

Annual Report 2007



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Forward-Looking Information

This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements, certain statements in the Chairman's statement, the Group Chief Executive's review, and the Commentary on results and Risk Management sections, with regard to management objectives, trends in results of operations, margins, risk management, competition and the impact of changes in Financial Reporting Standards are forward-looking in nature. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group's future financial position, income growth, business strategy, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in economic conditions globally and in the regions in which the Group conducts its business, changes in fiscal or other policies adopted by various governments and regulatory authorities, the effects of competition in the geographic and business areas in which the Group conducts its operations, the ability to increase market share and control expenses, the effects of changes in taxation or accounting standards and practices, acquisitions, future exchange and interest rates and the success of the Group in managing these events. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made.

AIB cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report may not occur. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

Financial highlights

for the year ended 31 December 2007

	31 December 2007 € m	31 December 2006 € m
Results		
Total operating income	4,868	4,326
Operating profit	2,248	1,908
Profit before taxation - continuing operations	2,508	2,615
Profit attributable to equity holders of the parent	1,949	2,185
Per € 0.32 ordinary share		
Earnings – basic (note 19(a))	218.0c	246.8c
Earnings – diluted (note 19(b))	216.4c	244.6c
Dividend	79.0c	71.8c
Dividend payout	36%	29%
Net assets	€ 10.61	€ 9.28
Performance measures		
Return on average total assets	1.21%	1.63%
Return on average ordinary shareholders' equity	21.8%	29.0%
Balance sheet		
Total assets	177,862	158,526
Ordinary shareholders' equity	9,330	8,108
Loans and receivables to banks and customers	137,068	120,015
Deposits ⁽¹⁾	153,563	136,839
Capital ratios⁽²⁾		
Tier 1 capital	7.5%	8.2%
Total capital	10.1%	11.1%

⁽¹⁾ Deposits by banks, customer accounts and debt securities in issue.

⁽²⁾ The final dividend of € 451m has been taken into account in the calculation of the Tier 1 and Total capital ratios at 31 December 2007. The Financial Regulator issued a requirement that a Prudential Filter be applied to proposed final dividends with effect from July 2006. If applied at 31 December 2006, the Tier 1 and Total capital ratios would be 7.9% and 10.8% respectively.

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 Group Headquarters &
 Registered Office
 Bankcentre, Ballsbridge
 Dublin 4, Ireland
 Telephone (01) 6600311
 Registered number 24173

Chairman's Statement

AIB's performance in 2007 was strong. Our adjusted basic earnings per share at EUR 205.9c was up 13% on 2006.

This success is reflected in the total dividend for shareholders of EUR 79c, which is 10% higher than in 2006.

The final dividend of EUR 51.2c will be payable on 23 April 2008 to shareholders on the company's register of members at the close of business on 29 February 2008.

This outcome continues AIB's proud record of growing its total dividend every year since 1993.

I want to thank all the people who work for the group for their contribution to the performance in 2007.

Board changes

We were happy to welcome two new non-executive directors to the AIB Board last year.

David Pritchard, who joined the AIB Board in June, held senior positions in Citigroup and the Royal Bank of Canada before joining Lloyds TSB Group in 1995 as Group Treasurer. He was seconded for two years to the Financial Services Authority and subsequently was appointed to the Board of Lloyds TSB Group plc and became Group Executive Director, Wholesale & International Banking. In 2003, he was appointed Non-Executive Deputy Chairman of Lloyds TSB Group plc.

Stephen Kingon, who was appointed in September, is Chairman of Invest Northern Ireland, the economic development agency. He is also Chairman of the Centre for Competitiveness and a member of the Economic Development Forum, which advises on issues relating to the development and future competitiveness of the Northern Ireland economy. He also co-chairs the North/South Roundtable Group, which seeks to improve the competitiveness of the island of Ireland economy.

Don Godson retired as a non-executive director at the end of December 2007. I want to thank him on behalf of the board for his long and distinguished service.

Risk Management

AIB continued to enhance its risk management processes in 2007, driven in part by its implementation of Basel II.

Enhancements have been made across AIB's credit risk measurement and management processes, the identification of material risks and their alignment with capital requirements and capital planning and in the development of a comprehensive stress testing framework. These enhancements served the organisation well in the difficult market conditions that prevailed in the second half of 2007.

2007 saw Nick Treble appointed to the position of Group Chief Risk Officer and as a member of the Group Executive Committee, on the retirement of Shom Bhattacharya. Nick was formerly Managing Director of AIB Global Treasury and has been with AIB for more than twenty years.

I would like to pay tribute to Shom for his outstanding contribution to risk management in AIB over the last five years.

Corporate Social Responsibility

AIB takes its responsibility as corporate citizen very seriously. A sub-committee of the main board guides the company in the Corporate Social Responsibility (CSR) area.

In 2007 an 'Add more green' programme was launched in the Republic of Ireland which has had positive environmental effects both internally and externally. For more details on this project, see pages 10 and 11 of the AIB Summary Review, which was sent to shareholders with this Annual Report publication. There is further information on other AIB CSR initiatives, including community and charitable projects, in the CSR section of this report on Pages 10 to 13.

Economic Commentary

While short-term economic prospects for AIB's main markets are somewhat mixed, the medium term outlook is more positive. Irish GDP is forecast to slow to 2.5% this year, reflecting the slowdown in the housing sector and a weaker global economy. However, economic fundamentals remain solid and growth is expected to pick up again in 2009 and beyond.

US prospects have clearly suffered as a result of the problems in its housing market. Nevertheless, the economy should recover over the second half of the year and into 2009 as activity responds to significant monetary and fiscal stimuli. After a prolonged period of above trend growth, the UK should slow this year but again economic fundamentals remain sound and it is anticipated that activity will pick up again in 2009. Meanwhile, GDP growth in Poland is forecast to slow to 5% this year but this still represents a very solid performance by international standards.

Outlook

The economic outlook for the key markets where AIB operates is more challenging than it has been for some time. The Irish economy is slowing but this is after many years of quite exceptional buoyancy.

But Ireland is still growing at the same rate – or faster – than its main trading partners and the fundamentals of our home economy, including public finances and demographics, remain very good.

AIB Group is an effective, efficient and well-run banking and financial services company – one that delivers top-quality products and services to millions of customers around the world.

Our asset quality is expected to remain good, our capital position is excellent and our level of funding support is strong.

Together, these factors make me believe that AIB is on course to deliver growth to our shareholders this year and into the future.

A handwritten signature in black ink, which appears to read 'Dermot Gleeson', is centered on the page.

Dermot Gleeson *Chairman*

The Board and Group Executive Committee

Board of Directors

Dermot Gleeson *BA, LL.M – Chairman*

Barrister, and member of the Adjunct Law Faculty of University College Dublin. Chairman of University College Cork's Governing Body and a member of that University's President's Consultative Board. He has held the following positions and offices in the recent past: member of the Royal Irish Academy, Chairman of the Irish Council for Bioethics, Director of the Gate Theatre, Attorney General of Ireland, member of the Council of State, and Chairman of the Review Body on Higher Remuneration in the Public Sector. Joined the Board in 2000, and appointed Chairman in 2003. (Age 59)

Eugene Sheehy* *MSc – Group Chief Executive*

Joined AIB in 1971. Appointed General Manager, Retail Operations in 1999, and Managing Director, AIB Bank, Republic of Ireland in 2001. Appointed Chief Executive Officer of AIB's USA Division and Executive Chairman of Allfirst Financial Inc. in 2002. Appointed Chairman and CEO, Mid Atlantic Division, M&T Bank, and a member of the Executive Management Committee and Board of M&T Bank Corporation ("M&T") in April 2003, following the acquisition by AIB of a strategic stake in M&T. Appointed AIB Group Chief Executive-Designate in March 2005, co-opted to the Board on 12 May 2005, and assumed responsibility as Group Chief Executive with effect from 1 July 2005. Fellow and past President of the Institute of Bankers in Ireland. (Age 53)

Adrian Burke *B Comm, FCA*

Chairman of Coyle Hamilton Willis Limited and Director of Dairygold Co-Operative Society Limited. Vice Chairperson of the Institute of European Affairs. Former president of the Institute of Chartered Accountants in Ireland, former Managing Partner of Arthur Andersen in Ireland, and former Chairman of the Joint Ethics Board of the Institutes of Chartered Accountants in Ireland, Scotland, and England and Wales. Joined the Board in 1997. Retires from the Board at the Annual General Meeting on 22 April 2008. (Age 66)

Kieran Crowley *BA, FCA*

Consultant. Founder of Crowley Services Dublin Ltd., which operates the Dyno-Rod franchise in Ireland. Director of AIB Group (UK) p.l.c., and former Director of BZWBK, AIB's Polish subsidiary. A member of the Government appointed Advisory Forum on Financial Legislation. Former Chairman of the Small Firms Association and member of the Irish Business and Employers' Confederation (IBEC) National Executive Council. Joined the Board in 2004. (Age 56)

Colm Doherty* *B Comm*

Managing Director, AIB Capital Markets plc. Director of M&T Bank Corporation and Director of Commerzbank Europe. Joined AIB International Financial Services in 1988, and became its Managing Director in 1991. Appointed Head of Investment Banking in 1994, and assumed his present position in 1999. Member of the International Financial Services Centre Clearing House Group. Joined the Board in 2003. (Age 49)

Donal Forde* *MSc*

Managing Director, AIB Bank, Republic of Ireland. Joined AIB in 1978. Appointed Head of Treasury Services in 1998 and General Manager, Strategic Development Unit, AIB Bank in 1999; assumed his current position in 2002. Director of Hibernian Group PLC. Fellow and past President of the Institute of Bankers in Ireland and past President of the Irish Banking Federation. Joined the Board in January 2007. (Age 47)

Stephen Kingon *CBE BA, DBA, FCA, FCIM*

Chairman of Invest Northern Ireland and of the Northern Ireland Centre for Competitiveness. Member of the Economic Development Forum, and co-chair of the North/South Roundtable Group. Director of AIB Group (UK) p.l.c., Mivan (UK) Limited and Anderson Spratt Group (Holdings) Limited. Former Managing Partner of PricewaterhouseCoopers in Northern Ireland. Former President of the Northern Ireland Chamber of Commerce and Industry, and past-Chairman of Business in the Community in Northern Ireland, the Ulster Society of Chartered Accountants, and the Institute of Management Consultancy in Northern Ireland. Joined the Board in September 2007. (Age 60)

Anne Maher *FIIPM, BCL*

Chairman of the Medical Council's Performance Committee. Member of the Professional Oversight Board (UK), (an operating body of the UK Financial Reporting Council); the FTSE Policy Group; the Actuarial Stakeholder Interests Working Group (UK); and a Governor of the Pensions Policy Institute (UK). Board member of the Retirement Planning Council of Ireland. She has held the following positions and offices in the recent past: Chief Executive of The Pensions Board for Ireland, Chairman of the Irish Association of Pension Funds, and Board Member of the Irish Accounting and Auditing Supervisory Authority. Joined the Board in January 2007. (Age 62)

Dan O'Connor *B Comm, FCA – Audit Committee Chairman*

Director of CRH plc, former President and Chief Executive Officer, GE Consumer Finance Europe, and former Senior Vice-President of General Electric Company. Joined the Board in January 2007. (Age 48)

John O'Donnell* *FCMA, FCCA – Group Finance Director*

Joined AIB in 1989 as Associate Director, AIB International Financial Services, becoming Managing Director in 1995. Appointed Managing Director, AIB Corporate Finance in 1996, Head of Investment Banking, AIB Capital Markets in 2001, and Group Finance Director-Designate in July 2005. Joined the Board in 2006. (Age 53)

Sean O'Driscoll *B Comm, FCA – Remuneration Committee Chairman*

Group Chief Executive, Glen Dimplex. Member of the University College Cork President's Consultative Board. Appointed by the Irish Government to the high-level group overseeing Ireland's Asia strategy. Awarded an Honorary OBE for his contribution to British industry. Joined the Board in 2006. (Age 50)

Jim O'Leary *MA, MSI*

Senior Fellow of the Department of Economics at the National University of Ireland, Maynooth. Former Chief Economist at Davy Stockbrokers, and former Director of Aer Lingus, the National Statistics Board and Gresham Hotel Group. Director of BZW BK, AIB's Polish subsidiary. Joined the Board in 2001. Retires from the Board at the Annual General Meeting on 22 April 2008. (Age 51)

David Pritchard *BSc (Eng) – Chairman, AIB Group (UK) p.l.c.*

Former Group Treasurer, Executive Director, and Non-Executive Deputy Chairman of Lloyds TSB Group plc; spent two years as secondee at the Financial Services Authority while employed at Lloyds TSB. Former Managing Director Citicorp Investment Bank, London, and former General Manager Royal Bank of Canada Group. Non-Executive Chairman of Songbird Estates plc, Non-Executive Director of The Motability Tenth Anniversary Trust, and former Non-Executive Director of LCH Clearnet Group. Joined the Board in June 2007. (Age 63)

Bernard Somers *B Comm, FCA*

Director of DCC plc, Independent News & Media plc, and Irish Continental Group plc. Former director of the Central Bank of Ireland. Principal of Somers & Associates, corporate restructuring consultants. Joined the Board in 2006. (Age 58)

Michael J Sullivan *JD – Senior Independent Non-Executive Director*

Served as US Ambassador to Ireland from January 1999 to June 2001 and as Governor of the State of Wyoming, USA, between 1987 and 1995. Director of Kerry Group plc, Sletten Construction Inc., Cimarex Energy, Inc., First Interstate BancSystem, Inc., and a Trustee of the Catholic Diocese of Wyoming. Member of the Bar, State of Wyoming, and Partner, Rothgerber, Johnson & Lyons, LLC. Joined the Board in 2001. (Age 68)

Robert G Wilmers

Chairman and Chief Executive Officer of M&T Bank Corporation ("M&T"), Buffalo, New York State. Director of The Business Council of New York State, Inc. Served as Chairman of the New York State Bankers' Association in 2002, and as a Director of the Federal Reserve Bank of New York from 1993 to 1998. Joined the Board in 2003, as the designee of M&T, on the acquisition by AIB of a strategic stake in M&T. (Age 73)

Jennifer Winter *B Sc – Corporate Social Responsibility Committee Chairman*

Vice-President, Corporate Reputation and Government Affairs, AstraZeneca plc. Former positions and offices held include Chief Executive, the Barretstown Gang Camp Limited, Director of Project Management Holdings Ltd., and Managing Director of SmithKline Beecham, Ireland. Joined the Board in 2004. (Age 48)

* Executive Directors

Board Committees

Information concerning membership of the Board's Audit, Corporate Social Responsibility, Nomination & Corporate Governance, and Remuneration Committees is given in the Corporate Governance statement on pages 54 to 60.

Group Executive Committee

Eugene Sheehy – *Group Chief Executive*

Gerry Byrne – *Managing Director, AIB Poland Division*

Colm Doherty – *Managing Director, AIB Capital Markets*

Donal Forde – *Managing Director, AIB Bank (RoI)*

Robbie Henneberry – *Managing Director, AIB Group (UK) p.l.c.*

Steve Meadows – *Group Director, Operations & Technology*

John O'Donnell – *Group Finance Director*

Mary Toomey – *Head of Group Strategic Human Resources*

Nick Treble – *Group Chief Risk Officer*

Group Chief Executive's Review

2007 was another successful year for the AIB Group. Our adjusted basic earnings per share at EUR 205.9c represents a 13% increase on 2006 levels.

I want to recognise the part AIB staff played in this performance and I thank them for their hard work and commitment over the year.

All AIB divisions saw their operating profit grow in 2007 which was especially encouraging as market conditions for the banking and financial services sector have become challenging in recent months.

These conditions look set to continue into 2008. I remain positive that the fundamental strengths of AIB, so clearly evident in our 2007 performance across our divisions, will see the group continue to enjoy earnings growth.

Divisional commentary

AIB Bank in the Republic of Ireland saw its operating profit grow by 14% in 2007. Despite the slowing Irish economy, it enjoyed very strong product volume and revenue growth across a range of activities. Highlights included good cost management and the further development of the bank's product, service and relationship offering to customers. AIB Bank maintained or increased its market share in 2007 in areas such as business lending and deposits. The bank also made great progress in the wealth management sector with both its private banking arm and the joint venture with Hibernian Life Holdings seeing strong growth in sales.

AIB Capital Markets division saw its operating profit grow by 6% in a year characterised by unprecedented market volatility. Its success was based on growth in business volumes, tight cost control and superior credit management. In the second half of the year writedowns of €131 million were taken in the traded credit portfolio and the structured securities portfolio, including sub-prime mortgages. Customer treasury business in Ireland, Britain and Poland saw its income grow strongly by 35%. Corporate Banking had a great year in Ireland and

throughout its expanding network of offices around the world. Loan volumes grew 30% and asset quality remains strong with a vigorous approach to credit management. 2007 saw Investment Banking record an exceptional operating profit increase of 50%. Asset management, especially in Ireland and Poland, was an important income contributor to this result as were stockbroking, structured product initiatives, corporate advisory services and financial outsourcing activities.

AIB Bank UK division saw its profit grow 20% on 2006 levels. This was well balanced growth with the bank enjoying increased demand on both sides of the balance sheet. Good margin management and a focus on credit quality also played a part in this result. Allied Irish Bank (GB) saw its lending balances increase by 18% and its deposits rise by a very strong 23% which demonstrated the quality of its customer franchise. This success was driven by the bank's continued success in business banking in selected mid-market sectors. First Trust Bank in Northern Ireland also saw growth in loans and deposits, up 23% and 8% respectively. It benefited from investment in frontline people and banking technology and a reconfigured branch network.

AIB Poland division saw its profit rise by 26% in 2007. BZ WBK, AIB's Polish bank, performed strongly in a dynamic Polish market with all its businesses enjoying strong business momentum. Demand for credit was particularly good with total loans increasing by 39% and business lending growth by 32%. This demand was well diversified across a range of customer sectors. Customer deposits also increased by 26% year-on-year. BZ WBK continues to expand its reach in 2007 with 34 new branches opened. Credit quality continues to improve in Poland with an overall provision charge as a percentage of average loans at 0.03% – it was 0.23% in 2006.

As of 31 December, AIB had a 24.3% shareholding in the US bank M&T. The bank's contribution of US\$166 million to AIB in 2007 was down 7% compared to the 2006 contribution of US\$177 million. The performance of M&T in the year was affected by the turbulence in the financial markets especially in the US residential real estate sector. During the year, M&T made a writedown of \$127 million of sub-prime exposure. However, M&T's management is experienced and the bank has a business model which is well prepared for tough times.

Single enterprise

We are continuing to progress our single enterprise agenda which aims to reduce our operational risk and help AIB meet service quality and efficiency targets. In 2007, we achieved many goals in this area and we are addressing major regulatory changes including Sarbanes Oxley and Basel II.

Developments

There were a number of key developments in the year. In June, AIB entered into an agreement to acquire AmCredit, the mortgage finance business of the Baltic-American Enterprise Fund.

In November last year, AIB announced an agreement to form a merchant acquiring joint venture with First Data Corporation. AIB's card acquiring businesses in Ireland and the UK will form the principal basis of the new joint venture. All elements of the transaction were completed by 4 February 2008.

Strategy

Wherever we operate, AIB aims to deliver one distinctive customer proposition. This consists of:

- best products – using third party suppliers where appropriate to meet customer needs.
- best service with dependability at its heart.
- best relationships built by knowledgeable and engaging employees.

- best delivery with a wide range of channels available to our customers accessing our services.

The future

I firmly believe AIB Group has strength to meet the challenges of 2008 and future years.

We are serving a growing number of customers in a diverse range of geographies and sectors.

We offer them high quality products and services with the focus on recurring and sustainable income streams.

We are making further gains in efficiency with our investment in operating systems and technology and we continue to invest for growth. We also enjoy good control over our costs and the flexibility to align costs with income

In the current operating environment, our bad debt provisions will rise from the very low levels of 2007. Our lending policies and practices remain prudent.

AIB is a diverse, efficient and resilient company. We are targeting low single digit growth in earnings per share in 2008.



Eugene Sheehy *Group Chief Executive*

Corporate Social Responsibility (CSR)

AIB Group has more than 25,000 people employed around the world. We have responsibilities not only to our staff but also to our shareholders and business partners and for the products and services that we provide. Here are some of our CSR activities for 2007 – further details can be found on our CSR website www.aibgroup.com/csr.

Environment

The effect of economic activity on climate change is now readily accepted and the need to adapt human behaviour is becoming more apparent.

During 2007 we measured AIB's carbon footprint in both the Republic of Ireland and the UK. The results were encouraging and we are now developing strategies to bring about a further improvement.

AIB launched an 'Add more green' campaign in the Republic of Ireland – this consisted of a range of initiatives that will help AIB customers and AIB itself to play a part in supporting and promoting environmental responsibility and awareness. Green products offer cash back to customers when they draw down on a mortgage or personal loan to install approved renewable energy home systems or purchase an approved hybrid or flexi fuel car.

e-Statements were introduced for both banking and credit card accounts with a commitment by AIB to donate €5 to the 'Add more green' fund, for every customer who opts to receive their statement electronically. Since the launch in June, more than 80,000 customers have taken this option. AIB pledged a minimum of €500,000 to the fund which will support environmental projects in South America and Ireland, managed by our partners the World Land Trust and Coillte.

First Trust Bank is also contributing to driving forward environmental excellence and scooped an honour for the excellent response it received in the Northern Ireland 9th Environmental Management Survey. The bank had an overall score of 93.8%

compared with the Northern Ireland average of 70%, and the financial sector average of 74%.

Other initiatives included:

- Rollout of server virtualisation – this means we will need fewer servers, which are those vital bits of equipment needed to deliver – or 'serve' – business applications, files, data, print, fax resources and more to each computer in AIB. This move will see our CO₂ emissions fall as a result of using less electricity.
- Print on demand technology is being introduced which will see a reduction in the number of printers required and result in more efficient management of paper in the future.
- AIB Corporate Banking Ireland launched a new €350 million AIB Sustainable Energy Fund for companies operating in the energy sector.
- Allied Irish Bank (GB) decided not to send Christmas cards or calendars to its customers and instead donated the print/production funds to staff nominated charities – NCH (formerly known as National Children's Home) which provides care to vulnerable and excluded young people and MHA (Methodist Homes for the Aged) which supports older people through care homes, nursing care and sheltered housing.
- AIB Bank in association with the Small Firms Association in Ireland produced a publication "Environmental Management Guidelines for Small Businesses".
- AIB also received the 2007 Chambers of Commerce of Ireland, Best Environment CSR Project, which reflected the initiatives undertaken both internally and externally to manage impact on the environment.

People

We succeed because our staff deliver true relationship banking to our customers, through offering a dependable and engaging service, as well as an innovative range of financial products.

In turn, we as a company have a number of initiatives which support our staff in their working lives.

During 2007, a new eLearning programme was introduced which delivered a range of courses. A key achievement was the rollout of the Compliance and Ethics Training (COMeT) programme. This is mandatory compliance and ethics training for all staff in the Group and covers training in six aspects of Regulatory Compliance and Business Ethics to include topics on ethics, security awareness, anti-money laundering, misselling etc. It is externally endorsed by the leading banking professional bodies in Ireland, UK and Poland.

AIB and the Irish Bank Officials' Association, which is the sole recognised trade union for bank officials in the Republic of Ireland, Northern Ireland and Great Britain, conduct their employee relations in keeping with agreed Partnership Principles, which underpin the approach taken in employee and industrial relations. During 2007, significant progress was made on a number of issues such as:

- the establishment of AIB Merchant Services (a joint venture of AIB Bank and First Data Corporation) for the provision of merchant acquiring services,
- the successful conclusion of negotiations with AIB (UK) in relation to a Strategic Change Agreement under which the bank has committed to consultation on future organisational and structural changes.

A new hybrid pension scheme was introduced for staff on the defined contribution pension scheme in the Republic of Ireland. Over 9,000 information packs and option forms were distributed to staff

and as at year end almost 80% of eligible staff had opted into the new arrangements.

In the Republic of Ireland an income protection scheme was extended to ensure that all qualifying staff who go on Long Term Sick Leave, after 1st June 2008, are covered by an insurance scheme paid by the bank, which greatly enhances the protection already provided under AIB's sick pay arrangements.

The health of staff is also important to AIB. In the Republic of Ireland the Occupational Health Unit raised awareness throughout 2007 on various health issues including, healthy heart awareness, work life balance presentations and smoking cessation awareness programmes. Another major initiative in 2007 was the roll-out across Ireland of a health screening programme. In the UK subsidised health screening continues to be provided to the majority of staff in cycles of two years.

The bank was delighted to receive external acknowledgement of its people programmes and was the recipient of a number of awards during 2007:

- In Ireland, AIB received 02 ability awards in five categories, leadership, customer service, recruitment & selection, learning, development & progression, retention and wellbeing.
- AIB Bank claimed a double honour as most popular recruiter and most popular graduate recruiter in Ireland in 2007.
- Allied Irish Bank (GB), First Trust Bank and BZWBK retained their Investor in People awards recognising that they are employee friendly companies and leaders in people management.
- BZWBK was also awarded the Investor in Human Capital Award – this is a joint initiative of the Labour and Social Affairs Institute, Management Institute, the Investors in People organisation and the Polish Chamber of Training Companies. BZWBK is the only bank among 15 companies to receive the honour.

Marketplace

Understanding customers is at the heart of AIB's continuing success. We aim to be in the right markets, providing the right products and services at the right time to the right customers.

AIB has a Code of Business Ethics for all staff, which is based on the AIB corporate values of honesty, integrity and fairness. The Code is an obligatory standard for employees and is supported by appropriate policies which reflect our regulatory obligations and our ethical standards. During 2007, the revised Leadership Code, which is jointly sponsored by the Chairman of the Board and the Group CEO was relaunched to all executive management of AIB. This Code sets out the behaviours and principles for leading by example.

AIB Group spends a significant amount annually with external suppliers. These suppliers range in scale from large multinationals to small suppliers in each of the jurisdictions in which we operate. These suppliers provide us with a large range of goods and services from coffee to mainframe computers. We recognise the importance of suppliers as stakeholders in our business and the importance of ensuring that we build effective, competitive relationships that add value for our customers and shareholders.

The AIB Cost Management and Procurement Services department seeks to reduce the cost of externally procured products and services, while ensuring high degrees of quality and acceptable levels of risk. It also seeks to develop close relationships with suppliers who have demonstrated their ability to deliver improved value and excellent service, on a consistent basis.

During 2007, AIB launched the Finance Operating Model, which is an enterprise-wide change programme. The objective of this project is to implement a new, more effective and efficient finance operating model. This project is about people, processes and technology providing a standardised set of finance processes, a suite of standard, enterprise wide technologies and a new finance structure.

In addition:

- AIB Investment Managers were named as the number one Irish performing pension managed fund in 2007, according to an annual survey of pension fund performance.
- Internet banking celebrated its tenth anniversary in 2007. Since 1997 more than 50 million transactions have been processed with over 150 million log-ons.
- First Trust Bank Contact Centre was awarded the accreditation CCA Global Standard, which is unique to the contact centre industry. FTB was advised that they had achieved one of the fastest accreditations ever from submission.
- 260 new jobs were created in Dublin, Ireland with the expansion of AIB Bank's Direct Banking Operations, enabling them to expand delivery of industry leading customer service.
- The BZWBK AIB Investment Fund Corporation and its Arka funds collected the prestigious Bull and Bear Statuette for the best investment fund corporation in Poland.

Employee Information AIB Group

	2006	2007
Total employees	24,085	25,898
Voluntary attrition rate (%)	6%	6.8%
Permanent/Temporary Staff (%)	91.5% (P) 8.5% (T)	90.1% (P) 9.9% (T)
Part-time/Full time Staff	10.9% (PT) 89.1% (FT)	9.7% (PT) 90.3% (FT)
Male/Female employees(%)	35% (M) 65% (F)	35% (M) 65% (F)

Community

AIB is proud to make a positive and long term contribution to all the communities in which we operate. We support a range of social, cultural, sports, artistic and charitable initiatives through sponsorship, corporate giving and local activity by staff.

The AIB Better Ireland programme has given €16 million to groups working with vulnerable children in Ireland since 2001. For 2008, the programme has been broadened to include even more children, such as those with physical, sensory and intellectual disabilities. Four flagship projects have also been identified which will enhance the lives of over 950 children across Ireland, they are:

- Festina Lente, Bray, Co. Wicklow – Equine Assisted Learning.
- Limerick Youth Service, Lower Glentworth Street, Limerick City – Lava Javas Youth Cafe.
- St. Joseph's School & Services for the Visually Impaired, Drumcondra, Dublin – Animal Assisted Therapy Programme and Sensory Garden.
- Ability West, Galway – Best Buddies Programme.

These projects will receive intensive support and funding from AIB which will allow them to expand and improve their services.

BZWBK was voted Benefactor of the Year by the Philanthropy Development Academy in Poland. The award was made for two CSR programmes supported by BZWBK – the Bank's own charity programme, The Bank of Children's Smiles which focuses on providing support to children from poor or unemployed families and for the partnership with Polska Akcja Humanitarna (PAH) and the Akcja Pajacyk card. This is a BZWBK affinity card launched to benefit the Polish charity PAH. This charity aims to provide at least one hot meal, every day of the school year to children in need.

Allied Irish Bank (GB) supported a number of charitable organisations across Great Britain in 2007 through direct monetary donations, contributions to charity auctions and sponsorship and attendance at charitable events.

In 2007, AIB Group in Ireland again supported the Junior Achievement programme where staff volunteered to help young people understand the world of work, help them set goals, plan for their future and learn the skills necessary to succeed. AIB has the highest number of Junior Achievement volunteers in the corporate sector in Ireland, almost 60 in total.

First Trust Bank's staff charity programme raised £145,000 in the last 18 months for the Staff Charity Hospice Care at Home. The hospices are Northern Ireland Hospice, the Children's Hospice, Foyle Hospice and Southern Area Hospice Services. This money will enable hospice at home services to continue to be provided in their local community.

Two innovative arts programmes in Ireland were undertaken:

- AIB Bank is to sponsor theatre company Rough Magic (RM) over the next three years. This will support all aspects of the company's work with a particular emphasis on regional touring and community initiatives, as well as supporting a young talent development project called the AIB SEEDS programme, which will seek out, encourage, enable and develop young Irish talent.
- AIB Group sponsored a landmark exhibition titled *Paintings from Poland: Symbolism to Modern Art (1880-1939)* at the National Gallery in Dublin. The 74 paintings in the exhibition were selected from the National Museum in Warsaw with additional loans from private collections and other galleries in Poland. This exhibition attracted over 50,000 visitors and provided them with an awareness of Poland's cultural legacy.

Further details at www.aibgroup.com/csr

The businesses of AIB Group

Divisional information

The business of AIB Group is operated through four major operating divisions as described below:

AIB Bank ROI division

The AIB Bank ROI division, with total assets of € 78.2 billion at 31 December 2007 encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; the Card Acquiring and Card Issuing businesses; and AIB's life and pensions joint venture with Aviva. AIB Bank ROI provides banking services through a distribution network of some 276 locations (185 branches, 87 outlets and 4 business centres), and in excess of 830 automatic teller machines ("ATMs"). AIB cardholders also have access to over 2,000 'other bank' ATMs in Ireland, 56,000 LINK ATMs in the UK as well as close to 1 million Visa Plus serviced ATMs worldwide. AIB has an agency agreement with An Post, the national post office network, which enables AIB personal and business customers to carry out basic transactions at over 1,000 post office locations nationwide. AIB also offers customers a debit card, which is co-branded Laser and Maestro and secured by the latest 'CHIP and PIN' technology. This card provides customers Point of Sale access domestically via the Laser scheme ("Laser" is operated jointly with other financial institutions in Ireland), ATM access domestically via bi-lateral agreements and internationally at

any Point of Sale or ATM that displays the Maestro symbol.

Through the branch network, the division provides a broad suite of savings and investment products, loans and overdrafts, home mortgages, payment services and foreign exchange facilities, and also issues Visa® and Mastercard® credit cards. In addition, the division offers Internet and Telephone Banking services for personal customers, who can avail of a range of services including:- view account information; pay bills; transfer money domestically and internationally; open savings accounts; apply for and draw down loans; purchase general insurance; top up mobile phones; and buy and sell shares. The Internet banking service is protected by market leading, two-factor, authentication security features.

For business customers, an Internet based banking service called iBusiness Banking is available. It offers secure Internet banking and a comprehensive cash management solution, including domestic and cross-border payment functionality. Branch Banking services are provided through a comprehensive relationship management structure to a full range of customer segments, including individuals, small and medium sized businesses ("SMEs"), farmers, and large commercial and corporate clients.

AIB Finance & Leasing is AIB's asset financing arm in Ireland. It markets its services through the AIB branch network and through intermediaries with whom it has established relationships, such as

motor dealers, equipment suppliers, brokers and other professionals, including lawyers, accountants and estate agents. It also lends directly to customers. Its lending services include vehicle, equipment and fleet leasing, retail and investment property loans, vehicle and equipment hire purchase, insurance premium financing and personal loans.

AIB's Wealth Management unit comprises Private Banking and Investment & Protection. It provides a wide range of wealth management offerings, including retirement, investment and tax planning.

AIB's joint venture with the Aviva subsidiary Hibernian Life & Pensions Limited provides a full range of products in this sector. In Ireland, general insurance products are sold in the branch network through alliances with partners in the insurance industry.

Capital Markets division

The activities of AIB Capital Markets, with total assets of €57.8 billion at 31 December 2007, comprise corporate banking, global treasury and investment banking, which includes asset management and stockbroking activities. These activities are delivered through the following business units: AIB Corporate Banking; Global Treasury; Investment Banking; and Allied Irish America ("AIA").

AIB Corporate Banking provides a fully integrated, relationship-based banking service to top-tier companies, both domestic and international, including financial institutions and

Irish commercial state companies. AIB Corporate Banking's activities also include participating in, developing and arranging acquisition, project, property and structured finance in Ireland, the UK, North America, Continental Europe and the Asia Pacific region. Corporate Banking have also originated and manage four CDO funds. The cumulative size of the CDO funds at 31 December 2007 was € 1.6 billion.

Global Treasury, through its treasury operations, manages on a global basis the liquidity and funding requirements and the interest and exchange rate exposure of the Group. In addition, it undertakes proprietary trading activities, and provides a wide range of treasury and risk management services to corporate, commercial and retail customers of the Group. It also provides import and export related financial services through its international activities.

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited; corporate finance and stockbroking through Goodbody Stockbrokers; sophisticated outsourced financial services through AIB International Financial Services Limited; and asset management through AIB Investment Managers Ltd ("AIBIM"). AIBIM manages assets principally for institutional and retail clients in the Republic of Ireland, with €9.8 billion of funds under management at 31 December 2007. Investment Banking also includes the

management of property fund activities (principally in Polish properties).

AIA's core business activities are aimed at the not for profit sector, operating principally from New York, but also with offices in a number of other US cities.

AIB Capital Markets is headquartered at Dublin's International Financial Services Centre and has operations in a number of principal UK, US and Polish cities; Frankfurt, Paris, Luxembourg, Budapest, Zurich, Toronto and Sydney.

AIB Bank UK division

The AIB Bank UK division, with total assets of € 24.9 billion, operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. The division's activities are carried out primarily through AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the FSA ('Financial Services Authority').

Great Britain

In this market, the division operates under the trading name Allied Irish Bank (GB) from 31 full service branches and 7 business development offices. The divisional head office is located in Uxbridge, in West London, with significant back office processing undertaken at a divisional processing centre in Belfast.

A full range of financial services is offered to business and personal customers, although there is a clear focus on relationship banking to the mid-corporate business sector,

professionals, and high net worth individuals.

Corporate Banking services are offered from London, Birmingham and Manchester, with particular expertise in the commercial property, education, health, horse racing and charity sectors.

Northern Ireland

In this market, the division operates under the trading name First Trust Bank from 52 full service branches throughout Northern Ireland. The First Trust Bank head office is located in Belfast, together with the divisional processing centre.

A full service is offered to business and personal customers, across the range of customer segments, including professionals and high net worth individuals, small and medium sized enterprises, and the corporate sector.

Specialist services, including mortgages, credit cards, invoice discounting and asset finance are based in Belfast and delivered throughout the division.

First Trust Independent Financial Services provides sales and advice on regulated products and services, including protection, investment and pension requirements to the whole of the division.

The businesses of AIB Group

Poland division

Poland division, with total assets of € 10.1 billion at 31 December 2007 comprises Bank Zachodni WBK S.A. (“BZWBK”) in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. BZWBK wholesale treasury and an element of BZWBK investment banking subsidiaries’ results are reported in the Capital Markets division. AIB completed the merger of its Polish operations in 2001, forming BZWBK which is now Poland’s fourth largest bank by loans and by total equity. As at 31 December 2007 BZWBK Group reported total assets of PLN 42.8 billion (EUR 11.9 billion), operated through 406 branches and 674 ATMs, and employed an average of 8,280 staff, including those in subsidiaries. BZWBK’s registered office is located in Wroclaw in south-western Poland. Key support functions are also located in offices based in Poznan and Warsaw.

BZWBK is a universal bank providing a full range of financial services for retail customers, small and medium-sized enterprises and corporate companies. The bank’s offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. Apart from core banking facilities, the bank provides insurance services, trade finance, transactions in the capital, foreign exchange, derivatives and money markets. Complementary to the bank’s own product range are the specialised services provided in

cooperation with subsidiaries, e.g. brokerage services, mutual funds, asset management, leasing and factoring products. The bank aligns its product structure and services with the requirements of individual customer segments in line with the adopted Customer Relationship Management (“CRM”) model. To increase efficiency of its operations, BZWBK encourages the use of its electronic banking services, BZWBK24, which give retail and business customers convenient and safe access to their accounts via phone, mobile or the Internet, and facilitate fund management and purchase of standard products (cash loans, credit cards, savings accounts, insurance).

The bank operates mainly in the western part of the country and also has a significant presence in major urban areas across Poland such as Warsaw, Krakow, Gdansk and Lodz. BZWBK Corporate Business Centres based in Warsaw, Poznan, Wroclaw, Krakow, Gdansk and Lodz provide direct and comprehensive relationship-based services to large and mid-sized corporates. The bank’s products are also available through the mobile sales network (self-employed financial advisors), financial intermediaries and Minibank franchise network (payment offices offering simple loan products), which enables the bank to acquire customers in locations that are not covered by the bank’s branch network.

BZWBK has major plans for expansion in the foreseeable future which includes the opening of 200 new branches, 300 Minibank

franchise outlets, setting up additional Corporate Business Centres and further development of the mobile sales network. The bank will also roll out new business models for medium sized enterprises and high net worth individuals, by launching a number of Business Banking Centres and Private Banking Offices. The variety of ongoing projects should increase the bank’s distribution power, business volumes and market share while enlarging the customer base for further cross-selling initiatives and revenue enhancement.

Commentary on results

Earnings per share

The table below shows the basic earnings per share excluding the profit on disposal/development of property⁽¹⁾, the profit on disposal of businesses⁽²⁾ and adjusting for hedge volatility⁽³⁾.

Earnings per share	Year 2007	Year 2006	% change 2007 v 2006
Basic - continuing operations	218.0c	233.5c	-7
Basic - discontinued operations	-	13.3c	-
Basic - total	218.0c	246.8c	-12
less profit on disposal/development of property ⁽¹⁾	(12.1c)	(42.8c)	-
less profit on disposal of businesses ⁽²⁾	-	(21.7c)	-
adjust for hedge volatility ⁽³⁾	-	0.5c	-
Adjusted basic earnings per share (note 20(a))	205.9c	182.8c	13

⁽¹⁾ Includes construction contract income € 48 million after tax (2006: € 82 million after tax) and profit on sale of property of € 58 million after tax (2006: € 290 million after tax).

⁽²⁾ Profit on disposal of Ark Life discontinued operation (€ 112 million after tax), profit from the sale of 50% of AIB/BNY Securities Services (Ireland) Limited to the Bank of New York Company (€ 51 million after tax) and the transfer of the management of certain investment contracts to Aviva as part of the disposal of Ark Life (€ 26 million after tax).

⁽³⁾ Hedge volatility (hedging ineffectiveness and derivative volatility) had a negligible impact in 2007. The 2006 impact was a decrease of € 4 million to profit before taxation for the year (€ 4 million after tax).

Translation of foreign locations' profits

A significant proportion of the Group's earnings are denominated in currencies other than the euro. As a result, movements in exchange rates can have an impact on earnings growth. In 2007, the US dollar average accounting rate weakened relative to the euro by 9%, the Polish zloty strengthened relative to the euro by 3% and sterling remained broadly stable, compared with the year to December 2006.

Underlying percentage change

The growth percentages are shown on an underlying basis, i.e. adjusted for the impact of exchange rate movements on the translation of foreign locations' profit and excluding hedge volatility (hedging ineffectiveness and derivative volatility).

Commentary on results

Total operating income

Total income increased by 12% to € 4,868 million.

Total operating income	2007 € m	2006 € m	<i>Underlying % change</i>
Net interest income	3,418	2,999	14
Other income	1,450	1,327	9
Total operating income	4,868	4,326	12

Net interest income

Net interest income increased by 14% to € 3,418 million in the year to December 2007.

Average interest earnings assets	2007 € m	2006 € m	<i>% change</i>
Average interest earnings assets	159,570	132,542	20

Net interest margin	2007 %	2006 %	<i>Basis Point change</i>
Group net interest margin	2.14	2.26	-12

The key drivers were strong loan growth in Republic of Ireland and strong loan and deposit growth in the UK, Poland and Corporate Banking. Loans to customers increased by 23% and customer accounts increased by 12% on a constant currency basis since 31 December 2006.

AIB Group manages its business divisionally on a product margin basis with funding and groupwide interest exposure centralised and managed by Global Treasury.

The Group net interest margin amounted to 2.14%, a decrease of 12 basis points compared with 2006. The margin reduction was due to a combination of the following factors:

- (a) customer loans increasing at a faster rate than customer deposits;
- (b) a changing mix of products where stronger volume growth has been achieved in lower margin products, corporate loans and prime rate advances on the lending side and term deposits and other lower margin products on the deposit side;
- (c) competitive pressures on loan and deposit pricing; and
- (d) higher funding costs experienced in the period.

While the strong lending growth generated good incremental profit, the funding impact resulted in a reduction in the overall net interest margin calculation when net interest income is expressed as a percentage of average interest earning assets.

While it is difficult to disaggregate trends in product margins between mix and competitive factors, competitive pricing behaviour did impact loan and deposit margins. The Group's new business lending continued to meet targeted return on capital hurdles.

Both loan and deposit margins were broadly stable while higher funding costs had a 1 basis point impact on the overall margin. The reinvestment of customer account funds had a close to neutral effect on the net interest margin in 2007.

Other income

Other income was up 9% to € 1,450 million in the year to December 2007.

Other income	2007 € m	2006 € m	Underlying % change
Dividend income	31	23	32
Banking fees and commissions	1,029	921	12
Investment banking and asset management fees	424	314	33
Fee and commission income	1,453	1,235	17
Fee and commission expense	(197)	(161)	21
Trading income	62	167	-64
Currency hedging profits	12	10	-
Interest rate hedge volatility	-	(4)	-
Net trading income	74	173	-64
Other operating income	89	57	55
Total other income	1,450	1,327	9

Other income growth of 9% was resilient in the face of turbulent market conditions in the second half-year. Dividend income increased by 32% mainly reflecting growth in dividends from investments held by the Polish business.

Total fee and commission income increased by 17%, with banking fees and commissions up 12% and investment banking and asset management fees up 33%. The 12% increase in banking fees and commissions reflects increased business and transaction volumes in AIB Bank Republic of Ireland and Corporate Banking and good growth in credit card revenue in Ireland.

Investment banking and asset management fees increased by 33% driven by particularly strong performances in Asset Management in Poland and BZWBK's brokerage operation and very good growth in Goodbody Stockbrokers.

Trading income was affected by global market dislocation effects. Asset value writedowns in markets have been indiscriminate with current mark to market values less than their par values. Where assets are deemed or classified as trading, the accounting convention is to fair value these assets, using bid prices, through other income in the income statement. The market dislocation particularly impacted the traded credit portfolio in Global Treasury with writedowns of € 92 million recorded in the second half of 2007. Also reflected in trading income is a mark to model charge to income of € 25 million (US\$35 million) in relation to positions held in subprime (portfolio US\$ 483 million/€ 328 million), a further € 11 million in relation to Collateralised Debt Obligation ('CDO') and Collateralised Loan Obligation ('CLO') exposures and € 3 million for other asset backed securities (€ 39 million for the total structured securities portfolio) which by their nature require writedowns in value to be reflected through fair value to other income in the income statement rather than by provisioning. In summary, values ascribed to the structured securities (€ 39 million charge to income) and trading portfolios (€ 92 million writedown in the second half of 2007) have resulted in a mark to model/market reduction for 2007 of € 131 million.

Trading income excludes interest payable and receivable arising from trading activities, which is included in net interest income. Accordingly, the above trading income does not reflect the full extent of trading activities, which are largely in Global Treasury. Interest income in Global Treasury increased slightly compared with 2006.

The increase in other operating income mainly relates to a € 40 million profit on the sale of a trade investment in Investment Banking.

Other income as a percentage of total income was 29.8% compared with 30.7% for 2006.

Commentary on results

Total operating expenses

Operating expenses increased by 9% compared with 2006 reflecting increases in business activity and volumes.

Operating expenses	2007 € m	2006 € m	Underlying % change
Personnel expenses	1,615	1,502	8
General and administrative expenses	761	672	13
Depreciation ⁽¹⁾ /amortisation ⁽²⁾	145	140	3
Total operating expenses	2,521	2,314	9

⁽¹⁾ Depreciation of property, plant and equipment.

⁽²⁾ Amortisation of intangible assets.

The increase in costs reflects normal inflationary increases and continuing investment in various programmes to develop capabilities to benefit from the ongoing business opportunities and to position the business for long-term growth and development. This has included investment in people, locations and the continuation of our programme to build common operating systems in line with our single enterprise agenda.

Significant progress has been made on our single enterprise approach to operations and technology and we have reached a point at which the level of further investment spending will moderate. The Group has addressed major regulatory changes (including Sarbanes Oxley and Basel II) and the completion of the preparation for these regulatory changes will slow the rate of future cost growth. Cost growth decelerated in the second half-year due to the non-recurrence of the step up in regulatory driven and performance related remuneration costs incurred in the second half of 2006.

Personnel expenses were up 8% due to the introduction of new salary structures, normal wage increases and investment in developing our operating systems.

General and administrative expenses were up 13% including costs associated with preparation for AIB's Basel II application to the Financial Regulator, costs relating to the building of common operating systems, rental costs arising from the sale and leaseback arrangements for the Bankcentre and branch network (22 branches sold in 2007, 11 sold in 2006) and normal inflationary increases. Depreciation/amortisation increased by 3%.

Productivity improved with the cost income ratio reducing by 1.7% to 51.8% from 53.5% in 2006.

Provisions

Total provisions were € 99 million, down from € 104 million in 2006.

Provisions	2007 € m	2006 € m
Provisions for impairment of loans and receivables	106	118
Provisions for liabilities and commitments	(8)	(15)
Amounts written off financial investments available for sale	1	1
Total provisions	99	104

The provision for impairment of loans and receivables was € 106 million compared with € 118 million in 2006, representing a charge of 0.09% of average loans compared with 0.12% in 2006. The lower charge reflects strong asset quality and good recoveries. Impaired loans as a percentage of total customer loans decreased from 0.9% at 31 December 2006 to 0.8% at 31 December 2007 with the total provision coverage for impaired loans at 71% compared with 76% in 2006.

In AIB Bank Republic of Ireland asset quality continues to be strong. Impaired loans as a percentage of total customer loans were 0.7% at 31 December 2007 compared with 0.6% in 2006. The provision charge was 0.16% of average loans compared with 0.15% in 2006.

In Capital Markets there were net provision recoveries of € 18 million during 2007, compared with a charge of € 5 million in 2006. The provision recoveries equated to 0.08% of average loans compared with a provision charge of 0.02% in 2006. The recoveries during the first half of the year reflected the benign credit environment and strong liquidity in the corporate market in the early part of 2007. Impaired loans reduced to 0.3% from 0.6% of total customer loans at 31 December 2006. The impact of market conditions on certain exposures held by Capital Markets in its structured securities portfolio is reflected by way of a € 39 million writedown in the fair value through the other income category in the income statement rather than provisions.

In the UK division, the provision charge reduced to 0.08% of average loans from 0.13% in 2006 and impaired loans were 1.1% of total customer loans compared with 0.9% at 31 December 2006.

The provision charge in Poland decreased to 0.03% of loans from 0.23% in 2006. Asset quality continues to improve with the ratio of impaired loans as a percentage of customer loans declining to 2.8% from 4.9% at 31 December 2006.

There was a net credit in provisions for liabilities and commitments of € 8 million in 2007 compared with a net credit of €15 million in 2006, while provisions for amounts written off financial investments were € 1 million in 2007, the same as 2006.

Impaired loans by division	Impaired loans		As a % of loans	
	2007 € m	2006 € m	2007 € m	2006 € m
AIB Bank ROI	511	366	0.7	0.6
Capital Markets	77	130	0.3	0.6
AIB Bank UK	274	205	1.1	0.9
Poland	187	232	2.8	4.9
AIB Group	1,049	933	0.8	0.9

Commentary on results

Associated undertakings

The profit in 2007 was € 128 million compared to € 167 million in 2006 and mainly reflects AIB's 24.6% average share of the income after taxation of M&T Bank Corporation and income after taxation from Hibernian Life Holdings Ltd, the joint venture in Life and Pensions with Hibernian.

M&T's contribution of US\$ 166 million (€ 120 million) was down 7% relative to the year to December 2006 contribution of US\$ 177 million (€ 141 million). The performance of M&T in 2007 was affected by unprecedented turbulence in the financial markets and in particular, the US residential real estate sector. M&T has taken the necessary actions to appropriately provide for this portfolio. Separate to this, M&T experienced good growth in its commercial and property books and has successfully integrated Partners Trust Financial Group and First Horizon National Corporation branches into the M&T network. The contribution of M&T to AIB Group's 2007 performance was also impacted by a weakening in the US dollar rate relative to the euro in 2007.

AIB Group profit in 2007 also included € 1 million from the disposal of investments in associated undertakings compared with € 8 million in 2006.

Income tax expense

The taxation charge was € 442 million, compared with € 433 million in 2006. The effective tax rate was 17.6% compared with 16.6% in the year to December 2006. The taxation charge excludes taxation on share of results of associated undertakings. Share of results of associated undertakings is reported net of taxation in the Group profit before taxation. The effective tax rate is influenced by the geographic mix of profits, which are taxed at the rates applicable in the jurisdictions where we operate.

Return on equity and return on assets

The return on equity was 21.8%, compared to 29.0% in 2006. The return on assets was 1.21%, compared to 1.63% in 2006.

Balance sheet

Total assets amounted to € 178 billion at 31 December 2007 compared to € 159 billion at 31 December 2006. Adjusting for the impact of currency, total assets were up 15% and loans to customers were up 23% since 31 December 2006 while customer accounts increased by 12%. Risk weighted assets excluding currency factors increased by 17% to € 139 billion.

Risk weighted assets, loans to customers and customer accounts (excluding currency factors)

<i>% change 31 December 2007 v 31 December 2006</i>	Risk weighted assets <i>% change</i>	Loans to customers <i>% change</i>	Customer accounts <i>% change</i>
AIB Bank Republic of Ireland	20	20	3
Capital Markets	11	30	23
AIB Bank UK	17	20	17
Poland	28	39	26
AIB Group	17	23	12

Assets under management

Assets under management in the Group amounted to € 19 billion at 31 December 2007 compared with € 17 billion at 31 December 2006.

Capital ratios

A strong capital position was reflected in a Tier 1 ratio of 7.5% and a total capital ratio of 10.1%.

Global market dislocation

In the second half of 2007 debt and equity markets experienced a period of market turmoil. This adjustment was triggered principally by global concerns over exposures to US subprime mortgages and lending. A consequence of this event was the reduction of liquidity in debt markets and an increase in its cost where available. The following commentary outlines the impact on our funding and asset portfolios.

Funding

In conditions where access to term debt is severely curtailed for all banks, the Group is in a relatively strong position. Our activities in the term senior debt and unsecured interbank markets in the first half of 2007 and availability of funding to us since then through a range of current funding programmes has positioned us well. Our most significant source of funding at 48% of our total requirement, is our solid, highly predictable retail and business customer deposit base comprising c. 2 million customers. These deposits, when combined with wholesale funding that matures after the end of June 2008 provide funding that is 94% of our total customer loans. Wholesale funding with a remaining maturity of over 1 year is € 20 billion, representing 78% of total term funding. In addition, at 31 December 2007 we held € 31 billion in qualifying liquid assets (of which approximately € 9 billion has been pledged) which represents a significant excess over both the regulatory requirement and our own higher internal policy level. Net unsecured interbank deposits are less than 8% of our total funding. In summary, we have solid, well diversified sources of funding that are sufficient to support our planned business growth. The cost of funding has increased but did not have a significant effect on our 2007 performance.

Asset portfolios

There are three distinct portfolios affected by the market dislocation.

Trading portfolio financial assets

Global Treasury manages a trading portfolio principally comprising bank bonds and collateralised prime residential mortgage obligations. Asset value writedowns in current markets have been indiscriminate with current mark to market values less than their par values. Where assets are deemed or classified as trading, the accounting convention is to fair value these assets, using bid prices, through other income in the income statement.

Based on quoted prices at 31 December 2007 Global Treasury recorded a second half-year valuation writedown of € 92 million in relation to the traded credit portfolio.

Available for sale portfolio

Global Treasury also manages the significant majority of AIB's "financial investments available for sale" portfolio of € 21 billion. This portfolio consists of high quality assets (also held for liquidity management purposes) that have not suffered impairment. The accounting convention is to fair value these assets through the equity account and not the income statement. We have applied the same approach to valuation as outlined for our trading portfolio financial assets and the writedown to equity across our business is € 177 million (after tax) which does not affect our regulatory capital calculation.

Structured securities portfolio (managed by Corporate Banking)

The Group's total credit exposure to US subprime mortgages is low. There are two portfolios:

- US\$ 190 million (€ 129 million) whole loans/not tranching portfolio; and
- US\$ 293 million (€ 199 million) asset backed securities portfolio.

The subprime whole loans were purchased in 2007 from a top US originator and comprise collateral selected by AIB and purchased in April and July after extensive due diligence and are performing well.

The subprime asset backed securities portfolio is marked to model and for 2007 a charge was taken to income of € 25 million (US\$ 35 million) which we consider an appropriate market adjustment.

In relation to other asset backed securities, the Group has taken a charge to income of € 3 million in 2007.

Commentary on results

Other CDO/CLO exposures total € 550 million and for 2007 a charge of € 11 million was taken to income in relation to these exposures. The Group has no exposure to conduits or structured investment vehicles (SIVs), either directly or through backstop facilities.

The total reflected in the income statement for the total structured securities portfolio is a € 39 million (including the € 25 million/US\$ 35 million quoted above for the subprime mortgages) mark to model/market charge in relation to positions held in these portfolios.

The quality of these portfolios remains strong. The impact of market dislocation on the Group's 2007 performance is summarised in the table below.

Portfolio	Treatment/impact	Valuation method
Trading portfolio financial assets	€ 92 million writedown reflected in income statement in H2 2007 in relation to traded credit portfolio	Quoted prices ⁽¹⁾
Available for sale portfolio	€ 177 million (after tax) writedown taken to equity account	Quoted prices ⁽¹⁾
Structured securities portfolio	€ 39 million charge reflected in income statement in H2 2007 (including € 25 million/US\$ 35 million regarding subprime exposure)	Mark to model/market

⁽¹⁾Quoted prices in relation to debt securities and quoted/unquoted prices in relation to equity shares.

The above charges reflect the accounting convention to fair value these assets and the charges are all unrealised losses.

Outlook

Our approach and performance are founded on delivering products and services to a broad base of customers in our diverse geographies and sectors. This focus is expected to underpin solid, predictable revenues that will continue to grow at a faster rate than costs. Asset quality is expected to remain good although provision for impairment of loans and receivables are expected to rise from the very low level in 2007 due to lower economic growth and a more difficult operating environment. Based on these factors, we are targeting low single digit growth in 2008 adjusted basic earnings per share compared to the adjusted basic earnings per share of EUR 205.9c in 2007.

Cashflow

As reflected in the statement of cash flows, there was a net decrease in cash and cash equivalents of € 3,656 million. Net cash inflows from operating activities before taxation were € 1,022 million, while cash outflows from taxation were € 400 million.

Cash outflows from investing activities were € 3,430 million, primarily reflecting a net increase in financial investments available for sale of € 3,331 million.

Cash outflows from financing activities were € 848 million, primarily reflecting the cash outflow for equity dividends paid on ordinary shares of € 651 million. The cash inflow from the issue of subordinated liabilities was € 128 million, while the cash outflow from interest paid on subordinated liabilities was € 254 million.

Statement of recognised income and expense (“SORIE”)

The total recognised gains relating to the year amounted to € 1,919 million compared to recognised gains of € 2,006 million in 2006. Profit for the year ended 31 December 2007 was € 2,066 million compared to € 2,298 million in 2006. Currency translation adjustments amounted to € 290 million negative compared to € 149 million negative in 2006. The currency translation difference relates to the change in value of the Group’s net investment in foreign operations arising from the weakening of the euro against the currencies in which the net foreign investments are held.

The net change in cash flow hedges was € 37 million negative in 2007. In accordance with IAS 39, the portion of the gain or loss on the hedging instrument deemed to be an effective hedge is recognised in the cashflow hedging reserve. Deferred gains and losses are transferred to the income statement in the period during which the hedged item affects profit or loss.

The net change in the fair value of available for sale securities was € 191 million negative in 2007. This represents the net change in fair value of available for sale securities recognised in equity for the period, net of hedging.

The actuarial gain in retirement benefit schemes during 2007 was € 393 million compared to a gain of € 200 million in 2006. The actuarial gain in the parent and its subsidiary companies amounted to € 470 million before deferred tax of € 74 million. This included a gain arising from the change in demographic and financial assumptions of € 714 million, primarily arising from the increase in the discount rates applicable to the pension scheme liabilities. There was an experience loss on assets of € 212 million arising from the turbulence in the financial markets and there was experience losses on liabilities of € 32 million.

Divisional commentary

AIB Bank Republic of Ireland income statement	2007 € m	2006 € m	Underlying % change
Net interest income	1,777	1,581	12
Other income	490	434	13
Total operating income	2,267	2,015	13
Personnel expenses	716	675	6
General and administrative expenses	320	270	19
Depreciation/amortisation	52	55	-7
Total operating expenses	1,088	1,000	9
Operating profit before provisions	1,179	1,015	16
Provisions for impairment of loans and receivables	104	78	34
Provisions for liabilities and commitments	-	(4)	-
Amounts written back financial investments available for sale	-	(1)	-
Total provisions	104	73	43
Operating profit	1,075	942	14
Associated undertakings	7	18	-63
Profit on disposal of property	12	6	97
Profit before taxation - continuing operations	1,094	966	13

AIB Bank Republic of Ireland profit of € 1,094 million was up 13%

Against a less buoyant economic backdrop, AIB Bank Republic of Ireland reported a very satisfactory increase in profit before tax of 13% benefiting from well diversified revenue growth and good cost management across the division. Operating income was up 13% and operating expenses were up 9% with the operating income/cost gap at +4%. This strong and profitable performance was built on AIB's continuing progress in developing its product, service and relationship offering for customers – a combination that is building a very differentiated brand in the marketplace. AIB continued to compete aggressively to protect and increase market share through the delivery of market leading products and service standards. Period end loans increased by 20% since 31 December 2006 and customer deposits grew by 3%. Loan demand remained good, with growth in business lending particularly strong. AIB successfully defended its share of the deposit market which saw final SSIA funds maturing.

Operating expenses increased by 9% while operating leverage remained positive. Growth of 6% in personnel expenses mainly reflects higher staff numbers and salary inflation. General and administrative expenses were up by 19% with the key cost drivers being higher advertising spend, continuing investment in the branch network and streamlining back-office activities. The strong operating performance resulted in a reduction in the cost income ratio from 49.6% to 48.0%.

AIB Bank Republic of Ireland continues to adopt a conservative approach to credit management and credit quality remains strong with the provision charge for the year to December 2007 at 0.16% of average loans compared with 0.15% in the year to December 2006.

Retail Banking reported another strong year with good growth in business and mortgage lending, while growth in personal lending was impacted by the effect of maturing SSIA's on credit demand. The wealth management proposition was developed further during 2007 and resulted in very strong growth in investment product sales with strong product offerings from both AIB Private Banking and Hibernian Life Holdings. Sales of life and pensions through the bank channel produced Annual Premium Equivalent ("APE") growth of 34% in the year to December 2007, which represents significant outperformance over the market. Profit growth in AIB Card Services was strong, benefiting from good growth in cardholder balances and merchant turnover, while AIB Finance & Leasing also reported good growth in average balances with resultant benefit to the revenue line.

Capital Markets income statement	2007 € m	2006 € m	<i>Underlying % change</i>
Net interest income	586	490	21
Other income	389	464	-15
Total operating income	975	954	4
Personnel expenses	328	302	9
General and administrative expenses	118	123	-2
Depreciation/amortisation	14	13	10
Total operating expenses	460	438	6
Operating profit before provisions	515	516	2
Provisions for impairment of loans and receivables	(18)	5	-
Provisions for liabilities and commitments	2	1	91
Amounts written off financial investments available for sale	1	2	-63
Total provisions	(15)	8	-
Operating profit	530	508	6
Associated undertakings	-	2	-
Profit on disposal of businesses	2	79	-98
Profit before taxation	532	589	-8

Capital Markets division profit of € 532 million was down 8%. Operating profit up 6%.

Capital Markets profit before taxation of € 532 million fell by 8% on 2006. Excluding the impact of disposals of businesses and income from associated undertakings, operating profit increased by 6%. This operating profit growth was achieved after incurring mark to market writedowns of € 92 million in the second half of 2007 in the traded credit portfolio and writedowns of € 39 million in the value of the structured securities portfolio, including subprime mortgages. This strong underlying result was driven by significant growth in business volumes, tight cost control and superior credit management.

Corporate Banking continued to experience significant deal momentum during 2007 with profit before provisions up 10% and profit before taxation up by 19%. Loan volumes grew by 30% reflecting strong underlying demand both domestically and across all of the division's international business lines. Asset quality remains strong, reflecting the quality and strength of the division's franchise together with management's vigorous approach to credit management. The impact of market dislocation, including downgrades, on the division's structured securities portfolio which includes subprime mortgages has been recognised by writing down the value of those exposures by € 39 million. New corporate banking overseas offices continued to generate additional income streams, leveraging off the division's focus on a small number of core sectors. Margins remain robust and continue to be actively managed against a backdrop of increasingly volatile and competitive markets. The average margin earned on the division's loan portfolio has again increased year on year.

Global Treasury was negatively impacted by the exceptional events experienced in credit and interbank markets during the second half of the year with a break-even profit position recorded in 2007. The traded credit portfolio, comprising principally of bank bonds and collateralised prime residential mortgage obligations, which is subject to mark to market accounting, was written down by € 92 million in the second half of 2007 as widening credit spreads impacted market prices across all asset classes. This portfolio has an average life of 2.9 years and management is satisfied the underlying assets will redeem at par value on maturity. Notwithstanding the extent of market volatility, Customer Treasury business generated 35% income growth in Ireland, Britain and Poland, driven by strong core business deal flow, particularly in foreign exchange, derivatives and structured products.

Investment Banking generated exceptional growth with operating profit up 115% on 2006. Asset management continued to be a key income contributor, underpinned by strong growth in volumes and new product initiatives both in Ireland and Poland. In Ireland, stockbroking activities, structured product initiatives, corporate advisory services and financial outsourcing activities all contributed strongly to the exceptional level of growth. The outturn was also buoyed by profit of € 40 million from the sale of a trade investment. Excluding this gain, Investment Banking operating profits were ahead of 2006 by 50%.

Total operating expenses increased by 6% while general and administrative costs fell by 2%, reflecting management's continued focus on cost containment. The cost income ratio was 47.1% compared with 45.9% in 2006.

Divisional commentary

AIB Bank UK income statement	2007 € m	2006 € m	% change Underlying
Net interest income	685	593	16
Other income	156	154	2
Total operating income	841	747	13
Personnel expenses	257	238	9
General and administrative expenses	102	94	10
Depreciation/amortisation	12	11	1
Total operating expenses	371	343	9
Operating profit before provisions	470	404	17
Provisions for impairment of loans and receivables	18	26	-31
Provisions for liabilities and commitments	-	-	-
Total provisions	18	26	-31
Operating profit	452	378	20
Profit on disposal of property	-	1	-
Profit before taxation	452	379	20

AIB Bank UK division profit was up 20% to € 452 million

AIB Bank UK reported strong business performance in 2007 with profit before taxation increasing by 20%, built on well managed growth on both sides of the balance sheet, in both First Trust Bank in Northern Ireland and in Allied Irish Bank (GB) in Britain. Loans and deposits increased by 20% and 17% respectively since 31 December 2006, resulting in a net interest income increase of 16%, with customer deposits growing very strongly across both personal and business current accounts, particularly in Britain. This strong growth has been achieved in the context of a continued emphasis on margin management and on maintaining good credit quality. The provision for impairment of loans and receivables charge was down by € 8 million when compared against 2006, representing 0.08% of average loans, compared to 0.13% in 2006, reflecting a strong level of recoveries. Costs increased by 9% reflecting a combination of increased performance-linked remuneration, investment in front line staff and upgrading enterprise technology platforms. Overall cost management remains a key focus, contributing to a further improvement in the cost income ratio from 45.9% to 44.1%.

Allied Irish Bank (GB), which focuses mainly on business banking, reported strong profit growth of 20% to € 249 million in 2007. This growth was driven by strong growth in deposit balances, which increased by 23% since 31 December 2006. Strong deposit growth has been a continued feature of Allied Irish Bank (GB) strategy in recent years. Lending balances increased by 18% since 31 December 2006, complemented by strong levels of loan origination fee income, further contributed to the increase in revenue, with interest margins being well managed and maintained over the year. Costs increased by 12%, reflecting a combination of increasing investment in staff and upgrading of the corporate and business banking technology infrastructure. The strong income growth has been reflected in an improvement in the cost income ratio from 44.1% to 43.3%. The level of bad debt provisioning fell significantly relative to last year, as a result of lower levels of specific provisioning and significant recoveries, resulting in a provision charge of 0.10% of average loans, compared with 0.17% in 2006.

First Trust Bank increased profit before tax by 20% to € 203 million, with the profit growth reflecting strong growth in business banking, particularly in the first half of 2007. Loan and deposit balances were up 23% and 8% respectively since 31 December 2006, which together with strong loan origination fee income, drove an increase in net interest income of 16%. Costs increased by 5% reflecting the impact of increased investment in marketing initiatives and also in the corporate and business banking technology infrastructure. The cost income ratio improved significantly from 48.2% to 45.0% reflecting a continued focus on efficiency. Credit quality remained strong with the provision charge of 0.04% of average loans compared with 0.07% in 2006. The period also saw the introduction of a new personal current account "The Plus Account" for First Trust Bank, which offers customers the opportunity of earning credit interest and the opportunity of free transaction banking.

Poland income statement	2007 € m	2006 € m	<i>Underlying % change</i>
Net interest income	308	236	27
Other income	371	302	19
Total operating income	679	538	22
Personnel expenses	217	170	24
General and administrative expenses	160	120	30
Depreciation/amortisation	33	40	-20
Total operating expenses	410	330	21
Operating profit before provisions	269	208	25
Provisions for impairment of loans and receivables	2	9	-84
Provisions for liabilities and commitments	(1)	(2)	-77
Total provisions	1	7	-86
Operating profit	268	201	29
Associated undertakings	1	6	-91
Profit before taxation	269	207	26

Poland division profit was € 269 million, up 26%.

AIB Poland division has reported another very strong year's performance with profit before taxation increasing by 26% and operating profit up 29%. This has been achieved through continued momentum across the various business lines of the division, leading to increases in volumes and business activity against a background of significant investment being made to realise strategic objectives.

Total operating income increased by 22% with net interest income increasing by 27%. Demand for credit has been exceptionally strong in 2007 with total loans increasing by 39% since 31 December 2006. Business lending growth of 32% outperformed the growth of business lending in the marketplace. Volume growth is well diversified across the corporate, SME and leasing portfolios. Personal lending continues to grow rapidly with mortgage lending growth of 43% and other personal lending growth of 47%. Customer deposits increased by 26% since 31 December 2006, achieved through balanced growth on both business and personal deposits, supported in particular by a successful marketing campaign in the fourth quarter. Overall deposit margins have improved as interest rates increased during the year.

Other income increased by 19%. Asset management income increased by 66%, driven by increases in balances in mutual funds of 32% and continued favourable portfolio mix. A strong second place in the market has been retained with market share at 16.8%. The brokerage business had an excellent year with higher levels of turnover and successes in the primary market. Business momentum in 2007 has resulted in good growth in foreign exchange, e-business and payments, dividends and fees.

Operating expenses increased by 21%. This reflects the business decision to expand and optimise opportunities in the Polish market place. Branch network development continues with 34 new branches opened in 2007. Personnel expenses growth was 24%, driven by higher staff numbers, higher basic salaries and enhanced incentive schemes. Significant investments are being made in supporting the business, which resulted in general and administrative expenses increasing by 30%. Specifically this includes increased spending on marketing and promoting the brand and strategic products, IT development spend and costs related to branch expansion. The cost income ratio was 60.4%, down from 61.1% in 2006.

Impaired loans as a percentage of total loans continued to show significant improvement with the ratio at 2.8% compared with 4.9% at 31 December 2006. Recoveries throughout the year in a very favourable credit environment have led to an overall provision charge as a percentage of average loans to 0.03% compared with 0.23% in 2006.

Divisional commentary

Group income statement	2007 € m	2006 € m
Net interest income	62	99
Other income/(loss)	44	(27)
Total operating income	106	72
Personnel expenses	96	117
General and administrative expenses	62	65
Depreciation/amortisation	34	21
Total operating expenses	192	203
Operating loss before provisions	(86)	(131)
Provisions for impairment of loans and receivables	-	-
Provisions for liabilities and commitments	(9)	(10)
Total provisions	(9)	(10)
Operating loss	(77)	(121)
Associated undertaking	120	141
Profit on disposal of property	64	358
Construction contract income	55	96
Loss on disposal of businesses	(1)	-
Profit before taxation	161	474

Group

Group reported a profit of € 161 million for the year to December 2007 compared with a profit of € 474 million in 2006. The result for both years includes profit on disposal of property and construction contract income. The operating loss was € 77 million compared with a loss of € 121 million in 2006.

Net interest income decreased from € 99 million in 2006 to € 62 million in 2007. Other income/(loss) includes hedging profits/(losses) in relation to foreign currency translation hedging and hedge volatility (hedging ineffectiveness and derivative volatility). Total income was up from € 72 million in 2006 to € 106 million in 2007.

Total operating expenses decreased from € 203 million in 2006 to € 192 million in 2007. A higher depreciation /amortisation charge reflects project and investment spend in recent years.

AIB's share of M&T's after-tax profit for 2007 amounted to € 120 million. On a local currency basis, M&T's net income of US\$ 654 million in 2007 was down 22% while M&T's contribution to AIB of US\$ 166 million was down 7% relative to 2006 (US\$ 177 million). The differential in percentages was mainly due to the bank's application of IFRS to M&T's US GAAP numbers in 2006 which gave a lower result due to the movement of previously unallocated credit provisions to specific provisions in M&T's books (which were classified as specific provisions under IFRS and reduced the M&T 2006 profit reported in AIB's books by € 15 million). The M&T euro contribution to AIB Group performance was impacted by the weakening in the US dollar rate relative to the euro in 2007. M&T's 2007 performance was affected by unprecedented turbulence in the financial markets and, in particular, in the US residential real estate sector.

Profit on disposal of property in 2007 includes profit on the sale of 22 branches in the Republic of Ireland (€ 64 million before tax). Construction contract income of € 55 million reflects the profit earned from the development of Bankcentre, based on the stage of completion.

Profit on disposal of property in 2006 includes profit on disposal of the existing Bankcentre building (€ 256 million before tax), profit on the sale of 11 branches in the Republic of Ireland (€ 73 million before tax) and profit on disposal of Donnybrook House (€ 29 million before tax). Construction contract income of € 96 million reflects the profit earned from the new development at Bankcentre, based on the stage of completion.

Risk management

1. Framework

- 1.1 Risk philosophy
- 1.2 Risk appetite
- 1.3 Risk governance and risk management organisation
- 1.4 Risk identification and assessment process
- 1.5 Risk strategy
- 1.6 Stress and scenario testing

2. Individual risk types

- 2.1 Credit risk
- 2.2 Market risk
- 2.3 Non-trading interest rate risk
- 2.4 Structural foreign exchange risk
- 2.5 Liquidity risk
- 2.6 Operational risk
- 2.7 Regulatory Compliance risk
- 2.8 Pension risk

Risk management - Framework

Risk taking is inherent in the provision of financial services and the Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could: damage the core earnings capacity of the Group; increase earnings or cash-flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations. AIB has adopted an Enterprise Risk Management (“ERM”) approach to identifying, assessing and managing risks. The key elements of the ERM framework are:

- 1.1 Risk philosophy;
 - 1.2 Risk appetite;
 - 1.3 Risk governance and risk management organisation;
 - 1.4 Risk identification and assessment process;
 - 1.5 Risk strategy; and
 - 1.6 Stress and scenario testing.
- These elements are discussed below.

1.1 Risk philosophy

The Board and senior management set the ‘tone at the top’. This establishes the culture, philosophy and behaviour of the Group towards risk and governance, and provides the basis for the engagement of risk governance processes at enterprise, divisional and functional levels. The Board has adopted a broad set of risk taking principles reflecting the Group’s risk philosophy and culture, and articulating the high-level standards against which risk taking decisions are made. All proposed changes to the Group risk governance framework, policies and operations are benchmarked against these principles. The three key principles are:

- (1) AIB is in the business of taking

risk in a controlled manner to enhance shareholder value.

- (2) All risks and related returns are owned by the relevant business units. Business management is responsible for ensuring that all relevant risks are identified and managed.
- (3) The risk governance functions perform independent oversight of the management of risk by the business units and provide assurance to the Board. They have a specific responsibility to ensure that key risks are identified and managed by line management.

The Board approves business strategy and objectives and management is responsible for achieving them. An ERM approach ensures that the organisation has in place a process for setting business objectives which are consistent with its risk appetite. A key building block to this is the definition of the risk appetite of the organisation.

1.2 Risk appetite

The Group’s risk appetite framework seeks to encourage appropriate risk taking to ensure that risks are aligned to business strategy and objectives. The Group determines its risk appetite in a number of ways. Firstly, it considers its external stakeholders and their requirements, and expresses this in the form of a top-down risk appetite statement. This statement provides explicit Board guidance on risk appetite including, but not limited to, target capital levels, target debt ratings and thresholds on earnings volatility.

Secondly, risk appetite is captured through the planning process, whereby the Group

considers how much and what type of risk it needs in order to deliver the Group’s business objectives and strategy. Lastly, risk appetite is determined by reference to the risk profile that emerges from the various risk assessment processes used by the Group for individual risk types. This can be considered ‘bottom-up’ appetite.

Risk appetite is evidenced in a range of Board approved limits and delegated authorities and in actions taken on the basis of a comparison of bottom-up risk profile with top-down risk appetite.

1.3 Risk governance and risk management organisation

The Board and senior management have ultimate responsibility for the governance of all risk taking activity in the Group.

AIB uses a ‘three lines of defence’ framework in the delineation of accountabilities for risk governance.

Under the three lines of defence model, primary responsibility for risk management lies with line management. Line management is supported by three Group and Divisional functions with a risk governance role. These are the enterprise-wide Risk, Regulatory Compliance and Finance functions. Together these act as the second line of defence. The third and final line of defence is the Group Internal Audit function which provides independent assurance to the Audit Committee of the Board on all risk-taking activity.

While the Board has ultimate responsibility for all risk-taking activity within AIB, it has delegated some risk governance responsibilities to a number of

1.3 Risk governance and risk management organisation *(continued)*

committees or key officers. The diagram below summarises the Enterprise Committee structure of the Group.

The role of the Board and the Audit Committee is set out in the section on Corporate governance. The Group Executive Committee (“GEC”) is the senior executive committee of the Group. It comprises the Group Chief Executive, Group Finance Director, Group Chief Risk Officer (“Group CRO”), Group Director of Strategic Human Resources, the Director of Operations and Technology and the four Divisional Managing Directors. The GEC manages the strategic business risks of AIB and sets the business strategy of the enterprise within which the risk management function operates. The Risk Management Committee (“RMC”) is co-chaired by the Group CRO and the Group Chief Executive and is the highest executive forum for risk governance within the Group. The RMC comprises all members of the GEC, together with the Group Chief

Credit Officer, the General Manager, Regulatory Compliance and the Group Internal Auditor. It is responsible for identifying, analysing and monitoring risk exposures, adopting best practice policies and standards, and reviewing risk management activities at an enterprise level.

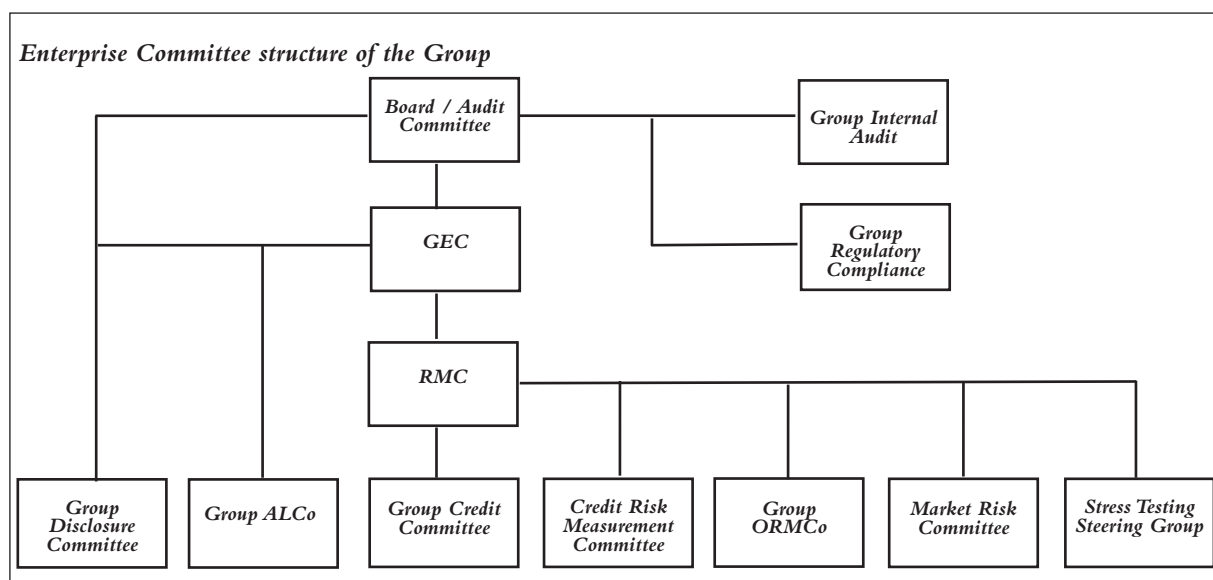
The RMC acts as the parent body of a number of other risk and control committees, namely the Group Credit Committee (responsible for the approval of material aspects of credit risk measurement systems and processes across the Group), the Credit Risk Measurement Committee, the Group Operational Risk Management Committee (“Group ORMCo”), the Market Risk Committee and the Stress Testing Steering Group (responsible for the implementation of the stress testing policies and procedures under the Capital Requirements Directive (“CRD”) - see Capital Management section).

The Group Asset and Liability Management Committee (Group ALCo) is chaired by the Group Finance Director. The Group ALCo reviews and is responsible

for all activities in AIB relating to capital planning and management, funding and liquidity management, structural asset and liability management and the Internal Capital Adequacy Assessment Process (“ICAAP”) - see Capital Management section.

The Group Disclosure Committee is chaired by the Group Head of Accounting and Finance. It is responsible for ensuring the compliance of the Group’s external disclosures with legal and regulatory requirements and for providing management assurance to the Audit Committee, the Group Chief Executive and the Group Finance Director in respect of Sections 302 and 404 of the Sarbanes Oxley Act.

At divisional level, Divisional Management Boards take an active role in the coordination of risk managing activities in the divisions. Chaired by the Divisional Managing Director, they also include the heads of key operating units, the Divisional Heads of Finance, Chief Risk Officer, Chief Credit Officer and Head of Regulatory Compliance. The Divisional Management



Risk management - Framework

1.3 Risk governance and risk management organisation *(continued)*

Boards are assisted by key committees such as the Divisional Credit Committee, the Divisional Operational Risk Committee and the Divisional Asset and Liability Management Committee.

The role of Risk Management and the Group Chief Risk Officer

The Group CRO has independent oversight of the Group's enterprise-wide risk management activities. The Group CRO is a member of the Group Executive Committee and reports to the Group Chief Executive, with a dotted line to the chairman of the Audit Committee. The Group CRO's responsibilities include:

- Developing and maintaining the ERM framework;
- Providing independent reporting to the Board on risk issues, including the risk appetite and risk profile of the Group;
- Providing independent assurance to the Group Chief Executive and Board that material risks are identified and managed by line management and that the Group is in compliance with enterprise risk policies, processes and limits.

The Group Chief Credit Officer, the Group Head of Operational Risk Management and the Group Head of Market Risk Management have full functional responsibility for these risks and are members of the Group CRO's management team. In addition to the enterprise-wide Risk function, each of the four operating divisions and Operations and Technology

have dedicated risk management functions, with divisional CROs reporting directly to the Group CRO. Each division has dedicated credit risk management and operational risk management functions. The Capital Markets Division also has a dedicated market risk management function.

The role of Finance and the Group Finance Director

Finance and the Group Finance Director have responsibility for all of the financial processes of the Group. These include financial and capital planning, management accounting, financial disclosures and balance sheet management. Risks embedded in these processes remain the responsibility of the Group Finance Director, as does responsibility for compliance with tax legislation and external financial and regulatory reporting requirements.

Regulatory Compliance

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising from 'conduct of business' (customer-facing) regulations in each of the Group's operating markets. There are Regulatory Compliance teams in each division who work closely with management in assessing compliance risks and provide advice and guidance on addressing these risks. Regulatory Compliance undertakes risk based monitoring of compliance by the business with regulatory obligations and independently reports to the Audit

Committee in this regard.

The Regulatory Compliance function also promotes the embedding of an ethical framework within AIB's businesses to ensure that the Group operates with honesty, fairness and integrity.

Group Internal Audit

Group Internal Audit ("GIA") is an independent evaluation and appraisal function established within AIB Group, reporting to the Group's Board of Directors through the Audit Committee. GIA conducts a continuous and comprehensive review of activities throughout the Group and its subsidiaries and affiliates, in accordance with an audit plan approved each year by the Audit Committee. All activities undertaken within and on behalf of the Group and its affiliates are within the scope of GIA, including activities carried out by other control functions.

The purpose of GIA is to assist the Directors in the discharge of their governance responsibilities and to support management in the achievement of approved strategic and operational objectives.

The role of GIA is to independently assess the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes. GIA may also provide advisory, consultancy and other services on an ad hoc basis and in a manner that does not impair the objectivity of the function.

GIA acts as the third line of defence in the Group's risk governance organisation and provides assurance to the Audit Committee on the adequacy,

1.3 Risk governance and risk management organisation *(continued)*

effectiveness and sustainability of the governance, risk management and control processes throughout the Group. GIA discharges its responsibilities primarily via the execution of annual Audit Plans, which are developed using a risk-based approach. The Audit Plan is developed using the following steps:

- AIB's activities are mapped to auditable business processes ("audit universe") which reflect the current structure of the Group;
- The audit universe is then assessed in terms of inherent risk and control effectiveness to determine the audit needs for the following year. GIA's evaluation of the audit needs is completed by taking into account input from management; and
- The main processes and activities identified in the audit needs assessment are then allocated into distinct 'auditable units' and incorporated into the Audit Plan.

The Audit Plan contains the comprehensive programme of individual audits that provide an independent assessment of key governance, risk management and control processes. Included in its work are reviews of the self-assessments of operational risks and controls undertaken by the businesses. There is also an ongoing review of risk identification standards and risk management methodologies which includes testing of the risk mitigating actions adopted by management.

The results of GIA audits are reported quarterly to the Audit Committee, which monitors both resolution of audit issues and progress in the delivery of the Audit Plan.

1.4 Risk identification and assessment process

Risk is identified and assessed in the Group through a combination of top-down and bottom-up risk assessment processes. Top-down processes focus on broad risk types and common risk drivers rather than specific individual risk events, and adopt a forward-looking view of perceived threats over the planning horizon. The key top-down risk assessment processes are the Enterprise Risk Review, which identifies the most significant risks facing the enterprise from the perspective of the Board and senior management, and the Material Risk Assessment, where the emphasis is on whether the nature of risk is such that it requires capital support. Both of these risk assessment processes are undertaken on a half-yearly basis.

Bottom-up risk assessment processes are more granular, focusing on risk events that have been identified through specific qualitative or quantitative measurement tools. A key qualitative tool is self-assessment, which is used in the assessment of operational and regulatory compliance risk. Quantitative tools include the use of internal grading models to estimate the Probability of Default ("PD") and "Loss Given Default" ("LGD") of credit exposures, and Value At Risk ("VaR") in the context of the Group's trading portfolios. The

Group continues to develop its economic capital methodology and capability, and it is expected that this will become the common quantitative means by which risk is measured and reported within AIB.

Top-down and bottom-up views of risk come together through a process of upward reporting of, and management response to, identified and emerging risks. This ensures that the Group's view of risk remains sensitive to emerging trends and common themes.

1.5 Risk strategy

The Group's risk strategy is informed by its risk appetite and the risk profile which emerges from the risk assessment process. To the extent that mismatches are identified between risk appetite and the actual risks being taken, action to address such mismatches is undertaken. This may involve risk reduction or increased risk mitigation in cases where risk profile exceeds risk appetite, or a selective and gradual increase in risk taking where risk profile is significantly below risk appetite. Risk strategy will be enhanced through the Group's continued improvement of its risk measurement methodologies to support a more quantitative representation of its overall risk profile.

1.6 Stress and scenario testing

The Group employs stress and scenario analysis to assess the risks of extreme yet plausible events occurring. It has enhanced its stress testing capabilities as part of its implementation of the CRD. The Group carried out its first Pillar 1

Risk management - Framework

1.6 Stress and scenario testing (continued)

stress test based around the effect of an extreme recession (1 in 25 years) on its internally rated credit portfolios as at 31 March 2007.

The results of this stress test show that the Group's capital resources are sufficient to cover regulatory capital requirements under the stressed scenario. In addition, a 'dry-run' Pillar 2 stress test was undertaken during 2007 based around the scenario of a mild recession. This test involved assessing the stress impacts on existing assets, new business and revenues over a five year planning horizon. The results of this stress test have been integrated into the 2008-2012 planning cycle.

Risk management - Individual risk types

This section provides details of the Group's exposure to, and risk management of, the following individual risk types which have been identified through the Group's risk assessment process:

- 2.1 Credit risk;*
- 2.2 Market risk;*
- 2.3 Non-trading interest rate risk;*
- 2.4 Structural foreign exchange risk;*
- 2.5 Liquidity risk;*
- 2.6 Operational risk;
- 2.7 Regulatory Compliance risk; and
- 2.8 Pension risk.

2.1 Credit risk*

Credit risk is defined as the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that pledged collateral does not fully cover the

Group's claims. The table below sets out the maximum exposure to credit risk that arises within the Group. The table distinguishes between those assets that are carried in the balance sheet at amortised cost and those carried at fair value. The most significant credit risks arise from lending activities to customers and banks, trading portfolio and available for sale financial investments, derivatives and 'off-balance sheet' guarantees and commitments. The credit risks arising from balances at central banks, treasury bills and items in course of collection are deemed to be negligible based on their maturity and counterparty status.

Credit risk on derivatives

The credit risk on derivative

contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB to meet customer needs, to reduce interest rate risk, currency risk and in some cases, credit risk, and also for proprietary trading purposes. Risks associated with derivatives are managed from a credit, market and operational perspective. The credit exposure is treated in the same way as other types of credit exposure and is included in customer limits. The total credit exposure consists partly of current replacement cost and partly of potential future exposure. The

Maximum exposure to credit risk	2007			2006		
	Amortised cost € m	Fair value € m	Total € m	Amortised cost € m	Fair value € m	Total € m
Balances at central banks ⁽¹⁾	380	-	380	243	-	243
Treasury bills and other eligible bills	-	15	15	-	196	196
Items in course of collection	383	-	383	527	-	527
Trading portfolio financial assets ⁽²⁾	-	8,122	8,122	-	8,829	8,829
Derivative financial instruments	-	2,299	2,299	-	1,710	1,710
Loans and receivables to banks	9,465	-	9,465	12,900	-	12,900
Loans and receivables to customers	127,603	-	127,603	107,115	-	107,115
Financial investments available for sale ⁽³⁾	-	20,643	20,643	-	19,372	19,372
Included elsewhere:						
Sale of debt securities awaiting settlement	-	45	45	-	194	194
Trade receivables	-	147	147	-	333	333
Accrued interest	1,023	-	1,023	842	-	842
	138,854	31,271	170,125	121,627	30,634	152,261
Financial guarantees	7,021	-	7,021	7,093	-	7,093
Loan commitments and other credit related commitments	23,715	-	23,715	24,056	-	24,056
	30,736	-	30,736	31,149	-	31,149
Maximum exposure to credit risk	169,590	31,271	200,861	152,776	30,634	183,410

⁽¹⁾Included within Cash and balances at central banks of € 1,264m (2006: € 989m).
⁽²⁾Excluding equity shares of € 134m (2006: € 124m).
⁽³⁾Excluding equity shares of € 326m (2006: € 293m).

*Forms an integral part of the audited financial statements

Risk management - Individual risk types

2.1 Credit risk* (*continued*)

potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract. The Group uses a simulation tool to estimate possible changes in future market values and computes the credit exposure to a high level of statistical significance.

Country risk

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable or precluded from fulfilling their obligations to the Group due to economic or political circumstances.

Country risk is managed by setting appropriate maximum risk limits to reflect each country's overall credit worthiness. These are informed by independent credit information from international sources and supported by periodic visits to relevant countries. Risks and limits are monitored on an ongoing basis.

Settlement risk

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. The settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated when effected via assured payment systems, or on a delivery-versus-payment basis. Each counterparty is assessed in the credit process and

clearing agents, correspondent banks and custodians are selected with a view to minimising settlement risk. The most significant portion of the Group's settlement risk exposure arises from foreign exchange transactions. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from foreign exchange transactions on a single day.

Credit concentration risk

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to the Group's capital, total assets, earnings or overall risk level to threaten its health or ability to maintain its core operations.

Risk identification and assessment

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools for each borrower or transaction. The methodology used produces a quantitative estimate of the PD for the borrower. This assessment is carried out at the level of the individual borrower or transaction and at sub-portfolio, portfolio, business unit and/or divisional level when relevant.

In the retail consumer and small and medium sized entity ("SME") book, which is characterised by a large number of customers with small individual exposures, risk assessment is largely informed through statistically-based scoring techniques. Both

application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios. In the commercial, corporate and interbank books, the rating systems utilise a combination of objective information, essentially financial data, and subjective assessments of non-financial risk factors such as management quality and competitive position. The combination of expert lender judgement and statistical methodologies varies according to the size and nature of the portfolio together with the availability of relevant default experience.

The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and, when appropriate, loans are transferred to special units to help avoid default or, when in default, to minimise loss.

Concentration risk is identified and assessed at single name counterparty level and at portfolio level. The Board approved Group Large Exposure Policy ("GLEP") sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties. Portfolio concentrations are identified and monitored by exposure and grade using internal sector or product risk codes. Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within the Group and in turn facilitate appropriate management action discussion and decision making.

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2.1 Credit risk* (continued)

Role of stress and scenario analysis in the assessment of credit risk

The Group conducts periodic stress tests on specific portfolios to assess the impact on existing credit concentrations and to assist the identification of any additional concentrations in its loan books. These tests are carried out as required by senior management.

As outlined above, the Group has also instituted stress tests on its credit exposures to assist capital planning under Basel II. The principal elements are as follows:

- Pillar 1 stress test is a scenario analysis of an extreme recession on all portfolios subject to Internal Based Rating systems within the Group. Following the application of the stressed economic scenario to the Group's grade profiles, the test assesses the incremental impact of the resulting ratings downgrades on the Group's risk weighted assets and estimates of expected loss and hence capital;
- Pillar 2 stress test is also carried out which applies a more plausible economic stress scenario to the Group's five year business and financial plans. The credit implications, including concentration risk, are again assessed through modelling the impact of movements in grades across various credit portfolios. The results are combined with the other risk and financial elements to inform capital planning.

Risk management and mitigation

The Group has an established credit process with a framework of credit policy and delegated authorities, based on skill and experience, for the management and control of credit risk. Credit grading, scoring and monitoring systems accommodate the early identification and management of any deterioration in loan quality. The credit management system is underpinned by an independent system of credit review.

The Board determines the credit authority for the Group Credit Committee ("GCC"), the Group Chief Executive and Group Chief Credit Officer and his deputies. It also approves divisional credit authorities and reviews credit performance on a regular basis. The GCC considers and approves credit exposures which are in excess of divisional credit authorities. Credit limits and delegated authorities are explicitly linked to levels of seniority within the Group.

Key credit policies are approved by the Board. Divisional management approves divisional credit policy within the parameters of relevant Group level policies. The divisional risk management function is an integral part of the approval process of divisional policies. Material divisional policies are referred to Group RMC and/or to the Board, where relevant, for approval.

In many cases, even where the perceived strength of the borrower's repayment capacity is the primary factor in granting the loan, security will be required as a secondary source of repayment in the event of the borrower's default.

Credit risk management within the Group also considers the risks associated with the quantum of borrowing. In cases of large exposures, it may be necessary to devise and adopt appropriate sell-down and syndication strategies. There are established guidelines in place relating to the execution of such strategies.

The GLEP sets out the framework for single name concentration appetite and limits, clearly defining what constitutes a connection (single name/group of connected accounts), what types of exposures are included in limit setting, limit by counterparty grade and approval authorities. Any exceptions to limits are highlighted and reported to the RMC.

Levels of concentrations by geography, sector and product are effectively set through the divisional and Group planning process. Performance against these growth plans is measured and reported quarterly with particular attention to existing and emerging concentrations.

Credit risk mitigation

The most significant and widely used credit risk mitigation tool available to the Group is its own robust internal credit risk control framework. The Group very occasionally complements internal controls with the purchase of credit derivatives to hedge credit risk. Current levels are minimal. The use of credit derivatives is subject to the normal credit approval process.

Provisioning for impairment

The identification of loans for assessment as impaired is driven by the Group's rating systems. The Group provides for impairment in

*Forms an integral part of the audited financial statements

Risk management - Individual risk types

2.1 Credit risk* (continued)

a prompt and consistent way across the credit portfolios. The rating models provide a systematic discipline in the identification of loans as impaired and in triggering a need for provisioning on a timely basis. Loans are identified as impaired if they are past due for typically ninety days or more or exhibit, through lender assessment, an inability to meet their obligations to the Group.

Within its provisioning methodology, the Group uses two types of provisions: a) Specific; and b) Incurred but not reported (“IBNR”) – i.e. collective provisions for earning loans. Specific provisions arise when the recovery of a specific loan or group of loans is significantly in doubt. The amount of the specific provision will reflect the financial position of the borrower and the net realisable value of any security held for the loan or group of loans. In practice, the specific provision is the difference between the present value of expected future cash flows for the impaired loan(s) and the carrying value. IBNR provisions are maintained to cover loans

which are impaired at the balance sheet date, and while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR impairment provisions can only be raised for incurred losses and are not allowed for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to previous loss experience in loan portfolios and to the credit environment at balance sheet date. Whilst provisioning is an ongoing process, all divisions formally review provision adequacy on a quarterly basis and determine the overall provision requirement. These provisions are, in turn, reviewed and approved on a quarterly basis at Group level.

Risk monitoring and reporting

Relevant credit risk information is reported in a timely manner to the appropriate level to enable informed management decision making.

Credit managers receive on a daily basis sufficient account and customer information to pro-

actively manage the Group’s credit risk exposures at transaction and relationship level.

Credit risk at a portfolio level is monitored regularly and reported on a monthly basis at a divisional level, which is in turn consolidated and aggregated at a Group level for reporting to senior management and the Board. Monthly reporting typically includes but is not limited to: information on loans; concentrations; provisions and grade profiles; and trends.

In addition to regular monthly reporting, a more detailed and comprehensive quarterly credit review process includes the formal approval through the GCC of divisional credit provisions. This quarterly process includes an in-depth analysis of each division’s credit portfolios, including analysis of significant credit concentrations. Key trends in grade profiles are also analysed with particular attention given to migration into grades where more management attention is required. These are known as criticised grades.

Single name counterparty concentrations are monitored at transaction level. Large exposures

Further information on credit risk

Further information on credit risk can be found in the notes to the financial statements.

- Derivative financial instruments (note 25).
- Loans and receivables to banks (note 26).
- Loans and receivables to customers (note 27).
- Additional information on credit risk (note 28).
- Provisions for impairment of loans and receivables (note 29).
- Amounts receivable under finance leases and hire purchase contracts (note 30).
- Financial investments available for sale (note 31).
- Provisions for liabilities and commitments (note 45).
- Memorandum items: contingent liabilities and commitments (note 51).
- Additional parent company information on risk (note 67).

*Forms an integral part of the audited financial statements

2.1 Credit risk* (continued)

approved through GCC are reported to GEC and RMC with particular reference to any approved exceptions to the GLEP. In turn, large exposures are reported to the Board quarterly.

Portfolio concentrations are monitored and reported monthly at divisional and Group level. More detailed reports are prepared quarterly at Group level, which outline trends by exposure and grade for key concentrations. This reporting facilitates discussion at senior management and Board level on appropriate actions.

In addition to the regular suite of reports, the Board also receives periodic ad hoc reports on important aspects of credit risk.

Credit performance measurement framework

The Group continues to refine its methodology for measuring the risk adjusted profitability of its credit business. Economic Value Added (“EVA”) is one of the primary measures of performance. EVA represents the value added having deducted all costs, including expected loss and a charge for the economic capital required to support the facility. The most important inputs into the determination of the expected loss and the economic capital are the Probability of Default (“PD”), the Loss Given Default (“LGD”) and the Exposure at default (“EAD”). The grades produced by the rating models are translated into a PD, which is a key parameter when measuring risk. LGD is measured taking into account, inter alia, the security held by the Group. EAD for many products is equal to the outstanding exposure but for some

products, such as credit lines and derivative contracts, the EAD may be higher than the outstanding exposure.

2.2 Market risk*

Market risk is defined as the risk to the Group’s earnings and shareholder value resulting from adverse movements in the level or volatility of market prices of debt instruments, equities and currencies.

The market risk associated with the Group’s trading activities is predominantly the result of the facilitation of client business and running proprietary positions in debt instruments, foreign exchange and equity products. In addition, the Group assumes market risk as a result of its group-wide balance sheet and capital management responsibilities. The management of the Group’s market risk activities is predominantly centralised in the Capital Markets division, specifically within Global Treasury, as the only business unit mandated to conduct proprietary trading with the wholesale markets. The Group’s brokerage businesses are mandated to take moderate market risk.

Risk identification and assessment

Independent risk functions exist within each trading business and are tasked with capturing all material sources of market risk within the trading portfolios. In addition to the standard risk factors, consideration is also given to credit spreads, liquidity issues, non-linearity and risk concentrations. A ‘New Products’ protocol complements this process by acting as a gateway to the

trading portfolio. An integral element of the process is the ongoing dialogue between dealers and risk analysts, in both formal and informal settings.

In quantifying the portfolio’s market risk profile, the Group’s risk measurement systems are configured to address all material risk drivers, including price dynamics, volatilities and correlation behaviour. The Group’s core risk measurement methodology is based on a variance co-variance application of the industry standard Value at Risk (“VaR”) technique that incorporates the portfolio diversification effect within each standard risk factor (interest rate, foreign exchange or equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one month holding period that would arise from a ‘worst case’ movement in market rates. This ‘worst case’ is derived from an historical observation of weekly price volatility over a period of three years, raised to a 99% statistical confidence level. Instruments with significant embedded or explicit option characteristics receive special attention, including Monte Carlo simulation and a full analysis of option sensitivities.

Although an important measure of risk, VaR has limitations as a result of its use of historical data, assumed distribution, holding periods and frequency of calculation. Furthermore, the use of confidence intervals does not convey any information about potential loss when the confidence level is exceeded. The Group recognises these limitations and

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Risk management - Individual risk types

2.2 Market risk* (continued)

supplements its use of VaR with a variety of other techniques, including sensitivity analysis, interest rate gaps by time period, and daily open foreign exchange and equity positions. Stress-testing and scenario analysis are employed on an ongoing basis to gauge the Group's vulnerability to loss under stressful market conditions.

Risk management and mitigation

In managing and overseeing market risk, the Group makes a distinction between its trading and non-trading activities.

Trading occurs when front line management exercises its discretion, subject to allocated market risk limits, to increase, hold, hedge or exit the market risk inherent in a given position. The interest rate trading book includes all securities and interest rate derivatives that are held for trading purposes in Global Treasury. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognised in income. The Market Risk Committee is responsible for the oversight of these activities. From a regulatory perspective, not all the risk positions within the Global Treasury portfolio meet the criteria for inclusion in the regulatory-defined 'Trading book'. However, the Group has chosen to subject all of Global Treasury's wholesale positions to the rigour of the market risk management framework.

Non-trading refers to all other positions that are structural in nature. The Group's non-trading book consists of its retail and

corporate deposit books, Global Treasury's cash books and the Group's investment portfolios and derivatives hedging interest rate risk, within these portfolios. The Group ALCo is responsible for the oversight of these activities and the appropriate strategies for measuring and hedging these risks. From a regulatory perspective, these positions are recorded in the 'Banking book'.

Market risk management in the Group has a number of inter-related components. As a management process, it is actively administered on the basis of clearly delegated authorities that reflect the appropriate segregation of duty, fit for purpose trading environments with enabling technology, and competent personnel with relevant skill and experience. Credit risk issues inherent in the market risk portfolios are subject to the credit risk framework that is described in 2.1 Credit risk.

A comprehensive suite of policies and standards clarifies roles and responsibilities, and provides for effective risk assessment, measurement, monitoring and review of trading positions. In addition, capital attribution, performance measurement and staff incentivisation reflect consistent risk adjusted measures.

Market risk management aligns with trading business strategy through the articulation of an annual risk strategy and appetite statement. Market risk appetite addresses the question of how much and what type of market risk is acceptable to the Group and is consistent with its overall business strategy.

Market risk is managed both in

terms of its potential economic and accounting impacts.

- Economic perspective: the Group uses VaR limits to control the impact of market risk activities on Tier 1 capital (the Group employs a matrix of such limits across the trading businesses);
- Accounting perspective: the Group uses an Earnings at Risk ("EaR") limit to control the income statement impact of capital erosion by defining the maximum tolerance for recognising losses in a given reporting period. Stop loss mechanisms at the trader level form part of this process.

Risk monitoring & reporting

Quantitative and qualitative information is used at all levels of the organisation, up to and including the Board, to identify, assess and respond to market risk. The actual format and frequency of risk disclosure depends on the audience and purpose which ranges from transaction-level control and activity reporting to enterprise-level risk profiles. For example, front office and risk functions receive the full range of daily control and activity, valuation, sensitivity and risk measurement reports, while the Board receives a monthly market risk commentary and summary risk profile.

The tables on the following page show the market risk profile of the Group at the end of 2007 and 2006, measured in terms of VaR for each standard risk type. For interest rate risk positions, the table also differentiates between those positions that are accounted for on a mark to market ("MTM")

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The following table illustrates the VaR figures for interest rate risk for the years ended 31 December 2007 and 2006.

	VaR (MTM portfolio)		VaR (Other portfolios)	
	2007 € m	2006 € m	2007 € m	2006 € m
Interest rate risk				
1 month holding period:				
<i>Average</i>	9.3	10.7	43.8	40.6
<i>High</i>	12.0	15.6	49.9	48.9
<i>Low</i>	6.2	7.6	38.6	30.2
<i>31 December</i>	7.6	9.4	38.6	46.9
1 day holding period:				
<i>Average</i>	2.0	2.3	9.3	8.7
<i>High</i>	2.6	3.3	10.6	10.4
<i>Low</i>	1.3	1.6	8.2	6.4
<i>31 December</i>	1.6	2.0	8.2	10.0

	VaR (MTM portfolio)	
	2007 € m	2006 € m
Foreign exchange rate risk-trading		
1 month holding period:		
<i>Average</i>	1.5	1.4
<i>High</i>	3.0	2.5
<i>Low</i>	1.0	0.7
<i>31 December</i>	1.0	0.9
1 day holding period:		
<i>Average</i>	0.3	0.3
<i>High</i>	0.6	0.5
<i>Low</i>	0.2	0.1
<i>31 December</i>	0.2	0.2

	VaR (MTM portfolio)	
	2007 € m	2006 € m
Equity risk		
1 month holding period:		
<i>Average</i>	14.9	14.0
<i>High</i>	24.1	20.0
<i>Low</i>	7.3	13.0
<i>31 December</i>	8.0	14.2
1 day holding period:		
<i>Average</i>	3.2	3.0
<i>High</i>	5.1	4.3
<i>Low</i>	1.6	1.7
<i>31 December</i>	1.7	3.0

basis and those that are not. For internal reporting, AIB employs a 99% confidence interval and a 1-month holding period, though the figures have also been scaled to a 1-day holding period for reference purposes. The Trading Book exposures in Global Treasury are included in the 'MTM portfolio' column and the Banking Book exposures in Global Treasury are included in the 'Other portfolio' column. The equivalent profile for Allied Irish Banks, p.l.c. is presented in Note 67 to the

financial statements.

The average VaR exposures in 2007 changed modestly from the average VaR exposures reported for 2006. There was a gradual reduction in the size of open positions during 2007 which reflected the impact of the stronger euro, time decay of existing positions and a more cautious stance towards incremental risk-taking in the second half of the year arising from the turmoil in the global capital markets. In VaR terms, increased volatility would have

partly offset the impact of these dampening effects, so as to leave the overall VaR outturn relatively unchanged from the levels prevailing in 2006.

2.3 Non-trading interest rate risk*

Non-trading interest rate risk is defined as the Group's sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. This is referred to as interest rate risk in the banking book. It reflects a combination of non-trading treasury activity and interest rate risk arising in the retail, commercial and corporate operations. AIB's treasury activity includes its money market business and management of internal funds flows with the Group's businesses. These treasury transactions are also captured under the market risk VaR assessment measure. Non-trading interest rate risk in retail, commercial and corporate banking activities can arise from a variety of sources, including where those assets and liabilities and off-balance sheet instruments have different repricing dates.

Risk identification and assessment

Banking book interest rate risk is calculated in each business unit on the basis of establishing the repricing behaviour of each asset, liability and off-balance sheet product. For some products the actual interest repricing characteristics differ from the contractual repricing. In these cases the repricing maturity is determined by the market interest rates that most closely fit the

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Risk management - Individual risk types

2.3 Non-trading interest rate risk* (continued)

behaviour of the product interest rate. For non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The assumptions behind these repricing maturities and the stability levels of portfolios are reviewed annually by the relevant divisional asset and liability committees. The risks from these exposures are managed through a series of VaR, basis point sensitivity and earnings at risk measures. The table shows the sensitivity of the Group's banking book to a hypothetical immediate and sustained 100 basis point ("bp") movement in interest rates on 1 January 2008 and its impact on net interest income over a twelve month period.

Sensitivity of projected net interest income to interest rate movements:	
	2007 € m
As at 31 December 2007	
+ 100 basis point parallel move in all interest rates	(69)
- 100 basis point parallel move in all interest rates	66

The analysis is subject to certain simplifying assumptions including but not limited to: all rates of all maturities move simultaneously by the same amount; all positions on wholesale books run to maturity; and there is no management action in response to movements in interest rates, in particular no changes in product margins.

In practice, positions in both retail and wholesale books are actively managed and the actual impact on interest income will be different to the model.

Risk management and mitigation

As a core risk management principle, the Group requires that all material interest rate risk is transferred to Global Treasury. This transferred banking book risk is managed as part of Global Treasury's overall interest rate risk position. The Group manages structural interest rate risk volatility by maintaining a portfolio of instruments with interest rates fixed for several years. The size and maturity of this portfolio is determined by characteristics of the interest-free or fixed-rate liabilities or assets and, in the case of equity, an assumed average maturity.

Risk monitoring and reporting

Group ALCo monitors the Group's

banking book interest rate risk and has oversight responsibility for non-treasury banking book risk. Treasury banking book risk is overseen by the Market Risk Committee. Group ALCo meets on a monthly basis and receives standing reports on the Group's asset and liability risk profile. It monitors positions against these limits on a monthly basis. The Board reviews and approves relevant policies and limits.

2.4 Structural foreign exchange risk*

Structural foreign exchange rate risk arises from the Group's non-

trading net asset position in foreign currencies. This arises almost entirely from the Group's net investments in its sterling, US dollar and Polish zloty-based subsidiaries and associates.

Risk identification and assessment

The Group prepares its consolidated balance sheet in euro. Accordingly, the consolidated balance sheet is affected by movements in the exchange rates between these currencies and the euro. Because of the Group's diversified international operations, the currency profile of its capital may not necessarily match that of its assets and risk-weighted assets. These positions are not actively hedged, although some mitigation of euro/sterling and euro/zloty positions arises from the Group's capital structure.

At 31 December 2007 and 2006, the Group's structural foreign exchange position against the euro was as follows:

	2007 € m	2006 € m
US dollar	1,471	1,516
Sterling	1,727	1,257
Polish zloty	676	511
	3,874	3,284

The Group also has a structural exposure to foreign exchange risk arising from its share of earnings from overseas subsidiaries and associates. Group ALCo sets the framework for and reviews the management of these activities. Open positions are reported as differences between expected earnings in the current year and the value of hedges in place.

*Forms an integral part of the audited financial statements

2.4 Structural foreign exchange risk* (continued)

Risk management and mitigation

The Group's structural foreign exchange hedging activity is overseen by the Hedging Committee, a sub-committee of the Group ALCo. The objective of the Group's hedging policy is to manage the Group's foreign currency earnings within tolerance levels based on the budget for the forthcoming year, making use of other natural hedges within the Group's balance sheet where these are available.

Risk monitoring and reporting

Group ALCo monitors the Group's structural foreign exchange risks. It meets on a monthly basis and receives standing reports on the Group's asset and liability risk profile including structural foreign exchange risk. The Board reviews and approves relevant policies and limits.

2.5 Liquidity risk*

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price.

Risk identification and assessment

Liquidity risk is assessed by modelling the net cash outflows of the Group over a series of maturity bands. Behavioural assumptions are applied to those liabilities whose contractual repayment dates are not reflective of their inherent stability. These net cash outflows are

compared against the Group's stock of liquid assets to consider, within each maturity band, the adequacy of the Group's liquidity position.

Risk management and mitigation

The objective of the Group's liquidity management policy is to ensure that the Group can at all times meet its obligations as they fall due at an economic price. The Group achieves this in a number of ways. Firstly, through the active management of its liability maturity profile, it ensures a balanced spread of repayment obligations with a key focus on 0-7 day and 8-31 day time periods. Secondly, the Group maintains a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity. The Group's stock of liquid assets is maintained at a level considered sufficient to meet the withdrawal of deposits or calls on commitments in both normal and abnormal trading conditions. In all cases, net outflows are monitored on a daily basis and the required minimum stock of liquid assets can be increased if these outflows exceed predetermined target levels. Finally, the Group maintains a diversified funding base across all segments of the markets in which it operates.

The Group's strong retail franchise and accompanying retail deposit base in Ireland, UK and Poland provides the Group with a stable and predictable source of funds. Although a significant element of these retail deposits are contractually repayable on demand or at short notice, the Group's

substantial customer base and geographic spread generally ensures that these current and deposit accounts represent a stable and predictable source of funds.

Global Treasury, through its Wholesale Treasury Operations manages, on a global basis, the liquidity and funding requirements of the Group. Euro, sterling, US dollar and Polish zloty represent the most important currencies to the Group from a funding and liquidity perspective. Global Treasury is active in the wholesale funding markets including the interbank and commercial deposit market. This is supplemented by commercial paper, certificate of deposit, medium term note and covered bond programmes which serve to further diversify the Group's sources of funding.

The Group's debt ratings are as follows: Moody's long-term "Aa2" and short-term "P-1"; Fitch long-term "AA-" and "F1+" short-term; Standard and Poors long-term single "A+" and "A -1" short-term.

The Group's liquidity management policy ensures that it has sufficient liquidity to meet its current requirements. In addition, it operates a funding strategy designed to anticipate additional funding requirements based upon projected asset growth. The Group undertakes liquidity stress testing and contingency planning to deal with unforeseen events.

The Group's approach to liquidity management complies with the Financial Regulator's revised "Requirements for the Management of Liquidity Risk", introduced in July 2007.

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Risk management - Individual risk types

2.5 Liquidity risk* (continued) *Risk monitoring and reporting*

The liquidity position of AIB is measured and monitored daily within Global Treasury. The daily liquidity report shows the Group's principal operating currencies of euro, sterling, dollar and zloty. Group ALCo and the Board receive monthly reports on the liquidity and funding position of the Group. Further information on liquidity risk can be found in note 55 to the financial statements.

2.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which include information technology and business continuity risk, internal and external fraud risk and fiduciary and legal risk.

Risk identification and assessment

Consistent with good industry practice, the Group has adopted Risk and Control Self-Assessment ("self-assessment") as a core process in the identification and assessment of operational risk across the enterprise. The process has three primary objectives:

- To ensure that key operational risks are identified, evaluated, monitored and managed;
- To inform senior management of the range and magnitude of operational risks faced and managed by the business as they work to meet their objectives; and

- To positively influence line management behaviour by highlighting operational risks and, in particular, assisting the prioritisation of the risks for management action.

The self-assessment process is a key 'bottom-up' process designed to identify and evaluate risks and their controls, to determine whether the controls are adequate, and where not, to identify and put remedial action in place. This enables managers to proactively rather than reactively address issues, thus reducing the incidence of errors and operational problems. Self-assessments are completed at a suitable level of disaggregation in the divisions and are regularly reviewed and updated. The process is designed to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to more significant risks. Key assurance processes include but are not limited to:

- Quarterly reviews/updates to self-assessments by the head of the business unit or sub-unit arising from changes in the business unit risk profile including control failures identified in operational risk incidents;
- The outputs from these regular reviews (with particular emphasis on material/significant risks) act as an important source for informing discussions at divisional management team/Boards and at divisional ORMCo meetings. They also act as an input to the semi-annual divisional and enterprise-wide risk review process; and

- Work to identify and develop appropriate risk indicators, trends and other associated metrics for the monitoring and reporting of key business unit risks to senior management.

Risk management and mitigation

Each business area is primarily responsible for managing its own operational risks. Group policies apply across the enterprise and set out the minimum standards that must be implemented by all businesses. An overarching Group Operational Risk Management ("ORM") policy is in place, which has established an effective and consistent approach to ORM. In addition, practical guidance is provided to support line management in addressing operational risk within their business areas. The Group ORM policy is also supported by a range of specific policies addressing issues such as new product and initiative approval, information security, and business continuity management. An important element of the Group's operational risk management framework is the ongoing monitoring through self-assessment of risks, control deficiencies and weaknesses, the tracking of incidents and loss events and the use of a structured 'lessons learned' process to ensure that, once identified, control deficiencies are communicated and remedied across the Group. The role of Group ORMCo is to review and coordinate operational risk management activities across the Group through setting policy, monitoring compliance and promoting best practice disciplines.

*Forms an integral part of the audited financial statements

2.6 Operational risk (continued)

The Group's Internal Control Framework is extensive and consists of the key components described above. The Group takes an end-to-end approach to internal controls in order to make sure that all components, taken together, deliver the control objectives of key risk management processes. In addition, an insurance programme is in place to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (Comprehensive crime/Computer crime; Professional indemnity/Civil liability; Employment practices liability; Directors and officers liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

Risk monitoring and reporting

The primary objective of the operational risk management reporting and control process within the Group is to provide timely, pertinent operational risk information to the appropriate management level so as to enable appropriate corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and incident data for the Group. The reporting of operational incidents and near misses, trend data, key risk indicators and outstanding audit issues at Group ORMCo and the RMC supports these two objectives. In addition, the Board

receives summary information on significant operational incidents and near misses on a monthly basis.

2.7 Regulatory compliance risk

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which the Group may suffer as a result of failure to comply with all applicable laws, regulations, rules, related self regulatory organisation standards, and codes of conduct applicable to its activities.

Risk identification and assessment

The scope of the Regulatory Compliance function relates to 'conduct of business' compliance obligations, including anti-money laundering and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations has been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions.

Regulatory Compliance undertakes a six-monthly assessment of the key compliance risks at divisional and enterprise level. The significance of compliance risks, their potential impact on the business and the effectiveness of management controls to mitigate these risks are assessed. The need for new or incremental mitigants is also identified. The review also

anticipates upstream risks in the form of new regulations and other market or regulatory developments.

The divisional risks are discussed and agreed at divisional management boards. These are collated and processed by Regulatory Compliance into an overall enterprise-wide review of compliance risks. The Regulatory Compliance function supports and validates this approach by operating a risk framework model that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the Operational Risk Self Assessment Risk Templates ("SARTs") for the relevant business unit.

Risk management and mitigation

The Board, operating through the Audit Committee, has approved the Group's compliance policy and the mandate for the Regulatory Compliance function. The Audit Committee reviews the Group's key compliance risks on a six monthly basis to assess the extent to which they are being managed effectively.

Management are responsible for ensuring that the Group complies with its regulatory responsibilities. GEC's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates thereby ensuring that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

The Regulatory Compliance function is specifically responsible

Risk management - Individual risk types

2.7 Regulatory compliance risk (*continued*)

for:

- Independently identifying, assessing and monitoring compliance risks faced by the Group;
- Advising and reporting to the RMC, divisional boards and the Board of Directors (through the Audit Committee) on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope;
- Providing advice and guidance to management and staff on compliance risks within its scope and on appropriate policies and procedures to mitigate these risks; and
- Providing a monitoring capability for 'non-conduct of business' compliance risks in areas of taxation law, company law, employment law, environmental law, and health and safety law on a risk prioritised basis.

Regulatory Compliance is an enterprise-wide function headed by the Group General Manager, Regulatory Compliance who reports functionally to the Group Finance Director, and independently to the Chairman of the Audit Committee. The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group's compliance risks.

The Group General Manager, Regulatory Compliance attends the Audit Committee and reports quarterly on the management of compliance risk across the

enterprise. Significant matters arising outside of these reporting periods are reported to the GEC, RMC and Audit Committee as necessary. A half-yearly review of compliance risks is presented to the Audit Committee.

Regulatory Compliance is also mandated to conduct investigations of possible breaches of compliance policy and to appoint outside legal counsel or other specialist external resources to perform this task if appropriate.

The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover a number of risk events which fall under the regulatory compliance umbrella.

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Dedicated monitoring teams are in place in the retail divisions, with monitoring in Capital Markets division being undertaken by business unit compliance officers.

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. Monitoring is undertaken both on a business unit and a process basis. The annual monitoring plan is reviewed regularly, and updated to reflect, inter alia, changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are

escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by Regulatory Compliance.

2.8 Pension risk

Pension risk is the risk that the funding position of the Group's defined benefit plans would deteriorate to such an extent that the Group would be required to make additional contributions to cover its pension obligations towards current and former employees. Pension risk includes market risk, investment risk and actuarial risk. The Group maintains a number of defined benefit pension schemes for past and current employees, further details of which are included in note 11 to the financial statements. The ability of the pension funds to meet the projected pension payments is maintained through the diversification of the investment portfolio across geographies and across a wide range of assets including equities, bonds and property. Market risk arises because the estimated market value of the pension fund assets might decline or their investment returns might reduce. Actuarial risk is the risk that the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required, or might choose, to make extra contributions to the pension fund.

Capital management

The policy of the Group is to maintain adequate capital resources at all times, having regard to the nature and scale of its business and the risk inherent in its operations. It does this through an Internal Capital Adequacy Assessment Process (“ICAAP”). The overarching principle of the ICAAP is the explicit linkage between capital and risk; the adequacy of the Group’s capital is assessed on the basis of the risks it faces. This requires a clear assessment of the material risk profile of the Group, and a consideration of the extent to which identified risks, both individually and in aggregate, require capital to support them. In addition, the level of capital held by the Group is influenced by its target debt rating and minimum regulatory requirements.

The Board reviews and approves the Group’s capital plan on an annual basis. The capital planning process is fully integrated into the Group and divisional planning process. The capital plan considers the amount and type of capital the Group requires to support its business strategy, comply with regulatory requirements and meet both its rating targets and market expectations over a five year horizon. It takes into consideration the results of stress tests, and considers strategies for hedging, releasing and raising capital in order to arrive at and maintain the Group’s desired capital profile. The divisions are responsible for managing their capital and the capital ratios of their licensed subsidiaries where applicable.

	31 December 2007 € m	31 December 2006 € m
Shareholders’ equity ⁽¹⁾	9,827	8,605
Equity and non-equity minority interests	1,351	1,307
Preference shares	169	189
Perpetual preferred securities	972	1,016
Undated capital notes	813	871
Dated capital notes	2,651	2,668
Total capital resources	15,783	14,656
⁽¹⁾ Includes other equity interests		

Capital resources and regulatory capital ratios*

The table* above shows AIB’s capital resources at 31 December 2007 and 31 December 2006. Capital resources increased by € 1,127 million during the year ended 31 December 2007. The increase arose primarily as a result of net retentions of € 1,260 million, pension scheme actuarial gains of € 393 million and other movements of € 54 million, offset by negative foreign exchange movements of € 580 million.

As regards regulatory capital resources and capital adequacy, the Group is subject to the requirements of the Financial Regulator. The Financial Regulator’s rules closely follow the provisions of existing European capital adequacy directives, and apply a risk asset ratio framework to the measurement of capital adequacy.

The adequacy of the Group’s capital is assessed by comparing available regulatory capital resources with capital requirements expressed as risk weighted assets. The internationally agreed minimum total capital (to risk weighted assets) ratio of 8% and Tier 1 capital (to risk weighted assets) ratio of 4% are the base

standards from which the Financial Regulator sets individual minimum capital ratios for banks within its jurisdiction.

The table* on the following page shows the components and calculation of the Group’s Tier 1 and total capital ratios as at 31 December 2007 and 31 December 2006. The Group was strongly capitalised at 31 December 2007 with a Tier 1 ratio of 7.5% and a total capital ratio of 10.1%.

Risk weighted assets increased by € 16.4 billion reflecting continued loan growth across the Group.

Tier 1 capital increased by € 0.4 billion, primarily as a result of strong retentions of € 1.3 billion offset by the negative impact of exchange rate movements (€ 0.3 billion) and the application of new regulatory requirements in respect of the final dividend and supervisory deductions in respect of investments in financial undertakings. The proposed final dividend of € 451 million is now required to be deducted from Tier 1 capital together with 50% of the supervisory deductions in respect of investments in financial undertakings amounting to € 182 million. If applied at 31 December 2006, the Tier 1 and total capital

*Forms an integral part of the audited financial statements

Capital management

ratios would have been 7.8% and 10.8% respectively.

Tier 2 capital reduced by a net € 76 million primarily reflecting the issue of lower Tier 2 capital of € 128 million offset by the impact of negative exchange rate movements.

The Capital Requirements Directive

The Capital Requirements Directive (“CRD”), which was transposed into Irish law at the end of 2006, introduces some significant amendments to the existing capital adequacy framework. Its goal is to provide a greater link between the risk a bank faces and the capital it requires, and it does this in a number of ways. In terms of minimum capital requirements (‘Pillar 1’) it brings greater granularity in risk weightings under the standardised approach for credit risk, and introduces an explicit capital requirement for operational risk. Perhaps the most significant amendment is the ability of banks to use the outputs of their own internal rating systems to calculate capital requirements for credit risk. This is known as the internal ratings based approach (“IRBA”). The IRBA allows banks to use their own estimates of the PD of their borrowers in the estimation of capital requirements. It can also allow banks to use their own estimates of a transaction’s LGD and EAD. Use of IRBA is subject to supervisory approval, and is provided only to those banks that can demonstrate that their credit risk management and risk estimation processes meet the required minimum standards.

The CRD also introduces two

	31 December 2007 € m	31 December 2006 € m
Capital base		
Tier 1		
Paid up ordinary share capital	294	294
Eligible reserves	8,566	7,975
Equity and non equity minority interests in subsidiaries	1,351	1,307
Non-cumulative preference shares	169	189
Non-cumulative perpetual preferred securities	972	1,016
Reserve capital instruments	497	497
Less: supervisory deductions	(1,358)	(1,162)
Total tier 1 capital	10,491	10,116
Tier 2		
Fixed asset revaluation reserves	107	110
IBNR provisions	218	189
Subordinated perpetual loan capital	813	871
Subordinated term loan capital	2,651	2,668
Total tier 2 capital	3,789	3,838
Gross capital	14,280	13,954
Supervisory deductions	(182)	(310)
Total capital	14,098	13,644
Risk weighted assets		
<i>Banking book:</i>		
On balance sheet	120,033	101,285
Off-balance sheet	12,408	13,033
	132,441	114,318
<i>Trading book:</i>		
Market risks	6,193	8,172
Counterparty and settlement risks	752	544
	6,945	8,716
Total risk weighted assets	139,386	123,034
Capital ratios		
Tier 1	7.5%	8.2%
Total	10.1%	11.1%

additional ‘pillars’. Under Pillar 2 (‘supervisory review’) banks may estimate their own internal capital requirements through an ICAAP, which is subject to supervisory review and evaluation. Pillar 3 (‘market discipline’) involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

AIB's implementation of the CRD

The CRD came into force from 1 January 2007 but contained a provision allowing banks to remain on the existing capital adequacy framework until 1 January 2008. AIB chose to avail of this option and thus the capital requirements presented above are calculated on the basis of the existing capital

adequacy framework. From 1 January 2008, AIB is using the IRBA to calculate capital requirements for credit risk on several significant portfolios and the standardised approach for the remainder of its book. The operational risk charge is calculated based on the standardised approach. The Group does not expect the transition to the CRD to significantly change its minimum regulatory capital requirement in the short to medium term.

In respect of Pillar 2, the Group submitted its ICAAP to the Financial Regulator during 2007. As regards Pillar 3, the Group will make relevant disclosures in due course.

Report of the Directors

for the year ended 31 December 2007

The Directors of Allied Irish Banks, p.l.c. (“the Company”) present their report and the audited accounts for the year ended 31 December 2007. A Statement of the Directors’ responsibilities in relation to the Accounts appears on page 179.

Results

The Group profit attributable to the ordinary shareholders of the Company amounted to € 1,949 million and was arrived at as shown in the Consolidated income statement on page 79.

Dividend

An interim dividend of EUR 27.8c per ordinary share, amounting to € 245 million, was paid on 25 September 2007. It is recommended that a final dividend of EUR 51.2c per ordinary share, amounting to € 451 million (*note 66*), be paid on 23 April 2008, making a total distribution of EUR 79.0c per ordinary share for the year. The profit attributable to the ordinary shareholders of the Company, which has been transferred to reserves, and the dividends paid during 2007, are dealt with as shown in the Consolidated reconciliation of movements in shareholders’ equity on page 85.

Capital

Information on the structure of the Company’s share capital, including the rights and obligations attaching to each class of shares, is set out in note 47 and on pages 185 to 189.

There were no allotments of new shares during the year. Details of Treasury Shares re-issued under the AIB Employee Share Schemes, and the Allfirst Financial Stock Option Plan, are given in Note 48.

At the 2007 Annual General Meeting (“AGM”), shareholders granted authority for the Company, or any subsidiary, to make market

purchases of up to 91.8 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. As at 31 December 2007 some 37.8 million shares purchased in previous years under similar authority were held as Treasury Shares; information in this regard is given in note 48.

Accounting policies

The principal accounting policies, together with the basis of preparation of the accounts, are set out on pages 61 to 78.

Review of activities

The Statement by the Chairman on pages 4 and 5 and the Review by the Group Chief Executive on pages 8 and 9 contain a review of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

The following Board changes occurred with effect from the dates shown:

- Mr. Donal Forde was appointed an Executive Director on 11 January 2007;
- Ms. Anne Maher was appointed a Non-Executive Director on 11 January 2007;
- Mr. Daniel O’Connor was appointed a Non-Executive Director on 11 January 2007;
- Mr. Padraic M. Fallon retired as a Non-Executive Director on 9 May 2007;
- Mr. John B. McGuckian retired as a Non-Executive Director

on 9 May 2007;

- Mr. David Pritchard was appointed a Non-Executive Director on 21 June 2007;
- Mr. Stephen L. Kingon was appointed a Non-Executive Director on 6 September 2007;
- Mr. Don Godson retired as a Non-Executive Director on 31 December 2007.

Messrs. Adrian Burke and Jim O’Leary will retire at the 2008 AGM and will not offer themselves for re-appointment. All other Directors will retire at the 2008 AGM and, being eligible, offer themselves for reappointment. The names of the Directors appear on pages 6 and 7, together with a short biographical note on each Director.

The appointment and replacement of Directors, and their powers, are governed by company law and the Articles of Association, and information on these is set out on pages 185 to 189. Amendments to the Articles of Association can only be effected by special resolution of shareholders.

Directors’ and Secretary’s Interests in the Share Capital

The interests of the Directors and Secretary in the share capital of the Company are shown in Note 56.

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital had been notified to the Company at 19 February 2008:

Bank of Ireland Asset Management Limited 4.6% (excluding Treasury Shares).

None of the clients on whose behalf these shares are held had a beneficial interest in 3% or more of the Ordinary Share Capital.

An analysis of shareholdings is shown on page 195.

Corporate Governance

The Directors' Corporate Governance statement appears on pages 54 to 60.

Books of Account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the *Internal Control* section of the Corporate Governance statement on pages 59 and 60, and the employment of competent persons. The books of account are kept at the Company's Registered Office, Bankcentre, Ballsbridge, Dublin 4, Ireland; at the principal offices of the Company's main subsidiary companies, as shown on pages 190 and 191; and at the Company's other principal offices, as shown on those pages.

Principal Risks and Uncertainties

Information concerning the principal risks and uncertainties facing the Company and the Group, as required under the terms

of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), is set out in the Risk Management section on pages 31 to 48.

Branches outside the State

The Company has established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulations 1993), in Australia, Canada, Estonia, France, Germany, Latvia, Lithuania, the United Kingdom and the United States of America.

Auditor

The Auditor, KPMG, has signified their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Dermot Gleeson

Chairman

Eugene Sheehy

Group Chief Executive

19 February 2008

Corporate Governance

Corporate governance is concerned with how companies are managed and controlled. The Board is committed to the highest standards in that regard and it is Board policy to comply with the provisions of the Combined Code on Corporate Governance⁽¹⁾ (“the Code”). This statement explains how the Company has applied the Principles set out in the Code⁽²⁾.

The Board

Role

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

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

The role of the Chairman, which is non-executive, is separate from the role of the Group Chief Executive, with clearly-defined

responsibilities attaching to each; these are set out in writing and agreed by the Board.

There is a procedure in place to enable the Directors to take independent professional advice, at the Company’s expense.

The Company holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided in advance with relevant papers to enable them to consider the agenda items, and are encouraged to participate fully in the Board’s deliberations. Executive management attend Board meetings and make regular presentations.

The Board held 11 scheduled meetings during 2007 and two additional out-of-course meetings. One of the scheduled meetings was held in Poland, where AIB is the majority shareholder in BZWBK, a significant banking company. Attendance at Board meetings and meetings of Committees of the Board is reported on below. During a number of Board meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. In addition to their attendance at Board and Committee meetings, Non-Executive Directors attended Board meetings of overseas subsidiaries and held consultative meetings with the Chairman.

Membership

It is the policy of the Board that a significant majority of the Directors should be Non-Executive. At 31 December 2007, there were 14 Non-Executive Directors and 4 Executive Directors. Since then, Mr. Don Godson retired as a Non-Executive Director. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Group.

The names of the Directors, with brief biographical notes, appear on pages 6 and 7. All Directors are required to act in the best interests of the Company, and to bring independent judgement to bear in discharging their duties as Directors. Mr. Robert G Wilmers serves as a Director of the Company as the designee of M&T Bank Corporation, in which AIB held a 24.3% interest at 31 December 2007. In these circumstances, Mr. Wilmers is not determined to be independent for the purposes of the Code. The Board has determined that all other Non-Executive Directors are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. Mr. Adrian Burke will retire from the Board at the Annual General Meeting on 22 April 2008. While he has served in excess of ten years, he has been determined by

⁽¹⁾The Code was updated by the Financial Reporting Council in June 2006, and was adopted by the Irish Stock Exchange and the UK Listing Authority.

⁽²⁾A brief description of the significant differences between AIB’s corporate governance practices and those followed by US Companies under the New York Stock Exchange’s listing standards is provided on AIB’s website: www.aibgroup.com.

Attendance at Board and Board Committee Meetings

Name	Board		Audit Committee		Remuneration Committee		Nomination & Corporate Governance Committee		Corporate Social Responsibility Committee	
	A	B	A	B	A	B	A	B	A	B
Adrian Burke	11	10	11	11						
Kieran Crowley	11	11	11	11					4	4
Colm Doherty	11	11								
Donal Forde	11	11							2	2
Dermot Gleeson	11	11			5	5	4	4		
Don Godson	11	11			5	5	4	4		
Stephen L. Kingon	4	3	3	2					1	1
Anne Maher	11	11	6	6						
Dan O'Connor	11	11	6	6			2	2		
John O'Donnell	11	11								
Sean O'Driscoll	11	11			4	4			2	2
Jim O'Leary	11	11	11	11	5	4				
David Pritchard	6	6			3	3				
Eugene Sheehy	11	11					4	4		
Bernard Somers	11	11			4	4	3	3		
Michael J Sullivan	11	8	5	4			4	3	2	2
Robert G Wilmers	11	7								
Jennifer Winter	11	11							4	4

Column A indicates the number of scheduled meetings held during 2007 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2007.

the Board to be independent. Mr. Jim O'Leary will also retire from the Board at the 2008 Annual General Meeting after six years of service.

Chairman

Mr. Dermot Gleeson has been Chairman of the Board since 2003. His responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new Directors, and reviewing the performance of individual Directors. Mr. Gleeson's term as Chairman will expire in April 2011.

Group Chief Executive

The day-to-day management of the Group has been delegated to the Group Chief Executive, Mr. Eugene Sheehy, who took up that position on 1 July 2005. His responsibilities include the formulation of strategy and related plans, and, subject to Board approval, their execution. He is also responsible for ensuring an effective organisation structure, for the appointment, motivation and direction of the senior executive management, and for the operational management of all the Group's businesses.

Senior Independent Non-Executive Director

Mr. Michael J. Sullivan, the Senior Independent Non-Executive

Director, is available to shareholders if they have concerns which contact through the normal channels of Chairman or Group Chief Executive have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate.

Company Secretary

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

Performance Evaluation

Evaluations of the performances of the Board, individual Directors, and Board Committees were conducted

Corporate Governance

during the year by the Chairman, who held discussions with each of the Directors who served for the majority of the year. The results were presented to the Board. An evaluation of the performance of the Chairman was conducted in his absence by the Non-Executive Directors, under the Chairmanship of Mr. Michael J. Sullivan, the Senior Independent Non-Executive Director, who had also consulted the Executive Directors.

Terms of Appointment

Non-Executive Directors are appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in exceptional circumstances, on the recommendation of the Nomination and Corporate Governance Committee. Following appointment, Directors are required by the Articles of Association to retire at the next AGM, and may go forward for re-appointment. Subsequently, all Directors are required to submit themselves for re-appointment at intervals of not more than three years. Since 2005, all the Directors retire from office at the AGM and offer themselves for re-appointment. It is intended that this measure of strengthened corporate governance practice will apply again at the 2008 AGM. Letters of appointment, as well as dealing with appointees' responsibilities, stipulate that a specific time commitment is required from Directors; (a copy of the standard terms of the letter of appointment of Non-Executive

Directors is available from the Company Secretary).

Induction and Professional Development

There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Company's strategic and operational plans, and a programme of meetings with the Group Chief Executive, the Heads of Divisions and the senior management of businesses and support functions.

During 2007, a number of internal seminars on developments in accounting principles and practice relevant to the preparation of the financial statements were conducted for the benefit of the Audit Committee members. All directors were offered the opportunity to attend external courses and seminars to update their knowledge and were briefed on the Basel II regulatory capital framework.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of

these Committees, each of which operates under terms of reference approved by the Board, and their membership, is given below. The minutes of all meetings of Board Committees are circulated to all Directors, for information, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The terms of reference of the Audit Committee, the Corporate Social Responsibility Committee, the Nomination and Corporate Governance Committee, and the Remuneration Committee are available on AIB's website, www.aibgroup.com.

Audit Committee

Members: Mr. Adrian Burke (Chairman until 31 December 2007); Mr. Dan O'Connor (from 1 May 2007; Chairman from 1 January 2008); Mr. Kieran Crowley; Mr. Stephen L. Kingon (from 6 September 2007); Ms. Anne Maher (from 1 May 2007); Mr. Jim O'Leary; and Mr. Michael J Sullivan (until 30 April 2007).

The role and responsibilities of the Audit Committee are set out in its terms of reference. Those responsibilities are discharged through its meetings and receipt of reports from Management, the external Auditor, the Group Finance Director, the Group Internal Auditor, the Group Chief Risk Officer, and the Group General Manager, Regulatory Compliance.

The Audit Committee reviews the Group's annual and interim financial statements; the scope of the audit; the findings, conclusions and recommendations of the internal and external Auditors; reports on compliance; and the effectiveness of internal controls. The Committee is responsible for making recommendations on the appointment, re-appointment and removal of the Auditor, ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditor, the Group Internal Auditor, and the Group General Manager, Regulatory Compliance, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Each of these parties has unrestricted access to the Chairman of the Audit Committee. There is a process in place by which the Audit Committee reviews the nature and extent of non-audit services undertaken by the Auditor and, if considered appropriate, approves, within parameters approved by the Board, the related fees. This ensures that the objectivity and independence of the Auditor is safeguarded.

A report is submitted annually to the Board, regarding the activities undertaken and issues considered by the Committee.

During 2007, the Audit Committee reviewed its own functioning and terms of reference with the assistance of external consultants. Arising from that review, a number of modifications were made to strengthen the

Committee's functioning. No changes to the Terms of Reference were considered necessary.

The Audit Committee met on eleven occasions during 2007. The following attend the Committee's meetings, by invitation: the external Auditor; the Group Finance Director; the Group Head of Accounting and Finance; the Group Internal Auditor; the Group Chief Risk Officer; and the Group General Manager, Regulatory Compliance.

Corporate Social Responsibility Committee

Members: Ms. Jennifer Winter, Chairman; Mr. Kieran Crowley; Mr. Donal Forde (from 1 May 2007); Mr. Padraic M Fallon (until 30 April 2007); Mr. Stephen L. Kingon (from 6 September 2007); Mr. Sean O'Driscoll (from 1 May 2007); Mr. Michael J. Sullivan (from 1 May 2007).

The responsibilities of the Corporate Social Responsibility ("CSR") Committee are to recommend Group CSR policies and objectives, review and direct CSR activities across the Group, monitor CSR best practice developments, and review and approve corporate-giving budgets and substantial philanthropic donations. AIB reports on its CSR activities under the headings of Marketplace, People, Environment and Community.

The Committee met on four occasions during 2007.

Nomination and Corporate Governance Committee

Members: Mr. Dermot Gleeson,

Chairman; Mr. Padraic M Fallon (until 30 April 2007); Mr. Don Godson (until 31 December 2007); Mr. John B McGuckian (until 30 April 2007); Mr. Dan O'Connor (from 1 May 2007); Mr. Eugene Sheehy; Mr. Bernard Somers (from 1 May 2007); and Mr. Michael J Sullivan.

The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board for appointment as Directors; reviewing the size, structure and composition of the Board; and reviewing succession planning. The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made, based on merit and objective criteria, following an appraisal process and interviews. During 2007, the services of external research consultants were used, and, on the recommendation of the Committee, four Non-Executive Directors and one Executive Director were appointed to the Board, and changes were made to the composition of the Board Committees. The Committee is also responsible for reviewing the Company's corporate governance policies and practices. During the year, the Committee reviewed its performance and terms of reference. No changes to the Terms of Reference were considered necessary.

The Committee met on four occasions during 2007.

Corporate Governance

Remuneration Committee

Members: Mr. Don Godson, (Chairman until 8 October 2007, retired from the Board on 31 December 2007); Mr. Sean O'Driscoll (from 1 May 2007; Chairman from 9 October 2007); Mr. Dermot Gleeson; Mr. John B. McGuckian (until 30 April 2007); Mr. Jim O'Leary (until 5 December 2007); Mr. David Pritchard (from 21 June 2007); and Mr. Bernard Somers (from 1 May 2007).

The Remuneration Committee's responsibilities include recommending to the Board:

- Group remuneration policies and practices;
- the remuneration of the Chairman of the Board (which matter is considered in his absence);
- performance-related bonus schemes for Executives; and the operation of share-based incentive schemes.

The Committee also determines the remuneration of the Group Chief Executive, and, in consultation with the Group Chief Executive, the remuneration of the other Executive Directors and the other members of the Group Executive Committee, under advice to the Board. The Committee receives independent professional advice from remuneration consultants. During the year, the Committee reviewed its performance and terms of reference. No changes to the Terms of Reference were considered necessary.

The Committee met on five occasions during 2007.

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears in Note 56 to the financial statements.

Relations with Shareholders

To strengthen communication with shareholders, the Company circulates each year, along with the statutory Annual Report and Accounts, a Summary Review, which is a short, user-friendly booklet explaining features of the Company's performance in the previous year. It also focuses on performance over the previous five years, AIB interaction with the wider community, and membership of the Board.

Website

Shareholders currently have the option of accessing the Annual Report and Accounts on AIB's website, instead of receiving that document by post. The website contains, for the previous five years, the Annual Report and Accounts, the Interim Report, the Annual Report on Form 20-F, and slides from annual and interim results presentations to analysts and investors.

The Company's presentations to fund managers and analysts of Annual and Interim Financial Results are broadcast live on the internet, and may be accessed on www.aibgroup.com/webcast. The times of the broadcasts are announced in advance on the website, which is also updated to include the Company's Stock Exchange releases. These releases include Trading Updates, heretofore usually issued in June and

December; commencing in 2008, these Trading Updates will be replaced by Interim Management Statements issued in May and November in compliance with the EU Transparency (Directive 2004/109/EC) Regulations 2007. These items are thus available for review by all shareholders who have access to the internet.

Annual General Meeting

All shareholders are invited to attend the AGM and to participate in the proceedings. Shareholders are invited to submit written questions in advance of the AGM, to which the Chairman responds in writing following the meeting. At the AGM, it is practice to give a brief update on the Group's trading performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue. The proportion of proxy votes lodged for, against, and withheld relating to each resolution is indicated; this shows what the voting position would be if all votes cast, including votes cast by shareholders not in attendance, were taken into account. Since the 2007 AGM, in compliance with the updated Combined Code on Corporate Governance published in June 2006:

- proxy forms provide the option for shareholders to direct their proxies to withhold their vote;
- information previously provided at the AGM, and made available on AIB's website shortly thereafter, has been enhanced to include:
 - (1) the number of shares in respect of which proxy appointments have been validly made for

- each resolution;
- (2) the number of votes for and against each resolution; and
- (3) the number of shares in respect of which votes have been withheld.

The Chairmen of the Board's Committees are available to answer questions about the Committees' activities. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the Meeting. A Help Desk facility is available to shareholders attending.

The Company's 2008 AGM is scheduled to be held on 22 April, at the Company's Head Office at Bankcentre, Ballsbridge, Dublin 4, and it is intended that the Notice of the Meeting will be posted to shareholders on 20 March. This represents a notice period of 32 calendar days or 20 working days.

Institutional Shareholders

The Company held over 350 meetings with its principal institutional shareholders and with financial analysts and brokers during 2007. The Group Chief Executive, the Group Finance Director, Heads of Divisions, other Executive Management as requested by shareholders, and the General Manager, Group Finance participated in those meetings, at which care was taken to ensure that price-sensitive information was not divulged. Company representatives also spoke at a number of investor conferences.

- The Chairman and the Senior Independent Non-Executive Director are available to meet institutional shareholders, and the links with those

shareholders and the communication of their views to the Board were strengthened through the following steps:

- a research project was undertaken by external consultants into the views of AIB's largest institutional shareholders, and the results were presented to the Board;
- the General Manager, Group Finance reported on institutional shareholders' views to the Board; and
- analysts' and brokers' briefings on the Company were circulated to the Directors, on receipt, throughout the year.

Accountability and Audit

Accounts and Directors' Responsibilities

The Accounts and other information presented in the 2007 Annual Report and Accounts are consistent with the Code Principle requiring the presentation of "a balanced and understandable assessment of the Company's position and prospects". The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 179.

Going Concern

The Accounts continue to be prepared on a going concern basis, as the Directors are satisfied that the Company and the Group as a whole have the resources to continue in business for the foreseeable future. In forming this view, the Directors have reviewed the Group's budget for 2008.

Internal Control

The Directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness. The Turnbull Guidance ("*Internal Control: Revised Guidance for Directors on the Combined Code*"), issued by the Financial Reporting Council in October 2005, assists Directors in complying with the Code's requirements in respect of internal control. That Guidance states that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal control includes:

- a clearly-defined management structure, with defined lines of authority and accountability;
- a comprehensive annual budgeting and financial reporting system, which incorporates clearly-defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning. The accuracy and integrity of the Group's financial information is confirmed through both Divisional and Group-level reports to the Group Finance Director and through an internal control over financial

Corporate Governance

- reporting framework for ensuring compliance with the requirements of Section 404 of the US Sarbanes-Oxley Act 2002;
- the Group Internal Audit function, which is responsible for independently assessing the adequacy, effectiveness and sustainability of the Group's governance, risk management and control processes; (the Group Internal Auditor attended the Board on two occasions in 2007 in confidential session in the absence of management);
 - the Group Risk Management function, which is responsible for ensuring that risks are identified, assessed and managed throughout the Group;
 - the Group Regulatory Compliance function, which reports independently through the Group General Manager, Regulatory Compliance, to the Audit Committee on the compliance framework across the Group and on management's attention to compliance matters;
 - the Audit Committee, which receives reports on various aspects of control, including reports on the design and operating effectiveness of the internal control over financial reporting framework in compliance with the requirements of Section 404 of the US Sarbanes-Oxley Act 2002, reviews the Group's Statutory Accounts and other published financial statements and information, and ensures

that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit and Regulatory Compliance functions. The Audit Committee reports to the Board on these matters, and on compliance with relevant laws and regulations, and related issues;

- appropriate policies and procedures relating to capital management, asset and liability management (including interest rate risk, exchange rate risk and liquidity management), credit risk management, and operational risk management. Independent testing of the risk management and control framework is undertaken by the Internal Audit function;
- regular review by the Board of overall strategy, business plans, variances against budgets and other performance data.

The Group's structure and processes for identifying, evaluating and managing the significant risks faced by the Group are described in the Risk management section. Those processes, which have been in place throughout the year and up to the date of the approval of the Accounts, are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Directors confirm that, with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended 31 December 2007.

Compliance Statement

The foregoing explains how the Company has applied the principles of the Combined Code on Corporate Governance. The Company has complied, throughout 2007, with the Code's provisions.

Accounting policies

The significant accounting policies that the Group applied in the preparation of the financial statements are set out below.

1 Reporting entity

Allied Irish Banks, p.l.c. (the parent company) is a company domiciled in Ireland. The address of the company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the accounts of Allied Irish Banks, p.l.c. (the parent company) and its subsidiary undertakings, collectively referred to as the "Group", where appropriate, including certain special purpose entities and are made up to the end of the financial year. The Group is primarily involved in retail and corporate banking, investment banking and the provision of asset management services.

2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU") and applicable for the year ended 31 December 2007. The accounting policies have been consistently applied by Group entities. The financial statements also comply with the requirements of Irish Statute comprising the Companies Acts 1963 to 2006 and the European Communities (Credit Institutions:Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 and the Asset Covered Securities Act 2001. The parent company financial statements have been prepared in accordance with IFRSs as issued by the IASB and adopted by the EU, and in accordance with Irish statute. In publishing the parent company financial statements together with the Group financial statements, AIB has taken advantage of the exemption in paragraph 2 of the European Communities (Credit Institutions:Accounts) Regulations, 1992 not to present its parent company income statement and related notes that form part of these approved financial statements.

3 Basis of preparation

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of impairment of financial assets, retirement benefit liabilities, share based payment expense and the fair value of certain financial assets and financial liabilities. A description of these estimates and judgments is set out within item 31 of this section.

4 Basis of consolidation

Subsidiary undertakings

A subsidiary is one where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases.

A special purpose entity is an entity created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

The Group uses the purchase method of accounting to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of

4 Basis of consolidation *(continued)*

the transaction, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from the financial statements, as they are not assets of the Group.

Associated undertakings

An associate undertaking is generally one in which the Group's interest is greater than 20% and less than 50% and in which the Group has significant influence, but not control, over the entity's operating and financial policies.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in the equity of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment (net of any accumulated impairment loss). When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

The Group's share of the results of associated undertakings after tax reflects the Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

5 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except for qualifying cash flow hedges, which are recognised in equity. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on other non-monetary assets are reported directly in equity.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions; and
- Since 1 January 2004, the Group's date of transition to IFRS, all resulting exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in part or in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement.

6 Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable, and expense payable, on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Interest income and expense presented in the income statement includes:-

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method.
- Interest on financial investments available for sale on an effective interest method.
- Interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges.
- Interest income and expense on trading portfolio financial assets, excluding equities.

7 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised as the service is provided except for arrangement fees where it is likely that the facility will be drawn down, and which are included in the effective interest rate calculation.

8 Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities, and includes all realised and unrealised fair value changes.

9 Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

10 Operating leases

Payment made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received, and premiums paid, at inception of the lease are recognised as an integral part of the total lease expense, over the term of the lease.

11 Employee benefits

Retirement benefit obligations

The Group provides employees with post retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to Governmental and other plans which have the characteristics of defined contribution plans. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each balance sheet date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date is recognised in the balance sheet. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

The cost of providing defined benefit pension schemes to employees, comprising the current service cost, past service cost, the expected return on plan assets and the change in the present value of scheme liabilities arising from the passage of time is charged to the income statement within personnel expenses.

The cost of the Group's defined contribution schemes, is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the balance sheet date are included as a liability. The Group has no further obligation under these plans once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans and preferential rates on staff deposits is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without the realistic possibility of withdrawal, to a formal plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Share based compensation

The Group operates a number of equity settled share based compensation plans. For grants of options after 7 November 2002, the fair value of the employee services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in exchange for the shares or share options granted is recognised in the income statement over the period during which the employees become unconditionally entitled to the options, which is the vesting period. The amount expensed is determined by reference to the fair value of the options granted. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the share price at date of grant of the option, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting conditions are met, provided that any non-market vesting conditions are met.

The expense relating to share based payments is credited to shareholders' equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium when the options are exercised. When the share based payments give rise to the reissue of shares from treasury shares, the proceeds of issue are credited to shareholders' equity. In addition, there is a transfer between the share based payment reserve and profit and loss account, reflecting the cost of the share based payment already recognised in the income statement.

12 Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Payments are deducted from the present value of the provision and interest at the relevant discount rate is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events giving rise to present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless they are remote.

13 Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post retirement benefits, tax losses carried forward, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: taxable goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which affect neither accounting nor taxable profit.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

14 Construction contracts

Revenue from construction contracts is recognised when it is probable that the economic benefits of the transaction will flow to the Group and when the revenue, the costs (both incurred and future), the outcome of the contract and its stage of completion can all be measured reliably. Once the above criteria are met, both contract revenue and contract costs are recognised by reference to the stage of completion of the contract. The stage of completion is formally reviewed by an external firm of quantity surveyors at each balance sheet date.

When the outcome of a construction contract cannot be estimated reliably, no profit is recognised, but revenue is recognised to the extent of costs incurred that are probable of recovery. Costs are recognised as an expense in the income statement in the accounting period in which the work is performed.

15 Impairment of property, plant and equipment, goodwill and intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review.

Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of the net selling price of the asset or cash generating unit and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

16 Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset on or before the balance sheet date, ('a loss event') and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
- d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - i. adverse changes in the payment status of borrowers in the portfolio;
 - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes

16 Impairment of financial assets (continued)

the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported (“IBNR”) assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty’s ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Assets acquired in exchange for loans and receivables in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of an asset. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset and not as an impairment of the original instrument.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the instrument below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had been previously recognised directly in equity is removed from equity and recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement and increases in the fair value of equity shares after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for all other financial assets. Reversals of impairment of debt securities are recognised in the income statement.

Past due loans

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. ‘Past due days’ is a term used to describe the cumulative numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower;

- has breached an advised limit;
- has been advised of a limit lower than the then current outstandings; or
- has drawn credit without authorisation.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

16 Impairment of financial assets *(continued)*

Loans and receivables renegotiated

Loans and receivables renegotiated are those facilities outstanding at the reporting date that, during the financial year have had their terms renegotiated, resulting in an upgrade from default status to performing status. This is based on subsequent good performance and/or an improvement in the profile of the borrower.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

17 Financial assets

The Group classifies its financial assets into the following categories: – financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value, however, with the exception of financial assets at fair value through profit or loss, the initial fair value includes direct and incremental transaction costs.

The fair value of assets traded in active markets is based on current bid prices. In the absence of current bid prices, the Group establishes a fair value using valuation techniques. These include the use of recent arm's-length transactions, reference to other similar instruments, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established. Impairment losses and translation differences on monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category has two sub categories: – Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. If the Group was to sell other than an insignificant amount of held to maturity assets, the remainder would be required to be reclassified as available for sale.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

17 Financial assets (continued)

Available for sale financial assets are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale or impairment when the cumulative gain or loss is transferred to the income statement.

Parent Company accounts: Investment in subsidiary and associated undertakings

The company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the company accounts for it at the lower of its carrying value and fair value less costs to sell.

Transfers of businesses or investments in subsidiary undertakings between members of the Group are measured at their carrying value at the date of the transaction.

18 Financial liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement using the effective interest method.

Preference shares, which carry a mandatory coupon, are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

19 Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic life.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	Life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years*
Office properties	up to 15 years*
Computers and similar equipment	3 – 7 years
Fixtures and fittings and other equipment	3 – 10 years

*Subject to the maximum remaining life of the lease.

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement.

It is Group policy not to revalue its property, plant and equipment.

20 Intangible assets

Goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings. Purchased goodwill is the excess of the fair value of the purchase consideration and direct costs of making the acquisition, over the fair value of the Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is performed either using market rates or by using risk-free rates and risk adjusted expected future cash flows.

Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill previously written off to reserves under Irish GAAP has not been reinstated and will not be included in calculating any subsequent profit or loss on disposal.

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset.

21 Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements are used for trading purposes while interest rate swaps are used for hedging purposes.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques, and discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle net.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

21 Derivatives and hedge accounting (*continued*)

Hedging

All derivatives are carried at fair value in the balance sheet and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39 “Financial Instruments: Recognition and Measurement”, the Group designates certain derivatives as either: –

- (1) hedges of the fair value of recognised assets or liabilities or firm commitments (“fair value hedge”); or
- (2) hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (“cash flow hedge”); or
- (3) hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group discontinues hedge accounting when:

- a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- b) the derivative expires, or is sold, terminated, or exercised;
- c) the hedged item matures or is sold or repaid; or
- d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale items the fair value hedging adjustment remains in equity until the hedged item affects the income statement. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in shareholders’ equity, and recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time, remains in equity and is recognised in the income statement when the forecast transaction arises. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised directly

21 Derivatives and hedge accounting *(continued)*

in equity and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

22 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement. No reclassifications are made in respect of prior periods.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement (including comparatives) as a separate amount, comprising the total of the post tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on disposal of the assets/disposal groups constituting discontinued operations.

23 Collateral & netting

The Group enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. These items are assigned to deposits received from banks or other counterparties in the case of cash collateral received. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the balance sheet. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross on the balance sheet.

24 Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial

24 Financial guarantees (continued)

guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

Allied Irish Banks p.l.c. issues financial guarantees to other Group entities and accounts for these intercompany guarantees as insurance contracts.

25 Sale and repurchase agreements (including stock borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them ("repos"). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the balance sheet as appropriate.

Similarly, when securities are purchased subject to a commitment to resell ("reverse repos"), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

26 Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the Group's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

27 Shareholders' equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other considerations. Share capital comprises ordinary shares of the entity.

Share premium

When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares, is transferred to share premium.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are charged, net of tax, to the share premium account.

27 Shareholders' equity *(continued)*

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. Dividends declared after the balance sheet date are disclosed in Note 66.

Other equity interests

Other equity interests relate to Reserve Capital Instruments *(note 49)*.

Capital reserves

Capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Revaluation reserves

Revaluation reserves represent the unrealised surplus, net of tax, which arose on revaluation of properties prior to the implementation of IFRS at 1 January, 2004.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the balance sheet of financial investments available for sale at fair value.

Cash flow hedging reserve

Cash flow hedging reserve represents the net gains or losses, net of tax, on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transaction affects profit or loss.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserve

The foreign currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the balance sheet date.

Treasury shares

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Share based payments reserve

The share based payment expense charged to the income statement is credited to the share based payment reserve over the vesting period of the shares and options. Upon grant of shares and exercise of options, the amount in respect of the award credited to the share based payment reserves is transferred to revenue reserves.

28 Insurance and investment contracts

In its consolidation of Ark Life up to date of disposal, and in accounting for its interest in Hibernian Life Holdings Limited, the Group has classified its Long Term Assurance business in accordance with IFRS 4 "Insurance Contracts". Insurance contracts are those contracts containing significant insurance risk. In the case of life contracts, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the balance sheet date there may be no excess of the original premium over the backing assets. Investment contracts are contracts that do not have significant insurance risk.

28 Insurance and investment contracts (continued)

Insurance contracts

The Group accounts for its insurance contracts using the European embedded value principles, published by the CFO Forum. The embedded value comprises two components: the net assets attributable to the Group and the present value of the in-force business (“VIF”). The change in the VIF before tax is accounted for as revenue. The value is estimated as the net present value of future cash flows attributable to the Group before tax, based on the market value of the assets at the balance sheet date, using assumptions that reflect experience and a long-term outlook for the economy and then discounting at an appropriate risk discount rate.

Insurance contract liabilities are calculated on a statutory basis. Premiums are recognised as revenue when due from the policyholder. Claims, which together with the increase in insurance contract liabilities are recognised in the income statement as they arise, are the cost of all claims arising during the period.

Investment contracts

Investment contracts are primarily unit-linked. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the balance sheet date. The liability is measured at fair value, which is the bid value of the assets held to match the liability. Increases in investment contract liabilities are recognised in the income statement as they arise. Revenue in relation to investment management services is recognised as the services are provided. Certain upfront fees and charges have been deferred and are recognised as income over the life of the contract. Premiums and claims are accounted for directly in the balance sheet as adjustments to the investment contract liability.

29 Segment reporting

Business segments are distinguishable components of the Group that provide products and services that are subject to risks and rewards that are different to those of other business segments. The Group has determined that business segments are the primary reporting segments and thus business segment information is based on management accounts information. Transactions between business segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each business segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Income on capital is allocated to the divisions on the basis of the amount of capital required to support the level of risk weighted assets. Interest income earned on capital which is not allocated to divisions is reported and retained in Group.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

30 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

31 Accounting estimates and judgements

The estimates that have a significant impact on the financial statements and estimates with a significant risk of material adjustment in the next year are set out below:-

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported (“IBNR”) loan loss provision level.

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor’s loan or overdraft account. The amount of the specific provision made in the Group’s consolidated financial statements is intended to cover the difference between the assets’ carrying value and the present value of estimated future cash flows discounted at the assets’ original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review.

31 Accounting estimates and judgements *(continued)*

Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in AIB Group; it triggers the process which results in the creation of a specific provision on individual loans where there is doubt on recoverability.

IBNR provisions are also maintained to cover loans which are impaired at the balance sheet date and, while not specifically identified, are known from experience to be present in any portfolio of loans.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, levels of credit management skills, local and international economic climates, portfolio sector profiles/industry conditions and current estimates of expected loss in the portfolio.

Estimates of expected loss are driven by the following key factors:

- Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
- Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and
- Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

The rating systems have been internally developed and are continually being enhanced, e.g. externally benchmarked to help underpin the aforementioned factors which determine the estimates of expected loss. Estimated expected loss is only one element in assessing the adequacy of allowances.

All AIB divisions assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate Group levels being approved by the Audit Committee and the Board.

Fair value of financial instruments

Certain of the Group's financial instruments are carried at fair value, including all derivatives, financial instruments at fair value through profit or loss and financial investments available for sale.

The fair value of financial instruments is determined based on: quoted prices sourced from external pricing services; bid quotations sourced from external securities dealers; or by using valuation models. Estimation of fair value can involve the significant use of judgement.

Valuations for negotiable instruments such as debt and equity securities are determined on a price basis, using bid prices for asset positions. Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore market makers and/or investment banks ("contributors") publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group's valuation policy requires that the prices for these securities used in determining fair value must be sourced from established market makers and/or investment banks.

Where the fair value is calculated using financial markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, where no observable price is available the instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels.

The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used) and hedging costs not captured in pricing models. This may also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument.

The choice of contributors, the quality of market data used for pricing, and the valuation models used are all subject to internal review and approval procedures. Any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders equity and, in the case of trading portfolio assets, the income statement.

31 Accounting estimates and judgements (continued)

Share-based payment schemes

The Group operates a number of equity settled share based compensation plans. The fair value of options granted is derived from option pricing models. A number of assumptions are made in ascertaining this fair value including expected share price volatility and dividend yield. In addition certain assumptions are made on employee forfeitures and growth in earnings per share. If these assumptions do not materialise as expected it could give rise to a higher or lower share based payment expense in future years.

Retirement benefits

The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. In relation to the defined benefit schemes, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

In calculating the scheme liabilities and the charge to the income statement, the directors have chosen a number of assumptions within an acceptable range, under advice from the Group's actuaries. The impact on the income statement and balance sheet could be materially different if a different set of assumptions were used.

Financial asset and financial liability classification

The Group's accounting policies provide scope for financial assets and financial liabilities to be designated on inception into different accounting categories in certain circumstances. In classifying financial assets as "trading" the Group has determined that it meets the definition of trading assets and trading liabilities as set out in accounting policy number 17 Financial assets. In circumstances where financial assets are classified as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy number 17.

32 Prospective accounting changes

The following legislative changes and new accounting standards or amendments to standards approved by the International Accounting Standards Board ('IASB') in 2007, (but not early adopted by the Group) will impact the Group's financial reporting in future periods. If applicable they will be adopted in 2008.

The EU Transparency Directive (the "Directive") was transposed into Irish law on 13 June 2007 and will impact AIB's external reporting from 1 January 2008. The Directive seeks to enhance transparency in EU capital markets in order to improve investor protection and market efficiency. The Directive sets out publication deadlines and content requirements in relation to annual financial reports and half-yearly financial reports. The legislation imposes certain requirements in respect of half-yearly reports and sets out time-lines for when public companies should publish management statements during the financial year. The Directive is not expected to have a significant impact on Group reporting.

Amendment to IFRS 2 – Share-based payments: vesting conditions and cancellations (effective 1 January 2009). This amendment clarifies the accounting treatment of cancellations and vesting conditions.

IFRS 3 Revised – Business Combinations (effective 1 July 2009). This standard deals with how an acquirer recognises, measures and discloses in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The objective is to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The impact on the Group will be dependent on the nature of any future acquisition.

IFRS 8 – Operating Segments was issued in November 2006 replacing IAS 14, Segmental Reporting (effective 1 January 2009). IFRS 8 changes the basis for identifying operating segments. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IAS 14 required identification of two sets of segments – one based on related products and services, and the other on geographical areas. IFRS 8 requires additional disclosures around identifying segments and their products and services. The introduction of this Standard will impact Group reporting although this is not expected to be significant.

32 Prospective accounting changes *(continued)*

Amendment to IAS 1, Presentation of Financial Statements – a revised presentation (effective 1 January 2009). This amendment sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. IAS 1 will impact on the presentation of the financial statements of the Group, however, this is not expected to be significant.

Amendment to IAS 23 – Borrowing costs (effective 1 January 2009). This standard requires an entity to capitalise borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. The impact on Group reporting is not expected to be significant.

Amendment to IAS 27 – Consolidated and Separate Financial Statements (effective 1 July 2009). The objective of this amendment is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The introduction of this amendment will impact Group reporting although this is not expected to be significant.

IFRIC 11 – Group and Treasury Share Transactions (effective 1 January 2008). This interpretation deals with accounting for share based payments at subsidiary level and will have no impact on the Group's accounts.

IFRIC 12 – Service Concession Arrangements (effective 1 January 2008). This IFRIC will not have an impact on AIB's accounts.

IFRIC 13 – Customer Loyalty Programmes (effective 1 July 2008). This interpretation deals with accounting for customer loyalty award credits. This IFRIC will not have a material impact on the Group.

IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008). This interpretation deals with accounting for refunds in contributions and minimum funding requirements. This IFRIC will not have a material impact on the Group.

The IASB announced on 1 July 2006 that it will not require the application of new IFRSs under development or major amendments to existing IFRSs before 1 January 2009. Delaying implementation of new standards until 2009 will have provided four years of stability in the IFRS platform of standards for those companies that adopted IFRSs in 2005. Companies will however, be permitted to adopt a new standard on a voluntary basis before its effective date. Interpretations and minor amendments to correct problems identified in practice are not subject to this 2009 delay.

Consolidated income statement

for the year ended 31 December 2007

	Notes	2007 € m	2006 € m
Interest and similar income	3	9,340	6,928
Interest expense and similar charges	4	5,922	3,929
Net interest income		3,418	2,999
Dividend income	5	31	23
Fee and commission income	6	1,453	1,235
Fee and commission expense	6	(197)	(161)
Net trading income	7	74	173
Other operating income	8	89	57
Other income		1,450	1,327
Total operating income		4,868	4,326
Administrative expenses	9	2,376	2,174
Amortisation of intangible assets	36	60	53
Depreciation of property, plant and equipment	37	85	87
Total operating expenses		2,521	2,314
Operating profit before provisions		2,347	2,012
Provisions for impairment of loans and receivables	29	106	118
Provisions for liabilities and commitments	45	(8)	(15)
Amounts written off financial investments available for sale	12	1	1
Operating profit		2,248	1,908
Associated undertakings	32	128	167
Profit on disposal of property	13	76	365
Construction contract income	14	55	96
Profit on disposal of businesses	15	1	79
Profit before taxation – continuing operations		2,508	2,615
Income tax expense – continuing operations	17	442	433
Profit after taxation – continuing operations		2,066	2,182
Discontinued operation, net of taxation	1 & 34	-	116
Profit for the period		2,066	2,298
Attributable to:			
Equity holders of the parent		1,949	2,185
Minority interests in subsidiaries	18	117	113
		2,066	2,298
Basic earnings per share – continuing operations	19(c)	218.0c	233.5c
Basic earnings per share – discontinued operations		-	13.3c
Total	19(a)	218.0c	246.8c
Diluted earnings per share – continuing operations	19(d)	216.4c	231.4c
Diluted earnings per share – discontinued operations		-	13.2c
Total	19(b)	216.4c	244.6c

Consolidated balance sheet

as at 31 December 2007

	Notes	2007 € m	2006 € m
Assets			
Cash and balances at central banks	54	1,264	989
Treasury bills and other eligible bills	23	15	196
Items in course of collection		383	527
Trading portfolio financial assets	24	8,256	8,953
Derivative financial instruments	25	4,557	2,890
Loans and receivables to banks	26	9,465	12,900
Loans and receivables to customers	27	127,603	107,115
Financial investments available for sale	31	20,969	19,665
Interests in associated undertakings	32	1,682	1,792
Intangible assets and goodwill	36	636	550
Property, plant and equipment	37	608	593
Other assets		786	1,117
Current taxation		2	17
Deferred taxation	38	254	256
Prepayments and accrued income		1,143	927
Disposal group and assets classified as held for sale	39	239	39
Total assets		177,862	158,526
Liabilities			
Deposits by banks	40	30,389	33,433
Customer accounts	41	81,308	74,875
Trading portfolio financial liabilities	42	194	191
Derivative financial instruments	25	4,142	2,531
Debt securities in issue	43	41,866	28,531
Current taxation		181	112
Deferred taxation	38	60	-
Other liabilities	44	1,473	1,757
Accruals and deferred income		1,808	1,410
Retirement benefit liabilities	11	423	937
Provisions for liabilities and commitments	45	74	93
Subordinated liabilities and other capital instruments	46	4,605	4,744
Disposal group classified as held for sale	39	161	-
Total liabilities		166,684	148,614
Shareholders' equity			
Share capital	47	294	294
Share premium		1,693	1,693
Other equity interests	49	497	497
Reserves		327	543
Profit and loss account		7,016	5,578
Shareholders' equity		9,827	8,605
Minority interests in subsidiaries	50	1,351	1,307
Total shareholders' equity including minority interests		11,178	9,912
Total liabilities, shareholders' equity and minority interests		177,862	158,526

D Gleeson, Chairman. E Sheehy, Group Chief Executive. J O'Donnell, Group Finance Director. W M Kinsella, Secretary.

Balance sheet Allied Irish Banks, p.l.c.

as at 31 December 2007

	Notes	2007 € m	2006 € m
Assets			
Cash and balances at central banks	54	566	514
Items in course of collection		203	274
Trading portfolio financial assets	24	8,136	8,717
Derivative financial instruments	25	4,039	2,599
Loans and receivables to banks	26	46,648	56,057
Loans and receivables to customers	27	86,108	59,883
Financial investments available for sale	31	17,853	16,127
Interests in associated undertakings	32	903	903
Investments in Group undertakings	35	1,428	1,408
Intangible assets	36	203	111
Property, plant and equipment	37	362	358
Other assets		344	401
Current taxation		3	17
Deferred taxation	38	159	148
Prepayments and accrued income		1,123	704
Assets classified as held for sale	39	13	33
Total assets		168,091	148,254
Liabilities			
Deposits by banks	40	54,677	61,859
Customer accounts	41	65,779	51,818
Trading portfolio financial liabilities	42	180	184
Derivative financial instruments	25	3,512	2,148
Debt securities in issue	43	31,922	20,971
Current taxation		91	49
Deferred taxation	38	31	-
Other liabilities	44	430	578
Accruals and deferred income		1,556	1,224
Retirement benefit liabilities	11	253	620
Provisions for liabilities and commitments	45	54	76
Subordinated liabilities and other capital instruments	46	3,633	3,728
Total liabilities		162,118	143,255
Shareholders' equity			
Share capital	47	294	294
Share premium		1,693	1,693
Other equity interests	49	497	497
Reserves		(294)	(129)
Profit and loss account		3,783	2,644
Shareholders' equity		5,973	4,999
Total liabilities and shareholders' equity		168,091	148,254

D Gleeson, Chairman. E Sheehy, Group Chief Executive. J O'Donnell, Group Finance Director. W M Kinsella, Secretary.

Statement of cash flows

for the year ended 31 December 2007

	Notes	Group		Allied Irish Banks, p.l.c.	
		2007 € m	2006 € m	2007 € m	2006 € m
Reconciliation of profit before taxation to net cash inflow from operating activities					
Profit before taxation		2,508	2,733 ⁽¹⁾	1,625	1,669
Adjustments for:					
Profit on disposal of businesses		(1)	(191)	1	(178)
Construction contract income		(55)	(96)	-	-
Profit on disposal of property		(76)	(365)	(76)	(406)
Investment income		(56)	(44)	(476)	(252)
Associated undertakings		(128)	(167)	-	-
Provisions for impairment of loans and receivables		106	118	80	79
Provisions for liabilities and commitments		(8)	(15)	(9)	(12)
Amounts written off financial investments available for sale		1	1	-	-
(Decrease)/increase in other provisions		(2)	11	(6)	8
Depreciation and amortisation		145	140	93	80
Interest on subordinated liabilities and other capital instruments		252	214	195	182
Profit on disposal of financial investments available for sale		(52)	(11)	(10)	2
Share based payment		41	54	27	38
Amortisation of premiums and discounts		27	64	30	59
Increase in long-term assurance business		-	(6)	-	-
Increase in prepayments and accrued income		(244)	(131)	(440)	(75)
Increase in accruals and deferred income		434	306	379	203
		2,892	2,615	1,413	1,397
Net (decrease)/increase in deposits by banks		(2,025)	4,649	(5,263)	18,550
Net increase in customer accounts		8,231	12,329	14,710	9,433
Net increase in loans and receivables to customers		(23,827)	(22,137)	(27,714)	(13,836)
Net increase/(decrease) in loans and receivables to banks		256	(32)	5,566	(10,603)
Net decrease in trading portfolio financial assets/liabilities		516	909	384	610
Net (decrease)/increase in derivative financial instruments		(75)	117	(107)	46
Net decrease in treasury bills and other eligible bills		147	15	-	-
Net decrease/(increase) in items in course of collection		122	(121)	71	(71)
Net increase in debt securities in issue		14,321	11,224	11,759	4,531
Net (decrease)/increase in notes in circulation		(13)	18	-	-
Net decrease/(increase) in other assets		232	(322)	54	(171)
Net (decrease)/increase in other liabilities		(235)	75	(159)	61
Effect of exchange translation and other adjustments		480	(213)	270	(61)
Net cash (outflow)/inflow from operating assets and liabilities		(1,870)	6,511	(429)	8,489
Net cash inflow from operating activities before taxation		1,022	9,126	984	9,886
Taxation paid		(400)	(481)	(176)	(235)
Net cash inflow from operating activities		622	8,645	808	9,651
Investing activities (note a)		(3,430)	(1,907)	(2,482)	(2,948)
Financing activities (note b)		(848)	153	(710)	(886)
(Decrease)/increase in cash and cash equivalents		(3,656)	6,891	(2,384)	5,817
Opening cash and cash equivalents		14,355	7,670	11,614	5,968
Effect of exchange translation adjustments		(272)	(206)	(279)	(171)
Closing cash and cash equivalents	54	10,427	14,355	8,951	11,614

Statement of cash flows *(continued)*

for the year ended 31 December 2007

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
(a) Investing activities				
Net increase in financial investments available for sale	(3,331)	(2,477)	(2,828)	(2,538)
Additions to property, plant and equipment	(128)	(144)	(86)	(113)
Disposal of property, plant and equipment	105	489	100	497
Additions to intangible assets	(138)	(87)	(123)	(75)
Disposal of investment in associated undertakings	5	-	-	-
Investments in Group undertakings	-	-	(20)	(1,156)
Disposal of investment in businesses and subsidiaries	1	268	(1)	185
Dividends received from associated undertakings	56	44	-	-
Dividends received from subsidiaries companies	-	-	476	252
Cash flows from investing activities	(3,430)	(1,907)	(2,482)	(2,948)
(b) Financing activities				
Re-issue of treasury shares	49	48	49	48
Purchase of own shares	-	-	-	(128)
Issue of subordinated liabilities	128	-	128	-
Issue of perpetual preferred securities	-	1,008	-	-
Interest paid on subordinated liabilities	(254)	(196)	(197)	(180)
Equity dividends paid on ordinary shares	(651)	(587)	(652)	(588)
Dividends on other equity interests	(38)	(38)	(38)	(38)
Dividends paid to minority interests	(82)	(82)	-	-
Cash flows from financing activities	(848)	153	(710)	(886)

⁽¹⁾ Represents profit before taxation – continuing activities, as per the Consolidated income statement, adjusted for the discontinued activity pre-tax profit of € 118m in 2006.

In 2006, discontinued activities contributed to the increase in cash and cash equivalents as follows:- Operating activities: € Nil; Investing activities € 154m; and Financing activities € Nil.

Statement of recognised income and expense

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Foreign exchange translation differences	(290)	(149)	(21)	6
Net change in cash flow hedges, net of tax	(37)	(283)	(50)	(261)
Net change in fair value of available for sale securities, net of tax	(191)	(13)	(115)	(109)
Net actuarial gains in retirement benefit schemes, net of tax	393	200	317	150
Net other losses relating to the period	(22)	(47)	-	-
Income and expense recognised	(147)	(292)	131	(214)
Profit for the period	2,066	2,298	1,436	1,451
Total recognised income and expense for the period	1,919	2,006	1,567	1,237
Attributable to:				
Equity holders of the parent	1,793	1,859	1,567	1,237
Minority interests in subsidiaries	126	147	-	-
Total recognised income and expense for the period	1,919	2,006	1,567	1,237

Consolidated reconciliation of movements in shareholders' equity

	Share capital	Share premium	Other equity interests	Capital reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
2006												
At 1 January 2006	294	1,693	497	758	85	130	178	3,910	214	(620)	30	7,169
Profit attributable to equity holders of the parent	-	-	-	4	-	-	-	2,181	-	-	-	2,185
Dividends on ordinary shares	-	-	-	-	-	-	-	(587)	-	-	-	(587)
Dividends on other equity interests	-	-	-	-	-	-	-	(38)	-	-	-	(38)
Share based payments	-	-	-	-	-	-	-	3	-	-	27	30
Actuarial gains recognised in retirement benefit schemes	-	-	-	-	-	-	-	200	-	-	-	200
Other recognised losses relating to the period	-	-	-	-	-	(44)	(283)	(47)	(152)	-	-	(526)
Other movements	-	-	-	(235)	(50)	-	-	293	-	-	-	8
Ordinary shares re-issued	-	-	-	-	-	-	-	-	-	87	-	87
Net movement in own shares	-	-	-	-	-	-	-	118	-	(41)	-	77
At 31 December 2006	294	1,693	497	527	35	86	(105)	6,033	62	(574)	57	8,605
2007												
At 1 January 2007	294	1,693	497	527	35	86	(105)	6,033	62	(574)	57	8,605
Profit attributable to equity holders of the parent	-	-	-	-	-	-	-	1,949	-	-	-	1,949
Dividends on ordinary shares	-	-	-	-	-	-	-	(651)	-	-	-	(651)
Dividends on other equity interests	-	-	-	-	-	-	-	(38)	-	-	-	(38)
Share based payments	-	-	-	-	-	-	-	6	-	-	19	25
Actuarial gains recognised in retirement benefit schemes	-	-	-	-	-	-	-	393	-	-	-	393
Other recognised losses relating to the period	-	-	-	-	-	(177)	(37)	(22)	(313)	-	-	(549)
Other movements	-	-	-	-	(2)	-	-	2	-	-	-	-
Ordinary shares re-issued	-	-	-	-	-	-	-	-	-	83	-	83
Net movement in own shares	-	-	-	-	-	-	-	10	-	-	-	10
At 31 December 2007	294	1,693	497	527	33	(91)	(142)	7,682	(251)	(491)	76	9,827

Reconciliation of movements in shareholders' equity - Allied Irish Banks, p.l.c.

	Share capital	Share premium	Share equity interests	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
2006											
At 1 January 2006	294	1,693	497	78	52	169	2,235	(19)	(620)	13	4,392
Profit attributable to equity holders of the parent	-	-	-	-	-	-	1,451	-	-	-	1,451
Dividends on ordinary shares	-	-	-	-	-	-	(588)	-	-	-	(588)
Dividends on other equity interests	-	-	-	-	-	-	(38)	-	-	-	(38)
Share based payments	-	-	-	-	-	-	3	-	-	30	33
Actuarial gains recognised in retirement benefit schemes	-	-	-	-	-	-	150	-	-	-	150
Other recognised (losses)/gains relating to the period	-	-	-	-	(109)	(261)	-	6	-	-	(364)
Other movements	-	-	-	(58)	-	-	58	-	-	-	-
Ordinary shares re-issued	-	-	-	-	-	-	-	-	87	-	87
Net movement in own shares	-	-	-	-	-	-	4	-	(128)	-	(124)
At 31 December 2006	294	1,693	497	20	(57)	(92)	3,275	(13)	(661)	43	4,999
2007											
At 1 January 2007	294	1,693	497	20	(57)	(92)	3,275	(13)	(661)	43	4,999
Profit attributable to equity holders of the parent	-	-	-	-	-	-	1,436	-	-	-	1,436
Dividends on ordinary shares	-	-	-	-	-	-	(652)	-	-	-	(652)
Dividends on other equity interests	-	-	-	-	-	-	(38)	-	-	-	(38)
Share based payments	-	-	-	-	-	-	2	-	-	11	13
Actuarial gains recognised in retirement benefit schemes	-	-	-	-	-	-	317	-	-	-	317
Other recognised losses relating to the period	-	-	-	-	(115)	(50)	-	(21)	-	-	(186)
Other movements	-	-	-	-	-	-	-	-	-	-	-
Ordinary shares re-issued	-	-	-	-	-	-	-	-	83	-	83
Net movement in own shares	-	-	-	-	-	-	1	-	-	-	1
At 31 December 2007	294	1,693	497	20	(172)	(142)	4,341	(34)	(578)	54	5,973

Notes to the accounts

1 Acquisitions, disposals and transfers

2007

Merchant acquiring joint venture with First Data Corporation.

In November 2007, the Group announced the agreement to form a merchant acquiring joint venture with First Data Corporation. The Group's card acquiring businesses in Ireland and the UK will form the principal basis of the new joint venture. All elements of the transaction were completed by 4 February 2008, following receipt of regulatory approvals. The transaction had no impact on the 2007 income statement. Plant and equipment, amounting to € 5m together with trade receivables and trade payables, were classified as held for sale at the balance sheet date.

AmCredit

In June 2007, the Group entered into an agreement to acquire AmCredit, the mortgage finance business (principally comprising a loan portfolio of € 104m) of the Baltic-American Enterprise Fund ("BalAEF"). The business, which has a strong track record in mortgage lending, operates in Latvia, Lithuania and Estonia. It was established in 1997. BalAEF is a Delaware corporation chartered in 1994, pursuant to legislation enacted by the US Congress to promote private sector development in the Baltic States. The transaction completed on 1 February 2008, and had no impact on the 2007 income statement.

Transfer of a business within AIB Group

Following a review of the Group's banking licence requirements, the AIB Finance banking licence was surrendered in January 2007. A revision of the legal entity structure was carried out and the banking business of AIB Finance was transferred to Allied Irish Banks, p.l.c.

2006

Disposal of Ark Life Assurance Company Limited ("Ark Life"). Acquisition of an interest of 24.99% in Hibernian Life Holdings Limited.

On 30 January 2006, the Group's life assurance subsidiary Ark Life Assurance Company Limited ("Ark Life") was brought together with Hibernian Life & Pensions Limited, under a holding company Hibernian Life Holdings Limited, of which the Group owns 24.99%.

The transaction gave rise to a profit before and after taxation of € 138m of which € 26m (relating to the transfer by Ark Life of the management contracts of the Ark funds from AIB to Aviva) is treated as a profit on disposal of business and € 112m as a profit on disposal of a discontinued operation. These amounts are shown in the 2006 comparative figures. The profit after taxation for Ark Life for the period to date of disposal of € 4m is included within discontinued operations.

The contribution of the venture for 2007 and for the 11 months ended December 2006 is included in the income statement within associated undertakings. The carrying value of the investment is shown in the balance sheet within interests in associated undertakings (*note 32*).

2007

	AIB Bank ROI € m	Capital Markets € m	AIB Bank UK € m	Poland € m	Group € m	Total € m
2 Segmental information						
Operations by business segments						
Net interest income	1,777	586	685	308	62	3,418
Other income	490	389	156	371	44	1,450
Total operating income	2,267	975	841	679	106	4,868
Administrative expenses	1,036	446	359	377	158	2,376
Amortisation of intangible assets	16	6	1	18	19	60
Depreciation of property, plant and equipment	36	8	11	15	15	85
Total operating expenses	1,088	460	371	410	192	2,521
Operating profit/(loss) before provisions	1,179	515	470	269	(86)	2,347
Provisions for impairment of loans and receivables	104	(18)	18	2	-	106
Provisions for liabilities and commitments	-	2	-	(1)	(9)	(8)
Amounts written off financial investments available for sale	-	1	-	-	-	1
Operating profit/(loss)	1,075	530	452	268	(77)	2,248
Associated undertakings	7	-	-	1	120	128
Profit on disposal of property	12	-	-	-	64	76
Construction contract income	-	-	-	-	55	55
Profit/(loss) on disposal of businesses	-	2	-	-	(1)	1
Profit before taxation - continuing operations	1,094	532	452	269	161	2,508
Other amounts						
Loans and receivables to customers	71,717	25,387	23,726	6,638	135	127,603
Interests in associated undertakings	273	4	-	4	1,401	1,682
Total assets	78,241	57,753	24,946	10,106	6,816	177,862
Customer accounts	41,933	16,715	14,460	8,200	-	81,308
Total liabilities ⁽¹⁾	48,270	84,034	15,306	9,034	10,040	166,684
Total risk weighted assets	63,771	41,188	23,880	7,582	2,965	139,386
Ordinary shareholders' equity ⁽¹⁾	4,269	2,757	1,598	508	198	9,330
Capital expenditure	116	28	9	41	72	266
Other significant non-cash expenses ⁽²⁾	17	10	9	3	4	43

Notes to the accounts

2 Segmental information (continued)

	2006					
	AIB Bank ROI € m	Capital Markets € m	AIB Bank UK € m	Poland € m	Group € m	Total € m
Operations by business segments						
Net interest income	1,581	490	593	236	99	2,999
Other income	434	464	154	302	(27)	1,327
Total operating income	2,015	954	747	538	72	4,326
Administrative expenses	945	425	332	290	182	2,174
Amortisation of intangible assets	17	4	-	21	11	53
Depreciation of property, plant and equipment	38	9	11	19	10	87
Total operating expenses	1,000	438	343	330	203	2,314
Operating profit/(loss) before provisions	1,015	516	404	208	(131)	2,012
Provisions for impairment of loans and receivables	78	5	26	9	-	118
Provisions for liabilities and commitments	(4)	1	-	(2)	(10)	(15)
Amounts (written back)/written off financial investments available for sale	(1)	2	-	-	-	1
Operating profit/(loss)	942	508	378	201	(121)	1,908
Associated undertakings	18	2	-	6	141	167
Profit on disposal of property	6	-	1	-	358	365
Construction contract income	-	-	-	-	96	96
Profit on disposal of businesses	-	79	-	-	-	79
Profit before taxation - continuing operations	966	589	379	207	474	2,615
Discontinued operation - net of taxation	116	-	-	-	-	116
Other amounts						
Loans and receivables to customers	60,018	20,808	21,606	4,573	110	107,115
Interests in associated undertakings	268	5	-	3	1,516	1,792
Total assets	66,200	54,093	24,580	7,195	6,458	158,526
Customer accounts	40,841	14,285	13,546	6,203	-	74,875
Total liabilities ⁽¹⁾	46,253	71,666	14,555	6,939	9,201	148,614
Total risk weighted assets	53,307	39,764	22,334	5,698	1,931	123,034
Ordinary shareholders' equity ⁽¹⁾	3,513	2,620	1,472	376	127	8,108
Capital expenditure	104	24	15	24	64	231
Other significant non-cash expenses ⁽²⁾	31	10	8	4	4	57

2 Segmental information (continued)

2007

	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Operations by geographical segments⁽³⁾						
Net interest income	2,145	857	343	56	17	3,418
Other income	684	265	446	43	12	1,450
Total operating income	2,829	1,122	789	99	29	4,868
Administrative expenses	1,502	439	384	39	12	2,376
Amortisation of intangible assets	41	1	18	-	-	60
Depreciation of property, plant and equipment	58	11	15	1	-	85
Total operating expenses	1,601	451	417	40	12	2,521
Operating profit before provisions	1,228	671	372	59	17	2,347
Provisions for impairment of loans and receivables	107	(3)	2	-	-	106
Provisions for liabilities and commitments	(6)	(1)	(1)	-	-	(8)
Amounts written off financial investments available for sale	1	-	-	-	-	1
Operating profit	1,126	675	371	59	17	2,248
Associated undertakings	7	-	1	120	-	128
Profit on disposal of property	76	-	-	-	-	76
Construction contract income	55	-	-	-	-	55
(Loss)/profit on disposal of businesses	(1)	2	-	-	-	1
Profit before taxation – continuing operations	1,263	677	372	179	17	2,508
Other amounts						
Loans and receivables to customers	85,706	31,683	6,638	2,583	993	127,603
Interests in associated undertakings	277	-	4	1,401	-	1,682
Total assets	124,265	35,337	12,152	5,056	1,052	177,862
Customer accounts	50,024	22,146	8,224	914	-	81,308
Total liabilities⁽⁴⁾	111,542	35,314	10,259	9,212	357	166,684
Total risk weighted assets	95,810	26,727	11,804	3,722	1,323	139,386
Ordinary shareholders' equity ⁽¹⁾	6,413	1,789	790	249	89	9,330
Capital expenditure	210	10	41	1	4	266

2 Segmental information (continued)

2006

	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Operations by geographical segments⁽¹⁾						
Net interest income	1,899	769	264	54	13	2,999
Other income	665	240	351	61	10	1,327
Total operating income	2,564	1,009	615	115	23	4,326
Administrative expenses	1,401	425	297	42	9	2,174
Amortisation of intangible assets	32	1	20	-	-	53
Depreciation of property, plant and equipment	54	12	20	1	-	87
Total operating expenses	1,487	438	337	43	9	2,314
Operating profit before provisions	1,077	571	278	72	14	2,012
Provisions for impairment of loans and receivables	70	41	9	-	(2)	118
Provisions for liabilities and commitments	(14)	1	(2)	-	-	(15)
Amounts written off financial investments available for sale	1	-	-	-	-	1
Operating profit	1,020	529	271	72	16	1,908
Associated undertakings	20	-	6	141	-	167
Profit on disposal of property	364	1	-	-	-	365
Construction contract income	96	-	-	-	-	96
Profit on disposal of businesses	77	1	-	1	-	79
Profit before taxation – continuing operations	1,577	531	277	214	16	2,615
Discontinued operation – net of taxation	116	-	-	-	-	116
Other amounts						
Loans and receivables to customers	70,886	28,546	4,578	2,454	651	107,115
Interests in associated undertakings	273	-	3	1,516	-	1,792
Total assets	109,272	33,908	9,109	5,578	659	158,526
Customer accounts	47,559	20,072	6,214	1,026	4	74,875
Total liabilities⁽¹⁾	104,609	31,932	7,812	4,202	59	148,614
Ordinary shareholders' equity ⁽¹⁾	5,164	2,022	398	478	46	8,108
Capital expenditure	192	15	24	-	-	231

⁽¹⁾ The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of ordinary shareholders' equity or liabilities.

⁽²⁾ Comprises share based payments expense.

⁽³⁾ The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction.

2 Segmental information (continued)

Gross revenue by business segment

							2007
	AIB Bank ROI € m	Capital Markets € m	AIB Bank UK € m	Poland € m	Group € m	Eliminations € m	Total € m
External customers	4,500	3,516	2,017	869	217	-	11,119
Inter-segment revenue	2,733	3,178	913	75	78	(6,977)	-
Total gross revenue	7,233	6,694	2,930	944	295	(6,977)	11,119
							2006
External customers	3,080	2,764	1,497	641	974	-	8,956
Inter-segment revenue	1,335	2,057	616	1	80	(4,089)	-
Total gross revenue	4,415	4,821	2,113	642	1,054	(4,089)	8,956

Gross revenue from external customers represents: interest and similar income; dividend income; fee and commission income; net trading income; other operating income; profit on disposal of property; construction contract income; and profit on disposal of businesses. The amounts relate to continuing operations only.

3 Interest and similar income	2007 € m	2006 € m
Interest on loans and receivables to banks	518	307
Interest on loans and receivables to customers	7,408	5,444
Interest on trading portfolio financial assets	393	380
Interest on financial investments available for sale	1,021	797
	9,340	6,928

Interest income in 2007 includes a charge of € 74m (2006: a credit of € 70m) removed from equity in respect of cash flow hedges.

4 Interest expense and similar charges	2007 € m	2006 € m
Interest on deposits by banks	1,585	1,163
Interest on customer accounts	2,349	1,597
Interest on debt securities in issue	1,736	955
Interest on subordinated liabilities and other capital instruments	252	214
	5,922	3,929

Interest expense in 2007 includes a credit of € 25m (2006: a charge of € 6m) removed from equity in respect of cash flow hedges.

5 Dividend income

The dividend income relates to income from equity shares held as financial investments available for sale.

6 Net fee and commission income	2007 € m	2006 € m
Fee and commission income:		
Retail banking customer fees	846	748
Credit related fees	127	123
Asset management fees	308	219
Brokerage fees	116	95
Insurance commissions	56	50
	1,453	1,235
Fee and commission expense	(197)	(161)
	1,256	1,074

7 Net trading income	2007	2006
	€ m	€ m
Foreign exchange contracts	113	101
Debt securities and interest rate contracts	(69)	44
Equity securities and index contracts	30	28
	74	173

The total hedging ineffectiveness on cash flow hedges charged to the income statement amounted to € 13m (2006: € 13m) and is included in net trading income.

8 Other operating income	2007	2006
	€ m	€ m
Profit/(loss) on disposal of available for sale debt securities	3	(4)
Profit on disposal of available for sale equity shares	49	15
Miscellaneous operating income ⁽¹⁾	37	46
	89	57

⁽¹⁾Includes an amount of € 2m (2006:€ 21m) in respect of foreign exchange gains and losses.

9 Administrative expenses	Group		Allied Irish Banks, p.l.c.	
	2007	2006	2007	2006
	€ m	€ m	€ m	€ m
Personnel expenses				
Wages & salaries	1,206	1,074	760	675
Share-based payment schemes (<i>note 10</i>)	43	57	29	42
Retirement benefits (<i>note 11</i>)	158	144	113	98
Social security costs	135	119	78	67
Other personnel expenses	73	108	5	41
	1,615	1,502	985	923
General and administrative expenses	761	672	385	383
	2,376	2,174	1,370	1,306

10 Share-based payment schemes

The Group operates a number of share-based compensation schemes as outlined below on terms approved by the shareholders. The requirements of IFRS 2 “Share-based payment” have been applied to all equity share based payments granted after 7 November 2002 that had not vested by 1 January 2005.

The share-based payment schemes which AIB Group operates in respect of ordinary shares in Allied Irish Banks, p.l.c., are:

- (i) The AIB Group Share Option Scheme
- (ii) Employee Profit Sharing Schemes
- (iii) AIB Save As You Earn (SAYE) Share Option Scheme UK
- (iv) Long Term Incentive Plans
- (v) AIB Group Performance Share Plan 2005

BZWBK operates a Long Term Incentive scheme with grants of shares in BZWBK and this scheme is described under Long Term Incentive Plans below.

(i) AIB Group Share Option Scheme

The “**AIB Group Share Option Scheme**” (“the 2000 Scheme”) was approved by shareholders at the 2000 AGM and replaced the Executive Share Option Scheme (“the 1986 Scheme”) introduced some years previously. The former scheme has been replaced by the AIB Group Performance Share Plan 2005 (see below), to the extent that further grants of options over the Company’s shares will not be made, except in exceptional circumstances. The 2000 scheme operates as follows: Options were granted at the market price, being the middle market quotation of the Company’s shares on the Irish Stock Exchange on the day preceding the date on which the option is granted. The exercise of options is conditional on the achievement of earnings per share (“EPS”) growth of at least 5% per annum, compounded, above the increase in the Irish Consumer Price Index (“CPI”) over a period of not less than three and not more than five years from date of grant. Options may not be transferred or assigned and may be settled through the issue/re-issue of shares. Options granted under the 2000 Scheme may be exercised only between the third and tenth anniversaries of their grant.

The following table summarises the share option scheme activity over each of the two years ended 31 December 2007 and 2006.

Group	2007		2006	
	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	14,042.5	12.90	18,627.8	12.47
Exercised	(2,672.8)	11.53	(4,346.1)	11.07
Forfeited	(237.6)	10.66	(239.2)	13.05
Outstanding at 31 December	11,132.1	13.27	14,042.5	12.90
Exercisable at 31 December	9,732.5	12.85	6,599.3	12.03

10 Share-based payment schemes (continued)

The following tables present the number of options outstanding at 31 December 2007 and 2006.

Group	31 December 2007		
	Weighted average remaining contractual life in years	Number of options outstanding '000	Weighted average exercise price €
Range of exercise price			
€11.98 - €13.90	4.90	9,732.5	12.85
€16.20 - €18.63	7.34	1,399.6	16.21

Range of exercise price	31 December 2006		
	Weighted average remaining contractual life in years	Number of options outstanding '000	Weighted average exercise price €
€10.02 - €11.98	2.92	4,168.3	11.29
€12.60 - €13.90	6.41	8,464.2	13.14
€16.20 - €18.63	8.34	1,410.0	16.21

The binomial option pricing model has been used in estimating the value of the options granted during 2005. The expected volatility is based on an analysis of historical volatility over the ten years prior to the grant of the awards. The following table details the assumptions used, and the resulting fair values provided by the option pricing model in respect of options being expensed in 2007 in accordance with IFRS 2.

	2005	2004
Number of options ('000)	1,459.0	3,223.5
Exercise price	€16.21	€12.60
Vesting period (years)	3	3
Expected volatility	28.1%	30.5%
Options life (years)	10	10
Risk-free rate	3.37%	4.25%
Expected dividends expressed as a dividend yield	3.8%	3.8%
Fair value per option	€ 4.19	€ 3.24

10 Share-based payment schemes (continued)

(ii) Employee Profit Sharing Schemes

The Company operates the “**AIB Approved Employees’ Profit Sharing Scheme 1998**” (“the Scheme”) on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods (i.e., a continuous employment for at least one year prior to the last day of the relevant accounting period) and being in employment on the date on which an invitation to participate is issued. The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies.

Eligible employees in the Republic of Ireland may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by Trustees for a minimum period of two years and are required to be held for a total period of three years for the employees to obtain the maximum tax benefit. Such employees may elect to forego an amount of salary, subject to certain limitations, towards the acquisition of additional shares. The maximum market value of shares that may be appropriated to any employee in a year may not exceed € 12,700. During 2007, 1,207,757 ordinary shares, with a value of € 27.3m, were distributed to employees participating in the Profit Sharing Scheme in the Republic of Ireland. In addition, 779,141 ordinary shares, with a value of € 17.6m, were purchased by employees through the salary foregone facility.

A **Share Ownership Plan** (“the Plan”) operates in the UK in place of a profit sharing scheme. The Plan, which was approved by shareholders at the 2002 Annual General Meeting, provides for the acquisition by eligible employees of shares in a number of categories: Partnership Shares, in which each eligible employee may invest up to Stg £ 1,500 per annum from salary; Free Shares, involving the award by the Company of shares up to the value of Stg £ 3,000 per annum per employee, and Dividend Shares, which may be acquired by each eligible employee, by re-investing dividends of up to Stg £ 1,500 per annum.

To participate in the Plan, eligible employees must have been in the continuous employment of the Group from 1 July prior to the grant date. During 2007, a total of 320,352 ordinary shares with a value of € 7.2m (2006: 292,123 ordinary shares with a value of € 5.7m) were awarded under the Free Share category. Free Shares are forfeited on a sliding scale should the employee leave the service of the Group within three years of grant date. The market value was determined as the mid-market price of the Company’s shares on the Irish Stock Exchange daily official list on the relevant date.

The following table summarises activity in the Free Share category during 2007 and 2006.

	2007 Number of shares ‘000	2006 Number of shares ‘000
Outstanding at 1 January	1,090.3	916.6
Granted	320.4	292.1
Forfeited	(23.5)	(17.7)
Vested	(55.9)	(100.7)
Outstanding at 31 December	1,331.3	1,090.3

(iii) AIB Save As You Earn (SAYE) Share Option Scheme UK

The Company operates a “**Save As You Earn Share Option Scheme**” (“the Scheme”) in the UK. The Scheme is open to all employees of AIB Group in the UK who have completed six months continuous service at the date of grant. Under the Scheme, employees may opt to save fixed amounts on a regular basis, over a three-year period, subject to a maximum monthly saving of Stg £ 250 per employee. At the end of the three-year period, (a) a tax-free bonus equal to a multiple of the participants’ monthly contribution is added in line with rates approved by the Inland Revenue (1.4 times and 1.8 times) for contracts entered into in 2006 and 2007 respectively; and (b) the participant has 6 months in which to exercise the option and purchase ordinary shares at the option price (fixed price being the average price per AIB ordinary share, on the London Stock Exchange on the day prior to grant date, less 20% discount); or the participant may withdraw the savings and bonus amount.

10 Share-based payment schemes (continued)

The following table summarises option activity during 2007 and 2006.

	2007		2006	
	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	1,549.4	10.60	1,434.7	10.17
Granted	635.5	17.80	189.1	15.99
Forfeited	(104.3)	13.73	(72.9)	10.60
Exercised	(1,076.9)	9.70	(1.5)	10.79
Outstanding at 31 December	1,003.7	16.30	1,549.4	10.60
Exercisable at 31 December	3.6	9.70	-	-

The Black Scholes option pricing model has been used in estimating the value of the options granted in 2007. The expected volatility is based on historical volatility over the three and a half years prior to the grant of the SAYE options.

The following table details the assumptions used, and the resulting fair values provided by the option pricing model in respect of options being expensed in accordance with IFRS 2.

	2007	2006	2005
Share price at grant date	€22.24	€19.99	€16.28
Exercise price	€17.80	€15.99	€13.02
Vesting period (years)	3	3	3
Expected volatility	19.0%	20.0%	27.3%
Options life (years)	3.5	3.5	3.5
Expected life (years)	3	3	3
Risk-free rate	4.06%	3.38%	2.48%
Expected dividends expressed as a dividend yield	3.2%	3.8%	3.8%
Fair value per option	€4.74	€4.06	€3.99

(iv) Long Term Incentive Plans

The 'AIB Group Long Term Incentive Plan' ("LTIP"), was approved by shareholders at the 2000 Annual General Meeting. Conditional grants of awards under this scheme in 2000 and 2001 have lapsed due to performance conditions not being met.

BZWBK Long Term Incentive Scheme

During 2006, BZWBK introduced a "Long Term Incentive Scheme" ("the Scheme") on terms approved by its shareholders. The scheme is designed to provide market-competitive incentives for senior executives, in the context of BZWBK's long-term performance against stretching growth targets.

During 2006, conditional awards of 132,476 ordinary shares of BZWBK were made to less than 100 employees with vesting to take place on the date of the AGM approving financial statements for the last year of the performance period. 25% of shares will vest if EPS performance over the three year period exceeds the growth in the Polish Consumer Price Index ("CPI") plus 5% per annum with up to 100% vesting on a straight-line basis if EPS performance over the three year period exceeds Polish CPI plus 12% p.a. During 2007, conditional awards of 78,341 ordinary shares of BZWBK were made to less than 100 employees with vesting to take place on the date of the AGM approving financial statements for the last year of the performance period. 25% of shares will vest if EPS performance over the three year period exceeds the growth in the Polish CPI plus 8% per annum with up to 100% vesting on a straight-line basis if EPS performance over the three year period exceeds Polish CPI plus 16% p.a.

In each case there is no re-test and the grant will expire after 3 years.

10 Share-based payment schemes (continued)

The following table summarises option activity during 2007:

	2007		2006	
	Number of shares	Weighted average exercise price €	Number of shares	Weighted average exercise price €
Outstanding at 1 January	128,223	2.57	-	-
Granted	78,341	2.65	132,476	2.57
Forfeited	(5,842)	2.65	(4,253)	2.57
Outstanding at 31 December	200,722	2.60	128,223	2.57

The Black Scholes model has been used in estimating the value of the grant. The expected volatility is based on an analysis of historical volatility based on approximately 7 months preceding the grant date.

The following table details the assumptions used and the resulting fair values provided by the option pricing model.

	2007	2006
Number of BZWBK shares granted in the year	78,341	132,476
Exercise price	€2.65	€ 2.57
Vesting period (years)	3	3
Expected volatility	40.69%	37.38%
Risk-free rate	4.9%	4.6%
Expected dividends expressed as a dividend yield	2.05%	2.25%
Fair value per option	€70.78	€ 38.65

(v) AIB Group Performance Share Plan 2005

The “AIB Group Performance Share Plan 2005” (“the Plan”) was approved by the shareholders at the 2005 AGM. This Plan is designed to provide market-competitive incentives for senior executives, in the context of the Company’s long-term performance against stretching growth targets and the overall return to shareholders. Conditional grants of awards of ordinary shares are made to employees. These awards vest in full on the third anniversary of the grant if the performance conditions at (a) and (b) below are met:

- (a) 50% of awards will vest if the growth in the Company’s EPS over the three-year period beginning with the year of grant is not less than the increase in the Irish CPI plus 10% per annum, compounded over that period; and
- (b) 50% of awards will vest if:
 - (i) in respect of awards granted in 2005, the Company’s Total Shareholder Return (“TSR”) (the calculation of which is set out in the Rules of the Plan) over the period referred to at (a) above relative to a peer group of at least 15 banks (listed in the Rules of the Plan) is such as to position AIB not below the 80th percentile;
 - (ii) in respect of awards granted in 2006 and subsequent years, the Company’s TSR over the period referred to at (a) above relative to the banks in the FTSE Eurofirst 300 Banks Index (listed in the Rules of the Plan) is such as to position AIB not below the 80th percentile; and
 - (iii) in respect of awards granted in 2007 and subsequent years, in addition to the condition at (ii) above, the Remuneration Committee is also satisfied that the recorded TSR is a genuine reflection of the Group’s underlying financial performance during the relevant three consecutive complete financial years.

10 Share-based payment schemes (continued)

For performance below these levels, the following vesting will apply:

- 10% of awards will vest if the growth in the Company's EPS over the three-year period beginning with the year of grant is not less than the increase in the Irish CPI plus 5% per annum, compounded over that period;
- 10% of awards will also vest if the Company's TSR over the period relative to the peer group (at (b)(i) in respect of awards granted in 2005, at (b)(ii) in respect of awards granted in 2006 or subsequently, and subject also to the underlying performance condition at (b)(iii) in respect of awards granted in 2007 and subsequently) is not less than the median TSR of that peer group;
- Between these levels of performance (i.e., EPS growth over the period of Irish CPI plus more than 5% and up to 10% per annum compounded, and TSR between the median and the 80th percentile) awards will vest on a graduated scale; and
- No awards will vest if performance is below the minimum levels stated above.

At 31 December 2007, conditional grants of awards of 3,794,640 ordinary shares in aggregate were outstanding to 534 employees.

The expense arising from the conditional grants of awards is determined as follows:

- the market value of the shares at the date of grant, adjusted to take into account the expected vesting, is used to determine the value of the award subject to the EPS vesting criteria; and
- the expected vesting of the shares is used to determine the value of the award subject to the TSR vesting criteria.

The following table summarises share activity during 2007 and 2006.

Group	2007 Number of shares '000	2006 Number of shares '000
Outstanding at 1 January	1,597.8	290.9
Granted	2,233.7	1,315.7
Forfeited	(36.9)	(8.8)
Outstanding at 31 December	3,794.6	1,597.8

The fair value of the shares at the date of grant was € 22.85 and € 19.11, for 2007 and 2006, respectively.

Income statement expense

The total expense arising from share-based payment transactions amounted to € 43m in the year ended 31 December 2007 (2006: € 57m).

Limitations on share-based payment schemes

The company complies with guidelines issued by the Irish Association of Investment Managers in relation to shares issued under the above schemes.

11 Retirement benefits

The Group operates a number of pension and retirement benefit plans for employees, the majority of which are funded. These include defined benefit and defined contribution plans. In December 2007, the Group introduced a hybrid pension scheme for employees in the Republic of Ireland who were not members of the defined benefit scheme. The hybrid pension scheme includes elements of both a defined benefit and a defined contribution scheme.

(i) Defined benefit schemes

The Group operates a number of defined benefit schemes, the most significant being the AIB Group Irish Pension Scheme (“the Irish scheme”) and the AIB Group UK Pension Scheme (“the UK scheme”). The defined benefit scheme in Ireland and the UK was closed to new members from December 1997. However, members who joined the new hybrid scheme in 2007 became members of the Irish scheme. Approximately 75 per cent of staff in the Republic of Ireland are members of the Irish scheme while 45 per cent of staff in the UK are members of the UK scheme.

Retirement benefits for the defined benefit schemes are calculated by reference to service and pensionable salary at normal retirement date. Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis. The last such valuations were carried out on 30 June 2006 using the Attained Age Method. The schemes are funded and a contribution rate of 28.6% was set for the Irish scheme with effect from 1 January 2007. This funding rate was amended to 22.3% from 1 December 2007, following the introduction of the hybrid arrangements. Members of the new hybrid scheme contribute 5% of salary. A contribution rate of 30.8% of salaries together with annual payments of £17m from 1 January 2007 to 31 December 2011 increasing to £29m per annum for five years thereafter (previously 44.6%) have been set for the UK scheme. The Group has agreed with the Trustees of the Irish scheme that it will aim to reduce the deficit over 16 years (UK scheme: 9 years). The total contribution to the defined benefit pension schemes in 2008 is estimated to be € 164m approximately. The actuarial valuations are available for inspection to the members of the schemes.

The following table summarises the financial assumptions adopted in the preparation of these accounts in respect of the main schemes. The assumptions, including the expected long-term rate of return on assets, have been set based upon the advice of the Group’s actuary.

Financial assumptions	as at 31 December	
	2007 %	2006 %
Irish scheme		
Rate of increase in salaries ⁽¹⁾	4.75	4.75
Rate of increase of pensions in payment	2.25	2.25
Expected return on plan assets	6.82	6.35
Discount rate	5.50	4.70
Inflation assumptions	2.25	2.25
UK scheme		
Rate of increase in salaries ⁽¹⁾	4.75	4.75
Rate of increase of pensions in payment	3.00	2.75
Expected return on plan assets	6.61	6.34
Discount rate	5.70	5.00
Inflation assumptions	2.75	2.50
Other schemes		
Rate of increase in salaries	4.25 – 4.9	3.0 – 4.75
Rate of increase of pensions in payment	0.0 – 3.0	0.0 – 3.0
Expected return on plan assets	5.5 – 7.7	5.9 – 6.7
Discount rate	5.5 – 6.0	4.5 – 5.5
Inflation assumptions	2.25 – 3.00	2.25 – 2.75

⁽¹⁾The rate of increase in salaries include the impact of salary scale improvements.

11 Retirement benefits (continued)

Mortality assumptions

An actuarial review was carried out at June 2006 into the mortality experience of the Group's Irish and UK schemes. This review concluded that the mortality assumptions set out below include sufficient allowance for future improvements in mortality rates.

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2007 and 2006 are as follows:

		Irish scheme Years	UK scheme Years
Retiring today age 63	Males	21.7	23.1
	Females	24.6	26.0
Retiring in 10 years at age 63	Males	23.9	25.0
	Females	26.9	27.8

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the AIB Group Pension Schemes. Set out in the table below is a sensitivity analysis for the key assumptions for the AIB Group Irish and UK pension schemes. Note that the change in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

Assumption	Change in assumption	Impact on scheme liabilities	
		Irish scheme	UK scheme
Inflation	Increase by 0.25%	Increase by 3.0%	Increase by 3.4%
Salary growth	Increase by 0.25%	Increase by 2.0%	Increase by 2.0%
Discount rate	Increase by 0.25%	Decrease by 4.8%	Decrease by 5.6%
Rate of mortality	Increase life expectancy by 1 year	Increase by 2.4%	Increase by 2.4%

The following tables set out on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for the Group and for Allied Irish Banks, p.l.c.

Group	as at 31 December 2007			as at 31 December 2006		
	Long term rate of return expected %	Value € m	Plan assets %	Long term rate of return expected %	Value € m	Plan assets %
Equities	7.5	2,581	70	7.1	2,602	70
Bonds	4.5	621	17	4.1	478	13
Property	6.0	395	11	6.0	348	10
Cash/other	5.2	96	2	4.0	269	7
Total market value of assets	6.8	3,693	100	6.4	3,697	100
Actuarial value of liabilities of funded schemes		(4,062)			(4,551)	
Deficit in the funded schemes		(369)			(854)	
Unfunded schemes		(54)			(83)	
Net pension deficit		(423)			(937)	

11 Retirement benefits (continued)

	as at 31 December 2007			as at 31 December 2006		
	Long term rate of return expected	Value	Plan assets	Long term rate of return expected	Value	Plan assets
Allied Irish Banks, p.l.c.	%	€ m	%	%	€ m	%
Equities	7.5	2,053	70	7.0	2,087	72
Bonds	4.5	420	14	4.0	320	11
Property	6.0	370	13	6.0	315	11
Cash/other	5.3	73	3	3.5	173	6
Total market value of assets	6.8	2,916	100	6.4	2,895	100
Actuarial value of liabilities of funded schemes		(3,128)			(3,443)	
Deficit in the funded schemes		(212)			(548)	
Unfunded schemes		(41)			(72)	
Net pension deficit		(253)			(620)	

At 31 December 2007, the Group pension scheme assets included AIB shares amounting to € 42m (2006: € 76m). For Allied Irish Banks, p.l.c. this amounted to € 41m (2006: € 75m). Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 112,492 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the two years ended 31 December 2007 and 2006.

	Group	
	2007 € m	2006 € m
Included in administrative expenses:		
Current service cost	128	132
Past service cost	11	7
Expected return on pension scheme assets	(235)	(205)
Interest on pension scheme liabilities	218	191
Cost of providing defined retirement benefits	122	125

The actual return on plan assets during the year ended 31 December 2007 was € 23m (2006: € 439m).

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Movement in defined benefit obligation during the year				
Defined benefit obligation at beginning of year	4,634	4,362	3,514	3,275
Current service cost	128	132	99	96
Past service cost	11	7	9	9
Interest cost	218	191	166	141
Actuarial (gains) and losses	(682)	7	(580)	20
Benefits paid	(100)	(89)	(78)	(70)
Settlements	(7)	-	(7)	-
Transfer between schemes	-	-	46	44
Translation adjustment on non-euro schemes	(86)	24	-	-
Defined benefit obligation at end of year	4,116	4,634	3,169	3,515

11 Retirement benefits (continued)

	Group		Allied Irish Banks, p.l.c.	
	2007	2006	2007	2006
	€ m	€ m	€ m	€ m
Movement in the fair value of plan assets during the year				
Fair value of plan assets at beginning of year	3,697	3,135	2,895	2,494
Expected return	235	205	187	162
Actuarial gains and (losses)	(212)	234	(219)	195
Contributions by employer	145	193	91	78
Benefits paid	(100)	(89)	(77)	(68)
Settlements	(7)	-	(7)	-
Transfer between schemes	-	-	46	34
Translation adjustment on non-euro schemes	(65)	19	-	-
Fair value of plan assets at end of year	3,693	3,697	2,916	2,895

	Group		Allied Irish Banks, p.l.c.	
	2007	2006	2007	2006
	€ m	€ m	€ m	€ m
Analysis of the amount recognised in the statement of recognised income and expense				
Actual return less expected return on pension scheme assets	(212)	234	(219)	195
Experience gains and losses on scheme liabilities	(32)	(121)	(36)	(148)
Changes in demographic and financial assumptions	714	114	616	128
Actuarial gain recognised	470	227	361	175
Deferred tax	(74)	(35)	(44)	(25)
Recognised in the statement of recognised income and expense ⁽¹⁾	396	192	317	150

⁽¹⁾The actuarial gains recognised in the statement of recognised income and expense includes the Group's share of an actuarial loss in associated undertakings of € 3m (2006: an actuarial gain of € 8m).

	Group				
	2007	2006	2005	2004	2003
	€ m	€ m	€ m	€ m	€ m
History of experience gains and losses					
<i>Difference between expected and actual return on scheme assets:</i>					
Amount	(212)	234	374	99	93
Percentage of scheme assets	6%	6%	12%	4%	4%
<i>Experience gains and losses on scheme liabilities:</i>					
Amount	(32)	(121)	(62)	(150)	97
Percentage of scheme liabilities	1%	2%	1%	4%	3%
<i>Total gross amount recognised in SORIE⁽¹⁾:</i>					
Amount	470	227	(344)	(230)	(67)
Percentage of scheme liabilities	11%	5%	8%	7%	2%

⁽¹⁾Statement of recognised income and expense

	Group				
	2007	2006	2005	2004	2003
	€ m	€ m	€ m	€ m	€ m
Defined benefit pension plans					
Funded defined benefit obligation	4,062	4,551	4,272	3,356	2,855
Plan assets	3,693	3,697	3,135	2,528	2,225
Deficit within funded plans	369	854	1,137	828	630

11 Retirement benefits (continued)

	Allied Irish Banks, p.l.c.				
History of experience gains and losses	2007	2006	2005	2004	2003
	€ m	€ m	€ m	€ m	€ m
<i>Difference between expected and actual return on scheme assets:</i>					
Amount	(219)	195	298	96	66
Percentage of scheme assets	8%	7%	12%	5%	4%
<i>Experience gains and losses on scheme liabilities:</i>					
Amount	(36)	(148)	(69)	(140)	82
Percentage of scheme liabilities	1%	4%	2%	6%	4%
<i>Total gross amount recognised in SORIE⁽¹⁾:</i>					
Amount	361	175	(244)	(203)	(15)
Percentage of scheme liabilities	11%	5%	8%	8%	1%
⁽¹⁾ Statement of recognised income and expense					
Defined benefit pension plans	2007	2006	2005	2004	2003
	€ m	€ m	€ m	€ m	€ m
Funded defined benefit obligation	3,128	3,443	3,193	2,529	2,095
Plan assets	2,916	2,895	2,472	2,043	1,782
Deficit within funded plans	212	548	721	486	313

(ii) Defined contribution schemes

The Group operates a number of defined contribution schemes. The defined benefit scheme in Ireland and the UK was closed to new members from December 1997. Employees joining after December 1997 joined on a defined contribution basis. In December 2007, the Group introduced a hybrid pension scheme for employees in the Republic of Ireland who are not members of the defined benefit scheme. This scheme includes elements of both a defined benefit and a defined contribution scheme. Members who join the new hybrid scheme in 2007 become members of the Irish scheme. The standard contribution rate in Ireland was 8% during 2007 and increases to 10% in respect of the defined contribution elements of the hybrid scheme. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). The total cost in respect of defined contribution schemes for 2007 was € 36m (2006: € 19m). For Allied Irish Banks, p.l.c., the total cost amounted to € 26m (2006: € 14m).

12 Amounts written off financial investments available for sale	2007	2006
	€ m	€ m
Equity shares	1	1
	1	1

13 Profit on disposal of property

2007

The sale of properties which were surplus to business requirements gave rise to a profit on disposal of € 12m. In addition the Group continued with its sale and leaseback programme announced in 2006 and 22 properties were sold giving rise to a profit before tax of € 64m (€ 58m after tax). The leases qualify as operating leases and the commitments in respect of the operating lease rentals (initial rent payable € 3.6m per annum) are included in note 58 Commitments, operating lease rentals.

2006

The sale of properties which were surplus to business requirements gave rise to a profit on disposal of € 7m. Details of the sale and leaseback transactions undertaken in 2006 are set out below.

	Profit recognised	Tax charge	Initial rent payable	Minimum lease term
	€ m	€ m	€ m	
Bankcentre Headquarters Building - Blocks A to D	167	32	4.5	4 yrs, 11 mths, 3 weeks
Bankcentre Headquarters Building - Blocks E to H	89	17	7.1	20 years
Donnybrook House	29	4	1.2	1 year
11 Branches	73	15	3.1	15 years
	358	68	15.9	

14 Construction contract income	2007	2006
	€ m	€ m
Construction revenue	101	171
Construction expense	(46)	(75)
	55	96

In 2005, AIB sold land at its Bankcentre headquarters to a syndicate of investors, the Serpentine Consortium. The consortium outsourced the construction of a new development on the above land to Blogram Limited, a subsidiary of Allied Irish Banks, p.l.c., on a fixed price contract basis. Practical completion of the building was achieved on 1 October 2007. Total consideration amounted to € 363m and was paid in full by the Serpentine Consortium by 31 December 2007 (2006: € 196.5m was due from the consortium). As at 31 December 2007, 97.06% of construction profit had been recognised in the income statement (2006: 68.38%). Construction contract income net of tax is € 48m (2006: € 82m).

Dohcar Limited, a subsidiary of Allied Irish Banks, p.l.c., contracted with the Serpentine Consortium to lease the property on completion at an initial rent of € 16.1m per annum for a period of 30 years with a break clause at year 23. Future lease rental commitments in respect of this transaction have been reported in the accounts (*note 58*).

The nature of this transaction, which includes the sale of land, an agreement to construct a building and an agreement to lease the building represented a linked transaction and met the definition under IFRS of a sale and leaseback. Because the significant income from the transaction arises from the construction contract, the income is recognised in accordance with IAS 11 "Construction Contracts".

15 Profit on disposal of businesses

2007

The profit on disposal of businesses in 2007 includes the final accrual of € 2m (tax charge € 0.6m) arising from the sale of the Govett business in 2003.

2006

The profit on disposal of businesses in 2006 of € 79m includes profit relating to the transfer by Ark Life of investment management contracts in conjunction with the sale of Ark Life of € 26m (tax charge € Nil) (*note 1*); AIB's 50% stake in AIB/BNY Securities Services (Ireland) Ltd of € 51m (tax charge € Nil); and Ketchum Canada Inc. of € 1m (tax charge € Nil), and the accrual of € 1m (tax charge € 0.3m), arising from the sale of the Govett business in 2003. The € 1m profit on disposal of Ketchum Canada Inc. and the € 1m accrual arising from the sale of Govett are not included in the Adjusted earnings per share in note 20.

16 Auditor's remuneration		2007	2006
		€ m	€ m
Auditor's remuneration (<i>including VAT</i>):			
Audit work:	Statutory audit	5.5	2.6
	Audit related services	1.0	8.2
Non-audit work:	Taxation services	0.9	0.5
	Other consultancy	0.3	0.5
		1.2	1.0
		7.7	11.8

Audit related services include fees for assignments which are of an audit nature. These fees include assignments where the Auditor provides assurance to third parties, and in 2006 included fees in respect of preparation for Sarbanes Oxley implementation.

In the year ended 31 December 2007, 33% (2006: 39%) of the total statutory audit fees and 27% (2006: 29%) of the audit related services fees were paid to overseas offices of the Auditor.

The Group policy on the provision of non-audit services to the bank and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditor for non-audit work.

The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditor. It is Group policy to subject all large consultancy assignments to competitive tender. In 2007, these fees are included in Auditor's remuneration as part of an integrated audit approach being undertaken by the Auditor.

17 Income tax expense - continuing operations	2007	2006
	€ m	€ m
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period	203	252
Adjustments in respect of prior periods	(10)	3
	193	255
Double taxation relief	(25)	(23)
	168	232
Foreign tax		
Current tax on income for the period	257	220
Adjustments in respect of prior periods	10	(14)
	267	206
	435	438
Deferred taxation		
Origination and reversal of temporary differences	7	(5)
Total income tax expense - continuing operations	442	433
Effective income tax rate - continuing operations	17.6%	16.6%

Factors affecting the effective income tax rate

The effective income tax rate for 2007 and 2006 is lower than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	2007	2006
	%	%
Weighted average corporation tax rate	19.7	18.2
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0.6	0.6
Exempted income, income at reduced rates and tax credits	(0.8)	(1.0)
Income taxed at higher rates	0.3	0.8
Net effect of differing tax rates overseas	0.2	0.2
Other differences	(0.2)	0.2
Tax on associated undertakings	(1.7)	(1.9)
Adjustments to tax charge in respect of previous periods	(0.5)	(0.5)
Effective income tax rate - continuing operations	17.6	16.6

18 Minority interests in subsidiaries	2007	2006
	€ m	€ m
The profit attributable to minority interests is analysed as follows:		
Ordinary share interest in subsidiaries	69	65
Other equity interest in subsidiaries (<i>note 50</i>)	48	48
	117	113

19 Earnings per share	2007	2006
	€ m	€ m
(a) Basic		
Profit attributable to equity holders of the parent	1,949	2,185
Distributions to other equity holders (<i>note 21</i>)	(38)	(38)
Profit attributable to ordinary shareholders	1,911	2,147
	<i>Number of shares (millions)</i>	
Weighted average number of shares in issue during the period	876.7	870.1
Earnings per share	EUR 218.0c	EUR 246.8c
(b) Diluted		
Profit attributable to ordinary shareholders (<i>note 19(a)</i>)	1,911	2,147
Dilutive impact of potential ordinary shares in subsidiary and associated companies	(2)	(2)
Adjusted profit attributable to ordinary shareholders	1,909	2,145
	<i>Number of shares (millions)</i>	
Weighted average number of shares in issue during the period	876.7	870.1
Dilutive effect of options outstanding	5.2	7.0
Potential weighted average number of shares	881.9	877.1
Earnings per share - diluted	EUR 216.4c	EUR 244.6c
(c) Continuing operations		
Profit attributable to ordinary shareholders (<i>note 19(a)</i>)	1,911	2,147
Discontinued operations	-	116
Profit attributable to ordinary shareholders - continuing operations	1,911	2,031
	<i>Number of shares (millions)</i>	
Weighted average number of shares in issue during the period	876.7	870.1
Earnings per share - continuing operations	EUR 218.0c	EUR 233.5c
(d) Continuing operations - diluted		
Profit attributable to ordinary shareholders - continuing operations (<i>note 19(c)</i>)	1,911	2,031
Dilutive impact of potential ordinary shares in subsidiary and associated companies	(2)	(2)
Adjusted profit attributable to ordinary shareholders - continuing operations	1,909	2,029
	<i>Number of shares (millions)</i>	
Weighted average number of shares in issue during the period	876.7	870.1
Dilutive effect of options outstanding	5.2	7.0
Potential weighted average number of shares	881.9	877.1
Earnings per share continuing operations - diluted	EUR 216.4c	EUR 231.4c

	Profit attributable		Earnings per share	
	2007 € m	2006 € m	2007 cent	2006 cent
20 Adjusted earnings per share				
(a) Basic earnings per share				
As reported (<i>note 19(a)</i>)	1,911	2,147	218.0	246.8
Adjustments:				
Construction contract income	(48)	(82)	(5.5)	(9.4)
Hedge volatility ⁽¹⁾	-	4	-	0.5
Profit on disposal of property	(58)	(290)	(6.6)	(33.4)
Profit on disposal of businesses ⁽²⁾	-	(189)	-	(21.7)
	1,805	1,590	205.9	182.8
	2007 € m	2006 € m	2007 cent	2006 cent
Diluted earnings per share				
As reported (<i>note 19(b)</i>)	1,909	2,145	216.4	244.6
Adjustments:				
Construction contract income	(48)	(82)	(5.5)	(9.3)
Hedge volatility ⁽¹⁾	-	4	-	0.5
Profit on disposal of property	(58)	(290)	(6.5)	(33.2)
Profit on disposal of businesses ⁽²⁾	-	(189)	-	(21.5)
	1,803	1,588	204.4	181.1
	2007 € m	2006 € m	2007 cent	2006 cent
(b) Basic earnings per share – continuing operations				
As reported (<i>note 19(c)</i>)	1,911	2,031	218.0	233.5
Adjustments:				
Construction contract income	(48)	(82)	(5.5)	(9.4)
Hedge volatility ⁽¹⁾	-	4	-	0.5
Profit on disposal of property	(58)	(290)	(6.6)	(33.4)
Profit on disposal of businesses	-	(77)	-	(8.8)
	1,805	1,586	205.9	182.4
	2007 € m	2006 € m	2007 cent	2006 cent
Diluted earnings per share – continuing operations				
As reported (<i>note 19(d)</i>)	1,909	2,029	216.4	231.4
Adjustments:				
Construction contract income	(48)	(82)	(5.5)	(9.3)
Hedge volatility ⁽¹⁾	-	4	-	0.5
Profit on disposal of property	(58)	(290)	(6.5)	(33.2)
Profit on disposal of businesses	-	(77)	-	(8.7)
	1,803	1,584	204.4	180.7

⁽¹⁾Hedge volatility (hedging ineffectiveness and derivative volatility) is included in net trading income.

⁽²⁾Of which Ark Life amounts to € 112m which is included within discontinued activities in 2006.

Although not required under IFRS, adjusted earnings per share is presented to help understand the underlying performance of the Group. The adjustments in 2007 and 2006 are items that management believe do not reflect the underlying business performance. The adjustment in respect of profit on sale of property relates only to the profit on sale of properties that are subject to sale and leaseback arrangements, (*note 13*). Only material profits on disposal of businesses are excluded in the calculation of adjusted EPS. The adjustments listed above are shown net of taxation.

21 Distributions to other equity holders

Distributions to other equity holders are recognised in equity when declared by the Board of Directors. In 2007, the distribution on the € 500m Reserve Capital Instruments (“RCIs”) amounted to € 38m (2006: € 38m).

22 Distributions on equity shares	2007	2006	2007	2006
	cent per €0.32 share		€ m	€ m
Ordinary shares of € 0.32 each				
Final dividend 2006 (2005)	46.5	42.3	407	367
Interim dividend 2007 (2006)	27.8	25.3	245	221
Total	74.3	67.6	652	588

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company’s shareholders, or in the case of the interim dividend, when it has been declared by the Board of Directors and paid in the period. Dividends declared after the balance sheet date are disclosed in note 66.

23 Treasury bills and other eligible bills

Treasury bills amounting to € 15m (2006: € 196m) were held as available for sale. At 31 December 2007 there was no fair value gain or loss recognised in equity (2006: a fair value loss of € 2m).

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Analysed by remaining maturity:				
1 year or less but over 3 months	-	161	-	-
3 months or less but not repayable on demand	15	35	-	-
	15	196	-	-

24 Trading portfolio financial assets	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Loans and receivables to banks	-	3	-	3
Loans and receivables to customers	27	25	27	25
Debt securities:				
Government securities	144	274	97	96
Other debt securities ⁽¹⁾	7,951	8,527	7,951	8,527
	8,095	8,801	8,048	8,623
Equity shares	134	124	61	66
	8,256	8,953	8,136	8,717

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Of which listed:				
Debt securities	8,095	8,801	8,048	8,623
Equity instruments	104	109	58	66
Of which unlisted:				
Loans and receivables to banks	-	3	-	3
Loans and receivables to customers	27	25	27	25
Equity shares	30	15	3	-
	8,256	8,953	8,136	8,717

⁽¹⁾Other debt securities include € 4,259m (2006: € 4,832m) of bank eurobonds and € 3,031m (2006: € 3,039m) of corporate collateralised mortgage obligations.

24 Trading portfolio financial assets (continued)

				2007
	Within one year € m	Between one and five years € m	Five years and over € m	Total € m
Analysed by residual maturity as follows:				
Group				
Loans and receivables to customers	-	27	-	27
Debt securities	1,034	2,933	4,128	8,095
	1,034	2,960	4,128	8,122
Allied Irish Banks, p.l.c.				
Loans and receivables to customers	-	27	-	27
Debt securities	1,010	2,925	4,113	8,048
	1,010	2,952	4,113	8,075
2006				
	Within one year € m	Between one and five years € m	Five years and over € m	Total € m
Analysed by residual maturity as follows:				
Group				
Loans and receivables to banks	3	-	-	3
Loans and receivables to customers	-	15	10	25
Debt securities	1,066	3,722	4,013	8,801
	1,069	3,737	4,023	8,829
Allied Irish Banks, p.l.c.				
Loans and receivables to banks	3	-	-	3
Loans and receivables to customers	-	15	10	25
Debt securities	936	3,674	4,013	8,623
	939	3,689	4,023	8,651

The external ratings profile of trading portfolio financial assets, excluding equity shares, is as follows:

					2007	2006
Group	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Total € m
AAA/AA	2,112	-	84	3,061	5,257	5,247
A	1,941	58	60	29	2,088	2,873
BBB+/BBB/BBB-	121	87	-	145	353	373
Sub investment	79	35	-	235	349	237
Unrated	6	7	-	62	75	99
Total	4,259	187	144	3,532	8,122	8,829
2006						
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Total € m
Allied Irish Banks, p.l.c.						
AAA/AA	2,112	-	63	3,061	5,236	5,247
A	1,941	58	34	29	2,062	2,695
BBB+/BBB/BBB-	121	87	-	145	353	373
Sub investment	79	35	-	235	349	237
Unrated	6	7	-	62	75	99
Total	4,259	187	97	3,532	8,075	8,651

25 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate and equity exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices. The majority of the Group's derivative activities are undertaken at the parent company level and the discussion below applies equally to the parent company and Group.

These instruments involve, to varying degrees, elements of market risk and credit risk which are not reflected in the consolidated balance sheet. Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivatives contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract. The Group would then have to replace the contract at the current market rate, which may result in a loss. The potential loss to the Group is known as the gross replacement cost. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate, equity and credit derivative contracts for 2007 and 2006.

	Group		Allied Irish Banks, p.l.c. ⁽²⁾	
	2007 € m	2006 € m	2007 € m	2006 € m
Interest rate contracts⁽¹⁾				
Notional principal amount	233,463	217,435	196,849	194,657
Gross replacement cost	1,635	1,165	1,509	1,105
Exchange rate contracts⁽¹⁾				
	€ m	€ m	€ m	€ m
Notional principal amount	28,977	20,226	23,028	17,507
Gross replacement cost	278	107	104	71
Equity contracts⁽¹⁾				
	€ m	€ m	€ m	€ m
Notional principal amount	6,955	6,485	6,699	6,184
Gross replacement cost	386	438	386	438
Credit derivatives⁽¹⁾				
	€ m	€ m	€ m	€ m
Notional principal amount	1,117	570	1,117	570
Gross replacement cost	-	-	-	-
Total				
	€ m	€ m	€ m	€ m
Notional principal amount	270,512	244,716	227,693	218,918
Gross replacement cost	2,299 ⁽³⁾	1,710	1,999	1,614

⁽¹⁾Interest rate contracts are entered into for both hedging and trading purposes. Exchange rate, equity and credit derivative contracts are entered into for trading purposes only.

⁽²⁾Excluding intercompany transactions.

⁽³⁾87% of gross replacement cost relates to exposures to banks (2006: 94%).

25 Derivative financial instruments (continued)

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to market risk policy and control framework as described in Risk Management section.

The following table analyses the notional principal amount and gross replacement cost of interest rate, exchange rate, equity contracts and credit derivatives by maturity.

Group	Residual maturity			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
2007				
Notional principal amount	150,224	89,460	30,828	270,512
Gross replacement cost	952	868	479	2,299
2006				
Notional principal amount	146,629	73,469	24,618	244,716
Gross replacement cost	695	717	298	1,710
Allied Irish Banks, p.l.c.⁽¹⁾				
2007				
Notional principal amount	113,608	84,399	29,686	227,693
Gross replacement cost	717	825	457	1,999
2006				
Notional principal amount	123,501	71,659	23,758	218,918
Gross replacement cost	620	703	291	1,614

⁽¹⁾Excluding intercompany transactions.

AIB Group has the following concentration of exposures in respect of notional principal amount and gross replacement cost of all interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Gross replacement cost	
	2007 € m	2006 € m	2007 € m	2006 € m
Republic of Ireland	201,701	192,329	1,689	1,403
United Kingdom	24,817	24,952	296	182
Poland	39,413	23,723	266	91
United States of America	4,581	3,712	48	34
	270,512	244,716	2,299	1,710

25 Derivative financial instruments *(continued)*

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These financial instruments include interest rate, foreign exchange and equity futures, interest rate swaps, interest rate caps and floors, forward rate agreements, and interest rate, foreign exchange and equity index options. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, future, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount. Forward rate agreements are also used by the Group in its trading activities. Forward rate agreements settle in cash at a specified future date based on the difference between agreed market rates applied to a notional principal amount.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate risks.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange and equity derivatives can be used to hedge the Group's exposure to foreign exchange and equity risk, as required.

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The notional principal and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group at 31 December 2007 and 2006, are presented within this note.

Notes to the accounts

25 Derivative financial instruments (continued)

The following table shows the notional principal amounts and the fair values of derivative financial instruments analysed by product and purpose as at 31 December 2007 and 31 December 2006.

	31 December 2007			31 December 2006		
	Notional principal amount € m	Fair values Assets Liabilities € m € m		Notional principal amount € m	Fair values Assets Liabilities € m € m	
Derivatives held for trading						
<i>Interest rate derivatives - over the counter (OTC)</i>						
Interest rate swaps	123,300	1,501	(1,373)	93,020	768	(723)
Cross-currency interest rate swaps ⁽¹⁾	2,878	1,651	(1,613)	2,018	1,042	(1,024)
Forward rate agreements	32,917	18	(21)	27,233	13	(12)
Interest rate options	5,016	14	(15)	3,302	8	(8)
Other interest rate contracts	-	-	-	446	2	(3)
Total OTC interest rate contracts	164,111	3,184	(3,022)	126,019	1,833	(1,770)
<i>Interest rate derivatives - exchange traded</i>						
Interest rate futures	1,318	3	(1)	19,581	-	(3)
Interest rate contracts total	165,429	3,187	(3,023)	145,600	1,833	(1,773)
<i>Foreign exchange derivatives - (OTC)</i>						
Currency forwards	374	17	(9)	329	3	(10)
Currency swaps	22,824	311	(360)	12,773	165	(154)
Currency options bought & sold	5,779	53	(57)	7,124	31	(22)
Foreign exchange derivatives total	28,977	381	(426)	20,226	199	(186)
Equity index options (OTC)	6,955	387	(387)	6,393	437	(423)
Equity index options - exchange traded	-	-	-	92	1	-
Equity index contracts total	6,955	387	(387)	6,485	438	(423)
<i>Credit derivatives (OTC)</i>						
Credit derivatives	1,117	1	(40)	570	-	-
Credit derivatives contracts total	1,117	1	(40)	570	-	-
Total trading contracts	202,478	3,956	(3,876)	172,881	2,470	(2,382)
Derivatives designated as fair value hedges						
Interest rate swaps (OTC)	42,601	482	(107)	47,374	396	(116)
Derivatives designated as cash flow hedges						
Interest rate swaps (OTC)	25,433	119	(159)	24,461	24	(33)
Total hedging contracts	68,034	601	(266)	71,835	420	(149)
Total derivative financial instruments	270,512	4,557	(4,142)	244,716	2,890	(2,531)

⁽¹⁾Cross currency interest rate swaps have an exchange of nominals on settlement. Such nominals are therefore shown gross on the balance sheet.

25 Derivative financial instruments (continued)

This table presents the notional principal and fair value amounts, weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Group for 2007 and 2006.

	Notional principal amount		Weighted average maturity in years		Weighted average rate				Estimated fair value ⁽¹⁾	
	2007	2006	2007	2006	Receive		Pay		2007	2006
	€ m	€ m			%	%	%	%	€ m	€ m
Interest rate derivatives designated as fair value hedges										
Interest rate swaps:										
Pay fixed										
1 year or less	456	1,058	0.43	0.32	4.85	3.76	4.35	4.12	(5)	(13)
1 - 5 years	1,046	1,747	2.77	2.81	5.00	3.72	4.63	3.98	(14)	(10)
Over 5 years	258	1,034	8.07	13.41	5.30	4.11	6.62	4.79	-	(8)
	1,760	3,839	2.94	4.98	5.01	3.83	4.85	4.24	(19)	(31)
Receive fixed										
1 year or less	28,308	24,209	0.24	0.23	5.06	4.26	5.09	4.29	279	247
1 - 5 years	4,810	4,957	1.72	2.47	3.80	3.45	4.27	3.59	87	15
Over 5 years	2,796	2,863	9.04	11.08	4.36	4.79	3.80	4.10	15	21
	35,914	32,029	1.12	1.55	4.84	4.18	4.88	4.16	381	283
Pay/receive floating										
1 year or less	1,250	3,511	0.76	0.60	4.75	3.85	4.51	3.87	-	9
1 - 5 years	3,677	5,807	3.41	3.16	5.27	3.63	5.67	3.64	13	12
Over 5 years	-	2,188	-	7.73	-	3.84	-	3.85	-	7
	4,927	11,506	2.74	3.25	5.14	3.74	5.37	3.75	13	28
Interest rate derivatives designated as cash flows hedges										
Interest rate swaps:										
Pay fixed										
1 year or less	924	417	0.67	0.72	4.70	3.67	3.21	3.09	8	3
1 - 5 years	3,379	2,980	2.76	2.83	4.69	3.63	3.88	3.38	31	35
Over 5 years	428	379	7.13	6.54	4.61	3.65	4.17	3.94	6	2
	4,731	3,776	2.75	2.97	4.69	3.64	3.77	3.40	45	40
Receive fixed										
1 year or less	3,851	4,692	0.54	0.43	4.13	4.26	4.91	4.02	16	29
1 - 5 years	12,189	12,013	2.77	2.86	4.13	4.06	4.95	4.09	(36)	(38)
Over 5 years	4,662	3,980	6.73	7.20	4.85	4.61	5.75	4.50	(65)	(40)
	20,702	20,685	3.25	3.15	4.29	4.21	5.13	4.15	(85)	(49)

⁽¹⁾Including accrual.

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities, primarily floating rate notes. The cash flows are expected to occur in periods up to 2017. The receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets, primarily the variable rate loan portfolio. The cash flows are expected to occur in periods up to 2016. The fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily available for sale securities and fixed rate liabilities. The fair values of financial instruments are set out in note 52.

The negative mark to market on fair value hedging derivatives, excluding accrual, is € 87m (2006: € 74m) and the positive mark to market on the related hedged items is € 75m (2006: € 63m). A negative mark to market, excluding accrual, of € 87m (2006: € 282m) was recognised directly in equity relating to cash flow hedges during the period.

26 Loans and receivables to banks (continued)

The external ratings profile of third party loan and receivables to banks is as follows:

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
AAA/AA	7,856	10,458	7,111	8,983
A	1,609	2,437	1,456	2,437
BBB+/BBB/BBB-	-	5	-	5
Total	9,465	12,900	8,567	11,425

27 Loans and receivables to customers	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Loans and receivables to customers	123,246	103,651	83,908	59,126
Amounts receivable under finance leases and hire purchase contracts (note 30)	3,418	3,003	1,029	66
Unquoted securities	1,681	1,166	1,580	1,031
Provisions for impairment of loans and receivables (note 29)	(742)	(705)	(409)	(340)
	127,603	107,115	86,108	59,883
Of which:				
Due from third parties			72,701	55,361
Due from subsidiary undertakings ⁽¹⁾			13,407	4,522
			86,108	59,883
Analysed by residual maturity:				
Over 5 years	46,521	39,769	20,011	14,911
5 years or less but over 1 year	34,632	30,538	22,118	18,199
1 year or less but over 3 months	20,955	18,357	15,589	12,593
3 months or less	26,237	19,156	28,799	14,520
	128,345	107,820	86,517	60,223
Provisions for impairment of loans and receivables (note 29)	(742)	(705)	(409)	(340)
	127,603	107,115	86,108	59,883
Of which repayable on demand or at short notice	32,797	28,418	30,430	26,013
Amounts include:				
Due from associated undertakings	18	18	18	18

⁽¹⁾ Of which € 83m (2006: € 83m) relates to subordinated loans.

Amounts include reverse repurchase agreements of € Nil (2006: € 4m). The unwind of the impairment provision amounting to € 21m (2006: € 25m) is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

27 Loans and receivables to customers (continued)

By geographic location and industry sector

						2007
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,956	160	183	4	-	2,303
Energy	923	344	77	457	19	1,820
Manufacturing	3,212	1,415	999	213	288	6,127
Construction and property	29,973	13,506	1,857	565	509	46,410
Distribution	8,704	3,004	675	119	66	12,568
Transport	1,150	628	91	24	21	1,914
Financial	1,472	1,223	117	330	-	3,142
Other services	5,393	5,655	416	872	90	12,426
Personal						
- Home mortgages	24,507	4,554	1,040	-	-	30,101
- Other	7,862	1,394	643	-	-	9,899
Lease financing	1,148	115	737	-	-	2,000
Guaranteed by Irish government	6	-	-	-	-	6
	86,306	31,998	6,835	2,584	993	128,716
Unearned income	(199)	(137)	(35)	-	-	(371)
Provisions	(401)	(178)	(162)	(1)	-	(742)
Total	85,706	31,683	6,638	2,583	993	127,603

						2006
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,647	163	167	-	-	1,977
Energy	670	453	160	269	-	1,552
Manufacturing	2,835	1,378	756	175	227	5,371
Construction and property	22,605	10,491	1,105	629	320	35,150
Distribution	8,254	3,017	516	99	72	11,958
Transport	790	668	103	20	20	1,601
Financial	774	1,170	67	469	-	2,480
Other services	4,355	5,500	335	795	13	10,998
Personal						
- Home mortgages	21,420	4,540	684	-	-	26,644
- Other	6,930	1,410	412	-	-	8,752
Lease financing	1,107	94	460	-	-	1,661
Guaranteed by Irish government	4	-	-	-	-	4
	71,391	28,884	4,765	2,456	652	108,148
Unearned income	(178)	(130)	(18)	(1)	(1)	(328)
Provisions	(327)	(208)	(169)	(1)	-	(705)
Total	70,886	28,546	4,578	2,454	651	107,115

27 Loans and receivables to customers (continued)

Ratings profiles

The Group uses a 13 point Group ratings masterscale which provides a common and consistent framework for aggregating and comparing exposures across all lending portfolios. The masterscale is probability of default (“PD”) based. Underlying the ratings masterscale are a number of bespoke rating tools which have been calibrated to suit the needs of individual business units.

- **Grade 1 to 3** would typically include strong Corporate and Commercial lending combined with elements of the retail portfolios and residential mortgages.
- **Grades 4 to 10** would typically cover new business written and existing satisfactorily performing exposures across all portfolios.
- **Grades 11 to 13** includes a portion of the Group’s criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type), together with some loans written at a high PD where there is a consummate return for the risk taken.

Group	2007				2006			
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
Masterscale grade								
1 to 3	5,217	17,494	1,897	24,608	5,173	13,295	1,617	20,085
4 to 10	82,141	8,199	8,783	99,123	65,447	9,205	8,700	83,352
11 to 13	2,734	343	1,908	4,985	2,405	270	2,036	4,711
	90,092	26,036	12,588	128,716	73,025	22,770	12,353	108,148
Unearned income				(371)				(328)
Provisions				(742)				(705)
Total				127,603				107,115

Allied Irish Banks, p.l.c.	2007				2006			
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
Masterscale grade								
1 to 3	4,287	3,156	1,682	9,125	4,306	1,611	1,315	7,232
4 to 10	55,914	1,811	3,743	61,468	41,858	637	3,597	46,092
11 to 13	1,371	32	1,344	2,747	1,049	30	1,392	2,471
	61,572	4,999	6,769	73,340	47,213	2,278	6,304	55,795
Unearned income				(230)				(94)
Provisions				(409)				(340)
Total - third party exposures				72,701				55,361

Lendings are classified into each category as follows:

Corporate/Commercial includes loans to corporate and larger commercial enterprises processed through one of the Group’s corporate/commercial rating tools, where the exposure is typically greater than € 300,000.

Residential Mortgages includes loans for the purchase of residential properties processed through Group residential mortgage rating tools. In some circumstances, residential mortgage exposures can be processed through the Group’s Corporate and Commercial rating tools (e.g. where a borrower has multiple investment properties).

Other includes loans to SMEs and individuals. In some cases Behaviour scoring and Credit scoring methodologies are used.

Large exposures

AIB’s Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2007, the drawn balances on the Group’s top 50 exposures amount to € 18.5bn and account for 14.4% of the Group’s on-balance sheet loans and receivables to customers (€ 13.9bn and 13% at 31 December 2006). No single customer exposure exceeds regulatory guidelines. See also Risk Management section - Credit Risk Management and Mitigation.

28 Additional information on credit risk

Aged analysis of contractually past due but not impaired facilities

	2007			
	1-30 days € m	31-60 days € m	61-90 days € m	91+ days € m
Agriculture	105	27	6	1
Energy	8	4	-	-
Manufacturing	99	20	8	11
Construction and property	2,641	341	103	36
Distribution	396	134	85	10
Transport	42	11	3	1
Financial	44	1	2	8
Other services	351	51	22	6
Personal				
- Home mortgages	242	76	28	15
- Credit cards	54	14	7	4
- Other	514	124	41	15
	4,496	803	305	107
As a percentage of total loans ⁽¹⁾	3.5%	0.6%	0.2%	0.1%

	2006			
	1-30 days € m	31-60 days € m	61-90 days € m	91+ days € m
Agriculture	105	28	26	53
Energy	9	-	1	2
Manufacturing	93	17	5	27
Construction and property	2,116	172	119	462
Distribution	318	96	64	136
Transport	45	8	2	16
Financial	37	4	1	10
Other services	314	55	29	133
Personal				
- Home mortgages	220	53	37	42
- Credit cards	52	12	5	3
- Other	465	111	54	208
	3,774	556	343	1,092
As a percentage of total loans ⁽¹⁾	3.5%	0.5%	0.3%	1.0%

⁽¹⁾Total loans relate to group loans and receivables to customers and are gross of provisions and unearned income.

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits. Where a borrower is past due, the entire exposure is reported, rather than the amount of any arrears.

Loans and receivables renegotiated

Loans and receivables renegotiated are those facilities at the current reporting date that, during the financial year, have had their terms renegotiated resulting in an upgrade from default status to performing status. This can be based on subsequent good performance or an improvement in the profile of the borrower.

Renegotiated loans and receivables were € 106m as at 31 December 2007 (2006:€ 89m). For Allied Irish Banks, p.l.c., renegotiated loans and receivables were € 39m as at 31 December 2007 (2006:€ 34m).

28 Additional information on credit risk

Individually impaired loans by geographic location and industry sector

						2007
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	23	1	47	-	-	71
Energy	3	-	-	-	-	3
Manufacturing	17	43	31	-	-	91
Construction and property	125	108	32	-	-	265
Distribution	109	51	29	-	-	189
Transport	12	6	2	-	-	20
Financial	2	3	1	-	-	6
Other services	36	50	7	-	-	93
Personal						
- Home mortgages	53	34	11	-	-	98
- Other	135	35	19	-	-	189
Lease Financing	16	-	8	-	-	24
	531	331	187	-	-	1,049

						2006
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	21	2	47	-	-	70
Energy	4	-	3	-	-	7
Manufacturing	26	54	40	1	-	121
Construction and property	51	71	48	-	-	170
Distribution	99	29	41	-	-	169
Transport	11	53	3	-	-	67
Financial	2	3	1	-	-	6
Other services	25	42	10	-	-	77
Personal						
- Home mortgages	42	24	13	-	-	79
- Other	101	26	19	-	-	146
Lease Financing	14	-	7	-	-	21
	396	304	232	1	-	933

Collateral and other credit enhancements

The Group takes collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral. In some circumstances, depending on the customers standing and/or the nature of the product, the Group may lend unsecured.

The main types of collateral for loans and receivables to customers are as follows:

Retail Mortgages; The Group takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and be subject to a legal charge in favour of the Group.

Corporate/commercial lending; For property related lending, it is normal practice to take a charge over the property being financed. This includes investment and development properties. For non-property related lending, collateral typically includes a charge over business assets such as stock and debtors but which may also include property. In some circumstances, personal guarantees supported by a lien over personal assets are also taken as security.

29 Provisions for impairment of loans and receivables

Group				2007
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
Specific				
At the beginning of period	263	13	242	518
Exchange translation adjustments	(2)	1	(3)	(4)
Transfer from IBNR	1	1	71	73
Amounts written off	(19)	-	(55)	(74)
Recoveries of amounts written off in previous years	6	-	7	13
At end of period	249	15	262	526
IBNR				
At beginning of period	104	12	73	189
Exchange translation adjustments	-	-	(4)	(4)
Charge against income statement	23	1	82	106
Transfer to specific	(1)	(1)	(71)	(73)
At end of period	126	12	80	218
Total provisions	375	27	342	744
Amounts include:				
Loans and receivables to banks (note 26)				2
Loans and receivables to customers (note 27)				742
				744

Group				2006
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
Specific				
At the beginning of period	250	13	251	514
Exchange translation adjustments	2	-	(4)	(2)
Transfer from IBNR	44	-	48	92
Amounts written off	(38)	-	(58)	(96)
Recoveries of amounts written off in previous years	5	-	5	10
At end of period	263	13	242	518
IBNR				
At beginning of period	93	9	60	162
Exchange translation adjustments	-	-	1	1
Charge against income statement	55	3	60	118
Transfer to specific	(44)	-	(48)	(92)
At end of period	104	12	73	189
Total provisions	367	25	315	707
Amounts include:				
Loans and receivables to banks (note 26)				2
Loans and receivables to customers (note 27)				705
				707

29 Provisions for impairment of loans and receivables (continued)

				2007
Allied Irish Banks, p.l.c.	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
Specific				
At the beginning of period	120	4	132	256
Exchange translation adjustments	(2)	-	(3)	(5)
Internal transfer of loan portfolios	-	-	16	16
Transfer from IBNR	1	-	61	62
Amounts written off	(1)	-	(31)	(32)
Recoveries of amounts written off in previous years	1	-	2	3
At end of period	119	4	177	300
IBNR				
At beginning of period	49	-	35	84
Exchange translation adjustments	-	-	-	-
Internal transfer of loan portfolios	-	-	7	7
Charge against income statement	10	-	70	80
Transfer to specific	(1)	-	(61)	(62)
At end of period	58	-	51	109
Total provisions	177	4	228	409
2006				
Allied Irish Banks, p.l.c.	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
Specific				
At the beginning of period	97	9	127	233
Internal transfer of loan portfolios	-	(5)	-	(5)
Transfer from IBNR	34	-	37	71
Amounts written off	(11)	-	(34)	(45)
Recoveries of amounts written off in previous years	-	-	2	2
At end of period	120	4	132	256
IBNR				
At beginning of period	48	5	28	81
Internal transfer of loan portfolios	-	(5)	-	(5)
Charge against income statement	35	-	44	79
Transfer to specific	(34)	-	(37)	(71)
At end of period	49	-	35	84
Total provisions	169	4	167	340

29 Provision for impairment of loans and receivables (continued)

By geographic location and industry sector

						2007
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	16	1	41	-	-	58
Energy	3	-	-	-	-	3
Manufacturing	11	36	18	-	-	65
Construction and property	54	24	6	-	-	84
Distribution	48	20	23	-	-	91
Transport	8	2	2	-	-	12
Financial	1	1	1	-	-	3
Other services	22	16	7	-	-	45
Personal						
- Home mortgages	12	3	4	-	-	19
- Other	97	15	18	-	-	130
Lease financing	12	-	4	-	-	16
Specific	284	118	124	-	-	526
IBNR	117	60	40	1	-	218
Total	401	178	164	1	-	744

						2006
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	14	1	39	-	-	54
Energy	4	-	2	-	-	6
Manufacturing	15	42	26	-	-	83
Construction and property	31	21	11	-	-	63
Distribution	29	14	28	-	-	71
Transport	6	25	3	-	-	34
Financial	1	2	1	-	-	4
Other services	19	24	10	-	-	53
Personal						
- Home mortgages	11	2	5	-	-	18
- Other	87	17	18	-	-	122
Lease financing	10	-	-	-	-	10
Specific	227	148	143	-	-	518
IBNR	100	60	28	1	-	189
Total	327	208	171	1	-	707

30 Amounts receivable under finance leases and hire purchase contracts	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Gross receivables				
Not later than 1 year	1,170	944	361	8
Later than one year and not later than 5 years	2,461	2,178	690	37
Later than 5 years	167	181	83	27
Total	3,798	3,303	1,134	72
Unearned future finance income	(390)	(309)	(112)	(6)
Deferred costs incurred on origination	10	9	7	-
Total	3,418	3,003	1,029	66
Present value of minimum payments analysed by residual maturity				
Not later than 1 year	1,133	871	353	7
Later than one year and not later than 5 years	2,153	1,974	607	34
Later than 5 years	132	158	69	25
Present value of minimum payments	3,418	3,003	1,029	66
Provision for uncollectible minimum payments receivable ⁽¹⁾ amounted to:	31	24	13	-
Unguaranteed residual values accruing to the benefit of the Group	14	12	-	-
Net investment in new business	2,089	1,784	660	-

⁽¹⁾Included in the provision for impairment of loans and receivables to customers (note 29).

31 Financial investments available for sale

The following tables give, for the Group and Allied Irish Banks, p.l.c. at 31 December 2007 and 31 December 2006, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

	31 December 2007					
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/(losses) € m	Tax effect € m	Net after tax € m
Group						
Debt securities						
Irish government securities	165	1	(1)	-	-	-
Euro government securities	2,936	4	(29)	(25)	3	(22)
Non Euro government securities	3,230	19	(35)	(16)	3	(13)
Non European government securities	1,216	2	(18)	(16)	1	(15)
U.S. Treasury & U.S. government agencies	91	1	-	1	-	1
Collateralised mortgage obligations	2,161	3	(30)	(27)	4	(23)
Other asset backed securities	1,284	5	(24)	(19)	2	(17)
Euro bank securities	4,904	5	(96)	(91)	12	(79)
Non Euro bank securities	3,755	4	(49)	(45)	5	(40)
Certificates of deposit	331	-	-	-	-	-
Other investments	570	4	(8)	(4)	3	(1)
Total debt securities	20,643	48	(290)	(242)	33	(209)
Equity shares	326	196	-	196	(36)	160
Total	20,969	244	(290)	(46)	(3)	(49)
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	165	1	(1)	-	-	-
Euro government securities	2,462	1	(27)	(26)	3	(23)
Non Euro government securities	1,048	17	(1)	16	(2)	14
Non European government securities	1,216	2	(18)	(16)	1	(15)
U.S. Treasury & U.S. government agencies	70	-	-	-	-	-
Collateralised mortgage obligations	2,161	3	(30)	(27)	5	(22)
Other asset backed securities	1,284	5	(24)	(19)	2	(17)
Euro bank securities	4,904	5	(96)	(91)	12	(79)
Non Euro bank securities	3,755	4	(49)	(45)	5	(40)
Certificates of deposit	331	-	-	-	-	-
Other investments	398	4	(8)	(4)	3	(1)
Total debt securities	17,794	42	(254)	(212)	29	(183)
Equity shares	59	11	-	11	(3)	8
Total	17,853	53	(254)	(201)	26	(175)

The amount removed from equity and recognised in the income statement in respect of financial investments available for sale amounted to a credit of € 55m during 2007, Allied Irish Banks, p.l.c. € 20m.

31 Financial investments available for sale (continued)

31 December 2006

	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/(losses) € m	Tax effect € m	Net after tax € m
Group						
Debt securities						
Irish government securities	477	11	(2)	9	(1)	8
Euro government securities	3,236	16	(29)	(13)	-	(13)
Non Euro government securities	2,453	27	(9)	18	(3)	15
Non European government securities	1,358	1	(34)	(33)	4	(29)
U.S. Treasury & U.S. government agencies	116	1	(1)	-	-	-
Collateralised mortgage obligations	2,260	3	(1)	2	-	2
Other asset backed securities	417	-	-	-	-	-
Euro bank securities	3,508	5	(38)	(33)	4	(29)
Non Euro bank securities	3,501	4	(17)	(13)	1	(12)
Certificates of deposit	1,591	1	(1)	-	-	-
Other investments	455	10	-	10	(1)	9
Total debt securities	19,372	79	(132)	(53)	4	(49)
Equity shares	293	203	-	203	(31)	172
Total	19,665	282	(132)	150	(27)	123
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	436	11	(2)	9	(1)	8
Euro government securities	2,789	7	(27)	(20)	2	(18)
Non Euro government securities	673	-	(6)	(6)	1	(5)
Non European government securities	1,358	1	(34)	(33)	4	(29)
U.S. Treasury & U.S. government agencies	95	1	-	1	-	1
Collateralised mortgage obligations	2,260	3	(1)	2	-	2
Other asset backed securities	417	-	-	-	-	-
Euro bank securities	3,508	5	(38)	(33)	4	(29)
Non Euro bank securities	3,501	4	(17)	(13)	1	(12)
Certificates of deposit	663	-	(1)	(1)	-	(1)
Other investments	408	10	-	10	(1)	9
Total debt securities	16,108	42	(126)	(84)	10	(74)
Equity shares	19	5	-	5	(1)	4
Total	16,127	47	(126)	(79)	9	(70)

The amount removed from equity and recognised in the income statement in respect of financial investments available for sale amounted to a charge of € 77m during 2006, Allied Irish Banks, p.l.c. € 83m.

31 Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale	Debt securities € m	Equity shares € m	Total € m
Group			
At 1 January 2007	19,372	293	19,665
Exchange translation adjustments	(880)	1	(879)
Purchases	18,438	38	18,476
Sales	(4,608)	(3)	(4,611)
Maturities	(11,459)	-	(11,459)
Transfers	(4)	5	1
Provisions for impairment	-	(1)	(1)
Amortisation of (premiums) net of discounts	(27)	-	(27)
Movement in unrealised losses	(189)	(7)	(196)
At 31 December 2007	20,643	326	20,969
Allied Irish Banks, p.l.c.			
At 1 January 2007	16,108	19	16,127
Exchange translation adjustments	(989)	(1)	(990)
Purchases	12,165	14	12,179
Sales	(4,223)	-	(4,223)
Maturities	(5,115)	-	(5,115)
Transfers	5	20	25
Amortisation of (premiums) net of discounts	(30)	-	(30)
Movement in unrealised (losses)/gains	(127)	7	(120)
At 31 December 2007	17,794	59	17,853

31 Financial investments available for sale (continued)

	Debt securities € m	Equity shares € m	Total € m
Analysis of movements in financial investments available for sale			
Group			
At 1 January 2006	16,693	171	16,864
Exchange translation adjustments	(203)	2	(201)
Purchases	24,616	19	24,635
Sales	(12,283)	(40)	(12,323)
Maturities	(9,159)	-	(9,159)
Provisions for impairment	-	(1)	(1)
Amortisation of (premiums) net of discounts	(64)	-	(64)
Movement in unrealised (losses)/gains	(228)	142	(86)
At 31 December 2006	19,372	293	19,665
Allied Irish Banks, p.l.c.			
At 1 January 2006	14,087	5	14,092
Exchange translation adjustments	(235)	-	(235)
Purchases	19,934	9	19,943
Sales	(12,209)	-	(12,209)
Maturities	(5,197)	-	(5,197)
Amortisation of (premiums) net of discounts	(59)	-	(59)
Movement in unrealised (losses)/gains	(213)	5	(208)
At 31 December 2006	16,108	19	16,127
	Group	Allied Irish Banks, p.l.c.	
	2007	2006	2007
	€ m	€ m	€ m
Debt securities analysed by remaining maturity			
Due within one year	3,119	4,206	2,748
After one year, but within five years	10,725	9,148	8,763
After five years, but within ten years	3,373	3,464	2,990
After ten years	3,426	2,554	3,293
	20,643	19,372	17,794
			16,108
	Group	Allied Irish Banks, p.l.c.	
	2007	2006	2007
	€ m	€ m	€ m
Of which listed:			
Debt securities	20,605	19,308	17,763
Equity securities	27	43	10
	20,632	19,351	17,773
Of which unlisted:			
Debt securities	38	64	31
Equity securities	299	250	49
	337	314	80
	20,969	19,665	17,853
			16,127

31 Financial investments available for sale (continued)

The following table gives for the Group and Allied Irish Banks, p.l.c. at 31 December 2007, an analysis of the securities portfolio with unrealised losses, distinguished between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months.

	2007			2007		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Fair value Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Unrealised losses Total € m
Group						
Debt securities						
Irish government securities	44	75	119	-	(1)	(1)
Euro government securities	1,300	1,101	2,401	(6)	(23)	(29)
Non Euro government securities	1,911	236	2,147	(33)	(2)	(35)
Non European government securities	261	495	756	(3)	(15)	(18)
Collateralised mortgage obligations	1,708	361	2,069	(25)	(5)	(30)
Other asset backed securities	1,095	173	1,268	(22)	(2)	(24)
Euro bank securities	2,525	2,276	4,801	(38)	(58)	(96)
Non Euro bank securities	2,017	1,274	3,291	(28)	(21)	(49)
Other investments	328	36	364	(6)	(2)	(8)
Total debt securities	11,189	6,027	17,216	(161)	(129)	(290)
Equity shares	-	-	-	-	-	-
Total	11,189	6,027	17,216	(161)	(129)	(290)
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	44	75	119	-	(1)	(1)
Euro government securities	1,145	1,101	2,246	(5)	(22)	(27)
Non Euro government securities	25	107	132	(1)	-	(1)
Non European government securities	261	495	756	(3)	(15)	(18)
Collateralised mortgage obligations	1,708	361	2,069	(25)	(5)	(30)
Other asset backed securities	1,095	173	1,268	(22)	(2)	(24)
Euro bank securities	2,525	2,276	4,801	(38)	(58)	(96)
Non Euro bank securities	2,017	1,274	3,291	(28)	(21)	(49)
Other investments	156	36	192	(6)	(2)	(8)
Total debt securities	8,976	5,898	14,874	(128)	(126)	(254)
Equity shares	-	-	-	-	-	-
Total	8,976	5,898	14,874	(128)	(126)	(254)

Available for sale financial investments with unrealised losses have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.

31 Financial investments available for sale (continued)

The following table gives for the Group and Allied Irish Banks, p.l.c. at 31 December 2006, an analysis of the securities portfolio with unrealised losses, distinguished between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months.

	2006			2006		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Fair value Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Group						
Debt securities						
Irish government securities	42	35	77	(1)	(1)	(2)
Euro government securities	1,578	695	2,273	(14)	(15)	(29)
Non Euro government securities	905	61	966	(8)	(1)	(9)
Non European government securities	1,100	156	1,256	(30)	(4)	(34)
US Treasury and US government agencies	18	-	18	(1)	-	(1)
Collateralised mortgage obligations	435	77	512	-	(1)	(1)
Euro bank securities	1,543	1,050	2,593	(16)	(22)	(38)
Non Euro bank securities	1,595	216	1,811	(16)	(1)	(17)
Certificates of deposit	630	-	630	(1)	-	(1)
Total debt securities	7,846	2,290	10,136	(87)	(45)	(132)
Equity shares	-	-	-	-	-	-
Total	7,846	2,290	10,136	(87)	(45)	(132)
Allied Irish Banks, p.l.c.						
Debt securities						
Irish government securities	42	35	77	(1)	(1)	(2)
Euro government securities	1,456	695	2,151	(12)	(15)	(27)
Non Euro government securities	587	61	648	(5)	(1)	(6)
Non European government securities	1,100	156	1,256	(30)	(4)	(34)
Collateralised mortgage obligations	-	77	77	-	(1)	(1)
Euro bank securities	1,543	1,050	2,593	(16)	(22)	(38)
Non Euro bank securities	1,595	216	1,811	(16)	(1)	(17)
Certificates of deposit	630	-	630	(1)	-	(1)
Total debt securities	6,953	2,290	9,243	(81)	(45)	(126)
Equity shares	-	-	-	-	-	-
Total	6,953	2,290	9,243	(81)	(45)	(126)

Available for sale financial investments with unrealised losses have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.

31 Financial investments available for sale (continued)

The external ratings profile of available for sale debt securities is as follows:

Group					2007	2006
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Total € m
AAA/AA	6,297	-	4,927	3,623	14,847	14,761
A	2,641	2	2,630	-	5,273	3,942
BBB+/BBB/BBB-	39	122	81	40	282	236
Sub Investment	13	99	-	56	168	79
Unrated	-	30	-	43	73	354
Total	8,990	253	7,638	3,762	20,643	19,372

Allied Irish Banks, p.l.c.					2007	2006
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Total € m
AAA/AA	6,297	-	4,638	3,464	14,399	13,296
A	2,641	2	242	-	2,885	2,197
BBB+/BBB/BBB-	39	122	81	27	269	182
Sub Investment	13	99	-	56	168	79
Unrated	-	30	-	43	73	354
Total	8,990	253	4,961	3,590	17,794	16,108

32 Interests in associated undertakings

Included in the Group income statement is the contribution from investments in associated undertakings as follows:

Income statement	2007	2006
Share of results of associated undertakings	127	159
Profit on disposal of investments in associated undertakings	1	8
	128	167

32 Interests in associated undertakings (continued)

	2007 € m	2006 € m
Share of net assets including goodwill		
At 1 January	1,792	1,656
Exchange translation adjustments	(159)	(183)
Transfer from group undertakings	-	276
Disposals	(4)	(26)
Income for the period	127	159
Dividends received from associates	(56)	(44)
Deferral of profit on disposal of Bankcentre	-	(24)
Other movements	(18)	(22)
At 31 December	1,682	1,792
Analysed as to:		
M & T Bank Corporation (Note 33)	1,401	1,516
Hibernian Life Holdings Limited (Note 34)	268	263
Other	13	13
	1,682	1,792
<i>Of which listed on a recognised stock exchange</i>	1,402	1,524

Included in the Group's share of net assets of associates is goodwill as follows:

	2007 € m	2006 € m
Goodwill		
Balance at 1 January	960	1,058
Movements	-	12
Exchange translation adjustments	(112)	(110)
At 31 December	848	960

Principal associated undertakings	Nature of business
M&T Bank Corporation ⁽¹⁾ <i>Registered office:</i> One M&T Plaza, Buffalo, New York 14203, USA (Common stock shares of US \$0.50 par value each – Group interest 24.3% ⁽¹⁾)	Banking and financial services
Hibernian Life Holdings Limited ⁽²⁾ <i>Registered office:</i> 1 Park Place, Hatch Street, Dublin 2, Ireland (Ordinary shares of € 1.25 par value each – Group interest 24.99%)	Manufacturer and distributor of life and pension products

⁽¹⁾The Group interest is held directly by Allied Irish Banks, p.l.c. and carried at cost of € 891m in the parent company balance sheet. AIB accounts for its share of profits of M&T on the basis of its average interest in M&T throughout the period, which amounted to 24.6% during 2007 (2006: 24.0%). The agreement with M&T provides for the maintenance of AIB's interest in M&T at a minimum of 22.5% through share repurchase programmes effected by M&T and through rights provided to AIB which allow it to subscribe for additional shares in M&T at fair market value. M&T shares are listed on the New York Stock Exchange and the fair value of the investment in M&T at 31 December 2007 was € 1,479m (2006: € 2,477m).

⁽²⁾The Group interest is held directly by Allied Irish Banks, p.l.c. and carried at cost of € 12m in the parent company balance sheet.

The goodwill arising on the interests in associated undertakings, the most significant of which relates to M&T, has been assessed for impairment at 31 December 2007 and 2006. The market value of M&T exceeded the carrying value including goodwill at both 31 December 2007 and 2006.

Other than as described for M&T and Hibernian Life Holdings Limited, the Group's interests in associated undertakings are non-credit institutions and are held by subsidiary undertakings.

In accordance with the European Communities (Credit Institutions:Accounts) Regulations, 1992, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

33 Interest in M&T Bank Corporation

The summary consolidated income statement, summary balance sheet and contribution of M&T Bank Corporation for 2007 and 2006 under IFRS are as follows:

Year ended 31 December 2006 US \$m	Year ended 31 December 2007 US \$m		Year ended 31 December 2007 € m	Year ended 31 December 2006 € m
Summary of consolidated income statement				
1,793	1,877	Net interest income	1,365	1,427
1,045	932	Other income	678	832
2,838	2,809	Total operating income	2,043	2,259
1,512	1,613	Total operating expenses	1,173	1,203
1,326	1,196	Group operating profit before impairment provisions	870	1,056
216 ⁽¹⁾	174	Impairment provisions	127	172 ⁽¹⁾
1,110	1,022	Group profit before taxation	743	884
345	335	Taxation	244	275
765	687	Group profit after taxation	499	609
Summary of consolidated balance sheet				
31 December 2006 US \$m	31 December 2007 US \$m		31 December 2007 € m	31 December 2006 € m
44,328	49,499	Cash, loans and receivables	33,625	33,658
7,252	8,962	Investment securities	6,088	5,506
335	371	Property, plant and equipment	252	254
2,319	3,311	Other assets	2,249	1,762
54,234	62,143	Total assets	42,214	41,180
39,935	41,274	Deposits	28,037	30,323
10,141	16,274	Other borrowings	11,055	7,700
916	1,102	Other liabilities	749	696
3,242	3,493	Shareholders' funds	2,373	2,461
54,234	62,143	Total liabilities and shareholders' funds	42,214	41,180
Contribution of M&T				
Year ended 31 December 2006 US \$m	Year ended 31 December 2007 US \$m		Year ended 31 December 2007 € m	Year ended 31 December 2006 € m
266	254	Gross contribution	185	212
(89)	(88)	Taxation	(65)	(71)
177	166	Contribution to Group profit before taxation	120	141

⁽¹⁾The impairment provisions in 2006 reflect the allocation by M&T to specific provisions of previously unallocated provisions (which had not been recognised by AIB under IFRS).

34 Interest in Hibernian Life Holdings Limited

Acquisition of the 24.99% interest in Hibernian Life and Pensions Limited

The Group's share of the assets and liabilities of Hibernian Life and Pensions Limited ("HLP") as at 30 January 2006 were recorded at fair value in accordance with the accounting policies of the Group. The fair value of the consideration given represents the value of the 75.01% of Ark Life that is deemed to be transferred to Hibernian Life Holdings Limited. Acquisition accounting has been adopted in respect of the transaction and the acquisition of the 24.99% interest in HLP comprised:

	<u>2006</u> € m
Book value of assets acquired	520
Adjustments	146
Intangible assets recognised	67
Net assets	733
Group's share of net assets - 24.99%	183
Goodwill arising on the acquisition of HLP	12
Fair value of consideration given	195

The adjustments reflect bringing HLP's accounting policies in line with AIB's, primarily in respect of accounting for insurance contracts. AIB accounts for insurance contracts using the embedded value basis and the adjustments of € 146m primarily reflect the recognition of embedded value on the insurance contracts in force on HLP's books, offset by other adjustments to bring HLP's accounting policies in line with AIB's, as well as fair value adjustments. The intangible assets recognised relate to the value of management contracts not recognised within HLP's books. Goodwill arising has been capitalised on the balance sheet within the caption "Interests in associated undertakings".

The Discontinued operation, net of taxation on the face of the income statement of € 116m for 2006 is made up of € 112m relating to the profit on disposal of Ark Life and € 4m of profit for the period to date of disposal of Ark Life.

Hibernian Life Holdings Limited

The contribution of Hibernian Life Holdings Limited ("HLH") for the year ended 31 December 2007 and from 30 January 2006 to 31 December 2006 is included within share of results of associated undertakings as follows:-

	2007 € m	2006 € m
Share of income of HLH	12	26
Amortisation of intangible assets	2	2
Share of income before taxation	10	24
Taxation attributable to policyholder returns	3	12
Profit attributable to shareholders before taxation	7	12
Taxation	1	1
Included within associated undertakings	6	11

In addition to the income described above, the Group recognised fee income on the sale of HLH life insurance and investment products, through its distribution channels, amounting to € 49m for the year ended 31 December 2007 (2006: € 31m).

34 Interests in Hibernian Life Holdings Limited (continued)

The assets and liabilities of Hibernian Life Holdings Limited at 31 December 2007, accounted for in accordance with the accounting policies of the Group, and taking into account the acquisition adjustments, are set out below:

Summary of consolidated balance sheet	2007	2006
	€ m	€ m
Cash and placings with banks	1,420	762
Financial investments	10,837	11,648
Investment property	794	765
Property, plant and equipment	12	15
Reinsurance assets	1,983	2,145
Other assets	692	821
Total assets	15,738	16,156
Investment contract liabilities	7,015	6,742
Insurance contract liabilities	6,443	7,055
Other liabilities	1,111	1,253
Shareholders' equity	1,169	1,106
Total liabilities and shareholders' equity	15,738	16,156
35 Investments in Group undertakings	2007	2006
	€ m	€ m
Allied Irish Banks, p.l.c.		
At 1 January	1,408	271
Additions	20	1,156
Transfer to interests in associated undertakings	-	(12)
Disposals	-	(7)
At 31 December	1,428	1,408
Of which:		
Credit institutions	729	747
Other	699	661
Total – all unquoted	1,428	1,408

The investments in Group undertakings are included in the accounts on a historical cost basis. Investments in Group undertakings includes € 300m (2006: € 300m) of subordinated debt.

Principal subsidiary undertakings incorporated in the Republic of Ireland

Principal subsidiary undertakings incorporated in the Republic of Ireland	Nature of business
AIB Capital Markets plc*	Financial services
AIB Corporate Finance Limited	Corporate finance
AIB Leasing Limited*	Leasing
AIB Fund Management Limited	Unit trust management
AIB Investment Managers Limited	Investment management
AIB International Financial Services Limited	International financial services
Goodbody Holdings Limited	Stockbroking and corporate finance
AIB Mortgage Bank*	Issue of mortgage covered securities
AIB Debt Management Limited	Financing and securities investment

*Group interest is held directly by Allied Irish Banks, p.l.c.

35 Investments in Group undertakings (continued)

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank

AIB Mortgage Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. regulated by the Central Bank and Financial Services Authority of Ireland. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Act, 2001.

On 13 February 2006, Allied Irish Banks, p.l.c. transferred its Irish branch originated residential mortgage business to AIB Mortgage Bank, amounting to € 13.6bn in mortgage loans.

In March 2006 AIB Mortgage Bank launched a € 15bn Mortgage Covered Securities Programme. As at 31 December 2007, the total amounts of principal outstanding in respect of mortgage covered securities issued was € 7.2bn (2006:€ 5.5bn). At the same date, the total amounts of principal outstanding in the cover assets pool including mortgage loans and cash was € 12.4bn (2006:€ 8.7bn).

As at 31 December 2007 and 2006, AIB Mortgage Bank had a Mortgage Backed Promissory Notes ("MBPN") facility with the Central Bank and Financial Services Authority of Ireland, none of which was in use at the balance sheet date. This facility is referred to in more detail in note 40.

35 Investments in Group undertakings (continued)

Principal subsidiary undertakings incorporated outside the Republic of Ireland

	Nature of business
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain <i>Registered office:</i> 4 Queen's Square, Belfast, BT1 3DJ	Banking and financial services
AIB Bank (CI) Limited* <i>Registered office:</i> AIB House, 25 The Esplanade, St. Helier, Jersey, JE4 8WT	Banking services
Bank Zachodni WBK S.A. <i>Registered office:</i> Rynek 9/11, 50-950 Wroclaw, Poland (Ordinary shares of PLN 10 each - Group interest 70.47%)	Banking and financial services

*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are wholly-owned unless otherwise stated. The registered office of each is located in the principal country of operation. The issued share capital of each undertaking is denominated in ordinary shares.

In presenting details of the principal subsidiary undertakings, the exemption permitted by the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of and, in accordance with the regulations, Allied Irish Banks, p.l.c. will annex a full listing of subsidiary undertakings to its annual return to the Companies Registration Office.

Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into these accounts, have availed of the exemption from filing its individual accounts as set out in Section 17 of the Companies (Amendment) Act 1986. In accordance with the Act, Allied Irish Banks, p.l.c. has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Asset Management Holdings (Ireland) Limited	Allied Irish Nominees Limited
AIB Alternative Investment Services Limited	Allied Irish Securities Limited
AIB Capital Management Holdings Limited	Dhittier Limited
AIB Capital Markets plc	Eyke Limited
AIB Corporate Banking Limited	First Venture Fund Limited
AIB Corporate Finance Limited	Goodbody Corporate Finance
AIB Finance Limited	Goodbody Economic Consultants Limited
AIB Fund Management Limited	Goodbody Financial Services
AIB I.F.S.C.H.D. Limited	Goodbody Holdings Limited
AIB International Financial Services Limited	Goodbody Pensioneer Trustees Limited
AIB International Leasing Limited	Goodbody Alternative Investment Management Limited
AIB Investment Managers Limited	Goodbody Alternative Fund Management Limited
AIB Leasing Limited	Goodbody Stockbrokers
AIB Services Limited	Kahn Holdings
AIB Venture Capital Limited	Percy Nominees Limited
Allied Combined Trust Limited	PPP Projects Limited
Allied Irish Banks (Holdings & Investments) Limited	Skyraven Limited
Allied Irish Capital Management Limited	The Hire Purchase Company of Ireland Limited
Allied Irish Finance Limited	Webbing Ireland
Allied Irish Leasing Limited	

36 Intangible assets and goodwill	Goodwill € m	Software € m	Other € m	Total € m
Group				
At 1 January 2006	402	303	3	708
Additions	-	84	3	87
Disposals	(2)	(1)	-	(3)
Exchange translation adjustments	(1)	1	-	-
At 31 December 2006	399	387	6	792
Additions	-	138	-	138
Disposals	-	(17)	-	(17)
Other movements	-	6	-	6
Exchange translation adjustments	-	9	-	9
At 31 December 2007	399	523	6	928
Amortisation				
At 1 January 2006	12	176	3	191
Amortisation for the year	-	52	1	53
Disposals	(2)	(1)	-	(3)
Exchange translation adjustments	-	1	-	1
At 31 December 2006	10	228	4	242
Amortisation for the year	-	59	1	60
Disposals	-	(17)	-	(17)
Exchange translation adjustments	-	7	-	7
At 31 December 2007	10	277	5	292
Net book value				
At 31 December 2006	389	159	2	550
At 31 December 2007	389	246	1	636

The goodwill relates principally to the acquisition of the holding in Bank Zachodni WBK S.A. ("BZWBK"). The investment in BZWBK which is quoted on a recognised stock exchange has been assessed for impairment at 31 December 2007 and 2006. The market value at 31 December 2007 of the shareholding in BZWBK S.A. of € 3.6bn (2006: € 3.0bn) exceeds the carrying amount including goodwill of the investment by € 2.3bn (2006: € 1.9bn). The remaining goodwill amounts which relate to unquoted investments, have been assessed for impairment through discounting projected cash flows with the resultant impairment charge, if any, recognised in the period. Internally generated intangible assets under construction amounted to € 92m (2006: € 42m).

Allied Irish Banks, p.l.c.	Software € m	Other € m	2007 Total € m	2006 Total € m
Balance at 1 January	234	3	237	162
Additions	123	-	123	75
Disposals	(11)	-	(11)	-
Other movements	7	-	7	-
Balance at 31 December	353	3	356	237
Amortisation				
Balance at 1 January	125	1	126	98
Amortisation for period	36	1	37	28
Disposals	(11)	-	(11)	-
Other movements	1	-	1	-
Balance at 31 December	151	2	153	126
Net book value at 31 December	202	1	203	111

Internally generated intangible assets under construction amounted to € 75m (2006: € 31m).

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
37 Property, plant & equipment					
Group					
Cost at 1 January 2007	355	81	161	630	1,227
Transfers	(5)	(3)	-	(11)	(19)
Additions	10	6	26	86	128
Disposals	(11)	(1)	(13)	(89)	(114)
Exchange translation adjustments	3	(1)	(2)	4	4
At 31 December 2007	352	82	172	620	1,226
Accumulated depreciation at 1 January 2007	79	17	106	432	634
Transfers	1	(1)	(2)	3	1
Depreciation charge for the year	8	2	12	63	85
Disposals	(4)	-	(12)	(88)	(104)
Exchange translation adjustments	1	-	(2)	3	2
At 31 December 2007	85	18	102	413	618
Net book value					
At 31 December 2007	267	64	70	207	608

The net book value of property occupied by the Group for its own activities was € 385m.

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Allied Irish Banks, p.l.c.					
Cost at 1 January 2007	169	69	66	365	669
Transfers	(11)	(2)	1	(8)	(20)
Additions	10	5	14	57	86
Disposals	(4)	(1)	(1)	(44)	(50)
Exchange translation adjustments	-	-	(1)	(1)	(2)
At 31 December 2007	164	71	79	369	683
Accumulated depreciation at 1 January 2007	24	14	43	230	311
Transfers	(3)	(1)	1	2	(1)
Depreciation charge for the year	5	2	5	44	56
Disposals	-	-	-	(44)	(44)
Exchange translation adjustments	-	-	(1)	-	(1)
At 31 December 2007	26	15	48	232	321
Net book value					
At 31 December 2007	138	56	31	137	362

The net book value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 220m.

37 Property, plant & equipment (continued)	Freehold	Long leasehold	Property Leasehold under 50 years	Equipment	Total
	€ m	€ m	€ m	€ m	€ m
Group					
Cost at 1 January 2006	498	99	150	550	1,297
Disposal of Group undertakings	-	-	-	(1)	(1)
Transfers to assets held for sale	(27)	-	-	-	(27)
Additions	31	7	10	96	144
Disposals	(149)	(25)	-	(17)	(191)
Exchange translation adjustments	2	-	1	2	5
At 31 December 2006	355	81	161	630	1,227
Accumulated depreciation at 1 January 2006	96	18	95	382	591
Disposal of Group undertakings	-	-	-	(1)	(1)
Depreciation charge for the year	13	2	11	61	87
Disposals	(31)	(3)	-	(12)	(46)
Exchange translation adjustments	1	-	-	2	3
At 31 December 2006	79	17	106	432	634
Net book value					
At 31 December 2006	276	64	55	198	593

The net book value of property occupied by the Group for its own activities was € 370m.

Allied Irish Banks, p.l.c.	Freehold	Long leasehold	Property Leasehold under 50 years	Equipment	Total
	€ m	€ m	€ m	€ m	€ m
Cost at 1 January 2006	312	87	62	300	761
Transfers to assets held for sale	(27)	-	-	-	(27)
Additions	30	5	4	74	113
Disposals	(146)	(23)	-	(8)	(177)
Exchange translation adjustments	-	-	-	(1)	(1)
At 31 December 2006	169	69	66	365	669
Accumulated depreciation at 1 January 2006	48	15	38	195	296
Depreciation charge for the year	7	2	5	39	53
Disposals	(31)	(3)	-	(3)	(37)
Exchange translation adjustments	-	-	-	(1)	(1)
At 31 December 2006	24	14	43	230	311
Net book value					
At 31 December 2006	145	55	23	135	358

The net book value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 206m.

Property leased to others had a book value of € 6m (2006: € 7m). Included in the carrying amount of property and equipment is expenditure recognised for both property and equipment in the course of construction amounting to € 7m and € 16m respectively (2006: € 13m and € 7m). In Allied Irish Banks, p.l.c., these amounts are € 5m and € 3m respectively (2006: € 13m and € 10m).

38 Deferred taxation	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Deferred tax assets:				
Provision for impairment of loans and receivables	(68)	(64)	(14)	(11)
Amortised income	(27)	(24)	(4)	(5)
Available for sale securities	-	-	(26)	(10)
Retirement benefits	(77)	(165)	(31)	(76)
Temporary difference on provisions for future commitments in relation to the funding of Icarom plc (<i>under Administration</i>)	(6)	(8)	(6)	(8)
Cash flow hedges	(23)	(19)	(20)	(13)
Other	(26)	(45)	(50)	(52)
Total gross deferred tax assets	(227)	(325)	(151)	(175)
Deferred tax liabilities:				
Assets leased to customers	3	9	-	-
Assets used in the business	27	33	23	27
Available for sale securities	3	27	-	-
Total gross deferred tax liabilities	33	69	23	27
Net deferred tax assets	(194)	(256)	(128)	(148)
Represented on the balance sheet as follows:				
Deferred tax assets	(254)	(256)	(159)	(148)
Deferred tax liabilities	60	-	31	-
	(194)	(256)	(128)	(148)

For each of the years ended 31 December, 2007 and 2006 full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
At 1 January	(256)	(221)	(148)	(114)
Exchange translation and other adjustments	(13)	(21)	(8)	-
Deferred tax through equity	68	(9)	27	(32)
Income statement (<i>note 17</i>)	7	(5)	1	(2)
At 31 December	(194)	(256)	(128)	(148)

38 Deferred taxation (continued)

Net deferred tax assets of € 119m are expected to be recovered after more than 12 months; Allied Irish Banks, p.l.c. € 103m.

Deferred tax assets have not been recognised in respect of tax losses amounting to € 3.1m (2006: € 41.0m); Allied Irish Banks, p.l.c. € Nil (2006: € Nil).

Tax losses of € 2.2m expire in 2011 and € 0.5m expiring thereafter. There is no expiration date on the remaining € 0.4m. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The net deferred tax asset on items recognised directly in equity amounted to € 89m (2006: € 157m); Allied Irish Banks, p.l.c. € 72m (2006: € 99m).

39 Disposal group and assets classified as held for sale

Merchant acquiring joint venture with First Data Corporation.

In November 2007, AIB announced the agreement to form a merchant acquiring joint venture with First Data Corporation. All elements of the transaction were completed by 4 February, 2008. AIB received cash consideration of € 120m, together with a 49.9% interest in the venture, with the remaining 50.1% held by First Data Corporation. The merchant acquiring business was part of AIB Bank ROI and AIB Bank UK for segment reporting purposes and its results for 2007 and 2006 are included in continuing operations. The assets and liabilities of the merchant acquiring business have been classified as held for sale at 31 December 2007.

AIB's interest in the new venture will be accounted for as an associated undertaking from date of completion.

Branch sale programme

During 2006, the Group announced the commencement of a programme for the sale and leaseback of branches and this continued during 2007. Branches identified for sale are classified within the caption 'Disposal group and assets classified as held for sale'.

The premises concerned will continue to operate as AIB branches and there will be no impact on the staff who work there or on the services provided to customers. The branches held for sale are recorded within the Group business segment assets.

Notes to the accounts

40 Deposits by banks	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Securities sold under agreements to repurchase	7,911	12,523	7,603	12,204
Other borrowings from banks	22,478	20,910	47,074	49,655
	30,389	33,433	54,677	61,859
Of which:				
Due to third parties			29,329	32,649
Due to subsidiary undertakings			25,348	29,210
			54,677	61,859
Of which:				
Domestic offices	27,264	30,727		
Foreign offices	3,125	2,706		
	30,389	33,433		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	25	17	6,669	5,228
5 years or less but over 1 year	730	631	5,948	6,022
1 year or less but over 3 months	2,719	3,192	3,540	4,361
3 months or less but not repayable on demand	25,695	28,537	26,728	30,316
	29,169	32,377	42,885	45,927
Repayable on demand	1,220	1,056	11,792	15,932
	30,389	33,433	54,677	61,859
Amounts include:				
Due to associated undertakings	-	-	-	-

Securities sold under agreements to repurchase are secured by Irish Government stock, US Treasury and US Government agency securities and mature within three months.

The carrying amount of financial assets pledged as security for liabilities amounted to € 8,879m (2006: € 13,021m); Allied Irish Banks, p.l.c. € 8,857m (2006: € 13,005m).

At 31 December 2007 and 2006 no deposits by credit institutions are secured by way of charge to the Central Bank and Financial Services Authority of Ireland ("CBFSAI"). Under the terms of the Mortgage Backed Promissory Note ("MBPN") programme, with the CBFSAI, obligations are secured by way of a first floating charge to the CBFSAI over all its right, title, interest and benefit, in loans and receivables to customers. Otherwise than with the prior written consent of the CBFSAI, the Group had pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets.

41 Customer accounts	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Current accounts	25,136	24,177	14,577	15,052
Demand deposits	9,101	8,924	7,386	6,760
Time deposits	37,978	34,805	34,724	23,038
	72,215	67,906	56,687	44,850
Securities sold under agreements to repurchase	1	1	-	-
Other short-term borrowings	9,092	6,968	9,092	6,968
	9,093	6,969	9,092	6,968
	81,308	74,875	65,779	51,818
Of which:				
Non-interest bearing current accounts				
Domestic offices	7,560	8,715	7,560	8,714
Foreign offices	2,325	2,632	198	243
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	42,464	38,844	46,776	39,172
Foreign offices	28,959	24,684	11,245	3,689
	81,308	74,875	65,779	51,818
Of which:				
Due to third parties			55,207	49,541
Due to subsidiary undertakings			10,572	2,277
			65,779	51,818
Analysed by remaining maturity:				
Over 5 years	382	301	2,988	497
5 years or less but over 1 year	2,160	1,901	5,164	1,547
1 year or less but over 3 months	4,167	4,774	3,094	3,276
3 months or less but not repayable on demand	40,189	34,520	29,256	22,623
	46,898	41,496	40,502	27,943
Repayable on demand	34,410	33,379	25,277	23,875
	81,308	74,875	65,779	51,818
Amounts include:				
Due to associated undertakings	22	55	6	32

42 Trading portfolio financial liabilities	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Debt securities:				
Government securities	180	184	180	183
Corporate listed	-	1	-	1
	180	185	180	184
Equity instruments - listed	14	6	-	-
	194	191	180	184

At 31 December 2007 and 31 December 2006, the debt securities within trading portfolio financial liabilities had a residual maturity of less than 1 year.

43 Debt securities in issue	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Bonds and medium term notes:				
European medium term note programme	12,553	10,456	12,553	10,456
Bonds and other medium term notes	7,259	5,648	-	-
	19,812	16,104	12,553	10,456
Other debt securities in issue:				
Commercial paper	2,987	1,912	302	-
Commercial certificates of deposit	19,067	10,515	19,067	10,515
	22,054	12,427	19,369	10,515
	41,866	28,531	31,922	20,971

Analysed by remaining maturity

Bonds and medium term notes:				
Over 5 years	2,607	945	2	2
5 years or less but over 1 year	11,686	10,904	7,149	6,355
1 year or less but over 3 months	5,041	3,565	4,931	3,425
3 months or less	478	690	471	674
	19,812	16,104	12,553	10,456
Other debt securities in issue:				
5 years or less but over 1 year	174	154	174	154
1 year or less but over 3 months	8,212	3,213	8,041	3,050
3 months or less	13,668	9,060	11,154	7,311
	22,054	12,427	19,369	10,515
	41,866	28,531	31,922	20,971

44 Other liabilities	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Notes in circulation	488	501	-	-
Items in transit	237	308	32	36
Creditors	228	198	139	123
Future commitments in relation to the funding of Icarom ⁽¹⁾	51	60	51	60
Fair value of hedged liability positions	(79)	(77)	(77)	(53)
Other	548	767	285	412
	1,473	1,757	430	578

44 Other liabilities (continued)	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Over 5 years	37	(4)	(69)	(18)
5 years or less but over 1 year	(8)	41	54	40
1 year or less but over 3 months	41	37	3	6
3 months or less	1,403	1,683	442	550
	1,473	1,757	430	578

⁽¹⁾The provision represents the present value of the cost of the future commitments arising under the 1992 agreement in relation to the funding of Icarom. A discount rate of 4.23% was applied in the year ended 31 December 2007 (2006: 3.94%) in discounting the cost of the future commitments arising under this agreement. The undiscounted amount was € 57m (2006: €69m). The unwinding of the discount on the provision amounted to €2.3m (2006: €2.5m).

45 Provisions for liabilities and commitments	Liabilities and commitments € m	Other provisions € m	Total € m
Group			
At 1 January 2007	38	55	93
Exchange translation adjustment	-	(2)	(2)
Amounts charged to income statement	-	9	9
Amounts written back to income statement	(8)	(11)	(19)
Provisions utilised	(3)	(4)	(7)
At 31 December 2007	27	47	74
Allied Irish Banks, p.l.c.			
At 1 January 2007	35	41	76
Amounts written back to income statement	(9)	(6)	(15)
Provisions utilised	(2)	(5)	(7)
At 31 December 2007	24	30	54
Group			
At 1 January 2006	61	79	140
Amounts charged to income statement	2	24	26
Amounts written back to income statement	(17)	(13)	(30)
Provisions utilised	(8)	(35)	(43)
At 31 December 2006	38	55	93
Allied Irish Banks, p.l.c.			
At 1 January 2006	57	62	119
Amounts charged to income statement	2	18	20
Amounts written back to income statement	(16)	(10)	(26)
Provisions utilised	(8)	(29)	(37)
At 31 December 2006	35	41	76

The provisions recognised within this caption include, where applicable, amounts in respect of: onerous lease contracts; restructuring and re-organisation costs; repayments to customers; and legal claims and other contingencies including provisions in respect of losses expected under off-balance sheet items. The provisions expected to be settled within one year amount to € 36m (2006: € 56m).

Notes to the accounts

	2007 € m	2006 € m
46 Subordinated liabilities and other capital instruments		
Allied Irish Banks, p.l.c.		
Undated loan capital	813	871
Dated loan capital	2,651	2,668
US \$250m non-cumulative preference shares	169	189
	3,633	3,728
Subsidiary undertakings		
Perpetual preferred securities	972	1,016
	4,605	4,744
Undated loan capital		
Allied Irish Banks, p.l.c.		
US \$100m Floating Rate Primary Capital Perpetual Notes	68	76
€ 200m Fixed Rate Perpetual Subordinated Notes	200	199
Stg £400m Perpetual Callable Step-Up Subordinated Notes	545	596
	813	871
Subsidiary undertakings		
Stg £350m Fixed Rate/Floating Rate Guaranteed Non-Voting Non-cumulative Perpetual Preferred Securities	475	519
€ 500m Fixed Rate/Floating Rate Guaranteed Non-Voting Non-cumulative Perpetual Preferred Securities	497	497
	972	1,016
	1,785	1,887
Dated loan capital		
Allied Irish Banks, p.l.c.		
European Medium Term Note Programme:		
€ 200m Floating Rate Notes due June 2013	200	200
US \$400m Floating Rate Notes due July 2015	272	303
€ 400m Floating Rate Notes due March 2015	400	400
€ 500m Callable Subordinated Step-up Floating Rate Notes due 2017	499	499
Stg £500m Callable Subordinated Fixed/Floating Rate Notes due March 2025	682	745
Stg £350m Fixed Rate Notes due November 2030	477	521
JPY 20bn Callable Subordinated Step-up Fixed/Floating Rate Notes due March 2042	121	-
	2,651	2,668
	2007	2006
	€ m	€ m
The dated loan capital outstanding is repayable as follows:		
In one year or less	-	-
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
In 5 years or more	2,651	2,668
	2,651	2,668

The loan capital of the Group is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

46 Subordinated liabilities and other capital instruments *(continued)*

Undated loan capital

The US\$ 100m Floating Rate Primary Capital Perpetual Notes have no final maturity but may be redeemed at par at the option of the Bank, with the prior approval of the Central Bank and Financial Services Authority of Ireland (“the Financial Regulator”). Interest is payable quarterly on the US\$ 100m Floating Rate Primary Capital Perpetual Notes. The € 200m Fixed Rate Perpetual Subordinated Notes, with interest payable annually at a rate of 6.20% up to 3 August 2009, and with interest payable quarterly at a rate of 2.25% per annum above 3 month EURIBOR thereafter, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the Financial Regulator, on each coupon payment date on or after 3 August 2009. The Stg £ 400m Perpetual Callable Step-Up Subordinated Notes with interest payable annually up to 1 September 2015, and with interest payable quarterly thereafter, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the Financial Regulator, on 1 September 2015 and every interest payment date thereafter.

Perpetual preferred securities

In June 2006, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (“Preferred Securities”) were issued in the amount of Stg £ 350,000,000 and € 500,000,000 through Limited Partnerships. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. (“AIB”). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities. The substitution of the Preferred Securities with fully paid non-cumulative preference shares issued by the Guarantor is subject, in particular cases, to certain events and conditions that are beyond the control of both the Guarantor and the holders of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Financial Regulator (i) upon the occurrence of certain events or (ii) on or after 14 June 2016 for the Stg £ 350,000,000 Preferred Securities and 16 June 2016 for the € 500,000,000 Preferred Securities.

Distributions on the Preferred Securities are non-cumulative. The distributions on the Stg £ 350,000,000 Preferred Securities will be payable at a rate of 6.271% semi-annually until 14 June 2016 and thereafter at a rate of 1.23% per annum above 3 month LIBOR, payable quarterly. The distributions on the € 500,000,000 Preferred Securities will be payable at a rate of 5.142% per annum up to 16 June 2016 and thereafter at a rate of 1.98% per annum above 3 month EURIBOR, payable quarterly.

In the event of the dissolution of the Limited Partnerships, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

Dated loan capital

The dated loan capital in this section issued under the European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The € 200m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on 12 June 2008 and on each interest payment date thereafter. The US\$ 400m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after July 2010. The € 400m Floating Rate Notes with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after March 2010. The € 500m Callable Subordinated Step-Up Floating Rate Notes with interest payable quarterly may be redeemed in whole but not in part on any interest payment date falling on or after 24 October 2012. The Stg £ 500m Subordinated Callable Fixed/Floating Rate Notes, with interest payable annually, up to 10 March 2020 and with Interest payable quarterly from 10 June 2020 thereafter may be redeemed, in whole but not in part on any interest payment date falling on or after 10 March 2025. The Stg £ 350m Fixed Rate Notes, with interest payable annually in arrears on 26 November in each year, may be redeemed, in whole but not in part, on the 26 November 2025 and on each interest payment date thereafter. In March and June 2007, Japanese Yen (“JPY”) 15bn and 5bn respectively Callable Subordinated Step-up Fixed/Floating Rate Notes were issued, interest is payable semi annually. Both the JPY 15bn and JPY 5bn Callable Subordinated Step-up Fixed/Floating Rate Notes are redeemable in whole but not in part on any interest payment date falling on or after 8 March 2037. In all cases, redemption prior to maturity is subject to the necessary prior approval of the Financial Regulator. There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

46 Subordinated liabilities and other capital instruments (continued)

US\$ 250m non-cumulative preference shares

In 1998, 250,000 non-cumulative preference shares of US\$ 25 each were issued at a price of US\$ 995.16 per share raising US\$ 248.8m before expenses. The holders of the non-cumulative preference shares are entitled to a non-cumulative preferential dividend, payable quarterly in arrears, at a floating rate equal to 3 month dollar LIBOR plus 0.875% on the liquidation preference amount of US\$ 1,000 per share. The preference shares are redeemable at the option of the Bank, and with the agreement of the Financial Regulator, on or after 15 July 2008 (i) in whole or in part or (ii) prior to that date in certain circumstances in whole, but not in part. In each case, the preference shares will be redeemed at a price equal to US\$ 1,000 per share (consisting of a redemption price of US\$ 995.16 plus a special dividend of US\$ 4.84 per share), plus accrued dividends.

47 Share capital	2007 € m	2006 € m
Ordinary share capital		
Ordinary shares of €0.32 each		
Authorised:	1,160 million shares (2006: 1,160 million)	
Issued:	918 million shares (2006: 918 million)	294
		294

The company has authorisation from shareholders to issue 279.4 million ordinary shares of €0.32 each, including the re-issue of €37.8 million Treasury Shares.

There were no movements in issued ordinary shares during 2007 or 2006.

Preference share capital

The company has authorisation from shareholders to issue preference share capital as follows:

- 19.75m non-cumulative preference shares of US\$ 25 each
- 200m non-cumulative preference shares of €1.27 each
- 200m non-cumulative preference shares of Stg £ 1 each
- 200m non-cumulative preference shares of Yen 175 each

Structure of the Company's share capital as at 31 December 2007

Class of share	Authorised share capital %	Issued share capital %
Ordinary shares	26	99
Preference shares	74	1
	100	100

48 Own shares

Share repurchases

At the 2007 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 91.8 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During 2007, ordinary shares previously purchased under a similar authority, and held as Treasury Shares, were re-issued as follows:

	2007	2006
At 1 January	42,778,079	43,539,597
Shares re-issued under:		
AIB Share Option Schemes	(2,672,825)	(4,346,120)
Allfirst Financial Stock Option Plan	(20,000)	(35,000)
AIB Approved Employee Profit Sharing Schemes	(2,286,250)	(1,980,398)
	(4,979,075)	(6,361,518)
Purchase of shares held by subsidiary company	-	5,600,000
At 31 December	37,799,004	42,778,079

48 Own shares (continued)

The cost of share repurchases less proceeds of shares reissued has been charged to revenue reserves. The shares issued during 2007 to participants in the AIB share option schemes were issued at prices of € 10.02, € 11.98, € 12.60, € 13.30, € 13.55, and € 13.90 per share. The consideration received for these shares was € 30.8m.

The consideration received for the shares issued during 2007 on the exercise of Dauphin converted options to participants in the Allfirst Financial Inc. Stock Option Plan was € 0.2m.

During 2007, the Company re-issued from its pool of Treasury Shares 2,286,250 ordinary shares to the Trustees of the employees' profit sharing schemes, at € 22.63 per share. The consideration received for these shares was € 51.7m.

During the year ended 31 December 2006, the Company purchased 5.6 million ordinary shares, previously held by AIB Finance Ltd., a subsidiary of the Company, at a market price of € 22.90 per share. The 5.6 million shares in question are held by AIB as Treasury Shares.

Allfirst Financial Inc. Stock Option Plan

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (subsequently renamed "Allfirst") and Dauphin Deposit Corporation ("Dauphin", subsequently renamed "Allfirst"), approved by shareholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger, were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares ("converted options"). On 1 April 2003, the merger of Allfirst Financial Inc. ("Allfirst") with M&T Bank Corporation ("M&T") was completed, pursuant to the Agreement and Plan of Reorganisation dated 26 September 2002 by and among the Company, Allfirst and M&T. Under the terms of that Agreement, Dauphin converted options outstanding immediately prior to the merger (over 321,598 ordinary shares) remained in force.

At 31 December 2007, there were no converted options outstanding (2006: 45,598 ordinary shares).

Employee share schemes and trusts

The Group sponsors a number of employee share plans whereby purchases of shares are made in the open market to satisfy commitments under the schemes.

At 31 December 2007, 1.4 million shares (2006: 2.0 million) were held by trustees with a book value of € 23.1m (2006: € 23.2m), and a market value of € 22.4m (2006: € 44.6m). The book value is deducted from the profit and loss account reserve while the shares continue to be held by the Group.

The Group sponsors SAYE schemes for eligible employees in the UK, the Isle of Man and Channel Islands. The trustees of the schemes have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the schemes. The trustees receive dividends on the shares which are used to meet the expenses. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2007, 1.0 million shares (2006: 1.4 million) were held by the trustees with a book value of € 18.9m (2006: € 18.3m) and a market value of € 15.6m (2006: € 31.3m).

In 2001, the AIB Group Employee Share Trust was established to satisfy commitments arising under the AIB Group Long-Term Incentive Plan ("LTIP"). Funds were provided to the trustees to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. The trustees have waived their entitlement to dividends. At 31 December 2007, 0.2 million shares (2006: 0.2 million) were held by the trustees with a book value of € 2.1m (2006: € 2.1m) and a market value of € 3.1m (2006: € 4.5m).

Prior to its disposal to M&T Bank Corporation, Allfirst Financial, Inc. sponsored the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst. At 31 December 2002, Allfirst had lent US\$ 178m to a trust to enable it to purchase Allied Irish Banks, p.l.c. ordinary shares in the form of American Depositary Shares in the open market. The shares purchased are used to satisfy options which have been granted to Allfirst employees. Proceeds of option exercises are used to repay the loan to the trust. Under the terms of the trust, the trustees receive dividends on the shares which are used to meet the expenses of the trust. A similar scheme operated for certain eligible employees of AIB's US operations. At 31 December 2007, 0.2 million (2006: 0.4 million) ordinary shares were held by the trust with a cost of € 2.1m (2006: € 3.6m) and a market value of € 3.6m (2006: € 8.8m).

48 Own shares (continued)

Subsidiary companies

Certain subsidiary companies may hold shares in AIB for customer facilitation and in the normal course of business. However, at 31 December 2007 no such shares were held by subsidiary companies. At 31 December 2006, 0.3 million shares with a book and market value of € 6.6m were held by subsidiary companies.

The accounting treatment is not intended to affect the legal characterisation of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares as a deduction against shareholders' funds on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.

49 Other equity interests

In February 2001, Reserve Capital Instruments ("RCIs") of € 500m were issued by Allied Irish Banks, p.l.c. at an issue price of 100.069%. The RCIs are perpetual securities and have no maturity date. The RCIs are redeemable, in whole but not in part, at the option of the Bank and with the agreement of the Financial Regulator (i) upon the occurrence of certain events, or (ii) on or after 28 February 2011, an authorised officer having reported to the Trustees within the previous six months that a solvency condition is met.

The RCIs bear interest at a rate of 7.50% per annum from (and including) 5 February 2001 to (but excluding) 28 February 2011 and thereafter at 3.33% per annum above three month EURIBOR, reset quarterly.

The rights and claims of the RCI holders and the coupon holders are subordinated to the claims of the senior creditors and the senior subordinated creditors of the issuer. In the event of a winding up of the issuer, the RCI holders will rank *pari passu* with the holders of the classes of preference shares (if any) from time to time issued by the issuer and in priority to all other shareholders.

50 Minority interests in subsidiaries	2007	2006
	€ m	€ m
Equity interest in subsidiaries	361	317
Non-cumulative Perpetual Preferred Securities	990	990
	1,351	1,307

Non-cumulative Perpetual Preferred Securities

In December 2004, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ("Preferred Securities") in the amount of € 1,000,000,000 were issued through a Limited Partnership. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ("AIB"). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Financial Regulator (i) upon the occurrence of certain events, or (ii) on or after 17 December 2014, subject to the provisions of the Limited Partnership Act, 1907.

Distributions on the Preferred Securities are non-cumulative. The distributions will be payable at a rate of 4.781% per annum up to 17 December 2014 and thereafter at the rate of 1.10% per annum above 3 month EURIBOR, reset quarterly. The discretion of the Board of Directors of AIB to resolve that a distribution should not be paid is unfettered.

In the event of the dissolution of the Limited Partnership, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

51 Memorandum items: contingent liabilities and commitments

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated balance sheet. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The risk weighted amount is obtained by applying credit conversion factors and counterparty risk weightings in accordance with the Financial Regulator guidelines implementing the EC Own Funds and Solvency Ratio Directives.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending.

The following tables give, for the Group and Allied Irish Banks, p.l.c., the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments.

	2007		2006	
	Contract amount € m	Risk weighted amount € m	Contract amount € m	Risk weighted amount € m
Group				
Contingent liabilities				
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	5,628	5,381	5,902	5,675
Other contingent liabilities	1,393	576	1,191	537
	7,021	5,957	7,093	6,212
Commitments				
Documentary credits and short-term trade-related transactions	378	135	314	112
Undrawn note issuance and revolving underwriting facilities	121	60	145	67
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year ⁽¹⁾	11,073	-	10,613	-
1 year and over	12,143	6,040	12,984	6,475
	23,715	6,235	24,056	6,654
	30,736	12,192	31,149	12,866

⁽¹⁾Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

	Contingent liabilities		Commitments	
	2007 € m	2006 € m	2007 € m	2006 € m
Concentration of exposure				
Republic of Ireland	2,406	2,345	13,088	12,819
United Kingdom	1,568	1,470	5,184	6,010
Poland	165	67	2,214	1,777
United States of America	2,873	3,211	3,087	3,417
Rest of the world	9	-	142	33
	7,021	7,093	23,715	24,056

51 Memorandum items: contingent liabilities and commitments (continued)

	2007		2006	
	Contract amount € m	Risk weighted amount € m	Contract amount € m	Risk weighted amount € m
Allied Irish Banks, p.l.c.				
Contingent liabilities				
Guarantees and irrevocable letters of credit	4,575	4,344	4,904	4,687
Other contingent liabilities	1,012	424	927	412
	5,587	4,768	5,831	5,099
Commitments				
Documentary credits and short-term trade-related transactions	123	25	115	23
Undrawn note issuance and revolving underwriting facilities	-	-	14	1
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year ⁽¹⁾	8,415	-	8,089	-
1 year and over	9,425	4,682	10,278	5,123
	17,963	4,707	18,496	5,147
	23,550	9,475	24,327	10,246

⁽¹⁾Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

There exists a contingent liability to repay in whole or in part grants received on equipment leased to customers if certain events set out in the agreements occur.

Allied Irish Banks, p.l.c. has given guarantees in respect of the liabilities of certain of its subsidiaries and has also given guarantees to the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate.

AIB Group is not, nor has been, involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of AIB Group.

52 Fair value of financial instruments

The term "financial instruments" includes both financial assets and financial liabilities. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value may be estimated using quoted market prices for similar instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some lendings to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Group's financial position or to make comparisons with other institutions.

Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include short-term debtors and creditors, intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2007.

52 Fair value of financial instruments (continued)

The following table gives details of the carrying amounts and fair values of financial instruments of the Group at 31 December 2007 and 2006.

	2007		2006	
	Carrying amount € m	Fair value € m	Carrying amount € m	Fair value € m
Assets				
Trading financial instruments				
Trading portfolio financial assets	8,256	8,256	8,953	8,953
Trading derivative financial instruments	3,956	3,956	2,470	2,470
Non-trading financial instruments				
Cash and balances at central banks ⁽¹⁾	1,264	1,264	989	989
Treasury bills and other eligible bills	15	15	196	196
Items in course of collection ⁽¹⁾	383	383	527	527
Loans and receivables to banks ⁽²⁾	9,465	9,540	12,900	12,913
Loans and receivables to customers ⁽²⁾	127,603	127,517	107,115	107,068
Financial investments available for sale	20,969	20,969	19,665	19,665
Hedging derivative financial instruments	601	601	420	420
Fair value hedged asset positions ⁽³⁾	3	-	3	-
Disposal group and assets classified as held for sale ⁽¹⁾	239	239	39	39
Liabilities				
Trading financial instruments				
Trading portfolio financial liabilities	194	194	191	191
Trading derivative financial instruments	3,876	3,876	2,382	2,382
Non-trading financial instruments				
Deposits by banks	30,389	30,392	33,433	33,431
Customer accounts	81,308	81,269	74,875	74,836
Debt securities in issue	41,866	41,669	28,531	28,415
Hedging derivative financial instruments	266	266	149	149
Subordinated liabilities and other capital instruments	4,605	4,148	4,744	4,724
Fair value hedged liability positions ⁽³⁾	(79)	-	(77)	-
Disposal group classified as held for sale ⁽¹⁾	161	161	-	-

⁽¹⁾The fair value of these financial instruments is considered equal to the carrying value. These instruments are either carried at market value or have minimal credit losses.

⁽²⁾The carrying values are net of the provisions for impairment and related unearned income.

⁽³⁾The fair value of the hedged asset and liability positions are included in the fair value of the relevant assets and liabilities being hedged.

The following methods and assumptions were used in estimating the fair value of financial instruments.

Trading portfolio financial assets/liabilities

The fair value of trading portfolio financial assets and liabilities is based on quoted prices sourced from external pricing services or bid quotations sourced from external securities dealers. Where securities are traded on an exchange, the fair value is based on prices from the exchange.

52 Fair value of financial instruments (continued)**Loans and receivables to banks and loans and receivables to customers**

The fair value of money market funds and loans and receivables to banks are estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques including: using recent arm's length market transactions; reference to fair value of another similar instrument; discounted cash flow analysis; and option pricing models are employed, as considered appropriate, in estimating the fair value of loans. Where secondary market prices are available, these are used. The carrying amount of variable rate loans is considered to be at market value if there was no significant change in the credit risk of the borrower. The fair value of fixed rate loans is calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

Financial investments available for sale

The fair value of financial investments is based on quoted prices sourced from external pricing services or bid quotations sourced from external securities dealers. Where securities are traded on an exchange, the fair value is based on prices from the exchange. The estimated value of unlisted financial investments is calculated using financial markets pricing models to discount anticipated future cashflows arising from these items, to arrive at present value.

Deposits by banks, customer accounts and debt securities in issue

The fair value of current accounts and deposit liabilities payable on demand is equal to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Subordinated liabilities and other capital instruments

The estimated fair value of subordinated liabilities is estimated based on discounted cash flow analysis using market rates.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 51. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

Derivative financial instruments

The fair value of derivatives used for trading purposes is determined using market prices or market standard revaluation methodologies, based on pricing inputs sourced from external pricing services. The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used for valuing similar instruments used for trading purposes. Details of derivatives in place, including fair values, are included in note 25.

53 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2007 and 2006 is illustrated in the tables below. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are also included. The tables show the sensitivity of the balance sheet at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

53 Interest rate sensitivity (continued)

31 December 2007



	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets											
Treasury bills and other eligible bills	15	-	-	-	-	-	-	-	-	-	15
Trading portfolio financial assets	-	-	-	-	-	-	-	-	-	8,256	8,256
Loans and receivables to banks	8,645	476	83	-	-	-	-	117	144	-	9,465
Loans and receivables to customers	87,129	17,226	9,336	3,019	2,006	1,603	2,123	5,161	-	-	127,603
Financial investments available for sale	5,336	1,923	4,305	1,532	1,985	1,330	1,136	3,077	345	-	20,969
Other assets	-	-	-	-	-	-	-	-	7,598	3,956	11,554
Total assets	101,125	19,625	13,724	4,551	3,991	2,933	3,259	8,355	8,087	12,212	177,862
Liabilities											
Deposits by banks	16,196	11,237	2,648	58	77	-	-	7	166	-	30,389
Customer accounts	52,321	12,655	3,983	1,018	396	414	254	382	9,885	-	81,308
Trading portfolio financial liabilities	-	-	-	-	-	-	-	-	-	194	194
Debt securities in issue	9,694	16,190	8,563	174	2,575	1,998	5	2,667	-	-	41,866
Subordinated liabilities and other capital instruments	1,007	600	-	200	-	-	-	2,798	-	-	4,605
Other liabilities	-	-	-	-	-	-	-	-	5,803	3,870	9,673
Shareholders' equity	-	-	-	-	-	-	-	-	9,827	-	9,827
Total liabilities and stockholders equity	79,218	40,682	15,194	1,450	3,048	2,412	259	5,854	25,681	4,064	177,862
Derivative financial instruments affecting interest rate sensitivity	38,480	(21,391)	(10,565)	(885)	(833)	(870)	(431)	(3,505)	-	-	-
Interest sensitivity gap	(16,573)	334	9,095	3,986	1,776	1,391	3,431	6,006	(17,594)	8,148	
Cumulative interest sensitivity gap	(16,573)	(16,239)	(7,144)	(3,158)	(1,382)	9	3,440	9,446	(8,148)	-	
	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m
Interest sensitivity gap	(7,174)	2,943	7,610	2,185	177	(97)	1,723	965	(13,824)	4,948	
Cumulative interest sensitivity gap	(7,174)	(4,231)	3,379	5,564	5,741	5,644	7,367	8,332	(5,492)	(544)	
	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m
(in euro equivalents)	(3,610)	75	1,043	512	302	356	259	346	706	814	
Cumulative interest sensitivity gap	(3,610)	(3,535)	(2,492)	(1,980)	(1,678)	(1,322)	(1,063)	(717)	(11)	803	
	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m
(in euro equivalents)	(1,476)	(2,572)	(455)	678	943	769	1,124	4,312	(4,403)	995	
Cumulative interest sensitivity gap	(1,476)	(4,048)	(4,503)	(3,825)	(2,882)	(2,113)	(989)	3,323	(1,080)	(85)	
	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m
(in euro equivalents)	(2,982)	475	424	417	377	336	322	383	(153)	70	
Cumulative interest sensitivity gap	(2,982)	(2,507)	(2,083)	(1,666)	(1,289)	(953)	(631)	(248)	(401)	(331)	

53 Interest rate sensitivity (continued)

	31 December 2006										
	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
Assets											
Treasury bills and other eligible bills	-	35	161	-	-	-	-	-	-	-	196
Trading portfolio financial assets	-	-	-	-	-	-	-	-	-	8,953	8,953
Loans and receivables to banks	11,088	726	320	-	-	-	-	128	638	-	12,900
Loans and receivables to customers	82,144	11,365	4,802	1,849	1,646	1,221	1,396	2,692	-	-	107,115
Financial investments available for sale	4,686	2,962	2,658	2,052	1,483	1,355	2,924	1,252	293	-	19,665
Other assets	-	-	-	-	-	-	-	-	7,227	2,470	9,697
Total assets	97,918	15,088	7,941	3,901	3,129	2,576	4,320	4,072	8,158	11,423	158,526
Liabilities											
Deposits by banks	17,539	13,006	2,666	39	-	39	-	-	144	-	33,433
Customer accounts	50,189	7,072	4,121	807	495	290	157	397	11,347	-	74,875
Trading portfolio financial liabilities	-	-	-	-	-	-	-	-	-	191	191
Debt securities in issue	4,103	15,349	3,441	192	4,515	3	1	927	-	-	28,531
Subordinated liabilities and other capital instruments	1,067	600	-	-	199	-	-	2,878	-	-	4,744
Other liabilities	-	-	-	-	-	-	-	60	5,705	2,382	8,147
Shareholders' equity	-	-	-	-	-	-	-	-	8,605	-	8,605
Total liabilities and stockholders equity	72,898	36,027	10,228	1,038	5,209	332	158	4,262	25,801	2,573	158,526
Derivative financial instruments affecting interest rate sensitivity	9,253	1,569	(6,254)	(899)	(196)	(41)	(679)	(2,753)	-	-	-
Interest sensitivity gap	82,151	37,596	3,974	139	5,013	291	(521)	1,509	25,801	2,573	158,526
Cumulative interest sensitivity gap	15,767	(22,508)	3,967	3,762	(1,884)	2,285	4,841	2,563	(17,643)	8,850	-
	15,767	(6,741)	(2,774)	988	(896)	1,389	6,230	8,793	(8,850)	-	-
	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m	Euro m
Interest sensitivity gap	19,452	(18,530)	2,305	2,285	(3,275)	1,296	2,534	1,511	(13,971)	5,609	-
Cumulative interest sensitivity gap	19,452	922	3,227	5,512	2,237	3,533	6,067	7,578	(6,393)	(784)	-
	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m	US \$m
Interest sensitivity gap	(2,971)	708	167	879	201	146	687	142	864	522	-
Cumulative interest sensitivity gap	(2,971)	(2,263)	(2,096)	(1,217)	(1,016)	(870)	(183)	(41)	823	1,345	-
	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m	Stg m
Interest sensitivity gap	2,195	(4,027)	894	317	757	535	1,427	735	(4,262)	1,475	-
Cumulative interest sensitivity gap	2,195	(1,832)	(938)	(621)	136	671	2,098	2,833	(1,429)	46	-
	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m
Interest sensitivity gap	(2,214)	64	351	235	287	311	137	228	(400)	226	-
Cumulative interest sensitivity gap	(2,214)	(2,150)	(1,799)	(1,564)	(1,277)	(966)	(829)	(601)	(1,001)	(775)	-

54 Statement of cash flows

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition:

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Cash and balances at central banks	1,264	989	566	514
Loans and receivables to banks	9,163	12,354	8,385	11,100
Short term investments	-	1,012	-	-
At 31 December	10,427	14,355	8,951	11,614

The Group is required to maintain balances with the Central Bank and Financial Services Authority of Ireland which amounted to €2,683m at 31 December 2007 (2006: €2,636m). The Group is also required by law to maintain reserve balances with the Bank of England and with the National Bank of Poland. At December 2007, such reserve balances amounted to €419m (2006: €755m). Amounts with central banks are included within cash and balances at central banks and loans and receivables to banks.

55 Financial liabilities by undiscounted contractual maturity

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations.

	31 December 2007					
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Deposits by banks	1,220	25,965	2,841	920	40	30,986
Customer accounts	34,660	40,816	4,258	2,179	382	82,295
Trading portfolio financial liabilities	194	-	-	-	-	194
Derivative financial instruments	-	2,541	6	293	451	3,291
Debt securities in issue	-	14,609	14,136	13,357	3,053	45,155
Other liabilities	-	1,403	41	(8)	37	1,473
Subordinated liabilities and other capital instruments	-	133	536	2,117	4,038	6,824
	36,074	85,467	21,818	18,858	8,001	170,218

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the balance sheet. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The table below sets out the contractual maturity of liabilities at 31 December 2006 on a discounted basis, without taking account of interest.

	31 December 2006					
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Deposits by banks	1,056	28,537	3,192	631	17	33,433
Customer accounts	33,379	34,520	4,774	1,901	301	74,875
Trading portfolio financial liabilities	191	-	-	-	-	191
Derivative financial instruments	-	2,531	-	-	-	2,531
Debt securities in issue	-	9,750	6,778	11,058	945	28,531
Other liabilities	-	1,683	37	41	(4)	1,757
Subordinated liabilities and other capital instruments	-	-	-	1,367	3,377	4,744
	34,626	77,021	14,781	14,998	4,636	146,062

55 Financial liabilities by undiscounted contractual maturity (continued)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	31 December 2007					
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	305	1,294	1,453	2,889	1,080	7,021
Commitments	2,691	3,551	6,882	7,592	2,999	23,715
	2,996	4,845	8,335	10,481	4,079	30,736

	31 December 2006					
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	195	1,378	1,664	3,083	773	7,093
Commitments	2,540	2,778	5,415	10,306	3,017	24,056
	2,735	4,156	7,079	13,389	3,790	31,149

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

56 Report on directors' remuneration and interests

Remuneration policy

The Company's policy in respect of the remuneration of the executive directors aims to support and enhance business performance, and to underpin and reinforce a high-performance and ethical culture. Remuneration packages and structures are such as to attract, retain, motivate and reward the executives concerned and, by ensuring strong links between performance and reward, align individual and company success. In considering such packages, cognisance is taken of: the levels of remuneration for comparable positions, as advised by external consultants (Kepler Associates, who report to the Remuneration Committee and who have not been engaged to provide any other services to the Group); the responsibilities and complexity of the roles of the individuals concerned; their individual performances measured against specific and challenging objectives; and the Group's overall performance. A high proportion of the remuneration of the senior executives will be delivered through variable pay, including equity. Senior executives participating in the AIB Group Performance Share Plan 2005 (see note 10, and in respect of the executive directors, page 165) are expected to build up, over time, ownership of the Company's shares to the equivalent of annual basic salary.

Remuneration Committee

The Remuneration Committee comprises only non-executive directors; during 2007 its members were: Mr. Don Godson, (Chairman until 8 October 2007, retired from the Board on 31 December 2007), Mr. Sean O'Driscoll (from 1 May 2007; Chairman from 9 October 2007), Mr. Dermot Gleeson, Mr. John B. McGuckian (until 30 April 2007), Mr. Jim O'Leary (until 5 December, 2007; he will retire from the Board on 22 April 2008), Mr. David Pritchard (from 21 June 2007), and Mr. Bernard Somers (from 1 May 2007). The Committee has a wide remit which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors. A copy of the Committee's Terms of Reference is available on AIB's website, www.aibgroup.com.

56 Report on directors' remuneration and interests (continued)

The following tables detail the total remuneration of the Directors.

Remuneration							2007
	Fees ⁽¹⁾ € 000	Salary € 000	Bonus ⁽²⁾ € 000	Profit share ⁽³⁾ € 000	Taxable benefits ⁽⁴⁾ € 000	Pension contributions ⁽⁵⁾ € 000	Total € 000
Executive directors							
Colm Doherty	-	625	800	12	47	179	1,663
Donal Forde (<i>appointed 11 January 2007</i>)	-	575	600	12	43	164	1,394
John O'Donnell	-	480	600	12	44	137	1,273
Eugene Sheehy	-	916	850	12	65	262	2,105
	-	2,596	2,850	48	199	742	6,435
Non-executive directors							
Adrian Burke	141						141
Kieran Crowley	153						153
Padraic M Fallon (<i>retired 9 May 2007</i>)	17						17
Dermot Gleeson	475						475
Don Godson (<i>retired 31 December 2007</i>)	70						70
Stephen L. Kingon (<i>appointed 6 September 2007</i>)	31						31
Anne Maher (<i>appointed 11 January 2007</i>)	71						71
John B McGuckian (<i>retired 9 May 2007</i>)	45						45
Dan O'Connor (<i>appointed 11 January 2007</i>)	64						64
Sean O'Driscoll	57						57
Jim O'Leary	109						109
David Pritchard (<i>appointed 21 June 2007</i>)	86						86
Bernard Somers	50						50
Michael J Sullivan	70						70
Robert G Wilmers	-						-
Jennifer Winter	85						85
	1,524						1,524
Former directors							
Pensions ⁽⁶⁾							113
							113
Total							8,072

56 Report on directors' remuneration and interests (continued)

Remuneration							2006
	Fees ⁽¹⁾ € 000	Salary € 000	Bonus ⁽²⁾ € 000	Profit share ⁽³⁾ € 000	Taxable benefits ⁽⁴⁾ € 000	Pension contributions ⁽⁵⁾ € 000	Total € 000
Executive directors							
Colm Doherty	-	570	1,200	12	45	148	1,975
John O'Donnell	-	415	500	12	40	108	1,075
Eugene Sheehy	-	860	1,300	-	52	224	2,436
	-	1,845	3,000	24	137	480	5,486
Non-executive directors							
Adrian Burke	167					-	167
Kieran Crowley	139					-	139
Padraic M Fallon	51					3	54
Dermot Gleeson	408					-	408
Don Godson	71					-	71
John B McGuckian	120					14	134
Sean O'Driscoll	12					-	12
Jim O'Leary	86					-	86
Bernard Somers	12					-	12
Michael J Sullivan	96					-	96
Robert G Wilmers	-					-	-
Jennifer Winter	87					-	87
	1,249					17	1,266
Former directors							
Pensions ⁽⁶⁾							762
Other payments ⁽⁷⁾							940
							1,702
Total							8,454

⁽¹⁾ Fees paid to the non-executive directors, other than the Chairman who receives a flat fee, comprise a basic fee, paid at a rate of € 36,500 per annum since 26 April 2006, in respect of service as a director, and additional remuneration paid to any non-executive director who: is the Chairman of the Audit Committee, Remuneration Committee, or Corporate Social Responsibility Committee; is the Senior Independent Director or; performs additional services, such as through membership of Board Committees or the board of a subsidiary company. A fee of € 36,500 was paid to M&T Bank Corporation ("M&T") in the year ended 31 December 2007 (2006: € 36,023), in respect of Mr. Robert G. Wilmers's directorship of the Company as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation, dated 26 September 2002, by and among the Company, Allfirst Financial Inc. and M&T, as approved by shareholders at the Extraordinary General Meeting held on 18 December 2002 ("the Agreement"). During 2007, Messrs. Michael Buckley (who retired as Group Chief Executive and Director of AIB on 30 June 2005), Colm Doherty, and Eugene Sheehy, served as AIB-designated Directors of M&T, pursuant to the Agreement. The fees payable in this regard, in 2007 in respect of Messrs. Doherty and Sheehy, amounting to € 32,310 (2006: € 32,996), were paid to AIB, while € 23,237 was paid to Mr. Buckley (2006: € 24,182).

⁽²⁾ The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually.

⁽³⁾ Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 10.

⁽⁴⁾ Taxable benefits include the use of a company car or the payment of a car allowance, and benefit arising from loans made at preferential interest rates.

⁽⁵⁾ "Pension contributions" represent payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. The contribution rate in 2007 in respect of the Executive Directors, as a percentage of pensionable emoluments, is 28.6% (2006: 26.0%). The fees of the non-executive directors who joined the Board since 1990 are not pensionable.

56 Report on directors' remuneration and interests (continued)

Remuneration (continued)

The pension benefits earned during the year, and accrued at year-end, are as follows:

	Increase in accrued benefits during 2007 ^(a) € 000	Accrued benefit at year-end ^(b) € 000	Transfer values ^(c) € 000
Executive directors			
Colm Doherty	18	276	234
Donal Forde	45	264	534
John O'Donnell	43	248	688
Eugene Sheehy	55	529	878
Non-executive directors			
Padraic M. Fallon (<i>retired 9 May 2007</i>)	-	9.8	-
John B. McGuckian (<i>retired 9 May 2007</i>)	-	24.8	-

^(a) Increases are after adjustment for inflation, and arise in consequence of (i) additional pensionable service; and (ii) increases in pensionable earnings.

^(b) The figures represent the accumulated total amounts of accrued benefits (i.e., annual pension) payable at normal retirement dates, as at 31 December 2007. The increase for Mr. McGuckian since 2006 is attributable to late retirement and there was no additional accrual of service.

^(c) The figures show the transfer values of the increases in accrued benefits during 2007. These transfer values do not represent sums paid or due, but the amounts that the Company's pension scheme would transfer to another pension scheme, in relation to the benefits accrued in 2007, in the event of the member leaving service.

⁽⁶⁾ "Pensions" (€ 113,000) represents the payment of pensions to former directors or their dependants granted on an ex-gratia basis and fully provided for in the Balance Sheet (2006: € 762,000, inclusive of € 650,000 to amortise a deficit in the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice).

⁽⁷⁾ "Other payments" in 2006 represents the remuneration of Mr. Aidan McKeon from 1 January 2006 until his retirement as an Executive Director on 28 February 2006, and the payment to Mr. Gary Kennedy, former Group Finance Director, of € 738,675 on foot of approvals given by the shareholders at the 2006 Annual General Meeting (see note 57).

56 Report on directors' remuneration and interests (continued)

Interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2007, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary Shares	31 December, 2007	1 January, 2007*
Directors:		
Adrian Burke	11,004	11,004
Kieran Crowley	12,520	12,520
Colm Doherty	71,677	71,116
Donal Forde	54,006	43,445
Dermot Gleeson	100,000	60,000
Don Godson	65,000	65,000
Stephen L. Kingon	-	-
Anne Maher	1,600	-
Dan O'Connor	14,000	8,000
John O'Donnell	37,052	9,491
Sean O'Driscoll	138,503	3,503
Jim O'Leary	4,000	4,000
David Pritchard	3,500	3,500
Eugene Sheehy	255,845	105,284
Bernard Somers	1,000	-
Michael J Sullivan	5,400	1,700
Robert G Wilmers	430,059	405,059
Jennifer Winter	480	480
Secretary:		
W M Kinsella	41,258	40,697

* or later date of appointment

Share Options

Details of the Executive Directors' and the Secretary's options to subscribe for ordinary shares are given below. Information on the Share Option Schemes, including policy on the granting of options, is given in note 10. The vesting of these options in the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met. Subject thereto, the options outstanding at 31 December 2007 are exercisable at various dates between 2008 and 2015. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by shareholders at the Company's Registered Office.

	31 December, 2007	1 January, 2007*	Since 1 January 2007*		Weighted average price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at 31 December 2007
			Granted	Exercised			
Directors:							
Colm Doherty	185,000	185,000	-	-	-	-	12.83
Donal Forde	105,000	115,000	-	10,000	11.98	19.325	13.90
John O'Donnell	96,000	96,000	-	-	-	-	13.23
Eugene Sheehy	120,000	120,000	-	-	-	-	13.78
Secretary:							
W M Kinsella	40,500	40,500	-	-	-	-	13.99

* or later date of appointment

56 Report on directors' remuneration and interests (continued)

Long Term Incentive Plans

Details of the Executive Directors' and the Secretary's conditional grants of awards of ordinary shares are given below. These conditional awards are subject to onerous performance targets being met, in terms of EPS growth and total shareholder return. In that regard, it was determined by the Remuneration Committee during 2007 that the conditional awards made in 2002 had not met the related performance targets, and, accordingly, that they should lapse – see below. Information on the Long Term Incentive Plans, including policy on the granting of awards, is given in note 10. The conditional grants of awards outstanding at 31 December 2007 may wholly or partly vest between 2008 and 2010, depending on the date of the grant and the grant conditions being met.

	31 December 2007	Lapsed during 2007	Granted during 2007	1 January 2007*
Directors:				
Colm Doherty	115,658	15,000	39,267	91,391
Donal Forde	92,193	8,000	32,722	67,471
John O'Donnell	88,723	6,500	27,486	67,737
Eugene Sheehy	251,163	8,000	76,788	182,375
Secretary:				
W M Kinsella	11,455	4,500	5,641	10,314

* or later date of appointment

Apart from the interests set out above, the Directors and Secretary in office at year-end, and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the Directors' and Secretary's interests between 31 December 2007 and 19 February 2008.

The year-end closing price, on the Irish Stock Exchange, of the Company's ordinary shares was € 15.67 per share; during the year, the price ranged from € 12.95 to € 23.95 per share.

Service Contracts

There are no service contracts in force for any Director with the Company or any of its subsidiaries.

57 Related party transactions

(a) Transactions with subsidiary undertakings

Allied Irish Banks, p.l.c. ("AIB") is the ultimate parent company of the Group. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions on an "arms length" basis. Balances between AIB and its subsidiaries are detailed in notes 26, 27, 35, 40 and 41.

(b) Associated undertakings and joint ventures

From time to time, the Group provides certain banking and financial services for associated undertakings. Details of loans to associates are set out in Notes 26 and 27, while deposits from associates are set out in Notes 40 and 41.

(c) Sale and Leaseback of Blocks E, F, G and H Bankcentre to Hibernian Life and Pensions Ltd. ("HLP")

On 9 June 2006, the Group agreed the sale and leaseback of blocks E, F, G, and H at Bankcentre (note 13). The lease is for 20 years. The blocks were sold to HLP for a total consideration of € 170.5m. AIB hold a 24.99% share of Hibernian Life and Holdings Ltd. (HLH) which is the holding company for Ark Life and HLP. The initial annual rent payable on blocks E, F, G and H is € 7.1m. The rent is paid through Wallkav Ltd, a wholly owned subsidiary of AIB.

(d) Provision of banking and related services to Group Pension Funds, unit trusts and investment funds managed by Group companies

The Group provides certain banking and financial services for the AIB Group Pension Funds and also for unit trusts and investment funds managed by Group companies. Such services are provided on terms similar to those that apply to third parties and are not material to the Group.

57 Related party transactions (continued)

(e) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 – Related Party Disclosures, in respect of the compensation of key management personnel. Under IAS 24, “Key Management Personnel” are defined as comprising directors (executive and non-executive) together with senior executive officers, (namely, the members of the Group Executive Committee (see pages 6 and 7)). The figures shown below include the figures separately reported in respect of directors’ remuneration, shown in the “Report on Directors’ Remuneration and Interests” in note 56.

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Short-term employee benefits ⁽¹⁾	12.6	12.3	10.1	11.3
Post-employment benefits ⁽²⁾	1.5	2.1	1.2	1.8
Termination benefits ⁽³⁾	0.1	0.8	0.1	0.8
Equity compensation benefits ⁽⁴⁾	3.9	3.1	3.3	2.6
Total	18.1	18.3	14.7	16.5

⁽¹⁾comprises (a) in the case of executive directors and the other senior executive officers: salary, bonus, profit share scheme benefits, medical insurance, benefit-in-kind arising from preferential loans and use of company car (or payment in lieu), and other short-term benefits, and (b) in the case of non-executive directors: directors’ fees. Figures for 2007 relate to 4 executive directors (2006:3) - see “Report on Directors’ Remuneration and Interests” in Note 56: in respect of Group, 5 other senior executive officers (2006:6) and in respect of Allied Irish Banks, p.l.c., 3 other senior executive officers (2006:4); and 15 non-executive directors (2006: 11), excluding Mr. R.G.Wilmers, fees in respect of whose service as a designated director of M&T Bank Corporation (“M&T”), amounting to € 36,500 (2006: € 36,023) were paid to M&T;

⁽²⁾comprises (a) payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date in respect of 4 executive directors (2006:3); in respect of Group, 5 other senior executive officers (2006:6) and in respect of Allied Irish Banks, p.l.c., 3 other senior executive officers (2006:4); and in 2006, 2 non-executive directors; (b) the payment of pensions to former directors or their dependants, granted on an ex gratia basis; and (c) in 2006, an amount of € 650,000 to amortise a deficit in the Non-Executive Directors’ Pension Scheme, in accordance with actuarial advice;

⁽³⁾(a) lump sum payment made on retirement to Mr. Shom Bhattacharya, former Group Chief Risk Officer, and (b) in 2006, lump sum payments made to Mr. Gary Kennedy, former Group Finance Director, (see page 167), and on retirement to Mr. Aidan McKeon, a former Executive Director;

⁽⁴⁾the value of conditional awards of shares under the company’s share option scheme and long term incentive plans (which are described in Note 10) made to executive directors and other senior executive officers; the value shown, which has been determined by applying the valuation techniques (described in Note 10) relates to 4 executive directors, and 5 other senior executive officers in 2007 (2006: 3 executive directors, and 6 other senior executive officers).

(f) Transactions with Key Management Personnel

At 31 December 2007, deposit and other credit balances held by Key Management Personnel amounted to € 10.4m (2006: € 5.3m). Loans to non-executive Directors are made in the ordinary course of business on normal commercial terms. Loans to executive directors and other senior executive officers are made (i) on terms applicable to other employees in the Group, in accordance with established policy, within limits set on a case by case basis, and/or (ii) on normal commercial terms.

57 Related party transactions (continued)

The following amounts were outstanding at year-end in loans, or quasi-loans (credit card facilities) to persons who at any time during the year were key management personnel:

	31 December 2007		31 December 2006	
	Loans	Quasi-loans	Loans	Quasi-loans
A. Directors	€ 14.4m	€ 0.07m	€ 3.7m	€ 0.05m
(number of persons)	(8)	(13)	(7)	(11)
B. Other Senior Executive Officers*	€ 3.7m	€ 0.02m	€ 3.7m	€ 0.03m
(number of persons)	(5)	(5)	(5)	(6)
Total	€ 18.1m	€ 0.09m	€ 7.4m	€ 0.08m
(number of persons)	(13)	(18)	(12)	(17)

*Group Executive Committee members other than executive directors, whose figures are included at A.

(g) Indemnities

On 2 February 2004, AIB Capital Markets plc, a wholly-owned subsidiary, extended the terms of an indemnity previously given to certain former directors, officers and employees of Govett Investment Management Ltd. (“Govett”) – now “AIB Investment Management Limited” – to Mr. Michael Buckley, the former Group Chief Executive, and Mr. Colm Doherty, Managing Director, AIB Capital Markets; Mr. Buckley is a former director of a split capital trust managed by Govett, and Mr. Doherty is a former director of Govett. The aggregate liability of AIB Capital Markets plc under the aforementioned indemnity is € 10m.

The purpose of the indemnity is to protect the indemnified parties (or any of them) against any civil liability, loss and defence costs which they (or any of them) may suffer by reason of any claim made against them relating to certain split capital or highly leveraged trusts previously managed by Govett and which previously would have been covered by insurance.

Prior to July 2003, the Bank’s professional indemnity and directors’ and officers’ liability insurance provided cover in respect of the eventualities mentioned in the previous paragraph. However, on renewal of that insurance on 1 July 2003, and in line with a general change introduced by the insurance industry, exclusions were imposed that removed that cover. By virtue of the terms of the abovementioned indemnity, the indemnified parties now stand in the position they would have been in if those exclusions had not been imposed, except that the aggregate limit of liability under the indemnity is € 10m rather than the higher amount previously provided by the insurance.

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group’s Republic of Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default. Mr. Adrian Burke, a Director of the Company, was a Director of the above-mentioned trustee companies until 19 November 2007; Ms. Anne Maher, also a Director of the Company, was appointed a Director of the above-mentioned trustee companies with effect from 19 November 2007.

(h) Payment to a former Director

In accordance with shareholder approval given at the 2006 Annual General Meeting, a payment of € 738,675 was made during 2006 to Mr. Gary Kennedy, former Group Finance Director, who resigned as a director of the company on 31 December 2005, which included compensation for loss of office, and covered fees in relation to legal, pension, taxation and other advice.

58 Commitments

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to € 119m (2006: € 162m). For Allied Irish Banks, p.l.c. outstanding capital commitments amounted to € 115m (2006: € 75m). Capital expenditure authorised, but not yet contracted for, amounted to € 127m (2006: € 144m). For Allied Irish Banks, p.l.c. this amounted to € 78m (2006: € 82m).

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out below:

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
One year	75	55	60	40
One to two years	72	67	57	52
Two to three years	69	64	55	50
Three to four years	62	62	50	49
Four to five years	60	56	47	43
Over five years	593	593	227	226
Total	931	897	496	460

Significant leases are set out in notes 13 and 14 together with initial rents payable and minimum lease terms. Other operating leases in place have various lease terms.

In addition, the lease of the new Bankcentre development, outlined in note 14, commenced from the date of practical completion.

There are no contingent rents payable and all lease payments are at market rates.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date were € 11m (2006: € 11m). For Allied Irish Banks, p.l.c. this was € 5m (2006: € 7m).

Operating lease payments recognised as an expense for the period were € 74m (2006: € 46m). Sublease income amounted to € 1m (2006: € 2m). For Allied Irish Banks, p.l.c. operating lease payments recognised were € 65m (2006: € 37m). Sublease income for Allied Irish Banks, p.l.c. amounted to € 1m (2006: € 2m). Included in the lease payments for Allied Irish Banks, p.l.c. is € 26m paid to another Group subsidiary.

59 Employees

The average full-time equivalent employee numbers by division (excluding employees on career breaks and long term absences) were as follows:

	2007	2006
AIB Bank ROI	8,950	9,116
AIB Bank UK	2,880	2,941
Capital Markets	2,357	2,357
Poland	7,818	7,385
Group	1,792	1,183
	23,797	22,982

60 Companies (Amendment) Act, 1983

The Companies (Amendment) Act, 1983, requires that, when the net assets of a company are half or less than half of its called up share capital, an extraordinary general meeting be convened. The Act further requires an expression of opinion by the auditors as to whether the financial situation of the company at the balance sheet date is such as would require the convening of such a meeting.

61 Reporting currency

The currency used in these accounts is the euro which is denoted by "EUR" or the symbol €. Each euro is made up of one hundred cent, denoted by the symbol "c" in these accounts.

62 Capital adequacy information

The Group, its banking subsidiaries, and its other licensed subsidiaries are subject to requirements imposed by their relevant regulators.

The following table sets out for AIB Group and for Allied Irish Banks, p.l.c. certain information about its regulatory capital position:

	Group		Allied Irish Banks, p.l.c.	
	2007 € m	2006 € m	2007 € m	2006 € m
Risk weighted assets	139,386	123,034	97,343	82,197
Tier 1 capital	10,491	10,116	6,957	7,275
Ratio ⁽¹⁾⁽³⁾	7.5%	8.2%	7.2%	8.9%
Minimum required ratio ⁽²⁾	4.25%	4.25%	4.0%	4.0%
Total capital	14,098	13,644	9,174	7,784
Ratio ⁽¹⁾⁽³⁾	10.1%	11.1%	9.4%	9.5%
Minimum required ratio ⁽²⁾	8.5%	8.5%	8.0%	8.0%

⁽¹⁾The ratio of capital to risk-weighted assets as defined by the Regulator.

⁽²⁾Minimum capital ratio to meet regulatory requirements.

⁽³⁾The Financial Regulator issued a requirement that a Prudential Filter be applied to proposed final dividends with effect from July 2007, accordingly these dividends have been deducted in calculating the Tier 1 and Total Capital Ratios as at 31 December 2007. If applied at 31 December 2006, the Group's Tier 1 and Total Capital Ratios would have been 7.9% and 10.8%, respectively. The ratios of Allied Irish Banks, p.l.c. are those submitted to the Regulator and do not include profits for the second half of the year or the proposed dividend.

During the period the Group and all its licensed subsidiaries complied with externally imposed capital requirements.

63 Financial and other information

	2007	2006
Operating ratios		
Operating expenses/operating income	51.8%	53.5%
Other income/operating income	29.8%	30.7%
Net interest margin:		
Group	2.14%	2.26%
Domestic	2.10%	2.04%
Foreign	2.46%	2.77%
Rates of exchange		
€/US \$		
Closing	1.4721	1.3170
Average	1.3749	1.2566
€/Stg £		
Closing	0.7334	0.6715
Average	0.6861	0.6822
€/PLN		
Closing	3.5935	3.8310
Average	3.7792	3.8965

63 Financial and other information (continued)

Currency information	Assets		Liabilities	
	2007 € m	2006 € m	2007 € m	2006 € m
Euro	97,781	92,189	98,325	92,974
Other	80,081	66,337	79,537	65,552
	177,862	158,526	177,862	158,526

64 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2007 and 2006. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

Assets	Year ended 31 December 2007			Year ended 31 December 2006		
	Average balance € m	Interest € m	Average rate %	Average balance € m	Interest € m	Average rate %
Loans and receivables to banks						
Domestic offices	9,276	422	4.5	4,930	191	3.9
Foreign offices	1,712	96	5.6	2,307	116	5.1
Loans and receivables to customers						
Domestic offices	78,806	4,671	5.9	62,641	3,162	5.1
Foreign offices	39,840	2,860	7.2	33,133	2,177	6.6
Trading portfolio financial assets						
Domestic offices	7,848	372	4.7	9,205	349	3.8
Foreign offices	1,005	21	2.1	1,316	31	2.3
Financial investments available for sale						
Domestic offices	16,302	774	4.7	14,671	588	4.0
Foreign offices	4,781	247	5.2	4,339	209	4.8
Total interest earning assets						
Domestic offices	112,232	6,239	5.6	91,447	4,290	4.7
Foreign offices	47,338	3,224	6.8	41,095	2,533	6.2
Net interest on swaps		(106)			85	
Total average interest earning assets	159,570	9,357	5.9	132,542	6,908	5.2
Non-interest earning assets	10,531			8,827		
Total average assets	170,101	9,357	5.5	141,369	6,908	4.9
Percentage of assets applicable to foreign activities			30.4			31.5

64 Average balance sheets and interest rates (continued)

	Year ended 31 December 2007			Year ended 31 December 2006		
	Average balance € m	Interest € m	Average rate %	Average balance € m	Interest € m	Average rate %
Liabilities and shareholders' equity						
Due to banks						
Domestic offices	31,080	1,448	4.7	28,375	1,067	3.8
Foreign offices	2,682	137	5.1	2,098	96	4.6
Due to customers						
Domestic offices	38,401	1,167	3.0	36,101	809	2.2
Foreign offices	27,060	1,199	4.4	21,282	768	3.6
Other debt issued						
Domestic offices	24,161	1,069	4.4	13,615	456	3.4
Foreign offices	12,063	667	5.5	10,144	499	4.9
Subordinated liabilities						
Domestic offices	3,772	195	5.2	3,542	182	5.2
Foreign offices	1,009	57	5.6	551	32	5.8
Total interest earning liabilities						
Domestic offices	97,414	3,879	4.0	81,633	2,514	3.1
Foreign offices	42,814	2,060	4.8	34,075	1,395	4.1
Total average interest earning liabilities	140,228	5,939	4.2	115,708	3,909	3.4
Non-interest earning liabilities	21,117			18,263		
Total liabilities	161,345	5,939	3.7	133,971	3,909	2.9
Stockholders' equity	8,756			7,398		
Total average liabilities and stockholders' equity	170,101	5,939	3.5	141,369	3,909	2.8
Percentage of liabilities applicable to foreign operations			31.5			30.2

65 Post-balance sheet events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2007 financial statements. On 19 February 2008, the Board of Directors reviewed the Financial Statements and authorised them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 22 April 2008 for approval.

66 Dividends

Final dividends are not accounted for until they have been approved at the Annual General Meeting of Shareholders to be held on 22 April 2008. It is recommended that a final dividend of Eur 51.2c per ordinary share, amounting to € 451m, be paid on 23 April 2008. The financial statements for the year ended 31 December 2007 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2008.

67 Additional parent company information on risk

The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c.

Maximum exposure to credit risk

	2007			2006		
	Amortised cost € m	Fair value € m	Total € m	Amortised cost € m	Fair value € m	Total € m
Items in course of collection	203	-	203	274	-	274
Trading portfolio financial assets ⁽¹⁾	-	8,075	8,075	-	8,651	8,651
Derivative financial instruments	-	1,999	1,999	-	1,614	1,614
Loans and receivables to banks	8,567	-	8,567	11,425	-	11,425
Loans and receivables to customers	72,701	-	72,701	55,361	-	55,361
Financial investments available for sale ⁽²⁾	-	17,794	17,794	-	16,108	16,108
Other assets:						
Sale of debt securities awaiting settlement	-	45	45	-	194	194
Trade receivables	-	54	54	-	12	12
Accrued interest	870	-	870	663	-	663
	82,341	27,967	110,308	67,723	26,579	94,302
Financial guarantees	5,587	-	5,587	5,831	-	5,831
Loan commitments and other credit related commitments	17,963	-	17,963	18,496	-	18,496
	23,550	-	23,550	24,327	-	24,327
Maximum exposure to credit risk	105,891	27,967	133,858	92,050	26,579	118,629

⁽¹⁾Excluding equity shares of € 61m (2006: € 66m).

⁽²⁾Excluding equity shares of € 59m (2006: € 19m).

67 Additional parent company information on risk (continued)

Loans and receivables to customers by geographic location and industry sector

	31 December 2007					
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,921	38	-	4	-	1,963
Energy	375	344	-	435	19	1,173
Manufacturing	2,012	780	-	178	288	3,258
Construction and property	29,713	3,577	-	565	509	34,364
Distribution	7,744	862	-	119	66	8,791
Transport	1,083	460	-	24	21	1,588
Financial	1,238	750	-	330	-	2,318
Other services	4,303	929	-	844	90	6,166
Personal						
- Home mortgages	5,864	-	-	-	-	5,864
- Other	7,855	-	-	-	-	7,855
Lease Financing	-	-	-	-	-	-
Guaranteed by Irish government	-	-	-	-	-	-
	62,108	7,740	-	2,499	993	73,340
Unearned income	(197)	(33)	-	-	-	(230)
Provisions	(369)	(39)	-	(1)	-	(409)
Total Allied Irish Banks, p.l.c.	61,542	7,668	-	2,498	993	72,701

	31 December 2006					
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,514	52	-	-	-	1,566
Energy	330	453	-	269	-	1,052
Manufacturing	1,796	852	-	123	227	2,998
Construction and property	21,951	1,595	-	603	320	24,469
Distribution	7,931	909	-	96	72	9,008
Transport	618	544	-	20	20	1,202
Financial	564	783	-	469	-	1,816
Other services	3,295	1,257	-	795	13	5,360
Personal						
- Home mortgages	2,278	-	-	-	-	2,278
- Other	6,046	-	-	-	-	6,046
Lease financing	-	-	-	-	-	-
Guaranteed by Irish government	-	-	-	-	-	-
	46,323	6,445	-	2,375	652	55,795
Unearned income	(57)	(36)	-	-	(1)	(94)
Provisions	(276)	(63)	-	(1)	-	(340)
Total Allied Irish Banks, p.l.c.	45,990	6,346	-	2,374	651	55,361

67 Additional parent company information on risk (continued)

Aged analysis of contractually past due but not impaired facilities

	2007			
	1-30 days € m	31-60 days € m	61-90 days € m	91+ days € m
Agriculture	96	25	5	1
Energy	3	4	-	-
Manufacturing	53	6	1	1
Construction and property	2,056	269	59	15
Distribution	298	107	75	5
Transport	16	4	2	-
Financial	16	-	1	-
Other services	266	42	19	4
Personal				
- Home mortgages	74	21	3	1
- Credit cards	52	14	7	4
- Other	426	110	33	13
Total	3,356	602	205	44
As a percentage of total loans ⁽¹⁾	4.6%	0.8%	0.3%	0.1%

	2006			
	1-30 days € m	31-60 days € m	61-90 days € m	91+ days € m
Agriculture	88	25	23	53
Energy	3	-	1	2
Manufacturing	24	8	1	13
Construction and property	1,482	138	103	409
Distribution	231	84	60	118
Transport	11	2	1	11
Financial	10	3	1	4
Other services	218	43	21	124
Personal				
- Home mortgages	52	18	1	11
- Credit cards	50	12	5	3
- Other	361	96	48	199
Total	2,530	429	265	947
As a percentage of total loans ⁽¹⁾	4.5%	0.8%	0.5%	1.7%

⁽¹⁾Total loans relate to Group loans and receivables to customers and are gross of provisions and unearned income.

67 Additional parent company information on risk (continued)
Individually impaired loans by geographic location and industry sector

	31 December 2007					
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	23	-	-	-	-	23
Energy	1	-	-	-	-	1
Manufacturing	16	35	-	-	-	51
Construction and property	125	-	-	-	-	125
Distribution	107	21	-	-	-	128
Transport	12	-	-	-	-	12
Financial	1	-	-	-	-	1
Other services	36	-	-	-	-	36
Personal						
- Home mortgages	8	-	-	-	-	8
- Other	134	-	-	-	-	134
Lease financing	-	-	-	-	-	-
Guaranteed by Irish government	-	-	-	-	-	-
	463	56	-	-	-	519

	31 December 2006					
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	21	-	-	-	-	21
Energy	4	-	-	-	-	4
Manufacturing	24	41	-	1	-	66
Construction and property	49	-	-	-	-	49
Distribution	97	5	-	-	-	102
Transport	10	49	-	-	-	59
Financial	1	-	-	-	-	1
Other services	21	4	-	-	-	25
Personal						
- Home mortgages	2	-	-	-	-	2
- Other	88	-	-	-	-	88
Lease financing	-	-	-	-	-	-
Guaranteed by Irish government	-	-	-	-	-	-
	317	99	-	1	-	417

67 Additional parent company information on risk (continued)

Provision for impairment of loans and receivables by geographic location and industry sector

	31 December 2007					
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	16	-	-	-	-	16
Energy	1	-	-	-	-	1
Manufacturing	10	32	-	-	-	42
Construction and property	54	-	-	-	-	54
Distribution	48	7	-	-	-	55
Transport	8	-	-	-	-	8
Financial	1	-	-	-	-	1
Other services	22	-	-	-	-	22
Personal						
- Home mortgages	4	-	-	-	-	4
- Other	97	-	-	-	-	97
Lease financing	-	-	-	-	-	-
Guaranteed by Irish government	-	-	-	-	-	-
Specific	261	39	-	-	-	300
IBNR	108	-	-	1	-	109
	369	39	-	1	-	409

	31 December 2006					
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	14	-	-	-	-	14
Energy	3	-	-	-	-	3
Manufacturing	15	34	-	-	-	49
Construction and property	30	-	-	-	-	30
Distribution	29	4	-	-	-	33
Transport	6	24	-	-	-	30
Financial	1	-	-	-	-	1
Other services	15	1	-	-	-	16
Personal						
- Home mortgages	1	-	-	-	-	1
- Other	79	-	-	-	-	79
Lease financing	-	-	-	-	-	-
Guaranteed by Irish government	-	-	-	-	-	-
Specific	193	63	-	-	-	256
IBNR	83	-	-	1	-	84
	276	63	-	1	-	340

67 Additional parent company information on risk (continued)

Market risk profile of Allied Irish Banks, p.l.c.

	VaR (MTM portfolio)		VaR (Other portfolios)	
	2007	2006	2007	2006
	€ m	€ m	€ m	€ m
Interest rate risk				
1 month holding period:				
<i>Average</i>	8.4	10.2	39.0	36.9
<i>High</i>	11.2	15.3	45.2	44.1
<i>Low</i>	6.1	7.2	33.5	28.0
<i>31 December</i>	7.5	9.2	33.5	43.1
1 day holding period:				
<i>Average</i>	1.8	2.2	8.3	7.9
<i>High</i>	2.4	3.3	9.6	9.4
<i>Low</i>	1.3	1.5	7.1	6.0
<i>31 December</i>	1.6	2.0	7.1	9.2
			VaR (MTM portfolio)	
			2007	2006
			€ m	€ m
Equity risk				
1 month holding period:				
<i>Average</i>			14.8	14.0
<i>High</i>			23.7	20.0
<i>Low</i>			7.3	13.0
<i>31 December</i>			7.6	14.2
1 day holding period:				
<i>Average</i>			3.2	3.0
<i>High</i>			5.1	4.3
<i>Low</i>			1.5	1.7
<i>31 December</i>			1.6	3.0
			VaR (MTM portfolio)	
			2007	2006
			€ m	€ m
Foreign exchange risk				
1 month holding period:				
<i>Average</i>			1.3	1.3
<i>High</i>			3.0	2.1
<i>Low</i>			0.8	0.5
<i>31 December</i>			0.9	0.8
1 day holding period:				
<i>Average</i>			0.3	0.3
<i>High</i>			0.6	0.5
<i>Low</i>			0.2	0.1
<i>31 December</i>			0.2	0.2



Notes to the accounts

68 Form 20-F

An annual report on Form 20-F will be filed with the Securities and Exchange Commission, Washington D.C. and, when filed, will be published on the Company's website and will be available to shareholders on application to the Company Secretary.

69 Approval of accounts

The accounts were approved by the Board of Directors on 19 February 2008.

Statement of Directors' Responsibilities in relation to the Accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out within their audit report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are responsible for preparing the Annual Report and the group and parent company accounts, in accordance with applicable law and regulations.

The Companies Acts require the directors to prepare group and parent company accounts for each financial year. Under the Acts, the directors are required to prepare the group accounts in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"), and adopted from time to time by the European Commission.

The accounts are required by law and IFRS to present fairly the financial position and performance of the group; the Companies Acts provide in relation to such accounts that references to accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors consider that, in preparing the accounts on pages 61 to 178, which have been prepared on a going concern basis, the parent company and the group have, following discussions with the auditor, used appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards, which, following discussions with the auditor, they consider applicable, have been followed (subject to any explanations and any material departures disclosed in the notes to the accounts).

The directors are responsible for taking all reasonable steps to secure that the company causes to be kept proper books of account that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Acts. They have also general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those rules.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors, having prepared the accounts, have requested the auditor to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Independent Auditor's Report to the Members of Allied Irish Banks, p.l.c.

We have audited the group and parent company financial statements of Allied Irish Banks, p.l.c. for the year ended 31 December 2007 ("the financial statements") which comprise the Group Consolidated Income Statement, the Group Consolidated and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense, Group Consolidated and Parent Company Reconciliation of movements in shareholders' equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990 and in respect of the separate opinion in relation to International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standard Board ("IASB"), on terms that have been agreed. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and, in respect of the separate opinion in relation to IFRSs, as issued by the IASB, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and IFRSs as issued by the IASB and adopted by the EU are set out in the Statement of Directors' Responsibilities on page 179.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as issued by the IASB and adopted by the EU and, in the case of the parent company applied in accordance with the provisions of the Companies Acts 1963 to 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion: proper books of account have been kept by the company; at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and the information given in the Report of the Directors is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not.

We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2007; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

As explained in note 2 of the accounting policies to the financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the EU, has also complied with IFRSs as issued by the IASB. In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs as issued by the IASB, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2007 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.



Chartered Accountants

Registered Auditor

1 Harbourmaster Place

International Financial Services Centre

Dublin 1

Ireland

19 February 2008

Notes:

- a. The maintenance and integrity of the Allied Irish Banks, p.l.c. website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.
- b. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Accounts in sterling, US dollars and Polish zloty

Summary of consolidated income statement for the year ended 31 December 2007	€ m	Stg £m STG £.7334 = € 1	US \$m US \$1.4721 = € 1	PLN m PLN 3.5935 = € 1
Operating profit before provisions	2,347	1,721	3,455	8,434
Provisions	99	73	146	356
Operating profit	2,248	1,648	3,309	8,078
Associated undertakings	128	94	188	460
Profit on disposal of property	76	56	112	273
Construction contract income	55	40	81	197
Profit on disposal of businesses	1	1	2	4
Profit before taxation – continuing operations	2,508	1,839	3,692	9,012
Income tax expense – continuing operations	442	324	651	1,588
Profit after taxation – continuing operations	2,066	1,515	3,041	7,424
Discontinued operation, net of taxation	-	-	-	-
Profit for the period	2,066	1,515	3,041	7,424
Minority interests in subsidiaries	117	86	172	420
Profit attributable to equity holders of the parent	1,949	1,429	2,869	7,004
Basic earnings per share	218.0c	159.9p	320.9¢	783.4PLN
Diluted earnings per share	216.4c	158.7p	318.6¢	777.6PLN

Summary of consolidated balance sheet 31 December 2007

	€ m	Stg £m	US \$m	PLN m
Assets				
Trading portfolio financial assets	8,256	6,055	12,154	29,668
Derivative financial instruments	4,557	3,342	6,708	16,376
Loans and receivables to banks	9,465	6,941	13,933	34,012
Loans and receivables to customers	127,603	93,578	187,844	458,541
Financial investments available for sale	20,969	15,378	30,869	75,352
Intangible assets and goodwill	636	466	936	2,286
Property, plant and equipment	608	446	895	2,185
Disposal group and assets classified as held for sale	239	175	352	859
Other assets	5,529	4,054	8,140	19,868
	177,862	130,435	261,831	639,147
Liabilities				
Deposits by banks	30,389	22,286	44,736	109,203
Customer accounts	81,308	59,627	119,694	292,180
Derivative financial instruments	4,142	3,038	6,097	14,884
Debt securities in issue	41,866	30,702	61,631	150,445
Other liabilities	4,374	3,207	6,439	15,718
Subordinated liabilities and other capital instruments	4,605	3,377	6,779	16,548
Minority interests in subsidiaries	1,351	991	1,989	4,855
Shareholders' equity	9,827	7,207	14,466	35,314
	177,862	130,435	261,831	639,147

Five year financial summary

	Year ended 31 December				
	2007 IFRS € m	2006 IFRS € m	2005 IFRS € m	2004 IFRS € m	2003 IR GAAP € m
Summary of consolidated income statement					
Net interest income	3,418	2,999	2,530	2,072	1,934
Other finance income	-	-	-	-	12
Other income	1,450	1,327	1,117	1,144	1,230
Total operating income	4,868	4,326	3,647	3,216	3,176
Total operating expenses	2,521	2,314	2,011	1,869	1,960
Operating profit before provisions	2,347	2,012	1,636	1,347	1,216
Provisions	99	104	143	133	177
Operating profit	2,248	1,908	1,493	1,214	1,039
Associated undertakings	128	167	149	132	143
Share of restructuring & integration costs in associated undertaking	-	-	-	-	(20)
Amortisation of goodwill on acquisition of associated undertaking	-	-	-	-	(42)
Profit on disposal of property	76	365	14	9	32
Construction contract income	55	96	45	-	-
Profit/(loss) on disposal of businesses	1	79	5	17	(141)
Profit before taxation - continuing operations	2,508	2,615	1,706	1,372	1,011
Income tax expense - continuing operations	442	433	319	267	318
Profit after taxation - continuing operations	2,066	2,182	1,387	1,105	693
Discontinued operation, net of taxation	-	116	46	53	-
Profit for the period	2,066	2,298	1,433	1,158	693
Basic earnings per share	218.0c	246.8c	151.0c	132.0c	78.8c
Diluted earnings per share	216.4c	244.6c	149.8c	131.5c	78.4c

	As at 31 December				
	2007 IFRS € m	2006 IFRS € m	2005 IFRS € m	2004 IFRS € m	2003 IR GAAP € m
Summary of consolidated balance sheet					
Total assets	177,862	158,526	133,214	101,109	80,960
Total loans	137,068	120,015	92,361	67,278	53,326
Total deposits	153,563	136,839	109,520	82,384	66,195
Dated capital notes	2,651	2,668	2,678	1,923	1,276
Undated loan capital	813	871	868	346	357
Other capital instruments	1,141	1,205	210	497	497
Minority interests in subsidiaries	1,351	1,307	1,248	1,211	158
Shareholders' equity: other interests	497	497	497	182	196
Ordinary shareholders' equity	9,330	8,108	6,672	5,745	4,942
Total capital resources	15,783	14,656	12,173	9,904	7,426



Five year financial summary (*continued*)

	Year ended 31 December				
	2007 IFRS %	2006 IFRS %	2005 IFRS %	2004 IFRS %	2003 IR GAAP %
Other financial data					
Return on average total assets	1.21	1.63	1.20	1.22	0.90
Return on average ordinary shareholders' equity	21.8	29.0	20.6	20.7	14.5
Dividend ratio	36.4	29.3	43.5	45.5	66.8
Average ordinary shareholders' equity as a percentage of average total assets	5.1	5.2	5.3	5.7	6.0
Allowance for loan losses as a percentage of total loans to customers at year end	0.6	0.7	0.8	1.2	1.3
Net interest margin	2.14	2.26	2.38	2.45	2.72
Tier 1 ratio	7.5	8.2	7.2	8.2	7.1
Total ratio	10.1	11.1	10.7	10.9	10.4

Schedule to Report of the Directors

Information Required to be Contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006

As required by these Regulations, the information contained below represents the position as of 31 December 2007.

Capital Structure

The authorised share capital of the Company is € 625,200,000 divided into 1,160,000,000 Ordinary Shares of € 0.32 each ("the Ordinary Shares") and 200,000,000 Non-Cumulative Preference Shares of € 1.27 each, US\$500,000,000 divided into 20,000,000 Non-Cumulative Preference Shares of US\$25 each ("the US\$ Preference Shares"), £200,000,000 divided into 200,000 Non-Cumulative Preference Shares of £1 each and Yen 35,000,000,000, divided into 200,000,000 Non-Cumulative Preference Shares of Yen 175 each. The issued share capital of the company is € 293.90 million divided into 918,435,570 Ordinary Shares and US\$6.25 million divided into 250,000 US\$ Preference Shares.

Rights and Obligations of Ordinary Shares

The following rights attach to the Ordinary Shares: -

- The right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares.
- The right to attend and speak, in person or by proxy, at general meetings of the Company.
- The right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held.
- The right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company.
- The right to receive, (by post or electronically), twenty-one days at least before the Annual General Meeting, a copy of the Directors' and Auditors' reports accompanied by (a) copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or (b) such summary financial statements as may be permitted by the Companies Acts.
- The right to receive notice of general meetings of the Company.
- In a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

There is attached to the Ordinary Shares an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and if such shareholder holds any share other than as beneficial owner to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice), fails to furnish the Company with the information required within the time specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

Rights and Obligations of US\$ Preference Shares

The following rights attach to the US\$ Preference Shares: -

- The right to a non-cumulative preferential cash dividend payable in US dollars quarterly in arrears on each January 15, April 15, July 15 and October 15 at a floating rate equal to three Month Dollar LIBOR plus a margin. The margin for each dividend period prior to that due to commence on 15 July, 2008 is 0.875% per annum; thereafter it will be 1.875% per annum.

Schedule to Report of the Directors

- No dividend shall be payable if (i) the payment would, in the judgment of the Directors, after consultation with the Central Bank and Financial Services Authority of Ireland (“the Central Bank”) breach or cause a breach by the Company of applicable capital adequacy requirements or (ii) the distributable profits and the distributable reserves of the Company are insufficient to enable payment of any such dividend.
- In the event of the winding-up or other return of capital (except redemption of shares of any class) to receive, out of the surplus assets available for distribution to the Company’s shareholders, a liquidation distribution at a liquidation preference of US\$1,000 per share, together with any accrued dividends, before any distribution or payment is made to the holders of the Ordinary Shares or any other class or series of shares of the Company ranking junior to the US\$ Preference Shares as regards distribution of assets.
- The US\$ Preference Shares are redeemable, at the option of the Company and in whole or in part, on or after 15 July 2008 and, in addition, in whole, but not in part, on any dividend payment date upon the occurrence of a Taxation Event or a Capital Event (as defined in the conditions of the issue of the US\$ Preference Shares) in each of which cases, the US\$ Preference Shares will be redeemed at US\$995.16 per share together with an additional single preference dividend of US\$4.84 per share and any accrued dividends to the date of redemption, but no such redemption can be made without the prior written consent of the Central Bank.
- The only entitlement to vote attaching to the US\$ Preference Shares is for the holders to vote together with the holders of the Ordinary Shares on any resolution for the liquidation of the Company or any resolutions varying, altering or abrogating the rights or restrictions of the US\$ Preference Shares.
- Where the Company has failed to pay in cash the most recent quarterly dividend payment due on the US\$ Preference Shares, the holders of those shares are entitled to speak and vote on all matters, together with the holders of the Ordinary Shares, with each US\$ Preference Share being entitled to 74 votes (subject to certain adjustments).
- To receive notice of general meetings of the Company and a copy of every circular or similar document sent by the Company to the holder of Ordinary Share and to attend any general meeting of the Company but with no entitlement to speak or vote upon any resolution, other than for the winding up of the Company or for varying altering or abrogating any of the rights, privileges, limitations or restrictions attached to the US\$ Preference Shares (save as set out above).

Percentage of Total Share Capital Represented by Each Class of Share

The Ordinary Shares represent 26% of the authorised share capital and 99% of the issued share capital of the Company. The Preference Shares represent 74% of the authorised share capital and 1% of the issued share capital of the Company.

Restrictions on the Transfer of Shares

Save as set out below there are no limitations in Irish law on the holding of the Ordinary Shares or the US\$ Preference Shares and there is no requirement to obtain the approval of the Company, or of other holders of the Ordinary Shares or the US\$ Preference Shares, for a transfer of either class of shares.

- The Ordinary Shares are, in general, freely transferable but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases: -
 - (i) a lien held by the Company;
 - (ii) in the case of a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs;
 - (iii) or in the case of a single transfer of shares which is in favour of more than four persons jointly.
- Ordinary Shares held in certificated form are transferable upon production to the Company’s Registrars of the Original Share certificate and the usual form of stock transfer duly executed by the holder of the shares.
- Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system which enables title to the ordinary shares to be evidenced and transferred without a written instrument and in accordance with the Companies Act, 1990 (Uncertificated Securities) Regulations 1996.
- The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the Register of Members of the Company.

Exercise of Rights of Shares in Employees' Share Schemes

The AIB Approved Employees' Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme.

Deadlines for exercising Voting Rights

Voting rights at general meetings of the company are exercised when the chairman puts the resolution at issue to the vote of the meeting. A vote decided under show of hands is taken forthwith. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith and a poll on any other question is taken either immediately, or at such time (not being more than thirty days from the date of the meeting at which the poll was demanded or directed) as the chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than forty-eight hours before the time appointed for taking the poll.

Rules Concerning Amendment of the Company's Articles of Association

As provided in the Companies Acts, the Company may, by special resolution, alter or add to its Articles of Association. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than twenty-one days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than twenty-one days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety per cent in nominal value of the shares giving that right

Rules Concerning the Appointment and Replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors of the Company are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than forty-two days before the date of the general meeting, written notice by a shareholder, duly qualified to be present and vote at the meeting, of the intention to propose the person for appointment and notice in writing signed by the person to be proposed of willingness to act, if so appointed, shall have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in general meeting) and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One third of the Directors for the time being (or if there number is not three or a multiple of three, not less than one third), are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
 - If at any time the person has been adjudged bankrupt or has made any arrangement or composition his or her creditors generally;
 - if found to be mentally disordered in accordance with law;
 - if the person be prohibited or restricted by law from being a Director;
 - if, without prior leave of the Directors, he or she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his or her office be vacated on that account;

Schedule to Report of the Directors

- if, unless the Directors or a court otherwise determine, he or she be convicted of an indictable offence;
 - if he or she be requested, by resolution of the Directors, to resign his or her office as Director on foot of a unanimous resolution (excluding the vote of the director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefor has been given to the Director; or
 - if he or she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches the specified age continues in office until the last day of the year in which he or she reaches that age.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Articles, if:
- not being a Director holding for a fixed term an executive office in his or her capacity as a Director, he or she resigns their office by a written notice given to the Company; or
 - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
 - the Director tenders his or her resignation to the Directors and the Directors resolved to accept it; or
 - he or she ceases to be a Director pursuant to any provision of the Articles.
- Notwithstanding anything in the Articles of Association or in any agreement between the Company and a Director, the Company may, by Ordinary Resolution of which extended notice has been given in accordance with the Companies Acts, remove any Director before the expiry of his or her period of office.

The Powers of the Directors Including in Relation to the Issuing or Buying Back by the Company of its Shares

Under the Articles of Association of the Company, the business of the Company is to be managed by the Directors who may exercise all the powers of the Company subject to the provisions of the Companies Acts, the Memorandum and Articles of Association of the Company and to any directions given by special resolution of a general meeting. The Articles further provide that the Directors may make such arrangement as may be thought fit for the management, organisation and administration of the Company's affairs including the appointment of such executive and administrative offices, managers and other agents as they consider appropriate and delegate to such persons (with such powers as sub-delegation as the Directors shall deem fit) such functions, powers and duties as to the Directors may seem requisite or expedient.

Pursuant to resolution of the shareholders, in accordance with the provisions of the Companies Acts, the Directors are unconditionally authorised until 8 May 2012 to exercise all the powers of the Company to allot relevant securities up to the following nominal amounts: € 90,863,779 for Ordinary Shares, € 254,000,000 for Euro Non-Cumulative Preference Shares, US\$493,750,000 for US\$ Preference Shares, Stg£200,000,000 for Sterling Non-Cumulative Preference Shares and YEN35,000,000,000 for YEN Non-Cumulative Preference Shares. By such authority, the Directors may make offers or agreements which would, or might, require the allotment of such securities after 8 May 2012.

Until the earlier of the date of the Annual General Meeting in 2008, or 8 August 2008, the Directors may allot Ordinary Shares, wholly for cash up to an aggregate nominal amount of € 14.69 million (approximately 45.9 million Ordinary Shares being approximately 5% of the issued Ordinary Shares).

In the same period, the Directors are authorised to allot Ordinary Shares in connection with a rights issue without such limitation in amount.

Until the close of business on the earlier of the date of the 2008 Annual General Meeting, or 8 November 2008, the Company and/or any subsidiary of the Company, is authorised to make market purchases (as defined by Section 202 of the Companies Act 1990) of Ordinary Shares on such terms and conditions, and in such manner, as the Directors, or, as the case may be, the Directors of such subsidiary, may from time to time determine, but subject however to the provisions of the 1990 Act and so that the maximum number of shares to be acquired is to be 91.8 million Ordinary Shares and the minimum price that may be paid for any shares to be purchased is to be the nominal value of those shares and the maximum price which may be paid is to be 5% above the average of the closing quotation price of the Ordinary Shares on the Irish Stock Exchange for the five business days immediately preceding the day of purchase. (For any business day on which there are no dealings in the Ordinary Shares on the Irish Stock Exchange, the maximum

price for a purchase of shares is to be the price which is equal to (i) the mid-point between the high and low market guide prices of the Ordinary Shares for that business day, or (ii) if there is only one such market guide price so published, the market guide price published. The relevant prices in all cases shall be as published in the Irish Stock Exchange Daily Official List (or any successor publication to that list) (“the Official List”).

Ordinary Shares purchased by the Company may be cancelled on being so purchased or held as treasury shares, which may either be cancelled or re-issued as shares of any class or classes. Any treasury shares for the time being held by the Company may, by decision of the Directors, be re-issued off market. Where treasury shares are re-issued for the purposes of the AIB Approved Employees’ Profit Sharing Scheme 1998, the Allied Irish Banks, p.l.c. Share Ownership Plan (UK), the AIB Group Share Option Scheme or the AIB Group Performance Share Plan 2005, the minimum price at which a treasury share may be reissued is the issue price as provided for in such scheme. In all other circumstances the minimum price shall be 95% of the Appropriate Price. The “Appropriate Price” is the average of the closing quotation prices of the Ordinary Shares for the five business days immediately preceding the day on which the treasury share is re-issued, as published in the Official List. For any business day on which there is no dealing on the Ordinary Shares on that Exchange, the minimum price will be the price equal to (i) the mid-point between the high and low market guide prices and for the Ordinary Shares as published in the Official List; or (ii) if there is only one such market guide price so published, the price so published. The maximum price at which a treasury share may be re-issued off-market is 120% of the Appropriate Price.



Principal Addresses

Ireland & Britain

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First Trust Bank

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All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the country code after the + sign and place a 0 before the area code. This does not apply to calls to First Trust from Ireland (Republic).

Additional Information for Shareholders

1. Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may

- check their shareholdings on the Company’s Share Register;
- check recent dividend payment details; and
- download standard forms required to initiate changes in details held by the Registrar,

by accessing AIB’s website at www.aibgroup.com, clicking on the “Check your Shareholding” option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder’s share certificate, dividend counterfoil and personalised circulars) should be entered. These services may also be accessed via the Registrar’s website at www.computershare.com.

Shareholders may also use AIB’s website to access the Company’s Annual Report & Accounts.

2. Stock Exchange Listings

Allied Irish Banks, p.l.c. is an Irish-registered company. Its ordinary shares are traded on the Irish Stock Exchange, the London Stock Exchange and, in the form of American Depositary Shares (ADSs), on the New York Stock Exchange (symbol AIB). Each ADS represents two ordinary shares and is evidenced by an American Depositary Receipt (ADR). The Company’s non-cumulative preference shares are listed on the Irish Stock Exchange, and are eligible for trading in the USA, in the form of American Depositary Shares, in the National Association of Securities Dealers, Inc.’s PORTAL system under rule 144A.

3. Registrar

The Company’s Registrar is:

Computershare Investor Services (Ireland) Ltd.,
 Heron House, Corrig Road, Sandyford Industrial Estate,
 Dublin 18.
 Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
 Website: www.computershare.com
 e-mail: web.queries@computershare.ie

4. Payment of Dividends direct to a bank account

Ordinary Shareholders resident in Ireland or the UK may have their dividends paid direct to a designated bank account, under advice of full details of the amounts so credited. Shareholders who wish to avail of this facility should contact the Registrar (see 3 above).

5. American Depositary Shares

American Depositary Shares provide US residents wishing to invest in overseas securities with a share certificate and dividend payment in a form familiar and convenient to

them. The Company’s ordinary share and non-cumulative preference share ADR programmes are administered by The Bank of New York – see address on page xx.

6. Dividend Reinvestment Plan – US ADR Holders

AIB’s ordinary share ADR holders who wish to re-invest their dividends may participate in The Bank of New York’s Global Buy Direct program, details of which may be obtained from The Bank of New York at 1-888-269-2377.

7. Direct Deposit of Dividend Payments – US ADR Holders

Ordinary Share ADR holders may elect to have their dividends deposited direct into a bank account through electronic funds transfer. Information concerning this service may be obtained from The Bank of New York at 1-888-269-2377.

8. Dividend Withholding Tax (“DWT”)

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from: DWT Section, Office of the Revenue Commissioners, Government Offices, Nenagh, Co. Tipperary, Ireland. Telephone +353-67-33533. Facsimile +353-67-33822. e-mail: infodwt@revenue.ie.

General

With certain exceptions, which include dividends received by non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, currently 20%. The following summarises the position in respect of different categories of shareholder:

A. Irish Resident Shareholders

– Individuals

DWT is deducted from dividends paid to individuals resident in the Republic of Ireland for tax purposes. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT is available either for offset against their income tax liability, or for repayment, where it exceeds the total income tax liability.

– **Shareholders not liable to DWT**

The following classes of shareholder who receive the dividend in a beneficial capacity are exempt from DWT, provided the shareholder furnishes a properly completed declaration, on a standard form (see below), to the Registrar, not less than three working days prior to the relevant dividend payment record date:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Qualifying Fund Managers who receive the dividend in respect of an approved retirement or minimum retirement fund;
- Qualifying Savings Managers who receive the dividend in connection with assets held in a Special Savings Incentive Account;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account (“SPIA”);
- Certain permanently incapacitated persons who are exempt from income tax; trusts established for the benefit of such persons; and Thalidomide victims exempt from income tax in respect of income arising from the investment of certain compensation payments;
- The Administrator of a Personal Retirement Savings Account (“PRSA”) who receives the dividend in respect of the PRSA assets; and
- Certain Unit Trusts (Revenue-approved Charities and Pension Schemes) which are exempt from Capital Gains Tax where the dividends are received in relation to units in the trust.

Copies of the relevant declaration form may be obtained from the Company’s Registrar at the address shown at 3 above, or from the Revenue Commissioners at the above address. Once lodged with the Company’s Registrar, the declaration form remains current from its date of issue until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to a shareholder not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the DWT so deducted.

– **Qualifying Intermediaries (other than American Depository Banks – see D below)**

Dividends received by a shareholder who is a qualifying intermediary on behalf of a shareholder not liable to DWT may be received without deduction of DWT. A “qualifying intermediary” is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:

- holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence;
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;

and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

Information concerning the conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown above. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company’s Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT.

A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown above.

* A “relevant territory” means a Member State of the European Union, other than the Republic of Ireland, or a country with which the Republic of Ireland has entered into a double taxation agreement.

B. Shareholders not resident for tax purposes in the Republic of Ireland

The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

- (a) an individual who is neither resident nor ordinarily resident in the Republic of Ireland and who is resident for tax purposes in a relevant territory (as defined at * above);
- (b) an unincorporated entity resident for tax purposes in a relevant territory and not so resident in the Republic of Ireland;

- (c) a company resident in a relevant territory (and not so resident in the Republic of Ireland) which is controlled by a non-Irish resident/residents;
- (d) a company not resident in the Republic of Ireland and which is controlled by a person or persons resident for tax purposes in a relevant territory; or
- (e) a company not resident in the Republic of Ireland, the principal class of whose shares are traded on a stock exchange in the Republic of Ireland, on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including a company which is a 75% subsidiary of such a company; or a company not resident in the Republic of Ireland that is wholly-owned by two or more companies, each of whose principal class of shares is so traded.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form (available from the Irish Revenue Commissioners and from the Company's Registrar), to the Registrar not less than three working days in advance of the relevant dividend payment record date, and:

– **Categories (a) and (b) above:** The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by (i) a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary; and (ii) a notice in writing from the Irish Revenue Commissioners, stating that they have noted the information provided by the trustee(s).

– **Categories (c), (d) and (e) above:** The Company's auditor must certify the declaration. In addition, where the company is resident in a relevant territory, the declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes.

Once lodged with the Company's Registrar, declaration forms remain current from their date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the shareholder notifies the Registrar that entitlement to exemption is no longer applicable.

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without deduction of DWT – see "Qualifying Intermediaries" under "Irish-Resident Shareholders" at A above.

C. Dividend Statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

D. American Depositary Receipt ("ADR") Holders

An ADR holder whose address:

- on the register of ADRs maintained by AIB's ADR programme administrator, the Bank of New York ("BONY"), or
- in the records of a further intermediary through which the dividend is paid

is located in the United States of America is exempt from DWT, provided BONY or the intermediary concerned, as the case may be, satisfies certain conditions. In such circumstances, there is no requirement for the holder to make a declaration in order to obtain exemption from Irish DWT.

US Withholding Tax:

Note: The following information, which is given for the general guidance of ADR holders, does not purport to be a definitive guide to relevant taxation provisions. While it is believed to be accurate at the time of finalising this Report for publication, ADR holders should take professional advice if they are in any doubt about their individual tax positions.

Notwithstanding entitlement to exemption from Irish DWT, referred to above, ADR holders should note that US resident holders of ADRs may, in certain circumstances, be liable to a US withholding tax on dividends received on such ADRs. This would arise, for example, where a US resident, being the beneficial owner of ADRs issued by an overseas company, fails to provide the depositary bank – or, where applicable, the Registered Broker – with a Form W-9 (tax certified document), showing, inter alia, the holder's Social Security Number or Taxpayer Identification Number. Non-US residents holding ADRs are required to submit a Form W-8 to the depositary bank/Registered Broker, as appropriate, to become tax certified and to avoid US withholding tax. ADR holders with queries in this regard should contact either

- (i) The Bank of New York, in the case of holders registered direct with that institution – see address on page 195;
- (ii) the holder's Registered Broker, where applicable; or
- (iii) the holder's financial/taxation adviser.

9. Shareholding analysis

as at 31 December 2007

Size of shareholding	Shareholder Accounts *		Shares **	
	Number	%	Number	%
1 – 1,000	47,652	59	17,410,385	2
1,001 – 5,000	23,572	29	56,869,875	6
5,001 – 10,000	5,148	6	38,106,796	4
10,001 – 100,000	4,267	5	68,077,230	8
100,001 – over	423	1	700,172,280	80
Total	81,062	100	880,636,566	100
Geographical division				
Republic of Ireland	66,378	82	323,825,052	37
Elsewhere	14,684	18	556,811,514	63
Total	81,062	100	880,636,566	100

* Shareholder account numbers reflect US ADR account holders (17,000 approx.) held in a single nominee account

** Excludes 37,799,004 shares held as Treasury Shares – see note 48 on page 150.

Financial calendar

Annual General Meeting: Tuesday, 22 April 2008, commencing at 12.00 p.m. at the Company's Head Office at Bankcentre, Ballsbridge, Dublin 4.

Dividend payment dates – Ordinary Shares:

- Final Dividend 2007 – 23 April 2008
- Interim Dividend 2008 – 26 September 2008

Interim results

Unaudited interim results for the half-year ending 30 June 2008 will be announced on 30 July 2008. The Interim Report for the half-year ending 30 June 2008 will be published as a press advertisement in early August 2008, and will also be available on the Company's website – www.aibgroup.com.

Shareholder enquiries should be addressed to:

For holders of Ordinary Shares:

Computershare Investor Services (Ireland) Ltd.,
 Heron House,
 Corrig Road,
 Sandyford Industrial Estate,
 Dublin 18, Ireland
 Telephone: +353 1 247 5411
 Facsimile: +353 1 216 3151
 e-mail: web.queries@computershare.ie
 Website: (for on-line shareholder enquiries)
www.aibgroup.com – click on 'Check your Shareholding'
 or
www.computershare.com

For holders of ADRs in the United States:

The Bank of New York,
 Shareholder Relations,
 PO Box 11258,
 Church Street Station,
 New York, NY 10286-1258, USA
 Telephone 1-888-BNY-ADRS/1-888-269-2377
 Website: www.adrbny.com
 or
 Ann Kerman, A.V.P.,
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