") and applying for admission to trading on the Enterprise Securities Market ("ESM") of the ISE, and (2) cancelling the admission of its ordinary shares to the Official List maintained by the UK Financial Services Authority and cancelling trading on the main market of the London Stock Exchange ("LSE"). AIB's shares continued to trade on the ISE and LSE up to and including 25 January 2011, and have traded on the ESM since 26 January 2011.

Corporate Governance Practices

AIB's corporate governance practices reflect Irish company law, the Listing Rules of the Irish Stock Exchange and the UK Listing Authority to 25 January 2011, the Listing Rules of the ESM of the ISE with effect from 26 January 2011, the principles and provisions of the Combined Code on Corporate Governance ("the Combined Code") to 31 December 2010, and the UK Corporate Governance Code ("the UK Code") (introduced in June 2010 to apply to accounting periods beginning on or after 29 June 2010) with effect from 1 January 2010, and certain provisions of the US Sarbanes Oxley Act of 2002 ("the Sarbanes Oxley Act").

In November 2010, the Central Bank of Ireland issued its Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the Central Bank Code"), which came into effect from 1 January 2011 and imposes minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank of Ireland. In December 2010, the Irish Stock Exchange published new Listing Rules ("the Rules") which require Irish listed companies to comply or explain non-compliance with additional corporate governance provisions, contained in a new Irish Corporate Governance Annex ("the ISE Corporate Governance Annex"), which supplement existing provisions requiring Irish listed companies to comply or explain non-compliance with the requirements of the UK Code. AIB's corporate governance practices will henceforth also reflect the provisions of the Central Bank Code, including compliance with requirements which specifically relate to 'major institutions', and the ISE Corporate Governance Annex.

Compliance with the principles and provisions of the UK Code (during 2010)

During 2010, the membership of the Board of Directors was subject to significant change, including a change of Chairman, the resignation of the Group Managing Director, the resignation of four Non-Executive Directors, including three independent Non-Executive Directors, and the appointment of three new Non-Executive Directors, two of whom are deemed by the Board to be independent. The timing of these changes during the year impacted AIB's compliance with certain principles and provisions of the Combined Code, as follows:

(1) the position of Chairman was vacant between 13 October 2010 and 27 October 2010; Mr. Dan O'Connor resigned as Executive Chairman on 13 October 2010 and Mr. David Hodgkinson was appointed Executive Chairman on 27 October 2010; during this period, Dr. Michael Somers, Deputy Chairman, chaired Board meetings and updates;

(2) the role of Chairman was performed on an Executive basis, (i) up to 13 October 2010 by Mr. Dan O'Connor whose executive responsibilities related to overseeing the Group's work on the key tasks of capital raising, the implementation of NAMA and the EU restructuring plan, and (ii) from 27 October 2010 by Mr. David Hodgkinson who, on appointment, assumed full executive responsibilities for the running of the Company;

(3) the number of Directors in office during the year averaged 10 while the number in office at year-end was 9; the Board deems the appropriate number of Directors to meet the requirements of the business to be between 10 and 14; efforts to recruit additional Directors are currently underway;

(4) there has been one executive Director in office since 1 November 2010;

(5) during the period from 28 April 2010 to 5 October 2010, less than half of the Directors, excluding the Executive Chairman, were determined by the Board to be independent; Mr. Robert G. Wilmers, who acted as designee of M&T Bank Corporation and, as such, was deemed not to be independent, resigned as a Non-Executive Director on 5 October 2010, which resulted in half of the Directors being determined by the Board to be independent at that time; Mr. Jim O'Hara and Ms. Catherine Woods were appointed as independent Non-Executive Directors on 13 October 2010 which increased the number, and proportion, of independent Non-Executive Directors on the Board;

(6) from 28 April 2010, only one member of the Remuneration Committee was determined by the Board to be independent; during this period, remuneration related matters of a significant

nature were considered by the Board as a whole; on 27 January 2011, the Board appointed three additional independent Non-Executive Directors to the Remuneration Committee, including one as independent Non-Executive Chairman;

(7) from 13 October 2010, only two members of the Audit Committee were determined by the Board to be independent; on 27 January 2011, the Board appointed two additional independent Non-Executive Directors to the Committee; and

(8) evaluation of the performance of individual Directors was not conducted during 2010 due to the significant Board changes, particularly during the final quarter of the year. It is proposed that such an evaluation will be conducted during April and May 2011 by the Executive Chairman. Due to restrictions arising from AIB's commitments under the Government 2009 Preference Share Subscription Agreement, signed in May 2009, between AIB, the National Pensions Reserve Fund Commission ("NPRFC") and the Minister for Finance ("the Subscription Agreement")[1], the Board Remuneration Committee and the Board were constrained in setting remuneration for Executive and Non-Executive Directors.

During the course of 2010, the level of institutional shareholdings in AIB reduced significantly. Executive management continued to actively engage with shareholders and analysts throughout the year. Demand for meetings was lower than in previous years and institutions reduced their equity positions very significantly. The Chairman, Senior Independent Non-Executive Director and other Board members remained available to meet shareholders, and the Chairman had discussions with shareholders on request. A plan was agreed by the Group Managing Director and the Senior Independent Non-Executive Director for the latter to attend an industry conference during the year with executive management to actively seek shareholder views. Senior Management, having consulted with its corporate brokers, decided subsequently not to participate in this conference due to its proximity to a market sensitive impending announcement by the Central Bank of Ireland concerning the bank's capital requirement.

As required by the Sarbanes Oxley Act, related certifications have been filed with the SEC.

Application of the Principles and Provisions of the UK Code (from 1 January 2011)

The following information explains how AIB applies the principles and provisions of the UK Code.

The Board of Directors

The Board is responsible for the leadership, direction and control of the Company and the Group and is accountable to shareholders for financial performance. There is a comprehensive range of matters specifically reserved for decision by the Board. At a high level this includes:

- determining the Company's strategic objectives and policies;
- appointing the Chairman and the Group Chief Executive (or Group Managing Director) and addressing succession planning;
- monitoring progress towards achievement of the Company's objectives and compliance with its policies;
- approving annual operating and capital budgets, major acquisitions and disposals, and risk management policies and limits; and
- monitoring and reviewing financial performance, risk management activities and controls.

In September 2010, AIB retained Promontory Financial Group (UK) Ltd and Mazars LLP to jointly conduct a review of the effectiveness of the Board and of the Group's Risk Framework over the period from January 2009 to September 2010, the scope of which had been agreed with the Central Bank of Ireland. The report of the review, which was conducted between late September 2010 and early January 2011, acknowledged changes made from late 2009 onwards to strengthen governance and control across the organisation, and made a number of recommendations to further strengthen these areas which were endorsed and adopted by the Board in February 2011 for implementation.

Chairman

The Chairman's responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new Directors, and reviewing the performance of individual Directors. Mr. David Hodgkinson was appointed Executive Chairman on 27 October 2010 for a one-year term. In addition to the above responsibilities, Mr. Hodgkinson will, among other things, oversee the extensive work on development of an organisation strategy and restructuring plan, capital raising, and management of the process for the appointment of a full-time Group Chief Executive.

Following the appointment of a full-time Group Chief Executive, the role of Chairman will revert to non-executive status in line with recognised good corporate governance principles. The role of the Chairman is traditionally separate from the role of the Group Chief Executive, with clearly-defined responsibilities attaching to each; these are set out in writing and agreed by the Board.

Mr. Hodgkinson's predecessor as Chairman, Mr. Dan O'Connor was appointed Non-Executive Chairman on 1 July 2009. He was appointed Executive Chairman on a temporary basis, at the request of the Irish Government, in November 2009, in order to oversee the Group's work on the key tasks of capital raising, the implementation of NAMA and the EU restructuring plan. Mr. O'Connor resigned as Executive Chairman and Director of AIB on 13 October 2010.

[1]The Subscription Agreement sets out the terms and conditions of the Irish Government's subscription for the 2009 Preference Shares and Warrants and imposes certain conditions on the Group with respect to Senior Executives' remuneration and Director's fees.The Group complied fully with the conditions in 2010.

Group Chief Executive

The day-to-day management of the Group is currently delegated to the Executive Chairman and will revert to the Group Chief Executive following such an appointment. The Group Chief Executive is responsible for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of senior executive management, and for the operational management of all the Group's businesses. Prior to Mr. Hodgkinson's appointment as Executive Chairman, the management of the Group had been delegated to the Group Managing Director, Mr. Colm Doherty, who was appointed to the position on 18 November 2009. Mr. Doherty resigned from the Board on 1 November 2010 and from AIB on 10 November 2010.

Senior Independent Non-Executive Director

The Senior Independent Non-Executive Director is available to shareholders if they have concerns which contact through the normal channels of communication with the Chairman or Group Chief Executive/Group Managing Director have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate. Mr. David Pritchard was appointed Senior Independent Non-Executive Director with effect from 13 May 2009.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Mr. David O'Callaghan, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Meetings

The Board held 11 scheduled meetings during 2010, and 35 additional out-of-course meetings or briefings. Details of Directors' attendance at Board meetings and meetings of Committees of the Board are included in the Annual Financial Report 2010 which can be accessed at www.aibgroup.com.

Membership

It is the policy of the Board that a majority of the Directors should be Non-Executive. At 31 December 2010, there were 8 Non-Executive Directors and 1 Executive Director. It is the Board's intention to increase the number of Directors during 2011, including an increase in the number of Executive Directors. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Group. The recent review of the effectiveness of the Board, undertaken by Promontory Financial Group (UK) Ltd and Mazars LLP, highlighted the requirement to augment the retail banking experience among the Non-Executive Directors on the Board, and the selection criteria for new Non-Executive Directors have been amended accordingly. Efforts to recruit a number of additional independent Non-Executive Directors are currently underway.

The names of the Directors, with brief biographical notes, appear on pages 17 and 18 of this report. In the performance of their functions, the Directors have a duty to have regard to the matters mentioned in section 4 of the Credit Institutions (Stabilisation) Act 2010 ('the Act'). The duty imposed by the Act is owed by the Directors to the Minister for Finance on behalf of the Irish State, and takes priority over any other duty of the Directors to the extent of any inconsistency. Thereafter, all Directors are required to act in the best interests of the Company, and to bring independent judgement to bear in discharging their duties as Directors.

Mr. Declan Collier and Mr. Dick Spring were appointed Non-Executive Directors on 22 January 2009 as nominees of the Minister for Finance under the Irish Government's Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008).

Dr. Michael Somers was appointed Non-Executive Director on 14 January 2010 as a nominee of the Minister for Finance under the Irish Government's National Pensions Reserve Fund Act 2000 (as amended). Under the terms of the Government's preference share investment, Messrs. Collier, Somers and Spring are not required to stand for election or regular re-election by shareholders and are not, therefore, considered independent for the purposes of the UK Code.

The Board has determined that all other Non-Executive Directors in office in December 2010, namely Mr. Stephen Kingon, Ms. Anne Maher, Mr. Jim O'Hara, Mr. David Pritchard, and Ms. Catherine Woods are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement.

Performance Evaluation

Evaluations of the performances of the Board and Board Committees were conducted by Promontory Financial Group (UK) Ltd and Mazars LLP as part of their review of the effectiveness of the Board and of the Group's Risk Framework, and the results were presented to the Board and to the Central Bank of Ireland. The evaluation of the performance of the individual Directors was not conducted during 2010 due to the significant Board changes referred to previously, particularly during the final quarter of the year. It is proposed that such an evaluation will be conducted during April and May 2011 by the Executive Chairman. An evaluation of the performance of the Executive Chairman was conducted in his absence by the Non-Executive Directors, under the Chairmanship of Mr. David Pritchard, the Senior Independent Non-Executive Director.

Terms of Appointment

Non-Executive Directors are generally appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in exceptional circumstances, on the recommendation of the Nomination and Corporate Governance Committee. Since 2005, all the Directors retire from office at the AGM and offer themselves for reappointment.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, and their Terms of Reference are available on www.aibgroup.com.

Directors' Remuneration and Interests

A summary of the Directors' Remuneration and Interests is included on pages 12 to 16 of this report.

Website

The website, www.aibgroup.com, contains, for the previous five years, the Annual Financial Report, the Interim Report/Half-yearly Financial Report, the Annual Report on Form 20-F, and slides from annual and interim results presentations to analysts and investors. The Company's presentations to fund managers and analysts of annual and interim financial results are broadcast live on the internet, and may be accessed on: www.aibgroup.com/webcast. The times of the broadcasts are announced in advance on the website, which is also updated to include the Company's Stock Exchange releases. These releases include an Interim Management Statement, issued in May and November each year in compliance with the EU Transparency (Directive 2004/109/EC) Regulations 2007. These items are thus available for review by all shareholders who have access to the internet. Since 2009, the Annual Financial Report and the Annual Report on Form 20-F have been combined in the form of the Annual Financial Report. None of the information on the website is incorporated in, or otherwise forms part of, the Annual Financial Report.

Annual General Meeting ("AGM")

All shareholders are invited to attend the AGM and to participate in the proceedings. At the AGM, it is practice to give a brief update on the Group's trading performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against, and withheld, on each resolution, including proxies lodged, are subsequently published on AIB's website.

It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting.

The Chairmen of the Board's Committees are available to answer questions about the Committees' activities. A help desk facility is available to shareholders attending. The Company's 2011 AGM is scheduled to be held on 21 July 2011, at the Company's Head Office at Bankcentre, Ballsbridge, Dublin 4.

Institutional Shareholders

The Company continued to maintain a policy of open and accessible communications with its institutional shareholders and with financial analysts and brokers during 2010.

Report on directors' remuneration and interests

This is an abridged version of the Report on Directors' Remuneration and Interests. The complete report is available in the 2010 Annual Financial Report which can be accessed on www.aibgroup.com.

Remuneration policy and commentary

AIB's remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are set by its Terms of Reference which may be viewed on the Group's website www.aibgroup.com.

The purview of the Committee is broad based in terms of remuneration, ranging from setting pay policy to determining appropriate pensions arrangements for staff across the Group.

In 2010, work continued on reviewing and adapting remuneration policies to take account of the emerging regulatory requirements and to ensure that policies and practices are fully consistent with, and promote, effective risk management. There was little scope to give practical effect to the required regulatory changes in 2010 because of the financial position of the bank and the constraints arising from the commitments under the Government 2009 Preference Share Subscription Agreement, signed in May 2009, between AIB, the National Pensions Reserve Fund Commission ("NPRFC") and the Minister for Finance ('the Subscription Agreement')[1]. There are no bonus schemes in operation currently and any schemes that are implemented in the future will be structured in line with new regulatory requirements.

The Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors ("CEBS"), now the European Banking Authority ("EBA"), and guidance issued by the Financial Services Authority ("FSA") in the UK provided the structure for the review. The guidelines issued by both the EBA and the FSA will allow the development of future incentive schemes in which AIB meet the provisions of the Capital Requirements Directive ("CRD 111") as approved by the European Parliament.

AIB reported to both the Central Bank of Ireland and the FSA in the UK in 2009 with regard to its compliance with guidance issued by the EBA and the FSA at that time. During 2010, an update was provided to the Central Bank of Ireland regarding AIB's compliance with the EBA remuneration principles together with remuneration information on staff that are deemed to have a material impact on the risk profile of AIB, and in relation to other remuneration policy aspects. Additionally the Central Bank of Ireland conducted a detailed review of AIB's remuneration policies and practices in September 2010.The main period reviewed by the Central Bank of Ireland was from 1 January 2009 to 30 June 2010.The Central Bank of Ireland's report dated 31 December 2010 found that while the Group had taken steps to reform its remuneration policies and practices, further changes would be required to incorporate the provisions of CRD 111 and the final remuneration guidelines to be issued by the EBA. The main changes required related to: the alignment of remuneration policy and risk taking; the greater involvement of control functions such as risk management in developing remuneration policies and practices, and to the Remuneration Committee's role in aligning remuneration policy and risk management.

Following the publication of the final EBA Guidelines on Remuneration Policies and Practices in December 2010, priorities to be addressed were agreed which will cover:

- governance of remuneration including the composition and role of the Remuneration Committee, the involvement of other control functions in the design and implementation of remuneration structures and the development of a revised remuneration policy;
- development of risk adjusted financial performance measures in consultation with the Group's risk management function and the Board Risk Committee;
- development of incentive scheme structures which incorporate risk alignment features such as bonus deferral, claw back of bonuses already paid in certain circumstances, deferral of bonus awards over time and share retention periods; and
- development and publication of a remuneration disclosure report including commentary on the Group's remuneration policies and practices and aggregated remuneration data for staff identified with roles and activities having a material impact on the risk profile of the Group.

Remuneration review

The salaries of the members of the Group Executive Committee were reviewed, in accordance with the Group's obligations under the Subscription Agreement by the Remuneration Committee and approved in a range of € 300,000 to € 425,000 in accordance with the recommendations of the Covered Institutions Remuneration Oversight Committee ("CIROC").The salary of the Executive Chairman upon his appointment was set at € 500,000.

The Group's cost base was closely managed in 2010 and remuneration spend was further reduced in the light of the financial crisis and the Group's performance. In summary:

- No bonuses were paid in the Group in 2010 in respect of 2009 performance with the exception of staff in our former Polish subsidiary BZWBK (not covered by the Irish Government's Deposit Guarantee Scheme);

[1]The Subscription Agreement sets out the terms and conditions of the Irish Government's subscription for the 2009 Preference Shares and Warrants and imposes certain conditions on the Group with respect to Senior Executives' remuneration and Director's fees. The Group complied fully with the conditions in 2010.

- Bonus schemes in relation to the Group Executive Committee ("GEC") and executives and managers were not renewed for the 2010 performance year. No bonuses were paid in respect of 2010 performance to any staff, with the exception of staff in our Polish subsidiary, BZWBK;

- As part of the Group's obligations arising from the Subscription Agreement, the Group is required to submit to the Department of Finance, on a quarterly basis, details of payments or salary increases paid to any staff member (excluding those staff in BZWBK and AIB Baltics). During the year the Group reported salary adjustments or payments which were in excess of € 1,000 to the Department of Finance; and

- As reported last year, an accrual had been made against the future payment of outstanding, deferred 2008 bonus amounts, the timing of which was subject to the approval of the Board and the Department of Finance. Legal proceedings were taken, in the course of 2010 by a number of employees against the Group for the payment of bonuses and, on foot of a decision of the High Court giving one of these plaintiffs liberty to enter final judgement, the bonus for that individual was paid. By letter of 13 December 2010, the Group was informed by the Minister for Finance ('the Minister') that he considered the financial difficulties of the Group to be clearly a supervening event which was not contemplated at the time of any agreement in relation to bonus payments and, as the Group could not be in a position to pay without State support, past, present and to come, the Minister believed it reasonable and proportionate to make the provision of further State funding to the Group conditional, inter alia, on the non-payment of any bonuses, no matter when they may have been earned. By letter of 22 December 2010, adverting to the provisions of Section 51 of the Credit Institutions (Stabilisation) Act 2010 ('the Act'), the Minister informed the Group that the provision of further State funding was to be conditional, inter alia, on the Board's decision not to pay any bonuses, no matter when earned. On 23 December 2010, the High Court, upon the application of the Minister, made a Direction Order under Section 9 of the Act directing the Group, inter alia, to execute a Placing Agreement with the Minister, the National Pensions Reserve Fund Commission ("NPRFC") and the National Treasury Management Agency ("NTMA"), which included a confirmation by the Group that it had decided that no performance bonuses were to be paid, no matter when they may have been earned and providing that the obligations of the Minister, the NPRFC and the NTMA, under the Placing Agreement, were conditional on the Group having complied, and continuing to comply, with the letters from the Minister of 13 and 22 December 2010. The Act renders it unlawful for the Group, as a 'relevant institution', to make any payment that would amount to a breach of such a condition. Accordingly, no accruals are held for bonuses in Capital Markets.

Directors' Remuneration

The table on page 14 details the total remuneration of the Directors in office during 2010 and 2009:

(1) Fees paid to the directors comprise:

(a) in relation to the current Executive Chairman, an annual, non-pensionable flat fee of €500,000. Mr. David Hodgkinson was appointed Executive Chairman for a period of one year with effect from 27 October 2010 and was paid a pro-rata equivalent amount for the period from 27 October to 31 December 2010; Mr. Hodgkinson is also entitled to payment of accommodation and related utility expenses during his tenure as Executive Chairman, plus compensation for any personal tax liability arising from this benefit.

(b) in relation to the current Deputy Chairman, an annual, non-pensionable flat fee of €150,000. Dr. Michael Somers was appointed Non Executive Director on 14 January 2010. From that date to 31 May 2010, Dr. Somers was paid on the basis of the Non-Executive Directors' fees set out at (1)(c) below. He was appointed Deputy Chairman and Chairman of the Board Risk Committee with effect from 1 June 2010, remuneration for which is included in the flat fee above, and he was paid a pro-rata equivalent of the flat fee from that date to 31 December 2010;

(c) in relation to other Non-Executive Directors, a basic, non-pensionable fee in respect of service as a director, payable at a rate of €27,375 per annum (voluntarily reduced from €36,500 between December 2008 and February 2009), and additional non-pensionable remuneration (subject also to an equivalent reduction) paid to any non-executive director who: is the Chairman of the Audit Committee, Remuneration Committee, or Corporate Social Responsibility Committee; is the Senior Independent Director, or; performs additional services, such as through membership of Board Committees or the board of a subsidiary company.

	Directors' Fees - Parent & Irish Subsidiary Companies (1)	Directors' Fees - Non-Irish Subsidiary Companies (2)	Salary	Annual Taxable Benefits (3)	Entitle-ments in lieu of pension benefits (4)	Reduction in Pension Entitle-ments from Pension Scheme (4)	Payments on Term-ination of Contract (4)	Pension Contribu-tion (4)	2010 Total	2009 Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Executive Directors										
Colm Doherty (4) *(resigned as Exeative Director on 1 November 2010 and retired from AIB on 10 November 2010)*			432	50	1,966	(1,744)	953	1,043	2,700	833
Donal Forde (10) *(retired 10 August 2010)*									-	295
David Hodgkinson (1(a)) *(appointed Executive Chairman on 27 October 2010)*	90			11					101	-
Dan O'Connor (5) *(resigned as Executive Chairman on 13 October 2010)*	216								216	31
John O'Donnell *(retired on 31 August 2009)*									-	465
Eugene Sheehy *(retired on 30 November 2009)*									-	892
	306	**-**	**432**	**61**	**1,966**	**(1,744)**	**953**	**1,043**	**3,017**	**2,516**
Non-Executive Directors										
Declan Collier	40								40	29
Kieran Crowley (6) *(resigned as Director on 13 October 2010)*	104	35							139	133
Dermot Gleeson *(retired on 30 June 2009)*									-	203
Stephen L. Kingon	105	35							140	109
Anne Maher	116	17							133	96
Dan O'Connor *(remuneration from 1 January to 17 November 2009)*									-	156
Sean O'Driscoll (7) *(resigned as Director on 28 April 2010)*	-	-							-	-
Jim O'Hara *(appointed 13 October 2010)*	6								6	-
David Pritchard (8)	76	74							150	151
Dr Michael Somers (1(b)) *Deputy Chairman (appointed 14 January 2010)*	98								98	-
Dick Spring	47								47	26
Michael J. Sullivan *(retired 13 May 2009)*									-	19
Robert G. Wilmers (9) *(resigned as Director on 4 October 2010)*	-								-	-
Jennifer Winter *(resigned as Director on 28 April 2010)*	19								19	48
Catherine Woods *(appointed 13 October 2010)*	6								6	-
	617	**161**							**778**	**970**
Former Directors										
Donal Forde (10)									420	488
Other (11)									110	110
Total									**4,325**	**4,084**

(2) Non-Executive Directors of the Parent Company who also serve as Directors of non-Irish subsidiaries are separately paid a non-pensionable flat fee, which is independently agreed and paid by the subsidiaries, in respect of their service as a director of those companies. During 2009 and 2010, Messrs. David Pritchard, Kieran Crowley and Stephen Kingon served as Non-Executive Directors of AIB Group (UK) plc, of which Mr. Pritchard is Chairman. Ms. Anne Maher was appointed a Member of the Supervisory Board of BZWBK on 21 April 2010, and will step down from that position at the next BZWBK AGM, following completion of the disposal of BZWBK to Banco Santander, in April 2011;

(3) Annual taxable benefits include the use of a company car or the payment of a car allowance, and benefit arising from loans made at preferential interest rates.

(4) Mr. Colm Doherty, former Group Managing Director, resigned from the Board on 1 November 2010 and retired from AIB on 10 November 2010 following termination of his contract of employment, on existing terms. This was in accordance with the Minister for Finance's stated expectation that management and board changes would be made as a condition of the recapitalisation of the bank announced on 30 September 2010. Details of Mr Doherty's remuneration during 2010 are set out below.

	€000	€000
(a) Salary:		
– From 1 January 2010 to resignation as a director on 1 November 2010;	419	
– From 2 November 2010 to retirement on 10 November 2010;	13	
Sub-total		432
(b) Taxable Benefits:		
– From 1 January 2010 to resignation as a director on 1 November 2010;	49	
– From 2 November 2010 to retirement on 10 November 2010;	1	
Sub-total		50
(c) Entitlements (note (i)) in lieu of pension benefits payable following termination of Mr. Doherty's employment on 10 November 2010:		
– from 1 January 2010 to 10 November 2010;	222	
– accrued above personal fund threshold (see below for explanation) up to 31 December 2009;	1,744	
Sub-total		1,966
(d) Reduction in pension entitlements from Pension Scheme – note (i)		(1,744)
(e) Payment of, or in lieu of, contractual entitlements on retirement – note (ii)		953
(f) Pension Contribution – note (iii)		1,043
Total remuneration during 2010		2,700

(i) Entitlements in lieu of pension benefits above personal fund threshold:

The Finance Act 2006 introduced a limit on the capital value of an individual's pension fund that can be accumulated in a tax efficient manner by introducing a penalty tax charge on pension assets in excess of the higher of €5 million or the value of individual, prospective pension entitlements ("personal fund threshold") as at 7 December 2005. Subsequent to this change, and following Mr. Doherty's application to the Revenue commissioners for a personal fund threshold, AIB agreed, as a term of Mr. Doherty's employment, that his pension would be capped in line with the provisions of the Finance Act but that he would receive supplementary, taxable, non-pensionable cash allowances in lieu of the contractual pension benefits foregone ("the pension allowances") annually, over the term to his normal retirement. The value of the pension allowances was calculated to be actuarially equivalent to the pre-existing arrangement by the pension scheme's independent Actuary. The pension allowances, therefore, represent the early disbursement of contractual pension benefits rather than additional remuneration.

It was agreed that, in the event of the termination of Mr. Doherty's employment with AIB prior to his normal retirement date, for any reason other than death, the balance of the pension allowances would become payable in full at the date of cessation of his employment, reflecting the actuarial value of the benefits foregone from the pension scheme.

The figures at (c) above represent a pension allowance due in 2010 together with the balance that became payable on the termination of Mr. Doherty's employment on 10 November 2010. The cap on Mr. Doherty's pension reduced his annual pension entitlement at normal retirement date from €303,000 per annum to €203,000 per annum, which led to a corresponding reduction in the Company's pension fund liability of €1,744,000, represented at (d) above.

Mr. Doherty's entitlements in lieu of pension benefits accrued above his personal fund threshold were notified to, and discussed with, the Government-established Covered Institution Remuneration Oversight Committee ("CIROC")[1] in January and February 2009. Following consideration, CIROC advised that it would not take issue with the bank allowing Mr. Doherty to avail of the agreement as Mr. Doherty's personal fund threshold had, by that time, been agreed with the Revenue Commissioners. No other agreements of this nature were requested of CIROC for other current or former AIB executives.

Subsequently, AIB sought agreement from the relevant authorities on Mr. Doherty's contractual entitlements in the context of his appointment as Group Managing Director. The matter was considered in November 2009 by the then Minister for Finance, who agreed to Mr. Doherty's appointment on a voluntarily reduced salary and continuation of existing contractual entitlements, including payment of pension allowances.

(ii) Payment of, or in lieu of, contractual entitlements on retirement from AIB:

The amount of €953,000 at (e) above represents payment in lieu of twelve months' notice covering salary and annual taxable benefits, and annual leave due but not taken, along with a pension allowance, as referred to at (i) above, for the notice period.

(iii) Pension Contribution:

The figure at (f) above represents a once-off contribution by the Company to the pension scheme in 2010 to fund the scheme's increased liabilities arising from payment of Mr. Doherty's annual pension entitlements from a date earlier than his normal retirement date, arising from termination of his contract of employment.

Mr. Doherty's contractual entitlements were independently reviewed and confirmed, in the context of the cessation of his employment, by AIB's external legal advisers.

Retirement Pension

The table above details (a) annual pension benefits accrued to 31 December 2009, but payable from Mr. Doherty's normal retirement date, and (b) the annual pension payable at the date of his retirement. The difference in transfer value figure at (c) does not represent a sum paid or due and is shown in the context of disclosure requirements only. The difference in transfer value represents the amount that the Company's pension scheme would transfer to another pension scheme, in relation to the difference between the benefits accrued at 31 December 2009 (a), and the pension payable at the date of retirement (b), should such a transfer occur.

Accrued Benefit at 31 December 2009 (a)	Retirement Pension (b)	Difference in transfer value of retirement benefits (c)
€000	€000	€000
303	203	676

[1] The Covered Institution Remuneration Oversight Committee was established under the Credit Institutions (Financial Support) Scheme 2008 to oversee remuneration plans of senior executives and Board Members of the institutions covered by the Government Guarantee.

(5) Mr. Dan O'Connor was appointed Non-Executive Chairman with effect from 1 July 2009 and Executive Chairman with effect from 18 November 2009. He resigned as a Director of AIB on 13 October 2010 in accordance with the Minister for Finance's stated expectation that management and board changes would be made as a condition of the recapitalisation of the bank announced on 30 September 2010. His flat fee as Chairman was €276,000 per annum and he was paid a pro-rata equivalent amount for the period from July to December 2009 and from 1 January 2010 to the date of his resignation. He was paid until 30 June 2009 on the basis of the Non-Executive Directors' fees set out at (1)(c) above;

(6) Mr Kieran Crowley resigned as a Non-Executive Director of Allied Irish Banks, p.l.c. on 13 October 2010. During the period from 1 January 2010 to his resignation, Mr. Crowley earned fees on the basis outlined at (1)(c) and (2) above. Following his resignation Mr. Crowley remained as a Non-Executive Director of two subsidiary companies of Allied Irish Banks, p.l.c., namely, AIB Group (UK) plc and AIB Mortgage Bank, in relation to which he continues to earn fees on the basis outlined at (1)(c) and (2) above. During the period from his resignation to the end of the year, Mr. Crowley earned fees of €13,500, which are included in the table on page 14.

(7) Mr. Sean O'Driscoll voluntarily waived fees of €15,487 as a Non-Executive Director from 1 January 2010 to the date of his resignation as a director on 28 April 2010.

(8) Mr. David Pritchard was appointed Deputy Chairman with effect from 13 May 2009 and he held this position to 31 December 2009. The non-pensionable flat fee payable as Deputy Chairman, which included Mr. Pritchard's remuneration as Senior Independent Non-Executive Director and other remuneration for services as a director of Allied Irish Banks, p.l.c., was €82,800 per annum, and Mr. Pritchard was paid a pro-rata equivalent amount for the period from 13 May to 31 December 2009. Prior to 13 May 2009, and since 1 January 2010, Mr. Pritchard was, and is, paid on the basis of the Non-Executive Directors' fees set out at (1)(c) and (2) above.

(9) A fee of €20,775 was paid to M&T Bank Corporation ("M&T") in the year ended 31 December 2010 (2009: €27,147), in respect of Mr. Robert G. Wilmers' directorship of the Company, up to his resignation on 5 October 2010, as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation, dated 26 September 2002, by and among the Company, Allfirst Financial Inc. and M&T, as approved by shareholders at the Extraordinary General Meeting held on 18 December 2002 ('the Agreement'). During 2010, Messrs. Michael Buckley (who retired as Group Chief Executive and Director of AIB on 30 June 2005), Colm Doherty (who resigned as Group Managing Director of AIB on 1 November 2010 and retired from AIB on 10 November 2010) and Eugene Sheehy (who retired as Group Chief Executive and Director of AIB on 30 November 2009), served as AIB-designated Directors of M&T, pursuant to the Agreement. The aggregate fees payable in this regard (from which U.S. withholding tax has been deducted), in respect of Messrs. Doherty and Sheehy, who resigned as directors of M&T on 9 June 2010 and 20 April 2010 respectively, amounting to €12,317 (2009: €33,726), were paid to AIB, while €23,976 was paid to Mr. Buckley (2009: €21,925)

(10) Mr. Donal Forde resigned as an Executive Director on 13 May 2009 and retired from AIB on 10 August 2010. The payment in 2010 represents Mr. Forde's remuneration from 1 January 2010 to the date of his retirement from AIB. The payment in 2009 represents Mr. Forde's remuneration from the date of his resignation as a director to 31 December 2009.

(11) 'Other' represents the payment of pensions to former directors or their dependants granted on an ex-gratia basis and are fully provided for in the Statement of Financial Position.

(12) 'Pension contributions' represents payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. With the exception of the Executive Chairman, whose fees are non pensionable, there were no Executive Directors in service at 31 December 2010. The contribution rate in 2009 in respect of the Executive Directors, as a percentage of emoluments, was 23.0%. The fees of Non-Executive Directors are non pensionable.

Interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2010, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	**31 December, 2010**	1 January, 2010*
Directors:		
Declan Collier	**-**	-
David Hodgkinson	**-**	-
Stephen L. Kingon	**4,500**	4,500
Anne Maher	**1,600**	1,600
Jim O'Hara	**-**	-
David Pritchard	**53,500**	53,500
Dick Spring	**-**	-
Dr Michael Somers	**13,437**	13,437
Catherine Woods	**-**	-
Secretary:		
David O'Callaghan	**8,120**	8,120

** or date of appointment, if later*

AIB Board

David Hodgkinson*
Executive Chairman (Executive Director) and Nomination & Corporate Governance Committee Chairman

Mr Hodgkinson was Group Chief Operating Officer for HSBC Holdings plc from May 2006 until his retirement from the company in December 2008. During his career with HSBC, he held a number of senior management positions in the Middle and Far East, and Europe, including as Managing Director of The Saudi British Bank, and CEO of HSBC Bank Middle East. Mr Hodgkinson, who joined HSBC in 1969, has also served as Chairman of HSBC Bank Middle East Limited, HSBC Bank A S Turkey, Arabian Gulf Investments (Far East) Limited and HSBC Global Resourcing (UK) Ltd. He was a Director of HSBC Bank Egypt SAE, The Saudi British Bank, Bank of Bermuda Limited, HSBC Trinkaus Burkhardt and British Arab Commercial Bank. Mr Hodgkinson joined the Board as Executive Chairman on 27 October 2010. He has been Chairman of the Nomination and Corporate Governance Committee and a member of the Remuneration Committee since January 2011. (Age 60)

Declan Collier *BA Mod (Econ), MSc (Econ)*
Non-Executive Director

Mr Collier is Chief Executive of the Dublin Airport Authority ("DAA") and is a member of both the European and World boards of Airports Council International, the representative association of airports internationally. He is a Director of Dublin Airport Authority p.l.c., and is Chairman of Aer Rianta International cpt and of DAA Finance p.l.c. Prior to joining the DAA he held a number of senior management positions with the global energy company, Exxonmobil. Mr Collier joined the Board in January 2009 as a nominee of the Minister for Finance under the CIFS Scheme. He has been a member of the Remuneration Committee since April 2009 and of the Audit Committee since October 2010. (Age 55)

Stephen Kingon *CBE, BA, DBA, FCA, FIBC, CMC*
Non-Executive Director and Audit Committee Chairman

Mr Kingon is Chairman of the Northern Ireland Centre for Competitiveness, Invest Northern Ireland and Balcas Limited and is also a member of the Economic Advisory Group. He is a Director of AIB Group (UK) p.l.c., Anderson Spratt (Holdings) Limited, The Baird Group Limited, Mivan Limited, Mivan (UK) Limited, Opera Northern Limited and S.O.S. Bus Limited. He has held the following positions and offices in the recent past: Co-Chair of the North/South Roundtable Group; Managing Partner of PricewaterhouseCoopers in Northern Ireland; member of the BT Ireland Advisory Board; President of the Northern Ireland Chamber of Commerce and Industry; Chairman of Business in the Community in Northern Ireland, the Ulster Society of Chartered Accountants, and the Institute of Management Consultants in Northern Ireland; and Joint Secretary for the Institute of Chartered Accountants in Ireland. Mr Kingon joined the Board in 2007 and has been a member of the Audit Committee and of the Corporate Social Responsibility Committee since that time. He became Chairman of the Audit Committee in May 2009 and joined the Board Risk Committee in November 2010. (Age 63)

Anne Maher *FIIPM, BCL*
Non-Executive Director

Ms Maher is a Member of the Supervisory Board of Bank Zachodni WBK S.A. (she will step down from that position at the BZWBK AGM on 20 April 2011) and a Non-Executive Director of Irish Airlines Pensions Limited, Retirement Planning Council of Ireland, Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited. She is Chairman of the Medical Professional Competence Steering Committee, Governor of Pensions Policy Institute (UK) and is a member of Chartered Accountants Regulatory Board and of FTSE Policy Group (UK). Former positions and offices she has held include Chief Executive of The Pensions Board, Chairman of the Irish Association of Pension Funds and member of the Committee for European Insurance and Occupational Pensions Supervisors, member of the Professional Oversight Board (UK), the Actuarial Stakeholder Interests Working Group (UK) and Board member of the Irish Accounting and Auditing Supervisory Authority. Ms Maher joined the Board in 2007. She has been a member of the Audit Committee since May 2007, and of the Nomination & Corporate Governance Committee since February 2010 and of the Remuneration Committee since January 2011. (Age 65)

*Executive Director

Jim O'Hara
Non-Executive Director

Mr O'Hara is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel's technology and manufacturing group in Ireland. He is a board member of Enterprise Ireland, the Association for European Nanoelectronic Activities (AENEAS), which represents the European electronics industry, and of Business in the Community Ireland. He is a past President of the American Chamber of Commerce in Ireland. Mr O'Hara joined the Board in October 2010 and has been a member of the Audit Committee, the Remuneration Committee and the Nomination and Corporate Governance Committee since January 2011. (Age 59)

David Pritchard *BSc (Eng)*
Chairman, AIB Group (UK) p.l.c., Senior Independent Non-Executive Director and Remuneration Committee Chairman

Mr Pritchard is a former Group Treasurer, Executive Director, and Non-Executive Deputy Chairman of Lloyds TSB Group p.l.c. and spent two years as a secondee at the Financial Services Authority while employed at Lloyds TSB. He is a former Managing Director of Citicorp Investment Bank, London, and a former General Manager of Royal Bank of Canada Group. He is Non-Executive Chairman of Songbird Estates p.l.c., Non-Executive Director of Euromoney Institutional Investor PLC, The Motability Tenth Anniversary Trust, and a former Non-Executive Director of LCH Clearnet Group. Mr Pritchard joined the Board in 2007 and was appointed Deputy Chairman for the period May to December 2009. He has been a member of the Nomination & Corporate Governance Committee since April 2009 and of the Board Risk Committee since November 2010. In January 2011 he was appointed Chairman of the Remuneration Committee, of which he has been a member since February 2010. (Age 66)

Dr Michael Somers *B Comm, M.Econ.Sc Ph.D*
Non-Executive Director, Deputy Chairman and Board Risk Committee Chairman

Dr Somers is former Chief Executive of the National Treasury Management Agency. He is a Non-Executive Director of Willis Group Holdings plc, Hewlett-Packard International Bank plc, Fexco Holdings Limited, the Institute of Directors, the European Investment Bank, St.Vincent's Healthcare Group Ltd, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management, in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the Audit Committee of the European Investment Bank and former Member of the EC Monetary Committee. Dr Somers was Chairman of the group that drafted the National Development Plan 1989-1993 and of the European Community group that established the European Bank for Reconstruction and Development (EBRD). He was formally a member of the Council of the Dublin Chamber of Commerce. He joined the Board in January 2010 as a nominee of the Minister for Finance under the Government's National Pensions Reserve Fund Act 2000 (as amended) and has been Chairman of the Board Risk Committee since November 2010. (Age 68)

Dick Spring *BA, BL*
Non-Executive Director

Mr Spring is a former Tanaiste (Deputy Prime Minister) of the Republic of Ireland, Minister for Foreign Affairs and leader of the Labour Party. He is a Non-Executive Director of Fexco Holdings Ltd., Repak Ltd, The Realta Global Aids Foundation Ltd and Diversification Strategy Fund p.l.c. He is Chairman of International Development Ireland Ltd., Altobridge Ltd. and Alder Capital Ltd. Mr Spring joined the Board in January 2009 as a nominee of the Minister for Finance under the CIFS Scheme. He has been a member of the Nomination & Corporate Governance Committee since April 2009 and of the Board Risk Committee since November 2010. (Age 60)

Catherine Woods *BA Mod (Econ)*
Non-Executive Director

Ms Woods is a Non-Executive Director of An Post and of AIB Mortgage Bank. She is also the Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband scheme. She is a former Vice President and Head of the European Banks Equity Research Team, JP Morgan, where her mandates included the recapitalisation of Lloyds' of London and the re-privatisation of Scandinavian banks. Ms Woods is a former member of the Electronic Communications Appeals Panel. She joined the Board in October 2010 and has been a member of the Audit Committee and of the Board Risk Committee since January 2011. (Age 48)

This is AIB's Shareholders Report.
It is available on the AIB website at: www.aibgroup.com/investorrelations.
The site and www.aibgroup.com/pressoffice is regularly updated with
news and information about the AIB Group.

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