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### **Forward-Looking Information**

This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements, certain statements in the Chairman's statement, the Group Chief Executive's review, the Performance review and the Financial review with regard to management objectives, trends in results of operations, margins, risk management, competition and the impact of International Accounting Standards are forward-looking in nature. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in economic conditions globally and in the regions in which the Group conducts its business, changes in fiscal or other policies adopted by various governments and regulatory authorities, the effects of competition in the geographic and business areas in which the Group conducts its operations, the ability to increase market share and control expenses, the effects of changes in taxation or accounting standards and practices, acquisitions, future exchange and interest rates and the success of the Group in managing these events. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made.

AIB cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report may not occur.

# Financial highlights

for the year ended 31 December 2005

	31 December 2005 € m	1 January 2005 € m	31 December 2004 € m
<b>Results</b>			
Total operating income	3,647		3,216
Operating profit	1,493		1,214
Profit before taxation – continuing operations	1,706		1,372
Profit attributable to equity holders of the parent	1,343		1,129
<b>Per € 0.32 ordinary share</b>			
Earnings – basic (note 19)	151.0c		132.0c
Earnings – diluted (note 19)	149.8c		131.5c
Dividend	65.3c		59.4c
Dividend payout	44%		46%
Net assets	773c		671c
<b>Performance measures</b>			
Return on average total assets	1.20%		1.22%
Return on average ordinary shareholders' equity	20.6%		20.7%
<b>Balance sheet</b>			
Total assets	133,214	102,819	101,109
Ordinary shareholders' equity	6,672	5,975	5,745
Loans etc	92,361	68,230	67,278
Deposits etc	109,520	82,384	82,384
<b>Capital ratios</b>			
Tier 1 capital	7.2%	8.2%	8.2%
Total capital	10.7%	10.7%	10.9%

**Allied Irish Banks, p.l.c.**

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

*The results for the year ended 31 December 2004 have been restated to represent the results of Ark Life as a discontinued operation to reflect the disposal (Note 2) and the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005.  
See First time adoption of International Financial Reporting Standards ('IFRS').*

# Chairman's statement

2005 was a very good year for AIB – and for its shareholders.

- The total dividend was 10% higher than last year.
- Basic earnings per share was EUR 151.0c while adjusted earnings per share at EUR 145.9c was up 15% on 2004 levels.\*
- Total shareholder return was 22%.

AIB's performance in 2005 was distinctive because it was consistent across all our divisions. We recorded strong profit increases while our cost income ratio continued to fall.

AIB's financial statements have been prepared to meet the requirements of the International Financial Reporting Standards (IFRS). See page 48 for more details on the adoption of IFRS. The new standards mean that some figures for 2004 have been restated. These changes should not obscure the fact that AIB is more successful than ever before.

The last few years have, at times, been challenging for those who work in AIB. I want to thank all staff and management who have made these results possible in our increasingly competitive marketplaces.

## Board changes

There were key changes in the AIB Board in 2005. At the end of June, Michael Buckley retired as Group Chief Executive from AIB and from the board.

On behalf of the AIB Board, I want to make public our thanks to him for his contribution to the organisation over the last 14 years. In his time as CEO he faced some formidable issues but Michael always had the vision, stamina and integrity to focus on what was right for AIB, its shareholders, its staff and its customers. We wish him well for the future.

\* A 15% increase compared with the year to December 2004 pro-forma earnings per share of EUR 127.1c.

Michael was succeeded as Group Chief Executive in July last year by Eugene Sheehy, who moved from his post in the US as Chairman and CEO of M&T Bank's Mid Atlantic Division. Eugene, who has worked in a variety of key posts in AIB over the past 30 years, brings a valuable mix of internal and external experience to the role.

In October our non-executive board member Sir Derek Higgs was appointed Chairman of Alliance & Leicester, p.l.c., the UK financial services group. In the light of this appointment, Sir Derek decided it was appropriate that he should resign from the AIB Board where he had served since November 2000. Sir Derek brought to AIB his wide banking and business experience, as well as a deep insight into the UK financial services market and corporate governance.

In December, Gary Kennedy also stepped down from the AIB Board and left his position as Group Director, Finance & Enterprise Technology. Gary played a very significant role in both the establishment of our business in Poland and the transformation of our US business. I want to thank him for his contribution to AIB over the past eight years and we wish him well for the future.

Aidan McKeon, Managing Director AIB Group (UK) p.l.c, left the AIB Board in December in conjunction with his retirement from AIB after more than 40 years of distinguished service. Aidan was the key architect and leader of the successful revitalisation of our business banking franchise in Great Britain. The AIB Board thank him and wish him a happy retirement.

In January this year, John O'Donnell joined the AIB Board. He was previously Head of Investment Banking, AIB Capital Markets and brings extensive experience and expertise to the role of Group Finance Director.

### **Corporate Governance and Risk Management**

AIB continues to make progress on improving its risk management and control processes and systems. There is now more comprehensive risk reporting to the AIB Board which includes new categories of risks. The work on Basel II implementation has produced better risk management tools which will provide a more differentiated view of the bank's risks. In addition, Front Line Quality Assurance processes are being put in place. We continue to invest in our compliance function. The objective here is to ensure we meet stringent compliance standards in the way we conduct business with customers across the group. Also in 2005, the AIB Risk Management Committee (RMC) was strengthened as the senior risk governance forum of the bank with the inclusion of the members of the Group Executive Committee.

### **Major development**

In January this year, it was announced that AIB had completed an agreement with Aviva p.l.c., one of the world's largest insurance companies to bring together Ark Life, AIB's life assurance subsidiary and Hibernian Life & Pensions. For more details on this agreement, see page 9 in the Chief Executive's Review.

### **Economic outlook**

Prospects for the Irish economy in 2006 remain very good, helped by the continuing solid growth of the world economy. A continuing low interest rate environment, an expansionary fiscal policy and maturing SSIA's should see strong growth in domestic demand.

In the USA, the outlook remains favourable with its economy possessing the strength to withstand the sharp rise in energy costs and tightening of monetary policy over the past two years. Meanwhile, in Poland the economy is picking up momentum helped by the easing of monetary policy over the past 12 months.

The UK economy performed below par last year but there are clear signs of an increase in housing activity in 2006. Consumer spending is also

expected to strengthen this year and the corporate sector is in good shape.

### **The dividend**

The AIB Board is recommending a final dividend of EUR 42.3c per share payable on 27 April 2006 to shareholders on the company's register of members at the close of business on 3 March 2006.

The final dividend, together with the interim dividend of EUR 23.0c per share, amounts to a total dividend of EUR 65.3c per share, an increase of 10% on 2004.

### **Forty years of AIB**

2006 is AIB's 40th anniversary. In 1966, a new force in Irish banking was created by the bringing together of the Provincial, Royal and Munster & Leinster banks.

Today, AIB thrives in a very different world. It is an international financial services company with successful operations not just in Ireland but also in Great Britain, Poland and the USA.

I am happy to report that on its 40th anniversary AIB Group is in good shape. Shareholder value remains paramount. The outlook for 2006 and beyond is bright.



**Dermot Gleeson** *Chairman*

21 February 2006

# The board and Group Executive Committee

## Board of Directors

### **Dermot Gleeson** *BA, LL.M – Chairman*

Barrister, and member of the Adjunct Law Faculty of University College Dublin and a member of Cork University Foundation. Member of the Royal Irish Academy and Chairman of the Irish Council for Bioethics. Director of the Gate Theatre. Former Attorney General of Ireland and former member of the Council of State. Former Chairman of the Review Body on Higher Remuneration in the Public Sector. Joined the Board in 2000, and appointed Chairman in 2003. (Age 57)

### **Eugene Sheehy**\* *MSc – Group Chief Executive*

Joined AIB in 1971 and spent 20 years in retail banking, including branch manager appointments in a number of Dublin branches. Appointed General Manager, Retail Operations in 1999, and Managing Director, AIB Bank (RoI) in 2001. Appointed Chief Executive Officer of AIB's USA Division and Executive Chairman-Designate of Allfirst Financial Inc. ("Allfirst") in March 2002. Appointed Chairman and CEO, Mid Atlantic Division, M&T Bank ("M&T"), and to the Executive Management Committee and Board of M&T in April 2003, following the merger of Allfirst and M&T. Appointed AIB Group Chief Executive-Designate in March 2005, co-opted to the Board on 12 May 2005, and assumed responsibility as Group Chief Executive with effect from 1 July 2005. (Age 51)

### **Adrian Burke** *B Comm, FCA – Audit Committee Chairman*

Chairman of Coyle Hamilton Willis Limited and of the Irish Credit Bureau Limited, and Director of Dairygold Co-Operative Society Limited. Vice Chairperson of the Institute of European Affairs. Former president of the Institute of Chartered Accountants in Ireland, former Managing Partner of Arthur Andersen in Ireland, and former Chairman of the Joint Ethics Board of the Institutes of Chartered Accountants in Ireland, Scotland, and England and Wales. Joined the Board in 1997. (Age 64)

### **Kieran Crowley** *BA, FCA*

Consultant. Founder of Crowley Services Dublin Ltd., which operates Dyno-Rod franchise in Ireland. Director of Bank Zachodni WBK, AIB's Polish subsidiary. Member of IBEC National Executive Council and former Chairman of the Small Firms Association. Joined the Board in August 2004. (Age 54)

### **Colm Doherty**\* *B Comm*

Managing Director, AIB Capital Markets plc. Director of M&T Bank Corporation, AIB's U.S. associate, and its subsidiary, Manufacturers and Traders Trust Company. Joined AIB International Financial Services in 1988, and became its Managing Director in 1991. Appointed Head of Investment Banking in 1994, and assumed his present position in 1999. Member of the International Financial Services Centre Clearing House Group. Joined the Board in 2003. (Age 47)

### **Padraic M Fallon** *BBS, MA, FRSA*

Chairman of Euromoney Institutional Investor PLC and Director of Daily Mail & General Trust Plc in Britain. Member of the Board of Trinity College Dublin Foundation. Joined the Board in 1988. (Age 59)

### **Don Godson** *BE, MIE, FIEI, C.Eng*

Chairman of Project Management Holdings Ltd. Board Member of the Michael Smurfit Graduate School of Business at University College Dublin. Former Director and Group Chief Executive of CRH plc. Joined the Board in 1997. (Age 66)

### **John B McGuckian** *BSc Econ – Senior Independent Non-Executive Director and Remuneration Committee Chairman*

Chairman of Ulster Television plc, Irish Continental Group plc, and AIB Group (UK) p.l.c., and a Director of a number of other companies in Ireland and the UK. Former Pro Chancellor of The Queen's University, Belfast, and former Chairman of The International Fund for Ireland and of the Industrial Development Board for Northern Ireland. Joined the Board in 1977 and appointed Senior Independent Non-Executive Director in 2003. (Age 66)



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

Joined AIB in 1989 as Associate Director, AIB International Financial Services, becoming Managing Director in 1995. Appointed Managing Director, AIB Corporate Finance in 1996, Head of Investment Banking, AIB Capital Markets in 2001, and Group Finance Director-Designate in July 2005. Co-opted to the Board on 11 January 2006. (Age 51)

**Jim O'Leary** *MA, MSI*

Lecturer in economics at the National University of Ireland, Maynooth. Former Chief Economist at Davy Stockbrokers, and former Director of Aer Lingus, the National Statistics Board and Gresham Hotel Group. Joined the Board in 2001. (Age 49)

**Michael J Sullivan** *JD*

Served as US Ambassador to Ireland from January 1999 to June 2001 and as Governor of the State of Wyoming, USA, between 1987 and 1995. Director of Kerry Group plc, Sletten Construction Inc., Cimarex Energy, Inc., First Interstate BancSystem, Inc., and a Trustee of the Catholic Diocese of Wyoming. Member of the Bar, State of Wyoming. Joined the Board in 2001. (Age 66)

**Robert G Wilmers**

Chairman and former President and Chief Executive Officer of M&T Bank Corporation (“M&T”), Buffalo, New York State. Director of The Business Council of New York State, Inc., the Buffalo Niagara Partnership, and the Andy Warhol Foundation. Served as Chairman of the New York State Bankers' Association in 2002, and as a Director of the Federal Reserve Bank of New York from 1993 to 1998. Joined the Board in April 2003, as the designee of M&T, on the acquisition by AIB of a strategic stake in M&T. (Age 71)

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

Chief Executive, the Barretstown Gang Camp Limited and Director of Project Management Holdings Ltd. Former Vice President GlaxoSmithKline Pharmaceuticals Limited UK and former Managing Director of SmithKline Beecham, Ireland. Joined the Board in August 2004. (Age 46)

\* Executive Directors

**Board Committees**

Information concerning membership of the Board's Audit, Corporate Social Responsibility, Nomination & Corporate Governance, and Remuneration Committees is given in the Corporate Governance statement on pages 42 to 47.

## Group Executive Committee

**Eugene Sheehy** - *Group Chief Executive*

**Shom Bhattacharya** - *Group Chief Risk Officer*

**Gerry Byrne** - *Managing Director, AIB Poland Division*

**Colm Doherty** - *Managing Director, AIB Capital Markets*

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

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

**Steve Meadows** - *Group Director, Operations & Technology*

**John O'Donnell** - *Group Finance Director*

**Mary Toomey** - *Head of Group Strategic Human Resources*

# Group Chief Executive's Review

In 2005, AIB Group enjoyed another year of high-quality, sustained growth.

The economies in all our key markets continued to expand – and we were well positioned to make the most of opportunities that were presented by these positive conditions.

There were many reasons for our success. We continued to develop innovative products and services, exercised good cost control and reaped the benefits of our customer relationship management approach.

My colleagues throughout the group proved their commitment to our stated goals by their hard work and dedication in 2005 – and I want to record my thanks for their contribution.

## Key figures

AIB's basic earnings per share was EUR 151.0c. AIB's adjusted basic earnings per share at EUR145.9c was up 15% in 2005 – compared with the year to December 2004 pro-forma earnings per share of EUR 127.1c. Asset quality remains strong as does our capital position with the Tier 1 capital ratio at 7.2%.

Costs increased by 7% in 2005. But this increase is relatively modest at a time when the group saw its deposits rise by 16% and loans by 27%.

AIB's performance in 2005 was striking for its consistency. All AIB's operating divisions recorded profit increases – and all of them saw their income outstrip their costs.

## Performance across the group

In 2005, AIB Bank in the Republic of Ireland delivered a profit increase of 24% or 15% excluding the €50 million of investigation related charges incurred in 2004.

Customer demand in this market is exceptional – especially for deposits, business lending, mortgages and personal loans. There also was good growth

in private banking services and in AIB's Card division and its AIB Finance & Leasing operation. Our home market is increasingly competitive but the effect on our business has been in line with our expectations.

In 2005, AIB Bank in the Republic had a record number of customers who are carrying out an increasing level of business with us. This demand saw us recruit an extra 500 staff members in 2005 – and currently we have 300 vacancies.

In Great Britain, 2005 also was a year of very strong growth. Allied Irish Bank (GB) continued to raise its profile in the business market as a key provider of banking to mid-corporate business. It won new customers in such sectors as legal, accountancy, leisure/hotels, healthcare, public sector, charities and sports. Meanwhile, Allied Irish Bank (GB)'s network continues to develop – a new flagship corporate office in Birmingham city centre which opened last November is just one of 43 branches and offices across England, Wales and Scotland.

First Trust, our retail franchise in Northern Ireland, is operating in an economy expanding more slowly and did well to deliver an 11% increase in profit before taxation in 2005. Loan balances were up 25% while solid deposit growth of 12% was achieved and, once again, costs were well controlled.

AIB Capital Markets saw its profit increase by 27% in 2005. At the same time, the division saw its cost income ratio drop to 47.5% from 54.4% in 2004.

Corporate banking activities were central to this performance in 2005. There was solid growth in its premium Irish franchise while the transfer of skills to corporate banking operations in the USA and Europe paid dividends with the international teams making a substantial contribution to divisional profit.

Profit also increased in Global Treasury in a challenging interest rate and foreign exchange environment. Investment Banking saw its profit rise by 22%, substantially ahead of 2004.

AIB Poland division had a fine year with profit increasing by 13% – this would have been 29% when the figures are adjusted for the disposal of a business in 2004. BZ WBK saw its customer numbers increase by more than 100,000 in 2005 – and this recruitment was spread over key customer segments. Personal loans in particular were in demand by our customers. There are early signs in Poland of an increase in demand for corporate loans – and BZ WBK is well placed to meet this demand while maintaining its risk profile.

#### **Major developments**

AIB made a major step forward in 2005 to make the group more uniformly and consistently operationally excellent.

The single enterprise approach to our operations and technology will reduce our operational risk and help AIB meet service quality and efficiency targets.

So far, AIB has agreed a core business banking and payment system replacement plan for corporate and business banking across the enterprise. A new core retail banking system will also be deployed. Both of these initiatives will bring significant service quality, risk and cost benefits to AIB, as they are deployed over the next three years.

#### **Ark Life**

In November 2005, AIB revealed its intention to enter into a joint venture with Aviva p.l.c., the world's sixth largest insurance organisation.

The deal, which was completed earlier this year, sees Ark Life, AIB's life and pensions subsidiary, link up with Hibernian Life & Pensions to create a new force in the Irish market. AIB now owns 24.99% of a new combined company Hibernian Life Holdings with Hibernian Group owning 75.01%. AIB has entered into an exclusive distribution agreement with the new entity and as part of the transaction will receive a cash payment of up to €205.4 million.

The rationale for this deal was grounded in the need to respond to the demands of our customers for greater choice. To deliver such a range of products cost effectively, it was clear there was a need to operate on a larger scale. The joint venture gives AIB the ability to meet the needs of our customers and secures our life and pensions business for the longer term.

#### **Strategy**

Wherever we operate, AIB aims to deliver one distinctive customer proposition.

This consists of:

- best products – using third party suppliers where appropriate to meet customer needs.
- best service with dependability at its heart.
- best relationships built by knowledgeable and engaging employees.
- best delivery with a wide range of channels available to our customers accessing our services.

Our customers continue to have high levels of customer satisfaction with AIB. Our research shows that these levels are boosted further for those customers who have a dedicated customer relationship manager – the provision of which is an important element in our approach to our customers.

#### **The future**

We expect to see very good loan and deposit growth and robust asset quality this year.

Our single enterprise approach to our operations and technology will boost our business capacity at a time when all the economies in which we operate are growing.

The outlook is positive. AIB is set to perform strongly in 2006.



**Eugene Sheehy** *Group Chief Executive*

21 February 2006

## Corporate Social Responsibility

AIB is committed to being a responsible corporate citizen. A sub-committee of the main AIB Board – the Corporate Social Responsibility Committee – guides the company in meeting this goal. AIB is also a member of Business in the Community.

Here are some of AIB's achievements and initiatives during 2005.

### **AIB and its customers**

AIB's relationship with its customers is at the heart of its business strategy. The company aims to offer the best service, the best products and the best delivery methods it can to individuals and customers.

The AIB Code of Business Ethics places the core values of honesty, integrity and fairness at the centre of AIB's relationship with customers as well as shareholders and other stakeholders. During 2005, a number of training and communication programmes were introduced to fully embed the code and new support policies were developed. In late 2005, AIB's Chairman and CEO reviewed and re-affirmed the code, which is available on the AIB website.

AIB regularly surveys its customers to measure their satisfaction with its service and puts in place training programmes for branches with the lowest scores in these surveys. AIB has also launched a group-wide complaint handling project and provided education and training materials to support complaint handling standards. There are dedicated customer care officers in all branches.

To help potential entrepreneurs, AIB in Ireland provides a range of publications on topics such as starting your own business, financing a business and services for business owners. The bank is also one of six partners working with the Small Firms Association in running the Better Business Show. At the show, AIB offers simple but practical tips to SMEs on managing issues such as cash management and pensions strategy in order to improve profitability.

AIB's approach to customers was recognised with two awards in Ireland's first Financial Services Excellence Awards. Global Treasury won the International Banking category while AIB's joint venture with Bank of New York, AIB/BNY, won the Fund Company Excellence Award. AIB has also won awards in Poland. Its subsidiary BZWBK won two service quality awards in 2005 – one from Western Union and an Excellence Award for Euro Clearing from Deutsche Bank.

### **AIB in the community**

AIB supports a wide variety of groups in its local communities.

Funds from the Staff Tsunami Fund, set up in response to the Asian tsunami of 26 December 2004, are being spent by the charity GOAL in Sri Lanka. For every €1 donated by staff across the group, AIB agreed to give €3. In total, the fund raised €4 million.

In the first months after the tsunami, GOAL used more than €500,000 of the AIB fund to clear water sources, build temporary shelters and distribute essential supplies. A further €558,000 was spent on rehabilitating the fishing industry in Ampara, Hambantota and Matara. The focus is now on schools with GOAL using the remainder of the fund to renovate and reconstruct more than 20 damaged schools in the Ampara district. This will benefit almost 32,000 children.

In 2005, AIB received a commendation from the Chambers of Commerce of Ireland for its contribution to improving conditions for disadvantaged children in Ireland through the AIB Better Ireland Programme. This programme provides funding to groups working with children affected by drug and alcohol abuse, poverty and homelessness.

A study carried out by the Children's Research Centre at Trinity College, Dublin, found that 81% of participants in Better Ireland schemes "have benefited or greatly benefited from the intervention".

Donations by the AIB Better Ireland Programme reached €10 million during the year. Since 2001 more than 1,000 projects across the island of Ireland have received money. In 2005, more than €2.6 million was donated. One of the main elements of the programme is Schoolmate – a joint initiative with Barnardos, Focus Ireland and the Irish Society for the Prevention of Cruelty to Children.

Staff involvement in charities and projects within their communities is also recognised and rewarded. The AIB Partnership Fund matches funds raised by staff or makes a payment to an organisation to recognise personal time given by the employee. This contribution is doubled if the application focuses on one of the three Better Ireland causes.

One of the projects to benefit from Partnership funding was a sponsored walk undertaken by a group of AIB staff in South Dublin for the Marie Keating Foundation, a cancer charity.

The bank's support for youth projects continues with the AIB Get Up & Go mini company programme for second level students run by the Irish Department of Education & Science's Second Level Support Services. The mini-company competition challenges students to come up with an idea for a product or service and create a company.

First Trust was awarded second prize in the medium-size charity category of the Northern Ireland Council for Voluntary Action Link Awards 2005. The prize recognised the support given by First Trust staff to CLIC Sargent, the children's cancer charity. First Trust is also a member of the BITC Percent Club which commits the company to investing at least 1% of pre-tax profit back into the community.

In Poland, BZWBK supports the Bank of Children's Smiles programme. Some of the programme's activities last year included a scholarship scheme, a competition for children to design the bank's Christmas card with the theme 'Christmas of my dreams' and the co-organisation of an integration event for disabled children and adults. The programme also launched 'Summer in the City, Summer in the Country with BZWBK' to provide

short-breaks to children from disadvantaged backgrounds and 'Light Athletic Thursdays' to provide physical education to children.

Branches in Great Britain have a tradition of getting involved in their local communities. Bromley branch, for example, saved a local school mentoring and reading scheme from closure with a generous sponsorship cheque. Coventry branch raised Stg £18,000 for Macmillan Cancer Relief by hosting a charity ball.

In Jersey, AIB's sponsorship of the Tigers Swimming Club has played a major part in the club's development. About 300 children are in the club.

#### **AIB and its people**

AIB aims to be an employer of choice in all the markets in which it operates. It currently employs more than 24,000 people, mainly in Ireland, the UK, Poland and the US.

Training is central to the bank's development of its staff. In 2005, more than 62,000 training days were provided with more than 37,000 individual attendees. E-learning and on-the-job training are also extensively used.

In addition, AIB offers education support to staff for relevant continuing education in accredited colleges and institutions – and staff achieved more than 1,200 qualifications last year. AIB invested more than €3 million in staff education and educational awards in 2005.

Flexible working is another way in which AIB supports its employees. Staff can avail of part-time, personalised hours, job sharing and career breaks. In total, 11% of staff work part-time, although this figure rises to 18% in AIB Bank (RoI) and to 16% in GB&NI division. At the end of 2005, 3.2% of staff were on a career break. Typically, there is a high return rate and staff come back to work with new skills and perspectives.

AIB's partnership relationship with the IBOA, the finance union, operates in the AIB Bank (RoI) and GB&NI divisions. This partnership has been in

place for five years. The next phase of Partnership was announced in 2005 and focusses on creating a closer link between the industrial relations agenda and the strategic priorities of the businesses. Partnership also allows for increased staff involvement in change and decision-making.

AIB encourages its staff to raise any concerns of wrongdoing through many channels both internal and external. The AIB 'Speak Up' policy re-affirms this commitment and provides a number of ways for staff to raise their concerns, including a confidential external helpline.

The health of its staff is also important to AIB. In the AIB Bank (RoI) and GB&NI divisions optional health screening is provided to employees in cycles of between two and four years. This scheme is subject to high take-up levels.

In 2005, AIB won a top international award for one of its staff pension schemes. The Investment & Pensions Europe magazine rated AIB's Defined Contribution scheme, which was reviewed and redesigned in 2004, the best in Ireland.

AIB also won a merit award at the 2005 O<sub>2</sub> Ability Awards. The group scored on five criteria - leadership, environmental accessibility, recruitment and selection, career development, training and retention, and customer service.

#### **AIB & the environment**

AIB is active in reducing its effect on the physical environment and meets its environmental risk obligations under the laws and regulations of each of its markets.

It recycles its fluorescent light bulbs, old VCR tapes, ionising sensors and computer monitors. During conservation work on the group's buildings, roofing materials are disposed of in an environmentally friendly manner. AIB is also a member of Repak, which supports waste recycling in Ireland.

An initiative was launched at the group's head office in Dublin during the year which asked staff to sort their rubbish and recycle as much as possible. About 70% of the waste generated in Bankcentre is now recycled – far exceeding the 41% target set by the Dublin Waste Management Plan for companies in the capital city.

AIB is also active in promoting green awareness. It produced 'Waste management – A practical guide for small business' in association with the Irish Business & Employers Confederation and the Irish Waste Management Association. This guide provides information for businesses on developing a strategy for the efficient management of their waste.

AIB's Corporate Banking area worked with the Department of the Environment to become the first company in Ireland to co-brand with the 'Race Against Waste' campaign which urges people to recycle more of their waste.

#### **Employee Information – AIB Group**

	<b>2004</b>	<b>2005</b>
<b>Total employees</b>	23,834	24,403
<b>Number of new employees in year</b>	4,639	5,812
<b>Number of promotional positions filled in year</b>	1,584	1,926
<b>Voluntary attrition rate (%)</b>	4.8%	5%
<b>Permanent/Temporary Staff (%)</b>	92% (P) 8% (T)	91.6% (P) 8.4% (T)
<b>Part-time/Full time Staff (%)</b>	N/A	11% (PT) 89% (FT)
<b>Male/Female employees (%)</b>	34% (M) 66% (F)	34% (M) 66% (F)



# Performance review

## Translation of foreign locations' profits

Approximately 50% of the Group's earnings are denominated in currencies other than the euro. As a result, movements in exchange rates can have an impact on earnings growth. In 2005, the US dollar and Sterling average accounting rates remained broadly stable relative to the euro and the Polish zloty strengthened relative to the euro by 12.5% compared with the year to December 2004. Exchange rate movements did not have a material impact on earnings per share growth when the impact of currency hedging activities is taken into account.

## Divisional information

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

### AIB Bank ROI division

The AIB Bank ROI division, with total assets of € 55.2 billion at 31 December 2005, encompasses the Group's retail and commercial banking operations in Ireland, Channel Islands and Isle of Man; AIB Finance & Leasing; Card Services and AIB's life and pensions subsidiary, Ark Life Assurance Company Limited. AIB Bank ROI provides banking services through a distribution network of some 275 locations (188 branches and 87 outlets), and in excess of 741 automatic teller machines ("ATMs"). AIB cardholders also have access to over 56,000 LINK ATMs in the UK as well as close to 1 million Visa Plus serviced

ATMs worldwide. AIB has an agency agreement with An Post, the national post office network, which enables AIB customers to carry out basic transactions at over 1,000 post office locations nationwide. AIB also offers customers a Debit card, which is co-branded Laser and Maestro. This card provides customers with access to Point of Sale domestically via the Laser Scheme ("Laser" is operated jointly with other financial institutions in Ireland), ATM access domestically via Bi-Lateral agreements and internationally at any Point of Sale or ATM that displays the Maestro symbol.

In addition, the division offers Phone and Internet Banking Services for personal customers through which they can avail of a range of services including; view account information, pay bills, transfer money, open a savings account, apply for a loan, top up a mobile phone and buy and sell shares. For business customers, an Internet based banking service called iBusiness Banking is available. It offers secure Internet banking and a comprehensive cash management solution, including Domestic and Cross-Border payment functionality.

Branch banking services are provided across the range of customer segments, including individuals, small and medium sized commercial customers, farmers and the corporate sector. Through the branch network, the division provides a variety of savings and investment products, loans and overdrafts, home loans,

home improvement loans, foreign exchange facilities and issues Visa® and Mastercard® credit cards.

AIB Finance & Leasing is AIB's asset financing arm in Ireland. It markets its services through the AIB branch network and through intermediaries with whom it has established relationships, such as motor dealers, equipment suppliers, brokers and other professionals, including lawyers, accountants and estate agents. It also lends directly to customers. Its lending services include vehicle, equipment and fleet leasing, retail and investment property loans, vehicle and equipment hire purchase, insurance premium financing and personal loans.

AIB's life assurance subsidiary, Ark Life Assurance Company Limited, provides a wide range of financial planning services including life assurance, savings and investment instruments, pensions and inheritance tax planning. AIB recently announced the completion of a Joint Venture with the Aviva subsidiary Hibernian Life whereby the combined entity will provide a full range of products in this sector through a wider channel offering. In Ireland, general insurance products are sold in the branch network through alliances with partners in the insurance industry.

### AIB Bank GB & NI division

The AIB Bank GB & NI division, with total assets of € 20.0 billion, operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. AIB

# Performance review

Group (UK) p.l.c., registered in the UK and regulated by the FSA (Financial Services Authority), operates as the legal entity for the division.

## **Great Britain**

In this market, the division operates under the trading name Allied Irish Bank (GB) from 33 full service branches and 10 business development offices. The Divisional Head Office is located in Uxbridge, in West London, with significant back office processing undertaken at a Divisional Processing Centre in Belfast.

A full service is offered to business and personal customers, although there is a clear focus on relationship banking to the mid-corporate business sector, professionals, and High Net Worth Individuals.

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

For the sixth consecutive time, AIB (GB) has won the title of 'Britain's Best Business Bank' from the Forum of Private Business, being ranked top for customer service and maintaining its lead over other major banks.

## **Northern Ireland**

In this market, the division operates under the trading name First Trust Bank from 57 full service branches throughout Northern Ireland. The First Trust Bank Head Office is located in Belfast, together with the Divisional Processing Centre. A full

service is offered to business and personal customers, across the range of customer segments, including personal customers, small and medium sized enterprises and the corporate sector.

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

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

## **Capital Markets division**

AIB Capital Markets, with total assets of € 44.4 billion at 31 December, 2005, manages the Corporate Banking, Global Treasury (with the exception of the International Banking Services in BZWBK) and Investment Banking, which includes Asset Management and Stockbroking activities of the Group.

The activities of the Capital Markets division are delivered through the following main business units: AIB Corporate Banking, Global Treasury, Investment Banking and Allied Irish America ("AIA").

AIB Corporate Banking provides a fully integrated, relationship-based banking service to top-tier companies, both domestic and international, financial institutions and Irish commercial state companies. AIB Corporate Banking has a dedicated unit focusing on developing and

arranging acquisition and project finance principally in Ireland, the UK and Continental Europe, and has established Mezzanine Finance funds and CDO funds. The cumulative size of the CDO funds at 31 December, 2005 was € 1.6 billion. AIB Corporate Banking operates in Ireland, the UK, the US and Continental Europe.

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

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited, corporate finance and stockbroking through Goodbody Stockbrokers, structured cross-border financing transactions and sophisticated back-office services through AIB International Financial Services Limited, and custodial, trustee and fund administration services through a joint venture with The Bank of New York. At 31 December, 2005, the AIB/The Bank of New York joint venture, AIB/BNY Securities Services Limited, had € 124 billion (US\$ 147 billion) of funds under administration and had assets under custody of € 96 billion (US\$ 113 billion). Investment Banking



services also include the management of alternative asset management activities (i.e. hedge funds), venture capital funds and property fund activities (principally property in Poland). Asset management is provided through AIB Investment Managers Limited (“AIBIM”) in the Republic of Ireland. The company manages assets principally for institutional and retail clients with € 11.6 billion of funds under management.

AIA’s core business activity is within the not for profit sector, operating principally from New York, with offices in a number of other principal US cities. The operations also include related fund raising businesses based in the US and in Canada.

AIB Capital Markets is headquartered at Dublin’s International Financial Services Centre. It also operates from a number of other Dublin locations, and operates AIB’s treasury operations in London, New York and Poland, corporate banking offices in Dublin, various UK cities, various US cities, Frankfurt and Paris, and offices managed by AIB International Financial Services Limited in Budapest, Zurich and Luxembourg.

### **Poland division**

Poland division, with total assets of € 7.8 billion at 31 December, 2005 comprises Bank Zachodni WBK (“BZWBK”) in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. BZWBK Wholesale Treasury and an element of BZWBK Investment Banking subsidiaries results are

reported in Capital Markets division. AIB completed the merger of its Polish operations in 2001, forming BZWBK which is now Poland’s fifth largest bank. BZWBK’s registered office is located in Wroclaw in south-western Poland. Key support functions are also located in offices based in Poznan and Warsaw. At the end of 2005, BZWBK had total assets of PLN 29.4 billion, operated through 383 branches and outlets and 587 ATMs. It employed approximately 7,650 staff, including subsidiaries. BZWBK offers comprehensive services to retail and corporate customers. Apart from core banking products and services, its offering includes mortgages, credit cards, retail bonds, mutual funds, treasury and capital market products, leasing and factoring facilities, foreign trade services, asset management, etc. In providing many of its specialised services BZWBK is supported by the subsidiaries. It operates mainly in the western part of the country and also has a significant presence in major urban areas across Poland such as Warsaw, Krakow, Gdansk and Lodz. BZWBK Corporate Business Centres based in Poznan, Warsaw, Wroclaw, Krakow and Gdansk provide direct and comprehensive relationship-based services to large and mid-sized corporates. It is the aim of these Centres to provide a top quality customer service proposition and at the same time ensure the highest standards of credit underwriting. This relationship approach provides benefits both for the customer and BZWBK.

# Performance review

## Basis of presentation

The results for 2004 have been restated to take account of International Financial Reporting Standards ('IFRS') as adopted by the European Union and implemented with effect from 1 January 2004. This restatement of results for 2004 excludes adjustments for standards implemented with effect from 1 January 2005. IAS 32, IAS 39 and IFRS 4 have been implemented from 1 January 2005. Had these standards been implemented from 1 January 2004, it would have impacted the accounting for derivatives, loan impairment, income recognition on loans (Effective Interest Rate 'EIR'), insurance accounting and classification of financial instruments. In addition to the IFRS restated accounts, the following commentary shows the IFRS pro-forma accounts for 2004. The pro-forma accounts for 2004 reflect the impacts of EIR, insurance accounting and classification of non-derivative financial instruments in order to establish a 2004 pro-forma IFRS restatement but do not reflect the impact of accounting for derivatives and loan impairment. A reconciliation of the statutory IFRS accounts for 2004 to the IFRS pro-forma accounts is shown on page 27. In order to show comparable trends, the growth percentages in the following commentary reflect the IFRS year to December 2005 compared with the IFRS pro-forma year to December 2004. The growth percentages are also shown on an underlying basis adjusted for the impact of exchange rate movements on the translation of foreign locations' profit and excluding hedge volatility under IFRS.

Investigation related charges referred to in the following commentary were incurred in 2004 and relate primarily to the application of prices to foreign exchange products without regulatory approval. AIB provided € 50 million for investigation related charges and costs in the year to December 2004 with € 12 million charged to net interest income, € 24 million charged to other income and € 14 million of costs included in operating expenses.

## Earnings per share

The table below shows the basic earnings per share and continuing earnings per share excluding the profit on the new Bankcentre development (construction contract income) and the impact of hedge volatility (combines the impact of economic and accounting hedges) under IFRS.

<b>Earnings per share</b>	<b>IFRS Year 2005</b>	IFRS Year 2004	IFRS Pro-forma <sup>(1)</sup> 2004	% change 2005 v Pro-forma 2004
Basic - continuing operations <sup>(2)</sup>	<b>145.7c</b>	125.8c	123.3c	18
Basic - discontinued operations	<b>5.3c</b>	6.2c	3.8c	39
Basic - total	<b>151.0c</b>	132.0c	127.1c	19
less profit on new Bankcentre development	<b>(4.4c)</b>	-	-	-
less hedge volatility under IFRS	<b>(0.7c)</b>	-	-	-
Adjusted basic earnings per share	<b>145.9c</b>	132.0c	127.1c	15
Basic continuing operations <sup>(2)</sup>	<b>145.7c</b>	125.8c	123.3c	18
less profit on new Bankcentre development	<b>(4.4c)</b>	-	-	-
less hedge volatility under IFRS	<b>(0.7c)</b>	-	-	-
Adjusted basic earnings per share - continuing operations	<b>140.6c</b>	125.8c	123.3c	14

<sup>(1)</sup> A reconciliation of the pro-forma and statutory earnings per share for 2004 shown on page 27.

<sup>(2)</sup> Continuing operations exclude Ark life which is reported as a discontinued operation following its disposal in 2005.

## Total income

Total income increased by 12% to € 3,647 million.

	IFRS Year 2005 € m	IFRS Year 2004 € m	IFRS Pro-forma 2004 € m	Underlying % change 2005 v Pro-forma 2004
<b>Total operating income</b>				
Net interest income	2,530	2,072	2,178	15
Other income	1,117	1,144	1,042	6
<b>Total operating income</b>	<b>3,647</b>	3,216	3,220	12

	IFRS Year 2005 € m	IFRS Year 2004 € m	% change <sup>(1)</sup> 2005 v 2004
<b>Average interest earning assets</b>			
Average interest earning assets	106,380	84,541	26

<sup>(1)</sup> This particular analysis is not adjusted for the impact of exchange rate movements.

	IFRS Year 2005 %	IFRS Pro-forma 2004 %	Basis point change
<b>Net interest margin</b>			
Group net interest margin	2.38	2.58	-20

## Net interest income

Net interest income increased by 15% to € 2,530 million in the year to December 2005. The key drivers of the increase were strong loan and deposit growth in Republic of Ireland and GB & NI, strong loan growth in Corporate Banking and very good growth in loan arrangement fees. Loans to customers increased by 27% and customer accounts increased by 16% on a constant currency basis since 1 January 2005 (details of loan and deposit growth by division are contained on page 20). Net interest income also benefited from income earned on the € 1 billion of perpetual preferred securities issued in December 2004.

The domestic and foreign margins for 2005 are reported on page 142.

AIB Group manages its business divisionally on a product

margin basis with funding and groupwide interest exposure centralised and managed by Global Treasury. While a domestic and foreign margin is calculated for the purpose of statutory accounts, the analysis of net interest margin trends is best explained by analysing business factors as follows:

The Group net interest margin was 2.38% in 2005, a decrease of 20 basis points compared with 2004 on a pro-forma IFRS basis. The margin reduction was due to a combination of the following factors:

- (a) loans increasing at a faster rate than deposits.
- (b) a changing mix of products where stronger volume growth has been achieved in lower margin products; corporate loans, home loans and prime advances on the lending side and term

deposits and other lower margin products on the deposit side.

There was higher growth in mid-market loans in the Republic of Ireland and the United Kingdom and growth in our international corporate operations.

(c) competitive pressures on loan and deposit pricing.

(d) lower yields on the re-investment of deposit and current account funds as they mature, due to the flattening of the yield curve.

The largest factor in the margin reduction was average loans increasing at a greater rate than average deposits compared with 2004. While this strong lending growth generated good incremental profit, the funding impact resulted in a reduction in the overall net interest margin calculation when net interest income is expressed as a percentage of average interest earning assets.

The impact of low yields on the investment of deposit funds particularly affected AIB Bank Republic of Ireland and GB & NI divisions.

While it is difficult to disaggregate trends in product margins between mix and competitive factors, competitive pricing behaviour did impact loan and deposit margins. The Group's new business lending continued to meet targeted return on capital hurdles. The factors affecting the net interest margin trend are expected to be continuing features.

# Performance review

<b>Other income</b>	<b>IFRS Year 2005 € m</b>	<b>IFRS Year 2004 € m</b>	<b>IFRS Pro-forma 2004 € m</b>	<b>Underlying % change 2005 v Pro-forma 2004</b>
Dividend income	17	27	27	-41
Banking fees and commissions	863	888	786	8
Investment banking and asset management fees	198	155	155	23
Fee and commission income	1,061	1,043	941	11
Less: fee and commission expense	(145)	(131)	(131)	7
Trading income	119	95	95	25
Currency hedging (losses)/profits	(13)	1	1	-
Hedging volatility (IAS 39) <sup>(1)</sup>	6	-	-	-
Trading income	112	96	96	16
Profit on termination of off-balance sheet instruments	-	36	36	-
Other	72	73	73	-6
Other operating income	72	109	109	-37
<b>Total other income</b>	<b>1,117</b>	<b>1,144</b>	<b>1,042</b>	<b>6</b>

<sup>(1)</sup> Combines the impact of economic and accounting hedges, (IAS 39)

## Other income

Other income was up 6% to € 1,117 million since the year to December 2004.

Banking fees and commissions increased by 8%, or 5% excluding the € 24 million of investigation related charges incurred in 2004. The growth reflects increased business and transaction volumes in AIB Bank Republic of Ireland, GB & NI and Corporate Banking and there was good growth in credit card revenue in Ireland and e-business and payment fees in Poland.

Investment banking and asset management fees increased by 23% driven by particularly strong performances in Goodbody stockbrokers, AIB Corporate Finance, Asset Management in Poland and BZWBK's brokerage operation. Total fee and commission income was up 11% or 8% excluding the investigation related charges in 2004.

Trading income increased, with strong growth in bond management activities. Trading income excludes interest payable and receivable arising from these activities, which is included in net interest income.

Included in other income in 2004 was a gain of € 36 million from closing out capital invested positions in January 2004 resulting from the introduction of a new policy in respect of the investment of AIB's capital funds.

Loan arrangement fees for the year were strong and are reported in the net interest income line under IFRS. The growth in other income no longer benefits from the growth in arrangement fees associated with strong lending growth.

Other income as a percentage of total income reduced to 31% from 32% in 2004 (33% excluding the investigation related charges incurred).

## Total operating expenses

Operating expenses increased by 7%. The cost base in the comparative year to December 2004 included € 14 million of investigation related costs. Under IFRS, operating expenses include other finance income relating to the return on pension fund assets and the cost of pension fund liabilities and this income reduced in 2005, increasing the growth in personnel expenses. Excluding the above two offsetting items, the growth in operating expenses remained at 7%.

The 7% increase reflects the very strong business volume and strong revenue growth in 2005. In the period there were costs to ensure compliance with a range of regulatory initiatives such as Sarbanes Oxley and Basel II and there was higher performance related remuneration resulting from strong revenue growth. Excluding these items the increase was 5%. The resourcing and restructuring of our single enterprise agenda is in implementation and we expect this to increase business capability, improve efficiency and further enable compliance.

Personnel expenses were up 13%, or 12% excluding the above mentioned decline in other finance income. The increase reflected a higher level of variable costs arising from performance related remuneration resulting from strong revenue growth, the cost of additional resources to respond to business growth demands and ensure compliance with a range of regulatory initiatives such as Sarbanes Oxley and Basel II and higher

<b>Operating expenses</b>	<b>IFRS Year 2005 € m</b>	IFRS Year 2004 € m	IFRS Pro-forma 2004 € m	<i>Underlying % change 2005 v Pro-forma 2004</i>
Personnel expenses	<b>1,298</b>	1,136	1,136	13
General and administrative expenses	<b>583</b>	579	578	-1
Depreciation <sup>(1)</sup> /amortisation <sup>(2)</sup>	<b>130</b>	145	145	-13
Total operating expenses before restructuring costs	<b>2,011</b>	1,860	1,859	7
Restructuring costs	-	9	9	
<b>Total operating expenses</b>	<b>2,011</b>	1,869	1,868	

<sup>(1)</sup> Depreciation of property, plant and equipment.

<sup>(2)</sup> Amortisation / impairment of intangible assets and goodwill.

pension costs. General and administrative expenses were down 1%, or up 2% excluding investigation related costs in 2004. The 2% increase includes the effects of inflation and consultancy and systems costs relating to the aforementioned strengthening of internal structures to ensure compliance with new regulatory initiatives.

Depreciation/amortisation decreased by 13% reflecting the benefit of some business rationalisations.

Productivity improved with the cost income ratio reducing to 55.2% from 57.7% in 2004.

### Provisions

Total provisions were € 143 million, up from € 133 million in 2004.

The provision for **impairment of loans and receivables** was

€ 115 million compared with € 114 million in 2004, representing a charge of 0.15% of average loans compared with 0.20% in 2004. The lower charge reflects strong asset quality, good recoveries and a particularly benign economic environment. Impaired loans as a percentage of total loans decreased from 1.3% at 31 December 2004 to 1.0% at 31 December 2005 with the total provision cover for impaired loans increasing to 78%.

Strong asset quality in AIB Bank Republic of Ireland was reflected in a reduction in impaired loans as a percentage of total loans to 0.7% at 31 December 2005 from 0.8% in 2004. The provision charge reduced to 0.11% of average loans compared with 0.14% in 2004. The quality across

all sectors of the retail and commercial portfolios remains very good.

In AIB Bank GB & NI, the provision charge was 0.13% of average loans, increasing marginally from 0.11% in 2004 but continuing to reflect very strong provision recoveries in both periods. Impaired loans at 0.9% of total loans were down from 1.1% at 31 December 2004.

Asset quality in Capital Markets remained strong. The provision charge was 0.22% compared with 0.27% in 2004 and impaired loans reduced to 0.7% from 0.8% of total loans at 31 December 2004.

The provision charge in Poland decreased to 0.40% of loans from 0.91% in 2004. Asset quality continued to improve with the ratio of impaired loans as a percentage of loans declining to 6.8% from 8.4% at 31 December 2004.

The provision for **liabilities and commitments** was € 20 million in 2005, the same level as 2004 while provisions for **amounts written off/(written back) financial investments** were € 8 million compared with a net credit of € 1 million in 2004.

### Share of results of associated undertakings

The profit in 2005 was € 149 million compared to € 132 million in 2004 and mainly reflects AIB's 23.5% average share of the income after taxes of M&T Bank Corporation on an IFRS basis for the year to December 2005.

<b>Provisions</b>	<b>IFRS Year 2005 € m</b>	IFRS Year 2004 € m
Provisions for impairment of loans and receivables <sup>(1)</sup>	<b>115</b>	114
Provisions for liabilities and commitments	<b>20</b>	20
Amounts written off/(written back) financial investments	<b>8</b>	(1)
<b>Total provisions</b>	<b>143</b>	133

<sup>(1)</sup> As noted on page 16, the pro-forma accounts for the year to December 2004 do not reflect the impact of loan impairment under IFRS. The provision for impairment of loans and receivables in 2005 reflects the change in the financial reporting requirements from FRS 12 to IAS 39.

# Performance review

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

<i>% change 31 December 2005 v 1 January 2005</i>	Risk weighted assets <i>% change</i>	Loans to customers <i>% change</i>	Customer accounts <sup>(1)</sup> <i>% change</i>
AIB Bank Republic of Ireland	25	28	20
AIB Bank GB & NI	32	29	17
Capital Markets	23	29	4
Poland	4	4	8
AIB Group	24	27	16

<sup>(1)</sup> Excludes money market funds.

*The following commentary is in respect of the total Group.*

### Balance sheet

Total assets amounted to € 133 billion at 31 December 2005 compared to € 103 billion at 1 January 2005. Adjusting for the impact of currency, total assets were up 26% and loans to customers were up 27% since 1 January 2005 while customer accounts increased by 16%. Risk weighted assets excluding currency factors increased by 24% to € 102 billion.

### Assets under management/administration and custody

Assets under management in the Group amounted to € 16 billion at 31 December 2005 compared with € 13 billion in 2004. Assets under administration and custody increased to € 220 billion at 31 December 2005 from € 183 billion in 2004.

### Taxation

The taxation charge was € 319 million compared with € 267 million in the year to December 2004 (€ 260 million on a pro-forma basis for the year to December 2004). The effective tax

rate was 18.7% compared with 19.5% in the year to December 2004 (or 18.9% on a pro-forma basis). The taxation charge excludes taxation on share of results of associated undertakings. Share of results of associated undertakings is reported net of taxation in the Group profit before taxation. The effective tax rate is influenced by the geographic mix of profits, which are taxed at the rates applicable in the jurisdictions where we operate.

### Return on equity and return on assets

The return on equity was 20.6%, compared to 20.7% in 2004. The return on assets was 1.20%, down from 1.22% in 2004.

### Capital ratios

A strong capital position was reflected in a Tier 1 ratio at 7.2% and a total capital ratio of 10.7%.

### Outlook

The business is expected to continue to perform strongly in 2006 in line with our strong positions in the high growth markets where we operate. Very good loan and deposit growth and strong asset quality is expected

again this year. The resourcing and restructuring of our enterprise wide approach to operations is in implementation and we expect this to further bolster our business capability. Based on these factors our guidance is for low double-digit earnings per share growth in 2006 compared with the adjusted basic earnings per share of EUR 145.9c in 2005 (as outlined on page 16). This guidance excludes the one-time gain to be recognised from the Ark Life joint venture with Hibernian Life & Pensions and income from the development of the Bankcentre complex.

### Cashflow

As reflected in the consolidated statement of cash flows for the group, there was a net increase in cash of € 4,807 million during the year ended 31 December 2005. Net cash inflow from operating activities was € 4,513 million. Cash inflows from financing were € 556 million. The issue of subordinated liabilities generated cash inflows of € 1,813 million, offset by the redemption of subordinated liabilities of € 630 million. Cash outflows from taxation were € 351 million while cash outflows in relation to equity dividends were € 532 million. Cash outflows as a result of investing activities were € 262 million, due primarily to net increases in financial investments of € 264 million.



### **Statement of recognised income and expense ('SORIE')**

The total recognised gains relating to the year amounted to € 1,898 million compared to recognised gains of € 887 million in 2004. Profit for the year ended 31 December 2005 was € 1,433 million compared to € 1,158 million in 2004. Currency translation adjustments amounted to € 287 million positive compared to € 73 million negative in 2004. The currency translation difference principally relates to the change in value of the Group's net investment in foreign operations arising from the weakening of the euro against the currencies in which the net foreign investments are held.

The net change in cash flow hedges was € 76 million negative in 2005. In accordance with IAS 39, the portion of the gain or loss on the hedging instrument deemed to be an effective hedge is recognised in the cashflow hedge reserve. Deferred gains and losses are transferred to income statement in the period during which the hedged item affects profit or loss.

The net change in available for sale securities was € 6 million negative in 2005. This represents the net change in fair value of available for sale securities recognised in equity for the period.

The actuarial loss in retirement benefit schemes during 2005 charged to the SORIE, net of deferred tax, of € 59 million, amounted to € 285 million compared to € 198 million in 2004. The actuarial loss included € 656 million from a reduction in discount rates and changes in

mortality assumptions and an experience loss on liabilities of € 62 million offset by a € 374 million experience gain on the pension scheme assets. The net pension scheme deficit on funded schemes recognised within shareholders' equity was € 1,137 million compared with a net pension deficit of € 828 million at 31 December 2004.

## Divisional commentary

On a divisional basis, profit is measured in euro and consequently includes the impact of currency movements. The underlying percentage change is reported in the divisional income statements adjusting for the impact of exchange rate movements on the translation of foreign locations' profit. *The AIB Bank Republic of Ireland income statement for 2004 and 2005 has been restated to reflect Ark Life as a discontinued operation, which is now reported below profit after taxation at Group level, arising from its disposal in 2005. The profit on disposal will be accounted for in 2006.*

<b>AIB Bank Republic of Ireland income statement</b>	<b>IFRS Year 2005 € m</b>	<b>IFRS Year 2004 € m</b>	<b>IFRS Pro-forma 2004 € m</b>	<b>Underlying % change 2005 v Pro-forma 2004</b>
Net interest income	<b>1,314</b>	1,144	1,145	15
Other income	<b>376</b>	340	337	12
Total operating income	<b>1,690</b>	1,484	1,482	14
Total operating expenses	<b>867</b>	813	814	7
Operating profit before provisions	<b>823</b>	671	668	23
Provisions	<b>55</b>	44	44	25
Operating profit	<b>768</b>	627	624	23
Share of results of associated undertakings	<b>(1)</b>	(1)	(1)	-
Profit on disposal of property	<b>12</b>	7	7	68
Profit before taxation	<b>779</b>	633	630	24

**AIB Bank Republic of Ireland profit of € 779 million was up 24% or 15% excluding the € 50 million of investigation related charges incurred in 2004.**

**AIB Bank Republic of Ireland**  
*Retail and commercial banking operations in Republic of Ireland, Channel Islands and Isle of Man; AIB Finance and Leasing and Card Services.*

Pre-tax profit increased by 24% or 15% excluding the € 50 million of investigation related charges incurred in the year to December 2004. Operating income was up 14% and operating expenses were up 7%. Excluding the investigation related charges these growth rates were 11% and 8% respectively, with the operating income/cost gap at +3%.

The strong profit growth was generated through higher business volumes and the focus on customer relationship management. Loans

and deposits increased by 28% and 20% respectively since 31 December 2004. Operating expenses were up 7% (or 8% excluding investigation related costs in 2004). Increased business activity, annual salary inflation, performance costs related to strong revenue growth and costs associated with a number of mandatory and regulatory driven projects were the key drivers of the 7% increase. A decrease in other finance income (income associated with the pension fund now included in operating expenses under IFRS), which fell from € 20 million to € 13 million, accounted for 1% of the operating expenses growth. The cost income ratio was 51.3% compared with 54.9% in 2004 (52.7% excluding the € 50 million of investigation related charges incurred in 2004). Asset quality remained very good with the provision charge as a percentage of average loans reducing to 0.11% from 0.14% in

2004.

Retail banking reported another very strong year reflecting good growth in income on the back of a significant increase in business volumes on both sides of the balance sheet. Business lending, home mortgages, personal lending and private banking activities all experienced excellent growth, with strong growth in customer deposits also reflecting buoyant customer demand. Profit growth in AIB Card Services was also notable, resulting from strong revenue due to higher consumer spending, a strong increase in merchant turnover, lower costs and a lower bad debt charge. In AIB Finance and Leasing there was good profit growth due to a 14% increase in loan volumes since December 2004 and tight cost management. New business was particularly strong in the motor, plant and equipment sectors.



<b>AIB Bank GB &amp; NI income statement</b>	<b>IFRS Year 2005 € m</b>	<b>IFRS Year 2004 € m</b>	<b>IFRS Pro-forma 2004 € m</b>	<i>Underlying % change 2005 v Pro-forma 2004</i>
Net interest income	<b>516</b>	416	447	16
Other income	<b>148</b>	189	142	5
Total operating income	<b>664</b>	605	589	13
Total operating expenses	<b>323</b>	305	303	7
Operating profit before provisions	<b>341</b>	300	286	20
Provisions	<b>21</b>	13	13	61
Operating profit	<b>320</b>	287	273	18
Profit on disposal of property	<b>2</b>	1	1	-
Profit before taxation	<b>322</b>	288	274	18

### **AIB Bank GB & NI profit was up 18%.**

*AIB Bank GB & NI Retail and commercial banking operations in Great Britain and Northern Ireland.*

AIB Bank GB & NI reported a strong performance in the year to 31 December 2005, with profit before taxation increasing by 18%. Loan and deposit balances increased by 29% and 17% respectively in 2005 with volume growth reflecting buoyant business momentum. Lending margins were well managed in a very competitive environment. Operating expenses were up 7% mainly due to staff cost increases relating to ongoing investment in the business. The cost income ratio improved to 48.7% from 51.5% last year. The bad debt charge represented 0.13% of average loans, compared with 0.11% of average loans in 2004. Credit quality remains robust in a relatively benign economic climate.

Allied Irish Bank (GB), with its primary focus on chosen business sectors, achieved a profit increase of 25% to € 169 million, a very strong performance, with growth in balances of 31% in loans and 21% in deposits. The bank continues to grow its business customer base as a key provider of banking to mid-corporate businesses through its relationship-banking model and continued expansion. In 2005, the opening of a corporate office in the regenerated Birmingham city centre demonstrated the increasing profile of Allied Irish Bank (GB).

First Trust Bank, a retail bank in Northern Ireland, also reported double-digit growth, with an 11% increase in profit before taxation to € 153 million, compared with 2004. Loan balances showed strong growth of 25% and solid deposit growth of 12% was achieved. First Trust continues to develop both its business and personal customer bases.

# Divisional commentary

<b>Capital Markets income statement</b>	<b>IFRS Year 2005 € m</b>	<b>IFRS Year 2004 € m</b>	<b>IFRS Pro-forma 2004 € m</b>	<i>Underlying % change 2005 v Pro-forma 2004</i>
Net interest income	435	360	396	10
Other income	407	390	345	18
Total operating income	842	750	741	14
Total operating expenses	400	403	403	-1
Operating profit before provisions	442	347	338	31
Provisions	46	29	29	59
Operating profit	396	318	309	28
Share of results of associated undertakings	2	4	4	-44
Profit on disposal of business	5	4	4	12
Profit before taxation	403	326	317	27

## **Capital Markets profit of € 403 million was up 27%.**

**Capital Markets** *Corporate Banking, Global Treasury, and Investment Banking.*

Profit before taxation increased by 27% to € 403 million, reflecting a very strong performance across each business area.

The performance in Corporate Banking was particularly strong with pre-tax profit up 33% on the comparative out-turn for 2004. We experienced significant loan growth in both the domestic and international businesses with loans increasing by 29% since December 2004. We continue to invest heavily in expanding our international and specialised loan businesses which are experiencing very strong growth. We retain a rigorous and conservative approach to credit risk management and continually seek to optimise value in a quality loan portfolio.

Global Treasury performed strongly in 2005 following the outstanding performance in its

markets business in 2004. Despite difficult interest rate and foreign exchange markets experienced in 2005, Global Treasury closed the year with profit marginally ahead (up 2%) of 2004. Our customer business performed robustly, showing strong growth over the comparative period and underpinning our leading position in the Republic of Ireland. We also experienced strong growth in our investment books and bond activities with our short term trading activities performing behind the very strong prior year.

Investment Banking profit was up 22%, substantially ahead of 2004. The strong profit growth and activity experienced in stockbroking services, equity trading, corporate advisory and structured investments were once again underpinned by the market share positions held by each of these businesses.

The approximate profit split by business unit in 2005 was Corporate Banking 55%, Global Treasury 29% with Investment Banking and Allied Irish America

comprising the remainder.

The divisional cost income ratio decreased to 47.5% from 54.4% in 2004. Strong cost management control coupled with selective business rationalisation enabled the division to retain costs at the 2004 levels.

The bad debt provision charge decreased to 0.22% of average loans from 0.27% in 2004. Total provisions increased due to a higher nominal bad debt charge, higher investment provisions and some onerous lease charges on premises.

<b>Poland income statement</b>	<b>IFRS Year 2005 € m</b>	<b>IFRS Year 2004 € m</b>	<b>IFRS Pro-forma 2004 € m</b>	<i>Underlying % change 2005 v Pro-forma 2004</i>
Net interest income	205	174	180	1
Other income	222	188	180	10
Total operating income	427	362	360	6
Total operating expenses	280	245	245	3
Operating profit before provisions	147	117	115	11
Provisions	15	29	29	-54
Operating profit	132	88	86	33
Share of results of associated undertakings	–	1	1	–
Profit on disposal of property	–	1	1	–
Profit on disposal of business <sup>(1)</sup>	–	13	13	–
Profit before taxation	132	103	101	13

<sup>(1)</sup> The profit on disposal of business in 2004 relates to the sale in April 2004 of CardPoint S.A., a merchant acquiring business responsible for card payment processing.

## **Poland profit was €132 million, up 13%.**

**Poland** Bank Zachodni WBK ('BZWBK'), in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. BZWBK Wholesale Treasury and share of Investment Banking subsidiaries results are reported in Capital Markets division.

Profit before taxation was € 132 million in 2005 compared with € 101 million in 2004. On a local currency basis pre-tax profit increased by 13% and adjusting for the disposal of a business in 2004 the increase was 29%.

Total operating income increased by 6% with net interest income increasing by 1% and other income increasing by 10%. Average interest rates were lower in 2005 following a 2.00% reduction in the reference rate during the year to 4.50% at 31 December 2005. Performing loans to

customers increased by 5% since December 2004 with total loans to customers up 4%. Overall the business lending market in Poland was subdued with higher liquidity levels and increased competition resulting in stagnant business lending year on year. Personal lending grew strongly where cash loans in particular were in demand by our customers. Lending margins increased as a result of improved mix in the portfolio. Customer deposits increased by 8% with margins decreasing as a result of lower interest rates, changing mix and increased competition.

Other income grew by 10%. The main area of growth was asset management fees with mutual funds income increasing by 115% and a continued favourable mix in funds managed with market share increasing from 7.5% to 12.6%. The brokerage business enjoyed an excellent year with substantial increases in turnover, buoyed by the performance of the Warsaw

Stock Exchange in 2005.

E-business and payment fees and foreign exchange income contributed to a strong growth level.

Operating expenses were up 3% reflecting higher staff costs due to increased performance related pay, while savings were realised in operating expenses.

Provisioning has reduced further compared with 2004. The charge as a percentage of average loans declined from 0.91% to 0.40% in 2005. The downward trend in impaired loans as a percentage of total loans continued from 8.4% at 31 December 2004 to 6.8% at the end of December 2005.

# Divisional commentary

<b>Group income statement</b>	<b>IFRS Year 2005 € m</b>	<b>IFRS Year 2004 € m</b>	<b>IFRS Pro-forma 2004 € m</b>
Net interest income	60	(22)	10
Other income	(36)	37	38
Total operating income	24	15	48
Total operating expenses	141	103	103
Operating loss before provisions	(117)	(88)	(55)
Provisions	6	18	18
Operating loss	(123)	(106)	(73)
Share of results of associated undertaking - M&T	148	128	128
Construction contract income	45	-	-
Profit before taxation	70	22	55

## Group

*Group includes interest income earned on capital not allocated to divisions, the funding cost of certain acquisitions, economic hedging of the translation of foreign locations' profit, unallocated costs of enterprise technology and central services and the contribution from AIB's share of approximately 23.5% in M&T Bank Corporation ('M&T').*

Group reported profit before taxation of € 70 million for the year to December 2005 compared with a profit of € 55 million in 2004.

Net interest income was up due to higher capital income resulting from increased capital balances (strong retained earnings) and the income generated from investment of the funds raised on a € 1 billion perpetual preferred securities issue in December 2004. Other income was lower due to gains of € 36 million in relation to closing out capital invested positions in 2004. Other income in 2005 includes economic hedging

losses in relation to foreign currency translation exposure and capital management, and hedge volatility under IFRS.

Significant additional investment in resources to facilitate AIB's preparation for Basel II and Sarbanes Oxley were the main drivers of higher operating expenses. In addition, there was investment to further strengthen compliance and internal audit structures with performance related costs higher in line with strong revenue and profit growth.

AIB's share of M&T after-tax profit in 2005 amounted to € 148 million. On a local currency basis M&T's contribution of US\$ 185 million increased by 16% relative to the year to December 2004 of US\$ 159 million. AIB benefited from a 23.5% share of profit compared to a 22.7% share in the year to December 2004. M&T reported its annual results on 11 January 2006, showing net income up 8% to US\$ 782 million. US GAAP-basis diluted earnings per share was up 12% to US\$ 6.73 from US\$ 6.00 in the year to

December 2004. Diluted net operating earnings per share, which excludes the amortisation of core deposit and other intangibles, was US\$ 7.03, up 10% from US\$ 6.38.

# Pro-forma IFRS information

## Reconciliation of statutory IFRS accounts to pro-forma IFRS accounts for 2004

	IFRS Year 2004 € m	EIR <sup>(1)</sup> € m	Insurance <sup>(2)</sup> € m	Financial <sup>(3)</sup> instruments € m	IFRS Pro-forma 2004 € m
Net interest income	2,072	73	-	33	2,178
Other income	1,144	(102)	-	-	1,042
Total operating income	3,216	(29)	-	33	3,220
Total operating expenses	1,869	(1)	-	-	1,868
Provisions	133	-	-	-	133
Operating profit	1,214	(28)	-	33	1,219
Share of results of associated undertaking	132	-	-	-	132
Profit on disposal of property	9	-	-	-	9
Profit on disposal of business	17	-	-	-	17
Profit before taxation	1,372	(28)	-	33	1,377
Earnings per share - continuing operations	125.8c	(2.5c)	-	-	123.3c
Earnings per share - discontinued operations	6.2c	-	(2.4c)	-	3.8c
Basic earnings per share	132.0c	(2.5c)	(2.4c)	-	127.1c

<sup>(1)</sup> (EIR) Effective interest rate (IAS 39). On transition, certain fees receivable and fees and commissions payable that had previously been taken to the profit and loss account were treated as deferred income and deferred costs and shown within loans and receivables. These deferred fees and costs are amortised on an effective interest basis to the profit and loss account over the expected residual lives of the financial instruments. The change in policy gives rise to a reclassification from fee income / fee expense and administrative expenses to interest income with an impact on the net interest margin. On a pro-forma basis the effective interest rate adjustment reduced profit before taxation by € 28 million in 2004.

<sup>(2)</sup> Insurance business (IFRS 4 / IAS 39). Accounting for contracts meeting the IFRS definition of insurance business is not impacted by IFRS 4. Accounting for investment products under IAS 39 serves to delay the recognition of income for a number of reasons. There is a narrower definition of costs that can be deferred on the sale of investment products. Initial charges on sale of investment products are deferred and accrued over the expected life of the product. There is no opportunity to account for the future surpluses on an embedded value basis. As a consequence, there was a reduction in equity on transition as the valuation of the discounted future earnings expected to emerge from the business currently in force in the balance sheet will decrease. Income will be recognised on these contracts in later periods due to the change in the valuation basis. On a pro-forma basis the insurance business adjustment reduced earnings per share by 2.4c in 2004.

<sup>(3)</sup> Financial instruments (IAS 32 / IAS 39). Under IAS 32 and IAS 39, all debt securities are classified and disclosed within one of the following four categories: held-to-maturity; available-for-sale; trading; or designated as fair value through the profit and loss account. Some of AIB's financial instruments, which were previously held as financial fixed assets, are classified as available-for-sale on transition to IFRS. On a pro-forma basis, classification of financial instruments increased profit before taxation by € 33 million in 2004.

# Pro-forma IFRS information

## IFRS segmental pro-forma information (continuing operations)

	Year 31 December 2004					
	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Total € m
<b>Operations by business segments</b>						
Net interest income	1,145	447	396	180	10	2,178
Other income	337	142	345	180	38	1,042
Total operating income	1,482	589	741	360	48	3,220
Total operating expenses	814	303	403	245	103	1,868
Provisions	44	13	29	29	18	133
Operating profit/(loss)	624	273	309	86	(73)	1,219
Share of results of associated undertakings	(1)	-	4	1	128	132
Profit on disposal of property	7	1	-	1	-	9
Profit on disposal of businesses	-	-	4	13	-	17
Group profit before taxation	630	274	317	101	55	1,377

# Financial review

## CAPITAL MANAGEMENT

It is the Group's policy to maintain a strong capital base and to utilise it efficiently in its development as a diversified international banking group. As part of the Group's capital management activities, the Group manages its mix of capital by currency in order to minimise the impact of exchange rate fluctuations on the Group's key capital ratios.

The table opposite shows AIB Group's capital resources at 31 December 2005 and 1 January 2005. Capital resources increased by € 2.0 billion during the year ended 31 December 2005.

The increase arose primarily as a result of an increase in capital notes. In addition, shareholders' equity increased arising from net retentions and exchange rate movements offset by pension scheme actuarial losses.

The US dollar, sterling and Polish zloty strengthened by 15%, 3% and 6% respectively relative to the euro, resulting in a positive foreign currency translation adjustment of € 423 million. Shareholders' equity benefited from net retentions of € 773 million and the reissue of shares for staff incentive schemes of € 66 million. The actuarial losses in the Group's retirement benefit schemes, which the Group has recognised directly in shareholders' equity under IAS 19 – Employee benefits, amounted to € 285 million.

There was a net increase of € 1.3 billion in capital notes reflecting the issue of Stg£ 900 million and € 500 million offset by the redemption of € 350 million

	31 December 2005 € m	1 January 2005 € m
Shareholders' equity*	7,169	6,472
Equity and non-equity minority interests	1,248	1,211
Preference shares	210	182
Undated capital notes	868	346
Dated capital notes	2,678	1,923
<b>Total capital resources</b>	<b>12,173</b>	<b>10,134</b>
*Includes other equity interests		

and US \$ 350 million in subordinated capital.

### Capital ratios

In carrying out the Group's overall capital resources policy, a guiding factor is the supervisory requirements of the Irish Financial Services Regulatory Authority ('IFSRA'), which applies a capital/risk assets ratio framework in measuring capital adequacy. This framework analyses a bank's capital into three tiers. Tier 1 capital, comprises mainly shareholders' funds, minority equity interests in subsidiaries and preference shares. It is the highest tier and can be used to meet trading and banking activity requirements. Tier 2 includes perpetual, medium-term and long-term subordinated debt, certain provisions for impairment and fixed asset revaluation reserves. Tier 2 capital can be used to support both trading and banking activities. Tier 3 capital comprises short-term subordinated debt with a minimum original maturity of two years. The use of tier 3 capital is restricted to trading activities only and it is not eligible to support counterparty or settlement risk. The aggregate of tiers 2 and 3 capital included in the risk asset ratio calculation may not

exceed tier 1 capital. AIB does not currently use tier 3 capital in its capital calculation. The capital adequacy framework also applies risk weightings to balance sheet and off-balance sheet exposures, reflecting the credit and other risks associated with broad categories of transactions and counterparties, to arrive at a figure for risk weighted assets. An internationally agreed minimum total capital (*to risk weighted assets*) ratio of 8% and a minimum tier 1 capital (*to risk weighted assets*) ratio of 4% are the base standards from which the IFSRA sets individual capital ratios for credit institutions under its jurisdiction.

The EU Capital Adequacy Directive (CAD) distinguishes the risks associated with a bank's trading book from those in its banking book. Trading book risks are defined as those risks undertaken in order to benefit in the short-term from movements in market prices such as interest rates, foreign exchange rates and equity prices. The remaining risks, relating to the normal retail and wholesale banking activities, are regarded as banking book risks.

The Capital Requirements Directive (CRD) amends the

# Financial review

existing CAD for the prudential regulation of credit institutions and investment firms across the EU. It is a major piece of legislation that introduces a modern prudential framework, relating capital levels more closely to risks.

The CRD implements in the EU the revised Basel framework which is based on three 'Pillars':- Pillar 1: minimum capital requirements for credit, market and operational risks;

Pillar 2: supervisory review - establishing a constructive dialogue between a firm and the regulator on the risks, the risk management and capital requirements of the firm; and

Pillar 3: market discipline - robust requirements on public disclosure intended to give the market a stronger role in ensuring that firms hold an appropriate level of capital.

A project is in place across the Group to prepare for the implementation of the CRD.

The table opposite shows the components and calculation of the Group's tier 1 and total capital ratios at 31 December 2005 and 1 January 2005.

The Group was strongly capitalised at 31 December 2005 with the tier 1 ratio 7.2% and the total capital ratio at 10.7%. Risk weighted assets increased by € 22 billion reflecting strong loan growth across the Group.

Tier 1 capital increased by € 0.8 billion to € 7.3 billion. This increase was as a result of the positive impact of net retentions and the positive impact of exchange rate movements offset by increased supervisory deductions.

	31 December 2005 € m	1 January 2005 € m
<b>Capital base</b>		
<b>Tier 1</b>		
Paid up ordinary share capital	294	294
Eligible reserves	6,161	5,249
Equity and non equity minority interests in subsidiaries	1,248	1,211
Non-cumulative preference shares	210	182
Reserve capital instruments	497	497
Less: supervisory deductions	(1,135)	(923)
<b>Total tier 1 capital</b>	<b>7,275</b>	<b>6,510</b>
<b>Tier 2</b>		
Fixed asset revaluation reserves	381	339
IBNR provisions	162	139
Subordinated perpetual loan capital	868	272
Subordinated term loan capital	2,678	1,562
<b>Total tier 2 capital</b>	<b>4,089</b>	<b>2,312</b>
<b>Gross capital</b>	<b>11,364</b>	<b>8,822</b>
Supervisory deductions	(487)	(302)
<b>Total capital</b>	<b>10,877</b>	<b>8,520</b>
<b>Risk weighted assets</b>		
<b>Banking book:</b>		
On balance sheet	79,520	62,770
Off-balance sheet	14,682	10,960
	<b>94,202</b>	<b>73,730</b>
<b>Trading book:</b>		
Market risks	6,891	5,149
Counterparty and settlement risks	563	712
	<b>7,454</b>	<b>5,861</b>
<b>Total risk weighted assets</b>	<b>101,656</b>	<b>79,591</b>
<b>Capital ratios</b>		
Tier 1	7.2%	8.2%
Total	10.7%	10.7%

Tier 2 capital increased by a net € 1.8 billion, primarily as a result of subordinated debt issues totalling € 1.8 billion and € 0.2 billion positive exchange translation adjustments offset by redemptions of € 0.2 billion.

Supervisory deductions increased by € 185 million, reflecting primarily an increase in

the Group's interests in other financial investments.



## RISK MANAGEMENT

Risk-taking is inherent in providing financial services and AIB assumes a variety of risks in its ordinary business activities. These include credit risk, market risk, liquidity risk and operational risk. The role of Risk Management is to ensure that AIB continues to take risk in a controlled way in order to enhance shareholder value. AIB's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and to monitor these risks and limits continually. AIB continues to modify and enhance its risk management practices to reflect changes in markets, products and evolving best practice.

Primary responsibility for risk management lies with line management. Within AIB, line management is supported by a risk management function that sets standards, policies, limits and measurement methods and provides independent oversight through a Group Chief Risk Officer ('CRO') with a direct reporting line to the Group Chief Executive ('CEO') and the Audit Committee of the Board. *The Board of Directors* formally approves the overall strategy and the direction of the business on an annual basis. It regularly monitors the Group's financial performance, reviews risk management activities and controls and has responsibility for approving the Group's risk appetite. The *Group Executive Committee ('GEC')*, comprising the Group CEO, Group Finance Director, Group Chief Risk Officer, Group Director of

Operations, Group Director of HR and the four Divisional Managing Directors, manages the strategic business risks of the Group. It sets the business strategy within which the risk management function operates and oversees its activities.

The *Group Risk Management Committee ('RMC')* is chaired by the Group CRO and has governance responsibility for identifying, analysing and monitoring exposure, adopting best practice standards and directing risk management activities across the Group. It is supported by the *Group Credit Committee ('GCC')*, the *Group Operational Risk Management Committee ('ORMCO')* and the *Group Market Risk Committee ('MRC')*. The *Group Asset and Liability Management Committee ('Group ALCO')* is chaired by the Group Finance Director and has responsibility for the Group's capital, funding, and liquidity and structural balance sheet activities. It is supported in this role by a Group Asset and Liability Management ('ALM') function. In addition each of the four operating divisions have ALM functions supporting their divisional ALCO. The Head of Group ALM is a member of each divisional ALCO.

The Group CRO has responsibility for the Enterprise Risk Management framework, which includes:

- Policies, instructions and guidelines
- Identification of risk
- Risk analysis
- Risk measurement
- Credit and market risk limits

- Monitoring and control, and
- Reporting.

Each of the four operating divisions have dedicated risk management functions, with Divisional CRO's reporting directly to the Group CRO. In addition, the Group Chief Credit Officer ('CCO'), the Group Head of Operational Risk Management and the Group Head of Market Risk management have functional responsibility for these risks at the centre and these also report directly to the Group CRO. Each Division has dedicated credit risk management and operational risk management functions. The Capital Markets Division also has a dedicated Market Risk Management function. The Divisional CCO chairs the credit committee in each Division. Each Division has an ORMCO that reports into the Group ORMCO.

Two other functions play very important roles in overseeing the risk control environment. These are Group Internal Audit and Regulatory compliance.

**Group Internal Audit** provides reasonable assurance to the Board Audit Committee on the adequacy, effectiveness and sustainability of the governance, risk management and control processes throughout the Group. A secondary objective is to influence the strengthening of governance, risk management and control processes through the sharing of best practices.

In undertaking its responsibilities, Group Internal Audit adopts a risk-based approach, which translates into a

# Financial review

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

## **Regulatory compliance**

is an enterprise wide function which identifies compliance obligations in each of our operating markets and provides advice and guidance to management and staff on addressing compliance risks. Primary responsibility for compliance lies with line management. Compliance risks are associated with failures to comply with laws, regulations, rules, self-regulatory standards and the codes of conduct applicable to our business activities. Such failures can give rise to legal or regulatory sanctions, material financial loss, or a loss of reputation to the bank. The regulatory compliance function also promotes the embedding of an ethical framework within our businesses to ensure that we operate with honesty, fairness and integrity in all our dealings with customers.

Regulatory compliance supports management in the development of appropriate policies and procedures that will ensure compliance with all our

conduct of business obligations. Compliance teams are located in each Division to work closely with management to identify and control compliance risks. The regulatory compliance function assesses and monitors the compliance risks faced by our businesses, and independently reports to the Audit Committee on the compliance framework operating across the Group, and on line management's attention to compliance issues.

## **Credit risk**

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that the pledged collateral does not cover AIB's claims. The credit risks in AIB arise primarily from lending activities to customers but also from guarantees, derivatives and securities.

## ***Credit management and control***

Credit risk is managed and controlled throughout AIB on the basis of established credit processes and within a framework of credit policy and delegated authorities based on skill and experience. Credit grading, scoring and monitoring systems accommodate the early identification and management of deterioration in loan quality. The credit management process is underpinned by an independent system of credit review.

The Board determines the credit authority for the Group

Credit Committee and approves the Group's key credit policies. It also approves divisional credit authorities and reviews credit performance on a regular basis. The GCC considers and approves, within the parameters of the Group Large Exposure Policy, credit exposures which are in excess of divisional credit authorities. The GCC comprises senior divisional and Group-based management and is chaired by the Group Chief Credit Officer.

The Group CCO sets Groupwide standards for best practice including credit grading and scoring methodologies and exposure measurement. Divisional management approves divisional credit policy with the involvement and agreement of the risk management function. Material divisional credit policies are referred to the Group RMC.

## ***Credit risk on derivatives***

The credit risk on derivative contracts is the risk that AIB's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss.

Derivatives are used by AIB to meet customer needs to reduce interest rate risk, currency risk and in some cases, credit risk as well as for proprietary trading purposes. Derivatives affect both credit and market risk exposures. The credit exposure is treated in the same way as other types of credit exposure

and is included in customer limits.

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

### **Country risk**

Country risk is the risk that circumstances can arise in which customers and other counterparties within a given country may be unable or precluded from fulfilling their obligations to AIB due to deterioration in economic or political circumstances.

Country risk is managed by setting appropriate maximum risk limits to reflect each country's overall credit worthiness. Independent credit information from international sources, supported by visits to relevant countries, is used to determine the appropriate risk limits. Risks and limits are monitored on an ongoing basis.

### **Settlement risk**

Settlement risk is the risk of loss arising in situations where AIB has given irrevocable instructions for a transfer of a principal amount or security in exchange for receiving a payment or security from a counterparty, which defaults before the transaction is completed.

The settlement risk on

individual counterparties is measured as the full value of the transactions on the day of settlement. It is controlled through settlement risk limits. Each counterparty is assessed in the credit process and clearing agents, correspondent banks and custodians are selected with a view to minimising settlement risk.

### **Rating methodologies**

Internal rating models, which comprise both grading and scoring systems, lie at the heart of credit management within AIB. They are used to differentiate between credits on the basis of estimated probability of default. In conjunction with the preparations for Basel II, a significant review and upgrade of all material models has been carried out with a view to ensuring appropriate quality and standards are maintained in line with best practice.

In our consumer businesses, where there are large numbers of customers, credit decisions are largely informed by statistically based scoring systems. Both application scoring for new customers and behavioural scoring for existing customers are used to measure risk and facilitate the management of these portfolios.

In our commercial and corporate businesses the grading systems utilise a combination of objective information (primarily financial data) and subjective assessments of non-financial risk factors. The combination of expert lender judgement and statistical methodologies varies according to the size and nature of the portfolio

and default experience.

Systems are in place to ensure that all of these models are continuously reviewed and validated.

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

### **Provisioning for impairment**

AIB provides for impairment in a prompt and conservative way across the credit portfolios. The rating models provide a systematic discipline in triggering the need for provisioning on a timely basis.

In January 2005, AIB introduced amended impairment provisioning methodologies in compliance with the International Financial Reporting Standards (IFRS).

In applying IFRS, AIB has identified 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 / book value.

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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 impairment provisions can only be raised for incurred losses and will not be 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 our portfolios and to the credit environment at balance sheet date.

Whilst provisioning is an ongoing process, all AIB divisions formally review provision adequacy on a quarterly basis and determine the overall provision need. These provisions are in turn reviewed and approved on a quarterly basis with ultimate Group levels being approved by the Group Audit Committee.

## Credit performance measurement framework

AIB continues to refine its methodology of measuring the risk adjusted profitability of its credit business. Economic Value Added ('EVA') is now the primary measure of performance. EVA represents the value added having deducted all costs, including expected loss and a charge for the economic capital required to support the facility.

The most important inputs into the determination of the expected loss and the economic capital are the probability of default ('PD'), the loss given default ('LGD') and

the exposure at default ('EAD'). The rating grades produced by the rating models are translated into a PD, which is a key parameter when measuring risk. LGD is measured taking into account amongst other things the security held by AIB. EAD for many products is equal to the outstanding exposure but for some products, such as credit lines and derivative contracts, the EAD may be higher than the outstanding exposure. The methodology used in determining economic capital is in line with best practice.

This framework is used to guide the pricing of credit risk and to influence the deployment of capital to maximise shareholder value.

## Further information on credit risk

Further information on credit risk can be found within this report in the following notes;

- Amounts written off/(written back) financial investments (*Note 13*)
- Loans and receivables to banks (*Note 28*)
- Loans and receivables to customers (*Note 29*)
- Provisions for impairment of loans and receivables (*Note 30*)
- Financial investments available for sale (*Note 33*)
- Provisions for liabilities and commitments (*Note 47*)
- Memorandum items: contingent liabilities and commitments (*Note 53*)

## Market risk

Market risk is the exposure to loss arising from adverse movements in

interest rates, foreign exchange rates and equity prices. It arises in trading activities as well as in the natural course of transacting business, for example in the provision of fixed rate loans or equity linked tracker bonds to customers.

## Risk management and control

The principal aims of AIB's market risk management activities are to limit the adverse impact of interest rate, exchange rate and equity price movements on profitability and shareholder value and to enhance earnings within defined limits. Market risk management for AIB is centralised in Capital Markets Division. Interest rate, foreign exchange rate and equity risks incurred in retail and corporate banking activities are transferred into Global Treasury where they are managed. The basic principle is that these risks are eliminated by matching the market risk characteristics of assets and liabilities. Global Treasury has the discretion to run a small mismatch, subject to strict limits and is also responsible for AIB's investment and liquidity management activities.

Market risks are managed by setting limits on the amount of the Group's capital that can be put at risk. These limits are based on risk measurement methodologies described below. The Board delegates authority to the Group CRO to allocate these limits on its behalf. The limits for Global Treasury are set in accordance with its business strategy and are reviewed

frequently. The Managing Director of Global Treasury allocates these limits to the various dealing desks who supplement these with more detailed limits and other risk reducing features such as stop-loss rules. Within Global Treasury, there is a dedicated risk management team charged with the responsibility to ensure that the risk measurement methodologies used are appropriate for the risks being taken and that appropriate monitoring and control procedures are in place. The Market Risk Committee ('MRC') reviews market risk strategy. It approves policies and promotes best practice for measurement, monitoring and control.

### Measurement methods

There is no single risk measure that captures all aspects of market risk. AIB uses several risk measures including Value at Risk ('VaR') models, sensitivity measures and stress testing.

#### VaR

The aim of VaR is to estimate the probable maximum loss in fair value that could arise in one month from a 'worst case' movement in market rates. This is computed using statistical analysis of market rate movements setting a confidence level at 99%. This means that there is a one in one hundred chance that the potential loss could be greater than that estimated from the data used. VaR figures are quoted using one-day and one-month holding periods.

AIB's market risk exposure is spread across a range of

The following table illustrates the VaR figures for interest rate risk for the years ended 31 December 2005 and 2004.

	Trading		Non-trading	
	2005 € m	2004 € m	2005 € m	2004 € m
<b>Interest rate risk</b>				
1 month holding period:				
<i>Average</i>	<b>8.6</b>	7.0	<b>28.5</b>	18.5
<i>High</i>	<b>14.5</b>	10.3	<b>37.3</b>	26.4
<i>Low</i>	<b>3.1</b>	4.0	<b>18.6</b>	11.8
<i>31 December</i>	<b>9.1</b>	7.0	<b>32.5</b>	13.6
1 day holding period:				
<i>Average</i>	<b>1.8</b>	1.6	<b>6.1</b>	4.1
<i>High</i>	<b>3.1</b>	2.3	<b>8.0</b>	5.9
<i>Low</i>	<b>0.7</b>	0.9	<b>4.0</b>	2.6
<i>31 December</i>	<b>1.9</b>	1.6	<b>6.9</b>	3.0

instruments, currencies and maturities. The VaR for a portfolio of market risk positions will not be the sum of the VaRs for each financial instrument included in the portfolio. The VaR for a portfolio is lower because it is unlikely that the 'worst case' scenario occurs in all instruments, currencies and maturities simultaneously.

#### Sensitivity measures

The limitations of VaR techniques are well known to banks. They stem from the need to make assumptions about the spread of likely future price and rate movements. AIB supplements its VaR methodology with sensitivity measures. Dealers in Global Treasury know how much the value of their positions could change for a given change in rates and/or prices. This sensitivity is monitored at desk and management level and reported on

by the Global Treasury risk management unit. These measures can also be used to decide on hedging activities. Decisions can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes AIB to too high a loss in value.

#### Stress testing

AIB's VaR and sensitivity measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions. These measures feed into the estimate of economic capital for market risk.

#### Interest rate risk

Global Treasury manages the Group's exposure to interest rate risk. The risk is that changes in interest rates will have adverse

# Financial review

effects on earnings and on the value of AIB's assets and liabilities. This risk is managed by setting limits on the earnings at risk and the value at risk ('VaR') from the open interest rate risk positions of the Group. Stop loss limits are also used to close out loss making positions.

In managing interest rate risk, a distinction is made between trading and non-trading activities. Trading activities are recorded in the trading book. Interest rate risk associated with AIB's retail, corporate and commercial activities is managed through the non-trading book. The reported interest rate VaR figures on page 35 represent the average, high, low and year end probable maximum loss in respect of both trading and non-trading book positions held in Global Treasury.

## *Trading book*

The interest rate trading book includes all securities and interest rate derivatives that are held for trading purposes in Global Treasury. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognised in income. During 2005, trading book interest rate risk was predominantly concentrated in the euro, sterling and the US dollar.

## *Non-trading book*

AIB's non-trading book consists of its retail and corporate deposit books, Global Treasury's cash books and the Group's investment portfolios and derivatives hedging interest rate risk within these portfolios. AIB's retail businesses have a substantial level of free current accounts, equity and other

interest-free or fixed rate liabilities and assets. Unless carefully managed, the net income from these funds will fluctuate directly with short-term interest rates. AIB manages this volatility by maintaining a portfolio of instruments with interest rates fixed for several years. In designing this strategy, care is taken to ensure that the management of the portfolio is not inflexible as market conditions and customer requirements can bring about a need to alter the portfolio. Group ALCO sets the framework and reviews the management of these activities.

AIB's net interest rate sensitivity as at 31 December 2005 is illustrated in note 55.

## **Foreign exchange rate risk**

AIB is exposed to foreign exchange rate risk through its international operations and through Global Treasury activities in foreign currencies.

### ***Foreign exchange rate risk - structural***

Structural foreign exchange rate risk arises from the Group's non-trading net asset position in foreign currencies. Structural risk exposure arises almost entirely from the Group's net investments in its sterling, US dollar and Polish zloty-based subsidiaries. The Group prepares its consolidated financial statements in euro. Accordingly, the consolidated balance sheet is affected by movements in the exchange rates between these currencies and the euro.

Because of the Group's diversified international operations,

the currency profile of its capital may not necessarily match that of its assets and risk weighted assets.

The Group does not maintain material non-trading open currency positions other than the structural risk exposure discussed here.

At 31 December 2005 and 2004, the Group's structural foreign exchange position was as follows:

	2005 € m	2004 € m
US dollar	1,627	1,520
Sterling	1,029	1,312
Polish zloty	392	281
	<b>3,048</b>	<b>3,113</b>

This position indicates that a 10% movement in the value of the euro against these currencies at 31 December 2005 would result in an amount to be taken to reserves of € 305 million.

### ***Foreign exchange rate risk - trading***

Global Treasury manages AIB's exposure to foreign exchange rate risk arising from unhedged customer transactions and discretionary trading. The risk is that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the earnings at risk and the value at risk ('VaR') from the open foreign exchange rate positions of the Group. Stop loss limits are also used to close out loss making positions. The table on page 37 sets out the VaR figures for trading foreign exchange rate risk for the years ended 31 December 2005 and 2004.



	Trading	
	2005 € m	2004 € m
<b>Foreign exchange rate risk-trading</b>		
<b>1 month holding period:</b>		
<i>Average</i>	<b>1.2</b>	0.9
<i>High</i>	<b>3.0</b>	1.7
<i>Low</i>	<b>0.5</b>	0.4
<i>31 December</i>	<b>0.9</b>	1.3
<b>1 day holding period:</b>		
<i>Average</i>	<b>0.2</b>	0.2
<i>High</i>	<b>0.6</b>	0.4
<i>Low</i>	<b>0.1</b>	0.1
<i>31 December</i>	<b>0.2</b>	0.3

	Trading	
	2005 € m	2004 € m
<b>Equity risk</b>		
<b>1 month holding period:</b>		
<i>Average</i>	<b>13.6</b>	20.7
<i>High</i>	<b>18.5</b>	26.2
<i>Low</i>	<b>11.1</b>	14.6
<i>31 December</i>	<b>13.6</b>	18.4
<b>1 day holding period:</b>		
<i>Average</i>	<b>2.9</b>	4.6
<i>High</i>	<b>4.0</b>	5.9
<i>Low</i>	<b>1.8</b>	3.3
<i>31 December</i>	<b>2.9</b>	4.1

### Equity risk

Global Treasury manages the equity risk arising on its convertible bond portfolio and from stock market linked investment products (tracker bonds) sold to customers.

Goodbody Stockbrokers manage the equity risk in its Principal Trading Account. The risk is that adverse movements in share, share index or equity option prices will result in losses for the Group. This risk is managed by setting limits on the earnings at risk and the value at risk ("VaR") from the open equity positions of the Group. Stop loss limits are also used to close out loss making positions. The table above sets out the VaR figures for equity risk for the years ended 31 December 2005 and 2004.

### Off-balance sheet financial instruments

AIB uses off-balance sheet financial instruments, to service customer requirements, to manage the Group's market risk exposures and for trading purposes.

### Credit commitments

Provisions for liabilities and commitments to extend credit are outlined in note 47. The Group's maximum exposure to credit loss in the event of non-performance by the other party, where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of these contracts.

### Derivative financial instruments

Derivative financial instruments are contractual agreements between parties whose value reflects movements in an underlying interest rate, foreign exchange rate, equity price or index. The table on page 38 shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at 31 December 2005 and 2004. While notional principal amounts are used to express the volume of these transactions, the amounts subject to credit risk are much lower. This is because most derivatives involve payments based

on the net differences between the rates expressed in the contracts and other market rates.

The Group is exposed to interest rate risk when assets and liabilities mature or reprice at different times or in differing amounts. Interest rate derivatives are used to manage interest rate risk in a cost-efficient manner. Similarly, foreign exchange and equity derivatives are used to manage the Group's exposure to foreign exchange and equity risk, as required.

The values of derivative instruments can rise and fall as market rates change. Where they are used to hedge balance sheet assets or liabilities, the changes in value are generally offset by the value changes in the hedged items.

The Group uses derivative transactions to hedge interest rate risk and the accounting treatment of these transactions is set out in the Accounting policies section. The Group uses both fair value hedges and cash flow hedges to achieve its hedge objective. Derivatives are classified as fair value hedges where the hedging objective is to eliminate the risk of changes in fair value, arising from interest rate fluctuations, of fixed rate assets or liabilities.

Derivatives are classified as cash flow hedges where the hedging objective is to eliminate the risk of interest rate fluctuations over the hedging period for variable rate loan portfolios.

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	2005		2004	
	Notional principal amount € m	Gross replacement cost € m	Notional principal amount € m	Gross replacement cost € m
<b>Interest rate contracts</b>				
Trading	126,885	685	109,372	765
Non-trading	51,441	461	31,695	294
	<b>178,326</b>	<b>1,146</b>	141,067	1,059
<b>Exchange rate contracts</b>				
Trading	19,799	238	15,870	599
Non-trading	–	–	–	–
	<b>19,799</b>	<b>238</b>	15,870	599
<b>Equity contracts</b>				
Trading	4,386	253	3,575	112
Non-trading	–	–	–	–
	<b>4,386</b>	<b>253</b>	3,575	112

The following is a brief description of the derivative instruments that account for the major part of the Group's derivative activities:

**Interest rate swaps** are agreements between two parties to exchange fixed and floating rate interest by means of periodic payments based upon notional principal amounts and interest rates defined in the contract.

The Group uses interest rate swaps to manage the impact on income and shareholder value of interest rate changes on variable and fixed rate assets. In addition, swaps are used to hedge the Group's funding costs.

**Currency swaps** are interest rate swaps where one or both of the legs of the swap is payable in a different currency. They are used by both customers and Global Treasury to convert fixed rate assets or liabilities to floating rate or vice versa, or to change the maturity or currency profile of underlying assets and liabilities, as required.

**Forward rate agreements** are individually negotiated contracts under which an interest rate is agreed for a notional principal amount covering a specified period in the future. At the settlement date, if interest rates for the future period are higher than the agreed rate, the seller pays the buyer the difference between the contract rate and the rate prevailing. If interest rates are lower, the buyer pays the seller. These contracts are used by customers to fix the rates for future short-term borrowing or deposits.

**Financial futures** are exchange traded contracts to buy or sell a standardised amount of the underlying item at an agreed price on a set date. Interest rate futures contracts are available in all of the major currencies. Foreign currency and equity index futures are also available. Financial futures are used to hedge the Group's exposures arising from the sale of forward rate agreements or guaranteed equity products. They are also used to manage the interest rate risks arising

in the Group's debt securities portfolio.

**Options** are contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying asset e.g. bond, foreign currency, or equity index, at a certain price on or before an agreed date. These provide more flexible means of managing exposure to changes in interest rates, exchange rates and equity index levels. Foreign exchange rate options are used to hedge income and expenses arising from non-euro denominated assets and liabilities. Foreign exchange rate options are also used to hedge exposures arising from customer transactions.

**Interest rate caps/floors** are series of options that give the buyer the ability to fix the maximum or minimum rate of interest. A combination of an interest rate cap and floor is known as an interest rate collar.

**Forward foreign exchange contracts** are agreements to buy or sell a specified quantity of foreign currency, usually on a specified date, at an agreed exchange rate. These contracts are used by customers to fix the exchange rates for future foreign exchange transactions. They are also used by the Group to hedge non-euro income and expenses.

**Credit derivatives** are contracts, the value of which are determined by the credit worthiness of some underlying borrower or borrowers. They are used in the industry to increase (take a position in) or decrease (hedge) an exposure to credit risk.



## Liquidity risk

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price. The Group achieves this through the maintenance of a stock of high quality liquid assets and active involvement in the interbank market, supplemented by US dollar commercial paper and CD issuances together with a euro medium-term note program. The Group's stock of liquid assets is maintained at a level considered sufficient to meet the withdrawal of deposits or calls on commitments in both normal and abnormal trading conditions. In all cases, net outflows are monitored on a daily basis and the required minimum stock of liquid assets can be increased if these outflows exceed predetermined target levels. Global Treasury, through its wholesale treasury operations manages, on a global basis, the liquidity and funding requirements of the Group.

Euro, Sterling, US dollar and Polish zloty represent the most important currencies to AIB Group from a liquidity perspective. The Group has an established retail deposit base in Ireland, Britain and Poland which together with wholesale market products, funds asset growth. Although a significant element of these retail deposits are contractually repayable on demand or at short notice, the Group's substantial customer base and geographic spread generally ensures

that these current and deposit accounts represent a stable and predictable source of funds. The retail deposit base in Ireland and the UK continues to grow strongly, though at a lower level than customer loan growth. The Group's deposit levels in Poland also continue to increase and overall deposit balances exceed loan assets.

The Group has sufficient liquidity to meet its current funding requirements and operates a funding strategy to meet future funding needs. The Group also operates a liquidity contingency plan for critical situations. Counterparty ratings of AIB are as follows: Moody's long-term "Aa3" and short-term "P-1"; Fitch long-term "AAminus" and "F1+" short-term; Standard and Poors long-term single "A+" and "A -1" short-term.

## Operational risk

Within AIB, operational risk is defined as the exposure to loss from inadequate or failed internal processes, people and systems or from external events. It is the risk of direct or indirect loss, or damaged reputation, due to deficiencies or errors in the Group's internal operations which may be attributable to employees, the organisation, control routines, processes or technology, or due to external events and relations. Operational risks are inherent in all activities within the organisation, in outsourced activities and in all interaction with external parties.

Strong internal control and quality management, consisting of a risk management framework,

leadership and skilled personnel, is the key to successful operational risk management. Each business area is primarily responsible for managing its own operational risks. Risk management develops and maintains the framework for identifying, monitoring and controlling operational risks and supports the business in implementing the framework and raising awareness of operational risks.

An element of AIB's operational risk management framework is ongoing monitoring through self-assessment of control deficiencies and weaknesses, the tracking of incidents and loss events and the use of a structured 'lessons learned' process to ensure that, once identified, control deficiencies are communicated and remedied across the Group.

The role of Group ORMCO is to co-ordinate operational risk management activities across the Group through setting policy, monitoring compliance and promoting best practice disciplines.

# Report of the Directors

for the year ended 31 December 2005

**The Directors of Allied Irish Banks, p.l.c. present their report and the audited accounts for the year ended 31 December 2005. A Statement of the Directors' responsibilities in relation to the Accounts appears on page 153.**

## Results

The Group profit attributable to equity holders of the parent amounted to € 1,343m and was arrived at as shown in the Consolidated Income Statement on page 65.

## Dividend

An interim dividend of EUR 23.0c per ordinary share, amounting to € 200m, was paid on 23 September 2005. It is recommended that a final dividend of EUR 42.3c per ordinary share, amounting to € 368m (see Note 67), be paid on 27 April 2006, making a total distribution of EUR 65.3c per ordinary share for the year. The profit attributable to equity holders of the parent, which has been transferred to reserves, and the dividends paid during 2005, are dealt with as shown in the 'Reconciliation of movements in shareholders' equity'.

## Capital

There were no allotments of new shares during the year. Details of treasury shares re-issued under the AIB Employee Share Schemes, the Allfirst Financial Stock Option Plan, and the AIB Share Option Schemes, are given in Note 50.

At the 2005 Annual General Meeting ('AGM'), shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 90 million ordinary shares of the Company, subject to the terms and

conditions set out in the relevant resolution. As at 31 December 2005 some 43,539,597 shares purchased under similar authority were held as Treasury Shares; information in this regard is given in Note 50.

## Accounting policies

On 1 January 2005, the Group implemented the requirements of International Financial Reporting Standards. The principal accounting policies, together with the basis of preparation of the accounts, are set out on pages 49 to 64.

## Review of activities

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

## Directors

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

- Mr. Eugene Sheehy was appointed an Executive Director on 12 May 2005;
- Mr. Michael Buckley retired as an Executive Director on 30 June 2005;
- Sir Derek Higgs resigned as a Non-Executive Director on 5 October 2005;
- Mr. Gary Kennedy resigned as an Executive Director on 31 December 2005;

- Mr. Aidan McKeon retired as an Executive Director on 31 December 2005;
- Mr. John O'Donnell was appointed an Executive Director on 11 January 2006.

All Directors will retire at the 2006 AGM and, being eligible, offer themselves for re-appointment.

The names of the Directors appear on pages 6 and 7, together with a short biographical note on each Director.

## Directors' and Secretary's Interests in the Share Capital

The interests of the Directors and Secretary in the share capital of the Company are shown in Note 57.

## Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital had been notified to the Company at 21 February 2006:

Bank of Ireland Asset Management Limited 5.45% (5.72% when Treasury Shares are excluded).

None of the clients on whose behalf these shares are held had a beneficial interest in 3% or more of the Ordinary Share Capital. An analysis of shareholdings is shown on page 164.

### **Corporate Governance**

The Directors' Corporate Governance statement appears on pages 42 to 47.

### **Books of Account**

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the *Internal Control* section of the Corporate Governance statement on pages 46 to 47, and the employment of competent persons. The books of account are kept at the Company's Registered Office, Bankcentre, Ballsbridge, Dublin 4, Ireland; at the principal offices of the Company's main subsidiary companies, as shown on pages 108/109 and 159/160; and at the Company's other principal offices, as shown on those pages.

### **Principal Risks and Uncertainties**

Information concerning the principal risks and uncertainties facing the Company and the Group, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC), is set out in the "*Risk Management*" section of the Financial Review.

### **Branches Outside the State**

The Company has established branches, within the meaning of EU Council Directive 89/666/EEC, in France, Germany, the United Kingdom and the United States of America.

### **Auditors**

The Auditors, KPMG, have signified their willingness to

continue in office in accordance with Section 160(2) of the Companies Act, 1963.

### **Dermot Gleeson**

*Chairman*

### **Eugene Sheehy**

*Group Chief Executive*

*21 February 2006*

# Corporate Governance

Corporate governance is concerned with how companies are managed and controlled. The Board is committed to the highest standards in that regard. This statement explains how the Company has applied the Principles set out in the Combined Code on Corporate Governance<sup>(1)</sup> ("the Code").

## The Board

### Role

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

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

The role of the Chairman, which is non-executive, is separate from the role of the Group Chief Executive, with clearly-defined responsibilities attaching to each; these are set out in writing and

agreed by the Board.

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

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

### Meetings

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

The Board met on 11 occasions in 2005. Attendance at those meetings is reported on below. During a number of those meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. In addition to their attendance at Board meetings, individual Non-Executive Directors attended board meetings of overseas subsidiaries and held consultative meetings with the Chairman.

### Attendance at Board meetings

Dermot Gleeson	11/11
Michael Buckley <sup>(a)</sup>	6/6
Adrian Burke	11/11
Kieran Crowley	11/11
Colm Doherty	11/11
Padraic M Fallon	9/11
Don Godson	10/11
Sir Derek Higgs <sup>(b)</sup>	8/8

Gary Kennedy	8/11
John B McGuckian	11/11
Aidan McKeon	10/11
Jim O'Leary	11/11
Eugene Sheehy <sup>(c)</sup>	7/7
Michael J Sullivan	11/11
Robert G Wilmers	6/11
Jennifer Winter	10/11

<sup>(a)</sup> Retired 30 June 2005

<sup>(b)</sup> Resigned 5 October 2005

<sup>(c)</sup> Appointed 12 May 2005

### Membership

It is the policy of the Board that a significant majority of the Directors should be Non-Executive. At 31 December, 2005, there were 10 Non-Executive Directors and 4 Executive Directors. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Group.

The names of the Directors, and their biographical notes, appear on pages 6 and 7. All Directors are required to act in the best interests of the Company, and to bring independent judgement to bear in discharging their duties as Directors. Mr. Robert G. Wilmers serves as a Director of the Company as the designee of M&T Bank Corporation, in which AIB holds a 23.8% interest. In these circumstances, Mr. Wilmers is not determined to be independent for the purposes of the Code. The Board has determined that all other Non-Executive Directors are

<sup>(1)</sup>The Code was adopted in 2003 by the Irish Stock Exchange and the UK Listing Authority.

independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. While two of the Non-Executive Directors have served in excess of nine years and are members of the Non-Executive Directors' Pension Scheme ("the Scheme"), both have been determined by the Board to be independent. In that regard, the benefits accruing to the Directors concerned – Mr. Padraic M. Fallon and Mr. John B. McGuckian – from their historical membership of the Scheme are not considered to be significant to them, and their tenure as Directors has not affected their ability to bring independent judgment to bear in discharging their duties.

#### *Chairman*

Mr. Dermot Gleeson has been Chairman of the Board since 14 October 2003. His responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new Directors, and reviewing the performance of individual Directors.

#### *Group Chief Executive*

The day-to-day management of the Group has been delegated to the Group Chief Executive, Mr. Eugene Sheehy, whose appointment to that position was effective from 1 July 2005. His

responsibilities include the formulation of strategy and related plans, and, subject to Board approval, their execution. He is also responsible for ensuring an effective organisation structure, for the appointment, motivation and direction of the senior executive management, and for the operational management of all the Group's businesses.

#### *Senior Independent Non-Executive Director*

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

#### *Company Secretary*

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

#### *Performance Evaluation*

Evaluations of the performances of the Board, individual Directors, and Board Committees were conducted during the year by the Chairman, using a detailed questionnaire and meetings with each of the Directors. The results were presented to the Board. An evaluation of the performance of the Chairman was conducted in his absence by the Non-Executive

Directors, under the Chairmanship of Mr. John B. McGuckian, the Senior Independent Non-Executive Director, who had also consulted the Executive Directors.

#### *Terms of Appointment*

Non-Executive Directors are appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in individual cases, on the recommendation of the Nomination and Corporate Governance Committee. Following appointment, Directors are required by the Articles of Association to retire at the next Annual General Meeting ('AGM'), and may go before the shareholders for re-appointment. Subsequently, all Directors are required to submit themselves for re-appointment at intervals of not more than three years. In 2005, the Directors decided, as a measure of strengthened corporate governance, to retire from office at the AGM, and offer themselves for re-appointment. It is intended that this practice will apply again at the 2006 AGM.

Letters of appointment, as well as dealing with appointees' responsibilities, stipulate that a specific time commitment is required from Directors; (a copy of the standard terms of the letter of appointment of Non-Executive Directors is available from the Company Secretary).

#### *Induction*

There is an induction process for new Directors. Its content varies as between Executive and

# Corporate Governance

Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Company's strategic and operational plans, and a programme of meetings with the Heads of Divisions and the senior management of businesses and support functions. Directors also attend external courses and seminars to update their knowledge.

## *Board Committees*

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, each of which operates under terms of reference approved by the Board, and their membership, is given below. The minutes of all meetings of Board Committees are circulated to all Directors, for information, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The terms of reference of the Audit Committee, the Nomination and Corporate Governance Committee, and the

Remuneration Committee are available on AIB's website, [www.aibgroup.com](http://www.aibgroup.com)

## *Audit Committee*

*Members: Mr. Adrian Burke, Chairman; Mr. Kieran Crowley; Sir Derek Higgs (to October); Mr. Jim O'Leary; and Mr. Michael J Sullivan.*

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

The Audit Committee reviews the Group's annual and interim accounts; the scope of the audit; the findings, conclusions and recommendations of the internal and external Auditors; reports on compliance; the nature and extent of non-audit services provided by the Auditors; and the effectiveness of internal controls. The Committee is responsible for making recommendations on the appointment, re-appointment and removal of the Auditors, ensuring the cost-effectiveness of the audit, and for confirming the independence of the Auditors, the Group Internal Auditor, and the Group General Manager, Regulatory Compliance, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Each of these parties has unrestricted access to the Chairman of the Audit Committee. A written report is submitted annually to the Board, showing the issues considered by

the Committee.

There is a process in place by which the Audit Committee reviews and, if considered appropriate, approves, within parameters approved by the Board, any non-audit services undertaken by the Auditors, and the related fees. This ensures that the objectivity and independence of the Auditors is safeguarded.

The Audit Committee met on eleven occasions during 2005. All the members attended all the meetings held during their terms as members of the Committee, with the exception of Mr. Sullivan, who attended nine meetings. The following attend the Committee's meetings, by invitation: the Auditors; the Group Finance Director; the Group Chief Risk Officer; the Group General Manager, Regulatory Compliance; and the Group Internal Auditor.

## *Corporate Social Responsibility Committee*

*Members: Ms. Jennifer Winter, Chairman; Mr. Dermot Gleeson, (Chairman until June, when he stepped down from the Committee); Mr. Kieran Crowley (from June); Mr. Padraic M Fallon.*

The role of the Corporate Social Responsibility ("CSR") Committee is to recommend Group CSR policies and objectives.

The Committee met on 4 occasions during 2005. All the members attended all the meetings held during their terms as members of the Committee, except Mr. Fallon, who attended two of the meetings.



### *Nomination and Corporate Governance Committee*

*Members: Mr. Dermot Gleeson, Chairman; Mr. Michael Buckley (until June); Mr. Padraic M. Fallon (from June); Mr. Don Godson; Mr. John B McGuckian; Mr. Eugene Sheehy (from July); and Mr. Michael J Sullivan.*

The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board for appointment as Directors; reviewing the size, structure and composition of the Board; and reviewing succession planning. The Committee is also responsible for reviewing the Company's corporate governance policies and practices.

The Committee met on four occasions during 2005. All the members attended all the meetings held during their terms as members of the Committee, except Mr. McGuckian, who attended two of the meetings.

### *Remuneration Committee*

*Members: Mr. Dermot Gleeson, Chairman (until June); Sir Derek Higgs, Chairman (from June to October, when he resigned as a Director); Mr. John B McGuckian, Chairman (from November); Mr. Don Godson; and Mr. Jim O'Leary.*

The Remuneration Committee's responsibilities include recommending to the Board: (a) Group remuneration policies and practices; (b) performance-related pay schemes; (c) the operation of incentive schemes; and (d) executive and managerial salary ranges. The Committee also determines the remuneration of the

Group Chief Executive, the other Executive Directors, and the other members of the Group Executive Committee, under advice to the Board.

The Committee met on eleven occasions during 2005. All the members attended all the meetings held during their terms as members of the Committee.

### **Directors' Remuneration**

The Report on Directors' Remuneration and Interests appears on pages 134 to 138.

### **Relations with Shareholders**

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

### *Website*

Shareholders have the option of accessing the Annual Report and Accounts on AIB's website, instead of receiving that document by post. The website contains, for the previous five years, the Annual Report and Accounts, the Interim Report, and the Annual Report on Form 20-F.

The Company's presentations to fund managers and analysts of Annual and Interim Financial

Results are broadcast live on the internet, and may be accessed on <http://www.aibgroup.com/webcast>. The times of the broadcasts are announced in advance on the website, which is updated with the Company's Stock Exchange releases, including the Trading Updates issued in June and December, and formal presentations to analysts and investors. These items are thus available for review by all shareholders with internet access.

### *Annual General Meeting*

All shareholders are invited to attend the Annual General Meeting ("AGM") and to participate in the proceedings. Shareholders are invited to submit written questions in advance of the AGM, and the more frequently raised questions are dealt with at the AGM. Subsequently, the Chairman writes to each shareholder who has submitted a question. At the AGM, it is practice to give an update on the Group's performance and developments of interest, by way of video presentation. Separate resolutions are proposed on each separate issue. The proportion of proxy votes lodged for and against each resolution is indicated; this shows what the voting position would be if all votes cast, including votes cast by shareholders not in attendance, were taken into account.

The Chairmen of the Board's Committees are available to answer questions about the Committees' activities.

It is usual for all Directors to attend the AGM and to be

# Corporate Governance

available to meet shareholders before and after the Meeting. A Help Desk facility is available to shareholders attending.

The Company's 2006 AGM is scheduled for 26 April, and it is intended that the Notice of the Meeting will be posted to shareholders on 27 March. This represents a notice period of 30 calendar days and 20 working days.

## *Institutional Shareholders*

The Company held almost 300 meetings with its principal institutional shareholders and with financial analysts and brokers during 2005. The Group Chief Executive, the Group Finance Director, Heads of Divisions, other Executive Management as requested by shareholders, and the Head of Investor Relations participate in those meetings, at which care is taken to ensure that price-sensitive information is not divulged. Company representatives also spoke at a number of investor conferences. The Chairman and the Senior Independent Non-Executive Director are available to meet institutional shareholders, and the links with those shareholders and the communication of their views to the Board were strengthened through the following steps:

- the Chairman wrote to institutional shareholders in Ireland, the UK, Europe and North America, offering to meet them if they considered such meetings to be useful;
- the Chairman held discussions with a number of institutional

shareholders;

- the Head of Investor Relations reported on institutional shareholders' views to the Board; and
- analysts' and brokers' briefings on the Company were circulated to the Directors, on receipt.

## **Accountability and Audit**

### *Accounts and Directors' Responsibilities*

The Accounts and other information presented in this Report and Accounts are consistent with the Code Principle requiring the presentation of "a balanced and understandable assessment of the Company's position and prospects". The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 153.

### *Going Concern*

The Accounts continue to be prepared on a going concern basis, as the Directors are satisfied that the Company and the Group as a whole have the resources to continue in business for the foreseeable future. In forming this view, the Directors have reviewed the Group's budget for 2006.

### *Internal Control*

The Directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness.

Guidance ("*Internal Control: Guidance for Directors on the Combined Code*") has been issued by the Irish Stock Exchange and

the London Stock Exchange to assist Directors in complying with the Code's requirements in respect of internal control. That Guidance states that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal control includes:

- a clearly-defined management structure, with defined lines of authority and accountability;
- a comprehensive annual budgeting and financial reporting system, which incorporates clearly-defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning. The accuracy and integrity of the Group's financial information is confirmed through Divisional and Group-level reports to the Group Finance Director;
- the Group Risk Management function, which is responsible for ensuring that risks are identified, assessed and managed throughout the Group;
- the Group General Manager, Regulatory Compliance, who reports independently to the Audit Committee on the compliance framework across the Group and on



- management's attention to compliance matters;
- the Audit Committee, which receives reports on various aspects of control, reviews the Group's statutory Accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit and Regulatory Compliance functions. The Audit Committee reports to the Board on these matters, and on compliance with relevant laws and regulations, and related issues;
- appropriate policies and procedures relating to capital management, asset and liability management (including interest rate risk, exchange rate risk and liquidity management), credit risk management, and operational risk management. Independent testing of the risk management and control framework is undertaken by the Internal Audit function;
- regular review by the Board of overall strategy, business plans, variances against budgets and other performance data.

The Group's structure and on-going processes for identifying, evaluating and managing the significant credit, market and operational risks faced by the Group are described in pages 32 to 39. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Directors confirm that,

with the assistance of reports from the Audit Committee and Management, they have reviewed the effectiveness of the Group's system of internal control for the year ended 31 December 2005. The Audit Committee, on behalf of the Board, monitors the preparations being made by the Group to ensure compliance, by the prescribed 31 December 2006 deadline, with the requirements of Section 404 of the U.S. Sarbanes-Oxley Act 2002, which requires, inter alia, Management to include in the Annual Report on Form 20-F its assessment of the effectiveness of internal controls over financial reporting.

### **Compliance Statement**

The foregoing explains how the Company has applied the principles set out in the Code. The Company has complied, throughout 2005, with the Code's provisions.

A brief description of the significant differences between AIB's corporate governance practices and those followed by U.S. companies under the New York Stock Exchange's listing standards is provided on AIB's website:

[www.aibgroup.com](http://www.aibgroup.com)



# First time adoption of International Financial Reporting Standards ('IFRS')

Up to and including the year ended 31 December 2004, AIB's primary financial statements were prepared in accordance with Irish Generally Accepted Accounting Principles ('Irish GAAP'). On 1 January 2005, AIB Group implemented the requirements of International Financial Reporting Standards and International Accounting Standards (collectively, 'IFRS') for the first time and these are used for the purpose of preparing the financial statements for the year ended 31 December 2005. These financial statements have been prepared based on the recognition and measurement requirements of IFRS issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU').

In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1'), there have been no adjustments to the estimates made at the time of the approval of the Irish GAAP financial statements for the year ended 31 December 2004. IFRS 1 provides first time adopters of IFRS with certain exemptions. IFRS 1 also allows or requires a number of other exceptions to its general principle that the standards in force at the reporting date should be applied retrospectively. AIB has availed of certain exemptions as set out below:-

## **First time application relating to financial instruments and insurance contracts**

AIB has availed of transitional provisions for IAS 32 'Financial Instruments: Disclosure and Presentation' ('IAS 32'), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IFRS 4 'Insurance Contracts' ('IFRS 4') and has not presented comparative information in accordance with these standards in its 2005 financial statements. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts has been prepared on the basis of the Group's accounting policies under Irish GAAP.

## **Share based payments**

AIB has implemented the requirements of IFRS 2 'Share Based Payment' ('IFRS 2') to all equity settled share based payments granted after 7 November 2002 that had not vested by 1 January 2005.

## **Property, plant & equipment**

AIB has retained its existing carrying value of occupied properties, plant and equipment at 1 January 2004 as deemed cost, as permitted by IFRS 1, rather than either reverting to historical cost or carrying out a valuation at the date of transition.

## **Cumulative exchange differences**

AIB has elected to deem cumulative exchange differences on the net investments in foreign branches and subsidiaries to be zero at 1 January 2004, as permitted by IFRS 1.

## **Employee benefits**

AIB has recognised the cumulative actuarial gains and losses of defined benefit pension schemes and other post retirement benefits upon transition at 1 January 2004.

## **Business combinations**

AIB has elected not to apply IFRS 3 'Business Combinations' to business combinations that arose prior to 1 January 2004.

## **Derecognition of financial instruments**

Financial instruments derecognised prior to 1 January 2004 have not been subsequently recognised by the Group under IFRS.

## **Effects of the transition to IFRS**

A description of the differences between Irish GAAP and IFRS accounting policies is set out in note 65. Reconciliations of balance sheets prepared under Irish GAAP and IFRS at 1 January 2005 and 31 December 2004 are included in note 65. A reconciliation of the profit and loss accounts prepared in accordance with Irish GAAP and prepared in accordance with IFRS for the period ended 31 December 2004 is included in note 65. In addition, a reconciliation of the amount of shareholders' equity at 1 January 2005, before and after the application of IAS 32, IAS 39 and IFRS 4, detailing the effects of their application on the 1 January 2005 balance sheet, is presented in note 1.

# Accounting policies

The accounting policies that the Group applied in the preparation of the financial statements for the year ended 31 December 2005 are set out below. Because AIB has availed of the transitional provisions for IAS 32 'Financial Instruments: Disclosure and Presentation' ('IAS 32'), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IFRS 4 'Insurance Contracts' ('IFRS 4'), it has not presented comparative information in accordance with these standards in its 2005 financial statements. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts has been prepared on the basis of the Group's accounting policies under Irish GAAP. These accounting policies applied in the comparative IFRS financial statements are set out on pages 63 to 64.

## 1 Statement of compliance

The consolidated financial statements have been presented in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRS') as adopted by the EU and applicable at 31 December 2005. The financial statements also comply with the requirements of Irish Statute comprising the Companies Acts 1963 to 2005 and the European Communities (Credit Institutions:Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005. Both the parent company and the Group financial statements have been prepared in accordance with IFRSs as adopted by the EU. In publishing the parent company financial statements together with the Group financial statements, AIB has taken advantage of the exemption in paragraph 2 of the European Communities (Credit Institutions:Accounts) Regulations, 1992 not to present its individual income statement and related notes that form part of these approved financial statements.

The Group has early adopted the fair value option under IAS 39 and amendments to IAS 19 - Actuarial Gains and Losses, Group Plans and Disclosures, both of which have been adopted by the EU.

## 2 Basis of preparation

The financial statements are presented in euro, rounded to the nearest million. They have been prepared under the historical cost basis, with the exception of the following assets and liabilities and derivatives which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities, financial instruments held for trading and financial assets classified as available for sale.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of impairment of financial assets, retirement benefit liabilities, share based payments and fair value of certain financial assets and financial liabilities. A description of these estimates and judgments is set out on pages 61 and 62.

Except as described above in respect of financial instruments and insurance contracts, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at 1 January 2004 for the purpose of transition to IFRS.

The accounting policies have been consistently applied by Group entities.

## 3 Basis of consolidation

### *Subsidiary undertakings*

The Group financial information includes the accounts of Allied Irish Banks, p.l.c. (the parent company) and its subsidiary undertakings, including certain special purpose entities where appropriate, made up to the end of the financial year. A subsidiary is one where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the transaction, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

### **3 Basis of consolidation *(continued)***

#### *Associated undertakings*

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

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

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

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

#### *Transactions eliminated on consolidation*

Intra-group balances and any unrealised gains and losses, or income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised gains on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

### **4 Foreign currency translation**

The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

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

#### *Transactions and balances*

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

#### *Foreign operations*

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

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into Euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions; and
- all resulting exchange differences are included in cumulative translation reserves within shareholders' equity.

Exchange differences arising after 1 January 2004, the date of transition to IFRS, from the translation of the net investment in foreign operations, and of borrowings designated as hedges of such investments, are taken to a separate component of shareholders' equity and included in the profit or loss on disposal or partial disposal of the foreign operations.

### **5 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

## 5 Interest income and expense recognition (continued)

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

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

## 6 Fee and commission income

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

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

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment.

## 7 Financial assets

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

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

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

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

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

### *Financial assets at fair value through profit or loss*

This category has two sub categories: – Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is held primarily for the purpose of selling in the short term, or if it is so designated by management, subject to certain criteria.

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

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

### *Loans and receivables*

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

## 7 Financial assets *(continued)*

### *Held to maturity*

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

### *Available for sale*

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

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

### *Parent company accounts: Investment in subsidiary and associated undertakings*

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

## 8 Financial liabilities

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

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

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

## 9 Property, plant and equipment

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

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	Life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years*
Office properties	up to 15 years*
Computers and similar equipment	3 – 5 years
Fixtures and fittings and other equipment	3 – 10 years

\*Subject to the maximum remaining life of the lease.

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

## 9 Property, plant and equipment (continued)

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

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

## 10 Intangible assets

### *Goodwill*

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

Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold. Capitalised goodwill was tested for impairment as at 1 January 2004, the date of transition to IFRS.

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

### *Computer software*

Computer software is stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 5 years.

## 11 Derivatives and hedge accounting

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

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

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows, and are accounted for on an amortised cost basis.

### *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 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.

### *Embedded derivatives*

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



## 11 Derivatives and hedge accounting *(continued)*

### *Hedging*

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

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

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

The Group discontinues hedge accounting when:

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

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

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

### *Fair value hedge accounting*

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

### *Cash flow hedge accounting*

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

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

### *Net investment hedge*

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

## 11 Derivatives and hedge accounting *(continued)*

### *Derivatives that do not qualify for hedge accounting*

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

## 12 Impairment of financial assets

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

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported ('IBNR') assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

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

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

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

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

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and

### 12 Impairment of financial assets *(continued)*

the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

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

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

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

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

### 13 Employee benefits

#### *Retirement benefit obligations*

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

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

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

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

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

#### *Short-term employee benefits*

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

#### *Share based compensation*

The Group operates a number of share based compensation plans. For grants of options after 7 November 2002, the fair value of the employee services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in exchange for the shares or share options granted is recognised in the income statement over the period during which the employees become unconditionally entitled to the options, which is the vesting period. The amount expensed is determined by reference to the fair value of the options granted. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the share price at date of grant of the option, the risk free interest rate,

### 13 Employee benefits (continued)

#### *Share based compensation (continued)*

the expected volatility of the share price over the life of the option and other relevant factors. Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

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

### 14 Non-credit risk provisions

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

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

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

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows.

#### *Restructuring costs*

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

#### *Legal claims and other contingencies*

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

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

### 15 Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

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

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

## **15 Income tax, including deferred income tax *(continued)***

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

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

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

Deferred tax relating to items that are charged or credited to equity, is charged or credited directly to equity.

## **16 Impairment of property, plant and equipment and intangible assets**

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset, or its cash generating unit, with its recoverable amount. The recoverable amount is determined as the higher of the net selling price of the asset and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when this is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews in respect of goodwill, the recoverable amount is determined as the higher of the net selling price of the cash-generating unit and its value in use. Cash-generating units are the lowest level at which management monitors the return on investment in assets.

## **17 Construction contracts**

Revenue from construction contracts is recognised when it is probable that the economic benefits of the transaction will flow to the Group and when the revenue, the costs, (both incurred and in the future), the outcome of the contract and its stage of completion can all be measured reliably. Once the above criteria are met, both contract revenue and contract costs are recognised by reference to the stage of completion of the contract.

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

## **18 Non-current assets held for sale and discontinued operations**

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

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

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

Discontinued operations are presented on the income statement (including comparatives) as a separate amount, comprising the

## **18 Non-current assets held for sale and discontinued operations (continued)**

total of the post tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on disposal of the assets/disposal groups constituting discontinued operations.

## **19 Collateral & netting**

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

### *Collateral*

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

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

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

### *Netting*

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

## **20 Financial guarantees**

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

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

## **21 Sale and repurchase agreements (including stock borrowing and lending)**

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

Similarly, when securities are purchased subject to a commitment to resell ('reverse repos'), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.



## 22 Leases

### *Lessor*

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

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

### *Lessee*

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

## 23 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 Group.

### *Share issue costs*

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### *Dividends on ordinary shares*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been approved by the Board of directors. Dividends declared after the balance sheet date are disclosed in the dividends note (*note 67*).

### *Treasury shares*

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

## 24 Insurance and investment contracts

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

### *Insurance contracts*

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

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



## 24 Insurance and investment contracts (continued)

### *Investment contracts*

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

## 25 Segment reporting

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those of components operating in other economic environments. The Group has determined that business segments are the primary reporting segments.

## 26 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.

## 27 Trust activities

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

## 28 Accounting estimates and judgements

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

### *Loan impairment*

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

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

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

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

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

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

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

## **28 Accounting estimates and judgements *(continued)***

### *Loan impairment (continued)*

Our 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 our allowances.

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

### *Fair value of financial instruments*

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

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, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, where no observable price is available then instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), hedging costs not captured in pricing models and adjustments to reflect the cost of exiting illiquid or other significant positions. This would also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument. 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.

### *Retirement benefits*

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

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

## **29 Prospective accounting changes**

The following standards/amendments to standards have been approved by the IASB, and were adopted by the EU in January 2006 but not early adopted by the Group. These will be adopted in 2006 and thereafter:-

Amendment to IAS 1 - Capital disclosures (effective 1 January 2007). This amendment requires disclosure, both quantitative and qualitative, of an entity's objectives, policies and processes for managing capital. The impact is not expected to be material in terms of Group reporting.

Amendments to IAS 39 - Cash Flow Hedge Accounting of Forecast Intragroup transactions (effective 1 January 2006). This amendment, which is not expected to have a material impact on Group reporting, will allow the foreign currency risk of intragroup monetary items qualify as the hedge item in certain circumstances in the consolidated financial statements.

Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts (effective 1 January 2006). This amendment will be adopted by the Group in the accounting period commencing on 1 January 2006 and requires financial guarantee contracts to be accounted for as financial instruments under IAS 39 unless they have been explicitly dealt with as insurance contracts in the past in which case the previous accounting may continue. This standard is not expected to have a material impact on the Group.

IFRS 7 - Financial Instrument disclosures (effective 1 January 2007). This standard updates and augments the disclosure requirements of IAS 30, IAS 32 and IFRS 4 and will require additional disclosures relating to risk management policies and processes.

**The Group has taken advantage of the transitional arrangements of IFRS, not to restate corresponding amounts in accordance with the above policies on Financial assets; Financial liabilities; Derivatives and hedge accounting; impairment of financial assets; and collateral & netting. Comparative information was prepared under Irish GAAP and the relevant accounting policies for these are set out as follows:**

#### **Provisions for impairment of loans and receivables**

It is Group policy to make provisions for bad and doubtful debts to reflect the losses inherent in the loan portfolio at the balance sheet date. The charge to the profit and loss account reflects new provisions made during the year, plus write-offs not previously provided for, less existing provisions no longer required and recoveries of bad debts already written off.

Specific provisions are made when, in the judgment of management, the recovery of the outstanding balance is in serious doubt. The amount of the specific provision is intended to cover the difference between the balance outstanding on the loan or advance and the estimated recoverable amount. In certain portfolios, provisions are applied to pools of loans on a formula driven basis depending on levels of delinquency.

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 this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off.

General provisions are also made 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 bank advances. The Group holds general provisions at a level deemed appropriate by management taking into account a number of factors including:- the credit grading profiles and movements within credit grades; historic loan loss rates; local and international economic climates and portfolio sector profiles/industry conditions. The level of general provisions is reviewed quarterly to ensure that it remains appropriate.

Loans and receivables to banks and customers are reported in the balance sheet having deducted the total provisions for impairment of loans and receivables.

Loans are deemed non-performing where interest is 90 days overdue and not taken to profit (i.e. non-accrual) or where a provision exists in anticipation of a loss. Interest is not taken to profit when recovery is doubtful.

#### **Debt securities**

Debt securities held as financial fixed assets are those held on a continuing use basis by the Group and those held to hedge positions which are accounted for on a historic cost basis. These debt securities are stated in the balance sheet at cost, adjusted for the amortisation of any premiums or discounts arising on acquisition or provisions for impairment. The amortisation of premiums and discounts is included in net interest income. Profits and losses on disposal of securities held for investment purposes are recognised immediately in other operating income. Profits and losses on disposal of securities held for hedging purposes are amortised over the lives of the underlying transactions and included in net interest income.

Debt securities held for trading purposes are stated in the balance sheet at market value. Both realised and unrealised profits on trading securities are taken directly to the profit and loss account and included within dealing profits.

#### **Equity shares**

Equity shares intended to be held on a continuing basis are classified as financial fixed assets and included in the balance sheet at cost less provision for any impairment. Profits and losses on disposal of equity shares held as financial fixed assets are recognised immediately in the profit and loss account. Equity shares held for trading purposes are marked to market with full recognition in the profit and loss account of changes in market value.

#### **Derivatives**

The Group uses derivatives, such as interest rate swaps, options, forward rate agreements and financial futures for trading and non-trading purposes. The accounting treatment of these derivative instruments is dependent on the purpose for which they are entered into.

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers while others represent proprietary trading with a view to generating incremental income. Trading instruments and hedges thereof are recognised in the accounts at fair value with the adjustment arising included in other assets and other liabilities as appropriate. Gains and losses arising from trading activities are included in dealing profits in the profit and loss account using the mark to market method of accounting. Interest and dividend income arising together with the funding costs relating to trading activities are included in net interest income.

### **Derivatives** *(continued)*

Non-trading derivative transactions, comprise transactions held for hedging purposes as part of the Group's risk management strategy, against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account immediately as they arise. Derivative transactions entered into for hedging purposes are recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged. Except as described below, in respect of hedges of the income stream on Group capital, upon early termination of derivative financial instruments, classified as hedges, any realised gain or loss is deferred and amortised to net interest income over the life of the original hedge as long as the designated assets or liabilities remain. Upon early termination of derivative transactions classified as hedges of the income stream on Group capital, any realised gain or loss is taken to profit and loss account as it arises.

A derivative will only be classified as a hedge where it is designated as a hedge at its inception and where it is reasonably expected that the derivative substantially matches or eliminates the exposure being hedged. Transactions designated as hedges are reviewed and where a transaction originally entered into for hedging purposes no longer represents a hedge, its value is restated at fair value and any change in value is taken to profit and loss account immediately. Interest rate swaps, forward rate agreements and option contracts are generally used to modify the interest rate characteristics of balance sheet instruments and are linked to specific assets or groups of similar assets or specific liabilities or groups of similar liabilities. Futures contracts are designated as hedges when they reduce risk and there is high correlation between the futures contracts and the item being hedged, both at inception and throughout the hedge period. Amounts paid or received over the life of a futures contract are deferred and amortised over the life of the contract.

# Consolidated income statement

for the year ended 31 December 2005

	Notes	2005 € m	2004 € m
Interest and similar income	5	5,151	4,018
Interest expense and similar charges	6	2,621	1,946
<b>Net interest income</b>		<b>2,530</b>	<b>2,072</b>
Dividend income	7	17	27
Fee and commission income		1,061	1,043
Fee and commission expense		(145)	(131)
Trading income	8	112	96
Other operating income	9	72	109
<b>Other income</b>		<b>1,117</b>	<b>1,144</b>
<b>Total operating income</b>		<b>3,647</b>	<b>3,216</b>
Administrative expenses	10	1,881	1,724
Depreciation of property, plant and equipment	39	83	82
Amortisation/impairment of intangible assets and goodwill	38	47	63
<b>Total operating expenses</b>		<b>2,011</b>	<b>1,869</b>
<b>Operating profit before provisions</b>		<b>1,636</b>	<b>1,347</b>
Provisions for impairment of loans and receivables	30	115	114
Provisions for liabilities and commitments	47	20	20
Amounts written off/(written back) financial investments	13	8	(1)
<b>Operating profit</b>		<b>1,493</b>	<b>1,214</b>
Share of results of associated undertakings		149	132
Profit on disposal of property		14	9
Construction contract income	14	45	-
Profit on disposal of businesses	15	5	17
<b>Profit before taxation – continuing operations</b>		<b>1,706</b>	<b>1,372</b>
Taxation on ordinary activities	18	319	267
<b>Profit after taxation – continuing operations</b>		<b>1,387</b>	<b>1,105</b>
Discontinued operation, net of taxation	2 & 41	46	53
<b>Profit for the period</b>		<b>1,433</b>	<b>1,158</b>
Attributable to:			
Equity holders of the parent		1,343	1,129
Minority interests in subsidiaries	21	90	29
		<b>1,433</b>	<b>1,158</b>
<b>Basic earnings per share – continuing operations</b>		<b>145.7c</b>	<b>125.8c</b>
<b>Basic earnings per share – discontinued operations</b>		<b>5.3c</b>	<b>6.2c</b>
<b>Total</b>	19(a)	<b>151.0c</b>	<b>132.0c</b>
<b>Diluted earnings per share – continuing operations</b>		<b>144.6c</b>	<b>125.3c</b>
<b>Diluted earnings per share – discontinued operations</b>		<b>5.2c</b>	<b>6.2c</b>
<b>Total</b>	19(b)	<b>149.8c</b>	<b>131.5c</b>

The results for the year ended 31 December 2004 have been restated to represent the results of Ark Life as a discontinued operation (note 2) and the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005. See First time adoption of International Financial Reporting Standards ('IFRS').

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

# Consolidated balance sheet

as at 31 December 2005

	Notes	31 December 2005 € m	1 January 2005 € m	31 December 2004 € m
<b>Assets</b>				
Cash and balances at central banks		742	887	887
Treasury bills and other eligible bills	24	201	-	-
Items in course of collection		402	368	368
Trading portfolio financial assets	25	10,113	7,957	-
Financial assets designated at fair value through profit or loss	26	-	1,871	-
Derivative financial instruments	27	2,439	2,581	-
Loans and receivables to banks	28	7,129	2,538	2,540
Loans and receivables to customers	29	85,232	65,692	64,738
Financial investments available for sale	33	16,864	15,720	-
Debt securities and equity shares	34 & 35	-	-	26,142
Interests in associated undertakings	36	1,656	1,395	1,379
Intangible assets and goodwill	38	517	540	540
Property, plant and equipment	39	706	745	745
Other assets		778	1,435	2,597
Current taxation		18	25	25
Deferred taxation	40	253	204	228
Prepayments and accrued income		801	861	920
Disposal group and assets classified as held for sale	2 & 41	5,363	-	-
<b>Total assets</b>		<b>133,214</b>	<b>102,819</b>	<b>101,109</b>
<b>Liabilities</b>				
Deposits by banks	42	29,329	20,428	20,428
Customer accounts	43	62,580	50,151	50,151
Trading portfolio financial liabilities	44	240	332	-
Derivative financial instruments	27	1,967	2,541	-
Investment and insurance contract liabilities	41	-	3,887	3,286
Debt securities in issue	45	17,611	11,805	11,805
Current taxation		133	197	175
Other liabilities	46	1,599	1,593	3,387
Accruals and deferred income		1,092	705	913
Retirement benefit liabilities	12	1,227	886	886
Provisions for liabilities and commitments	47	140	122	122
Deferred taxation	40	32	38	52
Subordinated liabilities and other capital instruments	48	3,756	2,451	2,766
Disposal group classified as held for sale	2 & 41	5,091	-	-
<b>Total liabilities</b>		<b>124,797</b>	<b>95,136</b>	<b>93,971</b>
<b>Shareholders' equity</b>				
Share capital	49	294	294	294
Share premium account		1,693	1,693	1,693
Other equity interests	51	497	497	182
Reserves		1,152	1,190	985
Profit and loss account		3,533	2,798	2,773
Shareholders' equity		7,169	6,472	5,927
Minority interests in subsidiaries	52	1,248	1,211	1,211
Total shareholders' equity including minority interests		8,417	7,683	7,138
<b>Total liabilities, shareholders' equity and minority interests</b>		<b>133,214</b>	<b>102,819</b>	<b>101,109</b>

*The financial position as at 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005.  
See First time adoption of International Financial Reporting Standards ('IFRS').*

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

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

as at 31 December 2005

	Notes	31 December 2005 € m	1 January 2005 € m	31 December 2004 € m
<b>Assets</b>				
Cash and balances at central banks		503	514	514
Items in course of collection		202	178	178
Trading portfolio financial assets	25	9,579	7,421	-
Derivative financial instruments	27	2,319	2,225	-
Loans and receivables to banks	28	26,262	18,491	18,491
Loans and receivables to customers	29	60,142	45,387	44,696
Financial investments available for sale	33	14,092	13,145	-
Debt securities and equity shares	34 & 35	-	-	20,923
Shares in Group undertakings	37	271	225	225
Interests in associated undertakings	36	891	891	891
Intangible assets and goodwill	38	64	57	57
Property, plant and equipment	39	465	454	454
Other assets		318	278	1,505
Current taxation		13	25	25
Deferred taxation	40	114	92	110
Prepayments and accrued income		634	635	767
Assets classified as held for sale		6	-	-
<b>Total assets</b>		<b>115,875</b>	<b>90,018</b>	<b>88,836</b>
<b>Liabilities</b>				
Deposits by banks	42	43,831	34,448	34,448
Customer accounts	43	42,666	34,727	34,727
Trading portfolio financial liabilities	44	230	229	-
Derivative financial instruments	27	1,821	2,032	-
Debt securities in issue	45	16,684	10,330	10,330
Current taxation		62	133	105
Other liabilities	46	479	515	1,951
Accruals and deferred income		1,028	708	739
Retirement benefit liabilities		807	561	561
Provisions for liabilities and commitments	47	119	100	100
Subordinated liabilities and other capital instruments	48	3,756	2,451	2,766
<b>Total liabilities</b>		<b>111,483</b>	<b>86,234</b>	<b>85,727</b>
<b>Shareholders' equity</b>				
Share capital	49	294	294	294
Share premium account		1,693	1,693	1,693
Other equity interests	51	497	497	182
Reserves		299	388	80
Profit and loss account		1,609	912	860
Shareholders' equity		4,392	3,784	3,109
<b>Total liabilities and shareholders' equity</b>		<b>115,875</b>	<b>90,018</b>	<b>88,836</b>

The financial position as at 31 December 2004 has been restated to reflect the application of International Financial Reporting Standards, with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005.  
See First time adoption of International Financial Reporting Standards ('IFRS').

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



# Statement of cash flows

for the year ended 31 December 2005

	Notes	Group		Allied Irish Banks, p.l.c.	
		2005 € m	2004 € m	2005 € m	2004 € m
<b>Reconciliation of profit before taxation to net cash inflow from operating activities</b>					
Profit before taxation <sup>(1)</sup>		1,754	1,430	1,545	711
Profit on disposal of businesses		(5)	(17)	-	-
Construction contract income		(45)	-	(9)	-
Profit on disposal of property		(14)	(9)	(12)	(7)
Investment income		(41)	(37)	(713)	(56)
Share of results of associated undertakings		(149)	(132)	-	-
Decrease/(increase) in prepayments and accrued income		83	(282)	11	13
Increase in accruals and deferred income		332	369	248	33
Provisions for impairment of loans and receivables		115	114	127	64
Provisions for liabilities and commitments		20	20	19	20
Amounts written off/(written back) financial investments		8	(1)	2	(4)
Increase in other provisions		14	33	17	10
Depreciation, impairment and amortisation		130	145	69	71
Interest on subordinated liabilities and other capital instruments		132	109	132	109
Profit on disposal of available for sale financial instruments		(19)	(17)	(15)	(20)
Profit on termination of off-balance sheet instruments		-	(36)	-	(36)
Average gains on debt securities held for hedging purposes		-	(2)	-	(2)
Profit on disposal of investments in associated undertakings		-	(1)	-	-
Amortisation of premiums and discounts		64	24	84	66
Increase in long-term assurance business		(55)	(62)	-	-
		<b>2,324</b>	<b>1,648</b>	<b>1,505</b>	<b>972</b>
Net increase in deposits by banks		8,019	3,056	8,206	6,082
Net increase in customer accounts		11,414	6,041	7,554	5,740
Net increase in loans and receivables to customers		(18,350)	(13,721)	(14,309)	(10,585)
Net (increase)/decrease in loans and receivables to banks		(30)	635	(2,941)	(4,676)
Net increase in trading portfolio financial assets/liabilities		(1,942)	(2,578)	(1,868)	(2,054)
Net decrease in derivative financial instruments		(447)	-	(315)	-
Net increase in treasury bills and other eligible bills		(177)	-	-	-
Net increase in items in course of collection		(29)	(29)	(24)	(27)
Net increase in debt securities in issue		5,223	8,303	5,960	7,124
Net increase in notes in circulation		21	30	-	-
(Increase)/decrease in other assets		(1,467)	(754)	286	(534)
Increase/(decrease) in other liabilities		419	937	(47)	744
Effect of exchange translation and other adjustments		(114)	138	(151)	(13)
<b>Net cash inflow from operating assets and liabilities</b>		<b>2,540</b>	<b>2,058</b>	<b>2,351</b>	<b>1,801</b>
<b>Net cash inflow from operating activities before taxation</b>		<b>4,864</b>	<b>3,706</b>	<b>3,856</b>	<b>2,773</b>
Taxation paid		(351)	(317)	(200)	(175)
<b>Net cash inflow from operating activities</b>		<b>4,513</b>	<b>3,389</b>	<b>3,656</b>	<b>2,598</b>
<b>Investing activities (note a)</b>		<b>(262)</b>	<b>(4,106)</b>	<b>177</b>	<b>(4,003)</b>
<b>Financing activities (note b)</b>		<b>556</b>	<b>1,288</b>	<b>570</b>	<b>300</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>4,807</b>	<b>571</b>	<b>4,403</b>	<b>(1,105)</b>
Opening cash and cash equivalents		2,773	2,152	1,539	2,655
Effect of exchange translation adjustments		90	50	26	(11)
Closing cash and cash equivalents	56	<b>7,670</b>	2,773	<b>5,968</b>	1,539

# Statement of cash flows *(continued)*

for the year ended 31 December 2005

	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
<b>(a) Investing activities</b>				
Net increase in financial investments	(264)	(4,038)	(460)	(4,021)
Additions to tangible fixed assets	(100)	(68)	(71)	(54)
Disposal of tangible fixed assets	89	20	36	11
Additions to intangible fixed assets	(36)	(66)	-	-
Investment in associated undertaking	(3)	(7)	-	-
Disposal of associated undertakings	4	1	-	-
Investment in Group undertakings	-	-	(41)	-
Transfer of Group undertaking	-	-	-	5
Disposal of investment in subsidiary	7	15	-	-
Dividends received from associated undertakings	41	37	-	-
Dividends received from subsidiary companies	-	-	713	56
<b>Cash flows from investing activities</b>	<b>(262)</b>	<b>(4,106)</b>	<b>177</b>	<b>(4,003)</b>
<b>(b) Financing activities</b>				
Issue of ordinary share capital	47	53	47	53
Redemption of subordinated liabilities	(630)	(32)	(630)	(32)
Issue of new subordinated liabilities	1,813	733	1,813	733
Issue of preferred securities	-	990	-	-
Interest paid on subordinated liabilities	(90)	(105)	(90)	(105)
Equity dividends paid	(532)	(345)	(532)	(345)
Dividends on other equity interests	(38)	(4)	(38)	(4)
Dividends paid to minority interests	(14)	(2)	-	-
<b>Cash flows from financing activities</b>	<b>556</b>	<b>1,288</b>	<b>570</b>	<b>300</b>

<sup>(1)</sup> Represents profit before taxation – continuing activities, as per the Consolidated income statement, adjusted for the pre-tax profit of Ark Life of € 48m in 2005 (2004: € 58m).

# Statement of recognised income and expense

	<b>Group</b>		<b>Allied Irish Banks, p.l.c.</b>	
	<b>2005</b> <b>€ m</b>	<b>2004</b> <b>€ m</b>	<b>2005</b> <b>€ m</b>	<b>2004</b> <b>€ m</b>
Foreign exchange translation differences	287	(73)	7	(26)
Net change in cash flow hedges, net of tax	(76)	-	(81)	-
Net change in fair value of available for sale securities, net of tax	(6)	-	(6)	-
Net actuarial gains and losses in retirement benefit schemes, net of tax	(285)	(198)	(216)	(177)
<b>Income and expense recognised directly in equity</b>	<b>(80)</b>	<b>(271)</b>	<b>(296)</b>	<b>(203)</b>
Profit for the period	1,433	1,158	1,394	579
<b>Total recognised income and expense for the period</b>	<b>1,353</b>	<b>887</b>	<b>1,098</b>	<b>376</b>
Transition adjustment at 1 January 2005 arising from IAS 32, IAS 39 and IFRS 4 ( <i>note 1</i> )	545	-	675	-
<b>Total recognised income and expense for the period including transition adjustment</b>	<b>1,898</b>	<b>887</b>	<b>1,773</b>	<b>376</b>
<b>Attributable to:</b>				
Equity holders of the parent	1,808	858	1,773	376
Minority interests in subsidiaries	90	29	-	-
<b>Total recognised income and expense for the period including transition adjustment</b>	<b>1,898</b>	<b>887</b>	<b>1,773</b>	<b>376</b>

# Consolidated reconciliation of movements in shareholders' equity

	Share capital	Share premium	Capital reserves	Revaluation reserves	Other equity interests	Treasury shares	Revenue reserves	Share based payments reserves	Available for sale securities reserves	Cash flow hedging reserve	Foreign currency translation	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
<b>2004</b>												
Balance 1 January 2004 (Irish GAAP)	290	1,694	838	113	196	(757)	2,764	-	-	-	-	5,138
IFRS transition adjustment	-	-	-	(24)	-	-	223	9	-	-	-	208
Balance 1 January 2004 (IFRS)	290	1,694	838	89	196	(757)	2,987	9	-	-	-	5,346
Profit attributable to equity holders of the parent	-	-	59	-	-	-	1,070	-	-	-	-	1,129
Dividends on ordinary shares	-	-	-	-	-	-	(475)	-	-	-	-	(475)
Dividends on other equity interests	-	-	-	-	-	-	(4)	-	-	-	-	(4)
Share based payments	-	-	-	-	-	-	-	5	-	-	-	5
Actuarial loss recognised in retirement benefit schemes	-	-	-	-	-	-	(198)	-	-	-	-	(198)
Other recognised (losses)/gains relating to the period	-	(1)	-	(1)	(14)	-	28	-	-	-	(73)	(61)
Ordinary shares issued in lieu of cash dividend	4	-	-	-	-	-	130	-	-	-	-	134
Other ordinary shares issued	-	-	-	-	-	71	-	-	-	-	-	71
Net movement in own shares	-	-	-	-	-	-	(20)	-	-	-	-	(20)
Balance 31 December 2004	294	1,693	897	88	182	(686)	3,518	14	-	-	(73)	5,927
<b>2005</b>												
Balance 31 December 2004	294	1,693	897	88	182	(686)	3,518	14	-	-	(73)	5,927
IFRS transition adjustment	-	-	(185)	-	315	-	25	-	136	254	-	545
Balance 1 January 2005	294	1,693	712	88	497	(686)	3,543	14	136	254	(73)	6,472
Profit attributable to equity holders of the parent	-	-	46	-	-	-	1,297	-	-	-	-	1,343
Dividends on ordinary shares	-	-	-	-	-	-	(532)	-	-	-	-	(532)
Dividends on other equity interests	-	-	-	-	-	-	(38)	-	-	-	-	(38)
Share based payments	-	-	-	-	-	-	-	16	-	-	-	16
Actuarial loss recognised in retirement benefit schemes	-	-	-	-	-	-	(285)	-	-	-	-	(285)
Other recognised (losses)/gains relating to the period	-	-	-	(3)	-	-	(69)	-	(6)	(76)	287	133
Other ordinary shares issued	-	-	-	-	-	66	-	-	-	-	-	66
Net movement in own shares	-	-	-	-	-	-	(6)	-	-	-	-	(6)
<b>Balance 31 December 2005</b>	<b>294</b>	<b>1,693</b>	<b>758</b>	<b>85</b>	<b>497</b>	<b>(620)</b>	<b>3,910</b>	<b>30</b>	<b>130</b>	<b>178</b>	<b>214</b>	<b>7,169</b>

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

	Share capital	Share premium	Revaluation reserves	Other equity interests	Treasury shares	Revenue reserves	Share based payments reserves	Available for sale securities reserves	Cash flow hedging reserve	Foreign currency translation	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
<b>2004</b>											
Balance 1 January 2004 (Irish GAAP)	290	1,694	101	196	(757)	1,264	-	-	-	-	2,788
IFRS transition adjustment	-	-	(20)	-	-	231	2	-	-	-	213
Balance at 1 January 2004 (IFRS)	290	1,694	81	196	(757)	1,495	2	-	-	-	3,001
Profit attributable to equity holders of the parent	-	-	-	-	-	579	-	-	-	-	579
Dividends on ordinary shares	-	-	-	-	-	(475)	-	-	-	-	(475)
Dividends on other equity interests	-	-	-	-	-	(4)	-	-	-	-	(4)
Share based payments	-	-	-	-	-	-	4	-	-	-	4
Actuarial loss recognised in retirement benefit schemes	-	-	-	-	-	(177)	-	-	-	-	(177)
Other recognised (losses)/gains relating to the period	-	(1)	(1)	(14)	-	19	-	-	-	(26)	(23)
Ordinary shares issued in lieu of cash dividend	4	-	-	-	-	130	-	-	-	-	134
Other ordinary shares issued	-	-	-	-	71	-	-	-	-	-	71
Net movement in own shares	-	-	-	-	-	(1)	-	-	-	-	(1)
Balance 31 December 2004	294	1,693	80	182	(686)	1,566	6	-	-	(26)	3,109
<b>2005</b>											
Balance 31 December 2004	294	1,693	80	182	(686)	1,566	6	-	-	(26)	3,109
IFRS transition adjustment	-	-	-	315	-	52	-	58	250	-	675
Balance at 1 January 2005	294	1,693	80	497	(686)	1,618	6	58	250	(26)	3,784
Profit attributable to equity holders of the parent	-	-	-	-	-	1,394	-	-	-	-	1,394
Dividends on ordinary shares	-	-	-	-	-	(532)	-	-	-	-	(532)
Dividends on other equity interests	-	-	-	-	-	(38)	-	-	-	-	(38)
Share based payments	-	-	-	-	-	-	7	-	-	-	7
Actuarial loss recognised in retirement benefit schemes	-	-	-	-	-	(216)	-	-	-	-	(216)
Other recognised (losses)/gains relating to the period	-	-	(2)	-	-	1	-	(6)	(81)	7	(81)
Other ordinary shares issued	-	-	-	-	66	-	-	-	-	-	66
Net movement in own shares	-	-	-	-	-	8	-	-	-	-	8
<b>Balance 31 December 2005</b>	<b>294</b>	<b>1,693</b>	<b>78</b>	<b>497</b>	<b>(620)</b>	<b>2,235</b>	<b>13</b>	<b>52</b>	<b>169</b>	<b>(19)</b>	<b>4,392</b>

# Notes to the accounts

## 1 Transition to IFRS

As set out in the First time Adoption of International Financial Reporting Standards ('IFRS'), the financial information has been prepared based on the requirements of IFRS issued by the IASB, as adopted by the EU. AIB has availed of transitional provisions for IAS 32 'Financial Instruments: Disclosure and Presentation' ('IAS 32'), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IFRS 4 'Insurance Contracts' ('IFRS 4') and has not presented comparative information in accordance with these standards. Accordingly, comparative information for 2004 in respect of financial instruments and insurance contracts is prepared on the basis of the Group's accounting policies under Irish GAAP.

A description of the differences between Irish GAAP and IFRS accounting policies is set out in note 65. Reconciliations of balance sheets for the Group and Allied Irish Banks, p.l.c. ('the parent') prepared under Irish GAAP and IFRS at 31 December 2004 and 1 January 2005 (after the application of IAS 32, IAS 39 and IFRS 4) are included in note 65. A reconciliation of the consolidated income statement prepared in accordance with Irish GAAP and prepared in accordance with IFRS for the year ended 31 December 2004 is included in note 65 and is summarised below.

The following table sets out the AIB Group reconciliation from previously reported Irish GAAP information for profit after taxation, and the reconciliation to shareholders' equity at 31 December 2004 and 1 January 2005 (after the application of IAS 32, IAS 39 and IFRS 4), for both AIB Group and parent.

	<u>Group Profit after taxation</u> € m	<u>Group Shareholders' equity</u> € m	<u>Allied Irish Banks, p.l.c Shareholders' equity</u> € m
As reported under Irish GAAP, at 31 December 2004	1,082	5,581	2,789
Reconciliation adjustments to IFRS excluding IAS 32, IAS 39 and IFRS 4:			
Associated undertakings	1	12	64
Finance leases	2	1	-
Software	6	20	15
Taxation	(4)	(47)	(32)
Intangible assets & goodwill	79	79	-
Dividends	-	336	336
Share based payments	(9)	10	2
Employee benefits & other	1	(65)	(65)
IFRS excluding IAS 32, IAS 39 and IFRS 4	<u>1,158</u>	5,927	3,109
Reconciliation adjustments to IAS 32, IAS 39 and IFRS 4:			
Loans origination		(65)	(32)
Loan impairment		139	97
Financial instruments		273	179
Derivatives		38	86
Long-term assurance business		(185)	-
Financial liabilities <sup>(1)</sup>		345	345
		<u>545</u>	<u>675</u>
Shareholders' equity under IFRS at 1 January 2005 (including IAS 32, IAS 39 and IFRS 4)		6,472	3,784

<sup>(1)</sup> Includes Reserve Capital Instrument (RCI) classified to equity from subordinated liabilities of € 497m, Preference Share Capital classified from equity to subordinated liabilities of € 182m and provision for dividends written back to equity of € 30m.

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

On 22 November 2005, AIB announced that it had agreed the terms of a joint venture with Aviva Group plc for the manufacture and distribution of life and pensions products in the Republic of Ireland. The joint venture brings together Hibernian Life & Pensions Limited and Ark Life. Under the terms of the agreement, AIB will own an interest of 24.99% in the joint venture company Hibernian Life Holdings Limited and will enter into an exclusive agreement to distribute the life and pensions products of the joint venture. As part of the transaction, AIB will receive a cash payment of up to € 205.4m. The transaction was completed on 30 January 2006.

## 2 Disposal of Ark Life Assurance Company Limited ('Ark Life'). Acquisition of an interest of 24.99% in Hibernian Life Holdings Limited. (continued)

Under IFRS 5, 'Non-current assets held for sale and discontinued operations', the income and expenses of Ark Life for December 2005 and December 2004 of the activities deemed to be disposed of have been reported net of taxation as discontinued operations below profit after taxation. The impact of the December 2004 restatement on the previously reported figures is outlined below on the Income Statement captions impacted. The assets and liabilities of Ark Life (note 41) as at 31 December 2005 have been classified as held for sale and are separate from other assets and liabilities on the balance sheet. There has been no restatement of prior year balance sheet figures as the assets and liabilities were not held for sale at that date. There was a net decrease of cash and cash equivalents in Ark Life during 2005 of € 29m (2004: net increase € 12m). All cash flows in both periods were generated as a result of operating activities.

	31 December 2004		
	As previously reported	Discontinued operations	Continuing operations
Net interest income	2,134	62	2,072
Other income	1,474	330	1,144
Total operating income	3,608	392	3,216
Insurance and investment contract liabilities and claims	309	309	-
Total operating expenses	1,894	25	1,869
Provisions	133	-	133
Operating profit	1,272	58	1,214
Share of results of associated undertakings	132	-	132
Profit on disposal of property and businesses	26	-	26
Profit before taxation	1,430	58	1,372
Taxation	272	5	267
Profit after taxation	1,158	53	1,105

3 Segmental information	Year 31 December 2005					
	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Total € m
<b>Operations by business segments<sup>(1)</sup></b>						
Net interest income	1,314	516	435	205	60	2,530
Other income	376	148	407	222	(36)	1,117
Total operating income	1,690	664	842	427	24	3,647
Total operating expenses	867	323	400	280	141	2,011
Provisions	55	21	46	15	6	143
<b>Operating profit/(loss)</b>	<b>768</b>	<b>320</b>	<b>396</b>	<b>132</b>	<b>(123)</b>	<b>1,493</b>
Share of results of associated undertakings	(1)	-	2	-	148	149
Profit on disposal of property	12	2	-	-	-	14
Construction contract income	-	-	-	-	45	45
Profit on disposal of businesses	-	-	5	-	-	5
<b>Profit before taxation - continuing operations</b>	<b>779</b>	<b>322</b>	<b>403</b>	<b>132</b>	<b>70</b>	<b>1,706</b>
<b>Balance sheet</b>						
Total loans	45,523	18,346	23,794	4,487	211	92,361
Total deposits	34,172	10,958	58,038	6,229	123	109,520
Total assets	55,224	20,031	44,371	7,813	5,775	133,214
Total risk weighted assets	39,073	18,335	38,974	4,640	634	101,656
Net assets <sup>(2)</sup>	2,564	1,203	2,558	305	42	6,672
Capital expenditure	71	16	13	19	17	136



3 Segmental information (continued)	Year 31 December 2004					
	AIB Bank ROI € m	AIB Bank GB & NI € m	Capital Markets € m	Poland € m	Group € m	Total € m
<b>Operations by business segments<sup>(1)</sup></b>						
Net interest income	1,144	416	360	174	(22)	2,072
Other income	340	189	390	188	37	1,144
Total operating income	1,484	605	750	362	15	3,216
Total operating expenses	813	305	403	245	103	1,869
Provisions	44	13	29	29	18	133
<b>Operating profit/(loss)</b>	<b>627</b>	<b>287</b>	<b>318</b>	<b>88</b>	<b>(106)</b>	<b>1,214</b>
Share of results of associated undertakings	(1)	–	4	1	128	132
Profit on disposal of property	7	1	–	1	–	9
Profit on disposal of businesses	–	–	4	13	–	17
<b>Profit before taxation – continuing operations</b>	<b>633</b>	<b>288</b>	<b>326</b>	<b>103</b>	<b>22</b>	<b>1,372</b>
<b>Balance sheet (at 1 January 2005)</b>						
Total loans	35,794	13,740	14,668	3,748	280	68,230
Total deposits	27,178	9,084	40,537	5,452	133	82,384
Total assets	42,137	15,175	33,550	6,703	5,254	102,819
Total risk weighted assets	31,183	13,510	30,098	4,232	568	79,591
Net assets <sup>(2)</sup>	2,341	1,014	2,259	318	43	5,975
Capital expenditure	82	12	16	24	–	134

Operations by geographical segments <sup>(3)</sup>	Year 31 December 2005					
	Republic of Ireland € m	United States of America € m	United Kingdom € m	Poland € m	Rest of the world € m	Total € m
Net interest income	1,564	45	689	225	7	2,530
Other income	537	68	252	251	9	1,117
Total operating income	2,101	113	941	476	16	3,647
Total operating expenses	1,239	62	413	290	7	2,011
Provisions	70	1	54	15	3	143
<b>Operating profit</b>	<b>792</b>	<b>50</b>	<b>474</b>	<b>171</b>	<b>6</b>	<b>1,493</b>
Share of results of associated undertakings	1	148	–	–	–	149
Profit on disposal of property	12	–	2	–	–	14
Construction contract income	45	–	–	–	–	45
Profit on disposal of businesses	–	4	1	–	–	5
<b>Profit before taxation – continuing operations</b>	<b>850</b>	<b>202</b>	<b>477</b>	<b>171</b>	<b>6</b>	<b>1,706</b>
<b>Balance sheet</b>						
Total loans	58,831	3,863	24,888	4,487	292	92,361
Total deposits	77,971	4,021	21,291	6,229	8	109,520
Total assets	91,622	5,071	28,411	7,815	295	133,214
Net assets <sup>(2)</sup>	4,039	477	1,810	320	26	6,672
Capital expenditure	100	1	16	19	–	136

	Year 31 December 2004					
	Republic of Ireland	United States of America	United Kingdom	Poland	Rest of the world	Total
<b>3 Segmental information (continued)</b>	€ m	€ m	€ m	€ m	€ m	€ m
<b>Operations by geographical segments<sup>(1)</sup></b>						
Net interest income	1,314	23	543	190	2	2,072
Other income	572	102	259	205	6	1,144
Total operating income	1,886	125	802	395	8	3,216
Total operating expenses	1,126	81	392	266	4	1,869
Provisions	70	(4)	38	29	–	133
<b>Operating profit</b>	690	48	372	100	4	1,214
Share of results of associated undertakings	5	126	–	1	–	132
Profit on disposal of property	7	–	1	1	–	9
Profit on disposal of businesses	–	–	4	13	–	17
<b>Profit before taxation – continuing operations</b>	702	174	377	115	4	1,372
<b>Balance sheet (at 1 January 2005)</b>						
Total loans	43,854	1,464	19,044	3,748	120	68,230
Total deposits	55,289	2,691	18,952	5,452	–	82,384
Total assets	70,484	2,568	22,885	6,761	121	102,819
Net assets <sup>(2)</sup>	2,342	942	2,299	322	70	5,975
Capital expenditure	97	1	12	24	–	134

<sup>(1)</sup>The business segment information is based on management accounts information. Income on capital is allocated to the divisions on the basis of the capital required to support the level of risk weighted assets. Interest income earned on capital not allocated to divisions is reported in Group.

<sup>(2)</sup>The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of net assets.

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

#### 4 Gross revenue by business segment

	Year 31 December 2005						
	AIB Bank ROI	AIB Bank GB & NI	Capital Markets	Poland	Group	Eliminations	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
External customers	2,232	1,246	2,260	700	39	–	6,477
Inter-segment revenue	903	333	1,260	8	286	(2,790)	–
Total gross revenue	3,135	1,579	3,520	708	325	(2,790)	6,477
Year 31 December 2004							
External customers	1,869	1,029	1,825	567	29	–	5,319
Inter-segment revenue	800	214	1,012	13	194	(2,233)	–
Total gross revenue	2,669	1,243	2,837	580	223	(2,233)	5,319

<b>5 Interest and similar income</b>	<b>2005 € m</b>	<b>2004 € m</b>
Interest on loans and receivables to banks	167	98
Interest on loans and receivables to customers	4,032	3,044
Interest on trading portfolio financial assets	305	232
Interest on financial investments	647	644
	<b>5,151</b>	<b>4,018</b>

Included within interest and similar income is income from listed investments of € 931m (2004: € 810m) and from unlisted investments of € 86m (2004: € 83m).

<b>6 Interest expense and similar charges</b>	<b>2005 € m</b>	<b>2004 € m</b>
Interest on amounts due to banks and customers	1,944	1,582
Interest on debt securities in issue	545	255
Interest on subordinated liabilities and other capital instruments	132	109
	<b>2,621</b>	<b>1,946</b>

#### **7 Dividend income**

The dividend income relates to income from equity shares.

<b>8 Trading income</b>	<b>2005 € m</b>	<b>2004 € m</b>
Foreign exchange contracts	59	66
Profits less losses from trading portfolio financial assets	84	55
Interest rate contracts	(32)	(30)
Equity index contracts	1	5
	<b>112</b>	<b>96</b>

<b>9 Other operating income</b>	<b>2005 € m</b>	<b>2004 € m</b>
Profit on disposal of available for sale debt securities	17	15
Profit on disposal of available for sale equity shares	2	2
Profit on disposal of off-balance sheet instruments	-	36
Profit on disposal of investments in associated undertakings	-	1
Miscellaneous operating income	53	55
	<b>72</b>	<b>109</b>

<b>10 Administrative expenses</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
Personnel expenses		
Wages & salaries	<b>948</b>	868
Share-based payment schemes ( <i>note 11</i> )	<b>34</b>	25
Retirement benefits ( <i>note 12</i> )	<b>133</b>	97
Social security costs	<b>104</b>	92
Other personnel expenses	<b>79</b>	54
	<b>1,298</b>	1,136
General and administrative expenses	<b>583</b>	579
Restructuring costs	-	9
	<b>1,881</b>	1,724

The restructuring costs in 2004 related to a branch network restructuring process in BZWBK which resulted in the closure of approximately 40 branches across Poland.

## 11 Share-based payment schemes

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

### *Limitations on profit sharing and share options schemes*

Under the terms of the employees' profit sharing schemes, the aggregate number of shares that may be purchased/held by the Trustees in any ten-year period may not exceed 10% of the issued ordinary share capital. The aggregate number of shares issued under the share option schemes in any ten-year period may not exceed 5% of the issued ordinary share capital for the time being, provided, however, that in any year the maximum number of shares made available shall not exceed 0.5% of such share capital. The company complies with guidelines issued by the Irish Association of Investment Managers in relation to these schemes.

### **AIB Share option scheme**

With the introduction of the AIB Group Performance Share Plan 2005 the share option scheme has been discontinued, to the extent that further grants of options over the Company's shares may not be made, except in exceptional circumstances. Options were granted at the market price, being the middle market quotation of the Bank's shares on the Irish Stock Exchange on the day preceding the date on which the option is granted. The exercise of options granted between 1 January 1996 and 31 December 2000 is conditional on the achievement of earnings per share ('EPS') growth of at least 2% per annum, compound, above the increase in the Consumer Price Index ('CPI') over a period of not less than three and not more than five years from date of grant. The exercise of options granted since 1 January, 2001 is conditional on the achievement of EPS growth of at least 5% per annum, compound, above the increase in the CPI over a period of not less than three and not more than five years from date of grant. Options may not be transferred or assigned and may be settled through the issue/re-issue of shares. They may be exercised only between the third and seventh anniversaries of their grant in the case of the options granted up to 31 December 2000, and between the third and tenth anniversaries of their grant in the case of options granted subsequent to that date.

## 11 Share-based payment schemes (continued)

The following table summarises the share option scheme activity over each of the three years ended 31 December 2005, 2004 and 2003.

	2005		2004		2003	
	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	21,025.2	11.90	28,553.1	12.34	29,518.2	11.73
Granted	1,459.0	16.21	3,223.5	12.60	3,272.9	13.30
Exercised	(3,487.9)	10.55	(4,338.4)	10.14	(4,038.5)	8.63
Forfeited	(368.5)	12.74	(111.5)	15.90	(199.5)	12.24
Expired	-	-	(6,301.5)	-	-	-
Outstanding at 31 December	18,627.8	12.47	21,025.2	11.90	28,553.1	12.34
Exercisable at 31 December	10,924.4	11.71	11,558.8	10.88	9,360.0	13.93

The following tables present the number of options outstanding at 31 December 2005 and 31 December 2004.

Range of exercise price	31 December 2005		
	Weighted average remaining contractual life in years	Number of options outstanding '000	Weighted average exercise price €
€10.02- €11.98	3.34	7,910.3	11.00
€12.60- €13.90	7.39	9,280.5	13.15
€16.20- €18.63	9.32	1,437.0	16.21

Range of exercise price	31 December 2004		
	Weighted average remaining contractual life in years	Number of options outstanding '000	Weighted average exercise price €
€10.02- €11.98	4.90	14,634.8	11.24
€12.20- €13.90	7.90	6,390.4	13.41

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

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

### Employee profit sharing schemes

The Company operates an 'AIB Approved Employees' Profit Sharing Scheme 1998' on terms approved by the shareholders. There are no vesting conditions. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods (i.e. a continuous employment for at least one year prior to the last day of the relevant accounting period). The directors at their discretion may set aside each year a sum not exceeding 5% of eligible profits of participating companies.

Eligible employees in the Republic of Ireland may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by Trustees for a minimum period of two years and are required to be held for a total period of three years for the employees to obtain the maximum tax benefit. Such employees may also elect to forego an amount of salary, subject to certain

## 11 Share-based payment schemes (continued)

limitations, towards the acquisition of additional shares. The maximum market value of shares that may be appropriated to any employee in a year may not exceed € 12,700.

In December 2002 a **Share Ownership Plan** was launched in the UK to replace the profit sharing scheme that previously operated for UK-based employees. The Plan, which was approved by shareholders at the 2002 Annual General Meeting, provides for the receipt by eligible employees of shares in a number of categories: Partnership Shares, in which employees may invest up to Stg £ 1,500 per annum from salary; Free Shares, involving the award by the Company of shares up to the value of Stg £ 3,000 per annum per employee, and Dividend Shares, which may be acquired by employees by re-investing dividends of up to Stg £ 1,500 per annum.

To participate in the scheme eligible employees must have been in the continuous employment of the Group from the 1st July prior to the grant date. During 2005, a total of 274,251 shares with a value of € 4.3m (2004: 342,674 shares with a value of € 3.6m) were awarded under the Free Share scheme. Shares are forfeited on a sliding scale should the employee leave the service of the Group within three years of grant date. The market value was determined as the mid market price of the Company's shares on the Irish Stock Exchange daily official list on the relevant date.

The following table summarises the share ownership plan activity during 2005, 2004 and 2003.

	2005		2004		2003	
	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	661.5	11.97	321.0	11.98	-	-
Granted	274.2	15.78	342.7	11.96	324.4	11.98
Forfeited	(19.1)	15.78	(2.2)	11.96	(3.4)	11.98
Outstanding at 31 December	916.6	13.03	661.5	11.97	321.0	11.98

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

The company operates a Save As You Earn Share Option Scheme in the UK. The scheme is open to all employees of AIB Group in the UK who have completed six months continuous service at the date of grant. Under the Scheme employees may opt to save fixed amounts on a regular basis, over a three-year period, subject to a maximum monthly saving of Stg £ 250 per employee. At the end of the three-year period, a tax-free bonus equal to 1.7 times the participant's monthly contribution is added. In addition, at the end of the three-year period the participant has 6 months in which to exercise the option and purchase the shares at the option price (fixed price being the average price per AIB share, on the London Stock Exchange on the day prior to grant date, less 20% discount,); or the participant may withdraw the savings and bonus amount.

The following table summarises option activity during 2005 and 2004.

	2005		2004	
	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	1,186.5	9.57	-	-
Granted	299.2	13.02	1,221.0	9.57
Forfeited	(51.0)	13.02	(34.5)	9.57
Outstanding at 31 December	1,434.7	10.17	1,186.5	9.57
Exercisable at 31 December	-	-	-	-

## 11 Share-based payment schemes (continued)

The binominal option pricing model has been used in estimating the value of the options granted. The expected volatility is based on historical volatility over the three and a half years prior to the grant of the SAYE options.

The following table details the assumptions used, and the resulting fair values provided by the option pricing model.

	2005	2004
Share price at grant date	€16.28	€11.96
Exercise price	€13.02	€9.57
Vesting period (years)	3	3
Expected volatility	27.3%	30.5%
Options life (years)	3.5	3.5
Expected life (years)	3	3
Risk-free rate	2.48%	3.40%
Expected dividends expressed as a dividend yield	3.8%	3.8%
Possibility of ceasing employment before vesting	17.67%	17.67%
Fair value per option	€3.99	€3.26

### Long Term Incentive Plans

Under the terms of the **AIB Group Long Term Incentive Plan**, approved by shareholders at the 2000 Annual General Meeting, conditional grants of awards of ordinary shares had been made as at 31 December 2005 in respect of 1,305,200 ordinary shares in aggregate, to 234 employees. These awards will vest in full in the award-holders only if (a) the growth in the Company's EPS, as defined in the Rules of the Plan, in any three consecutive years within the five years following the grant is not less than the growth in the CPI plus 5% per annum, compound, over the same three year period; and (b) the growth in the Company's core EPS, as defined in the Rules of the Plan, over the three year period during which the criterion at (a) is satisfied, is such as to position the Company in the top 20% of the FTSE Eurotop Banks Retail Index. Partial vesting, on a reducing scale, will occur if the growth in the Company's core EPS positions the Company outside the top 20% of that Index but still within its top 45%, subject to the criterion at (a) being satisfied. Vested shares must be held until normal retirement date, except that award-holders may dispose of shares sufficient to meet the income tax liability arising on vesting. No awards were granted under this scheme and no vesting took place of existing awards during 2005 or 2004.

During 2005, the **AIB Group Performance Share Plan 2005** was introduced on terms approved by the shareholders. This Plan is designed to provide market-competitive incentives for senior executives, in the context of the Company's long-term performance against stretching growth targets and the overall return to shareholders. Conditional awards of shares are made to employees with vesting to take place on the third anniversary of the grant subject to certain performance conditions.

10% of the shares will vest if EPS performance over a three year period exceeds the growth in Consumer Price Index (CPI) plus 5% per annum with up to 50% vesting on a graduated scale if EPS performance over a three year period exceeds CPI plus 10%. A further 10% of the shares will vest if the Total Shareholder Return (TSR) of the Group is in the top half of a peer group of 15 banks with up to 50% vesting on a graduated scale if the TSR of the Group over the same three year period places the Group in the top three of the peer group. Settlement will take place through the issue/reissue of shares.

During 2005, conditional awards of 290,905 shares in aggregate were granted to nine employees and were outstanding at the end of the period. In respect of the part of the award subject to the EPS vesting criteria, the market value of the shares at the date of grant is used to determine the value of the grant, adjusted to take into account the expected vesting. In respect of the part of the award subject to the Total Shareholder Return vesting criteria, the expense is determined using the expected vesting of the shares.

### Income statement expense

The Group attributes a value to the service provided by the employee based on the value of the share option granted. The total expense arising from share based payment transactions amounted to € 34m in the year ended 31 December 2005 (2004: € 25m).



## 12 Retirement benefits

The Group operates a number of pension and retirement benefit plans for employees, the majority of which are funded. These include defined benefit and defined contribution plans.

### Defined benefit schemes

The Group operates a number of defined benefit schemes the most significant being the AIB Group Irish Pension Scheme (the Irish scheme) and the AIB Group UK Pension Scheme (the UK scheme). Approximately 50 per cent of staff in the Republic of Ireland are members of the Irish scheme while 47 per cent of staff in the UK are members of the UK scheme. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Retirement benefits for the defined benefit schemes are calculated by reference to service and pensionable salary at normal retirement date. Independent actuarial valuations, for the main Irish and UK schemes, are carried out on a triennial basis. The last such valuations were carried out on 30 June 2003 using the Projected Unit Method. The schemes are funded and contribution rates of 26% and 44.6% have been set for the Irish and UK schemes respectively with effect from 1 January 2004. The total contribution to the defined benefit pension scheme in 2006 is estimated to be € 118m approximately. As both these schemes are closed to new entrants under the Projected Unit Method, the current service cost and the standard contribution rates will increase as members of the schemes approach retirement. The actuarial valuations are available for inspection only to the members of the schemes.

The following table summarises the financial assumptions adopted in the preparation of these accounts in respect of the main schemes. The assumptions, including the expected long-term rate of return on assets, have been set based upon the advice of the Group's actuary.

Financial assumptions	as at 31 December	
	2005 %	2004 %
<b>Irish scheme</b>		
Rate of increase in salaries	4.0	4.0
Rate of increase of pensions in payment	2.25	2.50
Discount rate	4.30	4.90
Inflation assumptions	2.25	2.50
<b>UK scheme</b>		
Rate of increase in salaries	4.0	4.0
Rate of increase of pensions in payment	2.75	2.75
Discount rate	4.75	5.30
Inflation assumptions	2.5	2.5
<b>Other schemes</b>		
Rate of increase in salaries	4.0 - 4.0	4.0 - 4.25
Rate of increase of pensions in payment	0.0 - 2.75	0.0 - 2.75
Discount rate	4.30 - 5.75	4.90 - 5.75
Inflation assumptions	2.25 - 2.75	2.5 - 2.75

The mortality assumptions used in estimating the actuarial value of the liabilities are based on the PM/FA92 (c=2020) table. This reflects the use today of the expected lifetimes of pensioners in the year 2020. The use of this table represents the present best estimate of future mortality, having taken actuarial advice.

## 12 Retirement benefits (continued)

The following table sets out on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of assets.

	as at 31 December 2005			as at 31 December 2004		
	Long term rate of return expected %	Value € m	Plan assets %	Long term rate of return expected %	Value € m	Plan assets %
Equities	7.3	2,267	72	7.8	1,780	71
Bonds	3.6	463	15	4.1	344	13
Property	6.3	287	9	6.4	274	11
Cash	2.6	118	4	3.0	130	5
Total market value of assets	6.5	3,135	100	6.9	2,528	100
Actuarial value of liabilities of funded schemes		(4,272)			(3,356)	
Deficit in the funded schemes		(1,137)			(828)	
Unfunded schemes		(90)			(58)	
Net pension deficit		(1,227)			(886)	

At 31 December 2005, the pension scheme assets within equities included AIB shares amounting to € 64m (31 December 2004: € 65m).

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 108,341 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the two years ended 31 December 2005 and 2004.

	2005 € m	2004 € m
Included in administrative expenses:		
Current service cost	103	91
Past service cost	14	3
Settlements and curtailments	(1)	-
Expected return on pension scheme assets	(179)	(171)
Interest on pension scheme liabilities	171	153
Cost of providing defined retirement benefits	108	76

The actual return on plan assets during the year ended 31 December 2005 was € 553m (2004: € 270m).

	2005 € m	2004 € m
<b>Movement in defined benefit obligation during the year</b>		
Defined benefit obligation at beginning of year	3,414	2,932
Current service cost	103	91
Past service cost	14	3
Interest cost	171	153
Actuarial gains and losses	718	329
Benefits paid	(84)	(79)
Curtailments and settlements	(1)	-
Translation adjustment on non-euro schemes	27	(15)
Defined benefit obligation at end of year	4,362	3,414

## 12 Retirement benefits (continued)

	2005 € m	2004 € m
<b>Movement in the fair value of plan assets during the year</b>		
Fair value of plan assets at beginning of year	2,528	2,249
Expected return	179	171
Actuarial gains and losses	374	99
Contributions by employer	121	102
Benefits paid	(84)	(79)
Translation adjustment on non-euro schemes	17	(14)
Fair value of plan assets at end of year	<b>3,135</b>	2,528

	2005 € m	2004 € m
<b>Analysis of the amount recognised in the statement of recognised income and expense</b>		
Actual return less expected return on pension scheme assets	374	99
Experience gains and losses on scheme liabilities	(62)	(150)
Changes in demographic and financial assumptions	(656)	(179)
Actuarial loss recognised under IAS 19	(344)	(230)
Deferred tax	59	33
Recognised in the statement of recognised income and expense <sup>(1)</sup>	<b>(285)</b>	(197)

<sup>(1)</sup> Of which € 216m (2004: € 177m) was recognised in the parent company.

<b>History of experience gains and losses</b>	2005 € m	2004 € m	2003 € m	2002 € m	2001 € m
<i>Difference between expected and actual return on scheme assets:</i>					
Amount	374	99	93	(862)	(438)
Percentage of scheme assets	12%	4%	4%	40%	15%
<i>Experience gains and losses on scheme liabilities:</i>					
Amount	(62)	(150)	97	(18)	(32)
Percentage of scheme liabilities	1%	4%	3%	1%	1%
<i>Total amount recognised in SORIE:</i>					
Amount	(344)	(230)	(67)	(1,003)	(502)
Percentage of scheme liabilities	8%	7%	2%	35%	19%

<b>Defined benefit pension plans</b>	2005 € m	2004 € m	2003 € m	2002 € m	2001 € m
Funded defined benefit obligation	4,272	3,356	2,855	2,879	2,645
Plan assets	3,135	2,528	2,225	2,169	2,903
Deficit/(surplus) within funded plans	<b>1,137</b>	828	630	710	(258)

### Defined contribution schemes

The Group operates a number of defined contribution schemes. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 join on a defined contribution basis. The standard contribution rate in Ireland is 8%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERPS (the State Earnings Related Pension Scheme). The total cost in respect of defined contribution schemes for 2005 was € 25m (2004 € 21m). For Allied Irish Banks, p.l.c. the total cost amounted to € 16m (2004: € 13m).

<b>13 Amounts written off/(written back) financial investments</b>	<b>2005 € m</b>	<b>2004 € m</b>
Debt securities	1	(4)
Equity shares	7	3
	<b>8</b>	<b>(1)</b>

Debt and equity securities were reclassified at 1 January 2005, as either trading portfolio assets, financial investments available for sale or loans and receivables under IAS 32 and IAS 39. The amounts written off in 2005 relate to financial instruments available for sale. The 2004 amounts relate to the balance sheet captions debt securities and equity shares.

#### **14 Construction contract income**

In 2005, Blogram Limited a property development company and subsidiary of Allied Irish Banks, p.l.c., contracted with the Serpentine Consortium to construct on a fixed price contract basis, a new development at Bankcentre, Ballsbridge, Dublin on their behalf. At 31 December 2005, contract revenue of € 81m less contract expenses of € 36m have been reported as construction contract income. At 31 December 2005, € 26m was due from the consortium in respect of construction contracts in progress.

A subsidiary of AIB has contracted with the Serpentine Consortium to lease the property on completion at an initial rent of € 16.1m per annum for a period of 33 years with a break clause at year 23.

#### **15 Profit on disposal of businesses**

##### 2005

The profit on disposal of businesses in 2005 of € 5m relates to the sale of Community Counselling Services of € 4m (tax charge € 1m), and the accrual of € 1m (tax charge € 0.3m), arising from the sale of the Govett business in 2003.

##### 2004

The profit on disposal of businesses in 2004 of € 17m relates to the sale of BZWBK's subsidiary, CardPoint S.A. of € 13m (tax charge € 2m), and the accrual of € 4m (tax charge € 1m), arising from the sale of the Govett business in 2003.

<b>16 Auditors' remuneration</b>	<b>2005 € m</b>	<b>2004 € m</b>
Auditors' remuneration ( <i>including VAT</i> ):		
Statutory audit	2.5	1.8
Audit related services	1.9	0.4
Other services:		
Taxation services	0.8	0.4
Other consultancy	1.2	0.4
	<b>2.0</b>	<b>0.8</b>
	<b>6.4</b>	<b>3.0</b>

Audit related services include fees for assignments which are of an audit nature. These fees include assignments where the Auditors provide assurance to third parties.

In the year ended 31 December 2005, 43% (2004: 53%) of the total statutory audit fees and 31% (2004: 41%) of the audit related services fees were paid to overseas offices of the Auditors.

The Group policy on the provision of non-audit services to the bank and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditors for non-audit work.

The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender.

# Notes to the accounts

<b>17 Group profit before taxation</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
Is stated after:		
Investigation related charges	-	50

During 2004, AIB provided € 50m for investigation related charges and costs. The investigation related primarily to the failure to notify the Regulator as required by law in respect of the application of certain regulated charges on foreign exchange products. An amount of € 12m was charged to net interest income, € 24m was charged to other income and there was € 14m of costs included in other administrative expenses. The amount included a refund to customers of approximately € 26m including interest in respect of notification errors and approximately € 10m including interest in relation to non-regulated charges.

<b>18 Taxation</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
Allied Irish Banks, p.l.c. and subsidiaries		
Corporation tax in Republic of Ireland		
Current tax on income for the period <sup>(1)</sup>	160	133
Adjustments in respect of prior periods	1	(5)
	161	128
Double taxation relief	(10)	(13)
	151	115
Foreign tax		
Current tax on income for the period	163	181
Adjustments in respect of prior periods	(11)	(11)
	152	170
	303	285
Deferred taxation		
Origination and reversal of timing differences	16	(10)
Other	-	(8)
	16	(18)
Total income tax expense – continuing operations	319	267
Effective income tax rate – continuing operations	18.7%	19.5%

<sup>(1)</sup>Includes a charge of € 29.5m in relation to the Irish Government bank levy for both years.

## Factors affecting the effective income tax rate

The effective income tax rate for 2005 and 2004 is lower than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained below.

	<b>2005</b>	<b>2004</b>
	<b>%</b>	<b>%</b>
Weighted average corporation tax rate	20.7	20.5
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0.4	3.2
Exempted income, income at reduced rates and tax credits	(1.2)	(1.8)
Net effect of differing tax rates overseas	0.3	0.3
Capital allowances in excess of depreciation	0.2	0.2
Other differences	(0.1)	0.3
Tax on associated undertakings	(3.0)	(4.5)
Bank levy in Republic of Ireland	1.7	2.1
Adjustments to tax charge in respect of previous periods	(0.3)	(0.8)
Effective income tax rate – continuing operations	18.7	19.5

<b>19 Earnings per share</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
<b>(a) Basic</b>		
Profit attributable to equity holders of the parent	1,343	1,129
Distributions to other equity holders ( <i>note 22</i> )	(38)	(4)
Profit attributable to ordinary shareholders	1,305	1,125
Weighted average number of shares in issue during the period	<b>864.5m</b>	852.0m
Earnings per share	<b>EUR 151.0c</b>	EUR 132.0c
<b>(b) Diluted</b>		
Profit attributable to ordinary shareholders	1,305	1,125
Dilutive impact of potential ordinary shares in associated company	(1)	–
Adjusted profit attributable to ordinary shareholders	1,304	1,125
	<i>Number of shares (millions)</i>	
Weighted average number of shares in issue during the period	<b>864.5</b>	852.0
Dilutive effect of options outstanding	<b>5.7</b>	3.1
Potential weighted average number of shares	<b>870.2</b>	855.1
Earnings per share – diluted	<b>EUR 149.8c</b>	EUR 131.5c

<b>20 Adjusted earnings per share</b>	<b>Basic</b>		<b>Diluted</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>cent</b>	<b>cent</b>	<b>cent</b>	<b>cent</b>
<b>(a) Earnings per share</b>				
As reported	151.0	132.0	149.8	131.5
Adjustments:				
Construction contract income	(4.4)	–	(4.4)	–
Hedge volatility	(0.7)	–	(0.7)	–
Effective interest rate	–	(2.5)	–	(2.5)
Insurance business	–	(2.4)	–	(2.4)
	<b>145.9</b>	127.1	<b>144.7</b>	126.6

<b>(b) Earnings per share – continuing operations</b>	<b>Basic</b>		<b>Diluted</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>cent</b>	<b>cent</b>	<b>cent</b>	<b>cent</b>
As reported	145.7	125.8	144.6	125.3
Adjustments:				
Construction contract income	(4.4)	–	(4.4)	–
Hedge volatility	(0.7)	–	(0.7)	–
Effective interest rate	–	(2.5)	–	(2.5)
	<b>140.6</b>	123.3	<b>139.5</b>	122.8

Adjusted earnings per share is presented to help understand the underlying performance of the Group. The adjustments in 2005 are items that do not reflect the underlying business performance. As IAS 39 and IFRS 4 have been implemented with effect from 1 January 2005, the adjustments in 2004 reflect the impact that these standards would have had on the effective interest rate and insurance business had they been applied from 1 January 2004.

<b>21 Minority interests in subsidiaries</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
The profit attributable to minority interests is analysed as follows:		
Equity interest in subsidiaries	42	27
Non-equity interest in subsidiaries ( <i>note 52</i> )	48	2
	<b>90</b>	<b>29</b>

## 22 Distributions to other equity holders

Distributions to other equity holders are recognised in equity when declared by the Board of Directors.

In 2005, the distribution on the € 500m Reserve Capital Instruments (RCIs) which were reclassified to equity on 1 January 2005 amounted to € 38m.

The dividend of € 4m in 2004 relates to the US\$ 250m non-cumulative preference shares which were reclassified to liabilities on 1 January 2005.

<b>23 Distributions on equity shares</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	cent per €0.32 share		<b>€ m</b>	<b>€ m</b>
<b>Ordinary shares of €0.32 each</b>				
Final dividend 2004 (2003)	38.5	35.0	332	296
Interim dividend 2005 (2004)	23.0	20.9	200	179
<b>Total</b>	<b>61.5</b>	<b>55.9</b>	<b>532</b>	<b>475</b>

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when it has been declared by the Board of Directors. Dividends declared after the balance sheet date are disclosed in note 67.

## 24 Treasury bills and other eligible bills

Treasury bills amounting to € 201m were held as available for sale. Their maturity profile is set out in note 55. There was no fair value gain or loss at 31 December 2005.

	<b>Group</b>		<b>Allied Irish Banks, p.l.c.</b>	
	<b>31 December</b>	1 January	<b>31 December</b>	1 January
	<b>2005</b>	2005	<b>2005</b>	2005
	<b>€ m</b>	€ m	<b>€ m</b>	€ m
<b>25 Trading portfolio financial assets</b>				
Loans and receivables to banks	3	2	3	2
Loans and receivables to customers	72	45	72	45
Debt securities:				
Government securities	922	1,048	424	570
Other public sector securities	19	73	19	73
Other debt securities	9,008	6,705	9,008	6,705
	<b>9,949</b>	<b>7,826</b>	<b>9,451</b>	<b>7,348</b>
Equity shares	89	84	53	26
	<b>10,113</b>	<b>7,957</b>	<b>9,579</b>	<b>7,421</b>
<b>Of which listed:</b>				
Debt securities	9,949	7,826	9,451	7,348
Equity instruments	79	78	48	23
<b>Of which unlisted:</b>				
Loans and receivables to banks	3	2	3	2
Loans and receivables to customers	72	45	72	45
Equity shares	10	6	5	3
	<b>10,113</b>	<b>7,957</b>	<b>9,579</b>	<b>7,421</b>



## 25 Trading portfolio financial assets (continued)

				2005
	Within one year € m	Between one and five years € m	Five years and over € m	Total € m
<b>Analysed by residual maturity as follows:</b>				
<b>Group</b>				
Loans and receivables to banks	3	-	-	3
Loans and receivables to customers	40	18	14	72
Debt securities	1,884	4,652	3,413	9,949
	1,927	4,670	3,427	10,024
<b>Allied Irish Banks, p.l.c.</b>				
Loans and receivables to banks	3	-	-	3
Loans and receivables to customers	40	18	14	72
Debt securities	1,419	4,619	3,413	9,451
	1,462	4,637	3,427	9,526

## 26 Financial assets designated at fair value through profit or loss

On transition to IFRS, certain assets held within Ark Life were designated at fair value through profit or loss. Arising from the disposal of Ark Life (note 2), at 31 December 2005 these are included within the caption 'Disposal group and assets classified as held for sale' (note 41).

These financial assets were also carried at fair value under Irish GAAP, therefore, there was no change when designated as at fair value through profit or loss under IFRS.

## 27 Derivative financial instruments

The objectives, policies and strategies in managing the risks that arise in connection with the use of financial instruments, including derivative financial instruments, are set out in the Financial review.

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate and equity exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices. The majority of the Group's derivative activities are undertaken at the parent company level and the discussion below applies equally to the parent company and Group.

These instruments involve, to varying degrees, elements of market risk and credit risk which are not reflected in the consolidated balance sheet. Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates. Credit risk arises to the extent that the default of a counterparty to the derivative transaction exposes the Group to the need to replace existing contracts at prices that are less favourable than when the contract was entered into. The potential loss to the Group is known as the gross replacement cost. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

Credit risk in derivatives contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract. The Group would then have to replace the contract at the current market rate, which may result in a loss.

## 27 Derivative financial instruments (continued)

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts for 2005 and 2004.

	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
<b>Interest rate contracts<sup>(1)</sup></b>				
Notional principal amount	178,326	141,067	161,774	133,896
Gross replacement cost	1,146	1,059	1,080	1,009
<b>Exchange rate contracts<sup>(1)</sup></b>				
	€ m	€ m	€ m	€ m
Notional principal amount	19,799	15,870	17,133	13,690
Gross replacement cost	238	599	194	444
<b>Equity contracts<sup>(1)</sup></b>				
	€ m	€ m	€ m	€ m
Notional principal amount	4,386	3,575	4,089	3,575
Gross replacement cost	253	112	253	112

<sup>(1)</sup>Interest rate and exchange rate contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance lending including counterparty credit approval, limit setting and monitoring procedures. In addition, in relation to derivative instruments, the Group's exposure to market risk is controlled within the risk limits in the Group's Interest Rate Risk and Foreign Exchange Risk Policies and is further constrained by the risk parameters incorporated in the Group's Derivatives Policy as approved by the Board.

The following table analyses the notional principal amount and gross replacement cost of interest rate, exchange rate and equity contracts by maturity.

	Residual maturity			Total € m
	< 1 year € m	1 < 5 years € m	5 years + € m	
<b>2005</b>				
Notional amount	131,780	54,060	16,671	202,511
Gross replacement cost	557	645	435	1,637
<b>2004</b>				
Notional amount	100,303	46,330	13,879	160,512
Gross replacement cost	758	655	357	1,770

AIB Group has the following concentration of exposures in respect of notional amount and gross replacement cost of all interest rate, exchange rate and equity contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional amount		Gross replacement cost	
	2005 € m	2004 € m	2005 € m	2004 € m
Republic of Ireland	161,589	121,896	1,318	1,316
United States of America	4,134	3,268	40	43
United Kingdom	18,449	26,798	184	219
Poland	18,339	8,550	95	192
	202,511	160,512	1,637	1,770

## 27 Derivative financial instruments (continued)

### Trading activities

AIB Group maintains trading positions in a variety of financial instruments including derivatives. These financial instruments include interest rate, foreign exchange and equity futures, interest rate swaps, interest rate caps and floors, forward rate agreements, and interest rate, foreign exchange and equity index options. Most of these positions arise as a result of activity generated by corporate customers while others represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income. The managers and traders involved in financial derivatives have the technical expertise to trade these products and the active involvement of the traders in these markets allows the Group to offer competitive pricing to customers.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The Group's credit exposure at 31 December 2005 and 2004 from derivatives held for trading purposes is represented by the fair value of instruments with a positive fair value (assets in the table on page 92). The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, futures, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount. Forward rate agreements are also used by the Group in its trading activities. Forward rate agreements settle in cash at a specified future date based on the difference between agreed market rates applied to a notional principal amount. Most of these contracts have maturity terms up to one year.

### Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate risks.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange and equity derivatives can be used to hedge the Group's exposure to foreign exchange and equity risk, as required.

Derivative prices fluctuate in value as the underlying interest rate, foreign exchange rate, or equity prices change. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, will generally be offset by the unrealised depreciation or appreciation of the hedged items. This means that separate disclosure of market risk on derivatives used for hedging purposes is not meaningful.

To achieve its risk management objective, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, futures and options, as well as other contracts. The tables on the pages 92 to 94 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 Group at 31 December 2005 and 2004. The table relating to 31 December 2004 was prepared under Irish GAAP.

# Notes to the accounts

## 27 Derivative financial instruments (continued)

The following table shows the notional amounts of derivative financial instruments, analysed by product and purpose as at 31 December 2005 and the fair values of derivative financial instruments, analysed by product and purpose, as at 31 December 2005 and 1 January 2005.

	31 December 2005			1 January 2005	
	Notional amount € m	Fair values Assets € m	Liabilities € m	Fair values Assets € m	Liabilities € m
<b>Derivatives held for trading</b>					
<i>Interest rate derivatives - over the counter (OTC)</i>					
Interest rate swaps	91,154	556	(642)	577	(637)
Cross-currency interest rate swaps <sup>(1)</sup>	1,509	766	(754)	679	(508)
Forward rate agreements	17,056	8	(7)	14	(14)
Interest rate options	2,716	4	(4)	8	(8)
Other interest rate contracts	178	-	-	-	-
<b>Total OTC interest rate contracts</b>	<b>112,613</b>	<b>1,334</b>	<b>(1,407)</b>	<b>1,278</b>	<b>(1,167)</b>
<i>Interest rate derivatives - exchange traded</i>					
Interest rate futures	14,272	-	(5)	-	(2)
<b>Interest rate contracts total</b>	<b>126,885</b>	<b>1,334</b>	<b>(1,412)</b>	<b>1,278</b>	<b>(1,169)</b>
<i>Foreign exchange derivatives - (OTC)</i>					
Currency forwards	2,451	8	(11)	-	-
Currency swaps	14,640	232	(216)	567	(826)
Currency options bought & sold	2,664	21	(17)	24	(25)
<b>Total OTC foreign exchange derivatives</b>	<b>19,755</b>	<b>261</b>	<b>(244)</b>	<b>591</b>	<b>(851)</b>
<i>Foreign exchange derivatives - exchange traded</i>					
Foreign exchange traded options	44	-	-	-	-
<b>Foreign exchange derivatives total</b>	<b>19,799</b>	<b>261</b>	<b>(244)</b>	<b>591</b>	<b>(851)</b>
<i>Equity index contracts (OTC)</i>					
Equity index options	4,386	254	(123)	112	(136)
<b>Equity index contracts total</b>	<b>4,386</b>	<b>254</b>	<b>(123)</b>	<b>112</b>	<b>(136)</b>
<b>Total trading contracts</b>	<b>151,070</b>	<b>1,849</b>	<b>(1,779)</b>	<b>1,981</b>	<b>(2,156)</b>
<b>Derivatives designated as fair value hedges</b>					
Interest rate swaps (OTC)	32,923	368	(170)	263	(340)
<b>Derivatives designated as cash flow hedges</b>					
Interest rate swaps (OTC)	18,518	222	(18)	337	(45)
<b>Total hedging contracts</b>	<b>51,441</b>	<b>590</b>	<b>(188)</b>	<b>600</b>	<b>(385)</b>
<b>Total derivative financial instruments</b>	<b>202,511</b>	<b>2,439</b>	<b>(1,967)</b>	<b>2,581</b>	<b>(2,541)</b>

<sup>(1)</sup> Cross currency interest rate swaps have an exchange of nominals on settlement. Such nominals are therefore shown gross on the balance sheet.

The total hedging ineffectiveness charged to the income statement on cash flow hedges amounted to € 4.3m.

## 27 Derivative 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 Group for 2005 and 2004.

The table for 2004 was prepared under Irish GAAP and accordingly the classification is that reported in the 2004 Report and Accounts.

					2005
	Notional amount	Weighted average maturity in years	Weighted average rate Receive	Weighted average rate Pay	Fair value
	€ m		%	%	€ m
<b>Interest rate derivatives designated as fair value hedges</b>					
<b>Interest rate swaps:</b>					
<b>Pay fixed</b>					
1 year or less	1,248	0.42	2.81	3.99	(21)
1 - 5 years	1,902	2.52	3.09	4.40	(53)
Over 5 years	872	12.85	3.44	5.10	(62)
	<b>4,022</b>	<b>4.11</b>	<b>3.08</b>	<b>4.42</b>	<b>(136)</b>
<b>Receive fixed</b>					
1 year or less	19,874	0.27	3.14	2.98	153
1 - 5 years	170	3.56	5.00	4.33	14
Over 5 years	1,834	14.63	5.34	5.11	155
	<b>21,878</b>	<b>1.50</b>	<b>3.33</b>	<b>3.17</b>	<b>322</b>
<b>Pay/receive floating</b>					
1 year or less	10	0.75	3.69	3.88	-
1 - 5 years	5,231	2.28	2.56	2.51	8
Over 5 years	1,782	8.17	2.71	2.67	4
	<b>7,023</b>	<b>3.77</b>	<b>2.60</b>	<b>2.55</b>	<b>12</b>
<b>Interest rate derivatives designated as cash flows hedges</b>					
<b>Interest rate swaps:</b>					
<b>Pay fixed</b>					
1 year or less	284	0.59	2.27	2.99	-
1 - 5 years	2,311	2.97	2.45	3.05	(5)
Over 5 years	266	6.93	2.38	3.82	(9)
	<b>2,861</b>	<b>3.10</b>	<b>2.42</b>	<b>3.12</b>	<b>(14)</b>
<b>Receive fixed</b>					
1 year or less	2,121	0.52	4.11	2.64	12
1 - 5 years	10,714	2.66	3.87	2.68	131
Over 5 years	2,822	6.71	4.62	2.56	75
	<b>15,657</b>	<b>3.10</b>	<b>4.04</b>	<b>2.65</b>	<b>218</b>

## 27 Derivative financial instruments (continued)

	2004				
	Notional amount	Weighted average maturity in years	Weighted average rate		Estimated Fair value
	€ m		Receive	Pay	€ m
			%	%	
<b>Interest rate swaps:</b>					
<b>Receive fixed</b>					
1 year or less	16,640	0.31	2.84		100
1 - 5 years	1,210	2.84	4.53		60
Over 5 years	2,304	9.38	3.46		107
	20,154	1.50	3.01	2.11	267
<b>Pay fixed</b>					
1 year or less	1,339	0.55		3.95	(20)
1 - 5 years	3,234	2.94		4.47	(132)
Over 5 years	1,640	9.51		4.14	(124)
	6,213	4.16	2.13	4.27	(276)
<b>Pay/receive floating</b>					
1 year or less	500	0.42	4.26		–
1 - 5 years	1,610	2.73	2.14		3
Over 5 years	600	10.10	2.18		–
	2,710	3.94	2.54	2.49	3
<b>Forward rate agreements:</b>					
<b>Loans</b>					
1 year or less	1,931	0.61	2.52	–	1
	1,931	0.61	2.52	–	1
<b>Deposits</b>					
1 year or less	665	0.99	–	3.38	(2)
	665	0.99	–	3.38	(2)
<b>Other interest rate derivatives:</b>					
1 year or less	22	0.75	2.17	6.75	(5)
1 - 5 years	–	–	–	–	–
Over 5 years	–	–	–	–	–
	22	0.75	2.17	6.75	(5)

The carrying value of the interest rate derivative financial instruments held for risk management purposes was € 48m.

### Netting financial assets and financial liabilities

Derivatives financial instruments are shown on the balance sheet at their fair value, those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

The Group has a number of master netting agreements in place which allow it to net positive and negative fair values on derivatives contracts in the event of default by the counterparty. The effect of netting contracts subject to master netting agreements would reduce the balance sheet carrying amount of derivative assets and liabilities by € 502m.

	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
<b>28 Loans and receivables to banks</b>				
Analysed by residual maturity:				
Repayable on demand	316	246	262	171
Other loans and advances by residual maturity:				
Over 5 years	146	127	-	-
5 years or less but over 1 year	11	30	11	30
1 year or less but over 3 months	376	279	87	229
3 months or less	6,282	1,860	5,203	724
	<b>7,131</b>	<b>2,542</b>	<b>5,563</b>	<b>1,154</b>
Provisions for impairment of loans and receivables ( <i>note 30</i> )	2	2	-	-
	<b>7,129</b>	<b>2,540</b>	<b>5,563</b>	<b>1,154</b>
Due from subsidiary undertakings:				
Subordinated			117	256
Unsubordinated			20,582	17,081
			<b>20,699</b>	<b>17,337</b>
			<b>26,262</b>	<b>18,491</b>
Amounts include:				
Reverse repurchase agreements	2,259	272	2,259	272
Due from associated undertakings	-	1	-	-
			<b>2005</b>	<b>2004</b>
			<b>€ m</b>	<b>€ m</b>
<b>Loans and receivables to banks by geographical area</b>				
Republic of Ireland			4,260	1,372
United States of America			1,366	81
United Kingdom			677	685
Poland			824	400
Rest of the world			2	2
			<b>7,129</b>	<b>2,540</b>

Under reverse repurchase agreements, the Group has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of collateral received amounted to € 2,259m. The collateral received consisted of government securities of € 2,171m and other securities of € 88m. There was no collateral sold or repledged at 31 December 2005.



# Notes to the accounts

	31 December 2005 € m	31 December 2004 € m
<b>29 Loans and receivables to customers</b>		
<b>Group</b>		
Loans and receivables to customers	81,171	62,243
Amounts receivable under finance leases and hire purchase contracts ( <i>note 31</i> )	2,774	2,495
Unquoted securities	1,287	-
	<b>85,232</b>	<b>64,738</b>
Analysed by residual maturity:		
Over 5 years	32,583	26,349
5 years or less but over 1 year	22,110	16,932
1 year or less but over 3 months	15,192	10,177
3 months or less	16,021	12,038
	<b>85,906</b>	<b>65,496</b>
Provisions for impairment of loans and receivables ( <i>note 30</i> )	674	758
	<b>85,232</b>	<b>64,738</b>
Of which repayable on demand or at short notice	21,245	16,640
<b>Allied Irish Banks, p.l.c.</b>		
Loans and receivables to customers	59,198	44,695
Amounts receivable under finance leases ( <i>note 31</i> )	67	1
Unquoted securities	877	-
	<b>60,142</b>	<b>44,696</b>
Analysed by residual maturity:		
Over 5 years	22,204	16,341
5 years or less but over 1 year	15,348	11,344
1 year or less but over 3 months	9,257	6,594
3 months or less	9,926	7,685
	<b>56,735</b>	<b>41,964</b>
Provisions for impairment of loans and receivables ( <i>note 30</i> )	314	375
	<b>56,421</b>	<b>41,589</b>
Due from subsidiary undertakings:		
Subordinated	83	83
Unsubordinated	3,638	3,024
	<b>3,721</b>	<b>3,107</b>
	<b>60,142</b>	<b>44,696</b>
Of which repayable on demand or at short notice	19,285	14,881

Amounts include reverse repurchase agreements of € 4m (2004: € 6m). The unwind of the impairment provision discount amounting to € 19m is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

	<b>31 December 2005 € m</b>	<b>Group 1 January 2005 € m</b>
<b>29 Loans and receivables to customers (continued)</b>		
<b>Impaired loans by division</b>		
AIB Bank ROI	<b>308</b>	295
AIB Bank GB & NI	<b>166</b>	154
Capital Markets	<b>132</b>	100
Poland	<b>262</b>	297
	<b>868</b>	846

### 30 Provisions for impairment of loans and receivables

	31 December 2005			31 December 2004		
	Specific € m	IBNR € m	Total € m	Specific € m	General € m	Total € m
<b>Group</b>						
At beginning of period	478	282	760	443	323	766
IFRS transition adjustment	(3)	(143)	(146)	-	-	-
Exchange translation adjustments	13	3	16	23	2	25
Transfer to provisions for liabilities and commitments	-	-	-	-	(15)	(15)
Charge against income statement	-	115	115	-	114	114
Transfer to specific	95	(95)	-	142	(142)	-
Amounts written off	(72)	-	(72)	(151)	-	(151)
Recoveries of amounts written off in previous years	3	-	3	21	-	21
At end of period	<b>514</b>	<b>162</b>	<b>676</b>	478	282	760
<b>Amounts include:</b>						
Loans and receivables to banks (note 28)	2	-	2	2	-	2
Loans and receivables to customers (note 29)	512	162	674	476	282	758
	<b>514</b>	<b>162</b>	<b>676</b>	478	282	760
<b>Allied Irish Banks, p.l.c.</b>						
At beginning of period	203	172	375	184	189	373
IFRS transition adjustment	(14)	(98)	(112)	-	-	-
Exchange translation adjustments	2	-	2	-	(1)	(1)
Internal transfer of loan portfolio	9	-	9	-	-	-
Transfer to provisions for liabilities and charges	-	-	-	-	(15)	(15)
Charge against income statement	-	127	127	-	64	64
Transfer to specific	120	(120)	-	65	(65)	-
Amounts written off	(88)	-	(88)	(62)	-	(62)
Recoveries of amounts written off in previous years	1	-	1	16	-	16
At end of period	<b>233</b>	<b>81</b>	<b>314</b>	203	172	375

The provisions for impairment of loans and receivables in Allied Irish Banks, p.l.c. at 31 December 2005 and 2004 relate to loans and receivables to customers only.

# Notes to the accounts

<b>31 Amounts receivable under finance leases and hire purchase contracts</b>	<b>Group</b>		<b>Allied Irish Banks, p.l.c.</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>	<b>€ m</b>
Gross receivables				
Not later than 1 year	<b>1,004</b>	939	<b>19</b>	1
Later than one year and not later than 5 years	<b>1,871</b>	1,641	<b>44</b>	-
Later than 5 years	<b>146</b>	167	<b>13</b>	-
Total	<b>3,021</b>	2,747	<b>76</b>	1
Unearned future finance income	<b>(254)</b>	(257)	<b>(9)</b>	-
Deferred costs incurred on origination	<b>7</b>	5	-	-
Total	<b>2,774</b>	2,495	<b>67</b>	1
Present value of minimum payments analysed by residual maturity				
Not later than 1 year	<b>916</b>	846	<b>18</b>	1
Later than one year and not later than 5 years	<b>1,725</b>	1,489	<b>42</b>	-
Later than 5 years	<b>133</b>	160	<b>7</b>	-
Present value of minimum payments	<b>2,774</b>	2,495	<b>67</b>	1
Provision for uncollectible minimum payments receivable amounted to: <sup>(1)</sup>	<b>16</b>	20	-	-
Unguaranteed residual values accruing to the benefit of the Group	<b>12</b>	13	-	-

<sup>(1)</sup>Included in the provision for impairment of loans and receivables to customers (*note 30*).

32 Loans and receivables to customers - concentrations of credit risk	2005		2004	
	€ m	% of total loans <sup>(1)</sup>	€ m	% of total loans <sup>(1)</sup>
<b>Construction and property</b>				
Republic of Ireland	14,863	17.3	10,059	15.3
United States of America	620	0.7	191	0.3
United Kingdom	8,819	10.3	5,769	8.8
Poland	531	0.6	365	0.6
Rest of world	101	0.1	-	-
	<b>24,934</b>	<b>29.0</b>	<b>16,384</b>	<b>25.0</b>

The construction and property portfolio is well diversified across the Group's principal markets by spread of location and individual customer. In addition, the Group's outstandings are dispersed across the segments within the construction and property portfolio to ensure that the credit risk is widely spread.

Residential mortgages	2005		2004	
	€ m	% of total loans <sup>(1)</sup>	€ m	% of total loans <sup>(1)</sup>
Republic of Ireland	17,054	19.9	13,236	20.2
United Kingdom	3,802	4.4	3,090	4.7
Poland	540	0.6	477	0.7
	<b>21,396</b>	<b>24.9</b>	<b>16,803</b>	<b>25.6</b>

During 2005, € 0.4bn of advances were re-classified as Residential Mortgages from other sectors in the Republic of Ireland.

The residential mortgage portfolio contains high quality lendings which are well diversified by borrower and are represented across the Group's principal markets.

<sup>(1)</sup>Total loans relate to loans and receivables to customers and are gross of provisions and unearned income and exclude money market funds.

Loans and receivables to customers by geographical area	Group	
	2005 € m	2004 € m
Republic of Ireland	54,571	41,494
United States of America	2,497	1,386
United Kingdom	24,210	18,375
Poland	3,663	3,365
Rest of the world	291	118
	<b>85,232</b>	<b>64,738</b>

# Notes to the accounts

## 33 Financial investments available for sale

Financial investments in both debt securities (*note 34*) and equity shares (*note 35*) were reclassified at 1 January 2005, as either trading portfolio assets, financial investments available for sale or loans and receivables under IAS 32 and IAS 39.

The following tables give, for the Group and Allied Irish Banks, p.l.c. at 31 December 2005, the carrying value (fair value) of available for sale securities by major classifications together with the unrealised gains and losses not recognised in the income statement.

	Fair Value € m	Unrealised Gross Gains € m	Unrealised Gross (Losses) € m	Net unrealised gains/(losses) € m	Tax effect € m	Net after tax € m
<b>Group</b>						
<b>Debt securities</b>						
Irish government securities	492	10	-	10	(1)	9
Euro government securities	3,943	41	(12)	29	(6)	23
Non Euro government securities	2,877	39	(1)	38	(7)	31
Non European government securities	1,035	13	(2)	11	(1)	10
U.S. Treasury & U.S. government agencies	516	4	(1)	3	-	3
Collateralised mortgage obligations	638	1	(1)	-	-	-
Other asset backed securities	534	2	-	2	-	2
Other investments	6,658	28	(14)	14	(2)	12
<b>Total debt securities</b>	<b>16,693</b>	<b>138</b>	<b>(31)</b>	<b>107</b>	<b>(17)</b>	<b>90</b>
<b>Equity shares</b>	<b>171</b>	<b>64</b>	<b>(3)</b>	<b>61</b>	<b>(8)</b>	<b>53</b>
<b>Total</b>	<b>16,864</b>	<b>202</b>	<b>(34)</b>	<b>168</b>	<b>(25)</b>	<b>143</b>
<b>Allied Irish Banks, p.l.c.</b>						
<b>Debt securities</b>						
Irish government securities	492	10	-	10	(1)	9
Euro government securities	3,529	27	(11)	16	(2)	14
Non Euro government securities	1,192	5	(1)	4	(1)	3
Non European government securities	1,035	13	(2)	11	(1)	10
U.S. Treasury & U.S. government agencies	491	4	(1)	3	-	3
Collateralised mortgage obligations	638	1	(1)	-	-	-
Other asset backed securities	367	1	-	1	-	1
Other investments	6,343	28	(14)	14	(2)	12
<b>Total debt securities</b>	<b>14,087</b>	<b>89</b>	<b>(30)</b>	<b>59</b>	<b>(7)</b>	<b>52</b>
<b>Equity shares</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>14,092</b>	<b>89</b>	<b>(30)</b>	<b>59</b>	<b>(7)</b>	<b>52</b>

The amount removed from equity and recognised in the income statement in respect of financial assets available for sale amounted to € 91m during period (Allied Irish Banks, p.l.c. € 91m).

**33 Financial investments available for sale (continued)**

<b>Analysis of movements in financial investments available for sale</b>	<b>Debt securities € m</b>	<b>Equity shares € m</b>	<b>Total € m</b>
<b>Group</b>			
At 1 January 2005	15,546	174	15,720
Exchange translation adjustments	650	6	656
Purchases	9,782	15	9,797
Sales	(5,068)	(18)	(5,086)
Maturities	(4,122)	-	(4,122)
Provisions for impairment	(1)	(7)	(8)
Amortisation of (premiums) net of discounts	(64)	-	(64)
Movement in unrealised (losses)/gains	(30)	1	(29)
<b>At 31 December 2005</b>	<b>16,693</b>	<b>171</b>	<b>16,864</b>
<b>Allied Irish Banks, p.l.c.</b>			
At 1 January 2005	13,160	2	13,162
Exchange translation adjustments	563	-	563
Purchases	7,485	4	7,489
Sales	(4,939)	-	(4,939)
Maturities	(2,075)	-	(2,075)
Transfer from subsidiary company	19	-	19
Provisions for impairment	(1)	(1)	(2)
Amortisation of (premiums) net of discounts	(84)	-	(84)
Movement in unrealised losses	(41)	-	(41)
<b>At 31 December 2005</b>	<b>14,087</b>	<b>5</b>	<b>14,092</b>
<b>Debt securities analysed by remaining maturity</b>			
	<b>Group € m</b>		<b>Allied Irish Banks, p.l.c. € m</b>
Due within one year	4,825		3,849
After one year, but within five years	7,645		6,340
After five years, but within ten years	2,865		2,540
After ten years	1,358		1,358
<b>Total at 31 December 2005</b>	<b>16,693</b>		<b>14,087</b>

# Notes to the accounts

## 33 Financial investments available for sale (continued)

The following tables give for the Group and Allied Irish Banks, p.l.c. at 31 December 2005, an analysis of the securities portfolio with unrealised losses not recognised in the income statement, distinguished between unrealised losses of less than 12 months and unrealised losses outstanding for periods in excess of 12 months.

	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
<b>Group</b>						
<b>Debt securities</b>						
Euro government securities	1,804	221	2,025	(10)	(2)	(12)
Non Euro government securities	1,638	196	1,834	(1)	-	(1)
Non European government securities	137	81	218	-	(2)	(2)
U.S. Treasury & U.S. government agencies	102	13	115	(1)	-	(1)
Collateralised mortgage obligations	313	43	356	(1)	-	(1)
Other investments	1,931	386	2,317	(12)	(2)	(14)
<b>Total debt securities</b>	<b>5,925</b>	<b>940</b>	<b>6,865</b>	<b>(25)</b>	<b>(6)</b>	<b>(31)</b>
<b>Equity shares</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>(3)</b>	<b>(3)</b>
<b>Total</b>	<b>5,931</b>	<b>940</b>	<b>6,871</b>	<b>(25)</b>	<b>(9)</b>	<b>(34)</b>
<b>Allied Irish Banks, p.l.c.</b>						
<b>Debt securities</b>						
Euro government securities	1,729	221	1,950	(10)	(1)	(11)
Non Euro government securities	234	96	330	(1)	-	(1)
Non European government securities	137	81	218	-	(2)	(2)
U.S. Treasury & U.S. government agencies	77	13	90	(1)	-	(1)
Collateralised mortgage obligations	313	43	356	(1)	-	(1)
Other investments	1,765	386	2,151	(12)	(2)	(14)
<b>Total debt securities</b>	<b>4,255</b>	<b>840</b>	<b>5,095</b>	<b>(25)</b>	<b>(5)</b>	<b>(30)</b>
<b>Equity shares</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>4,255</b>	<b>840</b>	<b>5,095</b>	<b>(25)</b>	<b>(5)</b>	<b>(30)</b>

Available for sale financial investments with unrealised losses of more than twelve months have been assessed for impairment and based on the credit risk profile of the counterparties involved, it has been determined that impairment has not arisen at this time.



### 34 Debt securities

Financial investments in both debt securities and equity shares were reclassified at 1 January 2005, as either trading portfolio assets, financial investments available for sale or loans and receivables under IAS 32 and IAS 39. The following tables show the analyses of debt securities under Irish GAAP for 2004.

				2004
	Book amount	Gross unrealised gains	Gross unrealised losses	Market value
	€ m	€ m	€ m	€ m
<b>Group</b>				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	7,101	137	(11)	7,227
Other public sector securities	854	13	–	867
Issued by other issuers:				
Bank and building society certificates of deposit	585	–	–	585
Other debt securities	7,710	119	(6)	7,823
	16,250	269	(17)	16,502
Held for trading purposes				
Issued by public bodies:				
Government securities	1,473			1,473
Other public sector securities	73			73
Issued by other issuers:				
Bank and building society certificates of deposit	–			–
Other debt securities	6,705			6,705
	8,251			8,251
	24,501	269	(17)	24,753

				2004
	Book amount	Gross unrealised gains	Gross unrealised losses	Market value
	€ m	€ m	€ m	€ m
<b>Allied Irish Banks, p.l.c.</b>				
Held as financial fixed assets				
Issued by public bodies:				
Government securities	5,486	108	(11)	5,583
Other public sector securities	692	12	–	704
Issued by other issuers:				
Bank and building society certificates of deposit	284	–	–	284
Other debt securities	7,093	119	(6)	7,206
	13,555	239	(17)	13,777
Held for trading purposes				
Issued by public bodies:				
Government securities	562			562
Other public sector securities	73			73
Issued by other issuers:				
Bank and building society certificates of deposit	–			–
Other debt securities	6,705			6,705
	7,340			7,340
	20,895	239	(17)	21,117

Market value is market price for quoted securities and directors' estimate for unquoted securities.

## 34 Debt securities (continued)

Analysed by remaining maturity	Group € m	Allied Irish Banks, p.l.c. € m
Due within one year	4,119	2,867
Due one year and over	20,382	18,028
<b>Total at 31 December 2004</b>	<b>24,501</b>	<b>20,895</b>

Analysed by listing status	2004		2004	
	Book amount € m	Market value € m	Book amount € m	Market value € m
<b>Group</b>				
Held as financial fixed assets:				
Listed on a recognised stock exchange	14,076	14,325	12,606	12,825
Quoted elsewhere	376	376	-	-
Unquoted	1,798	1,801	949	952
	<u>16,250</u>	<u>16,502</u>	13,555	<u>13,777</u>
Held for trading purposes:				
Listed on a recognised stock exchange	7,985		7,340	
Quoted elsewhere	266		-	
Unquoted	-		-	
	<u>8,251</u>		<u>7,340</u>	
	<u>24,501</u>		<u>20,895</u>	

In AIB Group debt securities subject to repurchase agreements amounted to € 8,780m at 31 December 2004.

Subordinated debt securities included as financial fixed assets amounted to € 126m.

The unamortised premiums net of discounts on debt securities held as financial fixed assets amounted to € 53m.

The cost of debt securities held for trading purposes amounted to € 8,186m.

In Allied Irish Banks, p.l.c. debt securities subject to repurchase agreements amounted to € 8,600m at 31 December 2004.

The amount of unamortised premiums net of discounts on debt securities held as financial fixed assets was € 162m.

The cost of debt securities held for trading purposes was € 7,279m.

Analysis of movements in debt securities held as financial fixed assets	2004			
	Cost € m	Discounts and premiums € m	Amounts written off € m	Book amount € m
<b>Group</b>				
At 1 January 2004	12,430	33	(18)	12,445
Exchange translation adjustments	(294)	1	(1)	(294)
Purchases	14,281	-	-	14,281
Realisations/maturities	(10,174)	7	5	(10,162)
Amounts written back to profit and loss account	-	-	4	4
Amortisation of (premiums) net of discounts	-	(24)	-	(24)
<b>At 31 December 2004</b>	<b>16,243</b>	<b>17</b>	<b>(10)</b>	<b>16,250</b>
<b>Allied Irish Banks, p.l.c.</b>				
At 1 January 2004	10,075	(42)	(13)	10,020
Exchange translation adjustments	(444)	(1)	1	(444)
Purchases	12,381	-	-	12,381
Realisations/maturities	(8,376)	31	5	(8,340)
Amounts written back to profit and loss account	-	-	4	4
Amortisation of (premiums) net of discounts	-	(66)	-	(66)
<b>At 31 December 2004</b>	<b>13,636</b>	<b>(78)</b>	<b>(3)</b>	<b>13,555</b>

### 35 Equity shares

The following tables show the analysis of equity shares under Irish GAAP for 2004.

	Book amount € m	Gross unrealised gains € m	Gross unrealised losses € m	2004 Market value € m
<b>Group</b>				
Held as financial fixed assets				
Listed on a recognised stock exchange	5	15	(1)	19
Unquoted	106	9	(3)	112
	111	24	(4)	131
Held for trading purposes				
Listed on a recognised stock exchange	1,524			1,524
Unquoted	6			6
	1,530			1,530
	1,641	24	(4)	1,661
<b>Allied Irish Banks, p.l.c.</b>				
Held as financial fixed assets				
Unquoted	2	-	-	2
Held for trading purposes				
Listed on a recognised stock exchange	23			23
Unquoted	3			3
	26			26
	28	-	-	28

	Cost € m	Amounts written off € m	Book amount € m
<b>Analysis of movements in equity shares held as financial fixed assets</b>			
<b>Group</b>			
At 1 January 2004	158	(42)	116
Charge to profit and loss account	-	(3)	(3)
Exchange translation adjustments	2	-	2
Purchases	6	-	6
Disposals	(15)	5	(10)
At 31 December 2004	151	(40)	111

## 36 Interests in associated undertakings

<b>Share of net assets including goodwill</b>	<b>2005 € m</b>	<b>2004 € m</b>
At 1 January	1,379	1,361
IFRS transition adjustments	16	-
Exchange translation adjustments	225	(101)
Purchases	3	7
Disposals	(4)	-
Profit for the period	149	132
Dividends	(41)	(37)
Unrealised losses on available for sale assets	(13)	-
Actuarial loss recognised in retirement benefit schemes	-	(1)
Share based payment	7	6
Other movements	(65)	12
<b>At 31 December</b>	<b>1,656</b>	<b>1,379</b>

Included in the Group's share of net assets of associates is goodwill as follows:

<b>Goodwill</b>	<b>2005 € m</b>	<b>2004 € m</b>
Balance at 1 January	917	981
Additions during year <sup>(1)</sup>	-	8
Exchange translation adjustments	141	(72)
<b>At 31 December</b>	<b>1,058</b>	<b>917</b>

<sup>(1)</sup> €5m of the goodwill arising during 2004 relates to the finalisation of the M&T fair value adjustments reflecting an adjustment to other liabilities, in respect of the dilutive impact of the M&T employee stock options outstanding on AIB's interest in M&T. The remainder relates to acquisitions during the year.

### Principal associated undertaking

### Nature of business

M&T Bank Corporation <sup>(2)</sup>	Banking and financial services
-------------------------------------	--------------------------------

*Registered office:* One M&T Plaza, Buffalo, New York 14203, USA  
(Common stock shares of US \$0.50 par value each – Group interest 23.8%<sup>(2)</sup>)

<sup>(2)</sup> The Group interest is held directly by Allied Irish Banks, p.l.c. and carried at cost at € 891m in the parent company balance sheet. AIB accounts for its share of profits of M&T on the basis of its average interest in M&T throughout the period, which amounted to 23.5% during 2005 (2004: 22.7%). The agreement with M&T provides for the maintenance of AIB's interest in M&T at 22.5% through share repurchase programmes effected by M&T and through rights provided to AIB which allow it to subscribe for additional shares in M&T at fair market value.

The fair value of the investment in the Group's principal associated undertaking at 31 December 2005 was € 2,468 m (2004: € 2,114 m).

### 36 Interests in associated undertakings (continued)

The summary consolidated income statement, summary balance sheet and contribution of M&T Bank Corporation for 2005 and 2004 under IFRS are as follows:

Year ended 31 December 2004 US \$m	Year ended 31 December 2005 US \$m	Summary of consolidated income statement	Year ended 31 December 2005 € m	Year ended 31 December 2004 € m
1,613	1,713	Net interest income	1,372	1,293
949	967	Other income	775	761
2,562	2,680	Total operating income	2,147	2,054
1,409	1,410	Total operating expenses	1,129	1,130
1,153	1,270	Group operating profit before impairment provisions	1,018	924
95	43	Impairment provisions	34	76
1,058	1,227	Group profit before taxation	984	848
335	409	Taxation	328	269
723	818	Group profit after taxation	656	579

31 December 2004 US \$m	31 December 2005 US \$m	Summary of consolidated balance sheet	31 December 2005 € m	31 December 2004 € m
39,508	41,698	Cash, loans and receivables	35,346	29,005
8,516	8,400	Investment securities	7,120	6,252
367	337	Fixed assets	286	270
1,685	1,990	Other assets	1,687	1,237
50,076	52,425	Total assets	44,439	36,764
35,493	37,144	Deposits	31,486	26,058
11,221	11,495	Other borrowings	9,744	8,238
762	903	Other liabilities	765	559
2,600	2,883	Shareholders' funds	2,444	1,909
50,076	52,425	Total liabilities and shareholders' funds	44,439	36,764

Year ended 31 December 2004 US \$m	Year ended 31 December 2005 US \$m	Contribution of M&T	Year ended 31 December 2005 € m	Year ended 31 December 2004 € m
240	288	Gross contribution	230	192
(82)	(103)	Taxation	(82)	(65)
158	185	Contribution to Group profit before taxation	148	127

With the exception of M&T, the Group's interests in associated undertakings are non-credit institutions, are unlisted and are held by subsidiary undertakings.

In accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the companies registration office.



# Notes to the accounts

<b>37 Shares in Group undertakings</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
<b>Allied Irish Banks, p.l.c.</b>		
At 1 January	225	230
Additions	41	–
Disposal of subsidiary undertaking	–	(5)
Exchange translation adjustments	5	–
At 31 December	<b>271</b>	<b>225</b>
At 31 December		
Credit institutions	42	42
Other	229	183
Total – all unquoted	<b>271</b>	<b>225</b>

The shares in Group undertakings are included in the accounts on a historical cost basis.

## **Principal subsidiary undertakings incorporated in the Republic of Ireland**

<b>Principal subsidiary undertakings incorporated in the Republic of Ireland</b>	<b>Nature of business</b>
AIB Capital Markets plc*	Financial services
AIB Corporate Finance Limited	Corporate finance
AIB Finance Limited*	Industrial banking
AIB Leasing Limited	Leasing
AIB Fund Management Limited	Unit trust management
AIB Investment Managers Limited	Investment management
AIB International Financial Services Limited	International financial services
Ark Life Assurance Company Limited*	Life assurance and pensions business
Goodbody Holdings Limited	Stockbroking and corporate finance

\*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

### 37 Shares in Group undertakings (continued)

#### Principal subsidiary undertakings incorporated outside the Republic of Ireland

	Nature of business
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain <i>Registered office:</i> 4 Queen's Square, Belfast, BT1 3DJ	Banking and financial services
AIB Bank (CI) Limited* <i>Registered office:</i> AIB House, Grenville Street, St. Helier, Jersey, JE4 8WT	Banking services
Bank Zachodni WBK S.A. <i>Registered office:</i> Rynek 9/11, 50-950 Wroclaw, Poland (Ordinary shares of PLN 10 each - Group interest 70.47%)	Banking and financial services

\*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are wholly-owned unless otherwise stated. The registered office of each is located in the principal country of operation. The issued share capital of each undertaking is denominated in ordinary shares.

In presenting details of the principal subsidiary undertakings, the exemption permitted by the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of and, in accordance with the regulations, Allied Irish Banks, p.l.c. will annex a full listing of subsidiary undertakings to its annual return to the companies registration office.

#### Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into these accounts, have availed of the exemption from filing its individual accounts as set out in Section 17 of the Companies (Amendment) Act 1986. In accordance with the Act, Allied Irish Banks, p.l.c. has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Capital Markets plc	Shamberg Limited
Allied Irish Securities (Ireland) Limited	Sillard Limited
AIB Alternative Investment Services Limited	Lavworth Limited
Halderstone Limited	Kahn Holdings
Ark Life Nominees Limited	Jib Ross Limited
AIB Capital Management Holdings Limited	Ark Life Trustees Limited
AIB Corporate Banking Limited	Co-Ordinated Trustees Limited
AIB Corporate Finance Limited	Errol Limited
AIB Corporate Service Limited	Eyke Limited
AIB Equity Capital Limited	First Venture Fund Limited
AIB Financial Consultants Limited	Goodbody Corporate Finance
AIB I.F.S.C.H.D. Limited	Goodbody Economic Consultants Limited
AIB International Consultants Limited	Goodbody Pensioneer Trustees Limited
AIB International Financial Services Limited	Goodbody Financial Services Limited
AIB Services Limited	Goodbody Holdings Limited
AIB Stockbrokers Limited	Goodbody Stockbrokers
AIB Venture Capital Limited	Goodbody Stockbroking Nominees Limited
Allied Combined Trust Limited	Burford Nominees Ireland Limited
Allied Irish Banks (Holdings & Investments) Limited	Skerries Nominees Limited
Allied Irish Capital Management Limited	Skyraven Limited
Allied Irish Nominees Limited	Webbing Ireland Limited
Allied Irish Securities Limited	PPP Projects Limited



<b>38 Intangible assets and goodwill</b>	<b>Goodwill € m</b>	<b>Software € m</b>	<b>Total € m</b>
<b>Group</b>			
Balance at 1 January 2004	420	192	612
Additions	-	66	66
Effect of movements in foreign exchange	(2)	1	(1)
Balance at 31 December 2004	418	259	677
Additions	-	36	36
Effect of movements in foreign exchange	4	8	12
Disposals	(17)	-	(17)
Balance at 31 December 2005	<b>405</b>	<b>303</b>	<b>708</b>
<b>Amortisation and impairment losses</b>			
Balance at 1 January 2004	-	75	75
Amortisation for the year	-	50	50
Impairment charge	13	-	13
Effect of movements in foreign exchange	(2)	1	(1)
Balance at 31 December 2004	11	126	137
Amortisation for the year	-	45	45
Impairment charge	2	-	2
Effect of movements in foreign exchange	2	5	7
Balance at 31 December 2005	<b>15</b>	<b>176</b>	<b>191</b>
<b>Net book value</b>			
At 1 January 2004	420	117	537
At 31 December 2004	407	133	540
At 31 December 2005	<b>390</b>	<b>127</b>	<b>517</b>

The goodwill relates principally to the acquisition of the holding in Bank Zachodni WBK S.A. ('BZWBK'). The investment in BZWBK which is quoted on a recognised stock exchange has been assessed for impairment at 31 December 2005 and 2004. The market value at 31 December 2005 of the shareholding in BZWBK S.A. of € 1.9bn exceeds the carrying amount including goodwill of the investment by € 0.6bn.

The remaining goodwill amounts which relate to unquoted investments, have been assessed for impairment through discounting projected cash flows with the resultant impairment charge, if any, recognised in the period.

Other intangible assets comprising computer software which is not integral to hardware were reclassified on IFRS transition from property, plant and equipment. Additionally, internally generated intangible assets were capitalised. Internally generated intangible assets under construction at 31 December 2005 amounted to € 21m (2004:€ 5m).

	<b>Software</b>	
	<b>2005 € m</b>	<b>2004 € m</b>
<b>Allied Irish Banks, p.l.c.</b>		
Balance at 1 January	132	96
Additions	30	36
Balance at 31 December	<b>162</b>	132
<b>Amortisation</b>		
Balance at 1 January	75	48
Amortisation for period	23	27
Balance at 31 December	<b>98</b>	75
Net book value at 31 December	<b>64</b>	57

Other intangible assets comprising computer software which is not integral to hardware were reclassified on IFRS transition from property, plant and equipment. Additionally, internally generated intangible assets were capitalised. Other intangible assets under construction amounted to € 15m (2004:€ nil).

	Freehold	Long leasehold	Property leasehold under 50 years	Equipment	Total
	€ m	€ m	€ m	€ m	€ m
<b>39 Property, plant &amp; equipment</b>					
<b>Group</b>					
Cost at 1 January 2005	537	93	139	517	1,286
Disposal/transfers of Group undertakings	(51)	-	(1)	(2)	(54)
Additions	21	7	8	64	100
Disposals	(19)	(1)	-	(45)	(65)
Exchange translation adjustments	10	-	4	16	30
At 31 December 2005	498	99	150	550	1,297
Accumulated depreciation at 1 January 2005	90	16	85	350	541
Disposal of Group undertakings	-	-	-	(2)	(2)
Depreciation charge for the year	16	2	8	57	83
Disposals	(12)	-	-	(33)	(45)
Exchange translation adjustments	2	-	2	10	14
At 31 December 2005	96	18	95	382	591
Net book value					
At 31 December 2005	402	81	55	168	706

The net book value of property occupied by the Group for its own activities was € 531m.

	Freehold	Long leasehold	Property leasehold under 50 years	Equipment	Total
	€ m	€ m	€ m	€ m	€ m
<b>Allied Irish Banks, p.l.c.</b>					
Cost at 1 January 2005	306	81	56	267	710
Additions	19	6	4	43	72
Disposals	(13)	-	-	(10)	(23)
Exchange translation adjustments	-	-	2	-	2
At 31 December 2005	312	87	62	300	761
Accumulated depreciation at 1 January 2005	40	13	34	169	256
Depreciation charge for the year	8	2	4	32	46
Disposals	-	-	-	(8)	(8)
Exchange translation adjustments	-	-	-	2	2
At 31 December 2005	48	15	38	195	296
Net book value					
At 31 December 2005	264	72	24	105	465

The net book value of property occupied by the Allied Irish Banks, p.l.c. for its own activities was € 360m.

# Notes to the accounts

	Freehold	Long leasehold	Property leasehold under 50 years	Equipment	Total
	€ m	€ m	€ m	€ m	€ m
<b>39 Property, plant &amp; equipment (continued)</b>					
<b>Group</b>					
Cost at 1 January 2004	513	90	130	631	1,364
Disposal of Group undertaking	-	-	-	(7)	(7)
Additions	19	3	13	33	68
Disposals	(16)	-	(3)	(174)	(193)
Exchange translation adjustments	21	-	(1)	34	54
At 31 December 2004	537	93	139	517	1,286
Accumulated depreciation at 1 January 2004	69	13	79	450	611
Disposal of group undertaking	-	-	-	(6)	(6)
Depreciation charge for the year	14	3	6	59	82
Impairment losses	9	-	-	-	9
Disposals	(10)	-	-	(172)	(182)
Exchange translation adjustments	8	-	-	19	27
At 31 December 2004	90	16	85	350	541
Net book value					
At 31 December 2004	447	77	54	167	745

The net book value of property occupied by the Group for its own activities was € 516m.

	Freehold	Long leasehold	Property leasehold under 50 years	Equipment	Total
	€ m	€ m	€ m	€ m	€ m
<b>Allied Irish Banks, p.l.c.</b>					
Cost at 1 January 2004	293	79	52	393	817
Additions	15	2	5	32	54
Disposals	(2)	-	-	(158)	(160)
Exchange translation adjustments	-	-	(1)	-	(1)
At 31 December 2004	306	81	56	267	710
Accumulated depreciation at 1 January 2004	34	11	27	296	368
Depreciation charge for the year	7	2	7	28	44
Disposals	(1)	-	-	(155)	(156)
At 31 December 2004	40	13	34	169	256
Net book value					
At 31 December 2004	266	68	22	98	454

The net book value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 342m.

### 39 Property, plant & equipment (continued)

At 1 January 2004, on transition to IFRS, computer software which is not integral to hardware was reclassified from equipment to intangible assets (net book value € 88m), for Allied Irish Banks, p.l.c. the reclassified amount was net book value € 39m.

Property leased to others had a book value of € 7m (2004: € 11m). Included in the carrying amount of property and equipment are expenditure recognised for both property and equipment in the course of construction amounting to € 4m and € 6m respectively (2004: €19m and €3m). In Allied Irish Banks, p.l.c. these amounts were € 3m and € 5m respectively (2004: € 18m and Nil).

40 Deferred taxation	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
Deferred tax assets:				
Provision for impairment of loans and receivables	(84)	(99)	(10)	(24)
Amortised income	(3)	(28)	(14)	(8)
Debt securities	-	(11)	(1)	(8)
Retirement benefits	(221)	(165)	(97)	(68)
Timing difference on provisions for future commitments in relation to the funding of Icarom plc (under Administration)	(9)	(10)	(9)	(10)
Other	(30)	-	(32)	(28)
<b>Total gross deferred tax assets</b>	<b>(347)</b>	<b>(313)</b>	<b>(163)</b>	<b>(146)</b>
Deferred tax liabilities:				
Assets leased to customers	45	46	-	-
Assets used in the business	34	7	25	36
Debt securities	19	22	-	-
Cash flow hedges	28	-	24	-
Other	-	62	-	-
<b>Total gross deferred tax liabilities</b>	<b>126</b>	<b>137</b>	<b>49</b>	<b>36</b>
<b>Net deferred tax assets</b>	<b>(221)</b>	<b>(176)</b>	<b>(114)</b>	<b>(110)</b>
Represented on the balance sheet as follows:				
Deferred tax assets	(253)	(228)	(114)	(110)
Deferred tax liabilities	32	52	-	-
	(221)	(176)	(114)	(110)

For each of the years ended 31 December, 2005 and 2004 full provision has been made for capital allowances and other temporary timing differences.

Analysis of movements in deferred taxation	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
At 1 January	(176)	(107)	(110)	(77)
IFRS transition adjustment	10	-	18	-
Exchange translation and other adjustments	(11)	(22)	-	(1)
Deferred tax through equity	(60)	(29)	(36)	(23)
Income statement taxation credit (note 18)	16	(18)	14	(9)
<b>At 31 December</b>	<b>(221)</b>	<b>(176)</b>	<b>(114)</b>	<b>(110)</b>

Deferred tax assets have not been recognised in respect of tax losses amounting to € 49m (2004: € 43m); Allied Irish Banks, p.l.c. € nil (2004: € nil). The net deferred tax asset on items recognised directly in equity amounted to € 144m (2004: € 142m); Allied Irish Banks, p.l.c. € 52m (2004: € 48m).

## 41 Long-term assurance business

On 22 November 2005, AIB announced that it had agreed the terms of a joint venture with Aviva Group p.l.c for the manufacture and distribution of life and pensions products in the Republic of Ireland. The joint venture brings together Hibernian Life & Pensions Limited and Ark Life Assurance Company Limited ('Ark Life').

As set out in note 2, the income from Ark Life that is determined to relate to discontinued operations is shown, on an after tax basis, as a one line item on the face of the income statement. Prior year numbers have been restated.

Ark Life assets and liabilities have been included in the balance sheet at 31 December 2005 as a disposal group classified as held for sale. Comparatives have not been restated.

## Methodology

### 2005

International Financial Reporting Standard 4, Insurance Contracts, (IFRS 4) requires all products issued to be classified for accounting purposes as either insurance or investment contracts, depending on whether significant insurance risks exist. In the case of a life contract, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the balance sheet date there may be no excess of the original premium over the backing assets. Insurance contracts will continue to be accounted for under the Company's existing accounting policies, namely the embedded value method.

For contracts which are not insurance contracts the appropriate IFRS standards, and in particular IAS 18 'Revenue' ('IAS 18') and IAS 39 'Financial instruments: recognition and measurement', ('IAS 39') are applied. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the balance sheet date. Certain upfront fees and charges have been deferred and included within an explicit deferred income reserve. Whilst IAS 18 does allow for the deferral of directly variable acquisition costs such as commissions, no such deferrable costs exist upon Group consolidation.

### 2004

The value of the shareholders interest in the long-term assurance business ('the embedded value') is comprised of the net tangible assets of Ark Life Assurance Company Limited ('Ark Life'), including any surplus retained in the long-term business funds, which could be transferred to shareholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written by the balance sheet date and discounting the result at a risk discount rate.

Surpluses arise following annual actuarial valuations of the long-term business funds, which are carried out in accordance with the statutory requirements designed to ensure and demonstrate the solvency of the funds. Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and administrative expenses. Surpluses can be projected by making realistic assumptions about future experience, having regard to both actual experience and forecast long-term economic trends. Other net cash flows principally comprise annual management charges and other fees levied upon the policyholders by Ark Life.

#### 41 Long-term assurance business (continued)

Income and expense from long-term assurance business included in the income statement is set out below:

<b>Income and expense from Ark Life's long-term assurance business</b>	<b>2005 € m</b>	<b>2004 € m</b>
Net interest income	113	62
Other income	740	342
Total operating income	853	404
Increase in insurance and investment contract liabilities, and claims	762	309
Total operating expenses	27	26
Income before taxation	64	69
Taxation	4	6
Income after taxation	60	63
<b>Analysed as to:</b>		
Continuing operations	14	10
Discontinued operations	46	53

Some elements of the Ark Life business are being retained within the Group and this gives rise to the difference between the amounts recognised above and those disclosed as discontinued operations.

#### Assumptions

As explained above insurance contracts continue to be valued using embedded value principles. Following a review of demographic experience and having regard to the less than 50 bp change in bond yields during the year the demographic and economic assumptions were left unchanged. Maintenance expense assumptions were increased for one year's inflation.

The principal economic assumptions are as follows:

	<b>2005 %</b>	<b>2004 %</b>
Risk adjusted discount rate	7.5	7.5
Weighted average investment return	5.875	5.875
Future expense inflation	4.0	4.0
Corporation tax rate	12.5	12.5

## 41 Long-term assurance business (continued)

### Balance sheet

The assets and liabilities of Ark Life included in the consolidated balance sheet of the Group are as follows:

	31 December 2005 € m	1 January 2005 € m	31 December 2004 € m
<b>Assets</b>			
Loans and receivables to banks	191	220	220
Assets held at fair value through profit or loss	2,638	1,871	–
Debt securities	–	–	425
Equity shares	–	–	1,446
Property, plant and equipment	52	51	51
Reinsurance assets	748	601	–
Placings with group companies	1,428	1,246	1,246
Other assets	371	255	440
<b>Total assets</b>	<b>5,428</b>	<b>4,244</b>	<b>3,828</b>
<b>Liabilities</b>			
Investment contract liabilities	2,953	2,422	2,422
Insurance contract liabilities	1,923	1,465	864
Other liabilities	215	75	75
<b>Total liabilities</b>	<b>5,091</b>	<b>3,962</b>	<b>3,361</b>
Shareholders' equity	337	282	467
<b>Total liabilities and shareholders' equity</b>	<b>5,428</b>	<b>4,244</b>	<b>3,828</b>

### Presentation in the Group balance sheet

Holdings of shares in Allied Irish Banks, p.l.c., (by the parent or subsidiary companies), for any reason, are deducted in arriving at shareholders' equity. At 31 December 2005, shares in AIB with a value of € 77m (2004: € 74m) were held within the long-term business funds to meet the liabilities to policyholders.

Long-term assurance assets attributable to policyholders are presented in the Group balance sheet net of the carrying value of the shares in AIB held within the fund. Group shareholders' funds have been reduced by a similar amount.



42 Deposits by banks	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
Securities sold under agreements to repurchase	11,038	8,523	10,785	8,421
Other borrowings from banks	18,291	11,905	33,046	26,027
	<b>29,329</b>	20,428	<b>43,831</b>	34,448
Of which:				
Domestic offices	27,401	18,450		
Foreign offices	1,928	1,978		
	<b>29,329</b>	20,428		
With agreed maturity dates or periods of notice, by remaining maturity:				
Over 5 years	53	555	7	527
5 years or less but over 1 year	517	50	460	–
1 year or less but over 3 months	2,271	6,456	2,114	6,368
3 months or less but not repayable on demand	25,843	13,014	25,547	12,787
	<b>28,684</b>	20,075	<b>28,128</b>	19,682
Repayable on demand	645	353	369	255
	<b>29,329</b>	20,428	<b>28,497</b>	19,937
Due to subsidiary undertakings			15,334	14,511
			<b>43,831</b>	34,448
Amounts include:				
Due to associated undertakings	-	2	-	2

At 31 December 2005 € 930m (2004: € 920m) of the deposits by credit institutions comprise the bank's obligations to the Central Bank and Financial Services Authority of Ireland ('CBFSAI') under the terms of the Mortgage Backed Promissory Note ('MBPN') programme. These obligations have been secured by way of a first floating charge to the CBFSAI over all its right, title, interest and benefit, in € 1,193m (2004: € 1,192m) of loans and receivables to customers. Otherwise than with the prior written consent of the CBFSAI, the bank has 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.

Securities sold under agreements to repurchase are secured by Irish Government stock, US Treasury and US Government agency securities and mature within three months.

The aggregate market value of all securities sold under agreements to repurchase did not exceed 10% of total assets and the amount at risk with any individual counterparty or group of related counterparties did not exceed 10% of total stockholders' equity.

The carrying amount of financial assets pledged as security for liabilities amounted to € 11,265m (Allied Irish Banks, p.l.c. € 11,012m).

# Notes to the accounts

43 Customer accounts	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
Current accounts	20,909	17,099	13,068	10,886
Demand deposits	8,013	7,321	6,018	5,433
Time deposits	28,118	22,736	18,046	14,269
	57,040	47,156	37,132	30,588
Securities sold under agreements to repurchase	6	77	-	-
Other short-term borrowings	5,534	2,918	5,534	4,139
	5,540	2,995	5,534	4,139
	62,580	50,151	42,666	34,727
Of which:				
Non-interest bearing current accounts				
Domestic offices	7,816	6,522		
Foreign offices	2,086	1,920		
Interest bearing deposits, current accounts and short-term borrowings				
Domestic offices	32,977	25,425		
Foreign offices	19,701	16,284		
	62,580	50,151		
Analysed by remaining maturity:				
Over 5 years	200	276	150	240
5 years or less but over 1 year	2,308	2,321	1,851	2,920
1 year or less but over 3 months	3,573	2,297	2,355	1,171
3 months or less but not repayable on demand	28,130	20,812	17,083	12,690
	34,211	25,706	21,439	17,021
Repayable on demand	28,369	24,445	19,074	16,312
	62,580	50,151	40,513	33,333
Due to subsidiary undertakings			2,153	1,394
			42,666	34,727
Amounts include:				
Due to associated undertakings	38	23	7	8

	Group		Allied Irish Banks, p.l.c.	
	31 December 2005 € m	1 January 2005 € m	31 December 2005 € m	1 January 2005 € m
<b>44 Trading portfolio financial liabilities</b>				
Debt securities				
Government securities	219	309	219	219
Corporate listed	2	4	2	4
	<b>221</b>	<b>313</b>	<b>221</b>	<b>223</b>
Equity instruments - listed	19	19	9	6
	<b>240</b>	<b>332</b>	<b>230</b>	<b>229</b>

At 31 December 2005 and 1 January 2005 the debt securities within trading portfolio financial liabilities had a residual maturity of less than one year.

	Group		Allied Irish Banks, p.l.c.	
	2005 € m	2004 € m	2005 € m	2004 € m
<b>45 Debt securities in issue</b>				
Bonds and medium term notes:				
European medium term note programme	6,656	3,250	6,656	3,250
Other medium term notes	209	288	-	-
	<b>6,865</b>	<b>3,538</b>	<b>6,656</b>	<b>3,250</b>
Other debt securities in issue:				
Commercial paper	718	1,187	-	-
Commercial certificates of deposit	10,028	7,080	10,028	7,080
	<b>10,746</b>	<b>8,267</b>	<b>10,028</b>	<b>7,080</b>
	<b>17,611</b>	<b>11,805</b>	<b>16,684</b>	<b>10,330</b>
Analysed by remaining maturity				
Bonds and medium term notes:				
5 years or less but over 1 year	6,792	3,423	6,656	3,250
1 year or less but over 3 months	51	115	-	-
3 months or less	22	-	-	-
	<b>6,865</b>	<b>3,538</b>	<b>6,656</b>	<b>3,250</b>
Other debt securities in issue:				
5 years or less but over 1 year	1,578	676	1,578	676
1 year or less but over 3 months	3,402	2,016	3,388	2,016
3 months or less	5,766	5,575	5,062	4,388
	<b>10,746</b>	<b>8,267</b>	<b>10,028</b>	<b>7,080</b>
	<b>17,611</b>	<b>11,805</b>	<b>16,684</b>	<b>10,330</b>

	<b>Group</b>		<b>Allied Irish Banks, p.l.c.</b>	
	<b>31 December 2005</b> € m	1 January 2005 € m	<b>31 December 2005</b> € m	1 January 2005 € m
<b>46 Other liabilities</b>				
Notes in circulation	484	450	-	-
Future commitments in relation to the funding of Icarom <sup>(1)</sup>	69	78	69	78
Other	1,046	1,065	410	437
	<b>1,599</b>	1,593	<b>479</b>	515

<sup>(1)</sup>The provision represents the present value of the cost of the future commitments arising under the 1992 agreement in relation to the funding of Icarom. A discount rate of 3.21% was applied in the year ended 31 December 2005 (2004: 4.185%) in discounting the cost of the future commitments arising under this agreement. The undiscounted amount was €78m (2004: €89m). The unwinding of the discount on the provision amounted to €2.3m (2004: €3.4m).

	<b>Liabilities and commitments</b> € m	<b>Other provisions</b> € m	<b>Total</b> € m
<b>47 Provisions for liabilities and commitments</b>			
<b>Group</b>			
<b>At 1 January 2005</b>	47	75	122
Exchange translation adjustments	-	1	1
Amounts charged to income statement	28	47	75
Amounts written back to income statement	(8)	(15)	(23)
Provisions utilised	(17)	(18)	(35)
<b>At 31 December 2005</b>	50	90	140
<b>Allied Irish Banks, p.l.c.</b>			
<b>At 1 January 2005</b>	45	55	100
Exchange translation adjustments	-	1	1
Amounts charged to income statement	24	36	60
Amounts written back to income statement	(5)	(11)	(16)
Provisions utilised	(18)	(8)	(26)
<b>At 31 December 2005</b>	46	73	119

	31 December 2005 € m	1 January 2005 € m	31 December 2004 € m
<b>48 Subordinated liabilities and other capital instruments</b>			
<b>Allied Irish Banks, p.l.c.</b>			
Undated loan capital	868	346	346
Dated loan capital	2,678	1,923	1,923
US \$250m non-cumulative preference shares	210	182	-
Reserve capital instruments	-	-	497
	<b>3,756</b>	<b>2,451</b>	<b>2,766</b>
<b>Undated loan capital</b>			
US \$100m Floating Rate Notes, Undated	-	74	74
US \$100m Floating Rate Primary Capital Perpetual Notes, Undated	85	73	73
€ 200m Fixed Rate Perpetual Subordinated Notes	199	199	199
Stg £400m Perpetual Callable Step-Up Subordinated Notes	584	-	-
	<b>868</b>	<b>346</b>	<b>346</b>
<b>Dated loan capital</b>			
European Medium Term Note Programme:			
US \$250m Floating Rate Notes due January 2010	-	184	184
€ 250m Floating Rate Notes due January 2010	-	250	250
€ 100m Floating Rate Notes due August 2010	-	100	100
€ 200m Floating Rate Notes due June 2013	200	200	200
US \$400m Floating Rate Notes due July 2015	338	293	293
€ 400m Floating Rate Notes due March 2015	400	400	400
€ 500m Callable Subordinated Step-up Floating Rate Notes due 2017	499	-	-
Stg £500m Callable Subordinated Fixed/Floating Rate Notes due March 2025	730	-	-
Stg £350m Fixed Rate Notes due November 2030	511	496	496
	<b>2,678</b>	<b>1,923</b>	<b>1,923</b>
	<b>31 December 2005 € m</b>	<b>1 January 2005 € m</b>	<b>31 December 2004 € m</b>
The dated loan capital outstanding is repayable as follows:			
In one year or less	-	434	434
Between 1 and 2 years	-	-	-
Between 2 and 5 years	-	-	-
In 5 years or more	2,678	1,489	1,489
	<b>2,678</b>	<b>1,923</b>	<b>1,923</b>

The loan capital of the Bank is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank.

**48 Subordinated liabilities and other capital instruments (continued)***Undated loan capital*

The US\$ 100m Floating Rate Notes, Undated were redeemed on 30 November 2005. The US\$ 100m Floating Rate Primary Capital Perpetual Notes have no final maturity but may be redeemed at par at the option of the Bank, with the prior approval of the Irish Financial Services Regulatory Authority ('IFSRA'). Interest is payable quarterly on the US\$ 100m Floating Rate Primary Capital Perpetual Notes. The € 200m Fixed Rate Perpetual Subordinated Notes, with interest payable annually, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the IFSRA, on each coupon payment date on or after 3 August 2009. The Stg £ 400m Perpetual Callable Step-Up Subordinated Notes with interest payable annually up to 1 September 2015, and with interest payable quarterly thereafter, have no final maturity but may be redeemed at the option of the Bank, with the prior approval of the IFSRA, on 1 September 2015 and every interest payment date thereafter.

*Dated loan capital*

The European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. The US\$ 250m Floating Rate Notes were redeemed on 24 January 2005, the € 250m Floating Rate Notes were redeemed on 25 January 2005 and the € 100m Floating Rate Notes were redeemed on 2 August 2005. The € 200m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on 12 June 2008 and on each interest payment date thereafter. The US\$ 400m Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after July 2010. The € 400m Floating Rate Notes with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling in or after March 2010. The € 500m Callable Subordinated Step-Up Floating Rate Notes with interest payable quarterly may be redeemed in whole but not in part on any interest payment date falling in or after 24 October 2017. The STG£ 500m Subordinated Callable Fixed/Floating Rate Notes, with interest payable annually, up to 10 March 2020 and with interest payable quarterly from 10 June 2020 thereafter may be redeemed, in whole but not in part on any interest payment date falling in or after 10 March 2025. The Stg £ 350m Fixed Rate Notes, with interest payable annually in arrears on 26 November in each year, may be redeemed, in whole but not in part, on the 26 November 2025 and on each interest payment date thereafter. In all cases, redemption prior to maturity is subject to the necessary prior approval of the IFSRA. There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

*US\$ 250m non-cumulative preference shares*

In 1998, 250,000 non-cumulative preference shares of US\$ 25 each were issued at a price of US\$ 995.16 per share raising US\$ 248.8m before expenses. The holders of the non-cumulative preference shares are entitled to a non-cumulative preferential dividend, payable quarterly in arrears, at a floating rate equal to 3 month dollar LIBOR plus 0.875% on the liquidation preference amount of US\$ 1,000 per share. The preference shares are redeemable at the option of the Bank, and with the agreement of the Irish Financial Services Regulatory Authority, on or after 15 July 2008 (i) in whole or in part or (ii) prior to that date in certain circumstances in whole, but not in part. In each case, the preference shares will be redeemed at a price equal to US\$ 1,000 per share (consisting of a redemption price of US\$ 995.16 plus a special dividend of US\$ 4.84 per share), plus accrued dividends.

Prior to transition to IFRS, at 1 January 2005, the US\$ 250m non-cumulative preference shares were included in shareholders funds, however, because of the terms within this instrument they have been reclassified to subordinated liabilities under IFRS.

*Reserve capital instruments (RCIs)*

On transition to IFRS at 1 January 2005, the Reserve capital instruments were reclassified to equity and are included in other equity interests (note 51).

<b>49 Share capital</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
<b>Ordinary share capital</b>		
Ordinary shares of €0.32 each		
Authorised:	1,160 million shares (2004: 1,160 million)	
Issued:	918 million shares (2004: 918 million)	294
		294
<b>Movements in ordinary share capital</b>		
At 1 January	294	290
New shares issued during year - see below	-	4
At 31 December	294	294

During the year ended 31 December 2004, the number of ordinary shares in issue was increased from 907,621,316 to 918,435,570, through the allotment of 10,814,254 shares under the Company's dividend reinvestment plan, as follows:

- (a) 6,443,950 shares were allotted to shareholders, at € 12.20 per share, in respect of the final dividend for the year ended 31 December 2003; and
- (b) 4,370,304 shares were allotted to shareholders, at € 12.77 per share, in respect of the interim dividend for the year ended 31 December 2004.

These allotments were made in lieu of dividends amounting to € 134.4m.

#### **Preference share capital**

The company has authorisation from shareholders to issue preference share capital as follows:

- 20m non-cumulative preference shares of US\$ 25 each
- 200m non-cumulative preference shares of €1.27 each
- 200m non-cumulative preference shares of Stg £ 1 each
- 200m non-cumulative preference shares of Yen 175 each

The company has issued 250,000 non-cumulative preference shares of US\$ 25 each which were reclassified as liabilities on transition to IFRS.

#### **50 Own shares**

##### **Share repurchases**

At the 2005 Annual General Meeting, shareholders granted authority for the Company, or any subsidiary, to make market purchases of up to 90 million ordinary shares of the Company, subject to the terms and conditions set out in the relevant resolution. During the year ended 31 December 2005, ordinary shares previously purchased under a similar authority, and held as Treasury shares, were re-issued as follows:

	<b>2005</b>	<b>2004</b>
At 1 January	<b>48,889,789</b>	55,534,156
Shares re-issued under:		
AIB Share Option Schemes	<b>3,487,950</b>	4,338,350
Allfirst Financial Stock Option Plan	<b>26,400</b>	29,600
AIB Approved Employee Profit Sharing Schemes	<b>1,835,842</b>	2,276,417
	<b>5,350,192</b>	6,644,367
At 31 December	<b>43,539,597</b>	48,889,789

**50 Own shares (continued)****Share repurchases (continued)**

In addition, 5.6 million ordinary shares were purchased by a subsidiary undertaking in 1997 at a cost of € 42m, on which the related dividend entitlements have been waived.

The cost of share repurchases less proceeds of shares reissued has been charged to the profit and loss account reserve.

The shares issued during 2005 to participants in the AIB share option schemes were issued at prices of € 10.02, € 11.90 and € 12.20 per share. The consideration received for these shares was € 36.8m

The consideration received for the shares issued during 2005 on the exercise of Dauphin converted options to participants in the Allfirst Financial Inc. Stock Option Plan was € 0.2m.

During 2005, the Company re-issued from its pool of Treasury Shares 1,835,842 ordinary shares to the Trustees of the employees' profit sharing schemes, at € 15.78 per share. The consideration received for these shares was € 29m.

**Allfirst Financial Inc. Stock Option Plan**

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (subsequently renamed "Allfirst") and Dauphin Deposit Corporation ("Dauphin", subsequently renamed "Allfirst"), approved by shareholders at the 1997 Annual General Meeting, options to purchase Dauphin shares which were outstanding immediately prior to the merger were converted, at the holders' elections, into either cash or options to purchase a similar number of AIB American Depositary Shares ("converted options"). On 1 April 2003, the merger of Allfirst Financial Inc. ("Allfirst") with M&T Bank Corporation ("M&T") was completed, pursuant to the Agreement and Plan of Reorganisation dated 26 September 2002 by and among the Company, Allfirst and M&T. Under the terms of that Agreement, Dauphin converted options outstanding immediately prior to the merger (over 321,598 ordinary shares) remained in force.

At 31 December 2005, converted options were outstanding over 80,598 ordinary shares.

**Employee share schemes and trusts**

The Group sponsors a number of employee share plans whereby purchases of shares are made in the open market to satisfy commitments under the schemes.

At 31 December 2005, 2.2m shares (2004: 2.5m) were held by trustees with a book value of € 26.0m (2004: € 25.5m), and a market value of € 39.9m (2004: € 38.5m). The book value is deducted from the profit and loss account reserve while the shares continue to be held by the Group.

The Group sponsors SAYE schemes for eligible employees in the UK, the Isle of Man and Channel Islands. The trustees of the schemes have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the schemes. The trustees receive dividends on the shares which are used to meet the expenses. The cost of providing these shares is charged to the profit and loss account on a systematic basis over the period that the employees are expected to benefit. At 31 December 2005, 1.4 million shares (2004: 1.0 million) were held by the trustees with a book value of € 17.9m (2004: € 10.5m) and a market value of € 25.1m (2004: € 15.2m).

In 2001, the AIB Group Employee Share Trust was established to satisfy commitments arising under the AIB Group Long-Term Incentive Plan (LTIP). Funds are provided to the trustees to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. The trustees have waived their entitlement to dividends. At 31 December 2005, 0.2m shares (2004: 0.2m) were held by the trustees with a book value of € 1.3m (2004: € 1.3m) and a market value of € 3.6m (2004: € 3.1m).

Prior to its disposal to M&T Bank Corporation, Allfirst Financial, Inc. sponsored the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst. At 31 December 2002, Allfirst had lent US\$ 178m to a trust to enable it to purchase Allied Irish Banks, p.l.c. ordinary shares in the form of American Depositary Shares in the open market. The shares purchased are used to satisfy options which have been granted to Allfirst employees. Proceeds of option exercises are used to repay the loan to the trust. Under the terms of the trust, the trustees receive dividends on the shares which are used to meet the expenses of the trust. A similar scheme operated for certain eligible employees of AIB's US operations. At 31 December 2005, 0.6 million (2004: 1.4m) ordinary shares were held by the trust with a cost of € 6.7m (2004: € 13.3m) and a market value of € 11.1m (2004: € 20.1m).

**Subsidiary companies**

Certain subsidiary companies hold shares in AIB for customer facilitation and in the normal course of business. At 31 December 2005, 4.5 million shares (2004: 4.8 million) with a book and market value of € 81.6m (2004: € 73.7m) were held by subsidiary companies.

The accounting treatment is not intended to affect the legal characterisation of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares as a deduction against shareholders' funds on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.



### 51 Other equity interests

In February 2001, Reserve capital instruments (RCIs) of € 500m were issued by Allied Irish Banks, p.l.c. at an issue price of 100.069%. The RCIs are perpetual securities and have no maturity date. The RCIs are redeemable, in whole but not in part, at the option of the Bank and with the agreement of the IFSRA (i) upon the occurrence of certain events, or (ii) on or after 28 February 2011, an authorised officer having reported to the Trustees within the previous six months that a solvency condition is met.

The RCIs bear interest at a rate of 7.50% per annum from (and including) 5 February 2001 to (but excluding) 28 February 2011 and thereafter at 3.33% per annum above three month EURIBOR, reset quarterly.

The rights and claims of the RCI holders and the coupon holders are subordinated to the claims of the senior creditors and the senior subordinated creditors of the issuer. In the event of a winding up of the issuer, the RCI holders will rank *pari passu* with the holders of the classes of preference shares (if any) from time to time issued by the issuer and in priority to all other shareholders.

<b>52 Minority interests in subsidiaries</b>	<b>2005</b>	<b>2004</b>
	<b>€ m</b>	<b>€ m</b>
Equity interest in subsidiaries	<b>258</b>	221
Non-equity interest in subsidiaries	<b>990</b>	990
	<b>1,248</b>	1,211

#### *Non-equity interest in subsidiaries*

In December 2004, Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') in the amount of € 1,000,000,000 were issued through a Limited Partnership. The Preferred Securities were issued at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ('AIB'). The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the IFSRA (i) upon the occurrence of certain events, or (ii) on or after 17 December 2014, subject to the provisions of the Limited Partnership Act, 1907.

Distributions on the Preferred Securities are non-cumulative. The distributions will be payable at a rate of 4.781% per annum up to 17 December 2014 and thereafter at the rate of 1.10% per annum above 3 month EURIBOR, reset quarterly. The discretion of the Board of Directors of AIB to resolve that a distribution should not be paid is unfettered.

In the event of the dissolution of the Limited Partnership, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

### 53 Memorandum items: contingent liabilities and commitments

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated balance sheet. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The risk weighted amount is obtained by applying credit conversion factors and counterparty risk weightings in accordance with the IFSRA guidelines implementing the EC Own Funds and Solvency Ratio Directives.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for on balance sheet lending.

## 53 Memorandum items: contingent liabilities and commitments (continued)

The following tables give, for the Group and Allied Irish Banks, p.l.c., the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments.

	2005		2004	
	Contract amount € m	Risk weighted amount € m	Contract amount € m	Risk weighted amount € m
<b>Group</b>				
<b>Contingent liabilities</b>				
Acceptances <sup>(1)</sup>	-	-	12	12
Endorsements	-	-	2	2
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	7,157	7,142	5,394	5,287
Other contingent liabilities	1,396	982	830	420
	<b>8,553</b>	<b>8,124</b>	<b>6,238</b>	<b>5,721</b>
<b>Commitments</b>				
Documentary credits and short-term trade-related transactions	297	111	267	103
Forward asset purchases and forward deposits placed	-	-	88	18
Undrawn note issuance and revolving underwriting facilities	173	86	108	54
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year <sup>(2)</sup>	6,579	-	5,665	-
1 year and over	12,509	6,223	9,999	4,944
	<b>19,558</b>	<b>6,420</b>	<b>16,127</b>	<b>5,119</b>
	<b>28,111</b>	<b>14,544</b>	<b>22,365</b>	<b>10,840</b>

<sup>(1)</sup>On transition to IFRS, at 1 January 2005, IAS 39 requires the recognition of a liability for acceptances from the date of acceptance. A corresponding asset due from the originator is also recognised. Under Irish GAAP, acceptances were accounted for on a net basis and shown as a contingent liability.

<sup>(2)</sup>Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

**53 Memorandum items: contingent liabilities and commitments (continued)**

	Contingent liabilities		Commitments	
	2005 € m	2004 € m	2005 € m	2004 € m
<b>Concentration of exposure</b>				
Republic of Ireland	3,860	2,580	9,165	7,945
United States of America	3,366	2,614	3,007	1,820
United Kingdom	1,287	1,004	6,069	4,970
Poland	40	40	1,237	1,392
Rest of the world	-	-	80	-
	<b>8,553</b>	<b>6,238</b>	<b>19,558</b>	<b>16,127</b>

	2005		2004	
	Contract amount € m	Risk weighted amount € m	Contract amount € m	Risk weighted amount € m

**Allied Irish Banks, p.l.c.**
**Contingent liabilities**

Acceptances <sup>(1)</sup>	-	-	2	2
Guarantees and irrevocable letters of credit	6,384	6,384	4,732	4,635
Other contingent liabilities	1,223	888	636	318
	<b>7,607</b>	<b>7,272</b>	<b>5,370</b>	<b>4,955</b>

**Commitments**

Documentary credits and short-term trade-related transactions	107	21	86	17
Undrawn note issuance and revolving underwriting facilities	11	6	-	-
Undrawn formal standby facilities, credit lines and other commitments to lend:				
1 year and over	10,528	5,238	8,111	4,010
Less than 1 year <sup>(2)</sup>	4,409	-	3,705	-
	<b>15,055</b>	<b>5,265</b>	<b>11,902</b>	<b>4,027</b>
	<b>22,662</b>	<b>12,537</b>	<b>17,272</b>	<b>8,982</b>

<sup>(1)</sup>On transition to IFRS, at 1 January 2005, IAS 39 requires the recognition of a liability for acceptances from the date of acceptance. A corresponding asset due from the originator is also recognised. Under Irish GAAP, acceptances were accounted for on a net basis and shown as a contingent liability.

<sup>(2)</sup>Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

There exists a contingent liability to repay in whole or in part grants received on equipment leased to customers if certain events set out in the agreements occur.

Allied Irish Banks, p.l.c. has given guarantees in respect of the liabilities of certain of its subsidiaries and has also given guarantees for the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate.

Following the foreign exchange pricing issue in 2004, Allied Irish Banks, p.l.c. agreed a management action plan with the Financial Regulator which included:- the introduction of a speak up policy as an additional channel to help staff raise concerns; the improvement and simplification of product delivery processes; and the strengthening of enterprise-wide quality assurance, risk and compliance functions. This programme is well advanced but not complete. When issues have come to light, the Financial Regulator has been briefed and appropriate remedial action initiated. AIB has estimated the likely financial effect of such issues and this has been provided for at 31 December 2005.

Except as set out below, AIB Group is not, nor has been, involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of AIB Group.

**53 Memorandum items: contingent liabilities and commitments (continued)****Class action and purported shareholder derivative action**

On 5th March, 2002 and on 24th April, 2002, separate class action lawsuits under the Securities Exchange Act, 1934 of the United States were filed in the United States District Court for the Southern District of New York against AIB, Allfirst and certain serving and past officers and directors of Allfirst and its subsidiaries, seeking compensatory damages, legal fees and other costs and expenses relating to alleged misrepresentations in filings of AIB and Allfirst. On 3rd May, 2002, a motion to consolidate both cases and to appoint a lead plaintiff was filed with the Court. On 7th December, 2004 the Court granted this motion. In accordance with the direction of the Court, the plaintiffs filed an amended and consolidated complaint on 7th February, 2005. Certain of the defendants (including AIB and Allfirst) filed a motion to dismiss the consolidated amended complaint on 8th April, 2005. In December 2005 a settlement was reached, under which all claims are to be dismissed without any admission of liability or wrongdoing by any defendant. The class of security holders will receive a cash payment of US\$ 2.5 million, out of which the Court will be asked to award Attorneys' fees to class counsel. The settlement must be approved by the Court.

On 13th May, 2002, a purported shareholder derivative action was filed in the Circuit Court for Baltimore City, Maryland. A holder of AIB American Depositary Shares purported to sue certain present and former directors and officers of Allfirst Bank on behalf of AIB, alleging those persons were liable for the foreign exchange trading losses. No relief was sought in the purported derivative action against AIB, Allfirst or Allfirst Bank. On 30th December, 2002, the Court dismissed the action. On 10th January, 2003, the plaintiffs filed a motion seeking to have the Court amend or revise the judgement, or to be granted leave to file an amended complaint. This was dismissed on 3rd March, 2003. The plaintiffs filed a second such motion on 17th March, 2003. The Court dismissed this on 4th April, 2003. On 20th June, 2003, the plaintiffs' petition to bypass the Maryland Court of Special Appeals and appeal directly to the Maryland Court of Appeals was denied by the Maryland Court of Appeals. The plaintiffs' appeal to the Maryland Court of Special Appeals was argued on 12th January, 2004. On 3rd December, 2004 the Maryland Court of Special Appeals affirmed the dismissal of the action. On 21st January, 2005, the plaintiff petitioned the Maryland Court of Appeals to hear an appeal from this decision. Oral argument on this appeal was heard on 1st September, 2005 and judgment delivered on 13th December 2005. By a vote of six to one, the Court upheld the judgment of the Court of Special Appeals affirming the dismissal of the action. On 11th January 2006 the Attorneys for the Plaintiff filed a motion asking the Court of Appeals to reconsider its decision.

Certain of the individual defendants in these actions have asserted or may possibly assert claims for indemnification against AIB and/or Allfirst, which, if made against Allfirst following completion of the M&T transaction, might be subject to the indemnification obligations of AIB as part of the agreement with M&T. In the nature of any such claims, it is not possible to quantify the amount which might be asserted in any such claim. On the basis of current information, the Board of Directors of AIB do not believe that any of the above proceedings are likely to have (either individually or in the aggregate) a significant effect on the financial position of AIB and its subsidiaries taken as a whole.

**54 Fair value of financial instruments**

The term 'financial instruments' includes both financial assets and financial liabilities and also 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 arm's 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 Group'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 include short-term debtors and creditors, intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2005.

#### 54 Fair value of financial instruments (continued)

The following table gives details of the carrying amounts and fair values of financial instruments at 31 December 2005 and 2004. As permitted by IFRS 1 'First time adoption of International Financial Reporting Standards' the carrying amount and fair value for 2004 are disclosed as previously reported in the 2004 Annual Report and Accounts.

	31 December 2005		31 December 2004	
	Carrying amount € m	Fair value € m	Carrying amount € m	Fair value € m
<b>Assets</b>				
<b>Trading financial instruments<sup>(1)</sup></b>				
Trading portfolio financial assets	10,113	10,113	-	-
Trading derivative financial instruments	1,849	1,849	-	-
Debt securities	-	-	7,826	7,826
Equity shares	-	-	84	84
<b>Non-trading financial instruments</b>				
Cash and balances at central banks <sup>(1)</sup>	742	742	887	887
Treasury bills and other eligible bills	201	201	-	-
Items in course of collection <sup>(1)</sup>	402	402	368	368
Loans and receivables to banks <sup>(2)</sup>	7,129	7,129	2,320	2,336
Loans and receivables to customers <sup>(2)</sup>	85,232	85,290	64,836	65,148
Financial investments available for sale	16,864	16,864	-	-
Hedging derivative financial instruments	590	590	-	-
Debt securities and equity shares	-	-	16,361	16,633
<b>Liabilities</b>				
<b>Trading financial instruments</b>				
Trading portfolio financial liabilities	240	240	-	-
Trading derivative financial instruments	1,779	1,779	-	-
Short positions in securities <sup>(1)</sup>	-	-	332	332
<b>Non-trading financial instruments</b>				
Deposits by banks	29,329	29,328	20,428	20,447
Customer accounts	62,580	62,604	51,397	51,476
Debt securities in issue	17,611	17,609	11,805	11,805
Hedging derivative financial instruments	188	188	-	-
Subordinated liabilities and other capital instruments	3,756	3,859	2,766	2,882
<b>Off-balance sheet assets/(liabilities)</b>				
<b>Trading financial instruments<sup>(1)</sup></b>				
Interest rate contracts	-	-	152	152
Exchange rate contracts	-	-	19	19
Equity contracts	-	-	70	70
<b>Non-trading financial instruments</b>				
Interest rate contracts	-	-	48	(12)

<sup>(1)</sup>The fair value of these financial instruments is considered equal to the carrying value. These instruments are either carried at market value or have minimal credit losses.

<sup>(2)</sup>The carrying values are net of the provisions for impairment and related unearned income.

## **54 Fair value of financial instruments (continued)**

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

### **Trading portfolio financial assets/liabilities**

Trading portfolio financial assets/liabilities are measured at fair value by reference to quoted market prices where available.

### **Loans and receivables to banks and loans and receivables to customers**

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans. Where secondary market prices were available, these were used. 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.

The fair value of money market funds and loans and advances to banks was estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

### **Financial investments available for sale**

The fair value of listed financial investments is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted financial investments is based on the anticipated future cashflows arising from these items.

### **Debt securities and equity shares**

The fair value of listed debt securities and equity shares is based on market prices received from external pricing services or bid quotations received from external securities dealers. The estimated value of unlisted debt securities and equity shares is based on the anticipated future cashflows arising from these items.

### **Deposits by banks, customer accounts and debt securities in issue**

The fair value of current accounts and deposit liabilities payable on demand is equal to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

### **Subordinated liabilities and other capital instruments**

The estimated fair value of subordinated liabilities is based upon quoted market rates.

### **Commitments pertaining to credit-related instruments**

Details of the various credit-related commitments entered into by the Group and other off-balance sheet financial guarantees are included in note 53. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

### **Derivative financial instruments**

Derivatives used for trading purposes are marked to market using independent prices and are included in the consolidated balance sheet at 31 December 2005 and 2004. The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used for valuing similar instruments used for trading purposes. Derivatives classified as fair value or cash flow hedges are included in the Balance Sheet at 31 December 2005 at fair value. In 2004 hedging derivatives were carried at amortised cost. Details of derivatives in place, including fair values, are included in note 27.

## 55 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2005 and 2004 is illustrated in the tables below. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are also included. The tables show the sensitivity of the balance sheet at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

	31 December 2005							
	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
<b>Assets</b>								
Treasury bills and other eligible bills	24	177	-	-	-	-	-	201
Loans and receivables to banks	5,947	72	222	-	-	888	-	7,129
Trading portfolio financial assets	-	-	-	-	-	-	10,113	10,113
Loans and receivables to customers	69,956	2,523	2,274	7,169	2,716	594	-	85,232
Financial investments available for sale	4,412	1,796	2,219	5,776	2,486	175	-	16,864
Other assets	-	-	-	-	-	11,818	1,857	13,675
<b>Total assets</b>	<b>80,339</b>	<b>4,568</b>	<b>4,715</b>	<b>12,945</b>	<b>5,202</b>	<b>13,475</b>	<b>11,970</b>	<b>133,214</b>
<b>Liabilities</b>								
Deposits by banks	26,728	1,103	1,207	78	-	213	-	29,329
Trading portfolio financial liabilities	-	-	-	-	-	-	240	240
Customer accounts	47,653	1,708	1,622	1,638	74	9,885	-	62,580
Debt securities in issue	14,479	984	1,814	334	-	-	-	17,611
Subordinated liabilities and other capital instruments	1,149	85	-	-	2,522	-	-	3,756
Other liabilities	-	-	-	-	-	10,829	1,700	12,529
Shareholders' equity	-	-	-	-	-	7,169	-	7,169
<b>Total liabilities</b>	<b>90,009</b>	<b>3,880</b>	<b>4,643</b>	<b>2,050</b>	<b>2,596</b>	<b>28,096</b>	<b>1,940</b>	<b>133,214</b>
Derivative financial instruments affecting interest rate sensitivity	9,327	(1,785)	(3,423)	(112)	(4,007)	-	-	-
	99,336	2,095	1,220	1,938	(1,411)	28,096	1,940	133,214
Interest sensitivity gap	(18,997)	2,473	3,495	11,007	6,613	(14,621)	10,030	
Cumulative interest sensitivity gap	(18,997)	(16,524)	(13,009)	(2,022)	4,591	(10,030)	-	
	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	
Interest sensitivity gap	(8,234)	959	2,607	6,764	4,683	(12,620)	4,816	
Cumulative interest sensitivity gap	(8,234)	(7,275)	(4,668)	2,096	6,779	(5,841)	(1,025)	
	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	
Interest sensitivity gap	(6,338)	909	575	2,107	433	2,064	1,702	
Cumulative interest sensitivity gap	(6,338)	(5,429)	(4,854)	(2,747)	(2,314)	(250)	1,452	
	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	
Interest sensitivity gap	(1,344)	214	51	1,789	1,441	(3,590)	1,417	
Cumulative interest sensitivity gap	(1,344)	(1,130)	(1,079)	710	2,151	(1,439)	(22)	
	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	
Interest sensitivity gap	(1,652)	588	250	228	-	(503)	573	
Cumulative interest sensitivity gap	(1,652)	(1,064)	(814)	(586)	(586)	(1,089)	(516)	

# Notes to the accounts

## 55 Interest rate sensitivity (continued)

As permitted by IFRS 1 'First time adoption of International Financial Reporting Standards' the following interest rate sensitivity table for 2004 is disclosed as previously reported in the 2004 Annual Report and Accounts.

	31 December 2004							
	0-3 Months € m	3-6 Months € m	6-12 Months € m	1-5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	Total € m
<b>Assets</b>								
Loans and advances to banks	1,251	186	85	–	–	798	–	2,320
Loans and advances to customers	54,984	2,184	1,683	3,456	2,529	–	–	64,836
Debt securities	3,687	898	1,344	6,806	3,515	–	7,826	24,076
Other assets	–	–	–	–	–	10,102	906	11,008
<b>Total assets</b>	<b>59,922</b>	<b>3,268</b>	<b>3,112</b>	<b>10,262</b>	<b>6,044</b>	<b>10,900</b>	<b>8,732</b>	<b>102,240</b>
<b>Liabilities</b>								
Deposits by banks	13,716	3,360	3,086	–	183	83	–	20,428
Customer accounts	37,253	1,275	1,100	2,662	226	8,881	–	51,397
Debt securities in issue	9,501	1,087	1,068	149	–	–	–	11,805
Subordinated liabilities	1,500	73	–	–	1,192	–	–	2,765
Other liabilities	–	–	–	–	–	9,053	1,211	10,264
Shareholders' funds	–	–	–	–	–	5,581	–	5,581
<b>Total liabilities</b>	<b>61,970</b>	<b>5,795</b>	<b>5,254</b>	<b>2,811</b>	<b>1,601</b>	<b>23,598</b>	<b>1,211</b>	<b>102,240</b>
Off-balance sheet items								
affecting interest rate sensitivity	5,131	(4,560)	(1,835)	1,933	(669)	–	–	–
	67,101	1,235	3,419	4,744	932	23,598	1,211	102,240
Interest sensitivity gap	(7,179)	2,033	(307)	5,518	5,112	(12,698)	7,521	
Cumulative interest sensitivity gap	(7,179)	(5,146)	(5,453)	65	5,177	(7,521)	–	
	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	<b>Euro m</b>	
Interest sensitivity gap	(960)	2,313	102	2,676	3,222	(11,149)	3,675	
Cumulative interest sensitivity gap	(960)	1,353	1,455	4,131	7,353	(3,796)	(121)	
	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	<b>US \$m</b>	
Interest sensitivity gap	(4,087)	147	198	458	341	2,195	1,122	
Cumulative interest sensitivity gap	(4,087)	(3,940)	(3,742)	(3,284)	(2,943)	(748)	374	
	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	<b>Stg m</b>	
Interest sensitivity gap	(615)	88	(590)	1,713	1,411	(3,463)	1,392	
Cumulative interest sensitivity gap	(615)	(527)	(1,117)	596	2,007	(1,456)	(64)	
	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	<b>PLN m</b>	
Interest sensitivity gap	(1,267)	(98)	(26)	510	116	187	345	
Cumulative interest sensitivity gap	(1,267)	(1,365)	(1,391)	(881)	(765)	(578)	(233)	



## 56 Statement of cash flows

### Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition:

	<b>Group</b>		<b>Allied Irish Banks, p.l.c.</b>	
	<b>2005</b> <b>€ m</b>	<b>2004</b> <b>€ m</b>	<b>2005</b> <b>€ m</b>	<b>2004</b> <b>€ m</b>
Cash and balances at central banks	<b>742</b>	887	<b>503</b>	514
Loans and receivables to banks	<b>6,598</b>	1,886	<b>5,465</b>	1,025
Short term investments	<b>330</b>	-	-	-
<b>At 31 December</b>	<b>7,670</b>	2,773	<b>5,968</b>	1,539

The Group is required to maintain balances with the Central Bank and Financial Services Authority of Ireland which amounted to €2,694m (2004: €446m). The Group is also required by law to maintain reserve balances with the Bank of England and with the National Bank of Poland. At December 2005, such reserve balances amounted to €505m (2004: €621m).

## 57 Report on directors' remuneration and interests

### Remuneration policy

The Company's policy in respect of the remuneration of the executive directors aims to support and enhance business performance, and to underpin and reinforce a high-performance and ethical culture. Remuneration packages and structures are such as to attract, retain, motivate and reward the executives concerned and, by ensuring strong links between performance and reward, align individual and company success. In considering such packages, cognisance is taken of: the levels of remuneration for comparable positions, as advised by external consultants (Kepler Associates, who have not been engaged to provide any other services to the Group); the responsibilities and complexity of the roles of the individuals concerned; their individual performances measured against specific and challenging objectives; and the Group's overall performance. A high proportion of the remuneration of the senior executives will be delivered through variable pay, including equity. Senior executives participating in the AIB Group Performance Share Plan 2005 (see note 50) are expected to build up, over time, ownership of the Company's shares to the equivalent of annual basic salary.

### Remuneration Committee

The Remuneration Committee comprises only non-executive directors; during 2005 its members were: Mr Dermot Gleeson, Chairman (until June), Sir Derek Higgs, Chairman (from June until October, when he resigned as a Director), Mr. John B. McGuckian, Chairman (from November), Mr Don Godson and Mr Jim O'Leary. The Committee has a wide remit (see page 45) which includes, inter alia, determining, under advice to the Board, the specific remuneration packages of the executive directors.

Remuneration	2005						Total € 000
	Fees <sup>(1)</sup> € 000	Salary € 000	Bonus <sup>(2)</sup> € 000	Profit share <sup>(3)</sup> € 000	Taxable benefits <sup>(4)</sup> € 000	Pension contributions <sup>(5)</sup> € 000	
<b>Executive directors</b>							
Michael Buckley (retired 30 June 2005)	17	430	400	13	66	533	1,459
Colm Doherty	-	471	900	13	45	122	1,551
Gary Kennedy	-	470	265	13	53	2,133	2,934
Aidan McKeon	35	403	256	4	34	180	912
Eugene Sheehy (appointed 12 May 2005)	-	510	426	-	36	132	1,104
	52	2,284	2,247	43	234	3,100	7,960
<b>Non-executive directors</b>							
Adrian Burke	127					-	127
Kieran Crowley	85					-	85
Padraic M Fallon	44					11	55
Dermot Gleeson	375					-	375
Don Godson	95					-	95
Sir Derek Higgs (resigned 5 October 2005)	75					-	75
John B McGuckian	141					11	152
Jim O'Leary	97					-	97
Michael J Sullivan	98					-	98
Robert G Wilmers <sup>(1)</sup>	-					-	-
Jennifer Winter	58					-	58
	1,195					22	1,217
<b>Former directors</b>							
Pensions <sup>(6)</sup>							758
							758
Total							9,935

**57 Report on directors' remuneration and interests (continued)**

							2004
	Fees <sup>(1)</sup>	Salary	Bonus <sup>(2)</sup>	Profit share <sup>(3)</sup>	Taxable benefits <sup>(4)</sup>	Pension contributions <sup>(5)</sup>	Total
<b>Remuneration (continued)</b>	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
<b>Executive directors</b>							
Michael Buckley	35	775	360	13	52	210	1,445
Colm Doherty	35	418	340	13	43	109	958
Gary Kennedy	35	415	235	13	38	108	844
Aidan McKeon	35	356	242	4	38	159	834
	140	1,964	1,177	43	171	586	4,081
<b>Non-executive directors</b>							
Adrian Burke	146					–	146
Kieran Crowley	18					–	18
Padraic M Fallon	44					11	55
Dermot Gleeson	285					–	285
Don Godson	62					–	62
Sir Derek Higgs	71					–	71
John B McGuckian	103					11	114
Carol Moffett	33					–	33
Jim O'Leary	68					–	68
Michael J Sullivan	95					–	95
Robert G Wilmers <sup>(1)</sup>	–					–	–
Jennifer Winter	39					–	39
	964					22	986
<b>Former directors</b>							
Pensions <sup>(6)</sup>							758
Other payments <sup>(7)</sup>							84
							842
<b>Total</b>							<b>5,909</b>

<sup>(1)</sup> Fees comprise a basic fee of €35,000 per annum paid in respect of service as a director, and additional remuneration paid to any non-executive director who holds the office of Chairman, Chairman of the Audit Committee or of the Remuneration Committee, or Senior Independent Director, or who performs additional services, such as through membership of Board Committees, or who serves on the board of a subsidiary company.

In 2005 the Board decided that the practice of paying Directors' Fees to Executive Directors should be discontinued, and that the salaries of those concerned should be adjusted accordingly, on an actuarially neutral basis. This adjustment was applied with effect from 1 January 2005, save in the case of Mr. Michael Buckley (who retired on 30 June 2005) and Mr. Aidan McKeon (who retired from the Board on 31 December 2005).

A fee of €35,000 was paid to M&T Bank Corporation ("M&T") in the year ended 31 December 2005 (2004: €35,000), in respect of Mr. Robert G. Wilmers's directorship of the Company as the designee of M&T, pursuant to the Agreement and Plan of Reorganisation, dated 26 September 2002, by and among the Company, Allfirst Financial Inc. and M&T, as approved by shareholders at the Extraordinary General Meeting held on 18 December 2002 ("the Agreement").

Messrs. Michael Buckley, Eugene Sheehy, Gary Kennedy (until 20 September 2005) and Colm Doherty (from 20 September 2005) served as AIB-designated Directors of M&T, pursuant to the Agreement. The fees payable in this regard, which amounted to €55,323 in 2005 (2004: €56,718), were paid to AIB, except that the portion of this figure payable in respect of Mr. Buckley from the date of his retirement as Group Chief Executive and Director of AIB on 30 June 2005 (€10,656) was paid direct to Mr. Buckley, who continues to serve as an AIB-designated Director of M&T.

Each executive director is permitted to hold no more than one directorship of another public company, subject to the approval of the Nomination and Corporate Governance Committee, and any related remuneration may be retained by the individual concerned. Mr. Gary Kennedy joined the board of Elan Corporation plc on 26 May 2005; the related remuneration amounted to €30,794 in 2005.

## 57 Report on directors' remuneration and interests (continued)

### Remuneration (continued)

- <sup>(2)</sup> The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually. The bonus may range from 0% to 100% of annual salary; the upper limit may be exceeded at the discretion of the Remuneration Committee.
- <sup>(3)</sup> Information on the employees' profit sharing schemes, which are operated on terms approved by the shareholders, is given in note 11.
- <sup>(4)</sup> Taxable benefits include the use of a company car or the payment of a car allowance, and benefit arising from loans made at preferential interest rates.
- <sup>(5)</sup> "Pension contributions" represent:
- payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date. The contribution rates, as a percentage of pensionable emoluments, are 26.0% in respect of the Republic of Ireland pension scheme (2004: 26.0%) and 44.6% in respect of the UK pension scheme (2004: 44.6%). The fees of the non-executive directors who joined the Board since 1990 are not pensionable; and
  - in respect of 2005, one-off payments to the pension scheme to meet the scheme's liabilities arising from the retirements of
    - Mr. Michael Buckley, some seven months prior to his normal retirement date (funding impact: €0.416m), and
    - Mr. Gary Kennedy – see Note 58 (funding impact: €2.011m).

The pension benefits earned during the year, and accrued at year-end (or date of retirement, if earlier), are as follows:

	Increase in accrued benefits during 2005 <sup>(a)</sup> € 000	Accrued benefit at year-end <sup>(b)</sup> € 000	Transfer values <sup>(c)</sup> € 000
<b>Executive directors</b>			
Michael Buckley	68	590	1,798
Colm Doherty	27	188	307
Gary Kennedy	94	200	3,614
Aidan McKeon	34	270	631
Eugene Sheehy	257	410	3,635
<b>Non-executive directors</b>			
Padraic M Fallon	0.5	16	6
John B McGuckian	0.2	23	4

<sup>(a)</sup> Increases are after adjustment for inflation, and arise in consequence of (i) additional pensionable service; (ii) increases in pensionable earnings; and (iii) adjustments, if any, agreed in respect of the individual's pension payable. The increase in accrued pension benefits in respect of Mr. Sheehy reflects primarily the increase in salary that was granted to him on his appointment as Group Chief Executive during the year.

<sup>(b)</sup> Figures represent the accumulated total amounts of accrued benefits (i.e., annual pension) payable at normal retirement dates, as at 31 December 2005, and at actual retirement date in respect of Mr. Buckley (30 June 2005).

<sup>(c)</sup> Figures show the transfer values of the increases in accrued benefits during 2005. These transfer values do not represent sums paid or due, but the amounts that the Company's pension scheme would transfer to another pension scheme, in relation to the benefits accrued in 2005, in the event of the member leaving service.

<sup>(6)</sup> "Pensions" (€758,000) represents the payment of pensions to former directors or their dependants granted on an ex-gratia basis and fully provided for in the balance sheet, together with an amount of €650,000 to amortise a deficit in the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice (2004: €758,000, inclusive of €650,000 in respect of amortisation of the Pension Scheme deficit).

<sup>(7)</sup> "Other payments" in 2004 (€83,507) represented a final payment to Mr. Jeremiah E. Casey under the terms of a post-retirement consultancy contract approved by shareholders at the 1999 Annual General Meeting.

## 57 Report on directors' remuneration and interests (continued)

### Interests in shares

The beneficial interests of the directors and the secretary in office at 31 December 2005, and of their spouses and minor children, are as follows:

Ordinary Shares	31 December 2005	1 January 2005*
<b>Directors:</b>		
Adrian Burke	11,004	11,004
Kieran Crowley	7,520	5,020
Colm Doherty	70,469	57,218
Padraic M Fallon	8,979	8,979
Dermot Gleeson	32,826	22,826
Don Godson	50,000	38,599
Gary Kennedy	101,875	101,124
John B McGuckian	72,911	72,911
Aidan McKeon	28,246	27,853
Jim O'Leary	4,000	4,000
Eugene Sheehy	71,284	71,284
Michael J Sullivan	1,700	1,700
Robert G Wilmers	152,459	52,459
Jennifer Winter	280	-
<b>Secretary:</b>		
W M Kinsella	40,050	39,489

\* or later date of appointment

### Share Options

Details of the Executive Directors' and the Secretary's share options are given below. Information on the Share Option Schemes, including policy on the granting of options, is given in note 11. The vesting of these options in the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met. Subject thereto, the options outstanding at 31 December 2005 are exercisable at various dates between 2006 and 2015. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by shareholders at the Company's Registered Office.

	31 December 2005	1 January 2005*	Since 1 January 2005*		Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at 31 December 2005
			Granted	Exercised			
<b>Directors:</b>							
Colm Doherty	185,000	230,000	5,000	50,000	10.02	18.14	12.83
Gary Kennedy	180,000	165,000	30,000	15,000	10.02	18.14	13.59
Aidan McKeon	137,000	137,000	-	-	-	-	12.94
Eugene Sheehy	154,000	154,000	-	-	-	-	13.08
<b>Secretary:</b>							
W M Kinsella	40,500	40,500	15,000	15,000	10.02	17.63	13.99

\* or later date of appointment

## 57 Report on directors' remuneration and interests (continued)

### Long Term Incentive Plans

Details of the Executive Directors' and the Secretary's conditional grants of awards of shares are given below. These conditional awards are subject to onerous performance targets being met, in terms of total shareholder return and EPS growth. Information on the Long Term Incentive Plans, including policy on the granting of awards, is given in note 11. The conditional grants of awards outstanding at 31 December 2005 may vest between 2006 and 2008, depending on the date of the grant.

	Total as at 31 December 2005	Granted during 2005	Total as at 1 January 2005*
<b>Directors:</b>			
Colm Doherty	73,715	38,715	35,000
Gary Kennedy	20,000	-	20,000
Aidan McKeon	14,000	-	14,000
Eugene Sheehy	105,650	90,650	15,000
<b>Secretary:</b>			
W M Kinsella	4,500	-	4,500

\* or later date of appointment

Apart from the interests set out above, the Directors and Secretary in office at year-end, and their spouses and minor children, have no interests in the shares of the Company. Mr. John O'Donnell, who was co-opted to the Board on 11 January 2006, has interests (inclusive of the interests of his wife and minor children) in 8,844 ordinary shares of the Company; he has options over 96,000 shares, and conditional grants of awards of 42,340 shares under the Long Term Incentive Plans. With the exception of Mr. O'Donnell's interests, there were no changes in the Directors' and Secretary's interests shown above between 31 December 2005 and 21 February 2006.

The year-end closing price, on the Irish Stock Exchange, of the Company's ordinary shares was €18.05 per share; during the year the price ranged from €15.20 to €18.64 per share.

### Service Contracts

There are no service contracts in force for any director with the Company or any of its subsidiaries.

## 58 Related party transactions

### (a) Transactions with subsidiary undertakings

Allied Irish Banks, p.l.c. ("AIB") is the ultimate parent company of the Group. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions at an 'arms length' basis. Balances between AIB and its subsidiaries are detailed in notes 28, 29, 42 and 43.

### (b) Associated undertakings and joint ventures

From time to time the Group provides certain banking and financial services for associated undertakings. Details of loans to associates are set out in Note 28, while deposits from associates are set out in Note 42 and 43.

### (c) Provision of banking and related services to Group Pension Funds, unit trusts and investment funds managed by Group Companies

The Group provides certain banking and financial services for the AIB Group Pension Funds and also for unit trusts and investment funds managed by Group companies. Such services are provided on terms similar to those that apply to third parties and are not material to the Group.

### (d) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 - *Related Party Disclosures*, in respect of the compensation of key management personnel. Under IAS 24, "Key Management Personnel" are defined as comprising directors (executive and non-executive) together with senior executive officers, viz., in the case of AIB, the members of the Group Executive Committee (see page 6) and the Chief Financial Officer, up to the date of his retirement on 30 September 2005.

## 58 Related party transactions (continued)

The figures shown below include the figures separately reported in respect of directors' remuneration, shown in the 'Report on Directors' Remuneration and Interests' in note 57.

	2005 € m	2004 € m
Short-term employee benefits <sup>(1)</sup>	11.2	7.7
Post-employment benefits <sup>(2)</sup>	6.3	1.9
Termination benefits <sup>(3)</sup>	0.9	-
Equity compensation benefits <sup>(4)</sup>	1.8	0.7
<b>Total</b>	<b>20.2</b>	<b>10.3</b>

<sup>(1)</sup> comprises (a) in the case of executive directors and the other senior executive officers: salary, directors' fees, bonus, profit share scheme benefits, medical insurance, benefit-in-kind arising from preferential loans and use of company car (or payment in lieu), and other short-term benefits, and (b) in the case of non-executive directors: directors' fees. Figures for 2005 relate to 5 executive directors (2004: 4) - see "Report on Directors' Remuneration and Interests" in Note 57: 9 other senior executive officers (2004: 4); and 10 non-executive directors (2004: 11), excluding Mr. R.G. Wilmers, fees in respect of whose service as a designated director of M&T Bank Corporation ("M&T"), amounting to € 35,000 (2004: € 35,000) were paid to M&T.

<sup>(2)</sup> comprises (a) payments to defined benefit pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date in respect of 5 executive directors (2004:4); 2 non-executive directors (2004:2); and 9 other senior executive officers (2004:4); (b) one-off payments in 2005 to such schemes to meet liabilities arising from augmented pension benefits paid on retirement (see Note 57 - "Report on Directors' Remuneration and Interests") in respect of 2 executive directors and 2 senior executive officers; (c) the payment of pensions to former directors or their dependants, granted on an ex gratia basis; and (d) an amount of € 650,000 (2004: € 650,000) to amortise a deficit in the Non-Executive Directors' Pension Scheme, in accordance with actuarial advice;

<sup>(3)</sup> lump sum payments made on retirement to two senior executive officers, neither of whom was a director;

<sup>(4)</sup> the value of awards made to executive directors and other senior executive officers under the company's share option scheme and long term incentive plans (which are described in Note 11); the value shown, which have been determined by applying the valuation techniques described in Note 11, relate to 3 executive directors and 9 other senior executive officers in 2005 (2004: 3 executive directors and 5 other senior executive officers).

### (e) 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 other senior executive officers are made (i) on terms applicable to other employees in the Group, in accordance with established policy, within limits set on a case by case basis, and/or (ii) otherwise, on normal commercial terms. The following amounts were outstanding at year-end in loans, or quasi-loans (effectively, credit card facilities) to persons who at any time during the year were directors or other senior executive officers:

	31 December 2005		31 December 2004	
	Loans	Quasi-loans	Loans	Quasi-loans
A. Directors	€ 2.6m	€ 0.04m	€ 3.4m	€ 0.04m
(number of persons)	(6)	(8)	(8)	(8)
B. Other Senior Executive Officers *	€ 2.1m	€ 0.03m	€ 1.8m	€ 0.01m
(number of persons)	(6)	(8)	(4)	(5)
Total	€ 4.7m	€ 0.07m	€ 5.2m	€ 0.05m
(number of persons)	(12)	(16)	(12)	(13)

\* Group Executive Committee members (other than executive directors, whose figures are included in the totals at A) and the Chief Financial Officer

### (f) Indemnities

On 2 February 2004, AIB Capital Markets plc, a wholly-owned subsidiary, extended the terms of an indemnity previously given to certain former directors, officers and employees of Govett Investment Management Ltd. ('Govett') - now 'AIB Investment Management Limited' - to Mr. Michael Buckley, the former Group Chief Executive, and Mr. Colm Doherty, Managing Director, AIB Capital Markets; Mr. Buckley is a former director of a split capital trust managed by Govett, and Mr. Doherty is a former director of

**58 Related party transactions (continued)**

Govett. The aggregate liability of AIB Capital Markets plc under the aforementioned indemnity is € 10m.

The purpose of the indemnity is to protect the indemnified parties (or any of them) against any civil liability, loss and defence costs which they (or any of them) may suffer by reason of any claim made against them relating to certain split capital or highly leveraged trusts previously managed by Govett and which previously would have been covered by insurance.

Prior to July 2003, the Bank's professional indemnity and directors' and officers' liability insurance provided cover in respect of the eventualities mentioned in the previous paragraph. However, on renewal of that insurance on 1 July 2003, and in line with a general change introduced by the insurance industry, exclusions were imposed that removed that cover. By virtue of the terms of the above-mentioned indemnity, the indemnified parties now stand in the position they would have been in if those exclusions had not been imposed, except that the aggregate limit of liability under the indemnity is € 10m rather than the higher amount previously provided by the insurance.

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit and defined contribution pension schemes, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default. Mr. Adrian Burke, a Director of the Company, is a Director of the above-mentioned trustee companies.

*(g) Mr. Gary Kennedy*

On 24 June 2005, the Group announced that Mr. Gary Kennedy was to leave his position as Group Director, Finance & Enterprise Technology, and become special adviser to the Group on finance and risk. Mr. Kennedy ceased to be Group Director, Finance & Enterprise Technology and resigned as a director of the company on 31 December 2005. Under the agreement reached with him, Mr. Kennedy's employment as special adviser on finance and risk does not preclude him taking other employment and will cease on 31 January 2008, whereupon he will be entitled to a pension in the amount shown in Note 57. The agreement also provided that he would receive (a) subject to shareholder approval at the 2006 Annual General Meeting, a payment of €579,600 by way of compensation for loss of office, and (b) reasonable expenses in connection with pension, taxation and other advice and a sum of €150,000 in respect of legal fees.



## 59 Commitments

### Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to € 188m (2004: € 99m). For Allied Irish Banks, p.l.c. outstanding capital commitments amounted to € 46m (2004: € 57m). Capital expenditure authorised, but not yet contracted for, amounted to € 140m (2004: € 214m). For Allied Irish Banks, p.l.c. this amounted to € 43m (2004: € 41m).

### Operating lease rentals

The annual commitments in respect of land and buildings under non-cancellable operating leases are set out below:

	2005 € m	2004 € m
<b>Group</b>		
One year	18	19
One to five years	130	72
Over five years	513	210
<b>Total</b>	<b>661</b>	<b>301</b>
<b>Allied Irish Banks, p.l.c.</b>		
One year	11	13
One to five years	52	47
Over five years	95	99
<b>Total</b>	<b>158</b>	<b>159</b>

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date were € 13m (2004: € 8m). For Allied Irish Banks, p.l.c. this was € 9m (2004: € 5m).

Operating lease payments recognised as an expense for the period were € 37m (2004: € 37m). Sublease income amounted to € 1m (2004: € 1m). For Allied Irish Banks, p.l.c. operating lease payments recognised were € 22m (2004: € 19m). Sublease income for Allied Irish Banks, p.l.c. amounted to € 1m (2004: € 1m).

## 60 Employees

	2005	2004
The average full-time equivalent employee numbers by division were as follows:		
AIB Bank ROI	9,672	9,438
AIB GB & NI	2,997	2,918
Capital Markets	2,536	2,478
Poland	7,312	7,298
Group	758	647
	<b>23,275</b>	<b>22,779</b>

## 61 Companies (Amendment) Act, 1983

The Companies (Amendment) Act, 1983, requires that, when the net assets of a company are half or less than half of its called up share capital, an extraordinary general meeting be convened. The Act further requires an expression of opinion by the auditors as to whether the financial situation of the company at the balance sheet date is such as would require the convening of such a meeting.

## 62 Reporting currency

The currency used in these accounts is the euro which is denoted by 'EUR' or the symbol €. Each euro is made up of one hundred cent, denoted by the symbol 'c' in these accounts.

<b>63 Financial and other information</b>	2005	2004
<b>Operating ratios</b>		
Operating expenses <sup>(1)</sup> /operating income	55.2%	57.8%
Other income/operating income	30.6%	35.6%
Net interest margin:		
Group	2.38%	2.45%
Domestic	2.17%	2.17%
Foreign	2.83%	3.08%
<b>Rates of exchange</b>		
€ / US \$		
Closing	1.1797	1.3621
Average	1.2484	1.2474
€ / Stg £		
Closing	0.6853	0.7051
Average	0.6851	0.6813
€ / PLN		
Closing	3.8600	4.0845
Average	4.0276	4.5314

<sup>(1)</sup>Excludes restructuring costs of €8.7m in 2004.

<b>Capital adequacy information</b>	31 December 2005 € m	1 January 2005 € m
Risk weighted assets		
Banking book:		
On balance sheet	79,520	62,770
Off-balance sheet	14,682	10,960
	94,202	73,730
Trading book:		
Market risks	6,891	5,149
Counterparty and settlement risks	563	712
	7,454	5,861
<b>Total risk weighted assets</b>	<b>101,656</b>	<b>79,591</b>
Capital		
Tier 1	7,275	6,510
Tier 2	4,089	2,312
	11,364	8,822
Supervisory deductions	487	302
<b>Total</b>	<b>10,877</b>	<b>8,520</b>
Capital ratios		
Tier 1	7.2%	8.2%
Total	10.7%	10.7%

### 63 Financial and other information (continued)

Currency information	Assets		Liabilities	
	2005 € m	2004 € m	2005 € m	2004 € m
Euro	75,806	55,469	76,831	55,655
Other	57,408	45,640	56,383	45,454
	<b>133,214</b>	101,109	<b>133,214</b>	101,109

### 64 Average balance sheets and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2005 and 2004. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

Assets	Year ended 31 December 2005			Year ended 31 December 2004		
	Average balance € m	Interest € m	Average rate %	Average balance € m	Interest € m	Average rate %
<b>Loans and receivables to banks</b>						
Domestic offices	4,596	117	2.5	2,857	70	2.4
Foreign offices	1,131	50	4.4	824	28	3.4
<b>Loans and receivables to customers</b>						
Domestic offices	47,806	2,084	4.4	38,540	1,625	4.2
Foreign offices	27,664	1,768	6.4	21,397	1,260	5.9
<b>Trading portfolio financial assets</b>						
Domestic offices	7,786	257	3.3	5,890	193	3.3
Foreign offices	1,308	48	3.7	1,139	39	3.4
<b>Financial investments available for sale</b>						
Domestic offices	12,869	470	3.7	11,011	431	3.9
Foreign offices	3,220	177	5.5	2,883	213	7.4
<b>Total interest earning assets</b>						
Domestic offices	73,057	2,928	4.0	58,298	2,319	4.0
Foreign offices	33,323	2,043	6.1	26,243	1,540	5.9
<b>Net interest on swaps</b>		125			48	
<b>Total average interest earning assets</b>	<b>106,380</b>	<b>5,096</b>	<b>4.8</b>	<b>84,541</b>	<b>3,907</b>	<b>4.6</b>
Non-interest earning assets	13,209			10,421		
<b>Total average assets</b>	<b>119,589</b>	<b>5,096</b>	<b>4.3</b>	<b>94,962</b>	<b>3,907</b>	<b>4.1</b>
Percentage of assets applicable to foreign activities			<b>31.1</b>			31.3

## 64 Average balance sheets and interest rates (continued)

Liabilities and shareholders' equity	Year ended 31 December 2005			Year ended 31 December 2004		
	Average balance € m	Interest € m	Average rate %	Average balance € m	Interest € m	Average rate %
<b>Due to banks</b>						
Domestic offices	25,288	693	2.7	20,288	555	2.7
Foreign offices	1,963	81	4.1	2,732	91	3.3
<b>Due to customers</b>						
Domestic offices	27,820	473	1.7	23,795	363	1.5
Foreign offices	18,545	642	3.5	14,780	462	3.1
<b>Other debt issued</b>						
Domestic offices	7,001	171	2.4	3,395	77	2.3
Foreign offices	8,486	374	4.4	3,942	178	4.5
<b>Subordinated liabilities</b>						
Domestic offices	2,925	132	4.5	2,513	109	4.3
<b>Total interest earning liabilities</b>						
Domestic offices	63,034	1,469	2.3	49,991	1,104	2.2
Foreign offices	28,994	1,097	3.8	21,454	731	3.4
<b>Total average interest earning liabilities</b>	<b>92,028</b>	<b>2,566</b>	<b>2.8</b>	<b>71,445</b>	<b>1,835</b>	<b>2.6</b>
Non interest earning liabilities	21,237			18,070		
<b>Total liabilities</b>	<b>113,265</b>	<b>2,566</b>	<b>2.3</b>	<b>89,515</b>	<b>1,835</b>	<b>2.0</b>
Stockholders' equity	6,324			5,447		
<b>Total average liabilities and stockholders' equity</b>	<b>119,589</b>	<b>2,566</b>	<b>2.2</b>	<b>94,962</b>	<b>1,835</b>	<b>1.9</b>
Percentage of liabilities applicable to foreign operations			<b>30.7</b>			29.1

## 65 Reconciliations of Irish GAAP to IFRS

As stated in First time adoption of International Financial Reporting Standards ('IFRS') and in Note 1 to the accounts, these are the Group's first Financial Statements prepared in accordance with IFRS.

In order to prepare the IFRS opening balance sheet, it was necessary to adjust the amounts reported in the Financial Statements prepared in accordance with Irish GAAP to reflect the application of the International Financial Reporting Standards.

Reconciliations of the transition from Irish GAAP to IFRS are set out below, and explain how the transition has affected the financial position and performance of the Group and the parent company, Allied Irish Banks, p.l.c. ('the parent').

The balance sheet reconciliations present the restatement of the Group and the parent balance sheets at 31 December, 2004 from Irish GAAP to IFRS including the impacts of IAS 32, IAS 39 and IFRS 4 at 1 January 2005.

The Income statement reconciliation presents for the Group the restatement from Irish GAAP Profit and loss account to IFRS Income statement for the year ended 31 December, 2004.

Reconciliations between Irish GAAP and IFRS are summarised in note 1 for both the Group and the parent of shareholders' equity at 31 December 2004 before the implementation of IAS 32, IAS 39 and IFRS 4 and at 1 January 2005 following the implementation of IAS 32, IAS 39 and IFRS 4.

Additionally, detailed explanations of the key differences between Irish GAAP and IFRS impacting the Group's financial statements are set out in this note.

**65 Reconciliation of Irish GAAP to IFRS (continued)**

	31 December 2004				1 January 2005		
	Irish GAAP € m	IFRS adjustments		IFRS € m	IAS 32, 39 & IFRS 4		IFRS € m
		Reclassi- fication € m	To equity € m		Reclassi- fication € m	To equity € m	
<b>Consolidated balance sheets</b>							
<b>Assets</b>							
Cash and balances at central banks	887	-	-	887	-	-	887
Items in course of collection	368	-	-	368	-	-	368
Trading portfolio financial assets	-	-	-	-	7,957	-	7,957
Financial assets designated at fair value through profit or loss	-	-	-	-	1,871	-	1,871
Derivative financial instruments	-	-	-	-	2,419	162	2,581
Loans and receivables to banks	2,320	220	-	2,540	(2)	-	2,538
Loans and receivables to customers	64,836	(98)	-	64,738	894	60	65,692
Financial investments available for sale	-	-	-	-	15,397	323	15,720
Debt securities and equity shares	24,271	1,871	-	26,142	(26,142)	-	-
Interests in associated undertakings	1,317	-	62	1,379	(1)	17	1,395
Intangible assets and goodwill	380	109	51	540	-	-	540
Property, plant and equipment	785	(40)	-	745	-	-	745
Other assets	2,247	350	-	2,597	(963)	(199)	1,435
Current taxation	-	25	-	25	-	-	25
Deferred taxation	198	23	7	228	-	(24)	204
Prepayments and accrued income	918	-	2	920	-	(59)	861
Long-term assurance business attributable to shareholders	467	(467)	-	-	-	-	-
Long-term assurance business attributable to policyholders	3,246	(3,246)	-	-	-	-	-
<b>Total assets</b>	<b>102,240</b>	<b>(1,253)</b>	<b>122</b>	<b>101,109</b>	<b>1,430</b>	<b>280</b>	<b>102,819</b>
<b>Liabilities</b>							
Deposits by banks	20,428	-	-	20,428	-	-	20,428
Customer accounts	51,397	(1,246)	-	50,151	-	-	50,151
Trading portfolio financial liabilities	-	-	-	-	332	-	332
Derivative financial instruments	-	-	-	-	2,318	223	2,541
Investment and insurance contract liabilities	-	3,286	-	3,286	601	-	3,887
Debt securities in issue	11,805	-	-	11,805	-	-	11,805
Current taxation	-	175	-	175	-	22	197
Other liabilities	3,899	(184)	(328)	3,387	(1,794)	-	1,593
Accruals and deferred income	911	-	2	913	(27)	(181)	705
Retirement benefit liabilities	676	187	23	886	-	-	886
Provisions for liabilities and charges	122	-	-	122	-	-	122
Deferred taxation	123	(151)	80	52	-	(14)	38
Subordinated liabilities and other capital instruments	2,766	-	-	2,766	-	(315)	2,451
Long-term assurance business attributable to policyholders	3,320	(3,320)	-	-	-	-	-
<b>Total liabilities</b>	<b>95,447</b>	<b>(1,253)</b>	<b>(223)</b>	<b>93,971</b>	<b>1,430</b>	<b>(265)</b>	<b>95,136</b>
<b>Shareholders' equity</b>							
Issued share capital	294	-	-	294	-	-	294
Share premium account	1,693	-	-	1,693	-	-	1,693
Other equity interests	182	-	-	182	-	315	497
Reserves	977	-	8	985	-	205	1,190
Profit and loss account	2,435	-	338	2,773	-	25	2,798
Shareholders' equity	5,581	-	346	5,927	-	545	6,472
Minority interests	1,212	-	(1)	1,211	-	-	1,211
Shareholders' equity (including minority interests)	6,793	-	345	7,138	-	545	7,683
<b>Total liabilities, shareholders' equity and minority interests</b>	<b>102,240</b>	<b>(1,253)</b>	<b>122</b>	<b>101,109</b>	<b>1,430</b>	<b>280</b>	<b>102,819</b>

## 65 Reconciliations of Irish GAAP to IFRS (continued)

	31 December 2004 Irish GAAP € m	IFRS adjustments € m	31 December 2004 IFRS € m
<b>Consolidated income statement</b>			
Net interest income	2,036	98	2,134
Other finance income	18	(18)	-
Other non-interest income	1,210	264	1,474
<b>Total operating income</b>	<b>3,264</b>	<b>344</b>	<b>3,608</b>
Insurance claims	-	309	309
Operating expenses	1,886	8	1,894
<b>Operating profit before provisions</b>	<b>1,378</b>	<b>27</b>	<b>1,405</b>
Provisions	135	(2)	133
<b>Group operating profit</b>	<b>1,243</b>	<b>29</b>	<b>1,272</b>
Share of results of associated undertakings	201	(69)	132
Amortisation of goodwill on acquisition of associated undertaking	(52)	52	-
Profit on disposals	26	-	26
<b>Profit before taxation</b>	<b>1,418</b>	<b>12</b>	<b>1,430</b>
Taxation	336	(64)	272
<b>Profit after taxation</b>	<b>1,082</b>	<b>76</b>	<b>1,158</b>
Profit attributable to minority interests	30	(1)	29
Preference dividends	5	(1)	4
<b>Profit attributable to ordinary shareholders</b>	<b>1,047</b>	<b>78</b>	<b>1,125</b>

<sup>(1)</sup>Reflects the 31 December 2004 IFRS income statement prior to the restatement to represent the results of Ark Life as a discontinued operation (note 2).

**65 Reconciliation of Irish GAAP to IFRS (continued)**

	31 December 2004				1 January 2005		
	IFRS adjustments			IFRS	IAS 32, 39 & IFRS 4		IFRS
	Irish GAAP	Reclassi- fication	To equity		Reclassi- fication	To equity	
	€ m	€ m	€ m	€ m	€ m	€ m	
<b>Balance sheets – Allied Irish Banks, p.l.c.</b>							
<b>Assets</b>							
Cash and balances at central banks	514	-	-	514	-	-	514
Items in course of collection	178	-	-	178	-	-	178
Trading portfolio financial assets	-	-	-	-	7,366	55	7,421
Derivative financial instruments	-	-	-	-	2,203	22	2,225
Loans and receivables to banks	18,489	-	2	18,491	-	-	18,491
Loans and receivables to customers	44,696	-	-	44,696	618	73	45,387
Financial investments available for sale	-	-	-	-	12,939	206	13,145
Debt securities and equity shares	20,923	-	-	20,923	(20,923)	-	-
Interests in associated undertakings	826	-	65	891	-	-	891
Shares in Group undertakings	225	-	-	225	-	-	225
Intangible assets and goodwill	-	40	17	57	-	-	57
Property, plant and equipment	476	(22)	-	454	-	-	454
Other assets	1,524	(19)	-	1,505	(1,227)	-	278
Current taxation	-	25	-	25	-	-	25
Deferred taxation	77	(35)	68	110	(44)	26	92
Prepayments and accrued income	767	-	-	767	(132)	-	635
<b>Total assets</b>	<b>88,695</b>	<b>(11)</b>	<b>152</b>	<b>88,836</b>	<b>800</b>	<b>382</b>	<b>90,018</b>
<b>Liabilities</b>							
Deposits by banks	34,448	-	-	34,448	-	-	34,448
Customer accounts	34,727	-	-	34,727	-	-	34,727
Trading portfolio financial liabilities	-	-	-	-	229	-	229
Derivative financial instruments	-	-	-	-	2,051	(19)	2,032
Investment and insurance contract liabilities	-	-	-	-	-	-	-
Debt securities in issue	10,330	-	-	10,330	-	-	10,330
Current taxation	80	25	-	105	-	28	133
Other liabilities	2,279	-	(328)	1,951	(1,436)	-	515
Accruals and deferred income	735	-	4	739	-	(31)	708
Retirement benefit liabilities	438	-	123	561	-	-	561
Provisions for liabilities and charges	100	-	-	100	-	-	100
Deferred taxation	3	(36)	33	-	(44)	44	-
Subordinated liabilities and other capital instruments	2,766	-	-	2,766	-	(315)	2,451
<b>Total liabilities</b>	<b>85,906</b>	<b>(11)</b>	<b>(168)</b>	<b>85,727</b>	<b>800</b>	<b>(293)</b>	<b>86,234</b>
<b>Shareholders' equity</b>							
Issued share capital	294	-	-	294	-	-	294
Share premium account	1,693	-	-	1,693	-	-	1,693
Other equity interests	182	-	-	182	-	315	497
Reserves	100	-	(20)	80	-	308	388
Profit and loss account	520	-	340	860	-	52	912
Total shareholders' equity	2,789	-	320	3,109	-	675	3,784
<b>Total liabilities and shareholders' equity</b>	<b>88,695</b>	<b>(11)</b>	<b>152</b>	<b>88,836</b>	<b>800</b>	<b>382</b>	<b>90,018</b>

**65 Reconciliation of Irish GAAP to IFRS (continued)**

The key differences between Irish GAAP and IFRS impacting the Group's financial statements are as follows:

**(a) Basis of consolidation**

In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term assurance business, these were classified under separate headings in the consolidated balance sheet under Irish GAAP.

Movements in the value of the long-term assurance business attributable to shareholders, were presented in the profit and loss account grossed up at the statutory tax rate.

IAS 27 'Consolidated and separate financial statements' requires that all entities are consolidated on a line by line basis, except in very limited circumstances. The assets and liabilities of the life assurance subsidiary are consolidated on a line by line basis and all intra group transactions are eliminated. The income and expense of the life assurance subsidiary is shown within each relevant line item of the income statement whereas under Irish GAAP it was shown as a one line item. Movements in the value of the long-term assurance business is presented net of tax.

IFRS also requires the consolidation of certain entities that were not required under Irish GAAP, including securitisation vehicles where appropriate.

**(b) Cash and cash equivalents**

Under Irish GAAP, cash comprised cash and balances at central banks and loans and receivables to banks repayable on demand.

Under IFRS, this is a presentation change on the face of the cash flow statement, resulting in an increase in the amount of cash and cash equivalents reported, as it now includes short-term non-equity investments and bank overdrafts.

**(c) Financial instruments**

Debt securities held as financial fixed assets were accounted for on a historic cost basis under Irish GAAP. These debt securities were stated in the balance sheet at cost, adjusted for the amortisation of any premiums or discounts arising on acquisition and provisions for impairment. Debt securities held for trading purposes were stated in the balance sheet at market value. Both realised and unrealised profits on trading securities were taken directly to the profit and loss account and included within dealing profits.

Under IAS 32 and 39, all debt securities and equity shares are classified and disclosed within one of the following three categories: held-to-maturity; available-for-sale; or held at fair value through profit or loss.

Held-to-maturity financial instruments are stated in the balance sheet at cost, adjusted on an effective interest basis for the amortisation of any premiums or discounts arising on acquisition and provisions for impairment. The amortisation of premiums and discounts is included in net interest income. Provisions for impairment are included in the income statement.

Available-for-sale financial instruments are stated in the balance sheet at fair value with unrealised holding gains and losses reported net of applicable taxes as a separate component in shareholders' equity.

Debt securities held at fair value through profit or loss are stated in the balance sheet at market value with unrealised gains and losses recognised immediately in the income statement. This has two sub categories: financial assets held for trading; and those designated at fair value through profit or loss.

Almost all of AIB's financial instruments, which were previously held as financial fixed assets, were classified as available-for-sale on transition to IFRS. This gave rise to an adjustment to equity on transition.

**(d) Derivatives**

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows, themselves accounted for on an accruals basis. The gains and losses on these instruments (arising from changes in fair value) were not recognised in the profit and loss account immediately as they arose. Derivative transactions entered into for hedging purposes were recognised in the accounts on an accruals basis consistent with the accounting treatment of the underlying transaction or transactions being hedged.

IAS 39 'Financial instruments: recognition and measurement' requires all derivatives be recognised as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation, this being either fair value hedges or cash flow hedges.

Interest income and expense on derivatives classified as hedges is recorded within interest income or expense as appropriate.

The mark to market of derivatives classified as fair value hedges is recognised in the income statement within other financial income. The mark to market of derivatives designated as cash flow hedges is accounted for in equity, net of the deferred tax impact.



**(d) Derivatives (continued)**

Because hedge effectiveness rules within IAS 39 have a stricter definition of qualifying hedges, this has resulted in the recognition of current hedging derivatives at fair value with no matching offset where the associated hedging relationship has not met the IAS 39 hedging requirements. There was also an impact on transition due to fair value movements on derivatives in existing hedge relationships, that are designated as cash flow hedges being taken to the cash flow hedging reserve in equity.

**(e) Netting**

Under Irish GAAP, where the amounts owed by the Group and the counterparty are determinable and in freely convertible currencies and where the Group had the ability to insist on net settlement which is assured beyond doubt and is based on a legal right to settle net that would survive the insolvency of the counterparty, the amounts were shown in the balance sheet as net assets or net liabilities as appropriate.

Under IAS 32 'Financial instruments: disclosure and presentation', netting is only allowed if the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(f) Loan impairment - allowance and provision for losses**

Under IAS 39, impairment provisions are recognised on an incurred loss basis if there is objective evidence that the Group will be unable to collect all amounts due on a loan according to the original contractual terms. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

Where no objective evidence of impairment exists for an individual asset but there are indications of incurred losses in the portfolio, IAS 39 permits the creation of provisions for credit losses on an incurred loss basis.

Application of the IFRS incurred loss model to AIB results in a reduction in the overall level of provisions carried at the balance sheet date and a transition adjustment to equity. In addition, on recognition of individual impairment, the impairment loss will be higher than that recorded under current GAAP due to the requirement to discount the recoverable cash flows.

The higher impairment loss will be offset by the recognition of income on the net recoverable amount due to the passage of time.

**(g) Loan origination - interest income and expense recognition**

Under Irish GAAP, interest income and expense was recognised in the profit and loss on an accruals basis over contract lives except in respect of non-performing loans where interest was not taken to the profit and loss account when recovery was doubtful. Fees which are considered to increase the yield on transactions were spread over the lives of the underlying transactions on a level yield basis. All costs associated with mortgage incentive schemes were charged in the period in which the expense was incurred. Fees and commissions received for services provided were recognised when earned. Fees and commissions payable to third parties in connection with lending arrangements were charged to the profit and loss account as incurred.

On transition to IFRS, certain fees receivable, and fees and commissions payable that had previously been taken to the profit and loss account were treated as deferred income and deferred costs and shown within loans and receivables. This gave rise to a reclassification from liabilities and a transition adjustment to equity. These deferred fees and costs will be amortised on an effective interest basis to the profit and loss account over the expected residual lives of the financial instruments. The change in policy gave rise to a reclassification from fee income/fee expense and administrative expenses to interest income with an impact on the net interest margin.

**(h) Finance leases**

Income from finance leasing transactions was apportioned over the primary leasing period on an after tax basis in proportion to the net cash investment using the investment period method for Irish GAAP. Rentals received in advance but not yet amortised to the profit and loss account were included in other liabilities.

Under IAS 17 'Leases', income from finance leasing transactions is apportioned over the primary leasing period at a rate calculated to give a constant rate of return on the investment in the lease, without taking into account the taxation flows generated by the lease.

Finance lease receivables are stated in the balance sheet at the gross rentals receivable, less income allocated to future periods and provisions for impairment. The reclassification of rentals received in advance from liabilities to assets reduces the size of the balance sheet.

**(i) Interests in associated undertakings**

Under Irish GAAP, the attributable share of income of associated undertakings was included in the consolidated profit and loss account using the equity method of accounting.

The Group share of tax of associates was included within the Group's tax charge in the Group profit and loss account and disclosed separately in the notes to the accounts.

IAS 1 'Presentation of Financial Statements' requires the Group to include its share of the income of associated undertakings as a single item on a net of tax basis in the consolidated income statement.

**(j) Intangible assets and goodwill**

Under Irish GAAP, goodwill was amortised to the profit and loss account over its estimated useful economic life.

Under IFRS, from 1 January 2004, there was no amortisation of goodwill recorded at 31 December 2003 (after adjusting for intangible assets required to be recognised under IFRS and any adjustments made to provisional fair values on acquisitions). However, goodwill will be the subject of impairment testing at least annually under IFRS. In the event of impairment, the absence of previous amortisation would lead to larger impairment charges than would have been necessary under Irish GAAP.

Goodwill previously written off to reserves prior to 1998 will not be taken into account in the calculation of profit or loss on disposal of subsidiary or associated undertakings. This will generate a higher profit, or lower loss, on disposal of subsidiary or associated undertakings acquired prior to 1998, under IFRS. The cessation of goodwill amortisation had a positive impact on the income statement for the year ended 31 December 2004.

**(k) Software and software development costs**

For Irish GAAP reporting operating software and application software were capitalised with computer hardware within tangible fixed assets. AIB capitalised software development costs under FRS 15, when it led to the creation of a definable software asset, subject to a de-minimis limit.

IAS 38 'Intangible assets & system development costs' requires capitalisation of computer software development costs as an intangible asset, where the entity will generate future economic benefits from the asset that will flow to the entity, and the cost of the asset can be measured reliably. Capitalised costs are amortised over the software's estimated useful life.

The classification criteria of IFRS gave rise to a reclassification from tangible fixed assets to intangible assets, being the carrying value of previously recognised operating software.

The recognition requirements within IAS 38 increased shareholders' equity due to an increase in capitalised assets.

**(l) Acceptances**

Acceptances were accounted for on a net basis under Irish GAAP. There was no gross up of the amount to be paid and the amount receivable from the originator and thus no balance appeared in the balance sheet in relation to these products.

IAS 39 requires the recognition of a liability for acceptances from the date of acceptance. A corresponding asset due from the originator is also recognised.

**(m) Taxation**

Under IFRS, additional deferred tax balances arise on transition in respect of temporary differences not previously recognised. These include temporary differences relating to the revaluation of properties and the roll over of taxable gains and the additional tax that may arise on unremitted profits of associated and subsidiary companies.

There will be continuing income statement implications from IAS 12, particularly the requirement to reflect the additional tax that would be payable on the remittance of profits by associated companies.

**(n) Long term assurance business**

Accounting for contracts meeting the IFRS definition of insurance business is not impacted by IFRS 4.

Accounting for investment products under IAS 39 serves to delay the recognition of income for a number of reasons. There is a narrower definition of costs that can be deferred on the sale of investment products. Initial charges on the sale of investment products are deferred and accrued over the expected life of the product. There is no opportunity to account for the future surpluses on an embedded value basis.

**(n) Long term assurance business (continued)**

As a consequence, there was a reduction in equity on transition, as the valuation of the discounted future earnings expected to emerge from the business currently in force in the balance sheet will decrease. Income will be recognised on these contracts in later periods due to the change in the valuation basis.

**(o) Classification of financial liabilities**

Under Irish GAAP capital instruments that are not shares were treated as liabilities if they involved an obligation to transfer economic benefits. All other capital instruments were reported in shareholders' funds.

Under IFRS, financial instruments with an obligation to pay interest or repay principal are classified in the balance sheet as liabilities. Financial instruments with no obligation to pay interest or repay principal are classified as equity.

The impact on the balance sheet was as follows:

The US \$ 250 million non-cumulative preference shares are now classified as debt while the reserve capital instruments are classified as equity. This is a presentation change that will impact the face of the income statement and the balance sheet.

**(p) Employee and retirement benefits**

Under FRS 17 'Retirement Benefits' the current service cost and past service cost of the defined benefit schemes was charged to operating profit and the expected return on assets, net of the change in the present value of the scheme liabilities arising from the passage of time, was credited to other finance income. Pension scheme assets were recognised in the balance sheet at their fair value based on current mid prices. The net pension scheme liabilities were shown in the balance sheet net of deferred taxation.

**(q) Dividends**

Equity dividends declared after the balance sheet date but before the accounts were approved by the Directors were treated as a deduction on the face of the profit and loss account and as a liability at the balance sheet date.

Dividends on preference shares were included in the profit and loss account on an accruals basis in accordance with FRS 4 'Capital Instruments'

Under IAS 10 'Events after the balance sheet date' dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

In respect of preference shares recognised as shareholders' equity, dividends are accounted for as a movement in shareholders' equity and as a charge against earnings per share when they are declared.

**(r) Share based payments**

Under Irish GAAP, no expense was recognised for grants of options under the share option schemes.

An expense was recognised for grants awarded under the long term incentive plan schemes, equivalent to the intrinsic value of the shares awarded. This was charged to the profit and loss account over the vesting period, based on the number of options that are expected to vest. An expense was recognised in respect of Save-As-You-Earn schemes.

IFRS 2 'Share-based Payment' requires a fair value based method of accounting for all share-based payments. This value is determined using an options pricing model.

AIB elected to apply IFRS 2 to all equity settled share based payments occurring after 7 November 2002 that had not vested by 1 January 2005.

Applying IFRS 2 to AIB's share based payment schemes gave rise to a higher expense than that arising under Irish GAAP. It also gave rise to some changes in the timing of recognition of the expense with a transition adjustment at 1 January 2004.

**(s) Foreign currency**

IFRS 1 permits companies to deem cumulative exchange differences as zero at 1 January 2004. This will primarily be a presentation change within shareholders' equity.



# Notes to the accounts

## **66 Post-balance sheet events**

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2005 Financial Statements. On 21 February 2006, the Board of Directors reviewed the Financial Statements and authorised them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 26 April 2006 for approval.

### *AIB Mortgage Bank*

On 13th February 2006 home mortgages in the amount of € 13.6bn were transferred from Allied Irish Banks, p.l.c. to AIB Mortgage Bank, a wholly owned subsidiary and a designated mortgage credit institution for the purposes of the Asset Covered Securities Act, 2001.

## **67 Dividends**

Final dividends are not accounted for until they have been approved at the Annual General Meeting of Shareholders to be held on 26 April 2006. It is recommended that a final dividend of Eur 42.30c per ordinary share, amounting to a total of € 368m, be paid on 27 April 2006. The Financial Statements for the year ended 31 December 2005 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2006.

## **68 Form 20-F**

An annual report on Form 20-F will be filed with the Securities and Exchange Commission, Washington D.C. and, when filed, will be published on the Company's website and will be available to shareholders on application to the Company Secretary.

## **69 Approval of accounts**

The accounts were approved by the Board of Directors on 21 February 2006.

# Statement of Directors' responsibilities in relation to the Accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out within their audit report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are responsible for preparing the Annual Report and the group and parent company accounts, in accordance with applicable law and regulations.

The Companies Acts require the directors to prepare group and parent company accounts for each financial year. Under the Acts, the directors are required to prepare the group accounts in accordance with international financial reporting standards ("IFRS"), adopted from time to time by the European Commission, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19th July 2002. The directors have elected to prepare the parent company accounts in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

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

In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors consider that, in preparing the accounts on pages 48 to 152, which have been prepared on a going concern basis, the parent company and the group have, following discussions with the auditors, used appropriate accounting

policies consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards, which, following discussions with the auditors, they consider applicable, have been followed (subject to any explanations and any material departures disclosed in the notes to the accounts).

The directors are responsible for taking all reasonable steps to secure that the company causes to be kept proper books of account that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Acts. They have also general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those rules.

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

The directors, having prepared the accounts, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

# Independent auditor's report

## **Independent Auditor's Report to the Members of Allied Irish Banks, p.l.c.**

We have audited the group and parent company financial statements of Allied Irish Banks, p.l.c for the year ended 31 December 2005 ('the financial statements') which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense 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 auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 153.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the parent company applied in accordance with the provisions of the Companies Acts 1963 to 2005, and have been properly prepared in accordance with the Companies Acts 1963 to 2005 and Article 4 of the IAS Regulation.

We also report to you whether, in our opinion: proper books of account have been kept by the company; at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and the information given in the Report of the Directors is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not.

We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2005, of the state of the parent company's affairs as at 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2005 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

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

The net assets of the company, as stated in the company balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2005 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.



Chartered Accountants  
Registered Auditor  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

21 February 2006

Notes:

- a. The maintenance and integrity of the Allied Irish Banks, p.l.c. website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.
- b. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Accounts in sterling, US dollars and Polish zloty

<b>Summary of consolidated income statement for the year ended 31 December 2005</b>	€ m	STG £m STG £ 0.6853 = €1	US \$m US \$1.1797 = €1	PLN m PLN 3.8600 = €1
Operating profit before provisions	1,636	1,121	1,930	6,314
Provisions	143	98	168	549
Operating profit	1,493	1,023	1,762	5,765
Share of results of associated undertakings	149	102	176	577
Profit on disposal of property	14	10	16	52
Construction contract income	45	31	53	172
Profit on disposal of businesses	5	3	5	18
Profit before taxation - continuing operations	1,706	1,169	2,012	6,584
Taxation	319	219	376	1,231
Profit after taxation - continuing operations	1,387	950	1,636	5,353
Discontinued operation, net of taxation	46	32	54	176
Profit for the period	1,433	982	1,690	5,529
Minority interests in subsidiaries	90	62	106	346
Profit attributable to equity holders of the parent	1,343	920	1,584	5,183
Basic earnings per share	151.0c	103.5p	178.1¢	582.9 PLN
Diluted earnings per share	149.8c	102.7p	176.7¢	578.2 PLN

<b>Summary of consolidated balance sheet 31 December 2005</b>	€ m	Stg £m	US \$m	PLN m
<b>Assets</b>				
Trading portfolio financial assets	10,113	6,931	11,931	39,037
Derivative financial instruments	2,439	1,671	2,877	9,415
Loans and receivables to banks	7,129	4,886	8,411	27,519
Loans and receivables to customers	85,232	58,409	100,548	328,996
Financial investments available for sale	16,864	11,557	19,894	65,095
Intangible assets and goodwill	517	354	609	1,994
Property, plant and equipment	706	484	833	2,724
Disposal group and assets classified as held for sale	5,363	3,675	6,326	20,700
Other assets	4,851	3,324	5,723	18,725
	133,214	91,291	157,152	514,205
<b>Liabilities</b>				
Deposits by banks	29,329	20,099	34,600	113,211
Customer accounts	62,580	42,886	73,825	241,558
Derivative financial instruments	1,967	1,348	2,320	7,591
Debt securities in issue	17,611	12,069	20,776	67,979
Other liabilities	4,463	3,058	5,265	17,227
Subordinated liabilities and other capital instruments	3,756	2,573	4,430	14,495
Disposal group classified as held for sale	5,091	3,489	6,006	19,652
Minority interests in subsidiaries	1,248	856	1,473	4,819
Shareholders' equity	7,169	4,913	8,457	27,673
	133,214	91,291	157,152	514,205



# Five year financial summary

2005 US \$m	Summary of consolidated income statement <sup>(1)</sup>	Year ended 31 December				
		2005 IFRS € m	2004 IFRS € m	2003 IR GAAP € m	2002 IR GAAP € m	2001 IR GAAP € m
<b>2,985</b>	Net interest income	<b>2,530</b>	2,072	1,934	2,351	2,258
-	Other finance income	-	-	12	62	67
<b>1,318</b>	Other income before exceptional item	<b>1,117</b>	1,144	1,230	1,514	1,426
-	Exceptional foreign exchange dealing losses	-	-	-	-	(789)
<b>4,303</b>	Total operating income after exceptional item	<b>3,647</b>	3,216	3,176	3,927	2,962
<b>2,373</b>	Total operating expenses	<b>2,011</b>	1,869	1,960	2,318	2,284
<b>1,930</b>	Operating profit before provisions	<b>1,636</b>	1,347	1,216	1,609	678
<b>168</b>	Provisions	<b>143</b>	133	177	251	204
<b>1,762</b>	Operating profit	<b>1,493</b>	1,214	1,039	1,358	474
<b>176</b>	Share of results of associated undertakings	<b>149</b>	132	143	9	4
-	Share of restructuring & integration costs in associated undertaking	-	-	(20)	-	-
-	Amortisation of goodwill on acquisition of associated undertaking	-	-	(42)	-	-
<b>16</b>	Profit on disposal of property	<b>14</b>	9	32	5	6
<b>53</b>	Construction contract income	<b>45</b>	-	-	-	-
<b>5</b>	Profit/(loss) on disposal of businesses	<b>5</b>	17	(141)	-	93
<b>2,012</b>	Profit before taxation - continuing operations	<b>1,706</b>	1,372	1,011	1,372	577
<b>376</b>	Taxation	<b>319</b>	267	318	306	55
<b>1,636</b>	Profit after taxation - continuing operations	<b>1,387</b>	1,105	693	1,066	522
<b>54</b>	Discontinued operation, net of taxation	<b>46</b>	53	-	-	-
<b>1,690</b>	Profit for the period	<b>1,433</b>	1,158	693	1,066	522
<b>178.1¢</b>	Basic earnings per share	<b>151.0c</b>	132.0c	78.8c	119.1c	56.2c
<b>176.7¢</b>	Diluted earnings per share	<b>149.8c</b>	131.5c	78.4c	117.9c	55.9c

2005 US \$m	Summary of consolidated balance sheet <sup>(1)</sup>	As at 31 December				
		2005 IFRS € m	2004 IFRS € m	2003 IR GAAP € m	2002 IR GAAP € m	2001 IR GAAP € m
<b>157,152</b>	Total assets	<b>133,214</b>	101,109	80,960	85,821	89,061
<b>108,959</b>	Total loans	<b>92,361</b>	67,278	53,326	58,483	57,445
<b>129,201</b>	Total deposits	<b>109,520</b>	82,384	66,195	72,190	72,813
<b>3,159</b>	Dated capital notes	<b>2,678</b>	1,923	1,276	1,287	1,594
<b>1,023</b>	Undated capital notes	<b>868</b>	346	357	389	426
<b>248</b>	Other capital instruments	<b>210</b>	497	497	496	496
<b>1,473</b>	Minority interests in subsidiaries	<b>1,248</b>	1,211	158	274	312
<b>586</b>	Shareholders' equity: non-equity interests	<b>497</b>	182	196	235	279
<b>7,871</b>	Shareholders' equity: equity interests	<b>6,672</b>	5,745	4,942	4,180	4,554
<b>14,360</b>	Total capital resources	<b>12,173</b>	9,904	7,426	6,861	7,661

## Five year financial summary *(continued)*

	Year ended 31 December				
	2005 IFRS %	2004 IFRS %	2003 IR GAAP %	2002 IR GAAP %	2001 IR GAAP %
<b>Other financial data<sup>(1)</sup></b>					
Return on average total assets	<b>1.20</b>	1.22	0.90	1.24	0.62 <sup>(2)</sup>
Return on average ordinary shareholders' equity	<b>20.6</b>	20.7	14.5	23.7	10.4 <sup>(2)</sup>
Dividend payout ratio	<b>43.5</b>	45.5	66.8	41.5	78.5
Average ordinary shareholders' equity as a percentage of average total assets	<b>5.3</b>	5.7	6.0	5.1	5.8
Allowance for loan losses as a percentage of total loans to customers at year end	<b>0.8</b>	1.2	1.3	1.6	1.9
Net interest margin	<b>2.38</b>	2.45	2.72	3.00	2.99
Tier 1 capital ratio	<b>7.2</b>	8.2	7.1	6.9	6.5
Total capital ratio	<b>10.7</b>	10.9	10.4	10.1	10.1

<sup>(1)</sup> The results for the year ended 31 December 2004 have been restated to represent the results of Ark Life as a discontinued operation to reflect the disposal (note 2) and the application of International Financial Reporting Standards ('IFRS'), with the exception of IAS 32, IAS 39 and IFRS 4 which apply with effect from 1 January 2005 (see First time adoption of International Financial Reporting Standards ('IFRS')). The financial position at 31 December 2004 has been restated for the application of IFRS only. The historical information has not been restated for IFRS and is therefore presented as previously reported under Irish GAAP. Thus the five year trends will not be entirely comparable.

<sup>(2)</sup> Excluding the impact of the exceptional foreign exchange dealing losses, the return on average total assets was 1.23% and the return on average ordinary shareholders' equity was 20.4%.

## Principal addresses

### Ireland & Britain

#### Group Headquarters

Bankcentre, PO Box 452,  
Ballsbridge, Dublin 4.  
Telephone + 353 1 660 0311  
<http://www.aibgroup.com>

#### AIB Bank (ROI)

Bankcentre, Ballsbridge, Dublin 4.  
Telephone + 353 1 660 0311  
Facsimile + 353 1 2830490

#### First Trust Bank

First Trust Centre, PO Box 123,  
92 Ann Street, Belfast BT1 3AY.  
Telephone + 44 28 9032 5599  
From ROI 048 9032 5599  
Facsimile + 44 28 9043 8338  
From ROI 048 9043 8338

#### First Trust Bank

4 Queens Square, Belfast, BT1 3DJ  
Telephone + 44 28 9024 2423  
Facsimile + 44 28 902 42464

#### Allied Irish Bank (GB)

Bankcentre, Belmont Road,  
Uxbridge, Middlesex UB8 1SA.  
Telephone + 44 1895 272 222  
Facsimile + 44 1895 619 305

#### AIB Finance & Leasing

Sandyford Business Centre,  
Blackthorn Road,  
Sandyford, Dublin 18.  
Telephone + 353 1 660 3011  
Facsimile + 353 1 295 9773  
[aibfnl@aib.ie](mailto:aibfnl@aib.ie)

#### AIB Card Services

Donnybrook House,  
Donnybrook, Dublin 4.  
Telephone + 353 1 668 5500  
Facsimile + 353 1 668 5901  
[credcard@aib.ie](mailto:credcard@aib.ie)

#### AIB Capital Markets

AIB International Centre,  
IFSC, Dublin 1.  
Telephone + 353 1 874 0222  
Facsimile + 353 1 679 5933

#### AIB Global Treasury

AIB International Centre,  
IFSC, Dublin 1.  
Telephone + 353 1 874 0222  
Facsimile + 353 1 679 5933

12 Old Jewry, London EC2R 8DP.

Telephone + 44 20 7606 3070  
Facsimile + 44 20 7726 6683

#### AIB Investment Managers Limited

AIB Investment House,  
Percy Place, Dublin 4.  
Telephone + 353 1 661 7077  
Facsimile + 353 1 661 7038

#### AIB International Financial Services Limited

AIB International Centre, IFSC, Dublin 1.  
Telephone + 353 1 874 0777  
Facsimile + 353 1 874 3050

#### Goodbody Stockbrokers

Ballsbridge Park, Ballsbridge, Dublin 4.  
Telephone + 353 1 667 0400  
Facsimile + 353 1 667 0422

#### AIB Corporate Banking

Bankcentre, Ballsbridge, Dublin 4.  
Telephone + 353 1 660 0311  
Facsimile + 353 1 668 2508

#### AIB Corporate Finance Limited

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Ballsbridge, Dublin 4.  
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Facsimile + 353 1 667 0250

#### AIB Irish Capital Management Limited

85 Pembroke Road, Ballsbridge, Dublin 4.  
Telephone + 353 1 668 8860  
Facsimile + 353 1 668 8831

#### AIB/BNY Securities Services (Ireland) Limited

Guild House, Guild Street,  
IFSC, Dublin 1.  
Telephone + 353 1 642 8099  
Facsimile + 353 1 829 0833

#### Corporate Banking Britain

St Helen's, 1 Undershaft,  
London EC3A 8AB.  
Telephone + 44 20 7090 7130  
Facsimile + 44 20 7090 7101



## USA

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New York, NY 10022.  
Telephone + 1 212 515 6788  
Facsimile +1 212 339 8325

**AIB Treasury Services**  
405 Park Avenue, New York,  
NY 10022.  
Telephone + 1 212 339 8000  
Facsimile + 1 212 339 8006

## Poland

**Bank Zachodni WBK S.A.**  
Rynek 9/11, 50-950 Wrocław.  
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**AIB European Investments  
(Warsaw) Sp. Z o.o.**  
Krolewska Building, 4th floor,  
ul.Marszalkowska 142,  
00-061 Warsaw.  
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Facsimile + 48 22 586 8001

**AIB PPM Sp. Z o.o.**  
Atrium Tower,  
Al. Jana Pawla II 25,  
00-854 Warsaw.  
Telephone + 48 22 653 4700  
Facsimile + 48 22 653 4707

## Rest of World

**AIB Bank (CI) Limited**  
AIB House, PO Box 468,  
Grenville Street, St Helier,  
Jersey, JE4 8WT, Channel Islands.  
Telephone + 44 1534 883 000  
Facsimile + 44 1534 883 112

**AIB Corporate Banking France**  
Real Estate Finance,  
39 avenue Pierre 1er de Serbie,  
75008 Paris.  
Telephone +33 1 53 57 76 00  
Facsimile +33 1 53 57 76 20

**AIB Corporate Banking Germany**  
Reuterweg 49, D-60323,  
Frankfurt am Main, Germany.  
Telephone + 49 69 971 4210  
Facsimile + 49 69 971 42116

**AIB Bank (CI) Limited  
Isle of Man Branch**  
PO Box 186, 10 Finch Road,  
Douglas, Isle of Man, IM99 1QE.  
Telephone + 44 1624 639 639  
Facsimile + 44 1624 639 636

**AIB Hungary**  
Dohány Utca 12,  
H-1074 Budapest,  
Hungary.  
Telephone + 36 1 328 6805  
Facsimile + 36 1 328 6801

**AIB Luxembourg**  
69A boulevard de la Pétrusse,  
L-2320 Luxembourg,  
Grand Duchy of Luxembourg.  
Telephone + 352 261 2181  
Facsimile + 352 261 21830

All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the country code after the + sign and place a 0 before the area code. This does not apply to calls to First Trust from Ireland (Republic).

## Additional Information for Shareholders

### 1. Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may

- check their shareholdings on the Company’s Share Register;
- check recent dividend payment details; and
- download standard forms required to initiate changes in details held by the Registrar,

by accessing AIB’s website at [www.aibgroup.com](http://www.aibgroup.com), clicking on the “Check your Shareholding” option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder’s share certificate, dividend counterfoil and personalised circulars) should be entered. These services may also be accessed via the Registrar’s website at [www.computershare.com](http://www.computershare.com).

Shareholders may also use AIB’s website to access the Company’s Annual Report & Accounts.

### 2. Stock Exchange Listings

Allied Irish Banks, p.l.c. is an Irish-registered company. Its ordinary shares are traded on the Irish Stock Exchange, the London Stock Exchange and, in the form of American Depositary Shares (ADSs), on the New York Stock Exchange (symbol AIB). Each ADS represents two ordinary shares and is evidenced by an American Depositary Receipt (ADR). The Company’s non-cumulative preference shares are listed on the Irish Stock Exchange, and are eligible for trading in the USA, in the form of American Depositary Shares, in the National Association of Securities Dealers, Inc.’s PORTAL system under rule 144A.

### 3. Registrar

The Company’s Registrar is:

Computershare Investor Services (Ireland) Ltd.,  
 Heron House, Corrig Road, Sandyford Industrial Estate,  
 Dublin 18.  
 Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.  
 Website: <http://www.computershare.com>  
 e-mail: [web.queries@computershare.ie](mailto:web.queries@computershare.ie)

### 4. Payment of Dividends direct to a bank account

Ordinary Shareholders resident in Ireland or the UK may have their dividends paid direct to a designated bank account, under advice of full details of the amounts so credited. Shareholders who wish to avail of this facility should contact the Registrar (see 3 above).

### 5. American Depositary Shares

American Depositary Shares provide US residents wishing to invest in overseas securities with a share certificate and dividend payment in a form familiar and convenient to them.

The Company’s ordinary share and non-cumulative preference share ADR programmes are administered by The Bank of New York – see address on page 164.

### 6. Dividend Reinvestment Plan – US ADR Holders

AIB’s ordinary share ADR holders who wish to re-invest their dividends may participate in The Bank of New York’s Global Buy Direct program, details of which may be obtained from The Bank of New York at 1-800-943-9715.

### 7. Direct Deposit of Dividend Payments – US ADR Holders

Ordinary Share ADR holders may elect to have their dividends deposited direct into a bank account through electronic funds transfer. Information concerning this service may be obtained from The Bank of New York at 1-888-269-2377.

### 8. Dividend Withholding Tax (“DWT”)

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from: DWT Section, Office of the Revenue Commissioners, Government Offices, Nenagh, Co. Tipperary, Ireland. Telephone +353-67-33533. Facsimile +353-67-33822. e-mail [infodwt@revenue.ie](mailto:infodwt@revenue.ie).

#### General

With certain exceptions, which include dividends received by non-resident shareholders who have furnished valid declaration forms (see below), dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, currently 20%. The following summarises the position in respect of different categories of shareholder:

#### A. Irish Resident Shareholders

##### – Individuals

DWT is deducted from dividends paid to individuals resident in the Republic of Ireland for tax purposes. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT is available either for offset against their income tax liability, or for repayment, where it exceeds the total income tax liability.

– *Shareholders not liable to DWT*

The following classes of shareholder who receive the dividend in a beneficial capacity are exempt from DWT, provided the shareholder furnishes a properly completed declaration, on a standard form (see below), to the Registrar, not less than three working days prior to the relevant dividend payment record date:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Qualifying Fund Managers who receive the dividend in respect of an approved retirement or minimum retirement fund;
- Qualifying Savings Managers who receive the dividend in connection with assets held in a Special Savings Incentive Account;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account (“SPIA”);
- Certain permanently incapacitated persons who are exempt from income tax; trusts established for the benefit of such persons; and Thalidomide victims exempt from income tax in respect of income arising from the investment of certain compensation payments;
- The Administrator of a Personal Retirement Savings Account (“PRSA”) who receives the dividend in respect of the PRSA assets; and
- Certain Unit Trusts (Revenue-approved Charities and Pension Schemes) which are exempt from Capital Gains Tax where the dividends are received in relation to units in the trust.

Copies of the relevant declaration form may be obtained from the Company’s Registrar at the address shown at 3 above, or from the Revenue Commissioners at the above address. Once lodged with the Company’s Registrar, the declaration form remains current from its date of issue until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to a shareholder not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the DWT so deducted.

– *Qualifying Intermediaries (other than American Depository Banks - see D below)*

Dividends received by a shareholder who is a qualifying intermediary on behalf of a shareholder not liable to DWT may be received without deduction of DWT. A “qualifying intermediary” is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory\*, and:

- holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence;
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;

and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

Information concerning the conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown above. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company’s Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT.

A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown above.

\* A “relevant territory” means a member state of the European Union, other than the Republic of Ireland, or a country with which the Republic of Ireland has entered into a double taxation agreement.

**B. Shareholders not resident for tax purposes in the Republic of Ireland**

The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

- (a) an individual who is neither resident nor ordinarily resident in the Republic of Ireland and who is resident for tax purposes in a relevant territory (as defined at \* above);

- (b) an unincorporated entity resident for tax purposes in a relevant territory;
- (c) a company resident in a relevant territory and controlled by a non-Irish resident/residents;
- (d) a company not resident in the Republic of Ireland and which is controlled by a person or persons resident for tax purposes in a relevant territory; or
- (e) a company not resident in the Republic of Ireland, the principal class of whose shares are traded on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including
  - a company which is a 75% subsidiary of such a company; or
  - a company not resident in the Republic of Ireland that is wholly-owned by two or more companies, each of whose principal class of shares is so traded.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form (available from the Irish Revenue Commissioners and from the Company's Registrar), to the Registrar not less than three working days in advance of the relevant dividend payment record date, and:

- **Categories (a) and (b) above:** The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by (i) a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary; and (ii) a certificate from the Irish Revenue Commissioners, certifying that they have noted the information provided by the trustees.
- **Categories (c), (d) and (e) above:** The company's auditor must certify the declaration. In addition, where the company is resident in a relevant territory, the declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes.

*Once lodged with the Company's Registrar, declaration forms remain current from their date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the shareholder notifies the Registrar that entitlement to exemption is no longer applicable.*

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without deduction of DWT – see “Qualifying Intermediaries” under “Irish-Resident Shareholders” at A above.

#### C. Dividend Statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

#### D. American Depositary Receipt (“ADR”) Holders

An ADR holder whose address:

- on the register of ADRs maintained by AIB's ADR programme administrator, the Bank of New York (“BONY”), or
- in the records of a further intermediary through which the dividend is paid

is located in the United States of America is exempt from DWT, provided BONY or the intermediary concerned, as the case may be, satisfies certain conditions. In such circumstances, there is no requirement for the holder to make a declaration in order to obtain exemption from Irish DWT.

#### US Withholding Tax:

*Note: The following information, which is given for the general guidance of ADR holders, does not purport to be a definitive guide to relevant taxation provisions. While it is believed to be accurate at the time of finalising this Report for publication, ADR holders should take professional advice if they are in any doubt about their individual tax positions.*

Notwithstanding entitlement to exemption from Irish DWT, referred to above, ADR holders should note that US-resident holders of ADRs may, in certain circumstances, be liable to a US withholding tax on dividends received on such ADRs. This would arise, for example, where a US resident, being the beneficial owner of ADRs issued by an overseas company, fails to provide the depositary bank – or, where applicable, the Registered Broker – with a Form W-9 (tax certified document), showing, *inter alia*, the holder's Social Security Number or Taxpayer Identification Number. Non-US residents holding ADRs are required to submit a Form W-8 to the depositary bank/Registered Broker, as appropriate, to become tax certified and to avoid US withholding tax. ADR holders with queries in this regard should contact either

- (i) The Bank of New York, in the case of holders registered direct with that institution – see address on page 164;
- (ii) the holder's Registered Broker, where applicable; or
- (iii) the holder's financial/taxation adviser.

## Shareholding analysis

as at 31 December 2005

Size of shareholding	Shareholder Accounts*		Shares**	
	Number	%	Number	%
1-1,000	38,204	57	12,676,783	1
1,001-5,000	19,557	29	45,075,945	5
5,001-10,000	4,497	7	31,484,837	4
10,001-100,000	3,855	6	90,096,373	10
100,001-over	376	1	695,562,035	80
<b>Total</b>	<b>66,489</b>	<b>100</b>	<b>874,895,973</b>	<b>100</b>
<b>Geographical division</b>				
Republic of Ireland	56,401	85	332,401,336	38
Elsewhere	10,088	15	542,494,637	62
<b>Total</b>	<b>66,489</b>	<b>100</b>	<b>874,895,973</b>	<b>100</b>

\* Shareholder account numbers reflect US ADR account holders (17,000 approx.) held in a single nominee account

\*\* Excludes 43,539,597 shares held as Treasury Shares - see note 50 on page 123.

## Financial calendar

Annual General Meeting: Wednesday, 26 April 2006, commencing at 12 o'clock noon, at the Rochestown Park Hotel, Douglas, Cork

Dividend payment dates - Ordinary Shares:

- Final Dividend 2005 - 27 April 2006
- Interim Dividend 2006 - 26 September 2006

## Interim results

Unaudited interim results for the half-year ending 30 June 2006 will be announced on 1 August 2006. The Interim Report for the half-year ending 30 June 2006 will be published as a press advertisement in early August 2006, and will also be available on the Company's website - [www.aibgroup.com](http://www.aibgroup.com).

## Shareholder enquiries should be addressed to:

### For holders of Ordinary Shares:

Computershare Investor Services (Ireland) Ltd.,  
 Heron House,  
 Corrig Road,  
 Sandyford Industrial Estate,  
 Dublin 18, Ireland  
 Telephone: +353 1 247 5411  
 Facsimile: +353 1 216 3151  
 e-mail: [web.queries@computershare.ie](mailto:web.queries@computershare.ie)  
 Website: (for on-line shareholder enquiries)  
[www.aibgroup.com](http://www.aibgroup.com) - click on 'Check your Shareholding'  
 or  
[www.computershare.com](http://www.computershare.com)

### For holders of ADRs in the United States:

The Bank of New York,  
 Shareholder Relations,  
 PO Box 11258,  
 Church Street Station,  
 New York, NY 10286-1258, USA  
 Telephone 1-888-BNY-ADRS/1-888-269-2377  
 Website: <http://www.adrbny.com>  
 or  
 Ann Kerman  
 AIB Shareholder Relations,  
 300 North 2nd Street  
 7th Floor  
 Suite 711  
 Harrisburg PA 17101,  
 USA  
 Telephone 1-800-458 0348  
 e-mail: [ann.l.kerman@aibny.com](mailto:ann.l.kerman@aibny.com)



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