EUROPEAN COMMISSION

Brussels, 07.05.2014
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COMMISSION DECISION

of 07.05.2014

ON THE STATE AID
Nos SA.29786 (ex N 633/2009), SA.33296 (2011/N), SA.31891 (ex N553/2010), N 241/2009, N 160/2010 and C 25/2010 (ex N 212/2010)

implemented by Ireland

for the restructuring of Allied Irish Banks plc and

EBS Building Society

(Only the English version is authentic)

(Text with EEA relevance)

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on interested parties to submit their comments pursuant to the provisions cited above[1],

Whereas:

1 PROCEDURE

(1) Allied Irish Banks, plc ("AIB") and the EBS Building Society ("EBS") have each received State aid individually, which was notified to the Commission in separate procedures. EBS and AIB merged on 1 July 2011 ("the Bank"), and the Commission assessed the aid granted to the Bank in a separate procedure. Hence there are three State aid procedures relating to AIB, EBS and the merged entity, respectively.

1.1 AIB

(2) By decision dated 12 May 2009, the Commission temporarily approved[2] a EUR 3,5 billion capital injection into AIB in the form of Core Tier 1 New Preference Shares, on the basis of several commitments including the submission of a restructuring plan within six months following the recapitalisation.

(3) Following this initial capital injection, the Irish authorities submitted an initial restructuring plan for AIB on 13 November 2009, followed by a number of exchanges. On 4 May 2010, the Irish authorities submitted an updated restructuring plan, which again was followed by a number of exchanges between the Commission and Ireland.

[1] OJ C 214, 7.8.2010, p. 3.

[2] Commission Decision in Case N 241/2009, *Recapitalisation of Allied Irish Bank by the Irish State*, OJ C 223, 16.09.2009, p. 2.

(4) By decision dated 21 December 2010, the Commission temporarily approved[3] a EUR 9,8 billion rescue capital injection in the form of ordinary shares, pending the approval by the Commission of a revised restructuring plan taking into account the further aid provided to AIB. The capital injection was planned to take place in two stages: (i) EUR 3,7 billion to be injected by 31 December 2010, and (ii) EUR 6,1 billion to be injected in February 2011[4].

(5) While the first instalment of the approved recapitalisation was carried out by the Irish State at the end of December 2010, the second injection planned to be undertaken in February 2011 never took place.[5]

1.2 EBS

(6) By decision dated 2 June 2010[6], the Commission temporarily authorised a recapitalisation of EBS as emergency aid pending the approval by the Commission of a restructuring plan. The Irish authorities submitted the plan on 31 May 2010.

(7) On 11 October 2010, the Commission decided to initiate the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union ("the Treaty") with regard to the restructuring plan for EBS submitted by Ireland ("the Opening Decision")[7], since the Commission had doubts as to the compatibility of that restructuring plan and the associated aid measures with the internal market in the light of the *Commission's Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current financial crisis under the State aid rules*[8] ("the Restructuring Communication").

(8) The Commission received comments from EBS and two other interested parties.

(9) In July 2011, EBS merged with AIB and became a fully integrated subsidiary of the Bank. As a result, EBS ceased to exist on a standalone basis. Therefore, the Opening Decision, which related to EBS as a standalone entity, became nugatory and the Commission decided not pursue the procedure any further.

1.3 Joint Procedure

(10) On 31 March 2011, the Irish Minister for Finance announced that the Irish banking system was to be reorganised around two pillar banks, Bank of Ireland ("BoI") and AIB[9]. He also announced that in that context EBS would be merged into AIB to constitute this second pillar institution.

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[3] Commission Decision in Case N 553/2010, *Second emergency recapitalisation in favour of Allied Irish Banks plc*, OJ C76, 10.03.2011, p. 4.

[4] The gross capital injections were respectively EUR 3,9 billion and EUR 6,3 billion, including each EUR 0,2 billion of fees repaid by AIB to the Irish government.

[5] The Commission decision allowed the recapitalisation as a rescue measure for 6 months subject to the submission of an updated restructuring plan. The second instalment of the recapitalisation was not paid in February.

[6] Commission Decision in Case N160/2010, *Recapitalisation of EBS*, OJ C 217, 11.08.2010, p. 2.

[7] Commission Decision in Case C25/2010 (ex-N 212/2010), *Restructuring of Educational Building Society*, OJ C 300, 6.11.2010, p.17-36.

[8] OJ C195, 19.8.2009, p. 9.

[9] In April 2012, it was decided that Permanent TSB should remain active as the third domestic lender alongside AIB and BoI.

(11) By decision dated 15 July 2011, the Commission approved[10] a combined rescue package for the Bank of up to EUR 13,1 billion pending the approval of a restructuring plan for the Bank which should take into account the further aid provided.

(12) On 28 September 2012, Ireland notified a restructuring plan for the Bank.[11]

(13) Between October 2012 and March 2014, the Commission and the Irish authorities exchanged information regularly. The Commission repeatedly requested information, and Ireland provided a number of supplementary submissions[12].

2 FACTS

2.1 Description of the beneficiaries

2.1.1 AIB

(14) A detailed description of AIB is provided in Section II.1 of the Commission decision concerning the first recapitalisation of the Bank of 12 May 2009[13]. A short summary is provided below.

(15) In the years preceding the financial crisis, AIB was a diversified financial services group which offered a full range of personal and corporate banking services. In 2008, it had a balance sheet size of EUR 182 billion. It was one of the two largest banks in Ireland and had market shares of about 35% of personal current accounts, 27% of mortgages, 46% of savings and 41% of SME current accounts.

(16) Prior to that crisis, AIB expanded fast, with a particular focus on new lending to the Irish property market and a strong reliance on wholesale funding. When the global financial crisis broke out, which hit the Irish economy and notably the Irish property market particularly hard, the vulnerability of AIB's business model became evident and the need for State support unavoidable.

(17) In July 2011, AIB was merged with EBS.

2.1.2 EBS

(18) A detailed description of EBS is provided in section 2.1.2 of the Commission Decision concerning the emergency recapitalisation of EBS/AIB of 15 July 2011[14]. A short summary is provided in the following recitals.

(19) In the years preceding the financial crisis, EBS was Ireland's largest building society and the eighth largest financial institution operating in Ireland with total assets of EUR 21,5 billion in 2009. Building societies are mutual organisations which have no shareholders but instead are owned by their members, who are also their clients. Their objective is to collect deposits and provide loans. Profits are used to adapt interest rates to the advantage of the members, or are accumulated as reserves.

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[10] Commission Decision in Case SA.33296, *Emergency recapitalisation in favour of the merged entity Educational Building Society/Allied Irish Banks plc*, OJ C268, 10.9.2011, p. 3.

[11] The plan was registered under case number SA.29786.

[12] The most important supplementary contributions were submitted on 10 and 11 January, 13 February and 20 and 27 March 2014 and concerned financial projections.

[13] Commission Decision in Case N 241/2009, see footnote 2.

[14] Commission Decision in Case SA.33296, see footnote 10.

(20) EBS offered traditional retail banking products to its members (savings and mortgages) in line with its goal as a building society. It also had a treasury department offering boutique services to corporate clients, professional firms and credit unions. From 2005 onwards, EBS expanded its activities in commercial property lending, building up a substantial loan book in that segment. EBS suffered from the downturn in the Irish economy at large and in particular from the collapse of commercial real estate prices. Access to funding gradually deteriorated and massive impairments on its commercial and mortgage loan books led to a reduction of EBS's capital.

(21) Since 1 July 2011, EBS has been a fully owned subsidiary of AIB. It offers mainly mortgage and deposit services on the Irish market. EBS continues to operate under its own brand name.

2.1.3 The Bank (AIB and EBS merged)

(22) The result of the PCAR/PLAR exercise[15], carried out under the Economic Adjustment Programme for Ireland ("the Programme")[16] and announced on 31 March 2011, identified a capital need for AIB of EUR 13,3 billion and for EBS of EUR 1,5 billion (for both institutions the figure combines common equity[17] and contingent capital[18]).

(23) Under the terms of the Programme, the participating credit institutions had to prepare recapitalisation plans to comply with the additional capital specified by the PCAR/PLAR and the required amount of capital had to be in place by the end of July 2011.

(24) On 31 March 2011, the Irish Minister for Finance announced the restructuring of the whole Irish banking sector. It was decided to merge AIB and EBS; the thus newly created Bank was to become a pillar bank of the reformed Irish banking landscape.

(25) On 26 May 2011, the Minister, AIB and EBS signed an acquisition agreement providing for the acquisition by AIB of EBS (following its conversion into a private company and receipt of all requisite regulatory approvals). Under the terms of this agreement, EBS is a fully owned subsidiary and benefits from AIB's full support while continuing to operate under the EBS brand. The merger of the two entities involved the demutualisation of EBS and its conversion into a fully licensed bank, followed by the acquisition by AIB of its share capital for a nominal consideration. Following merger control clearance on 27 June 2011, the merger was completed on 1 July 2011.

(26) As of 15 July 2011, 99,8% of the Bank's share capital is held by the Irish State.

(27) The Bank is positioned as a full-service bank, primarily focused on Ireland and offering a wide range of banking products and services through an extensive distribution network. The Bank has a limited overseas presence in Great Britain. In the latter part of 2012 AIB commenced organising its internal structure to a more customer centric model comprising the following key segments: Domestic Core Bank, AIB UK and Financial Solutions Group (“FSG"). Reporting on this new segment basis commenced in 2013.

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[15] Prudential Capital Assessment Review and Prudential Liquidity Assessment Review. Described in detail in recitals (25) to (31) of Commission Decision in Case SA.33296.

[16] The Economic Adjustment Programme for Ireland was formally agreed in December 2010. It included a joint financing package of EUR 85 billion and covered the period 2010 to 2013.

[17] Capital instruments meeting the requirements of Articles 28, 29 and 31 of Regulation (EU) N° 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) N°648/2012, OJ L321, 30.11.2013, p. 6.

[18] Contingent capital is debt that converts into equity when certain triggers are met.

(28) The *Domestic Core Bank* operates through a range of delivery channels comprising 274 branches[19]. The branch network is under restructuring and the closure of a number of branches is on-going. The Bank also provides banking services through the national post offices. EBS is managed within the Domestic Core Bank structure. It maintains its own banking licence and operates as a separately branded subsidiary retaining its own branch network. Its focus is on the mortgage and deposit business.

(29) *AIB UK* operates in Great Britain and Northern Ireland. In Great Britain, the Bank operates under the trading name Allied Irish Bank (GB) and offers a full banking service through 20 full service branches as well as online banking. The main target markets are SMEs. Under the brand Allied Irish Bank (GB) Savings Direct, the Bank also provides deposit services.[20] In Northern Ireland, AIB UK operates under the trading name First Trust Bank ("FTB") and through 32 branches. A full banking service is offered to business and individuals.

(30) *The Financial Solutions Group* was established in 2012 to assist SME and personal customers facing difficulties in complying with their loan commitments and to execute the Bank's asset deleveraging plan.

(31) Today, the Bank is one of the three large domestic banks in Ireland, together with BoI and Permanent TSB ("PTSB"). The Bank's total assets amounted to EUR 118 billion at 31 December 2013 compared to BoI's total assets of EUR 132 billion and PTSB's total assets of EUR 38 billion at 31 December 2013. The Bank is a diversified financial services group which offers a full range of personal and corporate banking services with an emphasis on the Irish retail banking market. The Bank has a particularly strong presence in the SME segment.

Table 1: The Bank – Selected Financial Data 2013

	31/12/2013
Total assets (EUR)	118bn
Loans and receivables to customers (EUR)	66bn
Operating profit / loss before provisions (EUR)	0,445bn
Customer deposits (EUR)	66bn
Loan to deposit ratio (%)	100%
Risk weighted assets (EUR)	62bn
Core Tier 1 Ratio (%)	14,3%
Total staff (Full Time Equivalent)	11 431

Source: The Bank's restructuring plan, September 2012; AIB 2013 Annual Report

Table 2: The Bank's positioning in SME, personal, mortgage and savings markets

	Market shares
SME main current account	40%
Personal main current account	37%
Mortgage sector- outstanding balances	31%
Savings market (AIB and EBS combined)	40%

Source: Complementary submission of March 2014; market shares pertain to December 2013.

2.2 The difficulties of AIB and EBS

(32) AIB's need for State aid was the result of the impact of the global financial crisis, combined with AIB's excessive growth, strong reliance on wholesale funding, its exposure to the Irish property market and inadequate risk management.

[19] 200 branches for AIB and 74 branches for EBS as per December 2013.

[20] In February 2011, customer deposits previously held by Anglo Irish Bank were transferred to Allied Irish Bank (GB) which now provides deposit service to approximately 60,000 mass market customers in Great Britain.

(33) In the years preceding the financial crisis, AIB decided to keep pace with the unprecedented growth in the Irish economy and in the Irish property sector. On an absolute basis, AIB's property and construction loans increased by 336% between 2002 and 2006 and its exposure to this sector rose from 19% in 2002 to 36% in 2008. In pursuit of volume and in the absence of funding constraints, the bank took excessive risks in terms of exposure (i.e. concentration on the property and construction sector), but also in terms of the types of mortgages offered (i.e. tracker mortgages[21]).

(34) The deterioration of the Irish property market, the subsequent falls in property prices as well as the slowdown of the Irish economy as of 2008, led to a significant deterioration of AIB's asset quality and considerable impairments of its loan book, which reduced the bank's capital cushion.

(35) To fund its rapid expansion, the bank increased its dependence on wholesale funding from around 35% in 2004 to 42% in 2006, while the ratio of the loans to deposits ("LDR") increased from 101% in 2002 to 157% in 2007.

(36) Following the collapse of Lehman Brothers Holdings Inc. in September 2008, the turbulence in the global financial markets limited AIB's access to funding (as with other Irish banks) and affected its ability to continue normal operations. Hence, the State intervened in a first step by providing funding guarantees. In an environment of increased cost of funding (i.e. high deposit pricing and guarantee fees) and a significantly decreased European Central Bank ("ECB") base rate[22], the bank's tracker mortgages (about 45% of AIB's 2011 mortgage loan book) resulted in a substantially reduced net interest margin ("NIM") for the Bank.

(37) The material deterioration of AIB's financial position led it to participate in all the support measures put in place by the Irish State to safeguard the financial stability in the country. In addition to the State guarantees, AIB received State capital injections and benefitted from asset transfers to the National Asset Management Agency ("NAMA")[23] to clean up its balance sheet.

(38) Similarly, the financial crisis impacted EBS's financial position, in particular as a consequence of the sharp reduction in property values in Ireland. Prior to that crisis, EBS had built up a considerable loan book in the segment of commercial property lending.

(39) EBS had to take large impairments on its commercial and mortgage loan books. EBS's access to funding gradually deteriorated and ultimately reached a complete shutdown. Consequently, due to its vulnerable position, EBS was forced to make demands on the State's support measures. EBS needed funding guarantees, asset transfers to NAMA and capital injections.

[21] Tracker mortgages are a type of variable rate mortgages. The mortgage interest rate tracks the European Central Bank base rate at a set margin above it.

[22] The ECB rate which was at 4,25% in July 2008 went down to 1% in May 2009.

[23] See Commission Decision in Case N 725/2009, *Establishment of a National Asset Management Agency (NAMA)*, OJ C 94, 14.4.2010, p. 10.

2.3 The aid measures

(40) Due to the difficulties faced by AIB and EBS, the State had to provide considerable support to AIB and EBS individually, as well as to the Bank (the merged entity).

(41) On an individual basis, both AIB and EBS were granted guarantees on liability instruments under the Credit Institutions Financial Support ("CIFS") scheme[24] and the Eligible Liability Guarantee ("ELG") scheme[25] respectively, and asset relief measures consisting of the transfer of bad assets to NAMA.

(42) In addition, AIB and EBS received repeated capital support[26].

(43) Moreover, the State granted guarantees on Emergency Liquidity Assistance provided by the Central Bank of Ireland.

(44) The Bank continued to benefit from the ELG scheme and was recapitalised in July 2011[27] through an equity placing, a capital contribution[28] and contingent capital notes.

(45) The Bank's combined total recapitalisation measures (including preference shares and contingent capital instruments) amount to EUR 20,775 billion. As a result of the different capital injections, the Irish State, through the National Pension Reserve Fund Commission ("NPRFC"), owns 99,8% of the ordinary shares of the Bank.

(46) The NPRFC also holds preference shares in the amount of EUR 3,5 billion, which were originally injected into AIB in 2009 and approved by the Commission Decision in case N 241/2009.[29] Redemption/repurchase of those shares is at the discretion of the Bank. As of May 2014 (i.e. five years after injection), a step up of 25% will be applied to those shares and redemption will be at 125% of par value.

(47) Table 3 provides a summary of all aid measures granted to AIB, EBS and the Bank (the merged entity).

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24 See Commission Decision in Case NN 48/2008, *Guarantee Scheme for Banks in Ireland*, OJ C 312, 06.12.2008, p. 2.

25 See Commission Decision in Case N 349/2009, *Credit Institutions Eligible Liability Guarantee Scheme*, OJ C 72, 20.3.2010, p. 6, and its prolongations.

26 AIB: Commission Decision in Case N 241/2009, and Commission Decision in Case SA.31891 (N 533/2010) EBS: Commission Decision in Case N 160/2010.

27 Commission Decision in Case SA.33296, see footnote 10.

28 The capital contribution by the Minister for Finance and the National Pension Reserve Fund Commission amounted to EUR 6,1 billion; no new shares were issued and no consideration was given in return for this capital contribution.

29 Described in recitals (18) to (33) of Decision N 241/2009.

Table 3: Overview of aid measures granted to AIB, EBS and the Bank (merged entity AIB/EBS) *(amounts approved and actually granted differ in some cases)*

	Type of measure	Amount (in EUR bn)	Remuneration
	Measures in favour of AIB (standalone)		
a	Guarantees under the CIFS scheme (amount of guaranteed liabilities)	up to 133	In accordance with the CIFS scheme
b	Guarantees under the ELG scheme (amount of guaranteed liabilities)	up to 62,5	In accordance with the ELG scheme
c	Asset relief measure – transfers to NAMA	20,4 *(estimated aid amount = 1,6)*[1]	n.a. – average discount was approximately 56%
d	Recapitalisation in the form of preference shares, May 2009	3,5	8% p.a. or ordinary shares in lieu
e	Recapitalisation in the form of new equity capital, December 2010	3,7	
f	State guarantee on Emergency Liquidity Assistance ("ELA") until Q2 2011	[5-15]	
	Measures in favour of EBS		
g	Guarantees under the CIFS scheme (amount of guaranteed liabilities)	up to 14,4	In accordance with the CIFS scheme
h	Guarantees under the ELG scheme (amount of guaranteed liabilities)	up to 8,0	In accordance with the ELG scheme
i	Asset relief measure – transfers to NAMA	0,9 *(estimated aid amount =0,1)*[1]	n.a. – average discount was approximately 57%
j	Recapitalisation in the form of Special Investment Shares (SIS), May & December 2010	0,625	Can be remunerated through the pay-out of a dividend if there are sufficient distributable reserves
k	Recapitalisation through a direct grant in the form of a promissory note, December 2010	0,250	Not remunerated separately
l	State guarantee on ELA	[0-5]	
	Measures in favour of the Bank (the merged entity)		
m	Recapitalisation in the form of ordinary shares ("placing"), July 2011	5,0	
n	Recapitalisation in the form of contingent capital notes, July 2011	1,6	Fixed mandatory interest rate of 10% p.a.
o	Recapitalisation in the form of a capital contribution, July 2011	6,1	Nil consideration
	Combined total recapitalisation (d+e+j+k+m+n+o)	**20,775**	

Source: Irish authorities and restructuring plans for AIB and EBS and the Bank

[1] The aid amounts related to the impaired asset relief measures for both AIB and EBS are estimated amounts since the latest tranches of assets transferred to NAMA must yet be approved by the Commission. Those estimations are based on information provided by Ireland on 14 February 2013.

2.4 The individual restructuring plans

(48) In November 2009, the Irish authorities submitted a first restructuring plan for AIB which set out first proposals on how AIB should return to viability. Ireland submitted an updated version of the plan in May 2010 which, among other things, provided for further disposals (AIB's Polish, UK and US subsidiaries) to meet the new minimum regulatory capital requirements announced by the Financial Regulator under the PCAR in March 2010.

(49) The EBS restructuring plan, submitted on 31 May 2010, provided for an internal restructuring of EBS to ensure viability, combined with a quick sale to a third party. According to that plan, EBS would exit from commercial property lending and refocus its activities on retail savings and mortgage business. EBS would reduce its reliance on (short-term) wholesale funding and instead focus on retail deposits.

2.5 Restructuring measures already implemented by the Bank (AIB and EBS merged)

(50) The Bank has already implemented a wide range of restructuring measures before submitting the final version of the restructuring plan, with a view to achieving the aims of long-term viability, own contribution and burden sharing. Those measures comprise business divestments, asset deleveraging, Liability Management Exercises[30] and cost reduction actions, as follows[31]:

– *Business divestments* that have generated EUR 3,3 billion of Core Tier 1 Capital:

Sep 10	Sale of Goodbody Stockbrokers
Nov 10	Sale of 23,9% stake in M&T Corporation
Feb 11	Transfer of Anglo Irish Banks EUR 9 billion deposits to AIB
Apr 11	Sale of 70,36% stake in Polish BZWBK
Apr 11	Sale of 50,00% stake in Polish BZWBK Asset Management
May 11	Sale of 49,99% interest in Bulgarian American Credit Bank
Aug 11	Sale of AIB International Financial Services
Aug 11	Sale of AIB Jersey Trust
Jan 12	AIB announces decision to end joint venture with Aviva Life Holdings Ireland Ltd
Apr 12	AIB announces decision to cease operations in the Isle of Man and Jersey
Apr 12	Sale of business of AIB Baltics
Jun 12	Sale of AIB Investment Managers
Aug 12	Sale of interests in Polish property funds

– *Asset transfers* of EUR 21,3 billion to NAMA;

– *Asset deleveraging* arising from PLAR 2011 of EUR 20,5 billion (complete);

[30] Liability Management Exercises: buy back or conversion of subordinated debt into capital instruments (Common Equity Tier 1), usually at a discount. These exercises could also take the form of a reduction in the face value of the debt or an early redemption at other than face value.

[31] Situation as at 30 June 2013.

– *Liability Management Exercises / Debt Buy back* carried out in 2009, 2010 and 2011 respectively, contributed EUR 5,4 billion of Core Tier 1 Capital:

Jun 09	Tier 1 Hybrid buy back +EUR 1,1 billion capital contribution
Mar 10	Tier 2 bond buy back +EUR 0,4 billion capital contribution
Jan 11	Tier 2 bond buy back +EUR 1,5 billion capital contribution
Jul 11	Tier 1 and Tier 2 bond buy back +EUR 2,1 billion capital contribution
Jun 10–Feb 11	Series of EBS Tier 1 and 2 bond buy backs +EUR 0,3 billion capital contribution

– *Branch closures* (68 in Ireland, 22 EBS outlet closures, 22 AIB UK branches);

– *Early retirement & voluntary severance programme:* a reduction of +/- 2 877 FTE[32] at 31 December 2013, with further exits planned;

– *Complete replacement of Board and senior management* positions (as compared to the pre-September 2008 profile).

– *Refocus of business* on Ireland, offering corporate and retail banking services.

2.6 The restructuring plan for the Bank (AIB and EBS merged)

(51) On 28 September 2012, the Irish authorities submitted a restructuring plan for the Bank covering the period 2012 to 2015. The Irish authorities amended and supplemented that plan repeatedly, and the restructuring period was eventually fixed to comprise the years 2014 to 2017.

(52) The Irish authorities submitted a base scenario, an alternative base scenario based on more prudent assumptions, and an adverse scenario with the aim of demonstrating the Bank’s ability to achieve long-term viability.

(53) By the end of the restructuring period, the Bank plans to return to being a solid, profitable and well-funded institution with sound capital ratios and a more traditional business model. The plan sets out a business strategy that positions the Bank as a smaller full-service bank, primarily focused on Ireland, as compared to the internationally diversified financial services group that it used to be in pre-crisis times. The Bank’s operating structure is based on three points of focus – the Domestic Core Bank, AIB UK (the UK business comprising business in Great Britain and Northern Ireland), and the Financial Solutions Group, created in 2012.

(54) The main drivers of the Bank’s return to viability are:

(a) the re-orientation of the Bank into a smaller bank with an improved funding profile, primarily focused on Ireland;

(b) improved levels of profitability through NIM enhancement, cost reduction measures and significantly reduced impairment charges;

(c) a strong capital buffer.

[32] Full-time equivalent.

2.6.1 The Base Case

2.6.1.1 Macro-economic assumptions and key financial projections

(55) In the base case, it is assumed that Gross Domestic Product ("GDP") in Ireland will grow by 2,2% in 2014 and accelerate in 2015, 2016 and 2017 to 2,8%, 3,2% and 3,2% respectively. GDP in the United Kingdom is expected to grow by 1,9% in 2014, 2,1% in 2015, 2,5% in 2016 and 2,5% in 2017.

(56) Employment is expected to improve throughout the restructuring period, with an expected growth rate of 0,8% in 2014, 1,5% in 2015, 2% in 2016 and 2% in 2017.

(57) Housing and construction are expected to rebound from very depressed activity levels. House prices are forecasted to increase by 3% in 2014, by 3% in 2015, by 2.5% in 2016 and 2,5% in 2017.

(58) The restructuring plan of the Bank results in the following financial projections under the base case scenario:

Table 4: The Bank's financial results and financial projections under the base scenario

Key financial indicators	**2012 Actual**	**2013 Actual**	**2014 Plan**	**2015 Plan**	**2016 Plan**	**2017 Plan**
- Capital & Risk Weighted Assets ("RWAs")						
- Core Tier 1 ("CT1") ratio or Common Equity Tier 1 ("CET1") ratio (%)	15,2%	14,3%	[10-20%]	[10-20%]	[10-20%]	[10-20%]
- Capital buffer (€ m) vs. 8% CT1/CET1	5 133	3 934	[0-5000]	[5000-10000]	[5000-10000]	[5000-10000]
- RWAs (€m)	71 417	62 395	[55000-65000]	[55000-65000]	[55000-65000]	[55000-65000]
- Profitability						
- NIM – excluding ELG (%)	1,22%	1,37%	[1.5-2.25%]	[1.5-2.25%]	[1.5-2.25%]	[1.5-2.25%]
- Cost income ratio	123%	77%	[60-70%]	[50-60%]	[45-55%]	[45-55%]
- Profit after tax (€ m)	(3557)	(1597)	[0-750]	[0-750]	[250-1250]	[250-1250]
- Return on equity ("ROE")[33]	-37,0%	-21,5%	[0.5-10%]	[0.5-10%]	[5-15%]	[5-15%]
- Funding						
- LDR	115%	100%	[95-120%]	[95-120%]	[95-120%]	[95-120%]
- ECB reliance (% of total liabilities[34])	20%	12%	[10-20%]	[<10%]	[<10%]	[<10%]
- Others						
- Gross loans and advances to customers (€ m)	89 872	82 851	[70000-80000]	[65000-75000]	[65000-75000]	[65000-75000]
- Total Assets (€ m)	122 501	117 734	[100000-150000]	[100000-150000]	[100000-150000]	[100000-150000]
- FTE (number)	13 429	11 431	[10000-15000]	[8000-13000]	[8000-13000]	[8000-13000]

Source: The Bank's restructuring plan and complementary submission of 10 January 2014, AIB 2013 annual report

[33] ROE includes Preference Shares in average equity.

[34] Excluding equity

2.6.1.2 Main drivers of the Bank's return to viability

(i) *a smaller domestically focussed bank with an improved funding profile*

(59) Through important non-core asset deleveraging[35], the Bank aims to become a materially smaller institution when compared to the period preceding the financial crisis. The Bank has already completed important deleveraging through the disposal of several of its businesses, asset deleveraging and the transfer of "high-risk property" related assets to NAMA (EUR 21,3 billion), which has enabled it to reduce significantly the size of its balance sheet. AIB Group's total assets have reduced from EUR 136,7 billion at the end of 2011 to EUR 117,7 billion at 31 December 2013 (a 14% reduction)[36].

(60) This important deleveraging/downsizing programme undertaken by the Bank, combined with a growing customer deposit base (as from 2011), has contributed to improve the funding profile of the Bank. The proportion of customer deposits over the total source of funds (i.e. total liabilities[37]) improved from 49,7% at the end of 2011 to 61,2% at the end of 2013, while the LDR decreased from 138% at the end of 2011 to 100% at 31 December 2013.

(61) During the restructuring period, the Bank projects to further increase the proportion of customer deposits over the total source of its funds (i.e. total liabilities), while the proportion of ECB funding is expected to decrease significantly over the restructuring plan period, from 20% in 2012 to [<10%] in 2017 (i.e. a decrease of EUR 15-25 billion), as a combination of projected lower loan volumes[38], NAMA bond[39] redemptions and increased deposits by banks.

(62) The Bank is progressively regaining access to the wholesale market. In January and September 2013, the Bank issued two Mortgage Bank bonds of EUR 500 million each. In October 2013, the Bank issued a credit card securitisation for EUR 500 million, which was the first ever of its kind issued by an Irish bank. In November 2013, the Bank managed to place EUR 500 million of three year debt fully unsecured. This was the Bank’s first unguaranteed debt transaction since 2009. In March 2014 the Bank issued a EUR 500 million 7 year secured Asset Covered Securities bond. This is the longest dated benchmark public Asset Covered Securities bond by AIB since 2007.

(63) As regards forecasted liquidity ratios, considering the information available at this stage on the composition of the Liquidity Coverage Ratio ("LCR") which is still at a consultative stage at European Union level[40], the Bank forecasts a LCR ratio during the restructuring period well above the minimum requirements (see Table 5).

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35 The PLAR 2011 deleveraging targets of EUR 20,5 billion have been completed.

36 The reduction is even greater – amounting to 38% – if measured against 2009 figures, prior to AIB and EBS merger, where AIB's and EBS's total assets respectively amounted to EUR 174,3 billion and EUR 21,5 billion.

37 Excluding equity

38 The contraction of the loan portfolio results from write-offs and redemptions being jointly higher than the new production.

39 Bonds issued by NAMA in return for the (bad) assets transferred to it from the participating credit institutions. More particularly, the purchase price of the assets transferred to NAMA has been paid through the issuance by NAMA of State-guaranteed senior debt securities/bonds for 95% of the purchase price and the issuance of (non State-guaranteed) subordinated debt securities for 5%.

40 The projected LCR ratios consider the NAMA bonds held by the Bank as High Quality Liquid Assets, as proposed by the European Banking Authority in its report on liquidity measures of December 2013. The final composition of the Net Stable Funding Ratio will be discussed in the future.

Table 5: The Bank's liquidity ratios

Liquidity ratios	2014 Plan	2015 Plan	2016 Plan	2017 Plan
LCR	[75-150%]	[75-170%]	[75-170%]	[75-170%]
Minimum LCR included in Regulation 575/2013		60%	70%	80%
Net Stable Funding Ratio	[70-120%]	[70-120%]	[70-120%]	[70-120%]

Source: the Bank´s restructuring plan

(ii) *an improved level of profitability*

(64) The Bank projects to return to profitability in 2014, with a forecast profit after taxation of EUR [0-750] million, which will reach EUR [250-1250]–million in 2017. The return on equity ("ROE") is expected to be [0.5-10%] in 2014 and [5-15%]-in 2017. This will be achieved in the following way.

(65) First, the restructuring plan sets out a number of actions to drive the recovery of the NIM, excluding ELG costs, from 1,22% in 2012 to [1.5-2.25%] in 2017. Those actions comprise new lending of EUR [20-30] billion from 2014 to 2017 at higher interest rates, further improvement in the pricing of back-book[41] loans and a further reduction of the cost of deposit products until 2015 (see Table 6). Furthermore, the Bank's proportion of low yielding assets (i.e. tracker mortgages and NAMA bonds) compared to total assets is projected to decrease over the restructuring period from [20-30%] in 2014 to [10-20%] in 2017 as a result of the redemption of NAMA bonds and the amortisation of the tracker mortgage portfolio for which no new lending is planned.

Table 6: The Bank's forecasted evolution of average yields on assets and liabilities

Average yield	2013 Actual	2014 Plan	2015 Plan	2016 Plan	2017 Plan
Average yield - New lending	[3-7%]	[3-7%]	[3-7%]	[3-7%]	[3-7%]
Average yield - Back-book loans	[2-5%]	[2-5%]	[2-5%]	[2-5%]	[2-5%]
Average yield - Total loans	**2,74%**	[2-6%]	[2-6%]	[2-6%]	[2-6%]
Average yield – Deposits (including current accounts)	**-1,54%**	[-0.5 to-2.5%]	[-0.5 to-2.5%]	[-0.5 to-2.5%]	[-0.5 to-2.5%]

Source: The Bank's restructuring plan and complementary submission of 20 March 2014

(66) Second, the discontinuation of the ELG scheme as per 28 March 2013 will bring an improvement in the NIM after ELG costs since the guarantee fees paid to the State will be reduced. They amounted to EUR 0,4 billion in 2012 and are forecasted to be only EUR 8 million in 2017.

(67) Third, with a view to reaching sustainable pre-provision operating profits, the Bank plans a further reduction of its operating costs from EUR 1,8 billion in 2012 to EUR [1.0-1.5] billion in 2015 and to EUR [1.0-1.5] billion in 2017. The two key initiatives underpinning this projected reduction are the Retirement & Voluntary Severance Scheme and the pay and benefits review announced in 2012. In this respect, the Bank

[41] Existing loan portfolio as compared to new production.

projects a reduction of its staff of respectively [20-40]% by 2015 and of [20-40]% by 2017 as compared to 2012 levels, leading to a total decrease of [2000 to 5000] staff.

(68) Finally, concerning the operating profit after provision and before exceptional items, the Bank plans a sharp reduction in loan impairment charges, from EUR 2,5 billion in 2012 to EUR [0-0.5] billion in 2014 and EUR[0-0.5] billion in 2017, as the plan assumes an economic recovery in Ireland. AIB expects this recovery to result in a slowdown in new defaulted loans. The provision plan also envisages more effective credit management activities, reflected in the establishment of the Financial Solution Group, and the Mortgage Arrears Resolution Strategy[42] ("MARS") rollout. Those activities aim to improve the Bank's loans collection and restructuring effectiveness, thereby increasing the number of cured loans.

(iii) *Maintaining a strong capital buffer*

(69) The Bank expects to maintain a strong capital buffer during the restructuring period, through increased retained earnings and reduced Risk Weighted Assets (“RWAs”). The Bank plans to increase its profits, which it plans to fully retain, through the actions described in recitals (65) to (68). RWAs are expected to decrease by around EUR [5-10] billion from 2013 to 2016, basically as a result of the continued contraction of the loan book (including write-offs, restructured impaired loans and loan amortisation), new treatment of deferred tax assets ("DTAs")[43], and the Bank's planned deployment of (a) an Internal Ratings-Based ("IRB") approach to the EBS loan book and (b) updated IRB models for the AIB loan book.

(70) Furthermore, the Irish authorities have provided information that the CBI will reduce the minimum regulatory capital requirement[44] from 10,5% to […]% in the near term, which has the effect of increasing the Bank's capital buffer by EUR [0-5] billion in 2014, all other things remaining equal. The target of 10,5% that the CBI set in November 2010 in the context of the PCAR exercise will therefore no longer be relevant.

(71) Considering a minimum regulatory capital requirement of 8% Common Equity Tier 1 (“CET1”) throughout the period, the capital buffer of the Bank is forecasted to be EUR [0-5] billion in 2014 and around EUR [5-10] billion in 2017. With a capital threshold of 5,5%[45] the capital buffer would be EUR [5-10] billion in 2014.

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[42] The Bank’s MARS was launched in 2012 and followed consultations with the Irish Government and the Central Bank of Ireland concerning potential solutions to the issue of mortgage arrears. Under this strategy, the Bank provides new forbearance options for mortgage customers. The MARS programme is now fully operational with more than 300 specialist staff in place to engage with mortgage customers experiencing financial difficulty.

[43] As from 1 January 2014, under Basel III rules.

[44] For the purpose of this decision, "minimum regulatory capital" means the capital required by the CBI for the Irish banks.

[45] In the context of the Comprehensive Assessment currently being carried out by the European Central Bank and the European Banking Authority, a threshold of 5,5% of CET1 will be applied under an adverse scenario.

(72) In addition, the Bank has Contingent Capital Instruments[46] ("CoCos") of EUR 1,6 billion that could be converted into ordinary shares, if needed. Taking into account the CoCos, the capital buffer in 2014 would be EUR [5-10] billion with a minimum regulatory capital requirement of 8%, and EUR [5-10] billion with a 5,5% capital threshold.

(73) The figures provided for the CET1 in recitals (71) and (72) include the appropriate phased-in deduction of DTAs[47]. The Bank's recognized DTAs, arising from unused tax losses, amount to EUR 3,9 billion at 31 December 2013.

2.6.2 The alternative base scenario

(74) On 11 February 2014 the Bank submitted to the Commission an alternative base scenario (the "alternative base case") based on more prudent assumptions as compared to the base case scenario. The more prudent assumptions concerned the evolution of RWAs, the Balance Sheet Assessment (BSA) results[48], the volume of new lending, a different funding mix, higher cost of funds and higher provision charges as summarised in Table 7. As to the macro-economic assumptions underpinning this alternative base scenario, they are the same as those underpinning the base scenario described in recitals (55) and (56).

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[46] The Bank's outstanding Contingent Capital Instruments are immediately and mandatorily redeemable and will convert to ordinary shares in the event that the Core Tier 1 capital ratio (respectively the CET1 Ratio after the CRD IV implementation date) falls below the trigger ratio of 8,25%. CRD IV package (Capital Requirements Directive and Regulation), OJ L 176, 27.6.2013, p.1

[47] The new rules under CRD IV package will, inter alia, require the Bank to deduct from its CET1 the value of most of its deferred tax assets, including all deferred tax assets arising from unused tax losses. The deduction from CET1 is to be phased-in evenly over ten years.

[48] The CBI conducted a BSA exercise of the credit institutions subject to the PCAR (AIB, BoI and PTSB) in 2013. The requirement to complete such an assessment was agreed with the International Monetary Fund, the Commission and the European Central Bank as part of the Programme. This exercise, which is a point in time exercise as it did not take into account future earnings or losses not yet realised, aims at re-estimating provisions and RWAs to assess the banks' capital adequacy at June 2013.

Table 7: Alternative Base Scenario: main changes in the assumptions as compared to the base scenario

Variable	Alternative base scenario (change as compared to the base scenario)
RWAs	Includes the results of the BSA and ignores, for prudency reasons, the impact of the planned deployment of both new and updated IRB models, still needed to be approved by the CBI[49]. As a result of those two changes, RWAs have increased by EUR [3-8] billion, EUR [3-8] billion, EUR [3-8] billion and EUR [3-8] billion, as compared to the base scenario for the years 2014, 2015, 2016 and 2017 respectively.
Provisions for loan impairment	Includes the results of the BSA exercise fully. The BSA exercise identified an additional provisioning need of EUR 1,1 billion, of which only EUR […] billion were reflected under the base scenario. This means that the provisions are EUR […] billion higher under the alternative base scenario than in the base scenario in 2013, and- reflects a more linear decrease towards pre-crisis level. This implied an additional provision charge of EUR [500-1000] million in 2014, EUR [500-1000] million in 2015, EUR [0-500] million in 2016 and [0-500] million in 2017 as compared to the base scenario.
New lending	Considers that new lending for the Commercial, Corporate and SME's portfolio for each forecasted year is limited to the forecasted GDP growth. This implies that the cumulated new production over the restructuring period is EUR [2-4] billion less than in the base scenario. (The new lending assumptions impacts RWAs by EUR [0-3] billion, EUR [0-3] billion, EUR [0-3] billion and EUR [0-3] billion for the years 2014, 2015, 2016 and 2017 respectively).
Funding mix	Includes a higher proportion (by 2% to 3%) of long term funding until 2016 as compared to the base scenario.
Cost of funds	Considers that the evolution of the cost of deposits for retail fix term accounts, SME and Corporate deposits follows more closely the evolution of the projected ECB base rate, as compared to the base scenario.

Source: The Bank´s restructuring plan and complementary submission of 11 February and 27 March 2014

(75) According to those more prudent assumptions, the Bank will not return to profitability before 2016, with a forecasted profit after tax of EUR [0-750] million, which will reach EUR [250-1250] million in 2017. ROE is expected to be [0.5-10]% in 2016 and [5-15]% in 2017.

(76) The Bank's capital buffer is forecast to be around EUR [2-6] billion in 2014 and EUR [2-6] billion in 2017 considering an 8% minimum regulatory capital requirement. Taking into account the CoCos, the capital buffer in 2014 would be EUR [3-8] billion with 8% capital requirements (and EUR [3-8] billion with 5,5% capital threshold).

[49] See recital (69).

Table 8: The Bank's financial projections under the alternative base scenario

Key financial indicators	2014 Plan	2015 Plan	2016 Plan	2017 Plan
- Capital & RWAs				
- CT1 ratio or CET1 ratio (%)	[10-20%]	[10-20%]	[10-20%]	[10-20%]
- Capital buffer (€ m) vs. 8% CT1/CET1	[2000-6000]	[2000-6000]	[2000-6000]	[2000-6000]
- Capital buffer (€ m) vs. 8% CT1/CET1 including the conversion of CoCos	[3000-8000]	[3000-8000]	[3000-8000]	[3000-8000]
- RWAs (€ m)	[55000-65000]	[55000-65000]	[55000-65000]	[50000-60000]
- Profitability				
- NIM – excluding ELG costs (%)	[1.5-2.25%]	[1.5-2.25%]	[1.5-2.25%]	[1.5-2.25%]
- Cost income ratio	[60-70%]	[60-70%]	[50-60%]	[45-55%]
- Profit after tax (€ m)	[€-ve 0-750]	[€-ve 0-750]	[0-750]	[250-1250]
- ROE	[Not meaningful]	[Not meaningful]	[0.5-10%]	[5 - 15%]
- Funding				
- LDR	[95-120%]	[95-120%]	[95-120%]	[95-120%]
- Others				
- Gross loans and advances to customers (€m)	[70000-80000]	[65000-75000]	[65000-75000]	[65000-75000]
- Total Assets (€m)	[100000-150000]	[100000-150000]	[100000-150000]	[100000-150000]

Source: The Bank restructuring plan and complementary submission of 11 February and 27 March 2014

2.6.3 The adverse case

(77) In the adverse case submitted by the Bank, GDP in Ireland is expected to grow by 1% in 2014, 1,5% in 2015, 2,2% in 2016 and 2,2% in 2017. The employment growth is delayed until 2015, when it is expected to grow by 0,5%, 1% in 2016 and 1% in 2017. House prices are forecasted to increase by 1,2% in 2014, and by 1,7% in 2015 by 1,9% in 2016 and by 1,9% in 2017. GDP in the UK is expected to increase by 0,8% in 2014, by 1% in 2015, by 1,5% in 2016 and by 1,5% in 2017.

(78) The adverse case is based on more severe macro-economic assumptions as compared to both the base scenario and the alternative base scenario. Nevertheless, the alternative base scenario leads to lower profitability and a lower capital buffer as compared to the adverse scenario because the assumptions underpinning the Bank's financial projections regarding the evolution of its business are more severe in the alternative base case than in the adverse scenario.

(79) The Bank's operating income in the adverse case is forecasted to increase from EUR [1-3] billion in 2014 to EUR [1-3] billion in 2017. Operating profit before provisions is projected to increase from EUR [0-1] billion in 2014 to EUR [0.75-1.75] billion in 2017. In the adverse case, the Bank is expected to return to profitability in [2014-2016], with a profit before tax of EUR [0-750] million.

(80) The cost income ratio is forecasted to improve from [60-70]% in 2014 to [45-55]% in 2017.

(81) In the adverse case, the Bank's CET1 ratios are forecasted to be at [10-20]% in 2014, [10-20]% in 2015, [10-20]% in 2016 and [10-20]% in 2017. This would mean a capital buffer of EUR [3-8] billion in 2014, EUR [3-8] billion in 2015, EUR [3-8]

billion in 2016 and EUR [3-8] billion in 2017, considering a minimum regulatory capital requirement of 8%.

2.7 Repayment schedule

(82) Prior to the end of the restructuring period, the Bank will start to repay the State Aid via the payment of dividends or other means, provided that it has at least 1-4% surplus capital above the regulatory minimum CET1 ratio (on a Basel III fully implemented basis) as set by the CBI on 31 December 2016. The repaid amount will equal the surplus above the regulatory minimum CET1 ratio plus 1-4%.

(83) To facilitate this repayment, the Bank will not take any steps that would lead to a capital outflow prior to […] unless […].

(84) The Bank retains the options to partially or fully convert the NPRFC Preference Shares at par up to 13 May 2014 and thereafter at 125% of the subscription price, in advance of, or as part of an exit (or partial exit) event which arises for the State involving the private sector.

(85) In principle, the Bank can dispose of the State's CoCos at any time. However, Ireland has given the commitment that the Bank will not redeem the CoCos until after the results of the Asset Quality Review/Stress Test ("AQR/ST")[50], performed by the ECB and the European Banking Authority ("EBA") have been made public, and subject to regulatory approval.

2.8 Commitments proposed by Ireland

(86) The Irish authorities have given a number of commitments that will be observed by the Bank during the restructuring period. Those commitments relate to:

- restructuring of the mortgages and SME loan portfolios
  - Meeting quantitative restructuring targets for restructuring/proposing sustainable solutions;
  - The optimal restructuring option will be based on Net Present Value maximisation;
- New lending to […] is limited to […] in […] and […]. New lending may exceed the limits provided the aggregate closing gross loan balance does not exceed […] at the end of […] and […] at the end of […], respectively.
- the repayment of the State Aid (through dividends if the capital ratio of the bank exceeds the minimum regulatory capital requirement plus 1-4%, as of 2016),
- the contingent capital notes (CoCos, EUR 1,6 billion) will not be redeemed before the results of the AQR/ST become known,
- a cost reduction of EUR [200-600] million by 2015 as compared to 2012, and a cost income ratio of [45-65]% or [50-70]%, respectively, if GDP growth is below 2%,
- the limitation of exposure to Irish Sovereign bonds to EUR [10-20] billion,
- behavioural commitments on limiting acquisitions, marketing and advertising

[50] Comprehensive Assessment, performed by the European Central Bank and the European Banking Authority, including an Asset Quality Review and Stress Test of major European banks. Results are expected for October 2014.

and sponsorship in Ireland, dividend ban, coupon ban on existing instruments;

– measures to enhance competition in the Irish banking market ("market opening measures", comprising a services package and a customer mobility package),

– the appointment of a monitoring trustee to watch over the respect of those commitments.

(87) Ireland has undertaken to ensure that the restructuring plan submitted on 28 September 2012, as supplemented, is implemented in full, including the commitments set out in detail in the Annex.

3 THE OPENING DECISION REGARDING EBS

(88) On 31 May 2010, the Irish authorities submitted a restructuring plan for EBS. The Commission initiated an in-depth investigation because it had doubts on the compatibility of that restructuring plan with the internal market. In particular, the Commission expressed doubts as to whether:

(i) the restructuring plan was apt to restore EBS's long-term viability;

(ii) the aid was limited to the minimum necessary;

(iii) sufficient measures limiting distortions of competition existed.

(89) The Commission noted that the financial forecasting in the restructuring plan was inconsistent and lacked sufficient information on the macroeconomic assumptions under the adverse case scenario. In addition, the Commission doubted the assumptions underlying the calculations of EBS as to the evolution of mortgage lending in Ireland in the medium-term. The Commission also sought additional clarification as to the assumptions of EBS as regards the corporate deposit market. The Commission took the view that the EBS restructuring plan underestimated the level of impairment of mortgage loans for the specified period, and lacked a thorough analysis with regard to impairments on commercial loan book in run-off. Finally, the Commission expressed doubts concerning the calculation of EBS's cost income ratio and the cost of wholesale funding in the medium-term.

(90) Regarding the limitation of aid to the minimum, the Commission observed that it had insufficient information to conclude whether that requirement would be fulfilled, given the discrepancy between the objective of the recapitalisation and the forecasts of the restructuring plan which set out that EBS would largely exceed the minimum regulatory capital requirement.

(91) Finally, the Commission expressed doubts whether the measures to limit distortions of competition set out in the plan were sufficient. Specifically, the Commission criticised that the proposed balance sheet reduction was far less substantial than the Commission would normally have expected from a bank having received such a high amount of aid, both in absolute terms and in terms of risk weighted assets.

(92) The Commission received comments from EBS, who provided additional elements to support the restructuring plan. In addition, two interested parties submitted comments which largely confirmed the Commission's doubts as to the adequacy of the proposed measures to address distortions of competition and burden sharing. Ireland did not provide any comments.

(93) In July 2011, EBS merged with AIB and became a fully integrated subsidiary of the Bank. As a result, EBS ceased to exist on a standalone basis. Therefore, the Opening

Decision, which related to EBS as a standalone entity, became nugatory and the Commission decided not pursue the procedure any further. Moreover, since the comments submitted by EBS and the two interested parties relate to measures to address distortions of competition and burden sharing under a restructuring plan submitted for EBS which will no longer be implemented, those comments are not relevant as regards the restructuring plan submitted for the Bank (AIB and EBS merged), so that there is no reason for the Commission to examine them in the present decision. Instead, in Section 5.2 of this Decision the Commission examines the compatibility of the aid measures originally granted in favour of EBS, along with the measures originally granted in favour of AIB and those granted in favour of the Bank, in light of the restructuring plan submitted for the Bank, including the viability of the Bank, the limitation of the aid to the minimum, and the appropriateness of the measures to limit distortions of competition.

4 POSITION OF THE IRISH AUTHORITIES

(94) Ireland accepts that the measures constitute State aid and is of the view that the measures are compatible with the internal market on the basis of Article 107(3)(b) of the Treaty as they are necessary to remedy a serious disturbance in the Irish economy.

(95) As described in Section 2.7 of this Decision, Ireland has given a series of commitments, which are set out in detail in the Annex.

5 ASSESSMENT

5.1 Existence of State aid

(96) The Commission must first assess whether the measures granted to the beneficiaries constitute State aid within the meaning of Article 107(1) of the Treaty. According to that provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

(97) The qualification of a measure as State aid requires the following conditions to be met: (i) the measure must be financed through State resources; (ii) it must grant an advantage upon its recipient; (iii) that advantage must be selective; and (iv) the measure must distort or threaten to distort competition and have the potential to affect trade between Member States. Those conditions being cumulative, they must all be present before a measure is characterised as State aid.

(98) The Commission has already established in previous decisions[51] that the conditions set out in Article 107(1) of the Treaty are met for all restructuring aid measures listed in Table 3 and that those measures therefore constitute aid within the meaning of that provision. The Commission maintains that view and notes that the total aid amount of the recapitalisation and impaired asset measures has been calculated at EUR 22,475 billion. That amount comprises recapitalisations for AIB and EBS and the merged entity of EUR 20,775 billion and impaired asset measures for AIB and

[51] For recapitalisation measures see: Commission Decision in case N 160/2010, recitals (40) to (47); Commission Decision in case N 241/2009, recitals (43) to (48); Commission Decision in case SA.31891 (N 553/2010), recitals (59) to (65) and Commission Decision in case SA.33296, recitals (54) to (60). In addition, the Commission has established in prior decisions that support granted under the CIFS and ELG schemes as well as under NAMA constitute State aid (see recitals (37) and (41)).

EBS of EUR 1,7 billion (estimated amount). Moreover, the Commission has taken into account guarantees in favour of AIB and EBS[52].

(99) In addition, the Commission considers that the redemption of the 2009 Preference Shares (before or after the step up) and the subsequent reinjection of the same amount in the form of ordinary shares do not constitute new aid. The Commission has already approved that measure in the Commission Decisions in cases N 241/2009 and SA.32891 (N 553/2010).

5.2 Compatibility

5.2.1 Application of Article 107(3)(b) of the Treaty

(100) Article 107(3)(b) of the Treaty sets out that State aid can be regarded as compatible with the internal market where it is granted to "*remedy a serious disturbance in the economy of a Member State*".

(101) Despite a slow economic recovery which was observed since 2013, the Commission still considers that the requirements for State aid to be approved pursuant to Article 107(3)(b) of the Treaty continue to be fulfilled in view of the persisting stress in financial markets. In July 2013, the Commission confirmed that view by adopting the Communication on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis[53].

(102) The CBI has already confirmed on earlier occasions that the Bank has systemic importance for the financial market in Ireland[54]. Without the restructuring aid measures granted, the supervisory authority might have closed the Bank, or AIB and EBS pre-merger, due to a breach of minimum regulatory capital requirements.

5.2.2 Compatibility assessment

(103) All measures identified as State aid have been provided in the context of the restructuring of the Bank (the merged entity). The Restructuring Communication sets out the rules applicable to the granting of restructuring aid to financial institutions in the current crisis. According to the Restructuring Communication, to be compatible with the internal market under Article 107(3)(b) of the Treaty, the restructuring of a financial institution in the context of the current financial crisis has to (i) lead to the restoration of the viability of the bank, (ii) include sufficient own contribution by the beneficiary (burden-sharing) and ensure that the aid is limited to the minimum necessary and (iii) contain sufficient measures limiting the distortion of competition.

(104) For its compatibility assessment, the Commission has based itself on the alternative base scenario proposed by the Bank, which relies on more prudent assumptions than the base scenario.

Restoration of long-term viability

(105) As the Commission has indicated in the Restructuring Communication, the Member State needs to provide a comprehensive restructuring plan which shows how the long-term viability of the entity will be restored without State aid within a reasonable period of time and within a maximum of five years. According to point 13 of the Restructuring Communication, long-term viability is achieved when a bank is able to

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[52] See *Table 3* for the respective amounts under the CIFS and ELG schemes.

[53] OJ C 216, 30.7.2013, p. 1 (see in particular point 6).

[54] Letter from the Governor of the Central Bank of Ireland to the Minister for Finance on 19 November 2010.

compete in the marketplace for capital on its own merits in compliance with the relevant regulatory requirements. For a bank to do so, it must be able to cover all its costs and provide an appropriate return on equity, taking into account the risk profile of the bank. Point 14 of the Restructuring Communication stipulates that long-term viability requires that any State aid received is either redeemed over time or is remunerated according to normal market conditions, thereby ensuring that any form of additional State aid is terminated.

(106) The Irish authorities have submitted a restructuring plan which sets out the Bank's strategy to return to viability without further State aid by focusing on (i) the re-orientation of the Bank into a smaller institution, focused on Ireland, with an improved funding profile; (ii) improved levels of profitability through NIM enhancement, cost reductions measures and gradually reduced impairment charges; and (iii) maintaining a strong capital buffer.

(i) ***a smaller institution, focused on Ireland, with an improved funding profile***

(107) The Bank has already undertaken far-reaching restructuring measures which led to a considerably smaller balance sheet as compared to pre-crisis levels, which were the result of uncontrolled growth (EUR 118 billion in 2013 compared to EUR 136,7 billion in 2011[55]). The reduction was notably achieved through foreign business disposals, transfers of "high-risk property" assets to NAMA and other asset deleveraging[56]. As a result, the Bank's current exposure to the property and construction sector has been reduced and is expected to further decrease in relative terms until the end of the restructuring period. The Commission considers that the new strategy is prudent and appropriate in a post-crisis environment. The Bank has given a commitment to limit lending to […] to underpin its more prudent business strategy.

(108) The Bank is also strengthening its return to a more conservative traditional banking model where it will substantially fund its loan portfolio through customer deposits with a projected LDR below [95-120]% at the end of the restructuring period under the alternative base scenario. That target is the result of the ambitious and well-achieved deleveraging plan and relatively prudent assumptions regarding the evolution of the volume of deposits. The Commission notes positively that the Bank projects not to be overly dependent on wholesale funding and institutional funding sources, such as ECB funding, according to the alternative base scenario.

(ii) ***improved levels of profitability***

(109) With regard to the return to profitability, the plan sets out an appropriate mix of planned actions. New lending will be granted at higher interest rates. In addition, the pricing of (back-book) loans and deposits will be improved where possible. These measures, together with the discontinuation of the ELG scheme guarantee fees, will enable the Bank to progressively drive the recovery of its NIM.

(110) Furthermore, the Bank's planned actions, notably the staff severance programme[57] and the pay and benefits review, which aim at reducing its operating costs (by EUR [200-600] million by 2015 as compared to 2012 levels) will enable it to reach a more

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55 The size of the balance sheet reduction is even greater when looking at the 2009 balance sheet sizes of AIB and EBS pre-merger. Together, the two institutions had assets exceeding EUR 195 billion in 2009.

56 See Section 2.5 of this Decision.

57 Early retirement & voluntary severance programme.

sustainable operating cost base in light of the Bank's prospects/ability to generate revenue. Those actions, combined with the planned increase in income, will help the Bank to significantly improve its cost income ratio (forecasted at [45-55]% in 2017 as compared to 123% in 2012). In that respect, the Commission welcomes the commitment given by Ireland on the reduction of the Bank's operating costs by EUR [200-600] million by 2015 as compared to 2012 and the commitment that the cost income ratio will not exceed [45-65]% (unless GDP growth is below 2%, in which event the cost income ratio will not exceed [50-70]%).

(111) The Bank forecasts progressively decreasing impairment charges over the restructuring period under the alternative base scenario. This decreasing trend is considered appropriate given that (i) the expected economic recovery in Ireland should slowdown the pace of new defaulted loans, (ii) the projected increase in house prices should limit loss severity on mortgage loans and (iii) the Bank's strengthened credit management activities[58] should accelerate/improve loans collections and loans restructuring. In that respect, the Commission welcomes the commitment given by Ireland in relation to the Bank's qualitative and quantitative restructuring targets relating to the SME and mortgage loan portfolio.

(112) Under the alternative base scenario, the Bank will not return to profitability before 2016. Notwithstanding the impact of impairment charges, the Bank's profitability is structurally weak due to a large legacy portfolio of low-yielding assets (tracker mortgages and NAMA bonds). As a result, the ROE will remain low until the end of the restructuring period, reaching only [5-15]% in 2017. The Commission considers nevertheless that the Bank is on the right path to reach more competing ROE levels/profitability in the future, as the new lending with higher margins and the re-priced (back-book) loans will progressively compensate the drag on profitability stemming from those low-yielding legacy assets. Therefore, profitability is expected to gradually improve.

(iii) ***a strong capital buffer***

(113) Finally, the Commission notes positively that the Bank is a well-capitalised institution which has a comfortable capital buffer up until the end of the restructuring period. Under the alternative base scenario, the Bank will maintain a capital buffer of EUR [2-6] billion in 2017 with a minimum regulatory capital requirement of 8% (and EUR [3-8] billion with a 5,5% threshold), which would enable the Bank to absorb further losses if the economic recovery of Ireland is lower than forecasted. Furthermore, the Bank has EUR 1,6 billion of CoCos available to strengthen its capital base if needed. In this respect, Ireland has given the commitment that the Bank will not redeem the CoCos until the results of the AQR/ST have been made public.

(114) The Commission takes note that the Bank plans to redeem the 2009 Preference shares[59] before the end of the restructuring period. Until 13 May 2014, redemption is at par, and after that date a step up of 25% will be applied. It is envisaged that the amount of the Preference Shares would be redeemed to the State, who would immediately reinvest the same amount in the form of equity (ordinary shares) in the Bank. As a consequence, there will be no change to the size of the Bank's balance sheet. However, the Bank's capital structure will be improved in light of the new

[58] As described in recital (68)
[59] See recital (46).

Basel III rules[60]. Moreover, the State's stake in the Bank will increase marginally from its current level of 99,8% as a consequence of that operation.

(iv) ***conclusion***

(115) The initiatives already undertaken by AIB (i.e. deleveraging, cost reductions, improved funding profile) combined with those planned throughout the restructuring period in order to restore its profitability (i.e. new lending at higher price/ re-pricing of back-book loans and deposits, further staff related cost reductions and strengthened credit management activities[61]) are appropriate regarding the nature of the Bank's financial difficulties[62].

(116) Accordingly, the restructuring plan convincingly sets out the right strategy for the Bank's return to long-term viability. The combination of the actions described above appears apt to ensure the Bank's future viability without further State support.

(117) However, the Bank's return to profitability might be protracted until the end of the restructuring period due to the Bank's low-yielding legacy assets. Therefore, the Bank's ROE, under the alternative base case scenario, remains at a comparatively low level, even at the end of the restructuring period, but shows a moderate upward trend.

(118) Taking into account the above elements, the Commission concludes overall that the restructuring plan of the Bank convincingly sets out the path to restoring its long-term viability.

Limiting aid to the minimum: own contribution and burden sharing

(119) Section 3 of the Restructuring Communication indicates that an appropriate contribution by the beneficiary is necessary to limit the aid to a minimum and to address distortions of competition and moral hazard. To that end, it provides that (i) the amount of aid should be limited and (ii) a significant own contribution is necessary.

(120) The Restructuring Communication further provides that, to keep the aid limited to the minimum, the bank should first use its own resources to finance the restructuring. The costs associated with the restructuring should not only be borne by the State but also by those who invested in the bank. That objective is achieved in particular by absorbing losses with available capital.

(121) Quasi full burden sharing has been achieved from the former owners of AIB. Shareholders have been wiped out and the State currently owns 99,8% of the Bank. The Commission therefore considers that the amount of burden-sharing from the former owners is significant and adequate.

(122) With regard to subordinated debt holders, a series of Liability Management Exercises/Debt Buy Backs were carried out between 2009 and 2011, which have contributed EUR 5,4 billion of Core Tier 1 capital (buy back of Tier 1 and Tier 2 instruments). Currently, only a marginal amount of subordinated debt remains in the Bank (i.e. around EUR 34 million at 31 December 2012) […].Therefore, subordinated creditors have adequately contributed to bearing the restructuring costs.

[60] Preference shares will no longer count as CET1 capital as of 1 January 2018.
[61] As described in recital (68)
[62] See recitals (32) to (39).

(123) Moreover, the Bank has contributed significantly to bearing the restructuring cost by selling subsidiaries and participations[63]. By doing so, the Bank contributed EUR 3,3 billion of Core Tier 1 Capital to limit the aid to the minimum necessary.

(124) The Bank pays a fixed remuneration of 10% on the CoCos and 8% on the preference shares (in cash or through the issuance of new ordinary shares *in lieu*). In addition, a step up of 25% is applied on the preference shares if the Bank does not repurchase them up to 13 May 2014. The Commission considered that remuneration as appropriate, albeit at a low level, in the light of AIB's / the Bank's distressed situation[64].

(125) Considering the above, the Commission concludes that the Bank’s restructuring plan provides for appropriate own contribution and burden-sharing.

Measures limiting the distortions of competition

(126) Section 4 of the Restructuring Communication requires that the restructuring plan contains measures limiting distortions of competition. Such measures should address the distortions on the markets where the beneficiary operates after restructuring. In the present case it needs to be ensured that potential new entrants can easily enter the concentrated Irish banking market to boost competition.

(127) The Bank commits to operate between July 2014 and June 2017 certain competition measures, namely the provision to relevant competitors[65] of a Services Package and a Customer Mobility Package.

(128) The Service Package aims at reducing the cost of entry or the cost of expansion of a competitor. In particular, the beneficiary of the Service Package will receive support for several back-up functions (such as clearing, treatment of paper transactions) at incremental cost by the Bank (costs directly incurred by the provision of that service), and may then decide to invest in its own infrastructure only at a later stage when its customer base is large enough to absorb fixed costs. That beneficiary will also access the Bank's ATM network at incremental cost, immediately offering a national coverage to its customers.

(129) The Customer Mobility Package will reduce the costs of customer acquisition for its beneficiaries. The beneficiaries will contact the Bank's customers, via the Bank, and will present them with alternative products for their current accounts, personal credit card products, business current accounts, business credit cards, mortgages and SME and corporate loans. Although it is difficult to predict how many customers of the Bank will decide to switch their banking products to the beneficiaries of the measure, this customer approach is more targeted and less costly than general advertising measures.

(130) The measures described above provide a framework to stimulate new entry on the Irish banking market and hence limit the distortions of competition caused by the aid granted to the Bank.

(131) In addition, the Commission views positively the commitments given by Ireland which relate to certain business restrictions during the restructuring period, in particular the cap on lending to […] in […] and […]. The acquisition ban will also

[63] See Section 2.5 of this Decision.

[64] See recitals (62) to (82) of the Commission Decision in case N 241/2009, and recitals (76) to (78) of the Commission Decision in case SA.33296.

[65] For the purpose of that commitment, "relevant competitor" is defined as a credit institution operating in Ireland which is not under a State aid restructuring period when requesting measures under the Services or Customer Mobility Package.

ensure that the State aid will not be used to take over competitors, but to serve its intended purpose, namely to finance the restructuring process. Moreover, the Bank will respect behavioural commitments relating to a ban on advertising and sponsorship[66].

Implementation and monitoring

(132) Finally, section 5 of the Restructuring Communication requires that detailed regular reports are made available to the Commission so that it can verify that the restructuring plan is being implemented properly.

(133) A monitoring trustee will be appointed who will provide regular reports to the Commission on the implementation of the restructuring plan by the Bank and the respect of the commitments given.

(134) Taking into account the commitments, the far-reaching restructuring measures already implemented by the Bank and in light of the appropriateness of the own contribution and burden-sharing as set out above, the Commission considers that there are sufficient safeguards to limit potential distortions of competition despite the high amount of aid granted to AIB and EBS before and after their merger.

5.3 Conclusion on the existence of aid and compatibility

(135) The measures "a" to "o" listed in Table 3 are considered to be restructuring aid within the meaning of Article 107(1) of the Treaty. In view of the commitments made by Ireland, the Commission concludes that the restructuring plan for the Bank is in line with the Restructuring Communication, the restructuring aid is limited to the minimum necessary and competition distortions are sufficiently addressed. The restructuring aid is thus compatible with the internal market pursuant to Article 107(3)(b) of the Treaty. Accordingly, the Commission,

HAS ADOPTED THIS DECISION:

Article 1

(1) The following measures constitute State aid pursuant to Article 107(1) of the Treaty:

- *Measures granted in favour of AIB*

(a) Guarantees under the CIFS scheme of up to EUR 133 billion;

(b) Guarantees under the ELG scheme of up to EUR 62,5 billion;

(c) An asset relief measure (transfers to NAMA of EUR 20,4 billion), constituting and estimated aid amount of EUR 1,6 billion;

(d) A recapitalisation in the form of preference shares in May 2009 for an amount of EUR 3,5 billion;

(e) A recapitalisation in the form of new equity capital in December 2010 for an amount of EUR 3,7 billion;

[66] See recital (86) and the Annex.

(f) A State guarantee on Emergency Liquidity Assistance until Q2 2011 for an amount of [5-15 billion].

- *Measures granted in favour of EBS*

(g) Guarantees under the CIFS scheme of up to EUR 14,4 billion;

(h) Guarantees under the ELG scheme of up to EUR 8,0 billion.

(i) An asset relief measure (transfers to NAMA of EUR 0,9 billion), constituting and estimated aid amount of EUR 0,1 billion;

(j) A recapitalisation in the form of Special Investment Shares in May and December 2010 for an amount of EUR 0,625 billion;

(k) A recapitalisation through a direct grant in the form of a promissory note in December 2010 for an amount of EUR 0,25 billion;

(l) A State guarantee on Emergency Liquidity Assistance for an amount of [0-5 billion]~~;~~

- *Measures granted in favour of the Bank (the merged entity)*

(m) A recapitalisation in the form of ordinary shares in July 2011 for an amount of EUR 5 billion;

(n) A recapitalisation in the form of contingent capital notes in July 2011 for an amount of EUR 1,6 billion;

(o) A recapitalisation in the form of a capital contribution in July 2011 for an amount of EUR 6,1 billion.

(2) The State aid referred to in paragraph 1 is compatible with the internal market in accordance with Article 107(3) of the Treaty in the light of the restructuring plan and the commitments set out in the Annex.

Article 2

Ireland shall ensure that the restructuring plan submitted on 28 September 2012, including the subsequent modifications made thereto, is implemented in full, including the commitments set out in the Annex.

Article 3

This Decision is addressed to Ireland.

Done at Brussels, 07.05.2014

For the Commission

Joaquín ALMUNIA
Vice-President

Notice

If this decision contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the publication of the full text of the decision on the Internet site:

http://ec.europa.eu/competition/elojade/isef/index.cfm

Your request specifying the confidential information should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Belgium

Fax No: +32-2-296 12 42

Annex

TERM SHEET – Case SA.29786 – Ireland – Restructuring of AIB

Ireland undertakes to ensure that the Restructuring Plan for AIB, submitted in September 2012, as amended and supplemented by written communications, is correctly and fully implemented. This document (the "Term Sheet") sets out the terms (the "Commitments") for the restructuring of AIB, which Ireland has committed to implement.

1. Definitions

In this document, unless the context requires otherwise, the singular shall include the plural (and vice versa) and the capitalised terms used herein have the following meanings:

1.1. "Acquisition" shall have the meaning ascribed to it in Clause 6.1 herein.

1.2. "AIB" means Allied Irish Banks, p.l.c., including its subsidiary and associated companies.

1.3. "Annual Operating Expenses" means the aggregate of (1) personnel expenses, (2) general and administrative expenses, and (3) depreciation, impairment and amortisation.

1.4. "Business Day" means a day between and including Monday to Friday but does not include any public holiday in Ireland.

1.5. "Capital Outflow" means the payment of dividends to the State on Ordinary Stock and the repurchase of Ordinary Stock from the State.

1.6. "Central Bank" means the Central Bank of Ireland.

1.7. "CIR" means Cost to Income Ratio, calculated as operating expenses divided by operating income.

1.8. "Clause" means a clause in this document only and such a clause forms part of the document. However, headings to Clauses are for convenience only and are not binding.

1.9. "Comprehensive Assessment" means the 2014 EU-wide stress test being undertaken by the European Central Bank and the European Banking Authority which will enhance the transparency of the balance sheets of significant banks, including AIB.

1.10. "Contingent Capital Instrument" means the contingent €1.6 billion Tier 2 debt instrument issued by AIB to the State and described in more detail in the Listing Particulars dated 27 October 2011.

1.11. "Customer Mobility Package" means the package of measures described in Clause 11.5 herein.

1.12. "Date of the Final Decision" means the day on which the European Commission adopts the Final Decision with regard to AIB's Restructuring Plan.

1.13. "Date of the Request" means the day on which a Relevant Competitor requests validly in writing to AIB in connection with the Customer Mobility package set out in Clause 11.5 herein.

1.14. "Distressed SME Portfolio" means a specific portfolio of SME Loans within AIB which are managed by AIB Financial Solutions Group as at 31 December 2012 and which are subject to resolution targets set by the Central Bank.

1.15. "EBS" means EBS Limited, including its subsidiary and associated companies.

1.16. "Final Decision" means the decision in which the European Commission takes a decision regarding the Restructuring Plan and all the State Aid granted to AIB and EBS before and after their merger.

1.17. “FRAND” means fair, reasonable and non-discriminatory.

1.18. “GDP” means the Gross Domestic Product of Ireland as reported by the Central Statistics Office of Ireland.

1.19. “Impaired” in relation to a loan means there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a ‘loss event’) and that loss event (or events) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

1.20. “Incremental Cost” means additional costs incurred by AIB as a direct consequence of the provision of services to Relevant Competitors in application of the Measures. In particular, Incremental Costs do not cover any fixed or variable costs that AIB would bear in the absence of the Measures.

1.21. “Ireland” or “State” means the Republic of Ireland and includes Irish governmental authorities from time to time including, without limitation, the Department of Foreign Affairs, the Department of Finance and the Central Bank.

1.22. "Late Arrears Loans" means loans where at least ninety days have passed since a contractually due payment was made in full and includes loans in the course of restructure where the original loan facility remains outside its original terms for more than 90 days. When a loan or exposure is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

1.23. “Mailing Date” shall have the meaning ascribed to it in Clause 11.5.2.2 herein.

1.24. “Market Share” means the proportion of the market, expressed in percentage terms, for (i) stock or (ii) flow, held by an undertaking in any particular market in Ireland (being a market for a Relevant Product) and as measured on a suitable practical basis by an independent external research source, including regulatory returns proposed by AIB and approved by the Monitoring Trustee (which approval shall not be unreasonably withheld) on a case by case basis before the Date of the Request.

1.25. “Marketing, Advertising and Sponsorship” means the promotion of the business (or part of the business) of AIB by means of communication such as television, radio, newsprint, internet and other similar means of communication.

1.26. “Material” shall have the meaning ascribed to it in Clause 11.5.1.4 herein.

1.27. “Measures” means the obligations imposed on AIB by virtue of the commitments made by Ireland in Clauses 3 to 11 herein.

1.28. “Monitoring Trustee” means one or more natural or legal person(s), independent from AIB who is approved by the European Commission and appointed by AIB, and who has the duty to monitor AIB’s compliance with the commitments attached to the Final Decision and whose role is more fully described in the Schedule hereto.

1.29. “Mortgages” means all loans secured on residential property in Ireland issued by a credit institution or building society where the purpose of the advance, typically, is to either finance the change of ownership of, or improvements to, the residential property on which the loan is secured but which may also include non-property related purposes. Any references to Mortgages include both owner occupier and buy-to-let property.

1.30. “NAMA” means the National Asset Management Agency established pursuant to the National Asset Management Agency Act 2009.

1.31. “Net Exposure” means in relation to a client, the gross lending exposure to that client less any provision made by AIB in respect of that client.

1.32. “Notification Date” shall mean the date on which AIB notifies the Relevant Competitor that the latter’s Material is to be mailed by AIB.

1.33. “NPRFC” means the National Pension Reserve Fund Commission.

1.34. “NPRFC Preference Shares” means the preference stock arising from the NPRFC Investment.

1.35. “NPRFC Investment” means the subscription by the NPRFC for €3.5 billion of preference stock in AIB and the issue of warrants for ordinary stock completed on 31 May 2009.

1.36. “Ordinary Stock” means the ordinary shares of €0.01 each in the capital of AIB.

1.37. […]

1.38. “Relevant Competitor” means an undertaking which at the Date of the Request (1) is licensed in Ireland or elsewhere to operate as a credit institution in Ireland; (2) is not in receipt of State Aid (i.e. banks which have received State Aid and which are still in the restructuring period are not considered "Relevant Competitors"; however, banks which have received State Aid but whose restructuring period has ended, are considered "Relevant Competitors"); and (3) has (by virtue of all related undertakings) a Market Share of less than 15% of stock or flow of the Relevant Product market in which AIB has a Market Share in excess of 30% of stock or flow of the Relevant Product market, based on a Market Share measurement by an independent external research source, including regulatory returns proposed by AIB and approved by the Monitoring Trustee.

1.39. “Relevant Product” means: (i) personal current accounts; (ii) personal credit cards; (iii) business current accounts; (iv) business credit cards, (v) Mortgages; and (vi) SME Loans and corporate loans.

1.40. “Restructuring Period” refers to the period from the Date of the Final Decision to 31 December 2017.

1.41. “Restructuring Plan” means the plan submitted by AIB to the European Commission, via Ireland, in September 2012, as amended and supplemented from time to time by written communications.

1.42. “Schedule” means a schedule to this document only and such a schedule forms part of the document. The Schedule is an integral part of the term sheet and equally binding.

1.43. “SME Loans” means all lending to any small and medium-sized enterprise as defined by the European Commission Recommendation of 6 May 2003 (OJ L 124, 20.5.2003, p.36) in Ireland engaged in an economic activity, irrespective of legal form (e.g. corporation, partnership, sole-trader), which employs fewer than 250 persons and whose annual turnover does not exceed €50 million or whose annual balance sheet does not exceed €43 million. Such lending includes secured and unsecured lending via term loans, commercial mortgage loans repayable over a defined period of up to 15 years and asset finance and commercial finance and invoice discounting, whether the interest rate for the loan concerned is variable, or a fixed margin over a specified reference interest rate, or an interest rate fixed for all or part of the term of the loan. Excluded from this definition is any lending to non-SME commercial entities, persons acting as consumers, “government” and "other financial” customer categories.

1.44. “State Aid” shall, for the purposes of this term sheet, have the meaning ascribed to it in Clause 2.1 herein.

1.45. “Valid Application” means an application made by an undertaking who is a Relevant Competitor who is, on the Date of the Request, a Relevant Competitor for a service contained in Clause 11.5 herein and which sets out in reasonable detail sufficient information to enable AIB to provide the service.

2. Basis of the Measures

2.1. The Measures set out below are conditional on the European Commission (the "Commission") adopting a Final Decision that the State aid received by EBS and AIB comprising the State aid element of Ireland's 2008 and 2009 bank guarantee schemes, the recapitalisations by Ireland of EBS as described in the Rescue Decision N 160/2010 dated 2 June 2010, and of AIB as described in the Rescue Decisions N 241/2009 dated 12 May 2009, N 553/2010 dated 21 December 2010 and SA.33296 dated 15 July 2011, relating thereto and the State aid provided to EBS and AIB as a result of NAMA (all such aid is referred to herein as "State Aid") are compatible with the internal market in accordance with Articles 107 to 109 of the Treaty on the Functioning of the European Union.

2.2. AIB shall use all reasonable endeavours to comply with the obligations imposed on it as a result of the Measures arising out of the commitments made by Ireland (including seeking and receiving all necessary approvals).

2.3. In relation to AIB's obligation to implement these Measures, AIB shall not be obliged to breach any of its legal obligations. In case of a conflict between an obligation arising from a Measure in this term sheet and AIB's legal obligations, AIB will inform the Monitoring Trustee and will undertake to propose an alternative solution that will enable AIB to fulfil its obligations. The Monitoring Trustee, in consultation with the Commission, will verify whether the proposed solution is in line with the commitments in the term sheet and AIB's legal obligations.

3. Commitment to the Restructuring of Loan Portfolio

3.1. Ireland commits that AIB will achieve the following loan restructuring targets (percentages quoted in this Clause 3 are a percentage of the drawn euro balance for each sector) for Mortgages and SME Loans agreed as part of the EU – IMF Programme:

3.1.1. by 31 December 2014, [80-100]%[67] of the Distressed SME Portfolio will have been restructured (meaning there has been formal communication by AIB with the customer of the revised arrangement (e.g., a revised loan agreement/term sheet) or where legal proceedings have been initiated); and

3.1.2. by 30 June 2014, sustainable solutions will have been proposed by AIB for 75% of Mortgages which are Late Arrears Loans, and solutions will have been concluded with customers for 35% of Mortgages which are Late Arrears Loans.

3.2. Ireland commits that AIB will engage with customers in respect of the other loan portfolios that are managed by AIB's Financial Solutions Group, and will propose sustainable solutions for [50-100] % of these loans by 31 December 2014.

3.3. Commencing 3 months after the Date of the Final Decision until the end of the Restructuring Period, Ireland commits that the methodology to be adopted by AIB to assess which restructuring solution is the most appropriate for SME Loans, loans to corporates and commercial real estate loans which are Impaired and/or which are Late Arrears Loans, will be based on economic and commercial criteria and is outlined as follows:

3.3.1. Where the Net Exposure to the client exceeds € [2.5-10] m, a Net Present Value ("NPV") analysis of the restructuring options will be conducted, with the objective of maximising the NPV for AIB but also ensuring that the viability of

[67] Central Bank target. Subject to change by Central Bank.

the SME or corporate is not endangered as a result, and if the solution chosen does not have the highest NPV, it must be based on verifiable economic and commercial criteria and the decision will require approval by the appropriate AIB Credit Committee.

3.3.2. Where the Net Exposure to the client does not exceed € [2.5-10]m, Ireland commits that AIB will effectively and consistently implement guidelines to assist decision makers on the proper means of assessing the appropriate restructuring option for both viable and non-viable customers.

4. Commitment to the limitation of lending to […]

4.1. Ireland commits that AIB will target an aggregate 'new lending' limit to […] of […] in […] and […] in […] respectively.

4.2. At AIB's sole discretion, new lending may exceed the limits to […] referred to in Clause 4.1, provided that the aggregate closing gross loan balance to […] does not exceed […] at end […] and […] billion at end […] respectively.

5. Commitment to Marketing, Advertising and Sponsorship in Ireland

5.1. Ireland commits that AIB will cap the nominal level of its expenditure externally on Marketing, Advertising and Sponsorship in Ireland at the same level as it was for its financial year ended 31 December 2012 until the end of the Restructuring Period (i.e., […] million for each year).

5.2. During the Restructuring Period, Ireland commits that AIB will not refer in its advertising campaign to any State support enjoyed by AIB, nor take any measure that might reasonably be deemed an aggressive commercial practice.

5.3. The cap referred to in Clause 5.1 shall not apply to any: (a) expenditure required or recommended by any regulatory or governmental authority; and/or (b) expenditure related to any Measure herein; and/or (c) expenditure related to charities; and/or (d) initiative reasonably necessary to advise customers and others of issues such as fraud, criminal acts (e.g., forged banknotes or bank robberies, changes in terms and conditions in products) or greater exposure to risk.

6. Commitment to making no Acquisitions and accepting restrictions on the scope of AIB's business for a period of time

6.1. Ireland commits that from the Date of the Final Decision until the earlier of (a) the end of the Restructuring Period; and (b) the date by which the NPRFC Preference Shares and the Contingent Capital Instrument shall have been repaid in full or are no longer owned by Ireland, AIB will not for any reason whatsoever, acquire any stake in any undertaking (meaning an undertaking which has the legal form of a company or package of assets which form a business) (an "Acquisition") subject to the exceptions set out at Clause 6.2.

6.2. AIB may make such an Acquisition:

6.2.1. with the prior written consent of the Commission, such consent to be granted on the basis that the Acquisition is deemed necessary in exceptional circumstances to restore financial stability or to ensure effective competition;

6.2.2. where the purchase price for that Acquisition (excluding the assumption of debt) paid by AIB is less than 0.01% of AIB's total assets at the Date of the Final Decision and the cumulative purchase price for all Acquisitions made during the Restructuring

Period (excluding the assumption of debt) paid by AIB, is less than 0.025% of AIB's total assets at the Date of the Final Decision; or

6.2.3. where the Acquisition takes place in the ordinary course of the banking business in the management of existing claims towards ailing firms.

7. Commitments in respect of payments on capital instruments

7.1. Ireland commits that AIB will not make discretionary payments of coupons or exercise voluntary call options on capital instruments during the Restructuring Period, unless:

7.1.1. the Commission provides consent to the payment or call option;

7.1.2. the coupon payment is paid to the State (provided that such payments would not trigger coupon payments to other investors that otherwise would not be mandatory); or

7.1.3. the payment arises under a newly issued instrument (meaning instruments issued on or after the Date of the Final Decision), provided that any payment of coupons on such newly issued instruments does not create a legal obligation to make any coupon payments on AIB's securities existing prior to the Date of the Final Decision.

8. Commitment to Cost Reduction

8.1. Ireland commits that AIB will actively manage costs so that at 31 December 2015, AIB's:

8.1.1. Annual Operating Expenses will not exceed € […] million, which is € [200-600] million less than the 2012 equivalent figure reported in the financial reports; and

8.1.2. CIR will not exceed [45-65]%, unless the GDP growth is below 2% at that time, in which event its CIR will not exceed [50-70]%.

9. Commitment in respect of AIB exposure to Irish Sovereign

9.1. Ireland commits that the value of Irish Sovereign bonds held by AIB, excluding those bonds issued by NAMA, shall not exceed € billion [10-20] at any point in time during the Restructuring Period.

10. Commitment to Repayment of State Aid

10.1. Ireland commits that AIB will repay the State Aid prior to the end of the Restructuring Period via the payment of dividends or other means, in such amount equal to the surplus regulatory capital above the minimum CET1 ratio (on a Basel III fully implemented basis) as set by the Central Bank (plus a buffer of [1-4%]) at 31 December 2016.

10.2. Ireland and AIB acknowledge that the commitment set out at Clause 10.1 is subject to receipt of all regulatory and other approvals.

10.3. To facilitate the repayment set out at Clause 10.1, Ireland commits that AIB shall not take any steps that would lead to a Capital Outflow prior to […] unless […].

10.4. Without prejudice to Clauses 10.1 to 10.3, Ireland and AIB retain the options to:

10.4.1. partially or fully convert the NPRFC Preference Shares to equity at par up to 13 May 2014 and thereafter at 125% of the subscription price, in advance of, or as part of an exit (or part exit) event arising for the State involving the private sector; and

10.4.2. dispose of the State's Contingent Capital Instrument at any time, notwithstanding that AIB will not have an option to redeem the State's Contingent Capital Instrument until after the Comprehensive Assessment, subject to regulatory approval.

11. Commitments to operate certain competition measures

11.1. Commencing on 1 July 2014 for a period of three years, Ireland commits that AIB will operate certain competition measures, namely, the provision to Relevant Competitors of: (a) a Services Package; and (b) a Customer Mobility Package.

11.2. Ireland commits that AIB will contribute €500,000 per annum for a period of three years commencing on 1 July 2014 to a public awareness campaign (such campaign to be facilitated by Ireland through an appropriate state body) to raise awareness and promote customer switching.

11.3. Any dispute between AIB and a Relevant Competitor relating to this Clause 11 will be referred by AIB and the Relevant Competitor to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter for resolution to the Commission, whose decision shall be binding.

Services Package

11.4. Ireland commits that AIB will operate a Services Package for Relevant Competitors who seek to avail of such package.

11.4.1. AIB shall provide, on FRAND terms and on terms which recoup AIB's Incremental Costs (including the relevant cost of capital and cost of capital means the cost of AIB's funds (e.g., debt and equity) to support this business), to Relevant Competitors:

11.4.1.1. access to Ireland's bank clearing system (both servicing paper and electronic transactions);

11.4.1.2. debit card access to any automated teller machine network in Ireland of which AIB is a member;

11.4.1.3. access to market intelligence (e.g., rate of default of customers generally and macro/micro-economic data generally) but such access shall be subject to compliance with all laws, codes and practices including, without limitation, those relating to data protection, confidentiality, intellectual property, contract and competition;

11.4.1.4. access to cash supply and distribution services; and

11.4.1.5. foreign exchange supply and distribution services.

11.4.2. AIB will give due consideration to all reasonable requests from a Relevant Competitor via the Monitoring Trustee for a change in the services to be provided under Clause 11.4.1. For the avoidance of doubt, the provision of such services shall be in compliance with all applicable laws, codes and practices generally (including, without limitation, the EU's Payment Services Directive) and AIB shall only be obliged to provide such services as are within its control and power.

Customer Mobility Package

11.5. Ireland commits that AIB will provide a Customer Mobility Package for Relevant Competitors who seek to avail of such package.

11.5.1. The Customer Mobility Package will enable a Relevant Competitor to have its advertising material relating to a Relevant Product mailed to AIB's customers provided that all of the following conditions in this Clause 11.5.1 are satisfied in full:

11.5.1.1. AIB has received a Valid Application from the Relevant Competitor;

11.5.1.2. the Relevant Competitor qualifies as a Relevant Competitor on the Date of the Request;

11.5.1.3. AIB has Market Share of more than 30% in respect of that Relevant Product as at the Date of the Request;

11.5.1.4. the Relevant Competitor will reimburse AIB on commercial terms for all costs directly involved with mailing the Relevant Competitor's material concerning the Relevant Product ("Material") to AIB customers (including, where relevant, printing, packaging and posting such material). Relevant Competitors will be responsible for all costs involved with the production of the relevant materials, delivery and related costs of the same to AIB and the cost of mailing. The costs of customer selection in relation to the Customer Mobility Package will be borne by AIB. Other costs not directly involved with mailing the Relevant Competitor's Material to AIB customers will be borne by AIB;

11.5.1.5. the Relevant Competitor takes full responsibility for the lawfulness, accuracy and appropriateness of the Material and provides to AIB in advance a written indemnity from and against all and any loss or damage caused or suffered by AIB in connection with the mailing. For the avoidance of doubt, AIB shall not be obliged to review the Materials, and AIB shall bear no responsibility or liability whatsoever for the Material distributed pursuant to this Measure or the fulfilment of this Measure generally; if there is any dispute in this regard between AIB and the Relevant Competitor then it will be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution; and

11.5.1.6. sufficient copies of the Material to be distributed hereunder shall be received by AIB from the Relevant Competitor by 17:00 five clear Business Days prior to the Mailing Date and the Material shall comply in all respects with all applicable laws, codes and practices. Any dispute shall be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution.

11.5.2. The following shall apply to the mailing undertaken by AIB:

11.5.2.1. The mailings will be divided over six periods of six months, the first period starting on the date which is 3 months after the Date of the Final Decision. During these periods, Relevant Competitors may submit an application for a mailing to AIB. Each Relevant Competitor is allowed to approach AIB once in each six month mailing period.

11.5.2.2. For each six month mailing period, the mailings shall be made on 3 predetermined dates (the "Mailing Dates") taking into account the interest of the Relevant Competitors and the mailing schedule of AIB, provided that the Date of the Request by the Relevant Competitors is a reasonable number of days before the Mailing Dates to enable AIB to prepare for such voluminous mailings respectively for each of the Mailing Dates (and such requests to be received by AIB no later than 17.00 (Dublin time) on the relevant Date of the Request). AIB will ensure that the Mailing Dates are made public on AIB's website in advance, in order to allow interested Relevant Competitors a reasonable time to prepare an application. Any dispute shall be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution.

11.5.2.3. For the purposes of the mailing, AIB shall randomly select, at the request of the Relevant Competitor, up to one-third of its customer base for each mailing taking place in the first six month mailing period; such customer base being AIB's customers for the Relevant Product to be advertised by the Relevant Competitor in that mailing, limited solely to those AIB customers who have provided their consent to receive marketing information from AIB. AIB will select a different third of its customer base in the second six month mailing period and the final third of its customer base in the third period. The same process will be repeated in the successive 3 six month mailing periods. The Monitoring Trustee will verify the selection of the customers by AIB. At the request of the Relevant Competitor, the number of customers contacted during a six month mailing period may be reduced, on the basis of filtering criteria that can be easily implemented by AIB (meaning the instruments necessary to conduct this filtering are readily available to AIB, or are easily computable in AIB). In accordance with Irish data protection law, no customer shall be sent material where the customer has not given consent to AIB to receive similar AIB materials.

11.5.2.4. In the interests of ensuring that consumers are not inundated unreasonably with advertising literature and in order to maximise the chances of the Material supplied by Relevant Competitors being read, the Material of no more than two Relevant Competitors per Relevant Product will be mailed on each Mailing Date by AIB in each of the six month mailing periods as part of this Measure.

11.5.2.5. For the avoidance of doubt, the unused mailing opportunities shall be forfeited and not carried forward.

11.5.3. The mailing will be managed, processed and completed by AIB (or its agent) on behalf of, and for the account of, the Relevant Competitor without any input or involvement of the Relevant Competitor. For the avoidance of doubt, the Relevant Competitor shall not have access to the names and addresses or other details of AIB's customer base.

11.5.4. AIB shall be obliged to send Material on behalf of no more than two Relevant Competitors per Relevant Product on each Mailing Date and those two Relevant Competitors per Relevant Product shall be selected in the order in which they apply to AIB or, in the event of more than two Relevant Competitors per Relevant Product applying simultaneously for each Mailing Date, then the two Relevant Competitors per Relevant Product will be selected by lot by the Monitoring Trustee. In order for an application to be valid, the Relevant Competitor must qualify as a Relevant Competitor on the Date of the Request and have satisfied all of the conditions set out in Clause 11.5.1. AIB will notify the Relevant Competitor in writing whether it has been successful in its application and that its Material is going to be mailed by AIB.

11.5.5. A Relevant Competitor may request Material to be mailed in respect of one or more Relevant Products but no other products. Furthermore, the Relevant Competitor may point out the possibility for customers to fully or partially switch their banking relationship and make general references to other banking products. A request will be otherwise valid notwithstanding that it has requested the benefit of this Customer Mobility Measure where AIB has less than 30% Market Share in relation to a Relevant Product provided the request also seeks a mailing in respect of those Relevant Products where AIB has a Market Share of more than 30%. If the marketing materials received from the Relevant Competitor include materials for products other than the Relevant Products (except for general references to fully or partly switching their banking relationship and general references to other banking products), then AIB shall not be obliged to mail such materials but will notify the Relevant Competitor of its decision, where practicable and possible, in a timely manner to afford the Relevant Competitor the opportunity to re-submit amended materials. Any dispute in this regard shall be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution. AIB will be under no obligation to mail the resubmitted materials unless they are received by 17:00 five clear Business Days prior to the Mailing Date and provided that such resubmitted materials are in compliance with the terms of this Clause 11.5.5.

11.5.6. For each Relevant Product subject to a mailing, AIB commits:

11.5.6.1. not to contact a customer with advertising literature relating to that Relevant Product where that customer has been one selected for contact and has been contacted on behalf of a Relevant Competitor, during the six months following such contact on behalf of the Relevant Competitor;

11.5.6.2. not to contact that customer for an additional one year with advertising literature relating to that Relevant Product, if such a customer switches to the Relevant Competitor under this Measure and AIB knows that such a customer has switched; and

11.5.6.3. not to contact that customer during the additional one year referred to in Clause 11.5.6.2 with any advertising literature which is specifically designed to recapture customers to the Relevant Product switched.

11.5.7. For the avoidance of doubt, AIB shall remain free to contact such customers for regulatory reasons and as part of any initiative reasonably necessary to advise customers and others of issues such as fraud, criminal acts (e.g. forged banknotes or bank robberies, changes in terms and conditions in products) or greater exposure to risk.

11.5.8. AIB commits that in case an AIB customer pursuant to the mailing of the Materials of the Relevant Competitor decides to switch part or all of its business (including both Relevant Products and other products) to the Relevant Competitor, AIB will not impede the switching in any way, nor charge any (penal) switching fees unless required by law or legal obligation or which are part of AIB’s product terms and conditions.

11.5.9. In case there is reasonable doubt regarding the Market Share of a Relevant Competitor the Relevant Competitor in question shall provide, on a strictly confidential basis, to the Monitoring Trustee such information, as may reasonably be required by the Monitoring Trustee to establish the Relevant Competitor’s market share in the Relevant Product market, failing which, the Relevant Competitor shall not be entitled to avail of the Customer Mobility Package for that Relevant Product.

SCHEDULE: Monitoring Trustee

In this Schedule, the capitalised terms have the same meaning as provided in Clause 1 above.

I - Appointment Procedure

1. Ireland commits that AIB will appoint a Monitoring Trustee to carry out the functions specified in the commitments for a Monitoring Trustee.

2. The Monitoring Trustee shall be independent of AIB, possess the necessary qualifications to carry out its mandate, for example as an investment bank or consultant or auditor, and shall neither have nor become exposed to a conflict of interest. The Monitoring Trustee shall be remunerated by AIB in a way that does not impede the independent and effective fulfilment of its mandate.

II - Proposal by AIB

3. Ireland commits that no later than two weeks after the Date of the Final Decision, AIB will submit a list of two or more persons whom AIB proposes to appoint as the Monitoring Trustee to the Commission for approval, with an indication which of those is AIB's preferred choice. The proposal shall contain sufficient information for the Commission to verify that the proposed Monitoring Trustee fulfils the requirements set out in paragraph 2 and shall include:

   (a) the full terms of the proposed mandate, which shall include all provisions necessary to enable the Monitoring Trustee to fulfill its duties under these commitments; and

   (b) the outline of a work plan which describes how the Monitoring Trustee intends to carry out its assigned tasks.

III - Approval or rejection by the Commission

4. The Commission shall have the discretion to approve or reject the proposed Monitoring Trustees and to approve the proposed mandate subject to any modifications it deems necessary for the Monitoring Trustee to fulfil its obligations. If only one name is approved, AIB shall appoint or cause to be appointed, the individual or institution concerned as Monitoring Trustee, in accordance with the mandate approved by the Commission. If more than one name is approved, AIB shall be free to choose the Monitoring Trustee to be appointed from among the names approved. The Monitoring Trustee shall be appointed within one week of the Commission’s approval, in accordance with the mandate approved by the Commission.

IV - New proposal by AIB

5. If all the proposed Monitoring Trustees are rejected, Ireland commits that AIB will submit the names of at least two more individuals or institutions within one week of being informed of the rejection, in accordance with the requirements and the procedure set out in paragraph 3.

V - Monitoring Trustee nominated by the Commission

6. If all further proposed Monitoring Trustees are rejected by the Commission, the Commission shall nominate a Monitoring Trustee, whom AIB shall appoint, or cause to be appointed, in accordance with a trustee mandate approved by the Commission.

VI - Functions of the Monitoring Trustee

7. The Monitoring Trustee shall assume its specified duties in order to ensure compliance with the commitments. The Commission may, on its own initiative or at the request of the Monitoring Trustee or AIB, give any orders or instructions to the Monitoring Trustee in order to ensure compliance with the commitments attached to the Final Decision.

VII - Duties and obligations of the Monitoring Trustee

8. The Monitoring Trustee shall:

   (a) propose in its first report to the Commission a detailed work plan describing how it intends to monitor compliance with the commitments attached to the Final Decision;

   (b) monitor the compliance with all the commitments of the Final Decision and with Clauses 3 to 11 of the Term Sheet;

   (c) assume the other functions assigned to the Monitoring Trustee under the commitments attached to the Final Decision;

   (d) propose to AIB such measures as the Monitoring Trustee considers necessary to ensure AIB's compliance with the commitments attached to the Final Decision; and

   (e) provide to the Commission, sending AIB a non-confidential copy at the same time, a written report within 15 days after the end of every quarter. The report shall cover the operation and management of Clauses 3 to 11 of the Term Sheet so that the Commission can assess whether the business is held in a manner consistent with the commitments. In addition to these reports, the Monitoring Trustee shall promptly report in writing to the Commission, sending AIB a non-confidential copy at the same time, if it concludes on reasonable grounds that AIB is failing to comply with the commitments assumed by Ireland.

VIII - Duties and obligations of AIB

9. Ireland commits that AIB will provide and cause its advisors to provide the Monitoring Trustee with all such cooperation, assistance and information as the Monitoring Trustee may reasonably require to perform its tasks. The Monitoring Trustee shall have full and complete access to any of AIB's books, records, documents, management or other personnel, facilities, sites and technical information necessary for fulfilling its duties under the commitments and AIB shall provide the Monitoring Trustee upon request with copies of any document. AIB shall make available to the Monitoring Trustee one or more offices on their premises and shall be available for meetings in order to provide the Monitoring Trustee with all information necessary for the performance of its tasks.

10. Ireland commits that AIB will provide the Monitoring Trustee with all managerial and administrative support that it may reasonably request.

11. Ireland commits that AIB will indemnify the Monitoring Trustee and its employees and agents (each an "***Indemnified Party***") and hold each Indemnified Party harmless against, and hereby agrees that an Indemnified Party shall have no liability to AIB for any liabilities arising out of the performance of the Monitoring Trustee's duties under the commitments, except to the extent that such liabilities result from the wilful default,

recklessness, gross negligence or bad faith of the Monitoring Trustee, its employees, agents or advisors.

12. At the expense of AIB, the Monitoring Trustee may appoint advisors (in particular for corporate finance or legal advice), subject to AIB's approval (this approval not to be unreasonably withheld or delayed) if the Monitoring Trustee considers the appointment of such advisors necessary or appropriate for the performance of its duties and obligations under the Mandate, provided that any fees and other expenses incurred by the Monitoring Trustee are reasonable. Should AIB refuse to approve the advisors proposed by the Monitoring Trustee the Commission may approve the appointment of such advisors instead, after having heard AIB. Only the Monitoring Trustee shall be entitled to issue instructions to the advisors.

IX - Replacement, discharge and reappointment of the Monitoring Trustee

13. If the Monitoring Trustee ceases to perform its functions under the commitments or for any other good cause, including the exposure of the Monitoring Trustee to a conflict of interest:

    (a) the Commission may, after hearing the Monitoring Trustee, require AIB to replace the Monitoring Trustee; or

    (b) AIB, with the prior approval of the Commission, may replace the Monitoring Trustee.

14. If the Monitoring Trustee is removed according to paragraph 13, the Monitoring Trustee may be required to continue in its function until a new Monitoring Trustee is in place to whom the Monitoring Trustee has effected a full hand over of all relevant information. The new Monitoring Trustee shall be appointed in accordance with the procedure referred to in paragraphs 3-6.

15. Beside the removal according to paragraph 13, the Monitoring Trustee shall cease to act as Monitoring Trustee only after the Commission has discharged it from its duties after all the commitments with which the Monitoring Trustee has been entrusted have been implemented. However, the Commission may at any time require the reappointment of the Monitoring Trustee if it subsequently appears that the relevant remedies might not have been fully and properly implemented.

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