AIB Mortgage Bank

Directors' Report & Financial Statements

Year ended 31 December 2008

AIB Mortgage Bank

Directors’ report and financial statements

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Directors' and other information

Directors	John O'Donnell (Chairman) Maeliosa Ó hOgartaigh (Deputy Chairman) David Kelly* (Managing Director) Seymour Cresswell* Kieran Crowley David Griffin* Michael Keegan* Gerry O'Connor* Jennifer Winter * Executive Director
Registered office	Bankcentre Ballsbridge Dublin 4 Ireland
Secretary	Tanya Barry
Registered Auditor	KPMG Chartered Accountants 1 Harbourmaster Place International Financial Services Centre Dublin 1 Ireland
Solicitor	Bryan Sheridan Group Law Agent Allied Irish Banks, p.l.c. Bankcentre Ballsbridge Dublin 4 Ireland
Banker	Allied Irish Banks, p.l.c.
Cover-Assets Monitor	Mazars Harcourt Centre Block 3 Harcourt Road Dublin 2 Ireland

AIB Mortgage Bank

Directors' Report

The Directors present their report and financial statements for the year ended 31 December 2008. A statement of Directors' responsibilities in relation to the financial statements appears on page 9.

Principal activities

AIB Mortgage Bank ('the Bank'), a public unlimited company, obtained an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and was registered as a designated mortgage credit institution under the Asset Covered Securities Act, 2001 on 8 February 2006. The Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c., ('AIB') and is regulated by the Central Bank and Financial Services Authority of Ireland ('CBFSAI'). 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 and the Asset Covered Securities (Amendment) Act 2007 ('the Asset Covered Securities Acts'). Such loans may be made directly by the Bank or may be purchased from Allied Irish Banks, p.l.c. and other subsidiary undertakings of AIB Group or third parties.

The Bank commenced trading on 13 February 2006, when Allied Irish Banks, p.l.c. transferred its Republic of Ireland branch originated residential mortgage business, amounting to €13.6bn in mortgage loans, to AIB Mortgage Bank; certain other categories of Allied Irish Banks, p.l.c. residential mortgage loans were not included in this transfer. On 24 February 2006, a Mortgage-Backed Promissory Note facility between AIB Mortgage Bank and the Central Bank and Financial Services Authority of Ireland was put in place. In March 2006, the Bank launched a €15bn Mortgage Covered Securities Programme and has launched a number of covered bond issues since that date.

The Bank's business activities are restricted, under the Asset Covered Securities Acts, to dealing in, and holding, mortgage credit assets and limited classes of other assets, engaging in activities connected with the financing and refinancing of such assets, entering into certain hedging contracts and engaging in other activities which are incidental to or ancillary to the above activities.

Most of the Bank's activities are outsourced to Allied Irish Banks, p.l.c. under an Outsourcing and Agency Agreement. Allied Irish Banks, p.l.c., as Service Agent for the Bank, originates residential mortgage loans through its retail branch network in the Republic of Ireland, services the mortgage loans, provides treasury services in connection with financing as well as a range of other support services.

The Bank's activities are financed through the issuance of mortgage covered securities and a Mortgage-Backed Promissory Note facility with the Central Bank and Financial Services Authority of Ireland, with the balance of funding being provided by Allied Irish Banks, p.l.c.

Governance is exercised through a Board of Directors, comprising five executive Directors and two non executive Directors (including the Chairman who is the Group Finance Director of AIB) all of whom are AIB employees and two non executive Directors who are independent non executive directors of Allied Irish Banks, p.l.c.

In accordance with the Asset Covered Securities Acts, the Cover-Assets Monitor, Mazars, monitors compliance with the Acts and reports independently to the Central Bank and Financial Services Authority of Ireland.

Business review

The residential mortgage market is a key component of AIB's overall approach to the personal banking market. AIB's strategy for the residential mortgage business is to achieve profitable growth in the business while preserving credit quality.

AIB Mortgage Bank

Directors' Report

Business review *(continued)*
During 2008, on a global basis, there has been a deepening economic downturn, a banking crisis, severe disruption to capital markets and a sharp fall in asset valuations. In Ireland, there has been a marked deterioration in the economic outlook. The correction in the housing market has continued with activity and prices falling in 2008.

The European covered bonds market has not operated normally during 2008. For several jurisdictions, including Ireland, the primary market has remained largely closed to the issuance of debt. The secondary market has not been liquid or transparent and a re-pricing of covered bonds has occurred with spreads widening.

In this difficult environment, the Bank's cost of funding has risen, interest margins have fallen, and arrears and impairment provisions have increased.

AIB has stated consistently that it is able and willing to provide residential mortgage loans to customers who meet our lending criteria and has continued to actively market mortgages to house buyers at competitive interest rates. We recognise the importance of AIB's position in the Irish economy and the value to our franchise of supporting the economy and our customers.

Since the ECB began to reduce interest rates in October 2008, AIB has passed on promptly all ECB interest rate reductions to owner occupiers on variable interest rate mortgages, including tracker mortgages. AIB's funding costs have not reduced in line with the ECB interest rate reductions, and accordingly margins and net interest income have fallen. The sale of tracker mortgages linked to the ECB refinancing rate was withdrawn in October 2008, because the ECB refinancing rate no longer represented a reliable basis for AIB's cost of funds.

On 30 September 2008, the Irish government announced a guarantee for certain liabilities, including covered bonds, for certain credit institutions, including AIB Mortgage Bank. Further information on the guarantee and on the recapitalisation package of Allied Irish Banks, p.l.c. announced by the Government on 11th February 2009 is set out in Note 4 to the financial statements.

Risks and uncertainties
Information concerning the principal risks and uncertainties facing the Bank as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) is set out in Note 8 to the Financial Statements.

Results for the year
Profit before taxation for 2008 was €1.3m, down from €108.4m in 2007, due mainly to a fall in net interest income, an increase in provisions for impaired loans and losses arising on the fair value of interest rate swaps.

Net interest income was €81.5m compared with €129.6m in 2007. Interest margins were lower because higher funding costs were not passed on to mortgage customers. Higher funding costs were caused mainly by the high level of the one month Euribor interest rate compared with the ECB refinancing rate and by the cost of transforming borrowing for longer periods than one month back to one month for interest rate matching.

Interest income on mortgage loans was €935.4m (2007: €831.3m), the increase being largely due to increases in market interest rates and to growth in the mortgage portfolio. Interest income from deposits and interest rate swaps with Allied Irish Banks, p.l.c. was €610.5m (2007: €311.2m), the increase resulting mainly from interest on the proceeds of the €5.7bn covered bonds issued during 2008, which were placed on deposit with Allied Irish Banks, p.l.c.

Directors' Report

Results for the year *(continued)*
Interest payable to Allied Irish Banks, p.l.c. on deposits and on interest rate swaps was €990.6m (2007: €766.1m), the increase being due to higher funding costs and growth in the deposits. Interest payable to the Central Bank and Financial Services Authority of Ireland in respect of the Mortgage-Backed Promissory Note facility was €25.1m (2007: €5.5m) due mainly to higher usage of the facility. Interest payable to holders of mortgage covered securities was €448.7m (2007: €241.3m), of which €166.7m (2007: €nil) was payable to Allied Irish Banks, p.l.c.; the increase in interest payable was due to the issuance of €5.7bn covered bonds to Allied Irish Banks, p.l.c. during 2008.

Provisions made for impaired loans in 2008 were €27.2m, up from €1.3m in 2007. Provisions as at 31 December 2008 amounted to €40.5m of which €22.1m were specific and €18.4m were Incurred But Not Reported ("IBNR"). Impaired loans increased from €44m at 31 December 2007 to €134m at 31 December 2008.

Changes in the fair value of interest rate swaps, and certain related account items being hedged, resulted in a trading loss of €11.4m (2007: €22.7m gain).

Administrative expenses amounted to €39.9m (2007: €42.5m), and included €36.8m (2007: €39.4m) for services provided by Allied Irish Banks, p.l.c. under the Outsourcing and Agency Agreement.

Profit after taxation amounted to €1.1m (2007: €94.9m). A dividend of €70m was paid on 31 March 2008.

Mortgage Loan Portfolio
While drawdowns of mortgages were lower than the previous year, the Bank's mortgage portfolio grew by 8.5% during 2008 to €20.0bn as at 31 December 2008.

Financing
The Bank did not raise new funding during the year by the issuance of covered bonds to external investors. However, in order to augment AIB's liquidity surplus and contingent funding capacity, covered bonds amounting to €5.7bn were issued internally to Allied Irish Banks, p.l.c.

At 31 December 2008, total covered bonds in issue amounted to €12.9bn, of which €7.2bn was issued to external investors and €5.7bn was issued to Allied Irish Banks, p.l.c. The Mortgage-Backed Promissory Note Facility with the Central Bank has been used as a source of liquidity during the year; €nil was drawn under this facility as at 31 December 2008 (€nil 31 December 2007).

Share capital
The share capital of the Bank was increased from €425m at 31 December 2007 to €450m, being ordinary shares of €1 each, as at 31 December 2008 by the issue on 28 November 2008 of 25,000,000 shares for cash to Allied Irish Banks, p.l.c.

AIB Mortgage Bank

Directors' Report

Capital resources and regulatory capital ratios

The table below shows the components of the AIB Mortgage Bank's Tier 1 and total capital ratios as at 31 December 2008 and 31 December 2007.

	CRD 31 Dec 2008 €'000	CAD 31 Dec 2007 €'000
Tier 1		
Paid up ordinary share capital	**450,000**	425,000
Eligible reserves	**87,648**	114,015
Total tier 1 capital	**537,648**	539,015
Tier 2		
IBNR provisions	**-**	5,437
Subordinated perpetual loan capital	**200,000**	200,000
Subordinated term loan capital	**100,000**	100,000
Total tier 2 capital	**300,000**	305,437
Gross capital		
Supervisory deductions	**(39,275)**	-
Total capital	**798,373**	844,452
Risk weighted assets		
On balance sheet	**5,851,759**	9,533,674
Off-balance sheet *	**67,954**	-
Total risk weighted assets	**5,919,713**	9,533,674
Capital ratios		
Tier 1	**8.81%**	5.65%
Total	**13.08%**	8.86%

For 2008, the capital ratios are calculated in accordance with the Pillar I of the Capital Requirements Directive "CRD" (2007: Capital Adequacy Directive "CAD") and are presented above before the application of Transitional Arrangements required for reporting to the Financial Regulator. For 2008, the Transitional Arrangements require banks, on a rolling basis, to maintain minimum capital requirements equal to 95% of their pre-CRD Capital Requirements. When applied, the minimum requirement generates a Total Capital Ratio of 8.54% as at 31 December 2008. The Transitional Requirements will reduce to 90% and 85% of the pre-CRD Capital Requirements in 2009 and 2010 respectively.

* See Note 27 to the financial statements for approved but undrawn mortgage loans, weighted at 10% under the CRD.

Directors' Report

Outlook

We expect the operating environment to remain difficult through 2009. The Irish economy has entered a challenging phase with uncertainty as to the depth and duration of the slowdown in the global economy, interest rate environments, currency exchange rates, unemployment, and the direction of the property and housing market.

The level of provisions for impairment losses is expected to increase in 2009.

The cost of funding to the Bank from Allied Irish Banks, p.l.c. depends on conditions in the wholesale funding markets. We expect that conditions in the covered bonds market will remain difficult during 2009.

Books of account

The measures taken by the Directors to secure compliance with the Bank's obligation to keep proper books of account are the use of appropriate systems and procedures and the employment of competent persons. The books of account of the Bank are kept at the Bank's registered office.

Going concern

The global financial crisis, market instability and unprecedented levels of illiquidity have resulted in AIB Mortgage Bank operating in a challenging environment. The principal risks that the Bank face, which the Directors have considered in the context of continuing as a going concern, are described on pages 28 to 36. AIB Mortgage Bank is dependant on its Parent, Allied Irish Banks, p.l.c for continued funding and is therefore dependant on the going concern status of the Parent.

Allied Irish Banks, p.l.c's Directors have reviewed the AIB Group's Business and Financial Plan for 2009/2010 which incorporates its funding and capital plan and have considered the critical assumptions underpinning same. They have also considered the measures introduced by the Irish Government to improve liquidity, including the Government Guarantee, the planned €3.5 billion recapitalisation and its acknowledgement of AIB's systemic importance to the Irish economy. The accounts of Allied Irish Banks, p.l.c continue to be prepared on a going concern basis, as the Directors are satisfied that the Group as a whole have access to the resources to continue in business for the foreseeable future.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to AIB Mortgage Bank the Directors consider that it is appropriate to prepare the financial statements on a going concern basis at this time.

Directors

The Directors and Secretary of the Bank are set out on page 1.

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Directors' Report

Directors' and Secretary's interests in shares
The beneficial interests of the Directors and the Secretary in office at 31 December 2008 and of their spouses and minor children in the shares of group companies are set out below. The shares referred to are €0.32 ordinary shares in Allied Irish Banks, p.l.c., the holding company.

Ordinary shares	**31 December 2008**	1 January 2008*
Directors:		
Seymour Cresswell	**1,808**	1,923
Kieran Crowley	**12,520**	12,520
David Griffin	**7,603**	6,668
Michael Keegan	**5,645**	4,707
David Kelly	**68,520**	75,385
Gerry O'Connor	**38,448**	37,798
John O'Donnell	**37,987**	37,052
Maeliosa Ó hOgartaigh	**11,329**	10,394
Jennifer Winter	**480**	480
Secretary:		
Tanya Barry	**2,225**	2,225

** or later date of appointment*

Share options
Details of the Directors' and the Secretary's options to subscribe for ordinary shares in Allied Irish Banks, p.l.c., are given below. The vesting of these options to the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met by AIB. Subject thereto, the options outstanding at 31 December 2008 are exercisable at various dates between 2009 and 2015. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the Bank's registered office.

	31 December 2008	1 January 2008	Since 1 January, 2008 Granted	Exercised	Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at 31 December, 2008
Directors:					**€**	**€**	**€**
Seymour Cresswell	**-**	-	-	-	-	-	-
David Griffin	**22,500**	22,500	-	-	-	-	13.75
Michael Keegan	**22,500**	22,500	-	-	-	-	13.24
David Kelly	**25,000**	25,000	-	-	-	-	14.08
Gerry O'Connor	**-**	-	-	-	-	-	-
John O'Donnell	**96,000**	96,000	-	-	-	-	13.23
Maeliosa Ó'hOgartaigh	**43,000**	43,000	-	-	-	-	13.68
Secretary:							
Tanya Barry	**1,500**	1,500	-	-	-	-	13.30

AIB Mortgage Bank

Directors' Report

Long term incentive plans
Details of the 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 by AIB, in terms of EPS growth and total shareholder return. The conditional grants of awards outstanding at 31 December 2008 may wholly or partly vest between 2009 and 2011, depending on the date of the grant and the grant conditions being met.

	Total as at 31 December 2008	**Lapsed during 2008**	**Granted during 2008**	**Total as at 1 January 2008**
Directors:				
Seymour Cresswell	**-**	-	-	-
David Griffin	**34,474**	-	16,591	17,883
Michael Keegan	**33,810**	-	16,968	16,842
David Kelly	**38,904**	-	18,099	20,805
Gerry O'Connor	**10,226**	-	-	10,226
Maeliosa Ó hOgartaigh	**46,121**	-	21,870	24,251
John O'Donnell	**145,284**	-	56,561	88,723
Secretary:				
Tanya Barry	**-**	-	-	-

Apart from the interests set out above, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2008 and 27 March 2009 save for the receipt by Mr. O'Connor of 530 shares under the Allied Irish Banks, p.l.c. UK Share Ownership Plan.

Post balance sheet events
Other than the items previously mentioned, or as described in note 29 to the accounts, there are no other significant events that have occurred in the period subsequent to the year end date and the date of approving the financial statements.

Independent auditor
The auditor, KPMG, Chartered Accountants, have signified their willingness to continue in office under Section 160 (2) of the Companies Act, 1963.

On behalf of the Board

Chairman *John O'Donnell*

Managing Director *David Kelly*

27 March 2009

AIB Mortgage Bank

Statement of Directors' responsibilities in relation to the Financial Statements

The Companies Acts require the Directors to prepare financial statements for each financial year. Under the Acts the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law.

The financial statements are required by law and IFRS to present fairly the financial position and performance of the Bank; the Companies Acts provide in relation to such financial statements that references to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Bank's financial statements, 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 financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2006 and the Asset Covered Securities Acts. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the AIB Mortgage Bank corporate and financial information included on the Group's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts 1963 to 2006.

On behalf of the Board

Chairman *John O'Donnell*

Managing Director *David Kelly*

27 March 2009

Independent auditor's report to the members of AIB Mortgage Bank

We have audited the financial statements of AIB Mortgage Bank ('the Bank') or ("Company") for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense, 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.

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 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 auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 9.

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 IFRS as adopted by the EU and have been properly prepared in accordance with the Companies Acts 1963 to 2006.

We also report to you whether, in our opinion:
• proper books of account have been kept by the Bank;
• whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; and
• whether the information given in the Directors' Report 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 Bank'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 regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent mis-statements 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.

Basis of audit opinion *(continued)*

It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of 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 financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Bank's affairs as at 31 December 2008 and of its profit for the year then ended; and

• the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006.

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 Bank. The Bank's balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Bank, as stated in the 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 2008 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 Bank.

KPMG

KPMG *27 March 2009*
Registered Auditor
Chartered Accountants
1 Harbourmaster Place
International Financial Services Centre
Dublin 1

(a) The maintenance and integrity of the website on which the AIB Mortgage Bank financial statements are included is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accept no responsibilty 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.

AIB Mortgage Bank

Accounting policies

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2008 are set out below. There are no significant changes to the accounting policies described on pages 10 to 16 in the 2007 Annual Report.

1. Reporting entity
AIB Mortgage Bank ('the Bank') is a public unlimited company operating under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts. It is a wholly owned subsidiary of Allied Irish Banks, p.l.c. and is 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 Acts. Such loans may be made directly by the Bank to customers through the AIB Group branch network in the Republic of Ireland or may be purchased from Allied Irish Banks, p.l.c. and other members of the group or third parties.

2. Statement of compliance
The 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 2008. The financial statements also comply with the requirements of Irish Statute comprising the Companies Acts 1963 to 2006, the Asset Covered Securities Acts and the European Communities (Credit Institutions: Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005.

3. Basis of preparation
The Directors have prepared these financial statements on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future having adequate funds to meet obligations as they fall due. AIB Mortgage Bank is dependant on its Parent, Allied Irish Banks, p.l.c for continued funding and is therefore dependant on the going concern status of the Parent.

Allied Irish Banks, p.l.c's Directors have reviewed the AIB Group's Business and Financial Plan for 2009/2010 which incorporates its funding and capital plan and have considered the critical assumptions underpinning same. They have also considered the measures introduced by the Irish Government to improve liquidity, including the Government Guarantee, the planned €3.5 billion recapitalisation and its acknowledgement of AIB's systemic importance to the Irish economy. The accounts of Allied Irish Banks, p.l.c continue to be prepared on a going concern basis, as the Directors are satisfied that the Group as a whole have access to the resources to continue in business for the foreseeable future.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to AIB Mortgage Bank the Directors consider that it is appropriate to prepare the financial statements on a going concern basis at this time.

The financial statements are presented in Euro, which is the functional currency of the company, rounded to the nearest thousand.

They 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 and certain hedged financial assets and financial liabilities.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of certain assets, liabilities, revenues, 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 these 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.

Accounting policies

3. Basis of preparation *(continued)*
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 and fair value of certain financial assets and liabilities. A description of these estimates and judgements is set out within item 15 of this section.

4. 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 assets and 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 expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income (and expense) receivable (or 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 Bank 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, between parties to the contract that are an integral part of the effective interest rate and all other premiums and discounts.

All costs associated with mortgage incentive schemes including reduced introductory rates and 'cash back' incentives are included in the effective interest calculation.

5. Fee and commission income
Fees and commissions are generally recognised on an accruals basis when the service has been provided unless included in the effective interest rate calculation.

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

7. Financial assets
Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and which are not classified as available for sale. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value and are subsequently carried on an amortised cost basis.

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

8. Financial liabilities
Issued financial instruments and their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having a present obligation to either deliver cash or another financial asset to the holder or 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.

Accounting policies

8. Financial liabilities *(continued)*
Financial liabilities are initially recognised at fair value, being the 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 rate method. Refer to derivatives and hedge accounting, set out within item 9 of this section, for the accounting policy for financial liabilities in a hedge accounting relationship.

9. Derivatives and hedge accounting
Derivatives, such as interest rate swaps, are used only for risk management purposes.

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 valuation techniques, and discounted cash flow models and options 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. 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.

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.

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 Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge).

When a financial instrument is designated as a hedge, the Bank 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 Bank 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 value.

The Bank 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; and
- (c) the hedge item matures or is sold or repaid.

To the extent that the changes in the fair value of the hedging derivative differ from changes in fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedge 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 Bank 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.

Accounting policies

9. Derivatives and hedge accounting *(continued)*
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.

Derivatives used to manage interest rate risk arising on mortgage covered securities have been designated as fair value hedges.

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

Derivatives used to manage interest rate risk arising on mortgage loans to customers do not qualify for hedge accounting. Changes in their fair value are recognised immediately in the income statement.

10. Impairment of financial assets
It is the Bank’s policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the balance sheet date.

The Bank assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance sheet date. 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 Bank about the following loss events:

(a) significant financial difficulty of the 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 Bank would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
(e) 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; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Bank 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 Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes 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.

Accounting policies

10. Impairment of financial assets *(continued)*
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, 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 charged to the income statement.

When a loan has been subject to a specific provision and there is no more than a remote likelihood of recovery of such amount, the amount 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.

11. Employee benefits
Retirement benefit obligations
The Bank provides employees with post retirement benefits mainly in the form of pensions. It is AIB Group policy to provide for pension and other post-retirement benefits at rates recommended by independent actuaries. Staff members of the Bank are members of defined benefit or defined contribution schemes administered by Allied Irish Banks, p.l.c.

AIB's defined benefit scheme was closed to new members from December 1997. Employees who joined AIB since December 1997 joined on a defined contribution basis. In December 2007, the Group introduced a hybrid pension arrangement for employees in the Republic of Ireland who are not members of the defined benefit scheme. This arrangement includes elememts of both a defined benefit and a defined contribution scheme. The standard contribution rate in Ireland was 8% for 2008 and increased to 10% in respect of the defined contribution elements of the hybrid scheme.

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.

13. Taxation
Income tax comprising current tax is recognised in the income statement. 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. Income tax payable on profits based on the applicable tax law is recognised as an expense in the period in which the profits arise.

14. 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.

15. 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:

(a) 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 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.

Accounting policies

15. Accounting estimates and judgements *(continued)*

(a) Loan impairment *(continued)*

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 account. The amount of the specific provision made in the Bank's 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.

Credit quality and loan loss provisioning are independently monitored by management on a regular basis. A 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 the Bank; 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 and current estimates of expected loss in the portfolio.

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

(a) Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,

(b) Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and

(c) Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

AIB's 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 the Bank's allowances.

Provisions and provision adequacy are approved on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Republic of Ireland Division on a quarterly basis with ultimate levels being approved by the AIB Mortgage Bank Audit Committee and the AIB Mortgage Bank Board of Directors.

(b) Fair value of financial instruments

The Bank's financial instruments, which include derivatives, are carried at fair value. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. 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, for example, interest rate yield curves. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model and market data are all subject to internal review and approval procedures and consistent application between accounting periods.

Accounting policies

16. Share capital

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 Bank.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

17. Contingent liabilities and assets

A contingent liability is a present obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Bank discloses contingent liabilities and assets in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

18. Prospective accounting changes

The following legislative changes and new accounting standards or amendments to standards approved by the International Accounting Standards Board ('IASB') in 2008, (but not already adopted by the Bank) will impact financial reporting in future periods. If applicable they will be adopted in 2009.

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 the Bank's reporting although this is not expected to be significant.

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 Bank, however, this is not expected to be significant.

Amendment to IAS 39 – Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009). This amendment offers guidance on how the existing principles underlying hedge accounting should be applied. This amendment is not expected to have a significant impact on the Bank's accounts.

Amendment to IAS 32 – Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective 1 January 2009). This amendment changes the classification from liabilities to equity of (a) some puttable financial instruments and (b) some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. This amendment is not expected to have a material impact on the Bank's accounts.

AIB Mortgage Bank

Income Statement

for the year ended 31 December 2008

	Notes	**31 Dec 2008 € 000**	31 Dec 2007 €000
Interest and similar income	1	**1,545,921**	1,142,487
Interest expense and similar charges	2	**(1,464,434)**	(1,012,896)
Net interest income		**81,487**	129,591
Trading (loss)/gain	3	**(11,402)**	22,650
Other operating income		**18**	7
Other operating expense	4	**(1,702)**	-
Total operating income		**68,401**	152,248
Administrative expenses	5	**(39,932)**	(42,520)
Operating profit before provisions		**28,469**	109,728
Provisions for impairment of loans and receivables	6	**(27,182)**	(1,279)
Operating profit before taxation		**1,287**	108,449
Taxation on ordinary activities	7	**(161)**	(13,556)
Profit for the year		**1,126**	94,893

The notes on pages 24 to 51 are an integral part of these financial statements.

Chairman John O'Donnell *Managing Director David Kelly*

Finance Director Michael Keegan *Secretary Tanya Barry*

27 March 2009

AIB Mortgage Bank

Balance sheet

as at 31 December 2008

	Notes	31 Dec 2008 € 000	31 Dec 2007 € 000
Assets			
Balances at Central Bank		**25**	25
Loans and receivables to banks	10	**17,118,044**	8,627,900
Loans and receivables to customers	11	**19,988,151**	18,416,150
Other assets	13	**35,207**	45,198
Current taxation		**3,690**	-
Derivative financial instruments	9	**241,827**	6,380
Total assets		**37,386,944**	27,095,653
Liabilities			
Deposits by banks	14	**23,182,654**	18,831,652
Customer accounts		**234**	183
Derivative financial instruments	9	**1,709**	90,503
Debt securities in issue	15	**13,168,958**	7,083,315
Current taxation		**-**	3,556
Other liabilities		**221**	353
Accruals and deferred income	16	**196,128**	205,177
Subordinated liabilities	17	**300,000**	300,000
Total liabilities		**36,849,904**	26,514,739
Shareholders' equity			
Share capital	18	**450,000**	425,000
Profit and loss account		**87,040**	155,914
Total shareholders' equity		**537,040**	580,914
Total liabilities and shareholders' equity		**37,386,944**	27,095,653

Chairman *John O'Donnell* *Managing Director* *David Kelly*

Finance Director *Michael Keegan* *Secretary* *Tanya Barry*

27 March 2009

Statement of cash flows
for the year ended 31 December 2008

	Notes	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Reconciliation of profit before taxation to net cash inflow from operating activities			
Profit before taxation		**1,287**	108,449
Decrease/ (increase) in prepayments and accrued income		**10,331**	(11,346)
(Decrease)/ increase in accruals and deferred income		**(9,049)**	108,020
Increase/ (decrease) in customer accounts		**51**	(864)
Increase in loans and receivables to customers		**(1,572,001)**	(2,103,725)
Increase in debt securities in issue		**6,085,643**	1,659,615
Decrease in derivative financial instruments		**(324,241)**	(7,265)
Increase in loans and receivables to Allied Irish Banks, p.l.c.		**(8,012,732)**	(1,438,579)
Increase in loans and receivables from Allied Irish Banks, p.l.c.		**4,351,002**	1,866,560
Increase in other assets		**(340)**	(299)
Decrease in other liabilities		**(132)**	(407)
Net cash flow from operating assets and liabilities		**529,819**	180,159
Net cash inflow from operating activities before taxation		**529,819**	180,159
Taxation paid		**(7,407)**	(13,569)
Taxation refund		**-**	2,852
Net cash flow from operating activities		**522,412**	169,442
Financing activities			
Issue of ordinary shares		**25,000**	20,000
Dividend Paid		**(70,000)**	-
Increase in cash and cash equivalents		**477,412**	189,442
Opening cash and cash equivalents		**246,339**	56,897
Closing cash and cash equivalents	22	**723,751**	246,339

Statement of recognised income and expense
for the year ended 31 December 2008

	31 Dec 2008 € 000	31 Dec 2007 € 000
Income and expense recognised directly in equity		
Profit for the year	**1,126**	94,893
Total recognised income and expense for the year	**1,126**	94,893

AIB Mortgage Bank

Reconciliation of movements in shareholders' equity
for the year ended 31 December 2008

	Share capital € 000	Profit and loss account € 000	Total € 000
Balance at 1 January 2007	405,000	61,021	466,021
Profit attributable to equity holders	-	94,893	94,893
Ordinary shares issued	20,000	-	20,000
Balance at 31 December 2007	425,000	155,914	580,914
Balance at 1 January 2008	**425,000**	**155,914**	**580,914**
Dividend paid to parent company	-	**(70,000)**	**(70,000)**
Profit attributable to equity holders	-	**1,126**	**1,126**
Ordinary shares issued	**25,000**	**-**	**25,000**
Balance at 31 December 2008	**450,000**	**87,040**	**537,040**

Notes to the accounts

1. Interest and similar income	**2008 € 000**	2007 € 000
Interest on loans and receivables to customers	**935,381**	831,306
Interest receivable from Allied Irish Banks, p.l.c.	**610,540**	311,181
	1,545,921	1,142,487

All income earned derives from activities carried out in the Republic of Ireland.

2. Interest expense and similar charges	**2008 € 000**	2007 € 000
Interest payable to Allied Irish Banks, p.l.c.	**990,581**	766,139
Interest on debt securities in issue	**448,720**	241,268
Interest on amounts due to the Central Bank and Financial Services Authority of Ireland	**25,133**	5,489
	1,464,434	1,012,896

3. Trading (loss) / gain	**2008 € 000**	2007 € 000
Trading (loss)/ gain	**(11,402)**	22,650

Changes in fair value of interest rate swaps, and certain related account items being hedged, resulted in a trading loss of €11.4m (2007: €22.7m gain). A loss of €8.1m (2007: €19.3m gain) arose as a result of changes in fair value of swaps used to hedge the interest rate risk in the mortgage loan portfolio. While these swaps are highly effective in managing interest rate risk from an economic standpoint, it is not possible to establish accounting fair value hedging relationships between the swaps and the mortgage loan portfolio. As a result the mortgage loan portfolio is not reported at fair value but is reported on an amortised cost basis. This treatment may give rise to volatility in reported income. The balance of the trading loss, €3.3m (2007: €3.4m gain), is in respect of the ineffectiveness of the hedge for mortgage covered securities and represents the difference in the changes to fair value of interest rate swaps and of the related mortgage covered securities being hedged.

Notes to the accounts

	2008	2007
	€ 000	€ 000
4. Other operating expense		
Fee payable under Government guarantee Scheme	**1,702**	-

On 30 September 2008, the Irish government announced a guarantee for certain liabilities, including covered bonds, for certain credit institutions, including AIB Mortgage Bank.

Legislative Basis
Under the Credit Institutions (Financial Support) Act 2008 (the 'Act'), the Minister for Finance has the power to provide financial support, including guarantees, to specified credit institutions and their subsidiaries.

The Credit Institutions (Financial Support) Scheme 2008 (Statutory Instrument No.411 of 2008), (the 'Scheme'), having been approved by both Houses of the Oireachtas (i.e. The Irish Parliament) on 17 October 2008, was made by the Minister for Finance on 20 October 2008.

The Act, the Scheme and associated Ministerial orders provide the statutory basis for the guarantee for credit institutions announced by the Minister for Finance on 30 September 2008 and 9 October 2008.

The Scheme has been approved by the European Commission as being compatible with EC Treaty State aid rules.

Nature of the statutory guarantee
The covered liabilities of participating covered institutions are guaranteed under the laws of Ireland by the Minister for Finance, for the period 30 September 2008 to 29 September 2010 inclusive.

In the event of any default of a covered institution in respect of a covered liability, the Minister for Finance will pay to the relevant creditor, on demand, an amount equal to the unpaid covered liabilities.

Should a covered institution be removed from the Scheme, all of its fixed term covered liabilities outstanding at that time will continue to have full benefit of the guarantee to 29 September 2010 or their maturity, whichever is the earlier. All covered liabilities, including on-demand deposits, will be protected by notice of at least 90 days prior to any covered institution being removed from the Scheme.

No call can be made under the guarantee after 29 September 2010. The guarantee does not affect any other rights or claims to creditors.

Covered institutions
Allied Irish Banks, p.l.c., AIB Mortgage Bank, AIB Group (UK) p.l.c., AIB Bank (CI) Limited and Allied Irish Banks North America Inc. are covered institutions for the purpose of the Scheme, standing specified under the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (Statutory Instrument No.416 of 2008). The extent to which the liabilities are covered liabilities is set out in the Scheme.

Covered liabilities
The following liabilities are covered by the Scheme ('covered liabilities'):

- all retail and corporate deposits (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction);
- interbank deposits;
- senior unsecured debt;
- covered bonds (including asset covered securities); and
- dated subordinated debt (Lower Tier 2)

Notes to the accounts

4. Other operating expense *(continued)*

Covered liabilities

- excluding any intra-group borrowing and any debt due to the European Central Bank arising from the Eurosystem monetary operations.

Charge and indemnity

The covered institutions will pay a quarterly charge to the Exchequer for the guarantee. The aggregate amount of the charge is based on the increased debt servicing costs that the State bears as a result of providing the guarantee. Current estimates are that over two years of the Scheme the charge to the covered institutions for the guarantee will yield €1billion. Each covered institutions share of the annual charge is calculated by reference to its risk profile and guarantee charging model specified by the Minister.

By joining the Scheme, a covered institution will also agree to indemnify the Minister in respect of any payments made, or costs incurred, by the Minister in respect of the guarantee relating to that covered institution.

A covered institution is not required to indemnify the Minister in respect of any payments made by the Minister under a guarantee given to any other covered institution that is not a member of its covered group.

Board Representation

The Minister may nominate up to two non-executive Directors to the Board of a covered institution.

Commercial conduct and reporting requirements

Conditions will be imposed on covered institutions that regulate the commercial conduct of their business, having regard to capital ratios, market share and balance sheet growth, in order to minimise any potential competitive distortion that may arise and to avoid any abuse of the guarantee or any use in a manner irreconcilable with the purpose of the guarantee. These conditions are set out in the Scheme.

Covered institutions will be subject to particular reporting requirements to enable the Financial Regulator and the Minister for Finance to monitor compliance with the Scheme and the achievement of the purposes of the Act.

Government recapitalisation

On 11 February 2009, the Minister for Finance of Ireland announced a recapitalisation package under which the Irish government will provide €3.5billion Core Tier 1 capital to Allied Irish Banks, p.l.c. In return, the Minister will receive preference shares with a fixed dividend of 8% per annum payable in cash or ordinary shares in lieu. These preference shares can be repurchased at par up to the fifth anniversary of the issue and at 125% of face value thereafter. The Minister can appoint 25% of the Directors of AIB Group. While the Scheme continues, this includes the two Directors nominated by the Minister under the Scheme. The preference shares also carry voting rights to 25% of total ordinary voting rights on two issues in respect of change in control and of AIB board appointments.

Warrants attached to the preference shares carry an option to purchase up to 25% of the ordinary share capital of Allied Irish Bank, p.l.c. The strike price of the first 15% of these warrants to be exercised will be €0.975. The strike price for the balance of the warrants will be €0.375. If the Group redeems up to €1.5billion of the new preference shares from privately sourced Core Tier 1 capital prior to 31 December 2009, then the €0.375 warrants will be reduced pro rata to that redemption to but not to less than 15% of the ordinary shares of the Group.

The Group has stated its commitment to increase lending capacity to small and medium sized enterprises by 10% and to provide an additional 30% capacity for lending to first time house buyers in 2009. Compliance with this commitment will be monitored by the Financial Regulator. The Group has also committed, under the Mortgage Arrears Code of Practice, not to commence court proceedings for repossession of principal private residences until after 12 months of arrears arising, where the customer continues to cooperate reasonably and honestly with the Group.

Notes to the accounts

4. Other operating expense *(continued)*

The Government recapitalisation scheme is subject to approval by shareholders at an Extraordinary General Meeting of Allied Irish Banks, p.l.c.

5. Administrative expenses	**2008 € 000**	2007 € 000
Personnel expenses		
Wages and salaries	**409**	430
Social security costs	**48**	44
Retirement benefits	**53**	26
Other personnel expenses	**10**	3
	520	503
Other administrative expenses	**2,568**	2,577
Amounts payable to Allied Irish Banks, p.l.c. under the Outsourcing and Agency Agreement	**36,844**	39,440
	39,932	42,520

6. Provisions for impairment of loans and receivables

	2008			2007		
	Specific	**IBNR**	**Total**	Specific	IBNR	Total
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Balance at start of year	**7,924**	**5,437**	**13,361**	6,088	5,994	12,082
Charge against income statement	**14,222**	**12,960**	**27,182**	1,836	(557)	1,279
At end of year	**22,146**	**18,397**	**40,543**	7,924	5,437	13,361

By geographic location and industry sector	**2008 €000**	2007 €000
Republic of Ireland		
Home mortgages	**40,543**	13,361
	40,543	13,361

Notes to the accounts

7. Taxation	2008 € 000	2007 € 000
Current tax		
Profit before tax €1.287m @ 12.5%	**161**	13,556
Total income tax expense	**161**	13,556

The tax charge for the year is at an effective rate of 12.5%, which is the same as the standard Irish corporation tax rate.

8. Risk management

Set out below are details on the risk management framework and interest rate sensitivities for AIB Mortgage Bank.

Risk Management – framework

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

- Risk philosophy;
- Risk appetite;
- Risk governance and risk management organisation;
- Risk identification and assessment process;
- Risk strategy; and
- Stress and scenario testing.

Risk Management – Individual risk types

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the AIB Group risk assessment process and which are relevant to AIB Mortgage Bank:-

2.1 Credit risk
2.2 Liquidity risk
2.3 Operational risk
2.4 Regulatory compliance risk
2.5 Non-trading interest rate risk

Notes to the accounts

8. Risk management *(continued)*

The 5 applicable risk types are discussed below.

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 Bank's claims. With the likelihood that the economy will continue to deteriorate, it is expected that this will result in adverse changes to the credit quality of borrowers and increasing delinquencies and defaults across a range of sectors. Ultimately this trend will lead to higher impairment charges, higher costs, additional write downs and lower profitability. The exposure to credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan due.

Net disposable income is the key factor in assessing repayment capacity. Repayment capacity is assessed by reference to the debt service ratio which measures the proportion of 'after tax' income required to service the proposed borrowing. When sanctioning mortgage credits, importance is also placed on the loan to value ratios, adequacy of security and the track record of the borrower.

The assessment of individual mortgage loans includes an interest rate stress test in compliance with requirements set by the Central Bank and Services Authority of Ireland.

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.

The table below sets out the maximum exposure to credit risk that arises within the Bank. 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, derivatives relating to interest rate risk management and 'off-balance sheet' commitments. The credit risks arising from balances at Central Bank are deemed to be negligible based on their maturity and counterparty status.

Maximum exposure to credit risk

			2008			2007
	Amortised cost	**Fair value**	**Total**	Amortised cost	Fair value	Total
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Balances at central banks	**25**	**-**	**25**	25	-	25
Derivative financial instruments	-	**241,827**	**241,827**	**-**	6,380	6,380
Loans and receivables to banks	**17,118,044**	**-**	**17,118,044**	8,627,900	-	8,627,900
Loans and receivables to customers	**19,988,151**	-	**19,988,151**	18,416,150	-	18,416,150
Included elsewhere:						
Accrued interest	**35,207**	**-**	**35,207**	44,744	-	44,744
	37,141,427	**241,827**	**37,383,254**	27,088,819	6,380	27,095,199
Loan commitments	**679,000**	**-**	**679,000**	1,004,000	-	1,004,000
Maximum exposure to credit risk	**37,820,427**	**241,827**	**38,062,254**	28,092,819	6,380	28,099,199

Notes to the accounts

8. Risk management *(continued)*

Credit risk *(continued)*
Risk identification and assessment
All mortgage loans are subject to an individual underwriting process. In addition, 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 Probability of Default (PD) for the borrower. This assessment is carried out at the level of the individual borrower or transaction and at portfolio level when relevant.

In the mortgage portfolio, 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 the portfolio.

Role of stress and scenario analysis in the assessment of credit risk
AIB Group conducts periodic stress tests on the mortgage loan portfolio 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
AIB 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.

Divisional management approves the 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 the Group Risk Management Committee (RMC) and/or to the Board, where relevant, for approval.

In addition, the Board of AIB Mortgage Bank reviews and approves the credit policy for residential property mortgage loans.

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.

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

Notes to the accounts

8. Risk management *(continued)*

Credit risk *(continued)*
Provisioning for impairment (continued)
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.

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 the balance sheet date. Whilst provisioning is an ongoing process, all AIB entities 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 a Group level and by the Board of AIB Mortgage Bank.

Further information on credit risk
Further information on credit risk can be found in the notes to the financial statements.
- Derivative financial instruments *(note 9).*
- Loans and receivables to banks *(note 10).*
- Loans and receivables to customers *(note 11).*
- Provisions for impairment of loans and receivables *(note 6).*

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 sufficient account and customer information to pro-actively manage the Bank's credit risk exposures at a transaction and relationship level.

Provision and allowance for loan losses
Under IAS 39, there are two types of provisions, (a) Specific and (b) Incurred but not reported ("IBNR"), i.e. collective provisions for earning loans.

A provision for loan losses is taken as a charge to income and added to the allowance for loan losses to bring the allowance to an appropriate level having regard to both specific and general factors. Any subsequent charge off (write-off) is charged against the allowance.

Specific provisions
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 account. The amount of the specific provision made in AIB Mortgage Bank's financial statements is intended to cover the difference between the balance outstanding on impaired loans and estimated recoveries (i.e. the present value of future cash flows). When raising specific provisions, AIB Mortgage Bank divides its impaired portfolio into two categories namely, Individually significant and Individually insignificant.

Notes to the accounts

8. Risk management *(continued)*

Credit Risk *(continued)*

Individually significant impairment

Each entity of AIB Group sets a threshold above which cases are assessed on an individual basis. For those credits identified as being impaired, the individual impairment provision is calculated by discounting the expected future cash flows at the exposure's effective interest rate and comparing the result (the estimated recoverable amount) to the carrying amount of the loan to determine the level of provision required. The key inputs to the discounted cash flow models are the estimated amount and timing of cash flows (to include scheduled repayments, interest payments or payments due from realisation of security) and the exposure's effective interest rate.

Individually insignificant impairment

The calculation of an impairment charge for credits below the "significant" threshold is undertaken on a collective basis. Loans are grouped together in homogeneous pools sharing common characteristics and impairment is calculated by reference to the loss history experience for the asset pool (i.e. amount and timing of cash flows / loss given default).

When a loan has been subjected to a specific provision and the prospects for recovery do not improve, a point will come when it may be concluded that there is no realistic prospect of recovery. When that point is reached, the amount of the loan which is considered to be beyond prospect of recovery is charged off.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored on a regular basis. A Group wide system for rating 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. The rating of an exposure is fundamental to the determination of provisioning in AIB Mortgage Bank; it triggers the process which results in the creation of a specific provision on individual loans where there is doubt on recoverability.

Collective impairment for performing book (Incurred but not reported loss)

IBNR provisions are maintained to cover loans which are impaired at balance sheet date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions can only be recognised for incurred losses and are not permitted for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolios and to the credit environment at balance sheet date.

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; and portfolio profile / industry conditions.

The approach used for the collective evaluation of impairment is to split the performing financial assets into homogeneous pools on the basis of similar risk characteristics. The asset pools are multiplied by the "average annual loss rate" for that pool, suitably adjusted where appropriate for any factors currently affecting the portfolio that may not have been a feature in the past or vice versa.The resultant amount is then adjusted to reflect the Emergence Period, i.e. the time it takes following a loss event for an individual loan to be recognised as impaired requiring a specific provision.

The Emergence Period is key in determining the level of collective provisions. The Emergence Period is determined by taking into account current credit management practices, historical evidence of assets moving from "good" to "bad" as a result of a "loss event" and will include actual case studies. The Emergence Period applied in AIB Mortgage Bank is 8 months.

The level of IBNR provisions is reviewed quarterly to ensure it remains appropriate and adequate.

Notes to the accounts

8. Risk management *(continued)*

2.2 Liquidity risk
Liquidity risk is the exposure to loss from not having sufficient funds available at an economic price to meet actual and contingent commitments. The objective of liquidity management is to ensure that, at all times, the Bank holds sufficient funds to meet its contracted and contingent commitments and regulatory requirements, at an economic price.

AIB Mortgage Bank's liquidity risk is managed as part of the overall AIB Group liquidity management. This includes the risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

The AIB Mortgage Bank Board of Directors has approved a funding policy for the business that permits funding via the use of asset covered securities, a residential Mortgage Backed Promissory Note Programme and borrowing from Allied Irish Banks, p.l.c.. Changes to the funding policy require the prior approval of the Board of Directors of the Bank and must be in line with the Group policy.

It is the Bank's policy to ensure that resources are at all times available to meet the Bank's obligations. The Bank meets its day to day residual funding requirements through borrowing facilities in place with Allied Irish Banks, p.l.c.. The table on page 35 analyses the liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date.

2.3 Operational risk
Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems, or from external events.

The management of operational risk is a line management responsibility. It is supported by specialist operational risk management ('ORM') functions within Allied Irish Banks, p.l.c. that assist and advise line management on specific operational risks. Examples include money laundering prevention, compliance, business continuity planning, information security and insurance.

An element of AIB Mortgage Bank's ORM programme is an operational risk self-assessment process. This process requires the Bank to assess its operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes.

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

AIB Mortgage Bank's regulatory compliance risk is managed as part of the overall AIB Group Regulatory compliance framework. This includes risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

2.5 Non-trading interest rate risk
Interest rate risk is the exposure of the Bank's earnings to movements in market interest rates. The Bank is exposed to risk of interest rate flucuations to the extent that assets and liabilities mature or reprice at different times or in differing amounts.

The Bank is exposed to interest-rate risk arising from mortgage lending activities and the issuance of Mortgage Covered Securities. Interest rate swaps, as explained in the paragraphs below, are used to manage this exposure.

Notes to the accounts

8. Risk management *(continued)*

Non-trading interest rate risk *(continued)*
Interest-rate risk arising from the issuance of fixed-rate Mortgage Covered Securities is managed through interest rate swaps with AIB which have the effect of transforming fixed-rate liability risk into floating-rate risk.

The interest rate exposure of the Bank relating to its Irish residential lending is managed using two macro interest rate swaps with Allied Irish Banks, p.l.c. one of which, the Pool Hedge, relates only to the Pool and Mortgage Covered Securities issued by the Bank and the other of which (the Non-Pool Hedge) relates only to Irish residential loans which are not included in the Pool. This split is required by the Asset Covered Securities Acts.

The Pool Hedge and the Non Pool Hedge contracts entail the monthly payment of the average customer rate on these mortgages and in return, the receipt of 1 month Euribor plus the current margin being achieved on the mortgage portfolio. The contract is reset each month to reflect the outstanding mortgage balances at that time and to reflect updated customer rates, Euribor and margin levels. Settlements are made between the Bank and Allied Irish Banks p.l.c. to reflect the net amount payable/receivable in each month.

After taking account of the effect of interest rate swaps, the Bank's remaining interest rate exposure arises mainly from variable interest rate mortgage loans, where the interest rate for the majority of the loans is based on the ECB Refinancing Rate, whereas the related funding cost is based on Euribor rates.

Interest rate swaps are used solely for risk management and not trading purposes.

The nominal values of the swaps are set out on Page 37.

The Bank is not exposed to any other market risks, i.e. foreign exchange rates or equity prices.

Further details of AIB Group's Liquidity Risk, Operational Risk, Regulatory Compliance Risk and Non-Trading Interest Rate Risk frameworks are set out in the Annual Report of Allied Irish Banks, p.l.c.

Interest rate sensitivity
The net interest rate sensitivity of AIB Mortgage Bank at 31 December 2008 is illustrated in the following table. This information is presented for eight different time periods reflecting the balances of assets and liabilities with rates that are subject to change within each period, data regarding balances which are not sensitive to interest rate movements and any rate sensitive off-balance sheet contracts. The table shows the sensitivity of the balance sheet at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

AIB Mortgage Bank

Interest Rate Sensitivity

Interest Rate Sensitivity analysis for the Bank at **31 December 2008** is as follows:

Assets	**0 ≤ 1 mth**	**1 ≤ 3 mths**	**3 ≤ 12 mths**	**1 ≤ 2yrs**	**2 ≤ 3yrs**	**3 ≤ 4yrs**	**4 ≤ 5yrs**	**5yrs+**	**Rate Insensitive**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Cash and balances at central bank	25	-	-	-	-	-	-	-	-	25
Loans and receivables to customers	18,615,659	84,536	306,856	406,545	353,259	105,584	42,625	73,087	-	19,988,151
Loans and receivables to banks	17,118,044	-	-	-	-	-	-	-	-	17,118,044
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	241,827	241,827
Other assets	-	-	-	-	-	-	-	-	38,897	38,897
Total assets	**35,733,728**	**84,536**	**306,856**	**406,545**	**353,259**	**105,584**	**42,625**	**73,087**	**280,724**	**37,386,944**
Liabilities										
Customer accounts	-	-	-	-	-	-	-	-	234	234
Deposits by banks	23,182,654	-	-	-	-	-	-	-	-	23,182,654
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	1,709	1,709
Debt issued	5,750,000	-	2,500,000	2,000,000	-	-	1,000,000	1,675,000	243,958	13,168,958
Subordinated liabilities	300,000	-	-	-	-	-	-	-	-	300,000
Other liabilities	-	-	-	-	-	-	-	-	196,349	196,349
Shareholders' funds	-	-	-	-	-	-	-	-	537,040	537,040
Total liabilities	**29,232,654**	**-**	**2,500,000**	**2,000,000**	**-**	**-**	**1,000,000**	**1,675,000**	**979,290**	**37,386,944**
Derivative financial instruments (Interest rate swaps)										
Floating rate interest receivable	20,024,875	-	-	-	-	-	-	-	-	20,024,875
Floating rate interest payable	(18,652,383)	(84,536)	(306,856)	(406,545)	(353,259)	(105,584)	(42,625)	(73,087)	-	(20,024,875)
Floating rate interest payable	(7,175,000)	-	-	-	-	-	-	-	-	(7,175,000)
Fixed rate interest receivable	-	-	2,500,000	2,000,000	-	-	1,000,000	1,675,000	-	7,175,000
Total derivatives	**(5,802,508)**	**(84,536)**	**2,193,144**	**1,593,455**	**(353,259)**	**(105,584)**	**(957,375)**	**1,601,913**	**-**	**-**
Interest sensitivity gap	698,566	-	-	-	-	-	-	-	(698,566)	
Cumulative interest sensitivity gap	698,566	698,566	698,566	698,566	698,566	698,566	698,566	698,566	-	

AIB Mortgage Bank

Interest Rate Sensitivity

Interest Rate Sensitivity analysis for the Bank at **31 December 2007** is as follows:

Assets	**0 ≤ 1 mth**	**1 ≤ 3 mths**	**3 ≤ 12 mths**	**1 ≤ 2yrs**	**2 ≤ 3yrs**	**3 ≤ 4yrs**	**4 ≤ 5yrs**	**5yrs+**	**Rate Insensitive**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Cash and balances at central bank	25	-	-	-	-	-	-	-	-	25
Loans and receivables to customers	16,716,186	53,266	502,802	436,407	367,533	151,788	111,577	76,591	-	18,416,150
Loans and receivables to banks	8,627,900	-	-	-	-	-	-	-	-	8,627,900
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	6,380	6,380
Other assets	-	-	-	-	-	-	-	-	45,198	45,198
Total assets	**25,344,111**	**53,266**	**502,802**	**436,407**	**367,533**	**151,788**	**111,577**	**76,591**	**51,578**	**27,095,653**
Liabilities										
Customer accounts	-	-	-	-	-	-	-	-	183	183
Deposits by banks	18,831,652	-	-	-	-	-	-	-	-	18,831,652
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	90,503	90,503
Debt issued	-	-	-	2,500,000	2,000,000	-	-	2,675,000	(91,685)	7,083,315
Subordinated liabilities	300,000	-	-	-	-	-	-	-	-	300,000
Other liabilities	-	-	-	-	-	-	-	-	209,086	209,086
Shareholders' funds	-	-	-	-	-	-	-	-	580,914	580,914
Total liabilities	**19,131,652**	**-**	**-**	**2,500,000**	**2,000,000**	**-**	**-**	**2,675,000**	**789,001**	**27,095,653**
Derivative financial instruments (Interest rate swaps)										
Floating rate interest receivable	18,421,529	-	-	-	-	-	-	-	-	18,421,529
Floating rate interest payable	(16,721,565)	(53,266)	(502,802)	(436,407)	(367,533)	(151,788)	(111,577)	(76,591)	-	(18,421,529)
Floating rate interest payable	(7,175,000)	-	-	-	-	-	-	-	-	(7,175,000)
Fixed rate interest receivable	-	-	-	2,500,000	2,000,000	-	-	2,675,000	-	7,175,000
Total derivatives	**(5,475,036)**	**(53,266)**	**(502,802)**	**2,063,593**	**1,632,467**	**(151,788)**	**(111,577)**	**2,598,409**		
Interest sensitivity gap	737,423	-	-	-	-	-	-	-	(737,423)	
Cumulative interest sensitivity gap	737,423	737,423	737,423	737,423	737,423	737,423	737,423	737,423	-	

Notes to the accounts

9. Derivatives and other financial instruments

Set out below are details on fair values and derivative information for AIB Mortgage Bank.

The Bank uses two different types of interest rate swaps to hedge interest rate risk. The first type is used to hedge interest rate risk on mortgage loan accounts within the Cover Assets Pool and outside the Cover Assets Pool, effectively converting interest receivable from a fixed rate basis to a floating rate basis. Although these swaps are considered to be an effective hedge in economic terms, due to their nature, it has not been possible to establish a "fair value" hedging relationship under IAS 39 with the mortgage loan accounts and consequently, they are classified as "Trading".

The second type of interest rate swaps are those interest rate swaps used to hedge the mortgage covered securities, converting interest payable from a fixed rate basis to a floating rate basis. Effective fair value hedging relationships (as stipulated by IAS 39) have been established between these swaps and the underlying covered bonds and consequently the change in fair value of the swaps is largely offset by fair value movements in the covered bonds themselves.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Allied Irish Banks, p.l.c. is the counterparty to all derivative contracts noted below.

	31 Dec 2008 €000 Contract/ Notional Amount	**31 Dec 2008 €000 Fair Value Asset/ (Liability)**	31 Dec 2007 €000 Contract/ Notional Amount	31 Dec 2007 €000 Fair Value Asset/ (Liability)
Derivatives classified as trading				
Hedging mortgage loan accounts – outside the Cover Assets Pool	**5,942,574**	**(269)**	6,918,838	2,058
Hedging mortgage loan accounts – within the Cover Assets Pool	**14,082,301**	**(1,440)**	11,502,691	4,322
Total derivatives classified as trading	**20,024,875**	**(1,709)**	18,421,529	6,380
Derivatives classified as hedging				
Hedging debt securities	**7,175,000**	**241,827**	7,175,000	(90,503)
Total derivatives classified as hedging (Debt Securities)	**7,175,000**	**241,827**	7,175,000	(90,503)
Total derivatives	**27,199,875**	**240,118**	25,596,529	(84,123)

The following table represents the underlying principal and gross replacement costs of the Bank's derivatives as at 31 December 2008.

31 December 2008	**Residual Maturity 2008** Within one year € 000	**1 to 5yrs € 000**	**Over 5yrs € 000**	**Total € 000**	Residual Maturity 2007 Within one year € 000	1 to 5yrs € 000	Over 5yrs € 000	Total € 000
Underlying principal amount								
Interest rate contracts	**22,524,875**	**3,000,000**	**1,675,000**	**27,199,875**	18,421,529	4,500,000	2,675,000	25,596,529
Gross replacement costs								
Interest rate contracts	**68,253**	**160,241**	**208,453**	**436,947**	-	75,676	53,122	128,798

Notes to the accounts

9. Derivatives and other financial instruments *(continued)*

These tables present the notional 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 Bank in 2008.

	Notional principal amount	Weighted average maturity in years	Weighted average rate Receive	Pay	Estimated Fair Value
	€ 000		%	%	€ 000
Interest rate derivatives designated as fair value hedges					
Receive fixed					
1 year or less					**9,280**
1-5 years					**65,705**
Over 5 years					**166,842**
	7,175,000	**3.01**	**3.93**	**-**	**241,827**
Pay floating					
1 year or less					
1-5 years					
Over 5 years					
	7,175,000	**0.08**	**-**	**2.75**	**-**
Other Interest rate derivatives*					
Interest rate swaps:					
Pay floating					
1 year or less					**(60,221)**
1-5 years					
Over 5 years					
	20,024,875	**0.08**	**-**	**3.67**	**(60,221)**
Receive floating					
1 year or less					**58,512**
1-5 years					-
Over 5 years					-
	20,024,875	**0.08**	**3.56**	**-**	**58,512**

* These swaps are used to hedge the mortgage loan portfolio but do not qualify for fair value hedge accounting.

Notes to the accounts

9. Derivatives and other financial instruments *(continued)*

Fair value of financial instruments

The term "financial instruments" includes financial assets, financial liabilities and derivatives. 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 arms length transaction.

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value is 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 Bank's financial position or to make comparisons with other institutions.

Fair value information is not provided for certain financial instruments or for items that do not meet the definition of a financial instrument. 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 Bank as a going concern at 31 December 2008.

The following table gives details of the carrying amounts and fair values of financial instruments.

	2008 Carrying Amount € 000	**2008 Fair value Amount € 000**	2007 Carrying Amount € 000	2007 Fair Value Amount € 000
Non trading				
Assets				
Cash and balances at central bank	**25**	**25**	25	25
Derivative financial instruments	**241,827**	**241,827**	6,380	6,380
Loans and receivables to banks	**17,118,044**	**17,118,044**	8,627,900	8,627,900
Loans and receivables to customers	**19,988,151**	**20,015,279**	18,416,150	18,402,650
Liabilities				
Deposits by banks	**23,182,654**	**23,182,654**	18,831,652	18,831,652
Customer accounts	**234**	**234**	183	183
Derivative financial instruments	**1,709**	**1,709**	90,503	90,503
Debt securities in issue	**13,168,958**	**13,168,958**	7,083,315	7,083,315
Subordinated liabilities	**300,000**	**171,580**	300,000	236,850

Notes to the accounts

9. Derivatives and other financial instruments *(continued)*

The following methods and assumptions were used in estimating the fair value of financial instruments.

Loans and receivables to banks and loans and receivables to customers
The fair value of money market funds and loans and receivables to banks were 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 Bank provides lending facilities of varying rates and maturities to personal customers. The carrying amount of variable rate loans was 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 was calculated by discounting expected cash flows using discount rates that reflected the credit and interest rate risk in the portfolio.

Deposits by banks, customer accounts and debt securities in issue
The fair value of deposits by banks and customer accounts is equal to their book value. The fair value of debt securities in issue is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Bank.

Subordinated liabilities
The fair value of the subordinated liabilities was estimated using discounted cash flows. In all cases, redemption prior to maturity is subject to the necessary prior approval of the Central Bank and Financial Services Regulatory Authority of Ireland.

Derivative financial instruments
The Bank 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 in AIB Group for valuing similar instruments used for trading purposes.

Notes to the accounts

10. Loans and receivables to banks	31 Dec 2008 € 000	31 Dec 2007 € 000
Funds placed with Allied Irish Banks, p.l.c.		
Analysed by remaining maturity:		
- 3 months or less	**4,193,044**	1,452,900
- 1 year or less but over 3 months	**2,500,000**	-
- 5 years or less but over 1 year	**8,750,000**	4,500,000
- Greater than 5 years	**1,675,000**	2,675,000
	17,118,044	8,627,900

11. Loans and receivables to customers	31 Dec 2008 € 000	31 Dec 2007 € 000
Analysed by remaining maturity:		
- 3 months or less	**193,220**	195,283
- 1 year or less but over 3 months	**558,234**	452,816
- 5 years or less but over 1 year	**2,961,592**	2,533,168
- Greater than 5 years	**16,315,648**	15,248,244
Provisions for impairment of loans and receivables (note 6)	**(40,543)**	(13,361)
	19,988,151	18,416,150

The unwind of the discount on the impairment provision amounted to €230k (2007: €56k) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Loans and receivables to customers comprise only the AIB branch originated residential mortgage loan portfolio in the Republic of Ireland. This portfolio contains high quality loans which are well diversified by borrower, by market segment and by geographical location.

By geographic location and sector	31 Dec 2008 € 000	31 Dec 2007 € 000
Republic of Ireland		
Home mortgages	**19,988,151**	18,416,150
	19,988,151	18,416,150

Notes to the accounts

12. Additional information on credit risk

Aged analysis of contractually past due but not impaired facilities – 31 December 2008

	1-30days € 000	31-60days € 000	61-90days € 000	91+days € 000	Total € 000
Home mortgages	**126,540**	**83,150**	**58,890**	**16,350**	**284,930**
	126,540	**83,150**	**58,890**	**16,350**	**284,930**

Aged analysis of contractually past due but not impaired facilities – 31 December 2007

	1-30days € 000	31-60days € 000	61-90days € 000	91+days € 000	Total € 000
Home mortgages	72,870	25,570	9,500	2,030	109,970
	72,870	25,570	9,500	2,030	109,970

As at 31 December 2008, there were no mortgage loan accounts (Nil in 2007) in default in the Cover Assets Pool (in default being defined as mortgage loan accounts in arrears by three months or more)- refer to Note 15(c).

Loans and receivables renegotiated
Loans and receivables renegotiated are those facilities at the current reporting date that, during the financial year, have had the 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 €1.17m as at 31 December 2008 (2007: €1.14m)

Individually impaired loans by geographic location and sector	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Republic of Ireland		
Home mortgages	**134,500**	43,670
	134,500	43,670

Notes to the accounts

12. Additional information on credit risk *(continued)*

Collateral and other credit enhancements
The Bank 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.

The main types of collateral for loans and receivables to customers are as follows:

Retail Mortgages; The Bank 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 Bank.

13. Other assets	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Accrued interest	**34,413**	44,744
Other assets	**794**	454
	35,207	45,198

14. Deposits by banks	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Due to Allied Irish Banks, p.l.c.	**23,182,654**	**18,831,652**
	23,182,654	**18,831,652**

The Bank has a borrowing facility with its parent company, Allied Irish Banks, p.l.c., under which the parent company provides the balance of funding after the Bank has availed of other sources of funds.

At 31 December 2008 and 2007 no deposits by Bank’s 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, such 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 Bank 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.

Notes to the accounts

15. Debt securities in issue	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Mortgage covered securities in issue by remaining maturity :		
- 1 year or less	**2,509,682**	-
- 5 years or less but over 1 year	**8,816,428**	4,433,571
- Greater than 5 years	**1,842,848**	2,649,744
	13,168,958	7,083,315

In April 2006, the Bank commenced issuance of mortgage covered securities with a €2.5bn bond with a coupon rate of 3.5% maturing in April 2009 and a €1bn bond with a coupon rate of 3.75% maturing in April 2013. In December 2006, it issued a €2bn bond with a coupon rate of 3.75% maturing in January 2010.

In June 2007, the Bank issued a €1.5bn bond with a coupon rate of 4.875% maturing in June 2017 and in December 2007 it issued a private placement of €175m on similar terms.

During 2008, the Bank issued the following mortgage covered securities to Allied Irish Banks, p.l.c.; in March, the Bank issued a €2.5bn bond at 1 month Euribor plus 25 basis points maturing in March 2011; in May, the Bank issued a €2.25bn bond at 1 month Euribor plus 35 basis points maturing in May 2012 and in October, the Bank issued a €1bn bond at 1 month Euribor plus 50 basis points maturing in October 2013.

As at 31 December 2008, the total amounts of principal outstanding in respect of mortgage covered securities issued was €12.9bn (2007: €7.2bn), of which €7.2bn (2007: €7.2bn) was held by third parties and €5.7bn (2007: €nil) by Allied Irish Banks, p.l.c.

AIB Mortgage Bank is an issuer of mortgage covered securities under the Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities Amendment Act, 2007 (the “Act”). The Act requires that mortgage covered securities are secured by assets that are included in a Cover Assets Pool maintained by the issuer and that a register of mortgage covered securities business is kept.

At 31 December 2008, the Cover Assets Pool amounted to €16.6bn (€12.4bn in 2007), comprising of €14.1bn (€11.5bn in 2007) of mortgage credit assets (mortgage loan accounts) and €2.5bn (€0.9bn in 2007) of substitution assets (cash on deposit with Allied Irish Banks, p.l.c.). Section 40 (2) of the Act requires that the following information be disclosed in respect of mortgage credit assets that are recorded in the register of mortgage covered securities business.

Notes to the accounts

15. Debt securities in issue *(continued)*

15 (a) Mortgaged properties and principal loan balances outstanding in the cover assets pool

Total Loan Balances

From	To	Total Loan Balances (1 & 2) 2008 € m	Number of Mortgaged Properties 2008	Total Loan Balances (1 & 2) 2007 € m	Number of Mortgaged Properties 2007
0	€100,000	**1,723**	**34,735**	1,005	21,265
€100,000	€200,000	**3,692**	**25,478**	3,010	20,004
€200,000	€500,000	**6,421**	**22,225**	5,647	19,569
Over €500,000		**2,266**	**2,648**	1,846	2,191
		14,102	**85,086**	11,508	63,029

(1) The total loan balances are categorised by the total loan balance outstanding per mortgaged property, including principal and interest charged to the loan accounts, but excluding interest accrued but not charged to the loan accounts.

(2) There could be one or more loan accounts per mortgaged property. The Cover Assets Pool contains 98,613 loan accounts (75,575 in 2007) secured on 85,086 properties (63,029 in 2007).

15 (b) Geographical location of mortgaged properties in the cover assets pool

Geographical Area	Number of Mortgaged Properties 2008		Number of Mortgaged Properties 2007	
Co. Dublin	**17,583**	**21 %**	14,269	23%
Outside Dublin	**67,503**	**79 %**	48,760	77%
	85,086	**100%**	63,029	100%

15 (c) Mortgage loan accounts in default in the cover assets pool

As at 31 December 2008, there were no mortgage loan accounts (Nil in 2007) in default in the Cover Assets Pool (in default being defined as mortgage loan accounts in arrears by three months or more).

15 (d) Mortgage loan accounts in default in the cover assets pool with arrears greater than €1,000

During the year ended 31 December 2008, 400 mortgage loan accounts (153 in 2007) in the Cover Assets Pool had been in default with arrears greater than €1,000. As at 31 December 2008, there were no accounts in default in the Cover Assets Pool (Nil in 2007).

15 (e) Replacement of non-performing mortgage loan accounts from the cover assets pool

During the year ended 31 December 2008, 1,289 non-performing mortgage loan accounts (734 in 2007) were removed in total from the Cover Assets Pool. (For this purpose, non-performing is defined as in arrears by three months or more, i.e. has the same meaning as in default.) These loan accounts were not (immediately) replaced with other assets as the Cover Assets Pool continued to meet all regulatory requirements.

Notes to the accounts

15. Debt securities in issue *(continued)*

15 (f) Amount of interest in arrears on mortgage loan accounts in the cover assets pool not written off

The total amount in arrears (including principal and interest) in respect of the 647 accounts (41 in 2007) as at 31 December 2008 was €817,982 (€362,031 in 2007). None of the accounts in question were written off as at 31 December 2008, as they were in arrears by less than three months.

15 (g) Total principal and interest payments on mortgage loan accounts

The total amount of repayments (principal and interest) made by customers on mortgage loan accounts in the Cover Assets Pool during the year ended 31 December 2008 was €2,005m (€1,894m in 2007), of which €1,350m (€1,461m in 2007) represented repayment of principal and €655m (€433m in 2007) represented payment of interest. The repayments of principal include the repayment of mortgage loan accounts by customers closing their existing accounts when opening a new account.

15 (h) Number and amount of mortgage loans in the cover assets pool secured on commercial property

As at 31 December 2008 there were no loan accounts (Nil in 2007) in the Cover Assets Pool that were secured on commercial properties.

16. Accruals and deferred income	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Interest payable on mortgage covered securities	**195,121**	204,420
Expenses	**1,007**	757
	196,128	205,177

17. Subordinated liabilities	**31 Dec 2008 € 000**	31 Dec 2007 € 000
Dated Capital Note (a)	**100,000**	100,000
Perpetual Capital Note (b)	**200,000**	200,000
	300,000	300,000

Notes to the accounts

17. Subordinated liabilities *(continued)*

(a) €100,000,000 Dated Subordinated Capital Note – the loan to which this note relates was received from the parent company, Allied Irish Banks, p.l.c. ("AIB") on 13 February 2006. Interest on the amount of principle is calculated on a year of 360 days at a rate of 53 basis points over Euribor payable monthly in arrears. The Note has a fixed maturity date of 12 February 2031. Early repayment may occur at the option of AIB Mortgage Bank with the prior consent of the Central Bank and Financial Services Authority of Ireland (the "Central Bank") on any interest payment date falling any time after five years and one day from the date of issuing the Note.

The loan capital is unsecured and all rights and claims of AIB shall be subordinated to the claims of all creditors who are depositors or other unsubordinated creditors of AIB Mortgage Bank.

(b) €200,000,000 Subordinated Perpetual Capital Note – the loan to which this note relates was received from AIB on 13 February 2006. Interest on the amount of principle is calculated on a year of 360 days at a rate of 100 basis points over Euribor payable monthly in arrears. The Note is undated and has no final maturity date but may be redeemed at the option of AIB Mortgage Bank with the prior consent of the Central Bank at any time after the fifth anniversary of its issue.

The loan capital is unsecured and all rights and claims of AIB shall be subordinated to the claims of all creditors who are depositors or other unsubordinated creditors of AIB Mortgage Bank and creditors of AIB Mortgage Bank whose claims are subordinated to the claims of depositors and other unsubordinated creditors of AIB Mortgage Bank but excluding Pari Passu Subordinated Creditors and those creditors of AIB Mortgage Bank whose claims rank or are expressed to rank junior to the claims of AIB.

18. Share capital

	31 Dec 2008 € 000	31 Dec 2007 € 000
Authorised:		
1,000,000,000 ordinary shares of €1.00 each	**1,000,000**	1,000,000
Issued and fully paid:		
450,000,000 ordinary shares of €1.00 each		
(2007: 425,000,000 ordinary shares of €1.00 each)	**450,000**	425,000
Movements in issued share capital:		
At 1 January	**425,000**	405,000
New shares issued during the year	**25,000**	20,000
At 31 December	**450,000**	425,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

Notes to the accounts

19. Capital Management

The AIB Group policy 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 Bank’s capital is assessed on the basis of the risks it faces. This requires a clear assessment of the material risk profile of the Bank, and a consideration of the extent to which identified risks, both individually and in aggregate, requires capital to support them.

In addition, the level of capital held by the Bank is influenced by its minimum regulatory requirments.

Capital resources and regulatory capital ratios
The table below shows AIB Mortgage Bank’s capital resources as at 31 December 2008 and 31 December 2007.

	Basel II	Basel II	Basel I
	31 Dec 2008 €’000	31 Dec 2007 €’000	31 Dec 2007 €’000
Shareholders’ equity	**537,040**	580,914	580,914
Dated capital notes	**100,000**	100,000	100,000
Undated capital notes	**200,000**	200,000	200,000
Total capital resources	**837,040**	880,914	880,914

Capital resources decreased by €44m during the year ended 31 December 2008. This decrease arose as a result of a share capital issue of €25m, dividend paid of €70m and net retentions of €1m.

The Capital Requirements Directive (CRD) / AIB’s implementation of the CRD
The CRD introduces some significant amendments to the existing capital adequacy framework. Its goal is to prvoide 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 additional granularity in risk weightings under the foundation internal ratings based approach for credit risk, and introduces an explicit capital requirement for operational risk.

From 1 January 2008, the Bank has calculated its capital requirements under the CRD using the foundation internal ratings based approach.

20. Dividend

	31 Dec 2008 € 000	31 Dec 2007 € 000
Dividend Paid	**70,000**	-

No dividend has been recommended for approval, payable to the Bank’s parent company, Allied Irish Banks, p.l.c. at 31 December 2008.

Notes to the acounts

21. Employee Information

For the year ended 31 December 2008 the average number of employees was 6 (2007: 6). As at 31 December 2008, the Bank had 6 employees.

22. Statement of cash flow

	31 Dec 2008 € 000	31 Dec 2007 € 000
Loans and receivables to Allied Irish Banks, p.l.c.	**723,751**	246,339
Cash and cash equivalents	**723,751**	246,339

"Cash and Cash Equivalents" are part of loans and receivables to banks in the balance sheet on Page 20.

23. Auditor's remuneration

	31 Dec 2008 € 000	31 Dec 2007 € 000
Auditor's remuneration		
Statutory audit	**72**	71
Audit related services	**14**	19
Total auditor's remuneration	**86**	90

Audit related services include fees for assignments which are of an audit nature.

24. Directors' remuneration

	31 Dec 2008 € 000	31 Dec 2007 € 000
Fees	**61**	49
	61	49

25. Reporting currency

The currency used in these accounts is euro which is denoted by 'EUR' or the symbol '€'.

Notes to the accounts

26. Segmental Information

The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

27. Contingent liabilities and commitments

There were no contingent liabilities or assets at 31 December 2008 that would require disclosure under IAS 37 (2007: Nil).

At 31 December 2008 the Bank had €679m (2007: €1,004m) of approved mortgage loan applications that had not been drawn down as at the year end.

28. Related party transactions

(a) Transactions with Allied Irish Banks, p.l.c.

AIB Mortgage Bank is a subsidiary of Allied Irish Banks, p.l.c. ("AIB"). Banking transactions are entered into between AIB Mortgage Bank and AIB in the normal course of business. These include loans and deposits on an arms length basis. Interest paid to AIB and interest received from AIB are disclosed in Note 1 and Note 2 to the accounts. As at 31 December 2008, the total amounts of principal outstanding in respect of mortgage covered securities issued to Allied Irish Banks, p.l.c. was €5.7bn.

Most of the Bank's activities are outsourced to Allied Irish Banks, p.l.c. under an Outsourcing and Agency Agreement. Allied Irish Banks, p.l.c., as Service Agent for the Bank, originates residential mortgage loans through its retail branch network in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing as well as a range of support services.

The Bank's activities are financed through the issuance of mortgage covered securities and a mortgage backed promissory note facility with the Central Bank, with the balance of funding being provided by Allied Irish Banks, p.l.c..

(b) Loans to Directors and Other Senior Executive Officers

Loans to non-executive Directors are made in the ordinary course of business on normal commercial terms. Loans to executive Directors and staff are made (i) by the parent company on terms applicable to other employees of the parent company, in accordance with established policy, within limits set on a case by case basis, and/or (ii) otherwise, on normal commercial terms. The following amounts were outstanding at year-end in loans in respect of four Directors.

	31 Dec 2008 € 000	31 Dec 2007 € 000
Amount	**2,208**	1,661
Number of persons	**4**	3

Notes to the accounts

29. Post balance sheet events

On 11 February 2009, the Minister for Finance of the Irish government announced a recapitalisation package under which the Irish Government will provide €3.5bn Core Tier 1 capital to Allied Irish Banks, p.l.c, a summary of which is included in note 4. Except as described therein, there have been no material post balance sheet events which require disclosure or adjustment to the 31 December 2008 financial statements.

30. Approval of financial statements

The financial statements were approved by the Directors on 27 March 2009.