Allied Irish Banks, p.l.c. Trading Update

16th June 2005

Allied Irish Banks, p.l.c. ("AIB") [NYSE:AIB] is issuing the following update on trading before its half year close period.

The half year to 30 June 2005 is the first time we will report under International Financial Reporting Standards (IFRS). For ease of comparison, the following information and related comments are attached to this update:

An audited restatement of 2004 Group profit and loss account and balance sheet. This reflects the IFRS standards which are required to be applied to 2004.

An unaudited proforma of 2004 profit and loss account. In addition to the above restatement, further standards (IAS 32, IAS 39, IFRS 4) will affect our 2005 results. Where practical and as elaborated on in the attachment to this update, the proforma is presented as if these standards had applied to 2004.

The impact of IFRS on our financial performance is less than that previously outlined at our briefing on 1st March. Proforma IFRS earnings per share (EPS) in 2004 are 127.1c (125.6c previously outlined).

The strong, consistent and broad based performance we reported in 2004 is continuing this year. The key drivers of income growth remain unchanged. High rates of increase in both loans and deposits reflect further market share gains in targeted sectors and products in each of our franchises. Customer demand for our suite of deposit products has increased, notably in the Republic of Ireland. Income growth is expected to outpace cost growth again in 2005 – at an overall level and also within each of our operating divisions. The momentum in our operating divisions and the contribution we anticipate from our successful partnership with M&T are being complemented by strong asset quality.

At our IFRS briefing on 1st March and at our subsequent AGM, we said that we expected earnings per share for 2005 would be within a range of 135c – 137c. Based on strong current business trends and pipelines, together with better than anticipated asset quality, we are increasing our EPS guidance. We are now targeting EPS in 2005 to be in a range of 138c – 140c. This compares to the aforementioned 2004 base of 127.1c. Growth at the interim stage is expected to be particularly strong due to a very low bad debt provision charge.

This guidance for 2005 assumes:

c. 1% adverse impact on EPS anticipated from currency translation of earnings.

zero volatility due to accounting hedge ineffectiveness under IFRS. However, some volatility will arise and this will be disclosed separately in our accounts.

We are making good progress in an enterprise wide programme to enhance and integrate our risk management and compliance functions – a point acknowledged by S&P when that agency recently upgraded AIB's long term ratings. We have also initiated a comprehensive programme to review and improve all our operations and systems across the enterprise. Over time this action will generate further productivity, service quality and operational risk benefits.

We are actively managing our capital and funding positions. Both are well capable of supporting our ambitious organic growth plan.

REPUBLIC OF IRELAND DIVISION

The Irish economy continues to provide very favourable conditions for our business. We expect GDP growth of around 6% this year.

We are reinforcing our position as the leading retail and commercial bank in Ireland. Customer demand for our products and services is strong. The special focus our relationship managers are placing on deposit growth and our competitive pricing are being very well received by customers and we are on track to increase deposits by around 15% in 2005. Loans are targeted to grow by over 20% reflecting our prime position in both the business and personal lending markets. In mortgages, we are growing our book at a similar rate to the overall market. This is being achieved by harvesting the potential of our customer base while maintaining prudent repayment capacity and loan to value criteria.

The impact of competition is largely unchanged and continues to be most evident in an increased demand for lower margin deposit and mortgage products. We remain in a strong competitive position, sustained by our model of identifying customer needs and offering good value products and services.

Ark Life is performing in line with expectations to achieve a higher operating profit this year compared to 2004 proforma IFRS outturn.

GREAT BRITAIN AND NORTHERN IRELAND DIVISION

Our business banking franchise in Great Britain is performing strongly and continues to gain share in our chosen sectors. The ongoing investment that we are making in our people, locations and systems is reflected again this year by strong increases in deposit and loan volumes. Our loan book is characterised by a combination of fast growth and high quality. The resilience of the loan book is underpinned by our in depth knowledge of the limited number of mid market business sectors in which we participate. We do not participate in the consumer credit market and our focus in the personal market is largely confined to individuals with whom we already have a business banking relationship.

In Northern Ireland First Trust is growing profits in line with expectations. Superior productivity relative to our larger rivals enables us to outperform in a highly competitive banking environment. We anticipate loans and deposits to grow in double digits.

We are targeting growth in loans and deposits for the division overall this year to be close to 25% and 20% respectively.

CAPITAL MARKETS

Customer revenues continue to be the key dynamic that places us on track to deliver another year of significant growth.

Corporate Banking remains the cornerstone of the division's profit. Loans in 2005 are targeted to increase by around 20% reflecting strong customer demand in both our domestic and international businesses. This growth is being achieved despite competitive forces driving prices down which has moderated our volume growth. We are maintaining our pricing discipline to ensure we continue to generate good risk adjusted returns relative to our cost of capital.

Treasury is benefiting from the resilience of customer relationships and is on track to achieve a good performance. In line with our conservative approach to proprietary trading, utilisation of our risk limits remains modest and the embedded value in our investment portfolios is positive.

Investment Banking is performing well and in line with expectations.

POLAND DIVISION

We expect to achieve good growth in 2005 on the much higher base of profits achieved following a very strong recovery in 2004.

Non interest income remains the principal driver of revenue. Notable features of this year's performance are the strong growth and market share gains we are achieving in electronic payment, investment fund and stockbroking fees. Deposit volumes are expected to increase by around 10%. Our corporate loan volumes are outperforming a still contracting market and while we are maintaining our share of local currency mortgages, we are not promoting higher risk f.x. mortgages. We are targeting an overall single digit increase in our loan book. Asset quality remains best in class and continues to improve.

Cost management is good and we expect income to grow faster than costs this year.

M&T BANK CORPORATION

Our partnership with M&T is progressing well and meeting all our expectations. At its Q1 results announcement, M&T reaffirmed guidance for double digit growth in diluted GAAP earnings per share for 2005. Features of the Q1 results included good demand for commercial loans, very resilient asset quality and tight cost management.

M&T management have said that their primary focus at present is on an organic growth agenda and to extract further synergies from the successful merger with Allfirst.

Under IFRS we are now accounting for our share of M&T profits based on our average shareholding for the period (22.7% for 2004).

MARGINS

We continue to expect a reduction in our net interest margin to approximate 20 bps in 2005. The single biggest factor behind the attrition – loans growing faster than deposits – is unchanged. A combination of lower rates for the reinvestment of customer account funds, business mix and competition are lesser contributory factors.

NON INTEREST INCOME

A constant currency increase of around 7% is expected this year. The move to Effective Interest Rate under IFRS reduces the rate of growth in non-interest income - lending related fees are reflected in interest income and not non-interest income as heretofore. Increased account activity, corporate banking fees and the aforementioned performance in Poland are the primary sources of growth.

COSTS

We expect constant currency total costs this year to increase by around 6%. Growth at the interim stage is likely to be higher, mainly due to a ramp up in costs incurred from the second half of 2004 and continuing in 2005 to ensure compliance with a host of new regulatory requirements e.g. Sarbanes Oxley, Basel II.

The cost performance reflects tight management in the context of our strong business growth.

ASSET QUALITY

High quality is a consistent feature of the credit portfolios across our franchises. In the year to date we have had a very low level of gross new non-performing loans combined with strong recoveries. This is likely to mean that we will report a particularly low bad debt charge at the interim stage. The charge is also positively influenced by the new IFRS incurred loss provision rule. Our portfolio reviews do not point to a deterioration in quality. However, in view of our very strong and consistent loan growth, we believe the current experience to be exceptional. We now expect the charge in 2005 to be less than 20 bps of average loans, although IFRS makes forecasting more difficult.

NOTE

Group results for the half-year ended 30th June 2005 will be announced on 3rd August 2005.

Ends

Please click here for 'Transition to IFRS - Restatement of AIB 2004 Financial Information'

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