

Questions and Answers

Review of Tracker Mortgages



1. Overview

What is the tracker mortgage review?



We are conducting a comprehensive review of customer mortgage accounts with regard to tracker rates. It is part of an industry wide review, required by the Central Bank of Ireland.

What has the review found?

The terms and conditions of your mortgage account (account number referred to in the enclosed letter) say that at the end of the fixed rate period, you have the option to choose between the then prevailing fixed, variable or tracker interest rates.

As AIB withdrew tracker interest rates in October 2008 and did not have a prevailing tracker interest rate between October 2008 and December 2013, our review found that we failed to have this rate type available when the fixed rate period on your account ended.

Tracker rates were withdrawn as this rate type would have been prohibitively expensive. Any prevailing tracker rate that existed during the period October 2008 and December 2013 would have been more expensive than the prevailing variable rates that were available to you during this period. As such, you did not suffer any financial detriment as a result of the prevailing tracker not being available during that period.

What exactly did my Terms and Conditions say?

Clause 3.2 of your Terms and Conditions outlined what would happen at the end of any fixed interest rate period. The clause reads as follows:

3.2 Further fixed interest rate options/choice

At the end of any fixed interest rate period, the customer may choose between:

- (a) a further fixed interest rate period, or
- (b) conversion to a variable interest rate Mortgage Loan, or
- (c) conversion to a tracker interest rate Mortgage Loan,

at the Bank's then prevailing rates appropriate to the Mortgage Loan. If the customer does not exercise this choice, then the Mortgage Loan will automatically convert to a variable interest rate Mortgage Loan.

How has this failure been addressed?

As you did not have the option of the prevailing tracker interest rate at the end of your fixed rate period (between October 2008 and December 2013), we are providing you with compensation for this failure.

If your account is still open, where appropriate, we are also offering you the option to switch to our current prevailing tracker margin of 3.32% for Private Dwelling Houses or 4.32% for Buy to Lets as at the date of the enclosed letter. This offer to switch to the tracker rate at this prevailing tracker margin is available for 12 months from the date of this letter. It will be applied from the date of conversion on a go forward basis.

1. Overview (cont.)

If during the 12 months, the bank reduces the prevailing tracker margin and you have not already switched, the lower prevailing tracker margin will be available to you for the remainder of the 12 months. Any increase to our prevailing tracker margin during the 12 month period will not affect the above offer.

AIB offers a range of mortgage products. The tracker rate may not be the lowest rate you can avail of.

Your mortgage interest rate appears on your account statements. If you wish to change to the relevant prevailing tracker

rate during the next 12 months, you can call us using the helpline phone number in your letter and we can provide you with details on how to proceed.

For more information on the option available, see Section 3: Switching to the prevailing tracker rate.

If I have more than one mortgage account, how do I know which one is affected?

A letter will issue for each affected account, and the relevant account number will be printed on each letter.

2. Compensation

What is Compensation?

Compensation is a payment made which is intended to compensate you for our failure.

What amount of compensation is being paid?

A total payment of €1,615 has been made per affected mortgage account. The payment is made up of €1,000 in compensation and €615 towards the cost of independent professional advice that you may wish to seek.

Where there is more than one party on an account, the payment has been split equally between all parties to the account. Therefore, each party will receive a compensation letter and a cheque for their portion of the payment.

What is the Independent Professional Advice payment?

This is an amount towards the cost of obtaining independent professional advice in relation to this matter. You have full discretion on how this is used.

Will I have a tax liability in respect of the compensation payment?

Revenue have confirmed to us that no tax liability will arise for you in respect of the compensation payment. We are engaging directly with Revenue to discharge any tax liabilities arising as a result of this failure. Whilst no tax liability will arise for you in receiving this compensation payment, the subsequent use of these funds may give rise to a tax liability for you.

3. Switching to the prevailing tracker rate

Why am I being offered the current prevailing tracker interest rate and what options do I have?

We withdrew tracker interest rates in October 2008. The financial crisis had deepened throughout 2008 which necessitated the Irish state guaranteeing the borrowings of Irish banks in September 2008. AIB withdrew trackers in October 2008 because it had become very apparent, by that point, that changes in AIB's cost of funding (i.e. the interest rate AIB paid to borrow money) was no longer related to the European Central Bank (ECB) rate (i.e. the rate that trackers were linked to).

AIB withdrew trackers for new business as any tracker rate it would have offered would have been prohibitively expensive. Therefore, if a prevailing tracker rate existed between October 2008 and December 2013, it would have been higher than our prevailing variable rates.

The unintended consequence of withdrawing trackers for new business in October 2008 was that customers, with Clause 3.2 of the Terms and Conditions (as set out in Section 1: Overview), did not have the choice of the then prevailing tracker rate when they rolled off their fixed rate. AIB

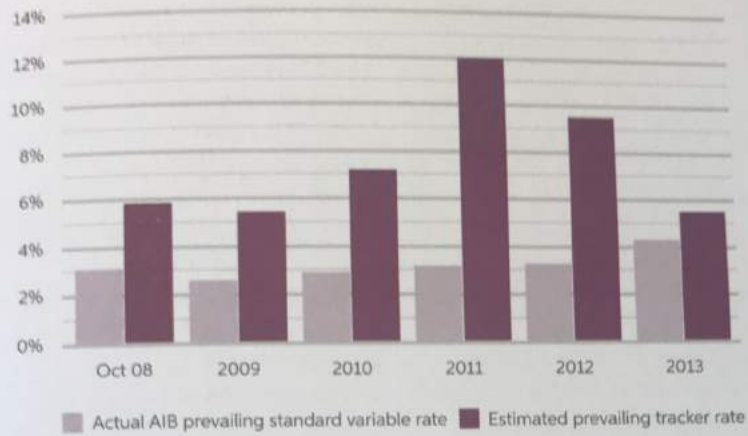
reintroduced the choice of a prevailing tracker rate in December 2013. The rate at the time was 5.16% for Private Dwelling House (PDH) loans and 6.16% for Buy to Let (BTL) loans (i.e. the ECB rate of 0.25% plus a prevailing margin of 4.91% for PDHs and 5.91% for BTLs).

During the period October 2008 to December 2013, it is estimated that the average tracker margin for PDHs would have been approximately 6.8% with the average annual margins ranging from 4% to over 10%. The resulting average tracker rate (i.e. the average ECB rate of 1.1% plus the average margin as above) would have been 7.9% for PDHs and 9% for BTLs.

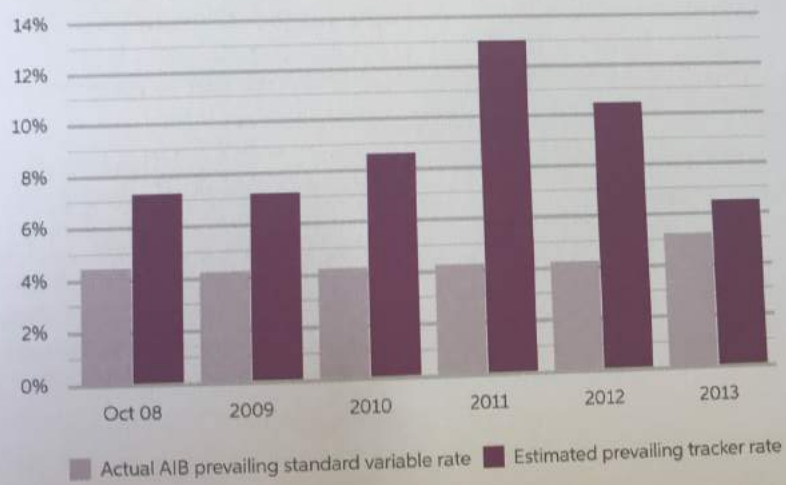
During this period, the actual average Standard Variable Rate was 3.3% for PDHs and 4.4% for BTLs and, in any given year, it would always have been significantly cheaper than the estimated tracker rate. As such, you did not suffer any financial detriment by not being offered the then prevailing tracker rate at the time you rolled off your fixed rate in the period between October 2008 and December 2013. The actual variable rates and estimated tracker rates are summarised in the following graphs:

3. Switching to the prevailing tracker rate (cont.)

Private Dwelling Houses



Buy to Lets



3. Switching to the prevailing tracker rate (cont.)

These estimations are based on applying the best available information to an international standard mortgage pricing model. This analysis has been independently reviewed by an international firm of financial market experts and their findings have, in turn, been reviewed by KPMG as part of the Tracker Mortgage Examination.

As we did not offer you a prevailing tracker interest rate at the end of your fixed rate period (during October 2008 to December 2013), we are giving you the option to switch to the current prevailing tracker rate now. That is, the prevailing European Central Bank interest rate on the main refinancing operations as set by the ECB (currently 0%) plus the prevailing margin as set by AIB (currently 3.32% for a PDH or 4.32% for a BTL property).

This offer to switch is available for 12 months from the date of this letter. It will be applied from the date of conversion on a go forward basis. If during the 12 months, the bank reduces the prevailing tracker margin and you have not already switched, the lower prevailing tracker margin will be available to you for the remainder of the 12 months. Any increase to our prevailing tracker margin during the 12 month period will not affect the above offer.

AIB offers a range of mortgage products. The tracker rate may not be the lowest rate you can avail of.

Your mortgage interest rate appears on your account statements. If you wish to change to the relevant prevailing tracker rate during the next 12 months, you can call us using the helpline phone number in your letter and we can provide you with details on how to proceed.

4. Mortgage Repayments

Can I use my compensation payment to reduce my mortgage?

Yes, you can lodge your cheque to your mortgage account, however, you are under no obligation to do so.

I am not sure I can afford my mortgage repayments. What should I do?

If you are worried about your mortgage repayments, the first step is to talk to us. Together we can work through what is happening and look at possible ways to help you.

Please get in touch with us using the contact details contained in your letter.

5. If you still have concerns about our review

How do I know you are carrying out this review correctly?

In line with the principles of the industry wide review required by the Central Bank, we have appointed KPMG as an independent third party to check through key aspects of our work.

I am appointing a Third Party Advisor to assist me. Can I give AIB permission to deal with this Advisor on my behalf?

Yes. We will need you to confirm in writing (through the approved "Third Party Advisor" form) that we can liaise with the Advisor in relation to the Tracker Mortgage Review. You can find this form on our website www.aib.ie or you can contact our helpline to request the form.

Who can I speak to if I have a question or wish to lodge a complaint?

If you have a question or wish to make a complaint, please contact us by using the contact details contained in your letter.

You can also refer your complaint to the Financial Services and Pensions Ombudsman (FSPO). The FSPO seeks to resolve complaints through mediation or through investigation and adjudication. Information about the services of the FSPO is available from www.fspo.ie

If you are not happy with the actions we have taken to correct our failure and how we have compensated you, you have the right to submit an appeal. For more information on the appeals process, see Section 6: Independent appeals process.

6. Independent appeals process

Do I have the right to appeal the compensation provided by AIB?

Yes, as stated in the compensation letter you have the right to appeal the action we have taken to correct our failure. You have the right to submit an appeal within 12 months of the date of this letter.

You may make an appeal while still retaining the compensation payment. Submitting an appeal does not affect your right to make a complaint to the Financial Services and Pensions Ombudsman or to pursue the matter through the Courts.

If your appeal is not upheld, you will still be entitled to retain the compensation payment.

You can submit an appeal within 12 months from the date on your compensation letter.

As part of the appeals process, you can include any additional material financial information which you would like to have considered.

After you submit your appeal, separate to the review conducted by the independent appeals panels, AIB will review the information provided by you as part of your appeal, to determine if you have furnished any additional material financial information which would have resulted in an improved

6. Independent appeals process (cont.)

compensation payment, had AIB been aware of it prior to making its initial compensation offer to you. AIB may then choose to make an improved payment based on this information and will do so prior to the independent appeals panel reaching a decision. In situations where AIB chooses to do so, your rights within the appeals process will not be affected.

If you are submitting new financial information, you will be asked to also provide relevant supporting documents within your appeals submission.

If you wish to obtain expert advice in relation to bringing an appeal you can recover reasonable costs of any such advice if the appeal is successful.

Who will hear my appeal?

All appeals will be heard by a fully independent appeals panel in accordance with the Terms of Reference and Procedural Rules of the appeals panel. The appeals panel members are independent from AIB and will include:

1. A legal panel member, a solicitor or barrister who will be the chair or head of the panel
2. A financial panel member, i.e. an accountant
3. A consumer voice representative.

How do I begin an appeal?

To request an appeals application pack, please contact the helpline number provided in your letter. This pack will give you more details about the overall appeals process.

Customers who decide to appeal will need to complete the appeals application pack and return it (together with any supporting documents relevant to their appeal) to the address set out in the form.

Once an appeal is submitted, all correspondence relating to the appeal will be presented to the appeals panel. The correspondence will also be presented to the appeals secretariat, which is an independent professional service firm, appointed to provide administrative support to the panel.

If I lodge the cheque you sent me can I still make an appeal?

Yes, lodging the cheque will not affect your right to make an appeal, to make a complaint to the Financial Services and Pensions Ombudsman and/or pursue this matter through the Courts.