Form 20-F

(Mark One) [ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR l5(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR l5(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10284

Allied Irish Banks,

public limited company

(Exact name of registrant as specified in its charter)

Ireland

(Jurisdiction of incorporation or organization)

Bankcentre, Ballsbridge, Dublin 4, Ireland

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Ordinary shares of EUR 0.32 each, represented by American Depositary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Non-cumulative preference shares of US$25 each	250,000
Ordinary shares of EUR 0.32 each	886,690,015

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ______

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17______ Item 18 __X__

ALLIED IRISH BANKS, p.l.c.
ANNUAL REPORT ON FORM 20-F
FOR THE YEAR ENDED DECEMBER 31, 2001

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EXPLANATORY STATEMENT

On February 6, 2002, Allied Irish Banks, p.l.c. ("AIB") announced that it was undertaking a full investigation into fraudulent foreign exchange ("FX") trading operations at its US subsidiary Allfirst Bank. The board appointed Mr. Eugene A Ludwig, Managing Partner, Promontory Financial Group, and a former U.S. Comptroller of the Currency, to report on these matters to the board of directors. The board also appointed Mr. Edward D Herlihy and his law firm Wachtell, Lipton, Rosen & Katz to report to the board and provide legal advice on the basis of the investigation. The losses arising from the fraudulent FX trading activities were publicly disclosed by AIB in its preliminary announcement of results on February 20, 2002. Such losses amounted to US$691.2 million before taxation and related to years from 1997 to 2002.

The Report to the boards of Allied Irish Banks, p.l.c., Allfirst Financial Inc. and Allfirst Bank concerning currency trading losses (the "Investigation Report") was submitted by Promontory Financial Group and Wachtell, Lipton, Rosen & Katz on March 12, 2002 and released to the public on March 14, 2002. The Investigation Report found that an Allfirst employee had engaged in fraudulent FX trading activities over a period of five years. There was no change in the amount of the losses as a result of the investigation. A description of the losses arising from the fraudulent FX trading activities, the main findings of the Investigation Report, and the actions taken by the AIB and Allfirst boards following the review of the Investigation Report, are presented in more detail under the "Subsequent Event: Fraudulent Foreign Exchange Trading Activities" section of Item 5 "Operating and Financial Review and Prospects". This investigation report is incorporated by reference as an exhibit to a current report on Form 6-K filed by AIB on April 10, 2002. The fraudulent FX trading activities, and the resulting losses, are referred to from time to time in this Form 20-F as the "Fraudulent Activities" or the "Fraud", and the "Fraud Losses" or "Exceptional Foreign Exchange Dealing Losses", respectively.

In accordance with Irish Generally Accepted Accounting Principles ("Irish GAAP") the total costs arising from the Fraudulent Activities were reflected by way of an exceptional pre-tax charge of €789 million (of which €341 million relates to prior periods) in the Annual Report and Accounts for the year ended December 31, 2001 distributed to shareholders under Irish Companies Legislation.

Under US reporting requirements, the filing of AIB's 2001 financial statements by way of the Annual Report on Form 20-F constitutes a reissue of the financial statements for prior years. For the purpose of presenting the Balance Sheet and Statement of Income of the Group in this Form 20-F, the US Securities and Exchange Commission requires all material errors in respect of prior years to be accounted for and reported as prior year adjustments, in the years in which they occured. Accordingly, for US reporting purposes, the losses arising from the Fraudulent Activities are required to be charged in the years in which they occurred.

As a result, AIB has restated the financial statements for 2000 and 1999 included in this Annual Report on Form 20-F to reflect the losses in the years they occured. Consequently, the charge in 2001 reflects only the losses occuring in 2001. Note 52 to the consolidated financial statements gives details of these restatements. In addition, Item 3 "Key information" reflects the effects of restatements for the years 1998 and 1997 as well for the years 2000 and 1999.

REPORTING CURRENCY AND EXCHANGE RATES

Allied Irish Banks, p.l.c. ("AIB") and its subsidiaries (collectively "AIB Group" or "Group") publish consolidated financial statements in euro (€). On January 1, 1999 the euro came into being and became the official currency of the participating member states. The national currency units of the participating countries co-existed with the euro, as denominations of the new single currency until December 31, 2001. Euro notes and coin were introduced on January 1, 2002. Ireland joined the European Single Currency at the fixed translation rate of EUR 1=IR £0.787564 and all comparative figures have been translated into euro at this rate. Up to and including the accounts for the year ended December 31, 1998, the consolidated financial statements of the Group were prepared using the Irish pound as the reporting currency.

In this Annual Report, references to "US dollars", "dollars", "US$", "cents" or "¢" are to United States currency, references to "EUR", "euro", "€" or "c" are to euro currency, references to "sterling" or "Stg£" are to British currency, references to "zloty", "PLN" or "zl" are to Polish currency and references to "Yen" are to Japanese currency. Merely for convenience, this Annual Report contains translation of certain euro amounts into dollars at specified rates. These translations should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated or at any other rate. Unless otherwise indicated, the translations of euro into dollars have been made at €1.00 to US$0.8750, the noon buying rate in the City of New York for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York ("the noon buying rate") on April 8, 2002.

The following table shows, for the periods and dates indicated, certain information regarding the noon buying rate, expressed in US dollars per euro.

	Period end(1)	**Average rate**(2)	**High**	**Low**
Year ended Dec. 31, 1997................	1.1199	1.1867	1.2526	1.1199
Year ended Dec. 31, 1998................	1.1739	1.1216	1.1827	1.0707
Year ended Dec. 31, 1999................	1.0070	1.0588	1.1371	1.0070
Year ended Dec. 31, 2000................	0.9257	0.9184	1.0335	0.8271
Year ended Dec. 31, 2001................	0.8822	0.8919	0.9535	0.8370

(1) The noon buying rate at such dates differed from the rates used in the preparation of AIB Group's consolidated financial statements, which were US$1.1265, US$1.1668, US$1.0046, US$0.9305 and US$0.8813 to €1.00 at December 31, 1997, 1998, 1999, 2000 and 2001 respectively.

(2) The average rate for each period is the average of the noon buying rates on the last day of each full month during that period.

On April 30, 2002 the noon buying rate was EUR1.00 = US$0.9002

A significant portion of the assets and liabilities of AIB Group is denominated in currencies other than euro. Accordingly, fluctuations in the value of the euro relative to other currencies have had an effect on the euro value of assets, liabilities, interest income and interest expense denominated in such currencies.

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 Operating and Financial Review and Prospects with regard to management objectives, trends in results of operations, margins, risk management, competition and European Monetary Union 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, the potential business risks resulting from the exceptional foreign exchange dealing losses, 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.

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.

Item 3. *Key Information*

Selected financial data

The financial information set forth in the tables below for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 has been derived from the audited Consolidated Financial Statements of AIB Group for those periods, restated to include the exceptional foreign exchange dealing losses from the Fraud in the years they occured and to reflect the implementation of Financial Reporting Standard 17 "Retirement Benefits" in 2001, 2000 and 1999 (see footnote 1 on page 4). AIB Group's Consolidated Financial Statements are prepared in accordance with Irish GAAP, except as described below, which differ in certain significant respects from US GAAP. This information should be read in conjunction with, and is qualified by reference to, the accounting policies adopted, the Consolidated Financial Statements of AIB Group and notes thereon for the years ended December 31, 2001, 2000 and 1999 included in this Annual Report.

In accordance with Irish GAAP, the total costs arising from the Fraudulent Activities were reflected by way of an exceptional pre-tax charge of €789 million (after tax €513 million) in the accounts for the year ended December 31, 2001.

Under US reporting requirements, the losses arising from the Fraudulent Activities are charged in the years in which they occurred. As a result, AIB has restated the financial statements for 2000 and 1999 included in this Annual Report to reflect the losses in the years they occured. Consequently, the charge in 2001 reflects only the losses arising in 2001. In addition the tables below have been restated for each of the years from 1997 to 2000 to reflect the losses from the Fraud in the year they occurred.

	Years ended December 31,					
	2001	2001	2000 Restated[1]	1999 Restated[1]	1998 Restated[1]	1997 Restated[1]
SUMMARY OF CONSOLIDATED STATEMENT OF INCOME[2]	(Dollars in millions, except per share amounts)	(Euro in millions, except per share amounts)				
Net interest income before exceptional item	2,006	2,293	2,022	1,770	1,609	1,374
Deposit interest retention tax[3]	–	–	(113)	–	–	–
Net interest income after exceptional item	2,006	2,293	1,909	1,770	1,609	1,374
Other finance income	59	67	71	71	–	–
Other income before exceptional item	1,248	1,426	1,304	1,052	980	757
Exceptional foreign exchange dealing losses[4]	(365)	(417)	(228)	(45)	(11)	(24)
Total operating income after exceptional items	2,948	3,369	3,056	2,848	2,578	2,107
Total operating expenses	1,993	2,278	1,997	1,658	1,442	1,384
Operating income before provisions	955	1,091	1,059	1,190	1,136	723
Provisions	178	204	134	92	134	94
Operating income-continuing operations	777	887	925	1,098	1,002	629
Income from associated undertakings	4	4	3	3	4	9
Income before disposals	781	891	928	1,101	1,006	638
Income on disposal of property	5	6	5	2	32	(2)
Income on disposal of businesses[5]	81	93	–	15	–	76
Income before taxes, minority interests and preference dividends	867	990	933	1,118	1,038	712
Income taxes	164	187	239	317	311	222
Impact of phased reduction in Irish corporation tax rates on deferred tax balances[6]	–	–	–	–	55	–
	164	187	239	317	366	222
Equity and non-equity minority interests	20	23	38	28	29	23
Preference dividends	44	50	20	16	17	18
Net income applicable to ordinary stockholders	639	730	636	757	626	449
Per ordinary share						
Net income – basic	74.2¢	84.8c	74.3c	89.1c	73.9c	58.9c
Net income – adjusted	104.9¢	119.9c	106.7c	93.5c	81.1c	–
Net income – diluted	73.7¢	84.2c	73.8c	88.1c	72.9c	58.5c
Dividends	38.33¢	43.80c	38.75c	33.70c	28.06c	22.50c
Amounts in accordance with US GAAP:						
Net income	582	665	571	663	650	442
Net income applicable to ordinary stockholders	539	615	551	647	633	427
Net income per ordinary share	62.6¢	71.5c	64.5c	76.0c	74.5c	56.0c
Net income per ADS	125¢	143c	129c	152c	149c	112c

December 31, Summary of consolidated balance sheet	2001 (Dollars in millions)	2001	2000 Restated(1)	1999 Restated(1)	1998 Restated(1)	1997 Restated(1)
		(Euro in millions except share amounts)				
Total assets	77,732	88,837	79,724	67,718	53,684	47,751
Loans etc.	50,264	57,445	50,239	43,127	35,496	32,390
Deposits etc.	63,711	72,813	65,210	55,241	44,840	40,063
Dated capital notes	1,395	1,594	1,836	1,587	970	1,002
Undated capital notes	373	426	413	397	170	178
Equity and non-equity minority interests	273	312	272	227	213	219
Preference share capital	678	775	264	245	210	160
Ordinary stockholders' equity	4,262	4,871	4,734	4,402	2,806	2,282
Total capital resources	6,981	7,978	7,519	6,858	4,369	3,841
Capital stock - ordinary shares						
Number of shares outstanding		886.7	879.2	866.0	859.9	853.3
Balance sheet amounts	248	284	281	277	273	271
Capital stock - preference shares						
Number of shares outstanding		0.25	0.25	0.25	0.25	7.2
Balance sheet amounts	245	280	264	245	210	160
Amounts in accordance with US GAAP:						
Ordinary stockholders' equity	5,002	5,716	5,050	4,420	3,761	3,416
Total assets	77,024	88,027	77,720	65,778	53,448	48,098

OTHER FINANCIAL DATA(7)	Years ended December 31, 2001	2000 Restated(1)	1999 Restated(1)	1998 Restated(1)	1997 Restated(1)
Return on average total assets	0.97%	0.94%	1.32%	1.28%	1.19%
Return on average stockholders' equity	15.2	13.9	20.4	24.6	23.0
Dividend payout ratio	52.0	52.6	38.0	38.2	39.3
Average ordinary stockholders' equity as a percentage of average total assets	5.8	6.2	6.1	4.8	4.7
Allowance for loan losses as a percentage of total loans to customers at year-end	1.9	1.9	1.9	1.8	1.9
Net interest margin(8)	3.03	3.02	3.27	3.33	3.67
Tier 1 capital ratios(9)	6.5	6.0	6.3	7.5	7.3
Total capital ratio(9)	10.1	10.5	11.2	11.1	11.1
Other financial data in accordance with US GAAP:					
Return on average total assets	0.84%	0.85%(10)	1.16%	1.26%	1.08%
Return on average ordinary stockholders' equity	11.45	11.65(10)	15.42	17.65	15.84
Dividend payout ratio	61.7	60.7	44.4	37.7	41.4
Average ordinary stockholders' equity as a percentage of average total assets	6.59	6.58	7.03	6.81	6.51

(1) Restated to include the impact of the exceptional foreign exchange dealing losses in all years. The Group implemented Financial Reporting Standard 17 "Retirement Benefits" in the preparation of its accounts for 2001. In accordance with Irish GAAP the comparative profit and loss account information for 2000 and 1999 and the comparative balance sheet information for 2000 and 1999 have been restated. It was not practicable to restate the remaining years because the data was not available. See accounting policies on pages 87 and 88 and note 14 to the financial statements for details of this change in accounting policy.

(2) On September 16, 1999, the Group acquired an 80% shareholding in Bank Zachodni S.A. ("BZ"). Under its agreement with the Polish State Treasury, AIB agreed to invest a further PLN 250 million by April 16, 2000 of which PLN 150 million was invested on October 15, 1999 and PLN 100 million was invested on April 12, 2000. A further PLN 100 million was invested on November 22, 2000 increasing the Group's shareholding in BZ to 83%. The acquisition of Dauphin Deposit Corporation was completed on July 8, 1997, by the merger of Dauphin into First Maryland Bancorp (now "Allfirst Financial Inc."). In addition, Wielkopolski Bank Kredytowy S.A. ("WBK") became a subsidiary of the Group with effect from April 30, 1997 when AIB's shareholding increased to 60%. As a result the financial information provided above is not directly comparable as the results for the year ended December 31, 1997 include the results of Dauphin for 6 months and the results of WBK for 8 months in comparison to 12 months for 2000, 1999 and 1998, while the results for the year ended December 31, 1999 include the results of BZ for 3 months in comparison to 12 months for 2000.

(3) On October 3, 2000, AIB announced that it had reached a full and final settlement with the Irish Revenue Commissioners of €114.33 million in relation to Deposit Interest Retention Tax ("DIRT"), interest and penalties in Ireland for the period April 1986 to April 1999. The settlement included €1.37 million paid in prior years. Although AIB believe that it had an agreement with the Revenue Commissioners in 1991 in relation to DIRT, the Board considered that concluding this settlement was in the best interests of shareholders, customers and staff. As a result an exceptional charge of €112.96 million was reflected in the accounts for the year ended December 31, 2000.

(4) These amounts represent the losses arising from the Fraudulent Activities, reflected in the year they occurred to meet US reporting requirements. See "Explanatory Statement" and Note 51 to the financial statements. The euro amount of the losses reported under US reporting requirements in the years 1997 to 2001 will not equate to the charge of €789 million under Irish GAAP. This arises for a number of reasons. In the Irish GAAP accounts, the total fraud losses, US$691.2 million, and costs estimated at US$10 million less the reversal of an incentive accrual of US$6 million, were charged as an exceptional item in 2001 at the exchange rate prevailing on December 31, 2001. Under US reporting requirements the US$ losses were charged in each of the years they arose, translated at the average rates of exchange used in the preparation of the accounts for those years. In addition, the losses arising in 2002, including the costs of closing out the transactions and the US$10 million in costs, will be reflected in the Annual Report on Form 20-F for 2002.

(5) In August 2001, AIB's interests in Keppel Capital Holdings Ltd. were sold to Oversea-Chinese Banking Corporation Limited, giving rise to a profit before taxation on disposal of €93 million (tax charge €nil). In October 1999, AIB's private banking and treasury operations in Singapore were sold to Keppel Tatlee Bank Limited, giving rise to a profit before taxation on disposal of €15 million (tax charge €4 million). In August 1997, Allfirst Financial Inc. sold its US$360 million Bell Atlantic bankcard loan portfolio to Chase Manhattan Corporation. In December 1997, Allfirst Financial Inc. announced an agreement under which Bank of America N.A. acquired the credit card receivables portfolios of First OmniBank, N.A. and Dauphin Deposit Bank, and the transaction closed in February 1998. A profit before taxation of €76 million (tax charge €29 million) was recognized in the accounts for the year ended December 31, 1997 in respect of these transactions.

(6) In December 1998, the Minister for Finance announced a phased reduction in the Irish corporation tax rates, commencing January 1, 1999 to achieve a 12 1/2 % corporation tax rate for all trading income with effect from January 1, 2003. The Irish Finance Act, 1999 provided for the reduction in the standard rate of corporation tax to 28% with effect from January 1, 1999, and to 24% with effect from January 1, 2000, with further reductions to 20% and 16% on January 1, 2001 and 2002, respectively. From January 1, 2000 the rate of corporation tax applying to non-trading income is 25%. Arising from the phased reduction in Irish corporation tax rates, timing differences will reverse at rates of corporation tax lower than those provided for on origination. As a result, a charge of €55 million was made in the year ended December 31, 1998.

(7) The calculation of the average balances include daily and monthly averages and are considered to be representative of the operations of the Group.

(8) Net interest margin represents net interest income as a percentage of average interest earning assets. The net interest margin for the year ended December 31, 2000 reflects a net interest income figure that was adjusted to reflect a 365 day year for comparative purposes. The net interest margin for 2000 was calculated excluding the impact of the DIRT settlement.

(9) The Board of Governors of the Federal Reserve System (the Federal Reserve Board) guidelines for risk-based capital requirements, applicable to all bank holding companies, require the minimum ratios of Tier 1 capital and Total capital to risk adjusted assets to be 4% and 8% respectively. The Central Bank of Ireland also has issued its guidelines for implementation of the requirements of the EC Council Directives on own funds, solvency ratios and capital adequacy in Ireland which, while similar to the Federal Reserve guidelines, require minimum Tier 1 and Total capital ratios of 4.25% and 8.5% respectively. Furthermore, the Federal Reserve Board has adopted leverage capital guidelines requiring bank holding companies to maintain a minimum ratio of Tier 1 capital to total quarterly average assets ("Tier 1 leverage ratio") of at least 3%, in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth. All other bank holding companies are expected to maintain a Tier 1 leverage ratio at least 1% to 2% above the stated minimum.

(10) Excluding the impact of the deposit interest retention tax settlement, the return on average total assets was 0.99% and the return on average ordinary stockholders' equity was 13.67%.

LOSSES ARISING FROM THE FRAUDULENT FOREIGN EXCHANGE TRADING ACTIVITIES AT ALLFIRST BANK

The following terms are used to describe the losses arising from the fraudulent foreign exchange trading activities and other commonly used descriptions throughout this Annual Report on Form 20-F.

– Fraudulent foreign exchange trading activities	= "Fraudulent Activities" or "Fraud"
– Losses arising from fraudulent foreign exchange trading activities	= "Fraud Losses" or "Exceptional Foreign Exchange Dealing Losses"
– Fair value - foreign exchange option purchased	= "FX Option Asset"
– Fair value - foreign exchange option written	= "FX Option Liability"
– Foreign exchange	= "FX"

The Fraud Losses resulted from two types of transactions that appeared to offset realized losses on authentic FX spot and forward transactions. The first type consisted of the recording of fictitious FX Option Assets. Assets were recorded through a series of fictitious transactions that effectively recognized a FX Option Asset with an offsetting credit to FX trading income. These fictitious options also tended to give the appearance that the real FX spot and forward positions were hedged. The second type consisted of actual FX Option Liabilities that were initially recorded as liabilities and then, through a series of fictitious transactions, effectively were recognized as closed transactions. The closing of these transactions through a reduction of the FX Option Liability resulted in unrecorded liabilities with an offsetting credit to FX trading income.

A more detailed description of these types of transactions can be found in the Investigation Report that was presented to the AIB, Allfirst Financial Inc., and Allfirst Bank boards of directors on March 12, 2002 and released to the public on March 14, 2002. This report is incorporated by reference as an exhibit to a current report on Form 6-K filed by AIB on April 10, 2002.

Balance Sheet line items affected by the Fraud are other assets (FX Option Assets and Due to brokers - FX options accounts), other liabilities (FX Option Liabilities, Due from brokers - FX Options accounts and taxes payable) deferred tax, and retained earnings. Statement of Income line items affected by the Fraud Losses are dealing profits (a component of other income), income taxes, and net income.

In accordance with Irish GAAP the total costs arising from the Fraud were reflected by way of an exceptional charge of €789 million (of which €341 million relates to prior periods) in the profit and loss account in the Annual Report and Accounts for the year ended December 31, 2001, distributed to shareholders under Irish Companies Legislation. Under Financial Reporting Standard 3 "Reporting Financial Performance" ("FRS 3") prior period financial statements are restated for an error only if the error is a fundamental error. Fundamental errors under FRS 3 are errors that are of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements. In the opinion of the Directors the exceptional foreign exchange dealing losses, relating to each of the prior years, do not constitute fundamental errors because they are not of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements.

Under US reporting requirements, the filing of the 2001 financial statements by way of Annual Report on Form 20-F constitutes a reissue of the financial statements for prior years. For the purpose of presenting the Balance Sheet and Statement of Income of the Group in the Form 20-F, the US Securities and Exchange Commission requires all material errors in respect of prior years to be accounted for and reported as prior year adjustments. Accordingly, the financial statements in this Annual Report on Form 20-F for prior years are restated to reflect the losses arising from the Fraud in the periods in which they occured.

In this Form 20-F, AIB has restated components of the Balance Sheets, the Statements of Income, the Statements of Changes in Stockholders' Equity, the Cash Flow Statements, and selected Notes to Consolidated Financial Statements prepared under Irish GAAP to meet US reporting requirements. The following tables show the impact of the restatements on each of these components by year.

CONDENSED BALANCE SHEETS

The following table presents the restatement adjustments to total assets, stockholders' equity and total liabilities including stockholders' equity, arising from the treatment of the Fraud Losses under US reporting requirements, for each of the years 1997 to 2000. Other assets in 2000 were reduced by €526 million as a result of the deletion of fictitious FX Option Assets and overstated Due to brokers - FX options accounts. No unrecorded FX Option Liabilities were identified prior to 2001. In addition to adjustments related to FX option transactions, other liabilities and deferred taxation were also affected by the restatement of income taxes receivable and payable. Other liabilities in 2000 were also reduced as a result of overstated Due from brokers - FX options accounts. The effect of the recognition of the losses in the years they occurred under US reporting requirements resulted in a reduction in profit and loss account retained earnings of €210 million and €58 million at December 31, 2000 and 1999, respectively.

	Years ended December 31,			
	2000	**1999**	**1998**	**1997**
	(Euro in millions)			
As previously reported in Form 20-F - under Irish GAAP:				
Other assets	1,708	1,071	860	1,227
Total assets	79,688	67,070	53,720	47,777
Other liabilities	3,079	2,360	2,167	2,010
Deferred taxation	357	242	164	51
Profit and loss account	1,994	1,450	710	381
Stockholders' equity	4,296	3,651	2,829	2,299
Total liabilities including stockholders' equity	79,688	67,070	53,720	47,777
As previously reported in Form 20-F - under US GAAP:				
Total assets	78,198	65,942	53,592	48,134
Stockholders' equity	5,237	4,465	3,841	3,432
Total liabilities including stockholders' equity	78,198	65,942	53,592	48,134
Restatement adjustments:				
Other assets	(526)	(89)	(36)	(26)
Total assets	(526)	(89)	(36)	(26)
Other liabilities	(273)	2	–	–
Deferred taxation	(43)	(33)	(13)	(9)
Profit and loss account	(210)	(58)	(23)	(17)
Stockholders' equity	(210)	(58)	(23)	(17)
Total liabilities including stockholders' equity	(526)	(89)	(36)	(26)
As restated under US reporting requirements - under Irish GAAP:				
Other assets	1,182	982	824	1,201
Total assets	79,162	66,981	53,684	47,751
Other liabilities	2,806	2,362	2,167	2,010
Deferred taxation	314	209	151	42
Profit and loss account	1,784	1,392	687	364
Stockholders' equity	4,086	3,593	2,806	2,282
Total liabilities including stockholders' equity	79,162	66,981	53,684	47,751
As restated under US reporting requirements - under US GAAP:				
Total assets	77,672	65,853	53,556	48,108
Stockholders' equity	5,027	4,407	3,818	3,415
Total liabilities including stockholders' equity	77,672	65,853	53,556	48,108

CONDENSED STATEMENTS OF INCOME

The following table presents condensed information from the Statements of Income as well as revenues from trading activities as disclosed in Note 9 "Dealing profits/(losses)" of the Notes to Consolidated Financial Statements. Total dealing profits/(losses) for 2000 and 1999 have been reduced by €228 million and €45 million, respectively. No other line items within income before income taxes were affected by the restatements.

The following table presents the restatement adjustments on Dealing profits – Exceptional foreign exchange dealing losses, and condensed information from the Statements of Income, arising from the treatment of the Fraud Losses under US reporting requirements, for each of the years 1997 to 2000. These losses have been translated into euro at the average rates of exchange used in the preparation of the accounts for each year. When the losses are charged in the years they occur it results in an adjustment to income tax expense and income taxes payable (both current and deferred) for each of the years impacted. The restatement adjustments have been tax effected at a rate of 35.0%. The adjustments give rise to a reduction in previously reported net income for the years ended December 31, 2000 and 1999 of €148 million and €29 million, respectively.

	Years ended December 31,			
	2000	1999	1998	1997
	(Euro in millions)			
As previously reported in Form 20-F - under Irish GAAP:				
Dealing profits - before exceptional losses	103	74	69	52
Dealing profits – Exceptional foreign exchange dealing losses	–	–	–	–
Total dealing profits	103	74	69	52
Other income	1,304	1,052	980	757
Total operating income	3,213	2,822	2,589	2,131
Group operating income before provisions	1,264	1,204	1,147	747
Income before taxes	1,138	1,132	1,049	736
Applicable taxes	318	327	370	230
Net income	820	805	679	506
Net income to ordinary stockholders	762	761	633	465
As previously reported in Form 20-F - under US GAAP:				
Net income	712	695	657	457
Net income to ordinary stockholders	692	680	640	442
Restatement adjustments:				
Dealing profits - before exceptional losses	–	–	–	–
Dealing profits – Exceptional foreign exchange dealing losses	(228)	(45)	(11)	(24)
Total dealing losses	(228)	(45)	(11)	(24)
Other income	(228)	(45)	(11)	(24)
Total operating income	(228)	(45)	(11)	(24)
Group operating loss before provisions	(228)	(45)	(11)	(24)
Loss before taxes	(228)	(45)	(11)	(24)
Applicable taxes	(80)	(16)	(4)	(8)
Net loss	(148)	(29)	(7)	(16)
Net loss to ordinary stockholders	(148)	(29)	(7)	(16)
As restated under US reporting requirements - under Irish GAAP:				
Dealing profits - before exceptional losses	103	74	69	52
Dealing profits – Exceptional foreign exchange dealing losses	(228)	(45)	(11)	(24)
Total dealing (losses)/profits	(125)	29	58	28
Other income	1,076	1,007	969	733
Total operating income	2,985	2,777	2,578	2,107
Group operating income before provisions	1,036	1,159	1,136	723
Income before taxes	910	1,087	1,038	712
Applicable taxes	238	311	366	222
Net income	672	776	672	490
Net income to ordinary stockholders	614	732	626	449
As restated under US reporting requirements - under US GAAP:				
Net income	564	666	650	441
Net income to ordinary stockholders	544	651	633	426

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

The Statements of Changes in Stockholders' Equity are impacted by the treatment of the Fraud Losses under US reporting requirements. The adjustment requires a restatement of net income, which affected total comprehensive income. In addition, ending stockholders' equity at December 31 for each year presented was impacted by the cumulative effect of the restatements to net income.

The following table presents the restatement adjustments to the Statements of Changes in Stockholders' equity, arising from the treatment of the Fraud Losses under US reporting requirements, for each of the years 1997 to 2000.

	Years ended December 31,			
	2000	1999	1998	1997
	(Euro in millions)			
As previously reported in Form 20-F - under Irish GAAP:				
Beginning stockholders' equity	3,896	3,039	2,459	1,626
Net income	762	761	633	465
Currency translation adjustments on profit and loss account reserves	112	275	(58)	165
Other changes in stockholders' equity	(210)	(179)	5	203
Ending stockholders' equity	4,560	3,896	3,039	2,459
As previously reported in Form 20-F - under US GAAP:				
Beginning stockholders' equity	4,465	3,784	3,433	1,969
Net income	712	695	657	457
Currency translation adjustments	220	489	(121)	166
Other changes in stockholders' equity	(160)	(503)	(185)	841
Ending stockholders' equity	5,237	4,465	3,784	3,433
Restatement adjustments:				
Beginning stockholders' equity	(58)	(23)	(17)	–
Net loss	(148)	(29)	(7)	(16)
Currency translation adjustments on profit and loss account reserves	(4)	(6)	1	(1)
Other changes in stockholders' equity	–	–	–	–
Ending stockholders' equity	(210)	(58)	(23)	(17)
As restated under US reporting requirements - under Irish GAAP:				
Beginning stockholders' equity	3,838	3,016	2,442	1,626
Net income	614	732	626	449
Currency translation adjustments on profit and loss account reserves	108	269	(57)	164
Other changes in stockholders' equity	(210)	(179)	5	203
Ending stockholders' equity	4,350	3,838	3,016	2,442
As restated under US reporting requirements - under US GAAP:				
Beginning stockholders' equity	4,407	3,761	3,416	1,969
Net income	564	666	650	441
Currency translation adjustments	216	483	(120)	165
Other changes in stockholders' equity	(160)	(503)	(185)	841
Ending stockholders' equity	5,027	4,407	3,761	3,416

CONDENSED STATEMENTS OF CASH FLOWS

The Statements of Cash Flows presented under Irish GAAP were impacted by the restatement of net income under US reporting requirements (decreasing cash flow from operating activities) and a net decrease in derivative and FX net assets (increasing cash flow from operating activities).

The following table presents the restatement adjustments to the Statements of Cash Flows, arising from the treatment of the Fraud Losses under US reporting requirements, for each of the years 1997 to 2000.

Actual underlying cash flows in 2000 and prior years were not affected by the Fraud Losses. Up to December 31, 2000, all fraudulent FX options transactions were fictitious transactions and did not affect net cash provided by operating activities.

	Years ended December 31,			
	2000	1999	1998	1997
		(Euro in millions)		
As previously reported in Form 20-F - under Irish GAAP:				
Operating activities:				
Group operating income	1,130	1,112	1,013	653
Adjustments to reconcile Group operating income to net cash inflow from operating activities:				
(Increase)/decrease in other assets	(595)	(289)	333	(541)
Increase in other liabilities	674	126	127	171
Other line items, net	1,224	2,242	2,248	(341)
Net cash provided by/(used for) operating activities	2,433	3,191	3,721	(58)
Restatement adjustments:				
Operating activities:				
Group operating income	(228)	(45)	(11)	(24)
Adjustments to reconcile Group operating income to net cash inflow from operating activities:				
Decrease in other assets	437	53	10	26
Decrease in other liabilities	(203)	–	–	–
Other line items, net	(6)	(8)	1	(2)
Net cash provided by/(used for) operating activities	–	–	–	–
As restated under US reporting requirements - Irish GAAP:				
Operating activities:				
Group operating income	902	1,067	1,002	629
Adjustments to reconcile Group operating income to net cash inflow from operating activities:				
(Increase)/decrease in other assets	(158)	(236)	343	(515)
Increase in other liabilities	471	126	127	171
Other line items, net	1,218	2,234	2,249	(343)
Net cash provided by/(used for) operating activities	2,433	3,191	3,721	(58)

The principal differences between Statements of Cash Flows prepared under Irish GAAP and those prepared under US GAAP are set out on pages 157 and 158.

INCOME TAXES

The following table presents condensed income tax information as disclosed in Note 16 "Applicable Taxes" of the Notes to Consolidated Financial Statements. The adjustments to net income reported under Irish GAAP, arising from the treatment of the Fraud Losses under US reporting requirements, results in an adjustment to income tax expense and income taxes payable or receivable (both current and deferred) for each of the years 1997 to 2000.

	Years ended December 31,			
	2000	1999	1998	1997
	(Euro in millions)			
Applicable taxes				
As previously reported in Form 20-F - under Irish GAAP:				
Current	194	215	230	179
Deferred	124	112	140	51
Total income tax expense	318	327	370	230
Restatement adjustments:				
Current	(45)	(8)	–	(8)
Deferred	(35)	(8)	(4)	–
Total income tax benefit	(80)	(16)	(4)	(8)
As restated under US reporting requirements - under Irish GAAP:				
Current	149	207	230	171
Deferred	89	104	136	51
Total income tax expense	238	311	366	222

CAPITAL ADEQUACY

The following table presents information as disclosed in Note 48 "Capital Adequacy Information" of the Notes to Consolidated Financial Statements. The restatement of net income affected total comprehensive income and the ending stockholders' equity for each of the years 1997 to 2000. This impacted Tier 1 and hence Total capital, while the impact of the changes to other assets and other liabilities had an immaterial effect on risk adjusted assets.

	Years ended December 31,			
	2000	1999	1998	1997
	(Euro in millions)			
As previously reported in Form 20-F - under Irish GAAP:				
Tier 1 capital	3,814	3,168	2,939	2,551
Total capital	6,526	5,570	4,361	3,847
Risk adjusted assets	60,222	49,275	39,113	34,655
Tier 1 capital as a % of risk adjusted assets	6.3%	6.4%	7.5%	7.4%
Total capital as a % of risk adjusted assets	10.8%	11.3%	11.1%	11.1%
Restatement adjustments:				
Tier 1 capital	(210)	(58)	(23)	(17)
Total capital	(210)	(58)	(23)	(17)
Risk adjusted assets	(9)	(13)	(7)	–
As restated for US reporting requirements - under Irish GAAP:				
Tier 1 capital	3,604	3,110	2,916	2,534
Total capital	6,316	5,512	4,338	3,830
Risk adjusted assets	60,213	49,262	39,106	34,655
Tier 1 capital as a % of risk adjusted assets	6.0%	6.3%	7.5%	7.3%
Total capital as a % of risk adjusted assets	10.5%	11.2%	11.1%	11.1%

CONDENSED FOREIGN EXCHANGE TRADING ACTIVITIES

The following table presents the two components of derivatives related to FX activities as disclosed in Note 43 "Derivatives" of the Notes to Consolidated Financial Statements. In addition, the table includes the net fair value of FX net assets/(liabilities) as disclosed in Note 50 "Fair Value of Financial Instruments" of the Notes to Consolidated Financial Statements.

The Fraudulent Activities impacted the net fair value of FX derivative assets/(liabilities) for the years 1997 to 2000. In addition, the notional value, year-end FX Option Asset and average FX Option Asset were impacted by the restatement related to fictitious FX Option Assets. There were no changes to commitments to purchase and sell foreign exchange (FX spot and forward positions) related to the Fraudulent Activities; see [1] below.

	Years ended December 31,			
	2000	1999	1998	1997
	(Euro in millions)			
As previously reported in Form 20-F - under Irish GAAP:				
FX options:				
Notional value………………………………	4,714	4,430	16,442	9,362
Fair value ………………………………	259	(18)	29	33
Average fair value………………………………	136	39	19	6
Forward FX contracts:				
Notional value………………………………	16,300	2,640	7,178	19,278
Fair value ………………………………	(38)	3	38	(8)
Average fair value………………………………	(24)	2	47	23
Restatement adjustments:				
FX options:				
Notional value………………………………	(951)	(546)	(181)	(187)
Fair value ………………………………	(323)	(89)	(36)	(26)
Average fair value………………………………	(191)	(114)	(37)	(11)
Forward FX contracts:				
Notional value………………………………	(1,285)[1]	–	–	–
Fair value ………………………………	–	–	–	–
Average fair value………………………………	–	–	–	–
As Restated for US reporting purposes - under Irish GAAP:				
FX options:				
Notional value………………………………	3,763	3,884	16,261	9,175
Fair value ………………………………	(64)	(107)	(7)	7
Average fair value………………………………	(55)	(75)	(18)	(5)
Forward FX contracts:				
Notional value………………………………	15,015	2,640	7,178	19,278
Fair value ………………………………	(38)	3	38	(8)
Average fair value………………………………	(24)	2	47	23

[1] While reflected within the "restatement adjustments" section, this adjustment is actually a reclassification to conform the 2000 20-F presentation to the 2001 presentation. For 2001, the notional values of FX spot and forward contracts with the same counterparty under legally enforceable master netting agreements have been netted.

Risk factors

Business conditions and general economy

The profitability of the Group's businesses could be adversely affected by a worsening of general economic conditions in Ireland or elsewhere as well as by foreign and domestic trading market conditions. Such factors could also adversely affect the credit quality of the Group's on-balance sheet and off-balance sheet assets. An economic downturn or significantly higher interest rates could increase the risk that a greater number of the Group's customers would default on their loans or other obligations to the Group, or would refrain from seeking additional borrowing.

Government policies and economic controls

The Group's businesses and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the governments of the countries in which we operate and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

For further discussion on the Group's businesses, the Irish economy, competition, and supervision and regulation in the main geographical areas the Group operates in, see Item 4 "Business overview" on pages 15 to 24.

Potential business risks resulting from the exceptional foreign exchange dealing losses

As a result of the announcement of the Fraudulent Activities and related losses on February 6, 2002 the Group became exposed to some potential business risks. Such risks relating to liquidity are discussed in the liquidity risk section of Item 11 "Quantitative and qualitative disclosures about market risk", while potential litigation risks are described under the Legal Proceedings section of Item 8 "Financial information".

The Board and management took immediate action to terminate foreign exchange and interest rate proprietary trading in Allfirst. Management changes were also made and external advisors retained to conduct an investigation into the trading losses. Furthermore, a risk audit of the Group's treasury operations and a review of risk management across the Group is also underway by external advisors.

Since the publication of the Investigation Report into the Fraud Losses on March 14, 2002, Allfirst's core deposit base and overall business volumes have stabilized. Elsewhere, throughout the Group there has not been any significant business impact, although it must be recognized that this event has dented the reputation and good standing of Allfirst.

The Board and management are working in cooperation with the Group's banking regulators including the US Federal Reserve Board, the Maryland State Banking Commissioner and The Central Bank of Ireland on implementing the recommendations and findings of the examinations of the Fraud. AIB has been informed that the US Securities and Exchange Commission ("SEC") has opened an informal inquiry into the Allfirst Fraudulent Foreign Exchange Trading Activities. AIB intends to cooperate fully with the SEC.

Risk management

A detailed discussion on the three major risks facing AIB Group - credit risk, market risk and operational risk, is contained in Item 11 "Quantitative and qualitative disclosures about market risk", on pages 66 to 85.

Item 4. *Information on the company*

Allied Irish Banks, p.l.c. has its registered office at Bankcentre, Ballsbridge, Dublin 4, Ireland. (Telephone number +353-1-660 0311) The following additional statistical information may be found elsewhere as follows:

I. Average balance sheet - see Item 5 - "Average balance sheets and interest rates" on pages 32 and 33.

II. Investment portfolio - see Item 18 - note 49 on pages 145 to 147.

III. Loan portfolio

(a) Types of loans - See Item 11 - "Loan portfolio" on page 75.

(b) Maturities and sensitivities of loans to changes in interest rates - See Item 11 - "Interest rate sensitivity" on pages 70 and 71 and "Analysis of loans to customers by maturity and interest rate sensitivity" on page 78.

(c) Risk elements

- Non-accrual, past due and restructured loans - see Item 11 - "Risk elements in lending" on page 83.
- Potential problem loans - see Item 11 - "Provision and allowance for loan losses" on page 78.
- Foreign outstandings - see Item 11 - "Cross-border outstandings" on page 85.

IV. Summary of loan loss experience

(a) Analysis of the allowance for loan losses - see Item 11 - "Movements in the allowance for loan losses" on page 79.

(b) Allocation of the allowance for loan losses - see Item 11 - "Analysis of allowance for loan losses" on page 82.

V. Deposits and short-term borrowing

See Item 5 - "Placings with banks", "Deposits by customers", "Customer deposits by currency" and "Short-term borrowings" on pages 47 to 49.

History and development of the company

History

AIB, originally named Allied Irish Banks Limited, was incorporated in Ireland in September 1966 in connection with the amalgamation of three long established banks (the "constituent banks") with assets aggregating €324 million. At that time the shares of the Munster and Leinster Bank Limited (established 1885), the Provincial Bank of Ireland Limited (established 1825) and The Royal Bank of Ireland Limited (established 1836), were acquired by and were transferred to AIB as a holding company. In 1972, AIB became the sole banking entity in place of the three constituent banks, other than with regard to the currency note issue of the Provincial Bank of Ireland Limited in Northern Ireland, which was transferred to AIB in 1982. This power to issue bank notes in Northern Ireland was transferred to AIB Group (UK) p.l.c. with effect from January 10, 1994.

In December 1970, AIB commenced the expansion of its network of branches in Britain. Since 1972, AIB has opened overseas branches in New York, the Cayman Islands and Singapore. Subsidiary companies have been set up in the Isle of Man and Jersey (Channel Islands). Representative offices have been established in Frankfurt, Pennsylvania, California and Philadelphia.

In December 1983, AIB acquired 43% of the outstanding shares of First Maryland Bancorp ("FMB"), now Allfirst Financial Inc. ("Allfirst"). On March 21, 1989, AIB completed the acquisition of 100% of the outstanding shares of common stock of FMB, thereby furthering its strategic objective of increasing the geographic diversification of its investments and operations.

Ark Life Assurance Company Limited ("Ark Life"), the AIB Group's wholly-owned life assurance subsidiary, commenced trading on May 22, 1991.

In July 1991, AIB acquired TSB Bank Northern Ireland p.l.c. ("TSB NI"), a bank with 56 branches in Northern Ireland. The AIB and TSB NI businesses in Northern Ireland were integrated with the passage of enabling legislation, which came into effect on January 10, 1994 and the combined operations trade under the service mark "First Trust Bank".

In February 1995, AIB acquired its initial minority shareholding of 16.3% of the outstanding shares of Wielkopolski Bank Kredytowy S.A. ("WBK") and in June 1996 acquired a further shareholding of 20%. On May 13, 1997, the AIB Group increased its shareholding in WBK to 60.14%.

On December 29, 1995, AIB acquired the John Govett Group, a UK investment management business operating principally from offices in London, Singapore, San Francisco and Jersey. In December 1996, the asset management operations of AIB, excluding those conducted by FMB, were merged under a single holding company.

On July 8, 1997, Dauphin Deposit Bank and Trust Company ("Dauphin") a Pennsylvania chartered commercial bank was acquired by FMB and all banking operations have been merged into Allfirst Bank since September 1999.

On June 2, 1999, AIB signed an in-principle agreement with Singapore based Keppel TatLee Bank Limited (now Keppel Capital Holdings Limited) ("KTL"), which gave AIB the right to acquire up to a 24.9% equity stake in the bank. In October 1999, AIB's private banking and treasury operations in Singapore were sold to KTL. In August 2001, AIB sold its interests in Keppel Capital Holdings Ltd. ("KCH"). The financial impact from the sale was a profit of €93 million.

On September 16, 1999, AIB completed the acquisition of an 80% shareholding in Bank Zachodni S.A. ("BZ") from the State Treasury of the Republic of Poland. In accordance with the acquisition agreement AIB invested in additional shares of BZ on October 15, 1999, bringing the total shareholding to 81% at December 31, 1999. Further investments during 2000 have brought AIB's shareholding to 83% at December 31, 2000.

On June 13, 2001, AIB completed the merger of Wielkopolski Bank Kredytowy S.A.("WBK") and Bank Zachodni S.A. ("BZ"). The new entity has adopted the name Bank Zachodni WBK S.A. ("BZWBK"), in which AIB has a 70.5% shareholding, together with its subsidiaries and associates.

Recent developments

In January 2002, AIB announced that it had reached an agreement to acquire Ketchum Canada, Inc., a fundraising consultancy which operates across Canada with main offices in Toronto, Montreal, Calgary and Vancouver. Ketchum was founded in 1984 and has assisted more than 600 clients in the Canadian not-for-profit sector in raising approximately Canadian $1.5 billion.

On April 19, 2002, AIB announced the appointment of John G Heimann as a special advisor to the Board on Risk Management organization across the Group. Mr Heimann's financial supervisor experience includes former US Comptroller of the Currency, among other high profile positions. This appointment was signalled by AIB in its statement on March 14, 2002 announcing actions to be implemented following the independent investigation into fraudulent trading activities in Allfirst Bank. Mr Heimann's role will be to provide assurance to the Board that the Group's risk structures, policies, procedures and governance conform to the best international practice and address all of the risk-related issues identified in the Investigation Report.

Business overview

Description of business

AIB Group provides a diverse range of banking, financial and related services, principally in Ireland, the United States ("US"), the United Kingdom ("UK") and Poland. At December 31, 2001 AIB Group was the largest Irish banking group in terms of total assets (on the basis of the latest published financial statements). AIB has some 280 branches and outlets in the Republic of Ireland, where the directors estimate its share of the total market for both euro loans and deposits to be in excess of 20%.

In Northern Ireland, through its wholly-owned subsidiary AIB Group (UK) p.l.c., which trades there as First Trust Bank, AIB Group operates from some 66 branches and outlets. In Britain, AIB Group (UK) p.l.c., which trades there as Allied Irish Bank (GB), provides a range of banking services through 36 branches and outlets. In the US, through its subsidiary Allfirst Financial Inc. ("Allfirst"), the Group operates through 260 full service branch offices in Maryland, adjoining states and the District of Columbia. In Poland, the Group operates from 441 branches and outlets through its 70.5% owned subsidiary Bank Zachodni WBK S.A. ("BZWBK").

AIB Group's activities are conducted through five major operating divisions - AIB Bank ROI; AIB Bank GB & NI; USA; Capital Markets; and Poland. At December 31, 2001 AIB Group had consolidated total assets of €88.8 billion and employed approximately 31,900 people on a full time equivalent basis.

At December 31, 2001 the distribution of assets and the number of employees between those major operating divisions was as follows:

Division	Assets (Euro in millions)	Assets %	Employees	Employees %
AIB Bank ROI	23,588	27	9,723	31
AIB Bank GB & NI	8,892	10	2,962	9
USA	22,007	25	5,938	19
Capital Markets	26,939	30	2,225	7
Poland	7,238	8	10,316	32
Group/ENeB	173	–	731	2
Total	88,837	100	31,895	100

The Irish economy

The following information contains statements concerning future economic conditions that involve risks and uncertainties and speak only as of the date thereof. Factors that may cause actual future economic conditions to differ materially from those contemplated by such forward-looking statements include, among other things, governmental, economic, fiscal, monetary or political events or policies.

As AIB Group activities in Ireland account for approximately 47% of total Group assets, the performance of the Irish economy is very important to the AIB Group. The small open nature of the economy and the international nature of the Group's operations also expose us to changes in external economic trends, particularly in the United States, the United Kingdom and Poland. The Group is also exposed to changes in interest rates and to exchange rates, particularly against the US dollar and sterling.

Economic growth in the Irish economy, as measured by changes in real GDP, averaged 9.5% in the five years to 2001. This exceptionally strong performance reflected a combination of favourable supply and demand side domestic and international factors. On the domestic side, key factors were a highly educated and growing labour force growth, tax reform, and wage cost competitiveness achieved through a series of social partnership arrangements. On the external side, the Irish economy benefited from improved access to European and global markets, capital inflows from the EU and inward foreign direct investment.

The rate of economic growth in 2001 is estimated at 5.9%, the highest in the European Union ("EU"). Much of this average increase reflects carryover from 2000 and a strong year-on-year performance in the first half of 2001. A sharp slowdown to 1.4% was recorded in the second half of the year. This reflects weakening external demand for Irish exports and a fall in Irish fixed investment spending after several years of very buoyant growth. Prospects for the United Kingdom, Ireland's main trading partner are seen as more favourable than many other major economies in 2002. Growth prospects for the United States are forecast to pick up in the second half of 2002. This should contribute to an improvement in the global environment, assisting the process of internal adjustment in the euro area and in the EU-applicant countries such as Poland.

Because of the significant role played by foreign owned multinationals in the Irish economy, the trend in profit repatriations can result in differences in the growth in real GDP and real GNP. The latter was smaller in absolute terms in 2000, by the equivalent of 16% of nominal GDP. Over the past five years, real GNP grew at an annual average rate of 8.2%. However, in 2001, whereas real GDP grew by about 5.9%, the growth in real GNP was lower at 5%, due to a significant annual growth in profit outflows in the second quarter of 2001.

Ireland is an EU Member State of the eurozone, where euro notes and coins were introduced successfully on January 1, 2002. The European Central Bank ("ECB"), which regulates monetary policy for the euro area as a whole, cut the official refinancing rate by a cumulative 1.5 percentage points to 3.25% in the course of 2001. Little change in official rates is expected in 2002. In terms of the level of the euro versus the US dollar and sterling, these are at very competitive levels from an Irish point of view. The euro has become relatively more stable against the US dollar and sterling in the second half of 2001. Irish external trade with the United States and the United Kingdom accounts approximately for a combined 40% of total merchandise exports and 50% of merchandise imports.

The weakness of the euro, the rise in oil prices, the increase in official rates and higher indirect taxes on tobacco prices were significant contributory factors to the acceleration in the rate of inflation in Ireland from 1.5% in the third quarter of 1999 to a peak of 7% in November 2000. Since then, the annual rate of inflation has declined to 4.2% by December 2001. The downtrend was arrested as a result of a 0.9 percentage point contribution from indirect taxes imposed as part of the Irish Government's budgetary package for 2002, announced on December 5, 2001. The annual rate of inflation rose to 4.8% in March 2002. The average rate of inflation in 2001, as measured by the official Consumer Price Index ("CPI"), was 4.9%, down from 5.6% in 2000. The average rate is officially forecast at 4.2% in 2002. As the Irish economy accounts for about 1% of eurozone GDP, the annual rate of inflation in Ireland has only a marginal impact on monetary developments in the area.

Notwithstanding the slowdown in the rate of economic growth, Irish budgetary policy remains well within the terms of the EU's Stability and Growth Pact, which sets an upper limit of 3% on general government deficits as a percentage of GDP. Ireland had a general government surplus of 1.7% of GDP in 2001 and is officially projected to run a surplus of 0.6% of GDP in 2002. The projected surplus comes against a background of a sharp slowdown in the rate of Irish real GDP growth from 5.9% in 2001 to a forecast 3.5% in 2002. Ireland's general government debt/GDP ratio is forecast at 34% in 2002, down from 36.6% in 2001. The debt ratio has fallen steadily from 95.1% in 1991. The maintenance of budgetary stability is helped by the strength of the labour market. The unemployment rate fell to a low of 3.7% in the second quarter of 2001. There was a rise to 4.0% in the fourth quarter. However, this was due to a strong rise in the growth in the labour force. The rate of unemployment is forecast to rise to about 4.5% on average in 2002 compared with 4% in 2001.

Ireland's medium term prospects remain favourable, though conditional on the maintenance of overall competitiveness and continued fiscal stability. The government and the social partners are committed to the continuation of these policies. The medium term outlook is pointing to annual growth in real GDP of 4.5-5% on average and a return to an average inflation rate of about 2.5% per annum.

Divisional information

Change in divisional structure

Under the new structure, announced in February 2001, AIB Bank Division was divided into AIB Bank Republic of Ireland ("AIB Bank ROI") and AIB Bank Great Britain and Northern Ireland ("AIB Bank GB & NI"). A new division, Enterprise Networks and eBusiness ("ENeB"), was also established.

AIB Bank Republic of Ireland division

The AIB Bank ROI division, with total assets of €23.6 billion at December 31, 2001, 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 280 locations (191 branches and 91 outlets), and in excess of 420 automatic teller machines ("ATMs"). AIB card holders also have access to over 29,000 LINK ATMs in the UK as well as 500,000 Visa Plus serviced ATMs worldwide. AIB has also recently signed an agency agreement with An Post, the national post office network, which will allow AIB customers to carry out basic transactions at 1,000 post office locations from July 2002. A debit card "Laser" is operated jointly with other financial institutions in Ireland.

In addition, the division offers a 24 hour telephone and internet service for the routine transactions of personal customers through which they can pay bills, transfer money between accounts, search for cheques and view and order statements. For business customers, a similar electronic service Electronic Business Banking ("EBB") is available for viewing and transferring funds.

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 deposit accounts 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 solicitors, 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. In Ireland, general insurance products are sold in the branch network through alliances with partners in the insurance industry.

AIB Bank Great Britain and Northern Ireland division

AIB Bank GB & NI, with total assets of €8.9 billion at December 31, 2001, operates through 36 branches and outlets throughout Britain, under the name Allied Irish Bank (GB) and as First Trust Bank in Northern Ireland where the bank maintains 66 branches. There are head offices in both London and Belfast. Both operations provide a full range of banking services including current accounts, overdraft and loan facilities, mortgages, deposit and investment services and specialist corporate banking services. Allied Irish Bank (GB) maintains a strong sectoral approach of concentrating on the business and professional markets. In 2000, for the fourth and unprecedented time, Allied Irish Bank (GB) has been recognized as Britain's Best Business Bank through the Forum of Private Business survey, the largest of its kind in the UK.

First Trust Bank serves a broad base of personal customers and a substantial, and growing, business customer base which crosses a range of sectors. Its telephone and Internet services – First Trust 'Phoneline' and 'Online' are experiencing strong levels of growth. First Trust Bank provides services for customers to transact in euro currency. Asset finance facilities are provided through First Trust Finance and Leasing, life assurance is available through Ark Life, and unit trust and investment business is directed to Govett Asset Managers in London. First Trust Bank also has an Independent Financial Advice company.

USA division

The USA division, with total assets of €22.0 billion at December 31, 2001, comprises the operations of Allfirst and of AIB's New York and Cayman Islands branches. Allfirst and its subsidiaries serve customers through a network of 260 full service offices and approximately 600 automated teller machines in Maryland, adjoining states and the District of Columbia.

Allfirst is a bank holding company based in Baltimore, Maryland, with total stockholders' equity at December 31, 2001 of US$1.7 billion. At that date it had total assets of US$18.8 billion and total deposits of US$13.1 billion. Since March 21, 1989, AIB has controlled 100% of the voting power of Allfirst's outstanding capital stock.

Allfirst, through its principal subsidiary Allfirst Bank, is engaged in general commercial and retail banking and treasury and trust businesses serving individuals, businesses and governmental units. Allfirst Bank operates throughout Maryland and adjoining states. Allfirst also engages in cash management services through Allfirst Financial Center N.A. Other subsidiaries of Allfirst are engaged primarily in equipment financing and commercial real estate lending.

A range of banking services is also provided through the New York branch of AIB to corporate and retail customers. In addition, the branch manages AIB's Cayman Islands branch. The New York branch also manages representative offices in Philadelphia, Los Angeles, Chicago, Atlanta and San Francisco.

Capital Markets division

AIB Capital Markets, with total assets of €26.9 billion at December 31, 2001, manages the Investment Banking, Asset Management, Stockbroking, Corporate Banking and International Banking Services of the Group (with the exception of Allfirst and BZWBK), as well as the Treasury Services of the Group. Following consideration of the Investigation Report, the board decided to centralize the management and control of all treasury activities throughout AIB Group in AIB Capital Markets Division.

These services are delivered through the following main business units: Treasury and International, Investment Banking, AIB Asset Management Holdings, and AIB Corporate Banking.

Treasury & International 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. International banking activities include import and export financial services.

Investment Banking provides a comprehensive range of services including corporate finance through AIB Corporate Finance Limited, stockbroking through Goodbody Stockbrokers, structuring cross-border financing transactions and providing sophisticated back-office services through AIB International Financial Services Limited, and custodial, trustee and fund administration services through joint ventures with The Bank of New York. At December 31, 2001, the AIB/The Bank of New York joint venture, AIB/BNY Fund Management (Ireland) Ltd., had €76 billion of funds under administration. AIB/BNY Trust Company Limited had assets under trusteeship of €64 billion.

Asset management is provided through AIB Investment Managers Limited in the Republic of Ireland, Govett Investment Management Limited in the United Kingdom, AIB Govett Inc. in the United States and AIB Govett (Asia) Limited in Singapore. The companies manage assets principally for institutional and retail clients. The combined operations have €15.0 billion of funds under management.

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. The Special Finance Unit within AIB Corporate Banking is a dedicated unit focusing on developing and arranging acquisition and project finance principally in Ireland, UK and Continental Europe, and has established mezzanine finance funds and CDO funds. While AIB Corporate Banking operates primarily in Ireland, it also has teams based in the UK and USA.

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 and New York, a representative office in Frankfurt, and offices managed by AIB International Financial Services Limited in Budapest and in Zurich.

Poland division

Poland division, with total assets of €7.2 billion at December 31, 2001, comprises BZWBK in which AIB has a 70.5% shareholding, together with its subsidiaries and associates. AIB successfully completed the merger of its Polish operations in 2001, forming Poland's fifth largest bank.

BZWBK's headoffice is located in Wroclaw in south-western Poland. At December 31, 2001 BZWBK had total assets of PLN 25.3 billion, 441 branches and outlets supplemented by 557 ATMs and employed more than 10,000 staff. The bank operates mainly in western Poland, which is one of the most prosperous parts of the country, but also has a significant presence outside of that region, including major urban areas such as Warsaw, Krakow and Lodz. BZWBK is a universal bank offering comprehensive services to retail and corporate customers. The bank's activities also comprise of brokerage, leasing, asset management and investment fund products provided by BZWBK subsidiaries and affiliates.

Competition

There is strong competition among providers of retail banking services, based upon the quality and variety of products and services, customer relationship management, convenience of location, technological capability, and the level of interest rates charged to borrowers and paid to depositors.

Allied Irish Banks has committed itself to pursuing an integrated multi-channel strategy utilizing branches, telephone, internet and other direct channels in a complementary manner, based on customer choice.

Republic of Ireland AIB Group provides a diverse range of banking services in the Republic of Ireland. It is subject to competition across the spectrum of banking activity. The major competitor is Bank of Ireland, which like AIB has its headquarters in Dublin. The other clearing bank competitors are Ulster Bank Ireland Limited (which is a subsidiary of the UK Bank, Royal Bank of Scotland Group plc) and National Irish Bank Limited (which is a subsidiary of National Australia Bank). There is, in addition, competition from building societies, mortgage specialists, credit unions, and some smaller financial institutions.

AIB Group encounters competition in the merchant and corporate banking areas from domestic merchant banks and foreign banks, primarily mainland European and North America. In the life assurance market, Ark Life's main competitors are Irish Life, Bank of Ireland's life assurance subsidiaries, Lifetime and New Ireland, and Canada Life. Greater European integration may result in increased competition from EU member state banks, although a number of continental banks have operated in Ireland for many years.

Northern Ireland/Britain AIB operates in the main conurbation areas of Britain and Northern Ireland through its branch network and head office structures. Main competition comes from other clearing banks and from building societies, or former building societies. In Northern Ireland there is also competition from the strong credit union movement catering for the personal market.

The larger UK clearing banks continue to retrench their branch networks and develop alternative forms of distribution, providing services direct to customers via the Internet and telephone banking. All banks and building societies are responding directly to the competition offered by new entrants, particularly e-banks. Adherence to the Banking Code, and increasing government regulation are ensuring that customer choice and industry standards remain at a high level, and that customers receive a value for money service in both the personal and business markets.

Inflation is at its lowest level for decades with mortgages and credit in general available at relatively low rates of interest. The low level of interest rates has an effect on the savings market, with a discernible trend towards more sophisticated savings products as savers try to maximise their personal returns. The UK is experiencing changing economic conditions. While there are some pressures on business growth the economy remains relatively stable in the low interest environment.

United States. The market for banking and bank-related services in the US is highly competitive. Passage of financial modernization legislation in November 1999, which removed barriers to affiliation among banks, broker-dealers and insurance companies, is increasing competition in these markets. Allfirst and its subsidiaries compete with other providers of financial services such as other bank holding companies, commercial and savings banks, savings and loan associations, consumer finance companies, credit unions, money market and other mutual funds, mortgage companies, insurance companies and a growing list of other local, regional and national institutions which offer financial services. Mergers between financial institutions within Maryland and in neighboring states have added competitive pressure.

Poland AIB Group, through its investment in BZWBK, has approximately 6% share of the Polish Financial Services market and important regional market concentration. BZWBK's presence is in the former WBK and BZ's original regions of Wielkopolska and Lower Silesia. As a key player in these regions, BZWBK is competing with nationwide banks such as Pekao and PKO BP, or its peers such as Bank Przemyslowo Handlowy PBK and ING Bank Slaski. The extensive branch network supported by investment in e-banking and an increasingly sophisticated product offering should enable the bank to successfully protect its market share in the region. BZWBK is positioned to benefit from the country's fast growing e-banking market. BZWBK is implementing a new, integrated IT system which should enhance efficiency and the development of new business. This along with the on-going transfer of knowledge and expertise from AIB Group should position the bank to compete with the major players in the Polish market.

Supervision and regulation

Ireland. The regulation and supervision of banks in Ireland is a function of the Central Bank of Ireland ("the Central Bank") which was established by the Central Bank Act, 1942 and derives its power from the Central Bank Acts, 1942 to 1998, the European Communities (Licensing and Supervision of Credit Institutions) Regulations, 1992 ("the 1992 Regulations") and the European Communities (Consolidated Supervision of Credit Institutions) Regulations, 1992 (collectively "the Acts"). The carrying on of banking business in Ireland is restricted to holders of licenses granted under the Acts.

On February 20, 2001, proposals by the Government of Ireland for changes in financial services regulation in Ireland were announced. When implemented, it is intended that these would involve a re-naming of the Central Bank as the "Central Bank and Financial Services Authority of Ireland". The Central Bank will also include, as a constitutent part of it, a new authority responsible for prudential regulation of both the banking and insurance sectors and for consumer protection. This new authority will be known as the "Irish Financial Services Regulatory Authority". On April 16, 2002 the Central Bank and Financial Services Authority of Ireland Bill, 2002 was published. When and if enacted, this will provide in law for the proposed changes. On the same date the Minister for Finance announced the appointment of an interim board for the Irish Financial Services Regulatory Authority which is to manage the transition to the new regulatory arrangements.

The 1992 Regulations, which gave effect in Irish Law to the provisions of the EC Second Council Directive 89/646 of December 15, 1989 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions ("the Second Banking Directive"), exempt credit institutions authorized to carry on such business in another member state of the European Union from the requirement to hold a license in order to establish a branch in Ireland or, without establishing such a branch, to provide services in Ireland covered by such authorization.

The Central Bank may, in its discretion, grant or refuse a license under the Acts and may attach conditions to any licenses granted. Allied Irish Banks, p.l.c., AIB Capital Markets plc and AIB Finance Limited are the holders of licenses and no such conditions are attached to those licenses. The Central Bank may, after consultation with the Minister for Finance, revoke a license under certain circumstances specified in the Acts.

The Central Bank has statutory power to carry out inspections of the books and records of license holders. Pursuant to this power, the Central Bank carries out regular review meetings and periodically sends its inspectors into the Head Offices of licensed banks. The Central Bank is also empowered by law to obtain information from license holders about their business.

The Central Bank is further empowered to prescribe ratios to be maintained between the assets and liabilities of licensed banks, to specify requirements as to the composition of the assets and liabilities of licensed banks and to make regulations for the prudent and orderly conduct of the banking business of such banks. The requirements and standards which the Central Bank uses to guide it in the assessment of application for licenses and in the supervision of the business carried on by credit institutions have been set out by it in its "Licensing and Supervision Requirements and Standards for Credit Institutions". These standards and criteria are applied in a flexible manner but in accordance with the principles of administrative law. Three important areas of these criteria relate to capital requirements, liquidity requirements and large exposures. In the area of capital adequacy, Ireland is bound by the terms of EC Council Directive 89/299 of April 17, 1989 on the own funds of credit institutions and EC Council Directive 89/647 of December 18, 1989 on a solvency ratio for credit institutions. In addition, EC Council Directive 93/6 of March 15, 1993 on the capital adequacy of investment and credit institutions has also been implemented by the Central Bank with effect from January 1, 1996. This requires (inter alia) credit institutions to provide capital on a defined basis, in respect of market risk. In the area of the monitoring and control of large exposures, Ireland is bound by the terms of EC Council Directive 92/121 of December 21, 1992 on the monitoring and control of large exposures of credit institutions. These directives have been implemented by the Central Bank. The second banking directive, Directives 89/299, 89/647 and 93/6 (and various amending directives) were, for reasons of clarity and rationality, codified and combined into a single text by Directive 2000/12/EC of March 20, 2000 relating to the taking up and pursuit of the business of credit institutions.

The Central Bank has issued a Code of Conduct for the Investment Business Services of Credit Institutions, a Code of Practice for Credit Institutions (containing standards of good banking practice which are to be followed by all credit institutions) and Advertising Requirements applicable to credit institutions.

Under the Consumer Credit Act, 1995, an obligation is imposed upon licensed banks (and other credit institutions) to notify every proposal to impose new charges or to increase existing ones to the Director of Consumer Affairs who is given power to direct that a charge shall not be imposed or changed without her prior approval.

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 and 1999 the Central Bank maintains a Deposit Protection Account out of which the High Court may, on the application of the liquidator of a credit institution authorized or formerly authorized by the Central Bank which is unable to pay its debts and is being wound up, make payments by way of compensation to depositors covered under the Regulations for up to 90% of any amount of eligible unavailable deposits subject to a maximum amount payable equivalent to €20,000. For the purposes of the Deposit Protection Account each credit institution is obliged to maintain on deposit with the Central Bank an amount of 0.2% of total deposits issued or held at offices of the credit institution in member states of the European Union.

All credit institutions are obliged to take the necessary measures to effectively counteract money laundering in accordance with the Criminal Justice Act, 1994 (as amended) and the Guidance Notes for Credit Institutions which were issued with the approval of the Money Laundering Steering Committee. This committee was set up under the aegis of the Department of Finance and included representatives from other government departments, the Central Bank, the Garda Siochana (Police) and representative bodies from the financial sector. The Criminal Justice Act, 1994 and the Guidance Notes referred to above provide for measures to counteract money laundering and implement the provisions of EC Council Directive 91/308 of June 10, 1991 on prevention of the use of the financial system for the purpose of money laundering and to implement the Forty Recommendations of the Financial Action Task Force of the OECD.

The Acts require the approval of the Central Bank for the acquisition of over 10% of the total shares or voting rights in a licensed bank. Additionally, under the 1992 Regulations, any person who proposes to acquire, directly or indirectly, a "qualifying holding" in a credit institution (which includes AIB) must notify the Central Bank in advance of the proposed acquisition and must supply such details of the proposal as the Central Bank may specify. A "qualifying holding" for these purposes means: (i) a holding by a person, either on his own or in concert with another person, of 10% or more of the shares (which include certain interests therein) or in the voting rights attached to the shares in the credit institution; or (ii) a shareholding or interest held by a person in a credit institution which either confers a right to appoint or remove one or more members of the board of directors or of the committee of management of the credit institution, or otherwise allows that person to exercise a significant influence over the direction or management of the credit institution. Such a person must also notify the Central Bank of every proposal to increase his direct or indirect qualifying holding so that the holding would reach or exceed 20%, 33% or 50% of the shares, or of the voting rights attaching to the shares in the credit institution or, in the case of a person that is a corporate entity, if the person proposes to acquire any shares or interest in the credit institution which would make that institution its subsidiary for the purpose of the 1992 Regulations.

Under the 1992 Regulations, a person must not acquire a qualifying holding or increase the size of their qualifying holding as set out above until the earlier of three months elapsing from the date of notification to the Central Bank or receipt of notification from the Central Bank that it will not object to the proposed acquisition or increase.

Apart from the above provisions of the Acts, the Licensing and Supervision Requirements and Standards for Credit Institutions provide that a credit institution should not acquire, directly or indirectly, more than 10% of the shares or other interests in another company without the prior written approval of the Central Bank and that a credit institution must notify the Central Bank of its divestment of the whole or part of such holdings.

AIB's subsidiary company, Ark Life Assurance Company Limited, is regulated by the Department of Enterprise and Employment under the provisions of the Insurance Acts and Regulations. The Central Bank and Financial Services Authority of Ireland Bill, 2002 proposes to transfer the regulation of insurance companies to the Central Bank.

AIB's subsidiary company, Goodbody Stockbrokers, is regulated by the Central Bank and by the Irish Stock Exchange under the Stock Exchange Act, 1995.

Subsidiaries of AIB (which are not themselves credit institutions) which provide investment business services or investment advice (as those terms are defined), are subject to regulation, and require authorization, under the Investment Intermediaries Acts, 1995 to 2000 which, interalie, implement in Irish law the provisions of EC Council Directive 93/22 of May 10, 1993 on investment services in the security field ("the Investment Services Directive"). AIB's operations in overseas locations are subject to the regulations and reporting requirements of the regulatory and supervisory authorities in those locations.

United States. AIB's New York branch is licensed by the State of New York and is subject to examination by the New York State Banking Department. Furthermore, the branch is subject to the reserve requirements established by the Board of Governors of the Federal Reserve System (the "Board") pursuant to the International Banking Act of 1978 (the "IBA") and is subject to examination by the Board. In addition, AIB's New York branch is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC"). The IBA also imposes limitations on the types of business conducted in the US and on the location and expansion of banking operations in the US. As the owner of Allfirst Bank, Allfirst Financial Inc. is subject to the provisions of the Bank Holding Company Act of 1956, as amended (together with regulations thereunder, the "BHCA") and is subject to the supervision of, and regulation by, the Board. As the owner of Allfirst Financial Inc. and Allfirst Financial Centre National Association ("AFC"), AIB is also subject to the provisions of the BHCA and is subject to the supervision of, and regulation by, the Board.

Allfirst Bank, as a state-chartered member bank of the Federal Reserve System, is subject to supervision and regulation by the Board and the Maryland Commissioner of Financial Regulation. AFC, a national banking association, is subject to supervision and regulation by the Office of the Comptroller of the Currency of the United States ("OCC"). Both banks, as federally insured institutions, are also subject to regulation by the FDIC. Deposits, reserves, investments, loans, consumer law compliance, issuance of securities, payment of dividends, mergers and consolidations, electronic funds transfers, management practices, and other aspects of the banks' operations are subject to regulation. The approval of the appropriate bank regulatory authority is required for the establishment of additional branch offices by either of the banks, subject to state branching restrictions.

Federal law regulates transactions among Allfirst Financial Inc. and its affiliates, including the amount of banking affiliates' loans to or investments in nonbank affiliates and the amount of advances to third parties collateralized by securities of an affiliate. In addition, various requirements and restrictions under federal and state laws regulate the operations of the banking affiliates of Allfirst Financial Inc. requiring the maintenance of reserves against deposits, limiting the nature of loans and interest that may be charged thereon and restricting investments and other activities.

A fundamental principle underlying the Board's supervision and regulation of bank holding companies is that bank holding companies should act as a source of financial strength to, and commit resources to support, each of its subsidiary banks. Subsidiary banks are in turn to be operated in a manner that protects the overall soundness of the institution and the safety of deposits. Bank regulators can take various remedial measures to deal with banks and bank holding companies that fail to meet legal and regulatory standards. Some of the aspects of the lending and deposit business of Allfirst Bank, which is subject to regulation by the Maryland Banking Commissioner and the Board, is subject to disclosure requirements in connection with personal and mortgage loans, interest on deposits, and reserve requirements. In addition, Allfirst Financial Inc. banking subsidiaries are subject to numerous federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to extensions of credit (including to insiders), credit practices, disclosure of credit terms, and discrimination in credit transactions. Furthermore, there are regulatory limitations upon the amount of dividends the banking subsidiaries of Allfirst Financial Inc. may pay to Allfirst Financial Inc. without prior regulatory approval and, in addition, the banking regulators may prohibit the payment of any dividend which would constitute an "unsafe or unsound practice".

Under Federal law in effect through September 28, 1995, AIB was permitted to acquire a bank outside Maryland only if the law of the state in which such bank was located specifically authorized such an acquisition. On September 29, 1994, the President of the United States signed into law the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Banking Act"). The Interstate Banking Act amended Federal law to provide, among other things, that: (i) effective September 29, 1995, bank holding companies are permitted (subject to certain conditions) to acquire banks and bank holding companies across state lines without regard to whether such acquisition is prohibited (or not specifically authorized) by state law; (ii) effective June 1, 1997 (or earlier if both states opted-in to interstate branching), banks are permitted to merge across state lines provided neither state has opted-out of interstate branching; and (iii) a bank in one state may establish de novo a branch in another state provided that the other state's laws expressly permit the establishment of the branch.

On December 19, 1991, the President of the United States signed into law the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). In general, FDICIA subjects banks (including bank holding companies and US branches of foreign banks) to significantly increased regulation and supervision. It also provides for the recapitalization of the Bank Insurance Fund ("BIF") of the FDIC and authorizes the FDIC to impose significantly higher, risk-based, deposit insurance premiums.

Among other things, FDICIA requires Federal bank regulators to take prompt corrective action with respect to banks which do not meet minimum capital requirements and imposes certain restrictions upon banks which meet minimum capital requirements but are not deemed to be well capitalized. For example, banks which are critically undercapitalized (a term defined to include institutions which have a ratio of tangible equity to total assets of equal to or less than 2%) are generally subject to the mandatory appointment of a receiver or conservator. A bank which meets minimum capital requirements but is not deemed to be well capitalized is generally prohibited from accepting brokered deposits and is subject to certain limitations on the interest rates it may pay on deposits. As of the date of this report, AIB and all banking subsidiaries of Allfirst Financial Inc. meet the definition of well-capitalized banks. Effective December 19, 1992, FDICIA generally prohibits a state-licensed branch of a foreign bank, such as AIB's New York branch, from engaging or continuing to engage in any activity which is not permissible for a national bank. To date, these restrictions have not had a materially adverse effect upon AIB and AIB does not believe that they will in the future.

The FDIC's deposit insurance assessments have moved under FDICIA from a flat-rate system to a risk-based system. Under this system, the FDIC places each insured bank in one of nine risk categories based on its level of capital and other relevant information (such as supervisory evaluations). Each insured bank's insurance assessment rate is then determined by the risk category in which it has been classified by the FDIC. Currently, the FDIC's risk-based system provides that the highest and lowest annual premiums assessed per $100 of deposits insured by the BIF or the Savings Association Insurance Fund ("SAIF") are $0.27 and $0. To date the implementation of this risk-based assessment system has not had a materially adverse effect upon AIB.

On September 30, 1996, the President of the United States signed into law provisions to recapitalize the SAIF and to provide for payment of Financing Corporation ("FICO") bonds issued in the 1980's as part of the resolution of the problems of the US savings and loan industry. Pursuant to such provisions, depository institutions are required to make quarterly assessment payments to the FDIC on both their BIF-assessable and SAIF-assessable deposits which will be paid to the FICO. This assessment is not expected to have a materially adverse effect on AIB.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") provides that a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC after August 9, 1989 in connection with: (i) the default of a commonly controlled FDIC insured depository institution; or (ii) any assistance provided by the FDIC to a commonly controlled FDIC insured depository institution in danger of default. "Default" is defined generally as the appointment of a conservator or receiver for such institution and "in danger of default" is defined generally as the existence of certain conditions indicating that a "default" is likely to occur in the absence of regulator assistance.

Under Board policy, AIB is expected to act as a source of financial strength to its banking subsidiaries, and to commit resources to support these banking subsidiaries in circumstances where it might not do so absent from such policy.

In addition, FDICIA requires companies that have control of an insured depository institution to guarantee the institution's compliance with any capital restoration plan required under Section 38 of the Federal Deposit Insurance Act ("FDIA"). The company's guarantee liability is limited to the lesser of: (a) 5% of the institution's total assets at the time it became undercapitalized; or (b) the amount which is necessary to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time the institution fails to comply with the plan. As required by FDICIA, the federal bank regulators have amended their risk based capital regulations to provide for the explicit consideration of interest rate risk ("IRR") in their own overall evaluation of a bank's capital adequacy. IRR reflects the adverse effect which changes in market interest rates may have on the financial condition of a bank or bank holding company. The amendments are intended to require that banks effectively measure and monitor their IRR, and that they maintain capital adequate for that risk. Under the amendments, banking institutions deemed by the federal bank regulators to have excessive IRR may be required to maintain additional capital beyond that generally required. In view of AIB's current interest rate risk management policy, AIB does not believe that the amendments will have a materially adverse affect upon AIB.

Effective August 10, 1993, the FDIA was amended to provide that, in the liquidation or other resolution by any receiver of a bank (or US branch of a foreign bank) insured by the FDIC, the claims of depositors have priority over the general claims of other creditors. Hence, in the event of the liquidation or other dissolution of a banking subsidiary (or the New York branch) of AIB, the general claim of AIB as creditor of such banking subsidiary (or branch) would be subordinate to the claims of the depositors of such banking subsidiary (or branch), even if the claims of AIB were not by their terms so subordinated. In addition, this statute may, in certain circumstances, increase the costs to AIB's banking subsidiaries (and the New York branch) of obtaining funds through non-deposit liabilities.

On November 12, 1999, the President of the United States signed into law the Gramm-Leach-Bliley Act ("GLBA"), which provides for sweeping financial modernization for commercial banks, savings associations, securities firms, insurance companies, and other financial institutions operating in the United States. Among other things, the GLBA permits qualifying financial institutions to engage in expanded securities and insurance underwriting and sales activities. If AIB seeks to engage in these expanded activities directly or through AFC, it must meet certain capital adequacy and management criteria and elect status as a "financial holding company" with the Board. Allfirst Bank may also engage in certain expanded activities through an operating subsidiary after notice to the OCC. To date, neither AFC nor Allfirst Bank has sought to engage in expanded activities pursuant to the GLBA.

The GLBA also places limitations on the sharing of consumer financial information with unaffiliated third parties. Specifically, the GLBA requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and afford such customers the opportunity to "opt out" of the sharing of personal financial information with unaffiliated third parties. AIB will ensure that its U.S. subsidiaries comply with the privacy provisions of the GLBA in all retail customer relationships.

On October 26, 2001, in response to the events of September 11, the President of the United States signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act" or the "Act"). The Act significantly expands the responsibilities of financial institutions in preventing the use of the U.S. financial system to fund terrorist activities. Title III of the Act (officially, the "International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001") is the anti-money laundering portion of the USA Patriot Act. Title III provides for a sweeping overhaul of the U.S. anti-money laundering regime. Among other provisions, it requires financial institutions operating in the United States to (i) give special attention to correspondent and payable-through bank accounts, (ii) implement enhanced reporting, due diligence and "know your customer" standards for private banking and correspondent banking relationships, (iii) scrutinize the beneficial ownership and activity of certain non-U.S. and private banking customers and (iv) develop new anti-money laundering programs, due diligence policies and controls to ensure the detection and reporting of money laundering.

Among other powers, the Act gives the U.S. Department of the Treasury (the "Treasury") broad discretion to determine whether a jurisdiction or institution based outside the U.S. or a class of transactions involving such jurisdiction is of "primary money laundering concern". If it makes this determination, the Treasury may take special measures to restrict or prohibit access to the U.S. marketplace. The Act requires all U.S. financial institutions to develop comprehensive anti-money laundering programs. Such required compliance programs are intended to supplement any existing compliance programs for purposes of requirements under the Bank Secrecy Act and the Office of Foreign Assets Control regulations.

United Kingdom. AIB Group (UK) p.l.c. is a company incorporated in Northern Ireland and is an "authorized institution" under the Banking Act 1987 ("the 1987 Act"). It carries on business in Great Britain under the service mark "Allied Irish Bank (GB)" and in Northern Ireland "First Trust Bank".

AIB Group (UK) p.l.c. has the statutory power to issue bank notes as local currency. In this connection it is subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Allied Irish Banks Act (Northern Ireland) 1971, the Allied Irish Banks Act 1981 and the Allied Irish Banks Act 1993.

The UK government has implemented a major overhaul of the UK financial regulatory system aimed at creating a new single statutory regulator, the Financial Services Authority ("FSA"), for the full range of financial businesses, including deposit-taking business, securities and other investment business and insurance business.

As part of the first stage of this programme, the Bank of England Act 1998 ("the 1998 Act") came into force on June 1, 1998. Under the 1998 Act, responsibility for banking supervision in the United Kingdom was transferred from the Bank of England to the FSA. The Bank of England retains its monetary policy role and responsibility for the overall stability of the financial system. The primary objective of the FSA (in its role as a bank supervisor) is to fulfil the responsibilities relating to the safety and soundness of banks placed on it by the 1987 Act with the aim of strengthening, but not ensuring, the protection of depositors.

The Financial Services and Markets Act 2000 is largely a consolidation of existing law and self regulatory requirements in order to provide a single legal framework for the FSA in the three sectors of financial services industry (insurance, investment business and banking).

The basic method of supervision employed by the FSA involves the regular reporting of statistical information in a set of returns giving both balance sheet and consolidated statement of income data, material on the maturity structure of assets and liabilities, sectoral analysis of business and details of concentration of risk in assets and deposits. Regular review meetings are held by the FSA with AIB Group (UK) p.l.c. management to discuss issues such as performance, risk management and strategy. Under the risk-based approach introduced for all banks in 1998 - "RATE" - the starting point for the FSA's supervision of all banks is based on a systematic analysis of the risk profile of each bank. The FSA also promulgates requirements that it expects banks (and groups containing banks which are subject to consolidated supervision) to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities, and liquidity.

Allied Irish Banks, p.l.c., having established a place of business in England in connection with its remaining operation in Great Britain, is subject to the provisions of the United Kingdom Companies Acts which affect overseas companies. AIB Group (UK) p.l.c., as a company incorporated in Northern Ireland, is subject to the provisions of the Companies Order (Northern Ireland) 1986.

Relevant provisions of the Financial Services Act 1986, the Consumer Credit Act 1974 and the 1987 Act apply to AIB Group (UK) p.l.c. and Allied Irish Banks, p.l.c.

Allied Irish Banks, p.l.c., as a credit institution incorporated and having its principal places of business in Ireland, a member state of the European Union, being authorized to act as a credit institution in Ireland by the Central Bank and having established a branch in the United Kingdom, is a "European institution" within the meaning of The Banking Coordination (Second Council Directive) Regulations 1992 ("the Regulations") which implement the provisions of the Second Banking Directive in the United Kingdom. As such, it is entitled to carry on in the United Kingdom any of the listed activities in the Second Banking Directive which it is authorized or permitted to carry on in Ireland.

Powers of the FSA in relation to European institutions are limited as, under the Second Banking Directive, the Central Bank, as the competent authority in Ireland, has primary responsibility for the supervision of credit institutions incorporated in Ireland. The FSA, however, has a specific responsibility to co-operate with the Central Bank in ensuring that branches of European credit institutions from Ireland maintain adequate liquidity in the United Kingdom. The FSA also has the responsibility to collaborate with the Central Bank in ensuring that Irish credit institutions, carrying on activities listed in the Second Banking Directive in the United Kingdom, take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom.

Under the Regulations, the FSA is empowered in specified circumstances to impose a prohibition on, or to restrict the listed activities of, a European institution. Consistent with the allocation of supervisory responsibilities in the Second Banking Directive, the FSA would usually only exercise its powers after consulting the Central Bank, and indeed, in certain circumstances, the Regulations explicitly require such consultation. The FSA has a memorandum of understanding with the Central Bank which, inter alia, expresses the willingness of the respective authorities to exchange information in order to facilitate the effectiveness of the supervision of credit institutions in the European Union. It also provides for the exchange of information in crisis situations and in cases where the authorities become aware of contraventions of the law by institutions covered by the Second Banking Directive operating in their territory.

Poland. Bank Zachodni WBK S.A., with its seat in Wroclaw, is established under Polish Law as a joint stock company authorized to carry out banking business in Poland. It is subject to supervision by the Banking Supervision Commission and regulation by the Banking Supervision Commission and the National Bank of Poland.

The National Bank of Poland ("NBP") is the central bank of Poland. The Banking Supervision Commission ("BSC") is an authority placed outside the NBP structures and composed of representatives of the NBP, Polish Government, Securities and Exchanges Commission, Banking Guarantee Fund, and the President. Both the NBP and the BSC are regulated by the Act on the National Bank of Poland of 1997, as amended ("NBP Act").

The Banking Act of 1997, as amended ("Banking Act") provides a framework for the operation of the Polish banking system. The NBP does not engage in commercial banking, but performs regulatory functions in relation to the banks operating in Poland. The Monetary Policy Council (an internal body of the NBP) is responsible for the monetary, credit and exchange rate policy of Poland. The carrying on of banking business in Poland is restricted to holders of banking licences.

Pursuant to the Banking Act and the NBP Act the BSC has established a regulatory framework in order to supervise the activities of banks in Poland. These powers are exercised by the BSC supported by the General Inspectorate of Banking Supervisory within the NBP. In particular, the BSC is charged with issuing banking licenses and overseeing bankruptcy and liquidation proceedings in the banking sector.

The Banking Act and the NBP Act have established various prudential standards including limits on lending concentrations, classification of the quality of bank assets, limits on foreign exchange positions, constraints on equity investments, monthly reporting of liquidity levels and a capital adequacy (solvency) ratio. These standards are generally in line with international standards.

Banks in Poland are generally required to maintain an 8% risk-adjusted capital adequacy ratio and are required to file monthly reports with the NBP which include information on their current capital adequacy ratio.

The Banking Act sets limits on banks' commitments to individual customers. Generally, the total commitments to a customer (or a group of affiliated customers) should not exceed 25% of own funds.

The aggregate commitment to all such customers to which the bank's commitment is in excess of 10% of its own funds should not exceed 800% of such funds. Banks must report to the BSC on each commitment in excess of 10% of the bank's own funds.

Pursuant to the Banking Act the investment of a bank in listed and unlisted equity and trust funds should not exceed 15% of such bank's own funds in relation to one entity. This restriction does not apply to investments in other banks and pension funds. The Banking Act prohibits banks from holding aggregate investments in equity and real estate exceeding 60% of their own funds.

With respect to the accounting and reporting obligations, the NBP and the BSC have set specific principles for banks which are consistent with the general framework established by the Accounting Law of 1994, as amended. Banks must submit reports to the BSC with details relating to their liquidity, capital adequacy, credit exposures and other prudential standards. The BSC has a statutory power to carry out inspections of the books and records of the banks. Pursuant to this power, the BSC carries out review meetings and sends its inspectors into head offices and branches of banks. Banks are required to allow BSC access to balance sheets, records, registers, reports, plans and other documents and, on written request, to allow such officers to copy these documents.

The Law on the Banking Guarantee Fund of 1994, as amended, created a fund to provide deposit insurance for all banks. The Law stipulates that all banks contribute up to 0.4% of the value of their risk-adjusted assets and guarantees to the Banking Guarantee Fund. The scheme provides for full coverage for each depositor up to the PLN equivalent of €1,000, with the surplus being guaranteed at the rate of 90% up to the PLN equivalent of €15,000.

European economic and monetary union ("EMU")

On January 1, 1999 the euro came into being and became the official currency of the eleven participating member states (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain). On January 1, 2001 the euro also became the official currency of Greece. The notes and coins of the former national currencies of these countries continued to be used for cash transactions up to January 1, 2002 ("the transition period") when the euro notes and coins became legal tender. On March 31, 2002 the national currency notes and coin were withdrawn from circulation and the changeover to the euro was completed.

The introduction of the euro has resulted in a common interest rate structure, European Inter-Bank Offered Rate ("EURIBOR"), prevailing throughout the eurozone. This new interest rate structure has resulted in a lower interest rate environment. The lower interest rate environment, while boosting economic growth, consumer demand and business confidence particularly in Ireland, negatively impacts net interest margins.

The estimated direct cost of the Group's preparation for EMU and the introduction of the euro amounted to €42 million. Costs incurred to date relate to systems developments, customer communications and education programs. The estimated remaining expenditure of €3 million will be required in 2002 to complete the project.

Description of property

At December 31, 2001 AIB Group operated from over 1,000 branches and outlets worldwide, principally in Ireland, Northern Ireland, Britain, the United States of America and Poland. A majority of the branches and offices are owned outright, with the remainder being held under commercial leases.

AIB Group owns its headquarters building at Bankcentre, Ballsbridge, Dublin 4, a campus style complex of interlinked buildings on a site of approximately 13 acres completed in 1979. It contains approximately 468,000 square feet of space (gross) and houses most of AIB Group's support functions.

In addition, AIB Group owns the AIB International Centre in Dublin's International Financial Services Centre containing approximately 101,000 square feet of office space. This building is occupied by the Capital Markets division, accommodating their global treasury management and other activities.

In the US, Allfirst is a major tenant in a building located at 25 South Charles Street, Baltimore, Maryland, occupying approximately 82% of the 343,000 square feet of office space available in the building as of December 31, 2001 for executive office and certain commercial operations functions. Allfirst's lease for this space expires in 2006, with a renewal option to the year 2011. During 2001, the annual rental for the space less amounts received on subleases to others was US$4.6 million.

Allfirst is the sole tenant at First Center located at 110 South Paca Street, Baltimore, Maryland. The building contains 267,000 square feet of office space and houses certain staff and operations functions of Allfirst. The current lease term expires on December 31, 2011. During 2001, the annual base rental for the space was US$2.6 million. Allfirst is a limited partner with a 0.2% operating interest and a 50% residual interest in the limited partnership which owns the building.

Allfirst Financial Center, located at Mitchell Street, Millsboro, Delaware is owned by Allfirst. This building, acquired in 1981, contains approximately 330,000 square feet of space, sits on approximately 60 acres of land, and houses certain retail operations functions of Allfirst.

One South Market Square Office Tower located at 213 Market Street, Harrisburg, Pennsylvania is also owned by Allfirst. The building contains approximately 185,000 square feet of office space.

In Britain, AIB Group is the major tenant of Bankcentre - Britain, located at Belmont Road, Uxbridge, West London, occupying approximately 63% of the 74,000 square feet of office space. The building, held under a 25 year lease from completion of construction in 1988, serves as headquarters for AIB Group operations in Britain.

In Northern Ireland, AIB Group owns the First Trust Centre, a building containing 90,000 square feet of office space and located at 92 Ann Street, Belfast. This, together with a building at 4 Queens Square, Belfast comprising of 32,000 square feet serves as headquarters for AIB Group operations in Northern Ireland.

In Poland, BZWBK has a long-leasehold interest in its head office buildings at Plac Andersa 5 in Poznán, and owns its head office building at Ofiar Oewiecimskich 38/40 in Wroclaw.

Organizational structure

The business of AIB Group is conducted through five major operating divisions and its principal subsidiaries as described below:

Divisions

AIB BANK ROI DIVISION

Allied Irish Banks, p.l.c.
General retail and commercial banking through some 280 branches and outlets in the Republic of Ireland.

AIB Finance Ltd.
Asset financing company providing instalment/variable rate loans and deposit products in Ireland.

AIB Leasing Ltd.
Asset financing company providing leasing products in Ireland.

Ark Life Assurance Company Ltd.
Provision of Life Assurance services principally in Ireland, Britain and Northern Ireland and pension and investment services in Ireland. These services are delivered primarily through the branch networks.

AIB Insurance Services Ltd.
Insurance broking.

AIB Bank (CI) Ltd.
Jersey (Channel Islands) based banking company; provides financial services and trust services through subsidiary companies.

AIB Bank (Isle of Man) Ltd.
Isle of Man based banking company; provides trust and corporate services through subsidiary companies.

AIB BANK GB & NI DIVISION

AIB Group (UK) p.l.c.
36 branches and outlets in Britain, trading as *Allied Irish Bank (GB)*, focused primarily on small and medium sized entreprises.

66 branches and outlets in Northern Ireland, trading as *First Trust Bank*, focused on general retail and commercial banking and also asset finance and leasing.

USA DIVISION

Allfirst Financial Inc.
Bank holding company.

Allfirst Bank
General commercial and retail banking, through 260 full service offices in Maryland, Pennsylvania, Northern Virginia and the District of Columbia, as well as treasury and trust services.

Allfirst Financial Center, N.A.
Cash management services.

Allfirst Leasing Corporation
Equipment finance company.

Allfirst Mortgage Corporation
Commercial mortgage banking.

Allied Investment Advisors, Inc.
Provision of investment advisory and asset management services.

Allied Irish Banks, p.l.c.
Provision of corporate, retail and treasury services through its New York branch. Manages AIB's Cayman Islands branch and representative offices in Philadelphia, Los Angeles, Chicago, San Francisco and Atlanta.

POLAND DIVISION

Bank Zachodni WBK S.A.
A commercial and retail bank which operates through 441 branches and outlets, primarily in western Poland.

CAPITAL MARKETS DIVISION

Allied Irish Banks, p.l.c.
Management of liquidity and funding needs; interest and exchange rate exposures; financial market trading activities; provision of lending; trade and commercial treasury services and custodial and trustee services.

AIB Capital Markets plc
Merchant banking operations including corporate advisory services, provision of venture capital and corporate finance.

AIB Corporate Finance Ltd.
Provision of advice to companies wishing to raise capital through public or private offerings and placements.

Allied Irish Capital Management Ltd.
Acts as a commodity trading advisor and is engaged in advising clients in the purchase/sale of equities, foreign exchange and futures commodities.

Goodbody Holdings Ltd.
Provision of a broad range of stockbroking services, through its subsidiary, Goodbody Stockbrokers.

AIB International Financial Services Ltd.
Specializes in international financial services activities, including tax efficient cross-border investments, management of investment companies, advisory services and the provision of back office services.

AIB Asset Management Holdings Ltd.
Asset management and funds management for institutional and retail clients principally through offices in Dublin, London, Singapore, Jersey and San Francisco.

The above subsidiary undertakings are wholly-owned with the exception of AIB Asset Management Holdings Limited (85.86%) and Bank Zachodni WBK S.A. (70.5%). The registered office of each is located in the principle country of operations.

CRITICAL ACCOUNTING POLICIES

On December 12, 2001, the US Securities and Exchange Commission issued a release regarding disclosure about critical accounting policies.

AIB's financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties and investments and comply with Irish statute and with Irish GAAP as well as general practices followed by the financial services industry in Ireland and the UK. The preparation of financial statements require that the Group adopt the accounting policies and estimation techniques that the Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's state of affairs, profit and cashflows. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results. 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 climate, 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 general loan loss provision level. Further information on loan loss provisioning is set out in Provision and allowance for loan losses in Item 11 "Quantitative and qualitative disclosures about market risk".

In addition, the profile of the amortization of goodwill would be different if a useful economic life longer or shorter than 20 years were used. The application of other accounting policies, including measuring the shareholders' interest in the Long-term assurance fund, impairment, debt securities and equity shares, retirement benefits and derivatives, require the use of estimation techniques that involve making assumptions about future market conditions which could impact on the timing and amounts recognized in the consolidated income statement and the consolidated balance sheet. Differences between Irish GAAP and US GAAP are set out in note 49 of the Notes to Consolidated Financial Statements.

SUBSEQUENT EVENT: FRAUDULENT FOREIGN EXCHANGE TRADING ACTIVITIES

On February 6, 2002, AIB announced that it was undertaking a full investigation into fraudulent foreign exchange ("FX") trading operations at its US subsidiary, Allfirst Bank. The board appointed Mr. Eugene A. Ludwig, Managing Partner, Promontory Financial Group, and a former U.S. Comptroller of the Currency, to report to them on these matters. The board also appointed Mr. Edward D Herlihy and his law firm Wachtell, Lipton, Rosen & Katz to act as independent counsel and to report to the board and provide legal advice on the basis of the investigation. The losses arising from the fraudulent FX trading activities were publicly disclosed on February 20, 2002. Such losses amounted to US$691.2 million before taxation and related to years from 1997 to 2002.

The Report to the boards of Allied Irish Banks, p.l.c., Allfirst Financial Inc. and Allfirst Bank concerning currency trading losses (the "Investigation Report") was submitted by Promontory Financial Group and Wachtell, Lipton, Rosen & Katz on March 12, 2002. The Investigation Report found that an Allfirst employee had engaged in fraudulent FX trading activities over a period of five years. There was no change in the amount of the losses as a result of the Investigation Report. A description of the losses arising from the fraudulent activities, the main findings of the Investigation Report, and the actions taken by the AIB and Allfirst boards following the review of the Investigation Report, are set out below. The fraudulent FX trading activities and the resulting losses are referred to from time to time in this report as the "Fraudulent Activities", or the "Fraud" and the "Fraud Losses" or "Exceptional Foreign Exchange Dealing Losses", respectively.

In accordance with Irish GAAP the total costs arising from the Fraud were reflected by way of an exceptional charge of €789 million (of which €341 million relates to prior periods) in the profit and loss account in the Annual Report and Accounts for the year ended December 31, 2001, distributed to shareholders under Irish Companies Legislation. Under Financial Reporting Standard 3 "Reporting Financial Performance" ("FRS 3") prior period financial statements are restated for an error only if the error is a fundamental error. Fundamental errors under FRS 3 are errors that are of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements. In the opinion of the Directors, the exceptional foreign exchange losses, relating to each of the prior years, do not constitute fundamental errors because they are not of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements.

Under US reporting requirements, the filing of AIB's 2001 financial statements by way of the Annual Report on Form 20-F constitutes a reissue of the financial statements for prior years. For the purpose of presenting the Balance Sheet and Statement of Income of the Group in this Form 20-F, the US Securities and Exchange Commission requires all material errors in respect of prior years to be accounted for and reported as prior year adjustments, in the years in which they occured. Accordingly, for US reporting purposes, the losses arising from the Fraudulent Activities are required to be charged in the years in which they occurred.

As a result, the financial statements and notes in this Annual Report on Form 20-F for the years 2000 and 1999 are restated to reflect the losses arising from the Fraudulent Activities in the years that they occurred, while the charge in 2001 reflects the losses occurring in 2001 only. The restatements are discussed more fully under note 51 "Subsequent Events: Fraudulent Exchange Trading Activities" and note 52, "Restatement of Prior Years Financial Statements" in the Notes to the Consolidated Financial Statements.

The table over presents the losses arising from the Fraudulent Activities in each of the periods 1997 to 2002. Such losses amounted to US$691.2 million. In addition, the table sets out the effect of these losses on a pre-tax and after tax basis for each of the accounting periods 1997 to 2000 when the losses are translated into Euro at the exchange translation rates used in the preparation of these accounts. Finally the table presents the net income to common stockholders, shown on an "as previously reported in Form 20-F" and an "as restated for US reporting purposes" basis for the years 2000, 1999, 1998 and 1997.

	Pre-tax loss		Net loss	Net Income to common stockholders: As previously reported in Form 20-F	Net Income to common stockholders: As restated for US reporting purposes
	US$m	€m	€m	€m	€m
Period ended:					
2002 through February 20	(17.2)				
December 31, 2001	(373.3)	(417)	(271)		
December 31, 2000	(211.0)	(228)	(148)	762	614
December 31, 1999	(48.2)	(45)	(29)	761	732
December 31, 1998	(12.4)	(11)	(7)	633	626
December 31,1997	(29.1)	(24)	(16)	465	449
	(691.2)				

The cumulative effect of the losses on retained earnings as at December 31, 2000 was €210 million.

As of February 20, 2002, all fraudulent open FX trading positions were either closed or hedged and no further income statement exposure is expected. Under US reporting requirements the Fraud Losses of US$17.2 million, which includes the costs of closing out the transactions, will be accounted for in the Consolidated Statement of Income in AIB's Form 20-F for the year ended December 31, 2002. In addition, AIB anticipates that the total costs arising from the investigation, and the consequent measures taken to strengthen the controls, will amount to US$10 million approximately. Under Irish GAAP, the 2002 losses and the costs arising were included as part of the exceptional charge of €789 million.

Of the losses arising in 2001, US$156.5 million (€175 million; after tax: €114 million) arose in the half-year ended June 30, 2001. The previously reported net income to common stockholders under Irish GAAP of €463 million, for the half-year ended June 30, 2001, when restated for the Fraud Losses, reduces to €349 million.

Main Findings of the Investigation Report

The main findings of the Investigation Report were as follows:

– The Fraud was carefully planned and meticulously implemented by one foreign currency trader (the "Trader"), extended over a lengthy period of time, and involved falsification of key bank records and documents.
– The Trader circumvented the controls that were intended to prevent any such fraud by manipulating the weak control environment in Allfirst's treasury; notably, he found ways of circumventing changes in control procedures throughout the period of his fraud.
– The Trader's trading activities did not receive the careful scrutiny that they deserved; the Allfirst treasurer and his treasury funds manager – the principal persons responsible for the Trader's supervision – failed for an extended period to monitor his trading.
– At both the AIB Group and Allfirst levels, the Asset and Liability Committees ("ALCOs"), risk managers, senior management and Allfirst internal auditors, did not appreciate the risks associated with the Trader's hedge-fund style of FX trading; even in the absence of any sign of fraudulent conduct, the mere scope of his trading activities and the size of the positions he was taking warranted a much closer risk management review.
– Allfirst and AIB senior management heavily relied upon the Allfirst treasurer, given the treasurer's extensive experience with treasury functions and FX trading in particular. In hindsight, this heavy reliance proved misplaced.
– Nothing has come to attention during the course of the review that indicates that anyone at AIB or Allfirst, outside of the Allfirst treasury group, were involved in, or had any knowledge that, fraudulent or improper trading activity was occurring at Allfirst before the discovery of the Fraud.

Actions of AIB and Allfirst Boards After Review of the Investigation Report

The Boards of AIB and Allfirst, after a thorough review of the Investigation Report, announced on March 14, 2002, a number of actions to address the issues raised by the fraudulent trading activities engaged in by the Trader. These actions included:

– Recognition of primary responsibility for the losses with the Trader, who had already been dismissed for the fraudulent activities that he perpetrated against Allfirst.
– Recognition that Allfirst treasury and internal audit failed to detect the situation over a long period. To address this failure, the Boards decided that six individuals who were directly responsible for oversight of the Trader's activities, or should have been aware of them, would be dismissed.

– Additional actions announced by the Boards included the following organizational changes:

The Board of AIB Group has announced the appointment of Eugene Sheehy as Chief Executive of AIB USA Division and Executive Chairman Designate of Allfirst Financial Inc. and Allfirst Bank. Mr. Sheehy was formerly Managing Director AIB Bank Republic of Ireland.

Susan Keating will continue as Chief Executive Officer of Allfirst Financial Inc. Frank Bramble, Chairman of Allfirst Financial Inc. and Allfirst Bank, whose retirement was agreed in January, will retire - this retirement to take place on April 30, 2002.

– Both AIB and Allfirst will work with the relevant regulators to ensure that any concerns they may have are addressed.
– The AIB Board has decided on a rapid acceleration of an organizational strategy which commenced last year involving greater focus on customer relationships by front line business units across the Group together with a simpler, more streamlined, integrated Group support structure. In addition, measures are being taken to strengthen controls across the Group, consistent with the findings and recommendations of the report. Specifically, it was decided to:

Appoint an individual of international standing to review, and advise the AIB Board on, risk management organization across the Group. On April 19, 2002, Mr John G Heimann was appointed as a special advisor to the board on Risk Management organization.

Reaffirm the decision to combine Finance and Risk functions across the Group under Mr Gary Kennedy, Group Director Finance, Risk, Enterprise Networks and eBusiness.

Implement the decision to centralize the management and control of all treasury activities throughout AIB Group in AIB Capital Markets in Dublin and to cease all proprietary treasury (trading) activities in Allfirst and Poland Division. In that context First Manhattan Consulting Group has been appointed as an external expert to advise the management of AIB Capital Markets on the centralization process and to confirm that it will be completed on a basis which will leave the Group with a control environment which maintains the highest standards.

Introduce a more integrated Corporate Governance structure by strengthening the links between the main AIB Board and the Boards of major subsidiaries. Accordingly, AIB Group non-executive directors will be appointed to the Boards of Allfirst, AIB Group UK p.l.c. and BZWBK.

Refer to Item 3 “Key Information” and note 52 “Restatement of Prior Years Financial Statements” in the Notes to Consolidated Financial Statements for additional information regarding the effect of FX losses on previously issued financial statements. Additional discussion regarding the impact of the FX Losses is included in the Liquidity Risk Management and Capital Adequacy sections of the Operating and Financial Review and Prospects.

A more detailed description of the Fraudulent Activities can be found in the Investigation Report. This report is incorporated by reference as an exhibit to Form 6-K filed by AIB on April 10, 2002.

Operating results

The following discussion should be read in conjunction with the consolidated Financial Statements of AIB Group included elsewhere in this Report. These financial statements were prepared in accordance with Irish GAAP except as described on page 168 in respect of the restatement of prior years for the losses arising from the Fraudulent Activities. Irish GAAP differs in certain significant respects from US GAAP. Reconciliations of certain items in these financial statements to US GAAP are set forth in note 49 to AIB's Consolidated Financial Statements. The principal accounting policies adopted by AIB Group are set forth on pages 87 to 91 of AIB's Consolidated Financial Statements.

The 2001 results include the profit from the sale of AIB's interest in Keppel Capital Holdings Ltd. ("KCH"), Poland restructuring costs, an additional unallocated credit provision and the losses arising from the Fraudulent Activities. Income on ordinary activities before taxes was €990 million and the adjusted earnings per share, which is before goodwill amortization and the Fraud Losses, was EUR 119.9c. The following table summarizes the impact of the above items on the income before taxation and earnings per share:

	2001		2000	
	Income before taxation (Euro in millions)	**Earnings per share (Euro cent)**	**Income before taxation (Euro in millions)**	**Earnings per share (Euro cent)**
Fraud losses	(417)	(31.5)	(228)	(17.3)
Income on disposal of AIB's interests in KCH	93	10.8	–	–
Poland restructuring costs	(38)	(2.3)	–	–
Additional unallocated credit provision	(50)	(5.1)	–	–
DIRT settlement	–	–	(113)	(12.0)

Implementation of FRS 17 – Retirement benefits

The Group has adopted FRS 17 in its accounts for the year ended December 31, 2001 and prior year results have been restated. This change in accounting policy increased income on ordinary activities before taxes by €39 million in 2001 (2000: €23 million; 1999: €31 million). This is a recurring item and it is expected, based on current assumptions, that the benefit in 2002 will be broadly similar to 2001. Under FRS 17 the net surplus within a pension scheme is recognized as an asset on the balance sheet, net of deferred tax, with a corresponding credit to revenue reserves. It is not included in the calculation of the tier 1 and total capital ratios. The impact of the change in accounting policy on previously reported numbers is described in Note 52 "Restatement of prior years financial statements". Accounting policies on pages 87 and 88 and Note 14 "Retirement Benefits" provide details of the accounting policy for retirement benefits.

Change in divisional structure

Under the new structure, announced in February 2001, AIB Bank division was divided into AIB Bank Republic of Ireland ("AIB Bank ROI") and AIB Bank Great Britain & Northern Ireland ("AIB Bank GB & NI"). A new division, Enterprise Networks and eBusiness ("ENeB"), was also established. The divisional information has been restated to reflect the changes in the divisional structure.

Acquisitions

The New York based Community Counselling Service Co., Inc ("CCS") was acquired by the Group on May 17, 2001. CCS is a consulting firm to the not-for-profit sector worldwide. CCS is primarily engaged in the design and direction of fund raising initiatives for national and international charities, religious organizations and educational institutions. The acquisition, which was accounted for as a purchase did not have a material impact on the results of the Group in 2001.

The 2000 results include the DIRT settlement and the losses arising from the Fraudulent Activities. The Group results for the year to December 2000 are not directly comparable with the previous year to December 1999 due to the acquisition of BZ. The results for the year ended December 31, 2000 include a full year contribution from BZ while the results for the year ended December 31, 1999 include only a 3 month contribution from BZ.

Commentary on 2001 results

Net income for the year ended December 31, 2001 was €730 million compared with a restated €636 million for the year ended December 31, 2000. Average assets increased from €73,931 million for 2000 to €83,113 million for 2001 and the return on average assets was 0.97% for 2001, compared with 0.94% for 2000. Average stockholders' equity increased to €4,802 million for 2001 from €4,568 million for 2000 while the return on average stockholders' equity was 15.2% for 2001 compared to 13.9% for 2000.

Despite the Fraud Losses and slower economic conditions in all our markets, exacerbated by September 11, 2001 events, AIB delivered a strong performance from its core activities. When the Fraud Losses are excluded income before taxes increased 10% to €1,407 million compared with €1,274 million for 2000 (excluding DIRT). Group operating income from continuing activities excluding the Fraud Losses amounted to €1,304 million, up 3% on the 2000 figure of €1,266 million. AIB Group loans to customers and customer accounts increased by 12% and 14% respectively since December 2000. Excluding currency factors, loans to customers increased by 10% while customer accounts grew by 11%.

Commentary on 2000 results - restated

Net income for the year ended December 31, 2000 was €636 million compared with €757 million for the year ended December 31, 1999. Average assets increased from €60,866 million for 1999 to €73,931 million for 2000 and the return on average assets was 0.94% for 2000, compared with 1.32% for 1999. Average stockholders' equity increased to €4,568 million for 2000 from €3,716 million for 1999 while the return on average stockholders' equity was 13.9% for 2000 compared to 20.4% for 1999.

The results for 2000 were impacted by the DIRT settlement of €113 million. Excluding DIRT and the Fraud Losses, income before taxes in 2000 increased 10% to €1,274 million compared with €1,163 million for 1999 while Group operating income from continuing activities amounted to €1,266 million, up 11% on the 1999 figure of €1,143 million. AIB Group loans to customers and customer accounts increased by 17% and 11% respectively since December 1999. Excluding currency factors, loans to customers increased by 13% while customer accounts grew by 8%.

Net interest income

The following table shows net interest income for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	2000 (Euro in millions)	1999
Interest income...	5,346	5,127	3,842
Interest expense...	(3,053)	(3,105)	(2,072)
Net interest income before exceptional item....	2,293	2,022	1,770
Deposit interest retention tax...........................	–	(113)	–
Net interest income after exceptional item.......	2,293	1,909	1,770

The main factors affecting the level of net interest are the volume of interest earning assets, the difference between the average rate of interest earned on interest earning assets and the average rate of interest paid on interest bearing liabilities (the interest rate spread), the proportion of interest earning assets financed by interest-free liabilities and the general level of interest rates. Net interest income, which is the principal element of AIB Group's income, mainly arises from the loan and deposit taking activities of AIB Group.

Commentary on net interest income performance in 2001

In 2001 net interest income was €2,293 million compared with €1,909 million for 2000, an increase of €384 million (20%). Excluding the impact of currency factors and the DIRT settlement in 2000, net interest income increased by 11%. Average interest earning assets increased by €8,567 million (13%) when compared with 2000.

The volume increase and the increase in the interest rate spread have been partly offset by a decrease in the gross yield. The interest rate spread increased by 20 basis points on a Group basis during 2001. Overall the net interest margin increased to 3.03% in 2001 from 3.02% in 2000. The domestic margin reduced by 6 basis points since December 2000 to 2.69% while the foreign margin increased by 11 basis points since December 2000 to 3.34%.

Loans to customers increased by 10% on an underlying basis since December 31, 2000 (see table below). On a geographic basis, loans in Ireland increased by 14%, in Northern Ireland by 8%, in Britain by 18%, and Poland reported loan growth of 11%. USA loans to customers decreased by 1% due to the runoff in indirect retail lending and first mortgages. Customer accounts increased by 11% with growth of 14% in Ireland, 3% in Northern Ireland, 18% in Britain, 10% in the USA, and 9% in Poland.

Commentary on net interest income performance in 2000

In 2000 net interest income was €1,909 million (€2,022 million excluding DIRT) compared with €1,770 million for 1999, an increase of €139 million (8%). Excluding the impact of BZ (acquired September 16, 1999), the DIRT settlement in 2000, and currency factors, net interest income increased by 4%. Including acquisitions, average interest earning assets increased by €12,913 million (24%) when compared with 1999. The general level of interest rates in the Group's main markets was higher in 2000 relative to 1999.

The volume increase and the increase in gross yield have been partly offset by a decrease in the interest rate spread. The interest rate spread reduced by 50 basis points on a Group basis during 2000. Overall the net interest margin reduced to 3.02% in 2000 from 3.27% in 1999. The domestic margin reduced by 22 basis points since December 1999 to 2.75% while the foreign margin reduced by 31 basis points since December 1999 to 3.23%.

Loans to customers increased by 13% on an underlying basis (see table below) since December 31, 1999. On a geographic basis loans in Ireland increased by 19%, in Northern Ireland by 16%, in Britain by 20%, in USA by 3%, and Poland reported loan growth of 9%. Customer accounts increased by 8% with growth of 14% in Ireland, 9% in Northern Ireland, 3% in the USA and 16% in Poland. In Britain deposits decreased by 6% due to the movement of some large deposits from customer accounts to money market funds. Branch customer accounts in Britain were up 23%.

The following table shows the year on year percentage changes in loans to customers and customer accounts on an underlying basis.

Loans to customers and customer accounts	% change December 2001 v December 2000[1] Loans to Customers % Change	Customer Accounts % Change	% change December 2000 v December 1999[1] Loans to Customers % Change	Customer Accounts % Change
Ireland	14	14	19	14
Northern Ireland	8	3	16	9
Britain	18	18	20	-6
USA	-1	10	3	3
Poland	11	9	9	16
AIB Group	10	11	13	8

[1] Excluding money market funds and currency factors.

Average interest rates, gross yields, spreads and margins

The following table shows interest rates prevailing at December 31, 2001 together with average prevailing interest rates, gross yields, spreads and margins for the years ended December 31, 2001, 2000 and 1999.

	At Dec. 31, 2001	Years ended December 31, 2001	2000	1999
Interest rates	%	%	%	%
Ireland				
AIB Group's prime lending rate	4.0	4.9	4.8	3.4
European inter-bank offered rate				
One month euro	3.3	4.3	4.2	2.9
Three month euro	3.3	4.3	4.4	3.0
United Kingdom				
AIB Group's base rate	4.0	5.1	6.0	5.3
London inter-bank offered rate				
One month sterling	4.1	5.0	5.9	5.4
Three month sterling	4.1	5.0	6.1	5.5
United States				
Prime rate	4.8	6.9	9.2	8.0
Poland				
One month zloty	11.9	16.4	16.1	14.5
Gross yields, spreads and margins[1]				
Gross yield[2]				
Group		6.8	7.3	6.6
Domestic		5.9	6.2	5.6
Foreign		7.6	8.2	7.5
Interest rate spread[3]				
Group		2.4	2.2	2.7
Domestic		2.0	1.9	2.3
Foreign		2.7	2.5	3.0
Net interest margin[4]				
Group		3.03	3.02	3.27
Domestic		2.69	2.75	2.97
Foreign		3.34	3.23	3.54

Average interest earning assets	December 31, 2001	2000	1999
	(Euro in millions)		
Group	75,593	67,026	54,113
Domestic	35,417	29,819	25,611
Foreign	40,176	37,207	28,502

(1) The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates presented on page 32 of this Report and this breakdown into domestic and foreign has been compiled on the basis of location of office. The percentages for the year ended December 31, 2000 have been calculated excluding the impact of the DIRT settlement.

(2) Gross yield represents the average interest rate earned on interest earning assets.

(3) Interest rate spread represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest earning assets.

	Years ended December 31,								
	2001			**2000 (Restated)[1]**			**1999 (Restated)[1]**		
	Average balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
	(Euro in millions)		**%**	**(Euro in millions)**		**%**	**(Euro in millions)**		**%**
ASSETS									
Placings with banks									
Domestic offices	3,441	138	4.0	2,410	114	4.7	2,572	81	3.2
Foreign offices	2,041	117	5.7	1,897	123	6.5	1,342	76	5.7
Loans to customers[2]									
Domestic offices	21,210	1,390	6.6	18,570	1,239	6.7	15,416	974	6.3
Foreign offices	25,026	2,051	8.2	22,772	2,056	9.0	17,476	1,430	8.2
Placings with banks and loans to customers[2]									
Domestic offices	24,651	1,528	6.2	20,980	1,353	6.4	17,988	1,055	5.9
Foreign offices	27,067	2,168	7.9	24,669	2,179	8.8	18,818	1,506	8.0
Funds sold									
Domestic offices	–	–	–	–	–	–	–	–	–
Foreign offices	93	2	2.7	75	5	6.4	36	2	5.1
Investment securities									
Domestic offices	8,886	432	4.9	7,100	398	5.6	6,263	299	4.8
Foreign offices	11,558	784	6.8	11,014	775	7.0	8,495	551	6.5
Installment credit and finance lease receivables									
Domestic offices	1,880	119	6.3	1,739	109	6.3	1,360	89	6.5
Foreign offices	1,458	90	6.2	1,449	96	6.6	1,153	80	7.0
Total interest earning assets									
Domestic offices	35,417	2,079	5.9	29,819	1,860	6.2	25,611	1,443	5.6
Foreign offices	40,176	3,044	7.6	37,207	3,055	8.2	28,502	2,139	7.5
	75,593	5,123	6.8	67,026	4,915	7.3	54,113	3,582	6.6
Allowance for loan losses	(939)			(828)			(656)		
Non-interest earning assets	8,459			7,733			7,409		
Total assets	83,113	5,123	6.2	73,931	4,915	6.6	60,866	3,582	5.9
Percentage of assets applicable to foreign activities			53.2			55.3			52.4
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing deposits and other short-term borrowings									
Domestic offices	27,285	1,044	3.8	22,797	944[3]	4.1[3]	19,886	633	3.2
Foreign offices	32,519	1,588	4.9	30,058	1,701	5.7	23,157	1,012	4.4
Funds purchased									
Domestic offices	–	–	–	–	–	–	–	–	–
Foreign offices	1,694	65	3.8	1,522	93	6.1	1,498	72	4.8
Subordinated liabilities									
Domestic offices	1,459	81	5.6	1,478	97	6.6	835	49	5.8
Foreign offices	788	52	6.6	750	58	7.7	678	46	6.8
Total interest bearing liabilities									
Domestic offices	28,744	1,125	3.9	24,275	1,041[3]	4.3[3]	20,721	682	3.3
Foreign offices	35,001	1,705	4.9	32,330	1,852	5.7	25,333	1,130	4.5
	63,745	2,830	4.4	56,605	2,893[3]	5.1[3]	46,054	1,812	3.9
Interest–free liabilities									
Current accounts	9,578			8,503			6,712		
Other liabilities	3,990			3,743			3,940		
Minority equity and non–equity interests	298			246			214		
Preference share capital	253			266			230		
Reserve capital instruments	447			–			–		
Ordinary stockholders' equity	4,802			4,568			3,716		
Total liabilities and stockholders' equity	83,113	2,830	3.4	73,931	2,893[3]	3.9[3]	60,866	1,812	3.0
Percentage of liabilities applicable to foreign activities			53.7			55.0			51.2

(1) Restated to include the impact of FRS 17 and the Fraud Losses.
(2) Loans to customers include money market funds. Non-accrual loans and loans classified as problem loans are also classified within this caption. See Item 11 – Credit risk management – "Provision and allowance for loan losses".
(3) The interest amount and the average rate have been presented gross to eliminate the effect of the deposit interest retention tax settlement.

The following table allocates changes in net interest income between volume and rate for the year ended December 31, 2001 compared with the year ended December 31, 2000 and for the year ended December 31, 2000 compared to the year ended December 31, 1999. Volume and rate variances have been calculated based on the movements in average balances over the period and changes in interest rates on average interest earning assets and average interest bearing liabilities respectively. Changes due to a combination of volume and rate are allocated ratably to volume and rate.

	December 2001 over December 2000			December 2000 over December 1999		
	Increase/(decrease) due to changes in:					
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
			(Euro in millions)			
INTEREST EARNING ASSETS						
Placings with banks						
Domestic offices	43	(19)	24	(5)	38	33
Foreign offices	9	(15)	(6)	35	12	47
Loans to customers						
Domestic offices	170	(19)	151	202	63	265
Foreign offices	189	(194)	(5)	474	152	626
Placings with banks and loans to customers						
Domestic offices	213	(38)	175	197	101	298
Foreign offices	198	(209)	(11)	509	164	673
Funds sold						
Domestic offices	–	–	–	–	–	–
Foreign offices	1	(4)	(3)	2	1	3
Investment securities						
Domestic offices	89	(55)	34	44	55	99
Foreign offices	34	(25)	9	178	46	224
Installment credit and finance lease receivables						
Domestic offices	10	–	10	23	(3)	20
Foreign offices	1	(7)	(6)	21	(5)	16
Total interest income	546	(338)	208	974	359	1,333
INTEREST BEARING LIABILITIES						
Interest bearing deposits and other short-term borrowings						
Domestic offices	159	(59)	100	107	205	312
Foreign offices	158	(271)	(113)	346	343	689
Funds purchased						
Domestic offices	–	–	–	–	–	–
Foreign offices	12	(40)	(28)	1	20	21
Subordinated liabilities						
Domestic offices	(1)	(15)	(16)	41	7	48
Foreign offices	3	(9)	(6)	5	7	12
Total interest expense	331	(394)	(63)	500	582	1,082
Net interest income						
Domestic offices	154	(19)	135	116	(59)	57
Foreign offices	61	75	136	358	(164)	194
Net interest income	215	56	271	474	(223)	251

Other finance income

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Expected return on pension plan assets	213	203	189
Interest on pension plan liabilities	(146)	(132)	(118)
Total other finance income	67	71	71

Under Financial Reporting Standard 17 "Retirement Benefits", the net of the interest cost of the pension liabilites and the expected return on assets is to be recorded as other finance income, in the profit and loss account, adjacent to interest. The interest cost represents the unwinding of the discount on the scheme liabilities. The expected return on assets is based on long-term expectations at the beginning of the period.

A description of the retirement benefit schemes operated by the Group is provided in note 14 of the Notes to Consolidated Financial Statements.

Other income

The following table shows other income for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Dividend income	11	6	2
Banking fees and commissions	962	807	643
Asset management fees	185	187	152
Investment banking fees	111	107	114
Fees and commissions receivable[(1)]	1,258	1,101	909
Fees and commissions payable	(128)	(108)	(93)
Dealing profits[(2)]	92	103	74
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
Other operating income:			
Profit/(loss) on disposal of debt securities held for investment purposes	24	(1)	16
Profit on disposal of investments in associated undertakings	1	5	3
(Loss)/profit on disposal of equity shares	(3)	24	15
Contribution of life assurance company	84	95	64
Contribution from securitized assets	5	4	3
Mortgage origination and servicing income	10	3	3
Miscellaneous operating income	72	72	56
	193	202	160
Total other income	1,009	1,076	1,007
Total other income excluding Fraud Losses	1,426	1,304	1,052

(1) Includes fees and commissions related to foreign exchange activities which were €90 million, €80 million and €68 million for 2001, 2000 and 1999, respectively.

(2) Includes dealing profits relating to foreign exchange activities which were €75 million, €69 million and €30 million for 2001, 2000 and 1999, respectively, before the Fraud Losses.

Commentary on other income performance in 2001

In the year ended December 31, 2001 other income was €1,009 million compared with €1,076 million for the year ended December 31, 2000, a decline of €67 million (6%). The performance in 2001 was impacted by the Fraud Losses, which were €417 million in 2001 compared to €228 million in 2000. Excluding the Fraud Losses and currency factors, other income was up 5%. Excluding the Fraud Losses, other income represented 39% of total income.

The following commentary is based on underlying percentage growth adjusting for the impact of currency movements and Fraud Losses.

- o Banking fees and commissions up 17%
- o Asset management fees down 2%
- o Investment banking fees up 4%
- o Contribution of life assurance company down 12%

Banking fees and commissions increased reflecting higher business volumes with strong growth in retail banking, corporate banking and credit card revenues and the inclusion of CCS in the USA which was acquired in May 2001. Asset management fees were impacted by the decline in equity markets which resulted in a fall in asset values and client volumes. Investment banking fees were up 4% due to growth in corporate finance fees and international financial services activities. Dealing profits were down due to lower profit on trading securities. Dealing profits reflect trading income and exclude interest payable and receivable arising from these activities. Ark Life profit was down 12% reflecting lower product margins as a result of a change in mix of sales with customers opting for a larger proportion of risk averse products reflecting weaker investment markets. The reduction in equity values also had an influence on embedded value profits and the contribution in 2000 benefited from a higher impact of recognizing reduced corporation tax rates in the Republic of Ireland.

Commentary on other income performance in 2000 - restated

In the year ended December 31, 2000 other income was €1,076 million compared with €1,007 million for the year ended December 31, 1999, an increase of €69 million (7%). The performance in 2000 was impacted by the Fraud Losses, which were €228 million in 2000 compared to €45 million in 1999. Excluding the impact of the Fraud Losses, BZ and currency factors, the increase was 14%. Excluding the Fraud Losses, other income represented 40% of total income compared with 36% in 1999.

The following commentary is based on underlying percentage growth adjusting for the impact of currency movements and excluding BZ in both years.

- Banking fees and commissions up 14%
- Asset management fees up 11%
- Investment banking fees down 8% or up 33% excluding 1999 privatization revenues
- Contribution of life assurance company up 48%

Banking fees and commissions increased reflecting higher business volumes with strong growth in branch banking, corporate banking, credit card and finance and leasing revenues. Asset management fees increased due to good business growth in Ireland and Britain coupled with higher trust and investment advisory fees in Allfirst. Excluding fees received in 1999 in relation to a major privatization in the Irish market, investment banking fees increased by 33% mainly due to a strong performance from stockbroking, corporate finance and international financial services activities.

Dealing profits increased by 33% with increased revenues from foreign exchange trading activities.

Ark Life reported significant profit growth reflecting strong sales of investment products, substantial growth in new pensions and the benefit of lower corporation tax rates in the Republic of Ireland.

Operating expenses

The following table shows operating expenses for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	**2000 Restated**	**1999 Restated**
		(Euro in millions)	
Staff costs	1,342	1,192	1,010
Other administrative expenses	703	634	521
Depreciation	164	145	119
Amortization of goodwill	31	26	8
Operating expenses before integration costs	2,240	1,997	1,658
Integration costs in continuing businesses	38	–	–
Total operating expenses	2,278	1,997	1,658

Commentary on operating expenses in 2001

In 2001, operating expenses increased by €281 million (14%) to €2,278 million from €1,997 million in 2000. Excluding integration costs in continuing businesses, currency factors and Fraud Losses, total operating expenses increased by 10%. Operating expenses included the operating costs of CCS and some one-off items. The material items impacting on the growth included euro conversion costs, market related salary adjustments in Ireland and the USA and health insurance costs in the USA, an industry wide factor. In addition, there were costs relating to the investment in and expansion of our businesses in Poland and Allied Irish America. Excluding these costs and euro conversion, cost growth was in the region of 8% with the outcome in 2002 expected to be approximately 6%. The Group's tangible cost income ratio, excluding exceptional items, goodwill amortization and integration costs in continuing businesses, was 58.5% compared to 58.0% for the year to December 2000.

Integration costs in continuing businesses related to the merger of WBK and BZ in Poland.

In 2001, staff costs were €1,342 million compared with €1,192 million for 2000, an increase of €150 million (13%) reflecting normal growth in salaries and growth in business activities across the Group. Excluding integration costs in continuing businesses, currency factors, FRS 17, the impact of the CCS acquisition, the sale of KCH and Fraud Losses, staff costs increased by 11%.

Other administrative expenses increased by €69 million (11%) to €703 million for 2001 compared with €634 million for 2000. Excluding integration costs in continuing businesses and currency factors, other administrative expenses increased by 9%.

The depreciation charge for 2001 was €164 million compared with €145 million for 2000, an increase of €19 million (13%). The increase is due to increased investments in technology and systems.

Commentary on operating expenses in 2000

In 2000, operating expenses increased by €339 million (20%) to €1,997 million from €1,658 million in 1999. Excluding the impact of BZ and currency factors, operating expenses increased by 8%. The increase in operating expenses was mainly attributable to increased business activity, technology and e-business expenditure, including development work on a standalone internet bank and branch network expansion in Poland. Following a review of our e-business strategy in Ireland, AIB will focus on developing and expanding 24hour-online, our existing online service, as the core internet offering for the Irish personal market and will not proceed with the development of a standalone internet bank at this time. Investment in e-business in the US and Poland continues and the Group remains committed to an integrated multi-channel distribution strategy.

In 2000, staff costs were €1,192 million compared with €1,010 million for 1999, an increase of €182 million (18%) reflecting normal growth in salaries and growth in business activities across the Group. Excluding the impact of BZ acquisition and currency factors, staff costs increased by 7%.

Other administrative expenses increased by €113 million (22%) to €634 million for 2000 compared with €521 million for 1999. Excluding the impact of BZ and currency factors, other administrative expenses increased by 9%.

The depreciation charge for 2000 was €145 million compared with €119 million for 1999, an increase of €26 million (22%). Of this increase, €9 million related to the depreciation of freehold and long leasehold property and shell & core, arising from the implementation of a new accounting standard. In addition, there were increased investments in technology and systems.

Provisions for loan losses

The following table shows the provisions for loan losses charged to income for each of the three years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Provisions for loan losses	179	133	85
As a percentage of average loans[(1)]	0.36%	0.30%	0.24%

(1) Average loans, before provisions less unearned income, include leasing and installment credit.

Commentary on provision for loan losses in 2001

The provisions for loan losses of €179 million (0.36% of average advances) for the year ended December 31, 2001 were €46 million higher than 2000 (€133 million, 0.30% of average advances) following the inclusion of the €50 million unallocated provision taken at Group level to reflect the economic uncertainty and weakness in the markets.

In 2001, the Group raised an additional unallocated provision for loan losses of €50 million at Group level. This component of our general provision was created to cover the impact that various uncertainties may have on divisional management's estimate of probable losses at the year-end. These uncertainties include the particularly volatile economic environments in markets in which we operate, volatility in default probabilities and grade migration.

Ireland

The provision for loan losses increased to €106 million in the year to December 31, 2001 (2000: €51 million). The principal feature of the increase was the €50 million Group additional unallocated provision described above. Provisions in AIB Bank ROI increased by €7 million over the year 2000, however the provision rate remained unchanged at 0.25% of advances.

United Kingdom

In 2001 the provision for loan losses at €19 million was €4 million lower than the year to December 31, 2000. Strong recoveries were a feature of both years (€17 million in both 2000 and 2001).

United States

The provision for loan losses increased in the year to December 31, 2001 by €5 million to €38 million primarily due to an increased general provision in Allied Irish America to take account of the level of growth in that portfolio.

Poland

The provision for loan losses for the year to December 31, 2001 at €16 million is €10 million lower than the 2000 provision and is reported after using the remaining pool of fair value allowances of PLN 171 million (€47 million) in Poland, created on acquisition. The underlying loan losses provision rate in Poland prior to fair value adjustments was 1.90% (2.84% in the year to December 31, 2000).

Rest of World

The net provision for loan losses was nil in the rest of the world in both 2001 and in 2000.

Commentary on provision for loan losses in 2000

The provisions for loan losses increased from €85 million for the year ended December 31, 1999 to €133 million for the year ended December 31, 2000. The charge for 1999 was €101 million or 0.28% of advances when the impact of the write back of Latin American provisions is excluded. This is reflected in the annualized rate of provisions for loan losses as a percentage of average loans which increased from 0.24% for the year ended December 31, 1999 to 0.30% for the year ended December 31, 2000.

Ireland

The provisions for loan losses remained static at €51 million for the year ended December 31, 2000 compared to the year ended December 31, 1999.

United Kingdom

The provisions for loan losses increased from €6 million for the year ended December 31, 1999 to €23 million for the year ended December 31, 2000, reflecting a combination of a fall-off in the very strong recoveries recorded in 1999 and an increase in corporate case provisions.

United States

The provisions for loan losses increased from €29 million for the year ended December 31, 1999 to €33 million for the year ended December 31, 2000. Higher levels of commercial loan provisions were partially offset by lower retail and residential mortgage provisioning.

Poland

The provisions for loan losses increased from €6 million for the year ended December 31, 1999 to €26 million for the year ended December 31, 2000, largely due to the inclusion of Bank Zachodni for a full year following its acquisition in September 1999.

Rest of World

The provisions for loan losses decreased from a net recovery of €7 million for the year ended December 31, 1999, which included a write back of Latin American provisions, to no net provision in the year to December 31, 2000, where recoveries offset new provisions.

Provisions for contingent liabilities and commitments

The following table shows the provisions for contingent liabilities and commitments for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	**2000**	**1999**
		(Euro in millions)	
Provisions for contingent liabilities and commitments..................	19	2	2

The provisions for contingent liabilities and commitments amounted to €19 million in 2001, an increase of €17 million on 2000. The increase was due mainly to a provision in relation to one specific case.

The provisions for 2000 remained consistent with 1999.

Profit on disposal of businesses

In August 2001, AIB sold its interests in Keppel Capital Holdings ("KCH"), realising a profit on disposal of €93 million. In addition, the 1999 Singapore $351 million three year senior bonds with warrants were fully redeemed at par.

In October 1999, AIB's private banking and treasury operations in Singapore were sold to Keppel Tatlee Bank Limited, giving rise to a profit before taxation on disposal of €15 million.

Applicable taxes

The following table shows applicable income taxes and tax rates, as well as effective tax rates, for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	**2000 Restated**	**1999 Restated**
		(Euro in millions)	
Applicable income taxes..	187	239	317
Irish corporation tax rate..	20.0%	24.0%	28.0%
Effective tax rate...	18.9%	25.6%	28.4%
Effective tax rate - adjusted[(1)]...	23.6%	25.8%	28.6%

[(1)]The adjusted effective tax rate has been presented to eliminate the effect of the Fraud Losses in all years and the deposit interest retention tax settlement in 2000 (note 6).

The taxation charge was €187 million in 2001 compared with €239 million in 2000. The adjusted effective tax rate for the year was 23.6% down from 25.8% in 2000. The reduction in the effective tax rate was mainly due to the decrease in the standard rate of Irish corporation tax from 24% in 2000 to 20% in 2001. The effective tax rate is also influenced by the geographic and business mix of profits and was significantly impacted in 2001 by the Fraud Losses.

The taxation charge was €239 million in 2000 compared with €317 million in 1999. The reduction in the tax charge arose primarily from the higher Fraud Losses in 2000. The adjusted effective tax rate for the year was 25.8% down from 28.6% in 1999. The reduction was mainly due to the decrease in the standard rate of Irish corporation tax from 28% in 1999 to 24% in 2000 and a lower effective tax rate in Allfirst. The effective tax rate is also influenced by the geographic and business mix of profits.

The Irish government proposals to progressively reduce the standard rate of Irish corporation tax to 12.5% by January 2003 and the reduction in the rate of corporation tax applying to non-trading income to 25% from January 1, 2000 will have a positive impact on future earnings in Ireland. As it is not anticipated that foreign tax rates will fall in line with Irish tax rates, the effective tax rate in future years will continue to be in excess of the standard rate of Irish corporation tax.

1999 compared to 1998 - restated

Net income for the year ended December 31, 1999 was €757 million compared with €626 million for the year ended December 31, 1998 an increase of €131 million (21%).

On September 16, 1999, the Group completed the acquisition of an 80% shareholding in Bank Zachodni S.A. ("BZ") from the State Treasury of the Republic of Poland. The profit contribution from BZ for the period from September 16, 1999 to December 31, 1999 was negligible after funding costs and amortization of intangible assets.

Net interest income in 1999 was €1,770 million compared with €1,609 million for 1998, an increase of €161 million (10%). Excluding the impact of the BZ acquisition and currency factors, net interest income was up 7%. Average interest earning assets increased by €5,851 million (12%) when compared with 1998. Group lending volumes increased by 17% on an underlying basis since December 31, 1998. On a geographic basis, loans in Ireland increased by 25%, in Northern Ireland by 11%, in Britain by 32%, in USA by 3%, and Poland reported loan growth of 33%. Group deposits increased by 4% with growth of 12% in Ireland, 7% in Northern Ireland, 8% in Britain, 34% in Poland. In the USA deposits decreased by 13% mainly reflecting a migration of predominantly low margin funds from the traditional deposit account into mutual funds and other investment products. The volume increase has been partly offset by a decrease in the net interest margin to 3.27% in 1999 from 3.33% in 1998. The domestic margin reduced by 12 basis points since December 1998 to 2.97% while the foreign margin reduced by 2 basis points since December 1998 to 3.54%. Net interest income includes €2 million in net funding costs relating to AIB's strategic alliance with KTL.

Other income for the year ended December 31, 1999 was €1,007 million compared with €969 million for the year ended December 31, 1998, an increase of €38 million (4%). Excluding the impact of the Fraud Losses, the BZ acquisition and currency factors, the increase was 5%. Net fees and commissions were €816 million for 1999 compared with €693 million for 1998, an increase of €123 million (18%). In Ireland this increase reflected strong performances in branch banking, credit card, finance and leasing revenues, corporate and commercial treasury, stockbroking, corporate banking, corporate finance and international financial services. In addition, AIB Capital Markets acted as advisor to the Irish Government on the Bord Telecom Eireann (eircom p.l.c.) Initial Public Offering. In the USA strong growth was achieved in key categories, particularly an 18% growth in electronic banking income, a 15% growth in trust and investment advisory fees and a 5% growth in deposit service charges. AIB's charity and church sector activities had a very successful year with growth of 22% in income. In Poland, WBK reported a 161% increase in card fees and growth of 31% in current account fees and branch commissions. The strong performance reflects the ongoing business development program in WBK. Dealing profits were €74 million for 1999 compared with €69 million for 1998, an increase of €5 million (7%) with Treasury availing of the opportunities which the volatility in the foreign exchange markets presented. The Fraud Losses were €11 million in 1998 and €45 million in 1999. Other operating income was €160 million for 1999 compared with €217 million for 1998. This decrease was impacted by securities gains realized in Allfirst in 1998, €54 million compared with €5 million in 1999, and the sale of our mortgage origination business in Allfirst in 1998 offset by a higher contribution from Ark Life Assurance Company Limited ("Ark Life") which increased by 31% from €49 million in 1998 to €64 million in 1999 reflecting a 31% increase in Annual Premium Equivalent sales. Miscellaneous operating income increased from €54 million in 1998 to €56 million in 1999.

Operating expenses for the year ended 1999 increased by €216 million (15%) to €1,658 million from €1,442 million in 1998. Excluding the impact of FRS17, the BZ acquisition, integration costs in USA in 1998 and currency factors, operating expenses increased by 9%. The increase was mainly as a result of increased business activity, technology, electronic and e-business expenditure, and branch network expansion in Poland. Operating expenses included amortization of goodwill of €8 million mainly related to the Bank Zachodni acquisition. In 1999, staff costs were €1,010 million compared with €867 million for 1998, an increase of €143 million (16%) reflecting normal growth in salaries and substantial growth in business activities across the Group. Excluding the impact of FRS17, BZ acquisition, integration costs in USA in 1998 and currency factors, staff costs increased by 8%. Efficiency continued to improve and the cost income ratio in Ireland reduced further to 57%. In Capital Markets there were additional staff costs associated with the Bord Telecom Eireann (eircom p.l.c.) flotation. In the USA staff costs decreased as a result of savings following the integration of our franchises and sales of businesses in recent years. Other administrative expenses increased by €75 million (17%) to €521 million for 1999 compared with €446 million for 1998. Excluding the impact of BZ, integration costs in USA in 1998 and currency factors, other administrative expenses increased by 12%. Costs increased due to increased business activities, technology expenditure and the opening of 23 new outlets and 51 new ATM's by WBK in Poland. The depreciation charge for 1999 was €119 million compared with €109 million for 1998, an increase of €10 million (9%). This increase was driven by increased investment in technology and systems.

Amounts written off fixed asset investments decreased by €2 million from a charge of €7 million in 1998 to a charge of €5 million in 1999. The movements were spread over a number of investments.

Profit on disposal of property in 1999 amounted to €2 million and related to the disposal of properties surplus to business requirements. The profit on disposal of property in 1998 was €32 million and related to the sale of a site in Dublin and disposal of branches.

In October 1999, AIB sold its private banking and treasury operations located in Singapore to Keppel TatLee Bank and achieved a gain on sale of €15 million.

The provisions for loan losses decreased from €126 million for the year ended December 31, 1998 to €85 million for the year ended December 31, 1999. This is reflected in the annualized rate of provisions for loan losses as a percentage of average loans which decreased from 0.44% for the year ended December 31, 1998 to 0.24% for the year ended December 31, 1999. In Ireland, the provisions for loan losses increased from €48 million for the year ended December 31, 1998 to €51 million for the year ended December 31, 1999. This increase reflects growth in the loan portfolio of 27% and a prudent approach to provisioning.In the United Kingdom, the provisions for loan losses decreased from €22 million for the year ended December 31, 1998 to €6 million for the year ended December 31, 1999, reflecting a generally improved provisioning experience and stronger recoveries. In the United States, the provisions for loan losses increased from €5 million for the year ended December 31, 1998 to €29 million for the year ended December 31, 1999, reflecting higher levels of consumer and retail provisioning. In Poland, the provisions for loan losses decreased from €11 million for the year ended December 31, 1998 to €6 million for the year ended December 31, 1999. In the Rest of the World, the provisions for loan losses decreased from €40 million for the year ended December 31, 1998 to a net recovery of €7 million for the year ended December 31, 1999, reflecting the lower provisioning in the foreign maritime portfolio and a write-back of Latin American provisions.

1998 Compared to 1997 - restated

Net income for the year ended December 31, 1998 was €626 million, compared with €449 million for the year ended December 31, 1997. The net income was arrived at after charging €55 million in respect of the impact of the phased reduction in Irish Corporation tax rates on deferred tax balances.

The Group results for the year to December 1998 are not directly comparable with the previous year to December 1997 due to changes in the composition of the Group. The results for the year ended December 1998 include a full year contribution from Dauphin Deposit Corporation (acquired July 1997) and WBK (became a 60% owned subsidiary in April 1997). Also, in February 1998, our USA division completed the sale of its credit card and residential mortgage origination businesses.

Net interest income in 1998 was €1,609 million compared with €1,374 million for 1997, an increase of €235 million (17%). Average interest earning assets increased by €10,840 million (29%) when compared with 1997. The Group's net interest margin decreased to 3.33% in 1998 from 3.67% in 1997. The domestic margin reduced by 40 basis points since December 1997 to 3.09% while the foreign margin reduced by 27 basis points since December 1997 to 3.56%. The reduction in the margin reflected the lower interest rate environment across divisions, the changing product profile in each of our markets, with growth mainly occurring in low margin products, strong growth in treasury assets and changes in the composition of the Group. Group lending volumes increased by 17% on an underlying basis since December 31, 1997. On a geographic basis loans in Ireland increased by 26%, in Northern Ireland by 14%, in Britain by 9% and Poland reported loan growth of 33%. In the USA underlying growth, excluding the impact of the sale of the credit card portfolio, was 7%. Group deposits increased by 10% with growth of 13% in Ireland, 9% in Northern Ireland, 12% in Britain, 24% in Poland and 2% in USA.

Other income in the year ended December 31, 1998 was €969 million compared with €731 million for the year ended December 31, 1997, an increase of €238 million (32%). Net fees and commissions were €693 million for 1998 compared with €569 million for 1997, an increase of €124 million (22%). This increase reflected strong performances in credit card, commercial foreign exchange, corporate and commercial treasury, stockbroking and international financial services. Dealing profits were €69 million for 1998 compared with €52 million for 1997, an increase of €17 million (34%) with Treasury availing of the opportunities which the volatility in the foreign exchange markets presented. The Fraud Losses were €24 million in 1997 and €11 million in 1998. Other operating income was €217 million for 1998 compared with €135 million for 1997. This increase was primarily due to investment securities gains realized in Allfirst of €54 million, profit on disposal of investments in associates and a higher contribution from Ark Life which increased by 50% from €33 million in 1997 to €49 million in 1998. Miscellaneous operating income increased from €36 million in 1997 to €54 million in 1998.

Operating expenses in 1998 increased by €58 million (4%) to €1,442 million from €1,384 million in 1997. Operating expenses, excluding integration costs, were up 7% to €1,422 million. The increase reflects the inclusion of Dauphin Deposit Corporation and WBK for a full year, partially offset by the disposal of non-core businesses in the USA. Currency translation rates were adverse and there was increased operational expenditure servicing substantially higher business volumes. There were benefits from Dauphin cost savings and from lower pension costs of €17 million which arose from an actuarial valuation of the main Irish and British pension schemes. In 1998 staff costs were €867 million compared with €782 million for 1997, an increase of €85 million (11%) reflecting normal growth in salaries and higher performance related remuneration costs related to the higher income generated. Other administrative expenses decreased by €7 million (2%) to €446 million for 1998 compared with €453 million for 1997 due primarily to the sale of non-core businesses in USA division. The depreciation charge for 1998 was €109 million compared with €94 million for 1997, an increase of €15 million (16%). This increase was driven by increased investment in technology and systems. The integration costs of €20 million mainly related to the installation of an enhanced technology platform arising from the integration of Allfirst's constituent banks.

Amounts written off fixed asset investments increased by €6 million from a charge of €1 million in 1997 to a charge of €7 million in 1998. The movements were spread over a number of investments.

Income from associated undertakings decreased to €4 million in 1998 from €9 million in 1997. WBK was treated as an associated undertaking from July 1996 until April 30, 1997 and the reduction was primarily due to the inclusion of WBK as a subsidiary for the full year 1998 compared with 1997 when WBK was an associate for four months of the year.

Profit on disposal of property in 1998 of €32 million related to the sale of a site in Dublin and disposal of branches. The loss on disposal of property in 1997 of €2 million related to the disposal of branches.

The provisions for loan losses increased from €93 million for the year ended December 31, 1997 to €126 million for the year ended December 31, 1998. This is reflected in the annualized rate of provisions for loan losses as a percentage of average loans which increased from 0.39% for the year ended December 31, 1997 to 0.44% for the year ended December 31, 1998.

In the Republic of Ireland, the provisions for loan losses increased from €43 million for the year ended December 31, 1997 to €48 million for the year ended December 31, 1998, reflecting growth in the loan portfolio and a prudent approach to provisioning.

In the United Kingdom, the provisions for loan losses increased from €18 million for the year ended December 31, 1997 to €22 million for the year ended December 31, 1998.

In the United States, the provisions for loan losses decreased from €26 million for the year ended December 31, 1997 to €5 million for the year ended December 31, 1998, reflecting the sale of the Bankcard portfolio.

In Poland, the provisions for loan losses increased from €6 million for the year ended December 31, 1997 to €11 million for the year ended December 31, 1998.

In the Rest of the World, the provisions for loan losses increased from a zero charge for the year ended December 31, 1997 to €40 million for the year ended December 31, 1998, reflecting the impact of reduced trade in global markets on the foreign maritime portfolio and one large specific provision in Capital Markets division.

The provision for loan losses is considered adequate to cover known losses and any other losses reasonably expected to exist in the loan portfolio.

Performance by division

Income before taxes by division for the years ended December 31, 2001, 2000 and 1999 was as follows:

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
Income before taxes[1]	(Euro in millions)		
AIB Bank ROI	562	516	436
AIB Bank GB & NI	223	205	160
USA	361	330	313
Capital Markets	194	159	152
Poland	36	88	63
Group /ENeB	31	(24)	39
	1,407	1,274	1,163
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
Deposit interest retention tax	–	(113)	–
Total	990	933	1,118

[1] 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, the funding cost of the Bank Zachodni acquisition and central services costs are reported in Group.

Change in divisional structure

Under the new structure, announced in February 2001, AIB Bank division was divided into AIB Bank Republic of Ireland ("AIB Bank ROI") and AIB Bank Great Britain & Northern Ireland ("AIB Bank GB & NI"). A new division, Enterprise Networks and eBusiness ("ENeB"), was also established. The divisional information has been restated to reflect the changes in the divisional structure.

AIB Bank Republic of Ireland division

AIB Bank Republic of Ireland: Retail and commercial banking operations in Republic of Ireland, Channel Islands, and Isle of Man; AIB Finance and Leasing; Card Services; and AIB's life and pensions subsidiary Ark Life Assurance Company.

2001 performance

Income before taxes increased by 9% in AIB Bank ROI to €562 million in 2001 from €516 million in 2000 reflecting a strong performance in all key business units. The divisional cost income ratio, despite an increase of 8% in costs, further improved from 52% to 51% reflecting high levels of productivity.

Banking operations in the Republic of Ireland produced a strong performance despite a reduction in Irish GDP growth rate from 11.5% in 2000 to an estimated 6.5% in 2001. Profit increased due to good growth in business volumes, loans up 13% and customer accounts up 14% since December 2000. There was a notable 20% increase in Home Mortgage lending since December 2000, which was approximately 3% higher than the rest of the market. Deposit volumes were buoyant reflecting our strong customer base, and AIB led the market in the introduction of its Special Savings Incentive Account ('SSIA') products offering and achieved above its natural market share in these personal savings products by the year-end. AIB Finance and Leasing performed particularly well, benefiting from better margins and good growth in loan volumes.

Costs increased by 8% as a result of growth in business activity levels, some one-off euro costs, salary increases reflecting the National Programme for Prosperity and Fairness and a once-off realignment of salaries to market rates. Notwithstanding the increase in costs, efficiency improved and the cost income ratio reduced from 52% to 51%.

Ark Life marked its 10th anniversary with profit of €84 million and another record year in new business sales. Profit was down 12% on 2000 reflecting lower product margins as a result of a change in mix of sales with customers opting for a larger proportion of risk averse products reflecting weaker investment markets. The reduction in equity values also had an influence on embedded value profits. In addition, the year 2000 benefited from a higher impact of recognising reduced corporation tax rates in the Republic of Ireland. New regular premium business increased by 43% to €147 million including a 12% increase in new regular pensions to €31 million. Despite a difficult year for markets new single premium sales again exceeded a half billion euro at €530 million. Annual Premium Equivalent ("APE") sales were up 27% to €200 million.

In 2001, AIB announced a joint initiative with An Post which will provide AIB customers with access to approximately 1,000 additional outlets for a specified range of transactions. The initiative will allow AIB customers to lodge and withdraw cash from their accounts using their local post office from the second half of 2002.

2000 performance

Income before taxes increased by 18% in AIB Bank ROI division to €516 million in 2000 from €436 million in 1999 reflecting a strong performance in all key business units.

Banking operations in the Republic of Ireland experienced strong growth in business volumes reflecting the strength of the domestic economy, the power of the AIB franchise and favourable demographics with increasing disposable income creating higher demand for financial services. Loans increased by 22% with growth well spread across all economic sectors and customer accounts were up 17% since December 1999 with particularly strong growth in the second half-year. Lower margins partly offset the favourable impact of volume growth. There was good demand for home mortgage lending, up 26% since December 1999, despite competition from new entrants to the market.

The growth in business activity levels coupled with wage cost pressures in Ireland has resulted in higher costs, however the ongoing commitment to productivity has maintained the cost income ratio at 52% in 2000. The strength of the Irish economy and the underlying demographics underpin the growth prospects going forward.

Ark Life reported substantial growth in profit of 48% to €95 million for the year to December 2000. The increased profit was driven by record new business volumes and the benefit of lower corporation tax rates. Single premium product sales were very strong at €547 million, up 35% on 1999. New regular premium business amounted to €103 million, an increase of 21% including particularly strong growth of 55% in new regular pensions. The new pension legislation in Ireland has greatly enhanced the attractiveness of retirement provision, especially for the self-employed and proprietary directors. APE sales were up 25% to €158 million.

AIB Bank GB & NI division

Retail and commercial banking operations in Great Britain and Northern Ireland.

2001 performance

AIB Bank GB & NI income before taxes was €223 million up €18 million or 8% on 2000. The increase in profit reflects good performances in both Northern Ireland and Britain in less buoyant economic conditions. On a constant currency basis profit increased by 10% reflecting higher business volumes and good growth in fee income. Branch loans and deposits both increased by 8% with good performances in business loans, current accounts and index linked savings products. Operating costs were well managed with the cost income ratio remaining at 52%. Credit quality remained strong with the bad debt charge lower than 2000.

A focus on high potential sectors has yielded further expansion of the business, particularly from the professional sector. The not-for-profit sector is performing exceptionally well with a broadening of the target market to include universities and schools. Significant investment is planned with the objective of increasing business development capacity and the number of outlets. In the personal sector there was strong growth in the home mortgage book in line with our intention to focus on selected market segments.

2000 performance

AIB Bank GB & NI income before taxes was €205 million, up 28% on the year to December 1999 reflecting a very strong performance with higher volumes and strong growth in other income with foreign exchange income and branch commissions in particular, well ahead of 1999. An improved cost income ratio of 52% down from 57% in 1999 reflected improved efficiency with an 8% increase in costs since 1999. Progress has been made in changing the profile of the business including a higher level of business with medium sized firms and expansion in the professional sector, particularly in Britain. There was good growth in commercial loans, home mortgages, current accounts and term deposits. Loans increased by 16% and customer accounts were up 17% since December 1999.

USA division

USA includes Allfirst and Allied Irish America. Allfirst has banking operations in Maryland, Pennyslvania, Virginia and Washington DC. Allied Irish America includes retail and corporate operations in New York, Philadelphia, Los Angeles, Chicago, San Francisco and Atlanta and Community Counselling Services ("CCS").

2001 performance

Income before taxes of USA division, excluding the Fraud Losses, increased by 10% to €361 million for the year ended December 31, 2001 compared with €330 million for the year ended December 31, 2000.

Allfirst - Income before taxes in Allfirst, excluding the Fraud Losses, was higher by €40 million compared with 2000. A 22 basis point increase in the net interest margin and a 4% increase in other income, excluding the Fraud Losses, contributed to total revenue growth of 4%. Highlights of other income growth include 17% in electronic banking income and 14% in deposit service charges. SME and mid-market lending, which increased by 4%, was offset by curtailment of exposures to less attractive segments and the run-off of the residential mortgages portfolio following Allfirst's exit from this line of business in 1998. Core deposits increased by 10% partly due to a high level of short-term deposits at 31 December 2001. Costs increased by 2% mainly due to higher pension and healthcare costs. Non-staff operating costs were down 5% compared with 2000.

Non-performing assets amounted to €101 million or 0.82% of loans, other real estate and other assets owned at December 31, 2001, compared to €116 million, or 0.98% at December 31, 2000. The allowance for credit losses totaled €173 million at December 31, 2001, equal to 199% of non-performing loans.

Notwithstanding the Fraud Losses, Allfirst capital ratios remain strong with the tier 1 ratio at 6.96% and the total capital ratio at 10.6%. At December 31, 2001 Allfirst had trust preferred capital of US$397 million of which US$120 million was in excess of the regulatory 25% limit for inclusion within tier 1 capital.

Allied Irish America – Income before taxes was lower in 2001 due to substantial investment costs incurred in relation to the expansion of the geographic network and enhanced technology infrastructure. On an underlying basis there was strong growth in business volumes which was reflected in a 41% increase in underlying fee income and growth of 27% in risk weighted assets, mainly letters of credit. Provisions for loan losses increased due to an increased general provision to take account of the level of growth in the portfolio.

The New York based CCS was acquired by the Group in May 2001. CCS is a consulting firm to the not-for-profit sector worldwide. CCS is engaged primarily in the design and direction of fundraising initiatives for national and international charities, religious organisations and educational institutions.

In January 2002, AIB announced that it had reached an agreement to acquire Ketchum Canada, Inc., a fundraising consultancy which operates across Canada with main offices in Toronto, Montreal, Calgary and Vancouver. Ketchum was founded in 1984 and has assisted more than 600 clients in the Canadian not-for-profit sector in raising approximately Canadian $1.5 billion.

2000 performance

Income before taxes of USA division, excluding the Fraud Losses, increased by 5% to €330 million for the year ended December 31, 2000 compared with €313 million for the year ended December 31, 1999.

Allfirst - Income before taxes in Allfirst was higher by €14 million compared with 1999, excluding the Fraud Losses. Net interest income decreased due to more reliance on wholesale funding, lower treasury profit and competitive pressures on product margins. Underlying revenue highlights included strong growth of 16% in electronic banking income, 12% in corporate deposit service charges, higher joint venture and trust revenues and an 8% increase in commercial loan balances since December 1999. A decline in retail lending reduced overall growth in loans to 2%.

Costs increased by 2% mainly in advertising which was attributable to several advertising campaigns during 2000. Provisions for loan losses decreased due to the significant improvement in the foreign maritime portfolio.

Non-performing assets amounted to €116 million or 0.98% of loans, other real estate and other assets owned at December 31, 2000, compared to €80 million, or 0.74% at December 31, 1999. The allowance for credit losses totaled €164 million at December 31, 2000, equal to 191% of non-performing loans.

Allied Irish America - AIB's operations produced a strong performance with a good increase in operating profit before provisions. An investment program is underway which includes plans to increase the number of representative offices and 'e-enable' the business to further develop the national franchise in the charity and church sectors commonly known as the not-for-profit sector. The Chicago office opened in 2000 and the San Francisco office opened in early 2001 in addition to the established offices in New York, Philadelphia and Los Angeles. Loans increased by 20% since December 1999 and there was a 34% increase in other income.

Capital Markets division

Capital Markets division comprises Corporate Banking, Investment Banking and Treasury & International.

2001 performance

Income before taxes of Capital Markets division was €194 million for the year ended December 31, 2001 a growth of 22% compared with €159 million for the year ended December 31, 2000. The 22% growth in profit reflected buoyant customer activity and a strong treasury performance.

Corporate Banking had a record year, reporting a significant increase in profit. Loans were up 29% since December 2000 and fee income was particularly strong. In Ireland the business performed very well and completed a number of high profile transactions for large corporate clients. Business in Britain continued to grow strongly. The special finance unit which focuses on project and acquisition finance arranged and underwrote many significant debt financing deals. The New York business, which was launched in 2001, exceeded first year profit expectations despite the downturn in US economic activity. International business conducted from the IFSC also had a strong year.

Investment Banking profit declined due to reduced revenues resulting from lower asset values and client volumes in asset management and stockbroking businesses. The International Financial Services business has responded successfully to the decline in IFSC licensed activities with higher income streams from its activities in Switzerland and Hungary. There was a good increase in corporate finance fees, with our teams involved in many large transactions in the domestic market. There was a substantial growth in new business volumes in the custody/trustee/fund administration businesses.

Treasury & International reported strong growth in profit principally reflecting a substantially increased contribution from interest rate management activities. Treasury customer business also performed strongly, and the Group continued to maintain a strong liquidity position in euro, US dollar and sterling operations.

The division had higher credit and investment provisions reflecting the downturn in the global economic environment.

2000 performance

Income before taxes of Capital Markets division was €159 million for the year ended December 31, 2000 a growth of 4% compared with €152 million for the year ended December 31, 1999. Excluding fees received in 1999 in relation to a major privatization in the Irish market, profit growth was in excess of 20%. There has been substantial growth in recent years in corporate banking, asset management, International Financial Services Centre ("IFSC") services and corporate treasury activities. This has resulted in the position where the vast majority of revenues are derived from customer services and a reduced proportion obtained from proprietary activities.

Corporate Banking had a record year, reporting substantial growth in profits, with other income up 52%. Loans were up 25% since December 1999 with all areas of the business performing very well. The domestic business continued to pursue its strategy of providing innovative financing solutions and consulting services to its customers. The special finance unit which focuses on project and acquisition finance had a superb year and the international business conducted from the IFSC produced a strong performance.

The business in Britain produced a very strong performance in only its third year of operation and won many arranging and underwriting mandates. AIB Corporate Banking established a presence in New York during 2000 and plans to develop a lending business in structured corporate credit. AIB became one of the first European banks to enter the fund management business for corporate debt and bonds by launching a €350 million Collateralised Debt Obligation ("CDO") in January 2001.

Investment Banking produced a strong performance in all major business units. Asset Management business had a good performance with strong profit growth driven by new business mandates. Higher profit was achieved in the UK, where fees were earned from new investment trusts launched in 1999 and 2000.

Profit from Custodial, Trustee and Funds Administration businesses was substantially higher due to significant growth in new business volumes, underpinning our presence as a major provider of funds administration and trustee services in the IFSC.

Goodbody Stockbrokers, Corporate Finance and IFSC operations performed very well. Goodbody benefited from its involvement in a number of Initial Public Offerings and private placements and was the leading equity fundraiser in Ireland for the technology sector in 2000.

Treasury & International reported profits were lower than 1999 due to a lower performance from interest rate management and trading activities, particularly in the second half-year. Treasury customer business had a very good year with strong growth particularly in commercial foreign exchange in Corporate and Commercial Treasury and a strong performance in International Business Services activities.

Poland

Poland comprises Bank Zachodni WBK ("BZWBK"), in which AIB has a 70.5% shareholding, together with its subsidiaries and associates.

2001 performance

AIB successfully completed the merger of its Polish operations in 2001, bringing together WBK and Bank Zachodni to form Poland's fifth largest bank.

Excluding merger costs income before taxes was lower at €74 million due to more difficult market conditions.

Revenue growth of 8% reflected slower economic conditions in Poland. Loans and deposits increased by 11% and 9% respectively. The net interest margin declined reflecting reduced deposit margins due to substantially lower interest rates. Other income growth of 6% reflected growth of 54% in card fees, a 12% increase in current account fees and branch commissions and a 7% increase in foreign exchange profits partly offset by lower brokerage revenue as a result of the fall in equity markets. On a constant currency basis costs increased by 12%. This increase included further progress in developing a new branch technology platform and the expansion of the franchise with 68 new branches opened and 67 new ATMs installed in 2001.

Provisions reduced from €23 million to €9 million reflecting the use of general provisions which were created on acquisition and slightly better bad debt experience in BZWBK.

2000 performance

Poland contributed €88 million in 2000, a 40% increase in income before taxes of €63 million in 1999. A majority shareholding in BZ was acquired in September 1999. The Poland results include BZ for the full year in 2000 and for the period from September 16, 1999 to December 31, 1999.

WBK achieved record income before taxes with growth of 15% in 2000, or 31% excluding the impact of equity investment disposals in 1999. The strong results reflect increased business volumes, wider deposit margins and good growth in fee income. Loans increased by 16% and customer accounts were up 21% since December 1999.

There was significant growth of 24% in other income, excluding the impact of equity investment disposals in 1999, illustrating the growing revenue potential of our Polish franchises. Key highlights of the performance included a 128% increase in card fees, growth of 46% in foreign exchange income and a 16% increase in current account fees and branch commissions. Costs increased as a result of expansion and development of the branch and ATM networks and technology enhancements. WBK expanded its franchise with 28 new outlets and 44 new ATMs.

BZ full year accounts were included for the first time in 2000. Significant progress is being achieved in transferring AIB's business and lending processes to BZ. The analysis and assessment of credit quality for fair value purposes at BZ was completed in 2000 resulting in additional fair value provisions of €38 million. Loan volumes were up 1% while deposit volumes increased by 10% since December 1999. As part of its development programme BZ opened 16 new outlets and installed 29 new ATMs since December 1999.

AIB invested a further PLN 200 million in BZ in 2000, increasing the Group's shareholding to 83%.

Group/ENeB

Enterprise Networks and eBusiness ("ENeB") - This division which was established in 2001 manages the development and implementation of AIB Group's information technology and e-business strategy and associated investments. These activities include the consolidation and optimisation of the technology infrastructure with an emphasis on prioritisation and leveraging benefits across the Group. ENeB costs not allocated to other divisions are included in Group.

Group also includes interest income earned on capital not allocated to divisions, the funding cost of certain acquisitions, hedging costs in relation to the translation of foreign currency profits, and central services costs.

2001 performance

Group/ENeB reported a profit of €31 million in the year to December 2001, compared with a loss of €24 million in 2000. The profit includes €93 million from the sale of AIB's interests in KCH and the €50 million additional unallocated credit provision created at Group level. Excluding these items, the reduced loss was primarily due to lower hedging costs on the translation of foreign currency profits.

2000 performance

Group/ENeB reported a loss before taxes of €24 million in 2000, compared with income before taxes of €39 million in 1999. This decrease was primarily due to provision write-backs of €16 million in 1999 relating to Latin American provisions no longer required, hedging costs in relation to the translation of our foreign currency profits and the funding cost of the BZ acquisition. The 1999 profit included a gain of €15 million from the sale of AIB's private banking and treasury operations located in Singapore to KCH.

Liquidity & capital resources

It is the Group's policy to maintain a strong capital base and to utilize it efficiently in the Group's development as a diversified international banking group.

The following table shows AIB Group's capital resources at December 31, 2001, 2000 and 1999:

	December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Stockholders' funds-equity	4,871	4,734	4,402
Stockholders' funds non-equity	775	264	245
Equity and non-equity minority interests	312	272	227
Undated capital notes	426	413	397
Dated capital notes	1,594	1,836	1,587
	7,978	7,519	6,858

Capital resources increased by €459 million during the year ended December 31, 2001. The increase arose primarily as a result of net retentions of €350 million and the issue of €500 million 7.5% Step-Up Callable Perpetual Reserve Capital Instruments (RCI's) on February 5, 2001. The value of the Polish zloty, US dollar and sterling strengthened against the euro by 10%, 6%, and 3% respectively, resulting in a positive foreign currency translation adjustment of €263 million. These increases were offset by redemptions of €311 million dated capital notes and the actuarial loss in recognized retirement benefit plans of €402 million.

Capital resources increased by €661 million during the year ended December 31, 2000. The increase arose primarily as a result of net retentions of €301 million and the issue of capital notes of €149 million. The value of the US dollar and Polish zloty strengthened against the euro by 8%, resulting in a positive foreign currency translation adjustment of €290 million. These increases were offset by the actuarial loss in recognized retirement benefit plans of €201 million.

In carrying out the Group's overall capital resources policy, a guiding factor is the supervisory requirements of the Central Bank of Ireland which applies a capital/risk assets ratio framework in measuring capital adequacy. This framework analyzes a bank's capital into two tiers. It 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 Central Bank of Ireland 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 or exchange rates. The remaining risks, relating to the normal retail and wholesale banking activities, are regarded as banking book risks.

As part of the Group's capital management activities, the Group manages its mix of capital by currency in order to minimize the impact of exchange rate fluctuations on the Group's key capital ratios.

The following table shows the components and calculation of the Group's tier 1 and total capital ratios at December 31, 2001, 2000 and 1999.

	December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Adjusted capital base			
Tier 1 capital	4,499	3,604	3,110
Tier 2 capital	2,742	2,926	2,551
	7,241	6,530	5,661
Supervisory deductions	294	214	149
Total capital	6,947	6,316	5,512
Risk weighted assets			
Banking book:			
On balance sheet	54,839	49,396	40,623
Off-balance sheet	10,854	8,779	7,184
	65,693	58,175	47,807
Trading book:			
Market risks	2,897	1,956	1,401
Counterparty and settlement risks	268	82	54
	3,165	2,038	1,455
	68,858	60,213	49,262
Capital ratios			
Tier 1 capital	6.5%	6.0%	6.3%
Total capital	10.1%	10.5%	11.2%

Although impacted by the Fraud Losses, the Group's capital ratios remained at a satisfactory level in 2001, with the tier 1 ratio at 6.5% and the total capital ratio at 10.1%. Tier 1 capital increased by €0.9 billion to €4.5 billion reflecting the issue of €500 million RCI's, qualifying retentions of €287 million, and the impact of stronger exchange rates. Tier 2 capital decreased by €184 million since December 2000 reflecting redemptions of €311 million, partly offset by currency movements. Risk weighted assets increased by 14% to €69 billion, 11% excluding currency factors.

In 2000, the Group's Tier 1 capital ratio declined from 6.3% to 6.0%. Tier 1 capital increased by €0.5 billion to €3.6 billion reflecting qualifying retentions of €231 million, positive foreign currency translation adjustments of €150 million and issues of share capital. Risk weighted assets increased by 22% to €60 billion, 18% excluding currency factors.

Access to the capital markets depends to a certain extent on external credit ratings although, except at the extremes, a credit rating will normally impact the price at which capital is available rather than the volume. On April 15, 2002 Standard & Poors lowered its long-term counterparty rating of AIB to single 'A' from single 'A' plus. The ratings action by Standard & Poors reflects their view that the reported fraud at Allfirst and the subsequent public perception of weaknesses in risk management have reduced AIB's flexibility in the capital markets. However, AIB remains well capitalized with Tier 1 and total capital ratios well above the regulatory minima of 4.25% and 8.5% respectively. Both Moodys and Fitch have re-affirmed their long-term counterparty ratings of AIB at 'Aa3' and 'AA' minus respectively. Management believe that the ratings action by Standard & Poors will not have a significant impact on AIB's ability to access the capital markets or the cost of such access.

The table below provides details of the contractual cash obligations of the Group as of December 31, 2001.

	Less than 1 year	1 to 4 years	4 to 5 years	After 5 years	Total
Contractual cash obligations			(Euro in millions)		
Long term debt	161	–	–	1,433	1,594
Capital lease obligations	55	14	–	–	69
Operating leases	3	11	8	33	55
Finance leases	1	1	–	–	2
Other long term obligations (funding of Icarom)	11	34	11	67	123
Total	231	60	19	1,533	1,843

The table above excludes deposits and other liabilities taken in the normal course of banking business and short term and undated liabilities. The maturity of deposits by banks is given in note 32, customer accounts in note 33, and debt securities in issue in note 34.

In addition, AIB Group is party to contingent liabilities and commitments with nominal amounts of €25.5 billion at December 31, 2001 (see note 42 "Memorandum items: Contingent liabilities and commitments" of the Notes to Consolidated Financial Statements).

Further discussion on liquidity is included in Item 11 "Quantitative and qualitative disclosures about market risk - Liquidity risk" on pages 67 to 68.

Off-balance sheet arrangements

AIB utilizes Special Purpose Entities (also known as a Special Purpose Vehicles "SPV's") in the ordinary course of business, primarily to provide liquidity and facilitate customer transactions.

Under Irish GAAP, financial statements are required to reflect the substance of the transactions rather than their legal form. As a result the substance of transactions with a Special Purpose Entity forms the basis for the treatment in the Group's financial statements. An SPV is consolidated in the financial statements if it meets the criteria for consolidation in Financial Reporting Standard 2 "Accounting for Subsidiaries", or if the risks and rewards associated with the SPV reside with the Group such that the substance of the relationship is that of a subsidiary. The key areas where the Group uses SPV's are set out below.

Structuring of loans

The Group structures certain financing transactions, including funding the purchase or construction of certain assets, through SPV's to ensure the availability of credit to customers in an efficient manner. These SPV's are consolidated in the financial statements and the exposures are included within loans to customers.

Financing transactions

The Group has used SPV's to securitize some of its Asset Backed Securities portfolio. Under these transactions the Group's exposure to loss is limited. These transactions have been accounted for in accordance with Financial Reporting Standard 5 "Reporting the substance of transactions" and details are included in note 24 of the notes to consolidated financial statements.

Asset management

The Group provides asset management services to a large number of clients on an arms length basis and at market terms and prices. These assets are not consolidated in the Group's financial statements, as they are not assets of AIB or its subsidiaries.

AIB also manages third party assets through SPV's in which it has acquired interests. These SPV's, primarily Collateralized Debt Obligations ("CDO's"), are not consolidated in the Group's financial statements. AIB does not have control over the SPV's nor does it bear the significant risks and rewards that are inherent in the assets. Accordingly, the Group's interests are included within equity shares. A CDO is an investment vehicle which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. The CDOs invest in a range of senior secured loans, mezzanine loans and high yield bonds.

Employee compensation trusts

AIB and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of these structures are provided in notes 30 and 49 of the notes to consolidated financial statements.

Capital expenditure commitments

At December 31, 2001, the total estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €69 million (2000: €69 million; 1999 €46 million). AIB Group believes that its capital resources are adequate to meet such commitments.

Placings with banks

The following table analyzes placings with banks, based on the offices from which the placing is made.

	December 31,		
	2001	2000	1999
		(Euro in millions)	
Placings with banks, repayable within 30 days:			
Domestic offices	1,949	2,056	2,072
Foreign offices	2,192	1,516	675
	4,141	3,572	2,747
Placings with banks, repayable beyond 30 days:			
Domestic offices	945	400	441
Foreign offices	961	221	643
	1,906	621	1,084
Total	6,047	4,193	3,831

AIB Group places funds with other banks for a number of reasons, including liquidity management, the facilitation of international money transfers and the conduct of documentary credit business with correspondent banks.

Limits on the aggregate amount of placings that may be made with individual institutions are established in accordance with AIB Group credit policy.

Deposits by customers

The following table analyzes average deposits by customers based on the location of the offices in which the deposits are recorded.

	December 31, 2001	2000	1999
		(Euro in millions)	
Domestic offices			
Current accounts	6,012	4,778	3,442
Deposits:			
Demand	4,137	4,386	4,096
Time	10,695	9,109	8,785
	20,844	18,273	16,323
Foreign offices			
Current accounts	7,388	6,478	4,872
Deposits:			
Demand	5,778	5,951	5,183
Time	12,344	11,801	9,990
	25,510	24,230	20,045
Total	46,354	42,503	36,368

Current accounts are primarily non-interest bearing checking accounts raised through AIB Group's branch network in Ireland, Northern Ireland, Britain, the United States and Poland.

Demand deposits attract interest rates which vary from time to time in line with movements in market rates and according to size criteria. Such accounts are not subject to withdrawal by check or similar instrument and have no fixed maturity dates.

Time deposits are generally larger, attract higher rates of interest than demand deposits and have predetermined maturity dates.

Customer deposits by currency

The following table analyzes customer deposits by currency.

	December 31, 2001	2000	1999
		(Euro in millions)	
Eurozone	22,747	19,602	17,041
US dollars	16,104	14,758	12,673
Sterling	10,928	9,909	9,009
Polish zloty	4,607	3,949	3,414
Other currencies	171	219	198
	54,557	48,437	42,335

The following table shows details of the Group's large time deposits and certificates of deposit (US$100,000 and over or the equivalent in other currencies) by time remaining until maturity.

	December 31, 2001			
	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months
		(Euro in millions)		
Large time deposits				
Deposits offices	6,648	185	125	262
Foreign offices	2,331	162	164	362
Certificates of deposit				
Domestic offices	959	56	–	–
Foreign offices	1,073	865	1,246	89
	11,011	1,268	1,535	713

Short-term borrowings

The following table shows details of short-term borrowings of AIB Group for the years ended December 31, 2001, 2000 and 1999.

	December 31,		
	2001	2000	1999
		(Euros in millions)	
Commercial paper:			
End of year outstandings	133	338	298
Highest month-end balance	338	338	298
Average balance	186	249	243
Average rate of interest			
At end of year	3.44%	4.94%	3.28%
During the year	4.38%	4.18%	3.00%
Federal funds purchased:			
End of year outstandings	546	544	291
Highest month-end balance	1,066	1,137	1,169
Average balance	859	737	767
Average rate of interest			
At end of year	1.63%	6.46%	5.49%
During year	3.94%	6.19%	4.96%
Repurchase agreements:			
End of year outstandings	2,468	2,363	1,604
Highest month-end balance	2,478	3,067	2,607
Average balance	2,046	2,115	1,475
Average rate of interest			
At end of year	2.84%	5.25%	4.35%
During year	4.09%	4.72%	4.38%
Master demand notes of Allfirst Financial Inc.:			
End of year outstanding	301	323	330
Highest month–end balance	323	366	330
Average balance	286	328	297
Average rate of interest			
At end of year	1.75%	5.75%	5.15%
During year	3.68%	5.49%	4.78%
Other short-term borrowings:			
End of year outstandings	17,034	15,806	11,465
Highest month-end balance	24,182	18,895	15,592
Average balance	17,864	15,010	10,319
Average rate of interest			
At end of year	3.46%	5.82%	5.08%
During year	4.47%	5.79%	4.91%

Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Average interest rates at the year end are average rates for a single day and as such may reflect one-day market distortions which may not be indicative of generally prevailing rates. "Other short-term borrowings" consist principally of borrowings in the inter-bank market included within "Deposits by banks" in the Consolidated Financial Statements and generally have remaining maturities of one year or less. The maturity profiles of the above outstandings are disclosed in notes 32, 33 and 34 of the Consolidated Financial Statements on pages 122 to 124.

Trend information

See Item 5 – "Operating results" on pages 29 to 45.

Directors & senior management

Certain information in respect of the Directors and Executive Officers is set out below, with the age of each such person as at December 31, 2001 in parentheses and, in the case of Executive Directors, the year of appointment to their present position in square brackets. At each Annual General Meeting, the terms of office of Directors appointed since the previous Annual General Meeting, together with the terms of one-third by rotation of the remaining Directors expire. Such Directors are eligible to stand for re-appointment.

	Name	Principal occupation	Year in which appointed Director
	Chairman		
†	Lochlann Quinn (60)	Chairman of AIB and Deputy Chairman, Glen Dimplex	1995
	Group Chief Executive		
*	Michael Buckley (56) [2001]	Group Chief Executive	1995
	Directors		
*	Frank P. Bramble (53) [1998]	Chief Executive, USA Division	1998
#	Adrian Burke (60)	Chartered Accountant	1997
ø	Padraic M. Fallon (55)	Chairman, Euromoney Institutional Investor PLC	1988
#	Dermot Gleeson (53)	Barrister	2000
ø	Don Godson (62)	Company Director	1997
#†	Derek A. Higgs (57)	Company Director	2000
*	Gary Kennedy (43) [2002]	Group Director, Finance, Risk, Enterprise Networks & eBusiness	1997
†	John B. McGuckian (61)	Chairman of Ulster Television plc	1977
ø	Carol Moffett (49)	Bank Director	1995
	Jim O'Leary (45)	University Lecturer	2001
#	Michael J. Sullivan (62)	Attorney-at-Law	2001

* *Indicates Executive Director*
† *Indicates member of Nomination and Remuneration Committee*
\# *Indicates member of Audit Committee*
ø *Indicates member of Social Affairs Committee*

Name	**Principal occupation**	**Year in which appointed to present position**
Other Executive Officers		
Gerry Byrne (45)	Managing Director, Poland Division	2001
Colm Doherty (43)	Managing Director, Capital Markets Division	1999
Michael J. Lewis (53)	Head of Strategic Human Resources	1997
Aidan McKeon (54)	Managing Director AIB Bank GB & NI	2001
Declan McSweeney (48)	Chief Financial Officer	1997
Con O'Sullivan (55)	Head of Group Finance & Corporate Services	2001
Patrick Ryan (55)	Group Treasurer	1995
Eugene Sheehy (47)	Managing Director AIB Bank Republic of Ireland	2001

Changes in top management team since December 31, 2001, were as follows:

- On January 8, 2002, it was announced that:-
  - Con O'Sullivan was appointed Deputy Head of Group Finance, Risk, Enterprise Networks & eBusiness;
  - Pat Ryan is to retire from the Group - this retirement to take place on June 2, 2002; and
  - Susan Keating, President and Chief Executive Officer, Allfirst Financial Inc., is to join the AIB Group Executive Committee.
- On March 14, 2002, Eugene Sheehy was appointed Chief Executive Officer of USA Division and Executive Chairman Designate of Allfirst Financial Inc., and Allfirst Bank. Also on that date, Frank Bramble's previously planned retirement was announced – this retirement to take place on April 19, 2002 from the AIB Board and on April 30, 2002 as Chief Executive, USA Division.
- On March 22, 2002, Donal Forde was appointed Managing Director, AIB Bank Republic of Ireland.

Compensation

Aggregate remuneration of Directors and Officers

The aggregate remuneration for the year ended December 31, 2001 of all Directors and Executive Officers as a group amounted to €7.472 million; the corresponding figure for the year ended December 31, 2000 was €7.565 million. These sums include amounts paid under the Group's Employees' Profit Sharing Plans, together with pension and other remuneration paid to former Directors (2001: €0.467 million; 2000: €0.425 million).

Included above is an aggregate amount set aside by AIB, in the years ended December 31, 2001 and 2000, to provide pension benefits for Directors and Executive Officers of AIB which amounted to €1.081 million and €0.789 million respectively.

Remuneration policy

The Company's policy in respect of the remuneration of the executive directors is to provide remuneration packages which attract, retain, motivate and reward the executives concerned and, by ensuring strong links between performance and reward, encourage them to enhance the Company's performance. In considering such packages, cognizance is taken of: the levels of remuneration for comparable positions, as advised by external consultants; the responsibilities of the individuals concerned; their individual performances measured against specific and challenging objectives; and overall Group performance.

Remuneration

	December 31, 2001						
	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	Total
				(Euro in thousands)			
Executive directors							
Frank P Bramble.................	29	811	–	–	21	619	1,480
Michael Buckley..................	29	502	–	9	65	80	685
Kevin J Kelly.......................	24	144	–	9	18	23	218
Gary Kennedy......................	29	282	–	9	37	42	399
Thomas P Mulcahy.............	43	380	–	9	16	59	507
	154	2,119	–	36	157	823	3,289
Non-executive directors							
Adrian Burke.......................	65					–	65
Padraic M Fallon..................	31					–	31
Dermot Gleeson..................	45					–	45
Don Godson........................	46					–	46
Derek A Higgs.....................	43					–	43
John B McGuckian..............	75					–	75
Carol Moffett.......................	43					–	43
Jim O'Leary.........................	1					–	1
Lochlann Quinn..................	207					–	207
Michael J Sullivan................	16					–	16
	572					–	572
Former directors							
Pensions[6]							103
Other payments[7].................							364
							467
Total							4,328

	December 31, 2000						
	Fees[1]	Salary	Bonus[2]	Profit share[3]	Taxable benefits[4]	Pension contributions[5]	Total
				(Euro in thousands)			
Executive directors							
Frank P Bramble.................	29	783	470	–	15	424	1,721
Michael Buckley..................	29	307	157	13	149	50	705
Kevin J Kelly.......................	29	309	159	13	38	50	598
Gary Kennedy......................	29	252	129	11	42	38	501
Thomas P Mulcahy.............	29	698	349	13	40	109	1,238
	145	2,349	1,264	50	284	671	4,763
Non-executive directors							
Adrian Burke.......................	65					–	65
Padraic M Fallon.................	36					–	36
Dermot Gleeson..................	24					–	24
Don Godson........................	42					–	42
Derek A Higgs.....................	4					–	4
John B McGuckian..............	86					–	86
Carol Moffett.......................	41					–	41
Denis J Murphy....................	38					–	38
Lochlann Quinn..................	198					–	198
	534					–	534
Former directors							
Pensions[6]							98
Other payments[7].................							327
							425
Total							5,722

[1] Fees comprise a fee paid in respect of service as a director, and additional remuneration paid to any non-executive director who holds the office of Chairman, serves on the board of a subsidiary company, or performs services outside the ordinary duties of a director, such as through membership of Board Committees.

[2] The executive directors participate in a discretionary, performance-related, incentive scheme for senior executives under which bonuses may be earned on the achievement of specific, performance-related objectives, reviewed annually. The bonus may range from 0% to 50% of annual salary, except that the bonus for Mr Frank P Bramble, Chief Executive, USA division, may range from 0% to 120% of annual salary.

[3] Information on the employees' profit sharing plans, which are operated on terms approved by the shareholders, is given on page xx.

[4] Taxable benefits include the use of a company car or an allowance in lieu thereof, benefit arising from loans made at preferential rates, and any allowances related to the undertaking of international assignments within the Group.

[5] Pension contributions represent payments to defined benefit pension plans, in accordance with actuarial advice, to provide post-retirement pensions. The fees of the non-executive directors who joined the Board since 1990 are not pensionable. In respect of the US-based executive director, pension benefits are computed on the basis of salary and annual bonus in accordance with US practice. The pension benefits earned during the year, and accrued at year-end, are as follows:

	Increase in accrued benefits during 2001[a]	**Accrued benefit at year end[b]**	**Transfer values[c]**
	(Euro in thousands)		
Executive directors			
Frank P Bramble	64	380	538
Michael Buckley	104	273	1,329
Kevin J Kelly	29	261	463
Gary Kennedy	15	45	103
Thomas P Mulcahy	49	553	788
Non-executive directors			
Padraic M Fallon	0.2	10	2
John B McGuckian	(0.1)	16	(1)

[a] Increases/(decrease) are after adjustment for inflation, and reflect additional pensionable service and earnings.

[b] Figures represent the accumulated total amounts at December 31, 2001, or at actual retirement dates in respect of Messrs Kelly and Mulcahy, of accrued benefits payable at normal retirement dates.

[c] Figures show the transfer values of the increases/(decrease) in accrued benefits during 2001. These transfer values do not represent sums paid or due, but the amounts that the pension plan would transfer to another pension plan, in relation to the benefits accrued in 2001, in the event of the member leaving service.

[6] Pensions represent the payment of pensions to former directors or their dependants, granted on an ex-gratia basis and fully provided for in the balance sheet.

[7] Other payments comprise payment of €67,760 to a former non-executive director serving on the board of a subsidiary company (2000: €42,228), and remuneration of €296,634 to Mr Jeremiah E Casey under the terms of a post-retirement consultancy contract approved by shareholders at the 1999 Annual General Meeting (2000: €285,049).

Board practices

Appointment of directors

Non-Executive Directors appointed since 1990 are appointed for an initial period of six years, which may be extended for a further period of three years. Following co-option, Directors must retire at the next Annual General Meeting and may go before the shareholders for re-election.

Not more than one-third of the Directors are required by the Articles of Association to retire from office at each Annual General Meeting. This means that, in effect, Directors are re-elected every three years. "The Combined Code: Principles of Good Governance and Code of Best Practice" (the "Code") recommends that all Directors should submit themselves for re-election at regular intervals and at least every three years. As the Articles' provision in this regard could lead, in certain circumstances, to an interval of four years between a Director's appointment and re-appointment, an amendment to the Articles will be proposed at the 2002 Annual General Meeting, to bring the relevant provision fully into line with the Code's recommendation.

Changes in directorate during 2001

The following Board changes occurred with effect from the dates shown:
- Mr Kevin J. Kelly retired as an Executive Director on June 4, 2001;
- Mr Thomas P. Mulcahy retired as an Executive Director on June 21, 2001;
- Mr Michael J. Sullivan was appointed a Non-Executive Director on July 26, 2001;
- Mr Jim O'Leary was appointed a Non-Executive Director on December 20, 2001.

Audit committee

Members: Mr Adrian Burke, Chairman (from June 1, 2001), Mr Don Godson, Chairman (to May 31, 2001), Mr Derek A Higgs (from June 1, 2001), Mr Michael J Sullivan (from November 1, 2001), Mr Dermot Gleeson.

The Audit Committee holds five/six scheduled meetings each year. The auditors are invited to attend these meetings, along with the Group Chief Executive, the Group Director, Finance, Risk and Enterprise Networks and eBusiness, the Chief Risk Officer and the Group Internal Auditor. The Audit Committee reviews the Group's annual and interim accounts; the scope of the audit and the findings, conclusions and recommendations of the auditors; the nature and extent of non-audit services provided by the auditors; and the effectiveness of internal controls. The Committee is responsible for ensuring the cost-effectiveness of the audit and for confirming the independence of the auditors and the Group Internal Auditor, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Both the auditors and the Group Internal Auditor have 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.

Nomination and remuneration committee

Members: Mr Lochlann Quinn, Chairman, Mr Adrian Burke (to May 31, 2001), Mr Derek A Higgs (from June 1, 2001), Mr John B McGuckian.

The Nomination and Remuneration Committee meets five/six times each year. The Committee is responsible for recommending candidates to the Board for appointment as Directors. Its remit also includes, inter alia, recommending to the Board appropriate remuneration policies, and determining, under advice to the Board, the specific remuneration packages of the Executive Directors.

Social affairs committee

Members: Ms Carol Moffett, Chairman, Mr Michael Buckley (to May 31, 2001), Mr Padraic M Fallon, Mr Don Godson (from June 1, 2001).

The Social Affairs Committee met on seven occasions in 2001. Its role, as defined in guidelines approved by the Board, is to assist the Company in discharging its social responsibilities. This includes developing corporate-giving and sponsorship policies and reviewing responses to a range of social responsibility issues.

Service contracts

There are no service contracts in force for any director with the Company or any of its subsidiaries.

Share ownership

Share options

To encourage focus on long-term shareholder value, executive directors are eligible for grants of share options. Options are usually granted on a phased basis. The exercise of options granted between January 1, 1996 and December 31, 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 January 1, 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. The percentage of share capital that may be issued under the share option plan, and individual grant limits, comply with the requirements of the Irish Association of Investment Managers.

Details of the executive directors' share options are given on page 55, and additional information in relation to the Executive Share Option Plans is given on pages 56 and 57. Non-executive directors do not participate in that plan.

Interests in shares

The beneficial interests of the directors and the secretary and of their spouses and minor children are as follows:

	Ordinary shares of €0.32	
	December 31, 2001	January 1, 2001*
(a) Ordinary shares		
Directors:		
Frank P Bramble	124,278	133,548
Michael Buckley	176,605	128,690
Adrian Burke	10,642	10,642
Padraic M Fallon	8,148	8,011
Dermot Gleeson	2,000	2,000
Don Godson	25,099	25,099
Derek A Higgs	5,000	–
Gary Kennedy	25,355	9,191
John B McGuckian	66,113	66,113
Carol Moffett	15,675	15,675
Jim O'Leary	–	–
Lochlann Quinn	314,588	309,309
Michael J Sullivan	700	700
Secretary:		
W M Kinsella	13,897	13,005

**or later date of appointment*

(b) Options to subscribe for shares

	December 31, 2001	January 1, 2001	Since January 1, 2001 Granted	Since January 1, 2001 Exercised	Price of options exercised	Market price at date of exercise	Weighted average subscription price of options outstanding at December 31, 2001
Directors:					€	€	€
Michael Buckley	216,500	181,500	80,000	45,000	3.38	12.40	9.94
Gary Kennedy	105,000	235,000	20,000	135,000	6.25	13.05	
				15,000	6.25	12.82	7.88
Secretary:							
W M Kinsella	60,000	65,000	10,000	5,000	3.38	12.00	
				10,000	3.38	13.53	8.90

The options outstanding at December 31, 2001 are exercisable at various dates up to 2011. Details of these are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the Company's Registered Office.

(c) Other options

On January 1, 2001 and December 31, 2001, Mr Frank P Bramble held options over 650,000 AIB American Depositary Receipts ('ADRs') (equivalent to 1,300,000 ordinary shares) at a weighted average price of US$22.45 per ADR, under the terms of the Allfirst Financial Inc. 1997 Stock Option Plan (*note 40*) and the Allfirst Financial Inc. 1999 Stock Option Plan. Under the terms of those Plans, ADRs are purchased in the market by a trust which holds the ADRs, and Plan participants are granted options over ADRs so held. The options granted under the 1997 Plan, equivalent to 690,000 ordinary shares, have expiry dates up to October 2008. The options granted under the 1999 Plan, equivalent to 610,000 ordinary shares, will not vest and become exercisable unless the following criteria, set by the Management and Compensation Committee of Allfirst Financial Inc. and approved by the Nomination and Remuneration Committee, are satisfied:

– 35% of the grant on the achievement, by Allfirst, of tangible net income growth of 7.5% per annum, compound, over the two year period following the date of grant;

– 35% of the grant on the achievement, by Allfirst, of a tangible cost/income ratio of less than 55.0% for the two year period following the date of grant;

– 30% of the grant on the achievement of growth in AIB tangible EPS over the three year period following the date of grant at least equal to the growth in the CPI plus 5% per annum, compound, over that period.

(d) Long Term Incentive Plan

Under the terms of the Long Term Incentive Plan, approved by shareholders at the 2000 Annual General Meeting (see note 40), the following conditional grants of awards of ordinary shares were made during 2001:

Mr Michael Buckley	18,000 shares
Mr Gary Kennedy	10,000 shares

These awards will not vest in the award holders unless (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 EPS, being below that level, is such as to position the Company in the top 45% of that Index. 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.

The year-end market price, on the Irish Stock Exchange, of the Company's ordinary shares was €13.00 per share; during the year the price ranged from €9.31 to €13.80 per share.

There were no changes in the above interests between December 31, 2001 and March 12, 2002.

Employee share plans

The Company operates employee profit sharing plans on terms approved by the shareholders. All employees, including executive directors, of the Company and certain subsidiaries are eligible to participate, subject to a minimum of one years continuous service at the end of the relevant financial period and subject also to their being in employment on the date on which the invitation to participate is issued. Under the plans, the directors at their discretion may set aside each year, for allocation to the trustees of the Republic of Ireland Plan, a sum not exceeding 5% of eligible profits of participating companies in the Republic of Ireland and, in the case of the UK Plan, 4% of such profits in the UK. Employees may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by the Trustees for a minimum period of two years and are required to be held for a total period of three years for the employee to obtain the maximum tax benefit.

Employees in the Republic of Ireland may elect to forego an amount of salary, subject to certain limitations, towards the acquisition of additional shares. The maximum market value of shares that may be appropriated to any employee in a year may not exceed €12,697 in the Republic of Ireland and Stg£ 8,000 in the UK.

A Save As You Earn share option plan is operated for eligible employees in the UK. Under that Plan 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, and to utilize amounts so saved in the acquisition of market-purchased shares in the Company.

Share option plan

The Company operates a share option plan on terms approved by the shareholders. Officials may participate in the plan at the discretion of the directors. Options are granted at the market price, being the middle market quotation of the Bank's shares on the Irish Stock Exchange on the day on which the option is granted. The exercise of options granted between January 1,1996 and December 31, 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 January 1, 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 exercised only between the third and seventh anniversaries of their grant in the case of the options granted up to December 31, 2000, and between the third and tenth anniversaries of grant date in the case of options granted subsequent to that date.

At December 31, 2001 options were held by some 3,085 participants over 29,808,629 ordinary shares in aggregate (3.4% of the issued ordinary share capital), at prices ranging from €3.38 to €15.46 per share; these options may be exercised at various dates up to September 4, 2011.

Subscription price	**Exercise period**
€3.38	March 1998 - March 2002
€4.19	March 1999 - March 2003
€5.80/€6.25	May 2000 - May 2004
€7.61	October 2000 - October 2004
€11.90/€12.20	April 2001 - April 2005
€14.05/€15.46	May 2002 - May 2006
€10.02	May 2003 - May 2007
€11.98	April 2004 - April 2011
€12.40	September 2004 - September 2011

At December 31, 2001, Executive Directors and Officers as a group held options, under the AIB Share Option Plan, over a total of 1,147,000 ordinary €0.32 shares.

The following is a summary of the changes in outstanding options under the AIB Executive Share Option Plan for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	**2000**	**1999**
Shares subject to options at January 1	29,379,228	19,973,976	14,778,476
Options exercised at €1.98	–	–	(200,000)
Options exercised at €2.64	–	(30,000)	(160,000)
Options exercised at €3.32	(40,000)	–	–
Options exercised at €3.36	(149,000)	(680,500)	(257,500)
Options exercised at €3.38	(1,851,728)	(476,748)	(283,000)
Options exercised at €3.68	–	(200,000)	–
Options exercised at €4.19	(664,000)	(165,000)	(538,000)
Options exercised at €5.80	(620,000)	(384,000)	–
Options exercised at €6.25	(150,000)	(15,000)	–
Options exercised at €11.90	(7,500)	–	–
Options granted	4,246,929	11,668,700	6,634,000
Options lapsed, in respect of former employees	(335,300)	(312,200)	–
Shares subject to options at December 31	29,808,629	29,379,228	19,973,976

Limitations on profit-sharing and executive share option plans

Under the terms of the Employees' Profit Sharing Plans the aggregate number of shares which may be purchased/held by the trustees may not exceed 10% of the issued ordinary share capital. The aggregate number of shares issued under the Share Option Plan may not exceed 5% of the issued ordinary share capital. The Company complies with guidelines issued by the Irish Association of Investment Managers in relation to those plans.

Employees

As at December 31, 2001 AIB Group employed approximately 31,900 staff (2000: approximately 31,800 staff) on a world-wide basis in Ireland, Northern Ireland, Great Britain, USA and Poland operating out of approximately 1,100 offices.

AIB Group offers a wide range of employee relations programmes and the continued success of the Group, in part, can be attributed to the positive commitment and dedication of our employees in each of the areas in which we operate.

In terms of consultation, the AIB European Staff Forum continues to meet. AIB Group uses the forum to provide information, exchange views and consult with staff members on issues which affect the Group's operations across national boundaries within Europe. In AIB Bank, staff members are also afforded the opportunity of meeting with and providing feedback to management by means of a staff consultative/voice process – *AIB Consult*.

The sole recognized trade union for Bank Officials in the Republic of Ireland, Northern Ireland and Great Britain is the Irish Bank Officials' Association ("IBOA"). Since February 2000, AIB and the IBOA have conducted their relations in keeping with agreed partnership principles, which underpin the approach to be taken in employee and industrial relations matters. In 2001, this partnership ethos continued to develop in a constructive manner and a review process is underway to examine ways of enhancing and improving the professional relationship that exists between the parties.

In the Republic of Ireland, the current national collective pay agreement, *"The Programme for Prosperity and Fairness"* ("PPF") provided for general pay increases of 2% and 5.5% in 2001 (the smaller increase resulting from a revision in the terms of the original agreement due to higher than expected rate of inflation at the end of 2000). In 2002 the PPF provides for two payments – a once-off lump sum equivalent to 1% of basic pay and a general pay increase of 4%. The PPF agreement expires at the end of April 2003. In 2001, AIB Bank in the Republic of Ireland also realigned salary levels for a number of its junior bank official grades, based on general financial services market movement. This initiative saw exceptional pay increases being made in these grades ranging from 5% to 15%.

In Northern Ireland a general pay increase of 3.4% was agreed while in Great Britain, AIB concluded a revision in its remuneration structures which saw a move away from incremental pay progression to a performance related pay system. The general pay increase in Britain, which was linked to the negotiation of these new arrangements, was settled at 3.8%.

In the USA, Allfirst continued to make strides on initiatives regarding employee retention, diversity, and the employee referral program. In our on-going efforts to become an employer of choice, a Flexible Work Options program was introduced with a very positive response from our employees and managers. The Diversity Council continued with their efforts in the establishment of a Diversity Vendor Program. Through 2001, Allfirst filled 371 positions or about 21% of its openings through the job posting system and 550 new hires, or about 39% of their new hires through the Employee Referral Program.

In Poland, BZWBK developed an internal recruitment progam which aims at filling any vacant positions with its own experienced and educated resources. The Bank's objective is to retain the most appropriate skills for its current and developing business, and open up career opportunities for staff at every level. BZWBK is heavily investing in training programs and management development to improve professional qualifications of the employees.

The number of employees within the major operating divisions for the years ended December 31, 2001, 2000 and 1999 were as follows:

	Years ended December 31,		
	2001	2000	1999
AIB Bank ROI	9,723	8,573	8,101
AIB Bank GB & NI	2,962	2,619	2,786
USA	5,938	5,738	5,677
Capital Markets	2,225	2,341	1,874
Poland	10,316	11,798	12,479
Group/ENeB	731	709	681
Total	31,895	31,778	31,598

Major shareholders

AIB is not directly or indirectly owned or controlled by another corporation or any foreign government. There are no arrangements known to AIB, the operation of which may at a subsequent date result in a change of control of AIB.

The following substantial interest in the ordinary share capital had been notified to the Company at February 19, 2002:

The Capital Group Companies, Inc.	7.1%

At the same date, subsidiaries of the Company had aggregated interests in 4.0% of the ordinary share capital. With the exception of 5.6 million shares (0.6%) held by a subsidiary (see note 40 to AIB's Consolidated Financial Statements on page 130), these shares represented non-beneficial interests. None of the clients for whom these shares and the shares of The Capital Group Companies, Inc., are held had a beneficial interest in 3% or more of the ordinary share capital.

The following table sets forth information, at December 31, 2001, with respect to the percentage of Ordinary shares owned by Directors and Executive Officers of AIB as a group:

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Executive Officers of AIB as a group	1,052,485	0.12%

Related party transactions

a) Subsidiary undertakings

In accordance with Financial Reporting Standard 8 "Related Party Transactions", transactions or balances between Group entities that have been eliminated on consolidation are not reported.

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 23, while deposits from associates are set out in note 33.

c) 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 which are conducted on similar terms to third party transactions and are not material to the Group.

d) Interest of management in certain transactions

Loans to non-executive directors are made in the ordinary course of business on commercial terms. Loans to executive directors are made on the terms applicable to other employees within the Group, in accordance with established policy. At December 31, 2001 the aggregate amount outstanding in loans to persons who at any time during the year were directors was €42.8 million in respect of 7 persons; the amount outstanding in respect of quasi loans (effectively, credit card facilities), to 7 persons, was €0.07 million (2000: €44.4 million in respect of loans to 8 persons and €0.03 million in respect of quasi-loans to 6 persons; 1999: €37.2 million in respect of quasi-loans to 9 persons and €0.05 million in respect of quasi-loans to 9 persons).

Under the terms of a "Change of Control Agreement" between Mr Frank P Bramble and Allfirst Financial Inc. which agreement existed at the time of his co-option to the Board of Allied Irish Banks, p.l.c., Mr Bramble would be entitled to a severance package in the event of his discharge or constructive discharge within two years following a change of control. Essentially, a change of control would be deemed to have occurred if a third party became the beneficial owner of 50% or more of the equity of AIB, or 25% or more of the equity of Allfirst Financial, Inc. or its subsidiary Allfirst Bank or if, arising from any merger, consolidation, sale of assets or contested election, the persons who were directors of AIB, Allfirst Financial Inc. or Allfirst Bank immediately before that transaction should cease to constitute a majority of the Board of such entity, or the persons who were shareholders of AIB or Allfirst Financial, Inc., as applicable, immediately before the transaction should cease to own at least 50% of the equity of the applicable entity. The severance package provides for the payment, within US Internal Revenue limits, of: three times annual salary; short-term bonus; target payments under long-term incentive awards; vesting of all stock awards; contribution of fringe benefits for up to two years; and out-placement.

Consolidated statements and other financial information

(See Item 18 – Financial Statements and Exhibits on pages 87 to 174 of this Annual Report).

Significant changes

Except as described in Note 51 to the Consolidated Financial Statements, Subsequent Events: Fraudulent FX Trading Activities, no significant change has occurred since the date of the Annual Financial Statements included in this annual report. Detailed below are legal proceedings and prospective accounting changes arising from accounting standards recently issued in the UK and the United States.

Legal proceedings

On June 28, 2000, the Commission of the European Communities served a Statement of Objections and initiated proceedings under Article 81 of the Treaty establishing the European Community against AIB and other named banks and organizations. On June 6, 2001, AIB announced new eurozone currency charges for customers. As a result of these initiatives the European Commission ended its competition proceedings against AIB.

On March 6, 2002, AIB was informed of the filing of a class action in the United States District Court for the Southern District of New York against AIB, Allfirst and serving and past officers of Allfirst, seeking remedies under the Securities Exchange Act of 1934 of the United States relating to alleged misrepresentations in filings of AIB and Allfirst. On April 24, 2002, a second, similar proceeding was filed in the same court on behalf of a holder of 100 ADRs.

By letters dated March 6, and April 5, 2002, a law firm purporting to represent a holder of ADRs, demanded that AIB and Allfirst promptly institute legal action against all persons who were members of the boards of these companies during the period from 1997 to February 2002 and against senior officers to recover the exceptional foreign exchange dealing losses. The law firm threatened a derivative action on behalf of AIB and its subsidiaries if its demand was not acted upon. Management believes that the threatened action, if instituted, will not have a material effect on AIB. These matters are at an extremely preliminary stage but on the basis of the Complaints the Directors have been advised that the actions appear to be without merit.

There are no other material legal proceedings pending or, as far as AIB is aware, threatened against AIB Group.

Prospective accounting changes

Urgent Issues Task Force Abstract 33, "Obligations in capital instruments" ("UITF 33")

On February 14, 2002, UITF 33 was issued by the Urgent Issues Task Force. UITF 33 is applicable to accounting periods ending on or after March 23, 2002. UITF 33 provides guidance on the application of Financial Reporting Standard 4 "Capital Instruments" ("FRS 4") to instruments that have the characteristics of both liabilities and stockholders' funds.

The application of UITF 33 will require AIB to treat the Reserve Capital Instrument ("RCI") as a liability as opposed to Non-equity stockholders' interests. The coupon on the RCI will be treated as interest expense as opposed to a dividend on Non-equity shares. The change in presentation will not impact net income to ordinary stockholders although it will reduce income before taxation.

Financial Reporting Standard 19, "Deferred Tax" ("FRS 19")

In December 2000, FRS 19 was issued by the UK Accounting Standards Board and is effective for accounting periods ending on or after January 23, 2002. The standard requires full provision to be made for deferred tax assets and liabilities and sets out other requirements regarding the measurement and presentation of deferred tax assets and liabilities. The impact of FRS 19 on AIB Group is currently being examined.

SFAS No. 141 - "Business Combinations"

SFAS No. 141, "Business Combinations", was issued in June 2001. This Statement addresses financial accounting and reporting for business combinations. While this Statement supercedes APB Opinion No. 16, "Business Combinations", it carries forward without reconsideration the guidance in Opinion 16 and certain of its amendments and interpretations related to the application of the purchase method of accounting.

All business combinations included in the scope of this Statement are to be accounted for using the purchase method of accounting. Additionally, this Statement requires that an intangible asset be recognized as an asset apart from goodwill if it arises from contractual or legal rights. If an intangible asset does not arise from contractual or other legal rights, it shall be recognized as an asset apart from goodwill only if it is separable; that is, capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged. Also, this Statement requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. If goodwill and intangible assets acquired are significant in relation to the purchase price paid, disclosure of other information about those assets is required.

The provisions of this Statement are effective for all business combinations initiated after June 30, 2001. This Statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. AIB Group adopted the provisions of SFAS No. 141 in July 2001 and will implement it for all future business combinations. The issuance of the new statement did not have an impact on AIB Group during 2001.

SFAS No. 142 - "Goodwill and Other Intangible Assets"

Concurrent with the issuance of SFAS No. 141, SFAS No. 142, "Goodwill and Other Intangible Assets", was issued in June 2001. This Statement addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. This Statement supercedes APB Opinion No. 17, "Intangible Assets", but carries forward without reconsideration the provisions in Opinion 17 related to internally developed intangible assets.

This Statement requires that goodwill be allocated on a reporting unit level. Additionally, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment at the reporting unit level. Intangible assets that have finite lives will continue to be amortized over their useful lives. Also, this Statement requires disclosures related to the changes in the carrying amount of goodwill from period to period (in the aggregate and by reportable segment), the carrying amount of intangible assets by major intangible asset classes both for those assets subject to amortization and for those not subject to amortization, and the estimated intangible asset amortization expense for the next five years.

The provisions of this Statement are effective with fiscal years beginning after December 15, 2001. Goodwill and intangible assets are subject immediately to the nonamortization and amortization provisions of this Statement. The Group adopted the provisions of this Statement on January 1, 2002. As part of the implementation of SFAS No. 142, a transitional impairment test is required to be applied to all goodwill and other indefinite-lived intangible assets within the first half of 2002. Any impairment loss as a result of this test is to be reported as a change in accounting principle. AIB currently does not have any indefinite lived intangible assets on its balance sheet prepared for US GAAP purposes. AIB does not expect to record a transitional impairment charge in 2002 under US GAAP. The future impact of this statement could result in income statement volatility under US GAAP due to the potential recognition of impairment losses for goodwill, as opposed to the reduction of goodwill through recurring amortization.

SFAS No. 143 - "Accounting for Asset Retirement Obligations"

SFAS No. 143, "Accounting for Asset Retirement Obligations", was issued in June 2001. This Statement requires that the fair value of an obligation associated with an asset retirement be recorded in the period in which it is incurred, if a reasonable estimate can be made. The costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the useful life of the asset. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after June 15, 2002. AIB Group will implement the provisions of this Statement beginning January 1, 2003. The impact of adopting the requirements of this Standard on the Group is not expected to be material.

SFAS No. 144 - "Accounting for the Impairment or Disposal of Long-Lived Assets"

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", was issued in August 2001. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", but retains the fundamental provisions of Statement 121 for: (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

Additionally, this Statement supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for segments of a business to be disposed of. However, it retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale.

SFAS No. 144 applies to both business enterprises and not-for-profit organizations. If a long-lived asset is part of a group that includes other assets and liabilities, the Statement is applied to the group. SFAS No. 144 primarily applies to all recorded long-lived assets that are held for use, or that will be disposed of. Long-lived assets include capital lease assets of lessees, assets of lessors subject to operating leases, long-term prepaid assets, and intangible assets that are amortized. A long-lived asset or group to be held and used should be tested for recoverability whenever events or changes in circumstances indicate that it's carrying amount may not be recoverable. An impairment loss should be recognized only if the carrying amount of the asset or group is not recoverable. The impairment loss is measured as the excess of the carrying amount of an asset or group over its fair value. A long-lived asset or group that will be disposed of other than by sale should be classified on the balance sheet as held and used until the disposal transaction occurs. An entity should continue to depreciate the asset or group until disposed of. A long-lived asset or group to be disposed of by sale should be classified on the balance sheet as held for sale if certain criteria are met. The asset or group should be measured at the lower of its carrying amount at the date of reclassification or fair value less cost to sell. Additionally, depreciation of the asset or group should cease when reclassification occurs.

The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The impact of adopting the requirements of this Statement is not expected to be material.

Offer and listing details

Trading market for Ordinary shares of AIB

At December 31, 2001, AIB had outstanding 886,690,015 ordinary shares of €0.32 each. The principal trading markets for AIB ordinary shares are the Irish Stock Exchange and the London Stock Exchange. Listing of the ordinary shares, in the form of American Depositary Shares ("ADS"), was obtained on the New York Stock Exchange ("NYSE") effective November 28, 1990. Each ADS is traded under the symbol "AIB" and is evidenced by an American Depositary Receipt ("ADR"). The ADR depositary is The Bank of New York.

At December 31, 2001, a total of 71 million ADSs were outstanding, representing 16% of total outstanding ordinary shares held by 5,410 registered stockholders and 20,500 shareholder accounts in street names. Since certain of the ordinary shares and ADRs were held by brokers or other nominees, the number of recorded holders in the US may not be representative of the number of beneficial holders or of their country of residence.

The following table sets forth the high and low sales prices of the ordinary shares during the periods indicated, based on mid-market prices at close of business on the Irish Stock Exchange and the high and low sales prices for ADSs, as reported on the NYSE composite tape.

	€0.32 Ordinary shares		American Depositary Shares[(1)]	
	High	Low	High	Low
	(Euro)		(Dollars)	
Year ended December 31,				
1997	8.82	4.96	19 47/48	25 5/6
1998	15.27	8.61	36 19/24	19 1/4
1999	18.15	10.86	40 43/64	21 1/8
2000	13.10	7.93	23 1/2	15 1/8
2001	13.80	9.31	25 9/16	17
Calendar year				
2000				
First quarter	11.20	7.93	23 1/8	15 1/8
Second quarter	11.20	9.05	21 9/16	17 1/4
Third quarter	12.22	8.80	21 7/8	16 1/4
Fourth quarter	13.10	11.30	23 1/2	19
2001				
First quarter	13.55	10.38	25 9/16	17 9/10
Second quarter	13.80	11.15	23 2/3	19 2/5
Third quarter	13.33	9.31	23	17
Fourth quarter	13.00	9.68	23 1/10	17 27/50
Month ended				
October 2001	11.40	9.68	20 17/25	17 9/10
November 2001	11.62	9.78	20 11/20	17 27/50
December 2001	13.00	11.70	23 1/10	20 17/21
January 2002	13.35	12.00	23 10/13	21 11/25
February 2002	13.80	11.35	23 21/25	19 10/13
March 2002	14.10	12.39	24 3/10	21 25/41

(1) *An American Depositary Share represents two ordinary shares of €0.32 each.*

Trading market for Preference shares of AIB

In May 1998, AIB issued 250,000 non-cumulative Preference shares, Floating Rate Series A. The ADSs have not been and will not be registered under the Securities Act and will be traded in the United States only by Qualified Institutional Buyers ("QIBs") in reliance on Rule 144A under the Securities Act and to non-US persons in reliance on Regulation S.

Markets

(See Item 9 – "Offer and listing details" above).

Memorandum & Articles of Association

There have been no amendments to the Memorandum & Articles of Association of Allied Irish Banks, p.l.c.

Exchange controls

Under Article 56 of the Treaty establishing the European Community, all restrictions on the movements of capital between member states of the European Union and between such member states and third countries are prohibited.

Under Article 59 of the Treaty where, in exceptional circumstances, movements of capital to or from third countries cause, or threaten to cause, serious difficulties for the operation of economic and monetary union, the Council of European Union, acting by a qualified majority and a proposal from the European Commission, and after consulting the European Central bank, may take safeguard measures with regard to third countries for a period not exceeding six months if such measures are strictly necessary.

Under Article 60 of the Treaty, the Council acting by a qualified majority, on a proposal from the European Commission, may take action to interrupt or reduce capital movements and payments in respect of third countries where a common position or a joint action according to the provisions of the Treaty of the European Union relating to the common foreign and security policy of the Union has been adopted. As long as the Council has not taken any such action a Member State, for serious political reasons and on grounds of urgency, may take unilateral measures against a third country in respect of capital movements and payments but the Council may, acting on a qualified majority on a proposal from the Commission, decide that the Member State concerned is to amend or abolish such measures.

There are no restrictions under AIB's Articles of Association or under Irish law, as currently in force, that limit the right of non-resident or foreign owners, as such, to hold securities of AIB freely or, when entitled, to vote such securities freely. There are currently no restrictions under Irish law, decrees, or regulations affecting the remittance of dividends or other payments to non-resident holders of AIB securities except (i) in respect of residents of Iraq to whom, or by whose order or on behalf of whom, no such remittance or payment may be made, without the permission of the Central Bank of Ireland; (ii) certain restrictions on the "transfer of funds and other financial assets" (a phrase which is defined as including dividends) to the state or government of the Federal Republic of Yugoslavia and of the Republic of Serbia or to any person or business having any connection with the Republic of Serbia or any person acting on behalf of any of the foregoing; (iii) certain restrictions arising from the freezing of "funds" (a phrase which is defined as including dividends) and other financial resources under EC Council Regulation No. 467/2001 of March 6, 2001 (as amended) imposing sanctions in respect of the Taliban of Afghanistan; (iv) certain restrictions arising from the freezing of the "funds" (a phrase which is defined as including dividends) and other financial resources of certain persons involved in governmental functions in Burma/Myanmar under EC Council Regulation No. 1081/2000 of May 22, 2000 imposing sanctions in respect of that country; (v) certain restrictions arising from the freezing of all "funds, other financial assets or economic resources" (a phrase which is defined as including assets of every kind) of certain persons involved in the Government of Zimbabwe or persons or bodies associated with them under EC Council Regulation No. 310/2002 of February 18, 2002 concerning certain restrictive measures in respect of Zimbabwe; and (vi) certain restrictions arising from the freezing of all "funds or financial resources" (a phrase which is defined as including dividends) of the União Nacional para a Indepência Total de Angola (UNITA) and certain persons associated with it under the Financial Transfers (Angola)(Prohibition) Order, 2002. All of these exceptions arise from United Nations and/or European Union sanctions.

Taxation

The tax discussion set forth below is intended only as a descriptive summary of certain consequences to Eligible US Holders (as defined below) of the purchase, ownership and disposition of a beneficial interest in AIB shares or ADSs and does not purport to be a complete technical analysis or listing of all potential tax effects or considerations that may be relevant. This discussion does not purport to deal with the tax consequences of owning a beneficial interest in AIB shares or ADSs for all categories of investors, some of which (such as insurance companies, tax-exempt organizations and dealers in securities) may be subject to special rules. The summary deals only with Eligible US Holders that will hold AIB shares or ADSs as capital assets for Irish and US Federal income tax purposes. It does not purport to deal with the tax position of those that are not Eligible US holders, who are advised to consult their own local tax advisors.

An "Eligible US Holder" is an owner of a beneficial interest in an Ordinary or a Preference share or an ADS who is (a) a resident of the United States for the purposes of US Federal income tax, (b) not a resident of Ireland for the purposes of Irish taxes, and (c) not engaged in trade or business in Ireland through a permanent establishment.

This summary is based upon the Double Taxation Convention between Ireland and the United States in effect as of January 1, 1998 ("the Tax Treaty"), tax laws, judicial decisions, regulations and administrative rulings and practices of Ireland and the United States as currently in effect.

Owners of a beneficial interest in ADSs will be treated as the owners, as appropriate, of the underlying Ordinary or Preference shares for United States Federal income tax purposes and for purposes of the Tax Treaty.

Purchasers of a beneficial interest in AIB shares or ADSs are advised to consult their own tax advisors as to the Irish, United States or any other tax consequences of the purchase, ownership and disposition of an interest in AIB shares or ADSs, including the effect of any foreign, state or local tax laws.

Irish taxation

Dividends. Dividends paid by AIB with respect to AIB shares or ADSs and received by an Eligible US Holder who is not ordinarily resident in Ireland in a year of assessment are not liable to Irish income tax.

Withholding Tax on Dividends. Dividends paid by Irish companies in respect of ordinary or preference shares are subject to dividend withholding tax ("DWT"). The rate of DWT was 22% for dividends paid in the year ended April 5, 2001 and the rate is 20% for dividends paid with effect from April 6, 2001.

Individuals/trusts holding AIB shares. Where the person beneficially entitled to the dividend is an individual resident in a Member State of the EU or in a country with which Ireland has a double taxation treaty, such as the United States of America, and is not resident or ordinarily resident in Ireland, the individual may be entitled to exemption from DWT in respect of the dividend paid. A claim for exemption must be accompanied by a declaration which, in the case of an individual resident in the United States of America, is certified to that effect by the Internal Revenue Service. The declaration contains additional requirements where the dividends are received by a trust.

Companies holding AIB shares. A company not resident in Ireland that is beneficially entitled to the dividend may, subject to certain conditions and to the completion of a declaration, be entitled to exemption from DWT in respect of the dividend paid. The company's auditor must certify on the declaration that certain conditions, these being conditions which entitle the company to exemption, have been satisfied. In addition, where the company is resident in a tax treaty country such as the United States of America, this must be certified on the declaration by the Internal Revenue Service.

Claims for exemption must be filed with AIB's Registrar in advance of the relevant dividend payment record date. In the absence of a change in the person's circumstances such declarations are valid for a period of five years. Declaration forms may be obtained either from the AIB's Registrar at the following address:

Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland.

Telephone: +353-1-216 3100, Facsimile: +353-1-216 3151, e-mail: web.queries@computershare.ie;

or from the Irish Revenue Commissioners at the following address:

DWT Section, Office of the Revenue Commissioners, Government Offices, St Conlan's Road, Nenagh, County Tipperary, Ireland.

Telephone +353-67-33533, Facsimile +353-67-33822, e-mail: infodwt@revenue.ie.

Individuals and Companies holding ADSs. Persons holding ADSs, evidenced by ADRs, who are beneficially entitled to the dividend and whose address in the register of ADRs is in the United States, are exempt from DWT. This is conditional on the depository bank, in whose books the ADRs are registered, becoming a "qualifying intermediary" ("QI") and entering into an agreement with the Irish Revenue Commissioners. The Bank of New York is a QI and has entered into such an agreement. Where the registered owner is not the beneficial owner, dividends may still be paid without DWT where the ADSs are in turn held through one or more specified intermediaries provided the address of the beneficial owner of the ADSs, as shown in the register of the ultimate specified intermediary, is located in the United States.

Repayment or credit for DWT. Eligible US Holders who have DWT applied to their dividend may, subject to certain conditions, be entitled to a refund by making an application to the Irish Revenue Commissioners at the address shown above. Where entitlement to repayment under these provisions cannot be established the provisions of the Tax Treaty may apply. The provisions of the Tax Treaty limit the Irish tax liability of an Eligible US Holder, who is unable to claim repayment of the full DWT deducted from the dividend, to 15% of the aggregate of the cash dividend and related DWT (the 'gross amount'). In such circumstances the Eligible US Holder may claim repayment from the Irish Revenue Commissioners under the provisions of the Tax Treaty of the amount of DWT in excess of 15% of the gross dividend.

Subject to limitation contained in the Code, the Tax Treaty provides that the U.S. shall allow to an Eligible US Holder who receives a dividend the balance (15%) of the Irish tax paid by such Eligible US holder, as a foreign tax credit against US Federal income tax liability.

Under the Code, the limitation on foreign taxes eligible for credit is calculated separately with respect to separate classes of income. Dividends paid by AIB with respect to AIB Ordinary or Preference shares or ADSs are foreign source "passive" income or, in the case of certain Eligible U.S. holders, "financial services" income. Foreign tax credits allowable with respect to each class of income cannot exceed the U.S. Federal income tax otherwise payable with respect to such class of income.

Gain on sale, exchange or other disposition. A gain realized on the sale, exchange or other disposition of the Ordinary shares or the Preference shares (including redemption of the Preference shares) or ADSs by a beneficial owner thereof that is not resident or ordinarily resident in Ireland for Irish tax purposes is not subject to Irish capital gains tax, except where such Ordinary or Preference shares or ADSs constitute assets situated in Ireland and are used in or for the purposes of a trade carried on by such beneficial owner in Ireland through a branch or agency.

Irish stamp duty. Under current Irish legislation, no stamp duty is payable in Ireland on transfers of, or agreements to transfer ADRs where the ADRs (or the underlying securities which they represent) are dealt in and quoted on a recognised stock exchange in the United States. The AIB Ordinary shares that are listed and traded on the New York Stock Exchange ("NYSE"), in the form of ADSs evidenced by ADRs, fall within this exemption. With regard to the AIB Preference shares, by concession of the Irish Revenue Commissioners, for so long as the Preference share ADSs continue to be Portal designated securities on the Portal Market, they will be regarded as being "dealt in and quoted on a recognised Stock Exchange in the United States of America" and transfers, or agreements to transfer the Preference share ADSs will also be exempt from Irish stamp duty.

In the case of a transfer or sale of AIB Ordinary or Preference shares, stamp duty will be charged at a rate of €1 for every €100 (or part thereof) of the amount or value of the consideration (i.e. the purchase price).

The deposit of Shares with the Depositary in exchange for ADSs or the surrender of the ADSs to the Depositary in return for Shares where the deposit or surrender does not relate to a sale or contemplated sale or mortgage of such AIB Ordinary or Preference shares, such as a conveyance or transfer as a result of which there is no change in beneficial interest, will not be chargeable to duty provided the instrument of transfer contains a statement to that effect, otherwise it will be chargeable to nominal duty of €12.50. Where there is a change in the beneficial ownership, Irish stamp duty will be payable at the rate of €1 for every €100 of the price paid.

Inheritance and gift taxation. See "United States and Irish Inheritance and Gift Taxation" below

United States income taxation

Dividends. Dividends received by an Eligible US Holder of an Ordinary or a Preference share or an ADS is taxable as dividend income for US federal income tax purposes. This tax treatment is dependent upon AIB having sufficient current or accumulated earnings and profits, as determined under US Federal income tax principles pursuant to the Internal Revenue code of 1986, as amended ("Code"). To the extent that any distributions on the Ordinary or Preference shares or ADSs in the future are not made out of current or accumulated earnings and profits, such dividends would constitute a non-taxable return of capital to the extent of the US Holder's basis in his Ordinary or Preference shares or ADSs and to that extent would reduce the US holder's basis in his Ordinary or Preference shares or ADSs. To the extent that such distributions exceeded the US holder's basis in his shares, such distributions would be treated for US Federal tax purposes as capital gains, provided the Ordinary or Preference shares or ADSs are capital assets in the hands of such US Holder.

Dividends received deduction. Dividends paid by AIB with respect to both the Ordinary and the Preference shares and received by or on behalf of the holder of an ADS, will not generally qualify for the dividend received deduction otherwise available to US corporate stockholders.

Dividend reinvestment program. Holders of Ordinary shares represented by ADSs, may elect to participate in a dividend reinvestment program provided by the Depositary, which under its BuyDirect program will reinvest shareholders' AIB dividends by purchasing additional AIB stock in the open market. The US tax treatment, as set out in the preceding paragraphs, applies to dividends received by such holders.

Dividend reinvestment plan. Holders of Ordinary shares, other than holders of Ordinary shares represented by ADSs, may elect to participate in the Dividend Reinvestment Plan and receive new Ordinary shares in lieu of cash dividends. A US holder who participates in the Dividend Reinvestment Plan will be treated as having received a distribution for US Federal income tax purposes at the time of receipt of any Ordinary shares or cash distributed pursuant to the Plan provided such distribution does not exceed the current or accumulated earnings and profits of AIB (as determined under US Federal income tax principles). The amount of the distribution will be equal to the sum of: (i) the amount of any cash dividend received (if any); (ii) the fair market value of the Ordinary shares on the date that they are received; and (iii) the amount of any residual cash dividend entitlement that is carried forward to the next dividend payment date as a result of the provision that no fractional Ordinary shares are allotted under the Dividend Reinvestment Plan. The tax basis of an Ordinary share received under the Dividend Reinvestment Plan will be equal to its fair market value on the date of receipt and the holding period of such a share will commence on the date of receipt.

Gain on disposition. Upon the sale, exchange or other disposition of Ordinary or Preference shares or ADSs, a US Holder will recognize a gain or loss, if any, equal to the difference between the amount realized upon the sale, exchange, or disposition and the US Holder's tax basis. Generally, a holder's tax basis in Ordinary or Preference shares or ADSs will be the US Holder's cost. Such gain or loss will generally be capital gain or loss if the Ordinary or Preference shares or ADSs were held as a capital asset. Any gain will generally be treated as US source.

Withholding tax. A holder of ADSs may, under certain circumstances, be subject to US backup withholding tax with respect to dividends paid on the ADSs or the proceeds of sale of the ADSs. For 2001, backup withholding tax is at a rate of 30.5%. A phased reduction of the rate to 28% applies from 2002 through 2006. A US holder of ADSs is subject to backup withholding tax unless such holder: (i) is a corporation or comes within the certain other exempt categories and, when required, demonstrates this fact; or (ii) provides a correct taxpayer identification number ("T.I.N."), certifying that such holder is not subject to backup withholding tax and otherwise complies with applicable requirements of the backup withholding tax rules. A non-US holder of ADSs must complete and provide AIB or its agent with the applicable Form W-8 ("Certificate of Foreign Status") certifying that such person is a foreign person exempt from backup withholding tax. Any amount withheld under the U.S. backup withholding tax rules will be creditable against the holder's US federal income tax liability. Form W-8 does not exempt the non-US holder of ADSs from normal withholding tax on dividend distributions which are subject to a 30% or lower treaty withholding rate.

A US holder of Ordinary or Preference shares may be exempted from or entitled to a refund of Irish dividend withholding tax. See "Irish Taxation - Withholding Tax on Dividends" above.

State and local taxes

Holders of Ordinary or Preference shares or ADSs may be liable for state and local taxes on distributions with respect to such shares or ADSs. Investors are advised to consult their own tax advisors about state, local, and any other tax consequences to them of the purchase, ownership and disposition of Ordinary or Preference shares or ADSs.

United States and Irish Inheritance and Gift Taxation

Irish Capital Acquisitions Tax ("CAT") would apply to gifts and bequests of Ordinary or Preference shares. CAT may also apply to gifts and bequests of ADSs representing Ordinary or Preference shares, depending on the tax residence, ordinary residence and domicile positions of the donor and the successor or donee. CAT is charged at a single rate of 20% above a tax-free threshold. This tax-free threshold is determined by the amount of the current benefit and of previous benefits within the charge to CAT and the relationship between the donor and the successor or donee. Gifts and inheritances between spouses are not subject to CAT.

There is no gift and inheritance tax convention between the United States and Ireland. Although an estate tax convention between the two countries was ratified in 1951, estate duty was abolished in Ireland in 1975 and it is not clear whether the convention is applicable to Irish gift and inheritance taxes that replaced the former estate duty. Nonetheless, under the Code any such inheritance tax payable in Ireland generally will be allowed as a credit, subject to certain limitations, against so much of the US Federal estate tax as is payable on the same property. Transfers of Ordinary or Preference shares or ADSs upon death may be subject to US Federal estate tax subject to certain threshold exemptions.

US Federal gift tax may apply to gifts of Ordinary or Preference shares or ADSs subject to certain thresholds and exemptions. No credit against Federal gift tax for Irish gift tax paid on the same property is allowable.

Risk management

Taking and managing risk for an appropriate return is central to creating stockholder value. Day to day risk management in AIB Group centers on three major risks - credit risk, operational risk, market risk (including liquidity).

Credit risk is the exposure to loss due to counterparty default on credit obligations. It arises mainly in the Group's retail, corporate and interbank lending portfolios. Credit risk also arises in derivative contracts to the extent that the default of the counterparty to the derivative transaction would expose the Group to the need to replace existing contracts at prices that are less favourable than when the contract was entered into.

Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems or from external events. It excludes business risks, such as the risk to income or margins from competitive pressure. Business risk is discussed on page 68.

Market risk is the exposure to loss arising from adverse movements in interest rates, foreign exchange rates and equity prices. Liquidity risk is the exposure to loss from not having sufficient funds available at an economic price to meet actual and contingent customer commitments. Market and liquidity risks are an integral part of retail banking activities. Managing these risks also provides opportunities for treasury to add value through position-taking.

Organizational structure for managing risk

AIB Group's organizational structure for managing risk includes a set of committees and delegated authorities. The main Group-level committees are the Group Executive Committee, the Group Credit Committee ("GCC"), the Group Asset and Liability Committee ("Group ALCO"), and the Group Operational Risk Management Committee ("Group ORMCO"). Group risk is a Group-level risk unit, independent of the divisions, with responsibility for formulating high-level credit, market and operational risk policies, providing independent review, influencing effective management of the Group's balance sheet and developing strategic risk management initiatives.

The unit reports to the Chief Risk Officer ("CRO") who in turn reports to the Group Director of Finance, Risk, Enterprise Networks and eBusiness.

Internal audit provides independent assurance to the Board Audit Committee in the form of a written opinion on the adequacy and effectiveness of the risk management and control framework in operation throughout the Group. The risk management processes for credit risk, market risk and operational risk are assessed and tested. In addition to audit reports, internal audit provides information on the overall control environment to the management of the individual divisions. A secondary objective of internal audit is to proactively influence executive decisions to strengthen the risk management and control framework through the implementation of best practices.

In undertaking its responsibilities, internal audit adopts a risk-based approach which underpins the risk management processes in place across the Group. Businesses undertake self-assessments of operational risk and the effectiveness of their controls in managing these risks. The information contained in these self-assessments is subject to review by internal audit. There is a programme of ongoing review of risk identification standards and risk measurement methodologies at business unit level, which includes testing of the risk mitigators adopted by management.

Group compliance has responsibility within its agreed regulatory function for the development of policies and procedures to ensure compliance with applicable law, regulations and codes of practice with respect to the conduct of business.

It has an independent reporting line to the Board Audit Committee and provides assurance to Group Management, the Board Audit Committee and regulatory bodies on the overall standard of compliance throughout the Group.

The Investigation Report

Arising from the findings of the Investigation Report, the Board of AIB announced a number of actions to address the issues raised by the fraudulent foreign exchange trading activities in Allfirst Bank. Specifically, it was decided to:

– Appoint an individual of international standing to review, and advise the AIB Board on risk management organization across the Group. On April 19, 2002, Mr John G Heimann was appointed as a special advisor to the board on Risk Management organization.

– Reaffirm the decision to combine the Finance and Risk functions across the Group under Mr Gary Kennedy, Group Director Finance, Risk, Enterprise Networks & eBusiness. Amongst those reporting to Mr Kennedy will be the Chief Risk Officer, Chief Financial Officer, Head of Group Internal Audit and Head of Group Compliance. Both of these latter functions will have direct responsibility Groupwide. The Heads of Group Internal Audit and Group Compliance each will have separate direct reporting lines to the AIB Board Audit Committee. The position of Chief Risk Officer will be filled by an external appointee in the near future. When the position of Head of Group Internal Audit next falls vacant, it will be filled by an external appointment on a fixed term contract rather than by a permanent employee of the Group.

– Implement the decision to centralize the management and control of all treasury activities throughout AIB Group in AIB Capital Markets Division and cease all proprietary treasury activities in Allfirst and Poland Division. In that context First Manhattan Consulting Group has been appointed as an external expert to advise management of AIB Capital Markets on the centralization process and to confirm that it will be completed on a basis which will leave the Group with a control environment which maintains the highest standards.

Managing credit risk

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

The credit grading systems across the Group continue to be refined, to facilitate risk-based pricing, economic provisioning and the attribution of capital and performance evaluation.

The Board, in exercising its role in relation to credit risk, has approved lending authorities for the GCC and approved certain high-level credit policies.

The GCC considers and approves credit exposures in excess of divisional authorities. It comprizes senior divisional and Group management. The Committee approves key credit policies and reviews strategic portfolio management. It also reviews trends in credit quality and determines overall provision adequacy.

Managing market risk

Group ALCO is responsible for strategic balance sheet management within the risk policies approved by the Board. It has a particular focus on capital management, funding/liquidity, market risk capacity and market risk governance. It comprizes senior divisional and Group management. In addition, there are local ALCOs in the Republic of Ireland, Great Britain and Northern Ireland, the US and Poland.

Group ALCO policies determine the basis for managing the liquidity risk and interest rate risks arising from the structure of the Group's balance sheet.

The CRO allocates market risk limits to the divisional market risk-taking units. Market risks arising in the Group's retail and commercial activities are transferred to the relevant treasury units. These units take positions in marketable securities and derivatives to mitigate these risks. The local ALCOs are responsible for identifying and measuring these risks and transferring them to treasury.

The principal aims of the Group's market risk policies are to limit the adverse impact of interest, exchange rate and equity price movements on profitability and shareholder value, and to enhance earnings within defined risk parameters. The Group's policies and practices in relation to market risk management reflect the following guiding principles:

(a) key market risk activities are subject to a Board-approved policy framework.
(b) market risk is substantially centralized in the treasury units, managed by skilled personnel, and monitored using appropriate systems and controls.
(c) market risk is measured and monitored by risk management personnel operating independently of the risk-taking units.

Arising from the fraudulent foreign exchange trading activities in Allfirst Bank the Board decided to centralize the management and control of all treasury activities throughout AIB Group in AIB Capital Markets Division in Dublin and cease all proprietary treasury activities in Allfirst and Poland Division. In that context First Manhattan Consulting Group has been appointed to advise the management of AIB Capital Markets Division on the centralization process and to confirm that it will be completed on a basis which will leave the Group with a control environment which maintains the highest standards.

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 Liquidity Policy is designed to provide adequate funding to cover both normal and abnormal working conditions. It also incorporates a liquidity contingency plan for critical situations. The policy adopts a cash-flow based approach and specifies the minimum amounts of high quality liquidity stock required for each major currency. This is calculated as a percentage of retail and wholesale resources and undrawn credit facilities in each major currency. In all cases, net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed predetermined target levels.

The euro, US dollar, sterling and the 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, the US and Poland to fund asset growth. Although a significant element of these 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 Group is also actively involved in the interbank market and may be, at times, a net borrower from the market.

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider and product. The ability to raise funds is dependent to a certain degree on a banks credit ratings, although a credit downgrade is more likely to affect the price at which funding is available.

Following the announcement of the fraudulent foreign exchange trading activities in Allfirst Bank on February 6, 2002, Group liquidity was managed in accordance with the liquidity contingency plan. Since February 6, 2002, Allfirst Bank experienced a small decrease in core deposits and the temporary loss of a large portion of its Federal Funds purchased capacity. However, Allfirst Bank has been a net seller of Federal funds as a result of actions taken under the liquidity contingency plan, including the sale of investment securities and receipt of short-term funding from AIB. Allfirst Bank is currently in the process of remarketing the variable rate demand bonds ("VRDB's") backed by an Allfirst Bank standby letter of credit, of which US$300 million approximately were purchased by it, serving in the capacity of remarketing agent. As of April 25, 2002 there were US$1.2 billion of VRDB's outstanding backed by an Allfirst Bank letter of credit.

On April 15, 2002 Standard & Poors lowered its long-term counterparty rating of AIB to single 'A' from single 'A' plus and affirmed its 'A-1' short-term counterparty credit rating on AIB. At the same time, Standard & Poor's lowered its long and short-term counterparty credit ratings on Allfirst Financial Inc. and Allfirst Bank to single 'A' minus and 'A-2' respectively, from single 'A' and 'A-1'. The ratings of all three institutions were removed from CreditWatch. Moodys and Fitch Ratings have reaffirmed their long-term counterparty ratings of AIB at 'Aa3' and 'AA' minus, respectively, and their short-term ratings of 'P-1' and 'F1+', respectively. Standard & Poors actions are not expected to impact the Group's liquidity or financial results to a significant degree although it could impact the cost to Allfirst of accessing the wholesale markets and adversely impact the capital markets receptiveness to VRDB's backed by an Allfirst standby letter of credit.

As reflected in the consolidated cash flow statement, there was a net increase in cash of €377 million during the year ended December 31, 2001. Net cash inflow from operating activities was €231 million, of which €1,640 million arose from trading activities. This cash inflow was offset by outflows of €242 million for taxation and equity dividends of €334 million. Net cash inflows from capital expenditure were €700 million consisting mainly of a net decrease in debt and equity securities of €998 million offset by additions to property and equipment of €328 million. Net cash outflows from acquisitions and disposals were €59 million arising mainly from the acquisition of Group undertakings of €59 million. Financing, primarily the issue of reserve capital instrument and the redemption of subordinated debt generated a net cash inflow of €208 million.

As reflected in the consolidated cash flow statement, there was a net decrease in cash of €1,016 million during the year ended December 31, 2000. Net cash inflow from operating activities was €2,433 million, of which €1,027 million arose from trading activities. This cash inflow was offset by outflows of €199 million for taxation, equity dividends of €228 million and capital expenditure of €3,004 million, mainly net increase in debt and equity securities of €2,830 million and expenditure on property and equipment of €237 million. Financing, primarily the issue of subordinated debt, generated a net cash inflow of €164 million.

As reflected in the consolidated cash flow statement, there was a net increase in cash of €1,477 million during the year ended December 31, 1999. Net cash inflow from operating activities was €3,191 million, which arose primarily as a result of a net cash inflow from trading activities of €1,673 million and strong growth in customer accounts and debt securities in issue. This cash inflow was offset by outflows of €237 million for taxation, equity dividends of €215 million and expenditure on property and equipment of €177 million. Further outflows arose from increases in debt and equity securities of €1,248 million and €391 million from acquisitions. Financing, primarily the issue of subordinated debt, generated a net cash inflow of €640 million.

Managing operational risk

The management of operational risk is a line management responsibility. It is supported by specialist functions that assist and advise line management on specific operational risks. Examples include prevention, compliance, business continuity planning, information security and insurance. This is supplemented by a structured operational risk management ("ORM") program.

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

The role of Group ORMCO is to influence and co-ordinate divisional actions in managing operational risk. There is an independent operational management unit in Group Risk. This unit has functional responsibility for ORM policy on behalf of Group ORMCO.

The losses arising from the fraudulent foreign exchange trading activities in Allfirst, discussed in more detail in Item 5 "Operating and Financial Review and Prospects" under the caption Subsequent Event: Fraudulent Foreign Exchange Trading Activities, are operational risk losses. While internal controls over foreign exchange trading activities had been established and documented, the circumvention of such controls and failure of support functions with key roles in testing controls to detect this circumvention allowed the losses to go undetected for an extended period of time.

Managing business risk

Identification and management of business risks are the responsibility of line management and ultimately the Group Executive Committee. In the course of its regular meetings, the Committee considers market and risk developments across the Group's major areas of operation.

Business planning occupies a central role in the management of AIB Group. The Board formally approves the overall strategy and direction of the business on an annual basis and also receives regular financial reports on actual results against budget.

Market risk measurement

Value at Risk ("VAR") is an industry practice for market risk measurement. It provides an estimate of the potential loss resulting from market movements over a specified period of time within a specified probability of occurrence.

For internal risk measurement and management puroses, AIB Group applies a VAR methodology whereby the risk is calculated as the probable maximum loss in fair value over a one month period that would arise from a "worst case" movement in market rates *(interest, foreign exchange, equity, as applicable)*. This "worst case" is based on an historical observation of weekly price volatility over a period of three years. AIB Group raises the measured price volatility to a 99% statistical confidence level. VAR figures are quoted on the following page using both one-month holding and one day holding periods.

Recognizing that the prices of similar financial instruments do not move in exact step with each other, the total risk for a portfolio of different instruments is not the same as the sum of the individual risks. Having calculated VAR on a single instrument, the total VAR for a portfolio of market positions is adjusted to reflect the reality that the "worst case" scenario is unlikely to occur in all markets simultaneously. AIB Group uses an industry-practice formula to take account of this portfolio diversification impact within each risk category. In technical terms, this is appproach is termed a variance-covariance approach.

As with any market risk measurement methodology, the VAR system used by AIB has known limitations. These stem from the need to make assumptions about the range of likely changes in future market rates in order to determine the probable maximum loss in fair value. To deal with this, AIB supplements its VAR measure with other techniques including sensitivity analysis.

Special attention is required for measuring the market risk of option portfolios because the relationship between an option's value and the price of the underlying instrument can be quite complex. Option values are affected by several variables, including changes in market volatility. A statistical simulation methodology, consistent with the variance-covariance approach, is used to more accurately measure the market risk in currency option portfolios. The currency option VAR figure is included in the foreign exchange rate VAR figures on page xx. The VAR on interest rate options is computed by revaluing these options under the assumption that the worst case movement in interest rates occurs. This approach relies on certain assumptions about changes in the direction and volatility of future interest rates. The VAR on interest rate options is included in the interest rate VAR figures.

The following table illustrates the VAR figures for interest rate risk for the years ended December 31, 2001 and 2000. These figures represent the potential loss in shareholder value arising from a worst case change in interest rates.

	2001		2000	
	Trading	**Non-Trading**	**Trading**	**Non-Trading**
Interest rate risk	**(Euro in millions)**		**(Euro in millions)**	
1 month holding period:				
Average..	9.5	73.4	4.1	83.5
High..	12.0	88.8	5.3	90.5
Low...	7.3	58.4	2.8	72.6
December 31...	9.6	69.9	3.2	72.6
1 day holding period:				
Average..	2.1	16.4	0.9	18.7
High..	2.7	19.9	1.2	20.2
Low...	1.6	13.1	0.6	16.2
December 31...	2.2	15.6	0.7	16.2

Interest rate risk

The Group Interest Rate Risk Policy, as approved by the Board, limits the Group's exposure to interest rate risk. The risk to AIB Group is that changes in interest rates will have adverse effects on earnings and on the economic value of its assets and liabilities. Recognizing this, the Group's tolerance limits for interest rate risk are established from both an earnings and economic value perspective. These limits reflect the Group's prudential philosophy as a retail/commercial bank.

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 the Group's retail and commercial activities is managed through the non-trading book. The reported interest rate VAR figures represent the average, high, low and year-end probable maximum loss in respect of both trading and non-trading book positions held in treasury.

Trading book

The interest rate trading book incorporates all securities and interest rate derivatives that are held for trading purposes in the Group's treasury units. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognized in income. During 2001, trading book interest rate risk was predominantly concentrated in the euro, sterling and the US dollar although positions were also taken in Polish zloty and a number of other developed country markets.

Non-trading book

The Group's non-trading book consists of its retail and corporate deposit and loan books as well as the Group's treasury interbank cash books, and the Group's investment portfolio. The interest rate risks in the retail and corporate deposit and loan books are transferred to treasury and managed using interest rate swaps and other conventional hedging instruments.

AIB Group's banking businesses have a substantial level of interest-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 movements in short-term interest rates. Group policy is to manage the earnings volatility arising from the impact of interest rate movements on such funds. The "structural" risk position arising from these funds is hedged by maintaining a portfolio of assets with interest rates fixed for several years. In designing the hedges, care is taken to ensure that the management of the portfolio is not inflexible, as market circumstances and evolving customer requirements can change the desirable portfolio structure.

Interest rate sensitivity

The net interest rate sensitivity of the Group at December 31, 2001 and 2000 is illustrated in the tables below and on page 71. The interest sensitivity gap is split by functional currency. 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 and any rate sensitive off-balance sheet contracts 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.

The tables do not take into account the effect of interest rate options used by the Group to hedge its exposure. Details of options are given in Note 43.

	December 31, 2001							
	0-3 Months	3-6 Months	6-12 Months	1-5 Years	5 years +	Non-interest bearing	Trading	Total
	(Euro in millions)							
Assets								
Central Government bills and other eligible bills	16	29	–	–	–	–	4	49
Loans and advances to banks	4,764	537	143	33	–	570	–	6,047
Loans and advances to customers	35,669	2,365	2,034	6,242	5,088	–	–	51,398
Debt securities	5,126	1,469	2,195	4,400	3,110	–	3,782	20,082
Other assets	–	–	–	–	–	11,261	–	11,261
Total assets	45,575	4,400	4,372	10,675	8,198	11,831	3,786	88,837
Liabilities								
Deposits by banks	9,862	2,151	713	47	110	340	–	13,223
Customer accounts	36,666	1,792	1,470	2,302	582	11,745	–	54,557
Debt securities in issue	3,813	601	298	89	232	–	–	5,033
Subordinated liabilities	496	113	209	664	538	–	–	2,020
Other liabilities	112	–	–	–	–	8,246	–	8,358
Stockholders' equity	–	–	–	–	496	5,150	–	5,646
Total liabilities	50,949	4,657	2,690	3,102	1,958	25,481	–	88,837
Off-balance sheet items affecting interest rate sensitivity	2,801	117	(311)	(968)	(1,639)	–	–	–
	53,750	4,774	2,379	2,134	319	25,481	–	88,837
Interest sensitivity gap	(8,175)	(374)	1,993	8,541	7,879	(13,650)	3,786	
Cumulative interest sensitivity gap	(8,175)	(8,549)	(6,556)	1,985	9,864	(3,786)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	(1,045)	(598)	724	3,997	2,137	(6,532)	1,935	
Cumulative interest sensitivity gap	(1,045)	(1,643)	(919)	3,078	5,215	(1,317)	618	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(1,998)	(179)	317	3,184	2,988	(4,451)	710	
Cumulative interest sensitivity gap	(1,998)	(2,177)	(1,860)	1,324	4,213	(238)	472	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(2,955)	(196)	139	1,555	2,963	(2,807)	814	
Cumulative interest sensitivity gap	(2,955)	(3,151)	(3,012)	(1,457)	1,506	(1,301)	(487)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,382)	(196)	744	(173)	(86)	(42)	177	
Cumulative interest sensitivity gap	(1,382)	(1,578)	(834)	(1,007)	(1,093)	(1,135)	(958)	

	December 31, 2000 (Restated)							
	0-3 Months	3-6 Months	6-12 Months	1-5 Years	5 years +	Non-interest bearing	Trading	Total
				(Euro in millions)				
Assets								
Central Government bills and other eligible bills	271	2	9	–	–	–	15	297
Loans and advances to banks	3,355	80	61	–	–	697	–	4,193
Loans and advances to customers	30,342	2,303	1,816	6,850	4,735	–	–	46,046
Debt securities	4,564	710	1,761	6,336	3,274	–	2,341	18,986
Other assets	–	–	–	–	–	10,202	–	10,202
Total assets	38,532	3,095	3,647	13,186	8,009	10,899	2,356	79,724
Liabilities								
Deposits by banks	10,984	571	573	97	3	250	–	12,478
Customer accounts	33,108	2,478	1,626	1,598	451	9,176	–	48,437
Debt securities in issue	3,768	292	79	156	–	–	–	4,295
Subordinated liabilities	1,470	107	–	107	513	52	–	2,249
Other liabilities	106	–	–	–	–	7,161	–	7,267
Stockholders' equity	–	–	–	–	–	4,998	–	4,998
Total liabilities	49,436	3,448	2,278	1,958	967	21,637	–	79,724
Off-balance sheet items affecting interest rate sensitivity	(8,522)	1,443	10,119	(3,802)	762	–	–	–
	40,914	4,891	12,397	(1,844)	1,729	21,637	–	79,724
Interest sensitivity gap	(2,382)	(1,796)	(8,750)	15,030	6,280	(10,738)	2,356	
Cumulative interest sensitivity gap	(2,382)	(4,178)	(12,928)	2,102	8,382	(2,356)	–	
	Euro m	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	**Euro m**	
Interest sensitivity gap	1,422	259	(5,332)	6,962	1,489	(5,572)	1,191	
Cumulative interest sensitivity gap	1,422	1,681	(3,651)	3,311	4,800	(772)	419	
	US $m	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	**US $m**	
Interest sensitivity gap	(626)	(2,747)	(2,418)	5,806	2,674	(3,255)	578	
Cumulative interest sensitivity gap	(626)	(3,373)	(5,791)	15	2,689	(566)	12	
	Stg m	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	**Stg m**	
Interest sensitivity gap	(2,702)	9	(255)	1,822	1,801	(2,250)	463	
Cumulative interest sensitivity gap	(2,702)	(2,693)	(2,948)	(1,126)	675	(1,575)	(1,112)	
	PLN m	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	**PLN m**	
Interest sensitivity gap	(1,156)	(123)	27	339	22	(14)	78	
Cumulative interest sensitivity gap	(1,156)	(1,279)	(1,252)	(913)	(891)	(905)	(827)	

This table has been restated to reflect the impact of FRS 17 and to ensure consistent presentation with the 2001 table on page 70.

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 the above functional currencies and the euro.

It is normal Group practice to match material individual foreign currency investments in overseas subsidiaries, associated undertakings and branches, with liabilities in the same currency. However, Polish investments are recorded in 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. Under Board approved-policy, a sub-committee of Group ALCO has delegated responsibility for hedging this structural mismatch against adverse exchange rate movements.

At December 31, 2001 and 2000, the Group's structural foreign exchange position was as follows:

	December 31, 2001	December 31, 2000
	(Euro in millions)	
US dollar	1,375	1,687
Sterling	1,185	1,023
Polish zloty	209	142
	2,769	2,852

This position indicates that a 10% movement in the value of the euro against these currencies at December 31, 2001 would result in an amount taken to reserves of €277 million.

The Group may choose to hedge all or part of its projected future foreign currency earnings, thereby fixing a translation rate for the amount hedged. The purpose of these hedges is to minimize the risk of significant fluctuations in the reported euro values of the Group's separate US dollar, sterling and Polish zloty earnings. In the year ended December 31, 2001, certain US dollar, sterling and Polish zloty profits were hedged during the year and translated at the following exchange rates: €1: US $ 0.9375; €1: Stg £0.6227; €1: PLN 3.6582.

Foreign exchange rate risk - trading

The objective of the Group Foreign Exchange Risk Policy, as approved by the Board, is to limit the Group's exposure to discretionary foreign exchange risk. The exchange rate risk to AIB Group is that adverse movements in foreign exchange rates will decrease the value of the discretionary foreign exchange portfolio. Group foreign exchange rate risk is measured as the probable maximum loss in fair value (VAR) on the aggregate open foreign exchange position for the Group's discretionary portfolio.

Arising from the Fraudulent Activities in Allfirst Bank, the board has decided to centralize the management and control of all treasury activities throughout AIB Group in AIB Capital Markets Division and cease all proprietary treasury activities in Allfirst and Poland Division.

The following table illustrates the VAR figures for trading foreign exchange rate risk for the years ended December 31, 2001 and 2000. These figures have not been adjusted for the impact of the fraudulent foreign exchange trading activities in Allfirst. However, were the figures adjusted the positions would have exceeded the policy limits.

	2001	2000
	(Euro in millions)	
Foreign exchange rate risk-trading		
1 month holding period:		
Average	2.1	2.2
High	4.4	3.8
Low	0.5	0.9
December 31	4.4	1.9
1 day holding period:		
Average	0.5	0.5
High	1.0	0.9
Low	0.1	0.2
December 31	1.0	0.4

Equity risk

As part of its normal activities, the Group's subsidiary, Goodbody Stockbrokers, holds positions in equities to provide liquidity for clients. Equity risk also arises from the management of the Group's convertible bond portfolio and the hedging of stock market linked investment products (tracker bonds) sold to customers. Equity risk is subject to Board approved policy and trading activity is restricted to companies that are listed on recognized Stock Exchanges. The table below illustrates the VAR figures for equity risk for the year ended December 31, 2001 and 2000.

	Trading		Non-Trading	
	2001	2000	2001	2000
Equity risk	(Euro in millions)			
1 month holding period:				
Average	13.0	10.7	0.5	0.4
High	20.0	13.2	0.8	0.6
Low	10.3	8.4	0.1	0.3
31 December	12.1	13.2	0.1	0.5
1 day holding period:				
Average	2.9	2.4	0.1	0.1
High	4.5	2.9	0.2	0.1
Low	2.3	1.9	0.0	0.1
31 December	2.7	2.9	0.0	0.1

Off-balance sheet financial instruments

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

Contingent liabilities and commitments to extend credit are outlined on page 134. 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.

The following table shows the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments at December 31, 2001, 2000 and 1999.

	December 31, 2001		December 31, 2000		December 31, 1999	
	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
			(Euro in millions)			
Contingent liabilities						
Acceptances and endorsements	142	109	147	137	143	132
Guarantees and assets pledged as collateral security	5,245	4,854	4,027	3,557	2,835	2,570
Other contingent liabilities	1,125	570	1,089	546	933	476
	6,512	5,533	5,263	4,240	3,911	3,178
Commitments						
Sale and option to resell transactions	402	402	257	257	188	188
Other commitments	18,597	4,398	15,855	3,748	14,118	3,226
	18,999	4,800	16,112	4,005	14,306	3,414

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, 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 table below shows the notional amount and gross replacement cost for trading and non-trading interest rate, exchange rate and equity contracts at December 31, 2001, 2000 and 1999.

	December 31, 2001		December 31, 2000 (Restated)		December 31, 1999 (Restated)	
	Notional amount	Gross replacement cost	Notional amount	Gross replacement cost	Notional amount	Gross replacement cost
			(Euro in millions)			
Interest rate contract						
Trading	46,015	586	37,271	199	56,844	190
Non-trading	70,136	846	93,674	676	72,727	649
	116,151	1,432	130,945	875	129,571	839
Exchange rate contracts						
Trading	18,766	217	18,844	447	6,524	58
Non-trading	7,739	63	5,797	131	17,407	618
	26,505	280	24,641	578	23,931	676
Equity contracts						
Trading	23	1	40	–	48	–
Non-trading	2,870	194	2,898	297	1,874	313
	2,893	195	2,938	297	1,922	313

Derivative instruments are contractual agreements between parties whose value reflects movements in an underlying interest rate, foreign exchange rate, equity price or index. 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 or 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 on-balance sheet assets or liabilities, the changes in value are generally offset by the value changes in the hedged items.

Derivative transactions entered into for hedging purposes are accounted for in accordance with the accounting treatment for the item or items being hedged. Futures contracts are designated as hedges when they reduce risk and there is high correlation between the futures contract and the item being hedged, both at inception and throughout the hedge period. Swaps, forward rate agreements and option contracts are generally used to manage the risk of balance sheet items and are linked to specific assets or groups of similar assets or specific liabilities or groups of similar liabilities. Where a transaction originally entered into for hedging purposes no longer represents a hedge, its value is restated at fair value and any subsequent change in value is taken to the consolidated statement of income immediately.

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. 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 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.

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

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 standardized 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 eg 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 and to manage the impact of exchange rates on the reported euro value of non-euro earnings. 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 and to manage the impact of exchange rates on the reported euro value of non-euro earnings.

Measurement and control of off-balance sheet financial instruments.

The market risk exposure arising from derivative transactions is controlled within the risk limits in the Group's interest rate, foreign exchange and equity risk policies. In addition, derivatives activities are further constrained by the risk parameters incorporated in the Group's Derivatives Policy, as approved by the Board.

In Capital Markets division, the Group's exposure to credit risk on derivative instruments is measured using a simulation methodology that models the extent to which prices may change over time. Elsewhere in the Group, the credit exposure is measured using the current market value of each transaction, together with an add-on-factor, calculated to take account of the likely future volatility of market rates. Where relevant, these measures also recognise the benefits of netting and margining agreements.

Risk weighted credit equivalent amounts are calculated according to rules specified by the Central Bank of Ireland, taking into account the nature of the instrument and the risk classification of the counterparty.

In respect of contingent liabilities and commitments to extend credit, 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. Risk weighted amounts are calculated according to rules specified by the Central Bank of Ireland, taking into account the nature of the instrument and the risk classification of the counterparty.

Credit risk management

Credit risk is managed and controlled throughout the Group on the basis of established credit processes and within a framework of credit policy and delegated authorities based on skill and experience. There are credit grading and monitoring systems which accomodate the early identification and management of deterioration in loan quality. In addition, the process is underpinned by an independent system of credit review.

The credit grading systems across the Group continue to be refined to facilitate risk-based pricing, economic provisioning, attribution of capital and performance evaluation.

The Board, in excercising its role in relation to credit risk, has approved lending authorities for the Group Credit Committee ("GCC") and approved certain high-level credit policies.

The GCC considers and approves credit exposures in excess of divisional authorities. It comprises senior divisional and Group management. The Committee approves key credit policies and reviews strategic portfolio management. It also reviews trends in credit quality and determines overall provision adequacy.

Group and divisional credit risk management roles

Within the Group-level risk management unit, there is a credit risk management unit which has functional responsibility for credit risk across the Group and provides executive support to the GCC. Its role is to influence and support the management of credit risk across the Group by promoting high standards of professionalism and best market practice. In discharging its functional role, it works closely with divisional risk and credit management. A key focus is to ensure that each division has robust credit structures, processes and policies to underpin their credit activities.

The unit has specific responsibility to advise and report independently to the Group Chief Executive, the Audit Committee and the Board on credit policy, process, standards and quality, and on the appropriateness of provisions. The unit presents a formal credit report to the Board on a quarterly basis.

A divisional credit policy framework and credit review process supports the credit management structure in each division. Each division invests significantly in developing the professional skills of its lenders and in the continuous improvements of the credit assessment, control and monitoring processes. High priority is given to having a credit culture that is resilient through business cycles.

The Group's provisions for loan losses for the year ended December 31, 2001 are discussed under *"Provision and allowance for loan losses"* on page 78.

Loan portfolio

AIB Group's loan portfolio comprises loans (including overdrafts) and installment credit and finance lease receivables.

The overdraft provides a demand credit facility combined with a checking account. Borrowings occur when the customer's drawings take the checking account into debit. The balance may therefore fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

An important factor influencing the quality of AIB Group's earnings is the diversification of its credit portfolio within each of its geographic markets (Ireland, United Kingdom, United States of America and Poland) by spread of locations, industry classification and individual customer. No one industry in any geographic market accounts for more than 10% of AIB Group's total loan portfolio.

The following table shows AIB Group's total loan portfolio by categories of loans at December 31, 2001, 2000, 1999, 1998 and 1997.

	December 31,				
	2001	**2000[1]**	**1999[1]**	**1998**	**1997**
			(Euro in millions)		
IRELAND					
Agriculture	1,344	1,233	1,261	1,053	952
Energy	386	385	234	137	51
Manufacturing	2,452	2,485	1,729	1,531	1,293
Construction and property	4,062	3,455	2,665	1,294	929
Distribution	3,351	2,960	2,412	2,010	1,579
Transport	544	404	505	270	218
Financial	556	392	804	845	399
Services	1,600	1,300	978	1,027	786
Personal - Residential mortgages	5,930	4,922	3,915	3,038	2,545
- Overdraft/installment	2,716	2,531	2,274	2,002	1,643
Lease financing	1,364	1,336	1,202	951	828
Guaranteed by Irish Government	–	51	7	8	10
	24,305	21,454	17,986	14,166	11,233
UNITED KINGDOM					
Agriculture	134	136	120	104	105
Energy	20	87	25	26	45
Manufacturing	1,190	780	659	372	418
Construction and property	2,156	1,850	1,473	1,128	1,015
Distribution	1,423	1,319	1,307	871	814
Transport	308	149	60	59	35
Financial	745	521	268	93	92
Services	1,805	1,522	1,440	1,052	932
Personal - Residential mortgages	1,965	1,775	1,523	1,166	1,096
- Overdraft/installment	922	872	742	572	515
	10,668	9,011	7,617	5,443	5,067
UNITED STATES OF AMERICA					
Commercial	5,606	5,107	4,262	3,446	2,870
Real Estate	2,988	2,862	2,556	2,209	2,223
Residential mortgages	550	705	691	717	1,300
Retail	3,206	3,049	2,911	2,346	2,274
Bankcard	17	16	15	13	130
Leases receivable	1,235	1,321	1,202	891	845
	13,602	13,060	11,637	9,622	9,642
POLAND[2]					
Agriculture	169	133			
Energy	263	207			
Manufacturing	1,018	886			
Construction and Property	230	187			
Distribution	730	607			
Transport	102	57			
Financial	196	228			
Services	275	181			
Total Commercial	2,983	2,486	2,184	871	648
Personal - Residential mortgages	181	78			
- Overdraft/installment	333	340			
Total Personal	514	418	294	96	100
	3,497	2,904	2,478	967	748
REST OF THE WORLD	230	220	301	483	551
Total Loans to customers	52,302	46,649	40,019	30,681	27,241
Unearned income	(311)	(329)	(293)	(223)	(201)
Allowance for loan losses	(1,007)	(869)	(768)	(538)	(501)
	50,984	45,451	38,958	29,920	26,539

[1] During 2000, a review of sector classification in Ireland was undertaken. December 1999 classifications in the above table have been restated to reflect the impact of reclassifications that took place. December 1998 and 1997 reclassifications are shown as originally reported.
[2] A common standard for sectoral reporting of Poland advances was implemented during 2000 and is reflected in the above table for the years ended December 31, 2001 and 2000 only.

The following table shows the percentages of total loans by each category of loan at December 31, 2001, 2000, 1999, 1998 and 1997.

	December 31,				
	2001	2000[(1)]	1999[(1)]	1998	1997
IRELAND					
Agriculture	2.6%	2.6%	3.1%	3.4%	3.5%
Energy	0.7	0.8	0.6	0.5	0.2
Manufacturing	4.7	5.3	4.3	5.0	4.8
Construction and property	7.8	7.4	6.7	4.2	3.4
Distribution	6.4	6.4	6.0	6.6	5.8
Transport	1.0	0.9	1.3	0.9	0.8
Financial	1.1	0.8	2.0	2.8	1.5
Services	3.1	2.8	2.4	3.3	2.9
Personal - Residential mortgages	11.3	10.6	9.8	9.9	9.3
- Overdraft/installment	5.2	5.4	5.7	6.5	6.0
Lease financing	2.6	2.9	3.0	3.1	3.0
Guaranteed by Irish Government	–	0.1	–	–	–
	46.5%	46.0%	44.9%	46.2%	41.2%
UNITED KINGDOM					
Agriculture	0.3%	0.3%	0.3%	0.3%	0.4%
Energy	–	0.2	0.1	0.1	0.2
Manufacturing	2.3	1.7	1.6	1.2	1.5
Construction and property	4.1	4.0	3.7	3.7	3.7
Transport	2.7	2.8	3.3	2.8	3.0
Distribution	0.6	0.3	0.1	0.2	0.1
Financial	1.4	1.1	0.7	0.3	0.3
Services	3.4	3.2	3.6	3.4	3.5
Personal - Residential mortgages	3.8	3.8	3.8	3.8	4.0
- Overdraft/installment	1.8	1.9	1.8	1.9	1.9
	20.4%	19.3%	19.0%	17.7%	18.6%
UNITED STATES OF AMERICA					
Commercial	10.7%	11.0%	10.7%	11.2%	10.5%
Real estate	5.7	6.2	6.4	7.2	8.2
Residential mortgages	1.1	1.5	1.7	2.3	4.8
Retail	6.1	6.5	7.3	7.7	8.3
Bankcard	–	–	–	0.1	0.5
Leases receivable	2.4	2.8	3.0	2.9	3.1
	26.0%	28.0%	29.1%	31.4%	35.4%
POLAND[(2)]					
Agriculture	0.3%	0.3%			
Energy	0.5	0.4			
Manufacturing	2.0	1.9			
Construction and Property	0.4	0.4			
Distribution	1.4	1.3			
Transport	0.2	0.1			
Financial	0.4	0.5			
Services	0.5	0.4			
Total Commercial	5.7	5.3	5.5	2.8	2.4
Personal - Residential mortgages	0.4	0.2			
- Overdraft/instalment	0.6	0.7			
Total Personal	1.0	0.9	0.7	0.3	0.4
	6.7%	6.2%	6.2%	3.1%	2.8%
REST OF THE WORLD	0.4%	0.5%	0.8%	1.6%	2.0%
Total loans to customers	100.0%	100.0%	100.0%	100.0%	100.0%

(1) During 2000, a review of sector classification in Ireland was undertaken. December 1999 classifications in the above table have been restated to reflect the impact of reclassifications that took place. December 1998 and 1997 reclassifications are shown as originally reported.
(2) A common standard for sectoral reporting of Poland advances was implemented during 2000 and is reflected in the above table for the years ended December 31, 2001 and 2000 only.

Analysis of loans to customers by maturity and interest rate sensitivity

The following table analyzes loans to customers by maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 7% of the portfolio, are classified as repayable within one year. Approximately 24% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed by Treasury within agreed policy parameters.

	December 31, 2001			
	Within 1 year	**After 1 year but within 5 years**	**After 5 years**	**Total**
	(Euro in millions)			
Ireland	9,154	6,512	8,643	24,309
United Kingdom	3,455	2,450	4,758	10,663
United States of America	3,292	7,115	3,228	13,635
Poland	1,611	1,005	882	3,498
Rest of the World	1	–	–	1
Total loans by maturity	17,513	17,082	17,511	52,106

	Fixed rate	**Variable rate**	**Total**
	(Euro in millions)		
Ireland	3,836	20,473	24,309
United Kingdom	1,227	9,436	10,663
United States of America	6,636	6,999	13,635
Poland	563	2,935	3,498
Rest of the world	1	–	1
	12,263	39,843	52,106

Provision and allowance for loan losses

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

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realizable 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 balance outstanding on problem loans and estimated recoveries. 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. Grading 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.

General 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.

General 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
- current estimates of expected loss in the portfolio

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 Group Board of Directors.

All divisions operate within the parameters of the Group provisioning policies, although some differences do exist between the provisioning methodologies of our Polish, USA and European divisions in order to meet local regulatory needs.

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

Movements in the allowance for loan losses

	December 31,				
	2001	2000	1999	1998	1997
	(Euro in millions)				
Total allowance at beginning of period	872	771	538	501	362
Acquisition of subsidiary companies		35	184	–	105
Allowance of disposed loans	–	–	–	(6)	(19)
Transfer from provisions for contingent liabilities	–	–	–	4	–
Currency translation and other adjustments	46	33	43	(13)	43
Recoveries of provisions previously charged off	25	32	28	24	27
Amounts charged off					
Ireland	(34)	(33)	(31)	(30)	(35)
United Kingdom	(10)	(17)	(16)	(23)	(27)
United States of America	(42)	(44)	(43)	(24)	(45)
Poland	(24)	(18)	(6)	(5)	(3)
Rest of the World	(3)	(20)	(11)	(16)	–
	(113)	(132)	(107)	(98)	(110)
Provisions charged against income[1]					
Ireland	137	80	80	79	67
United Kingdom	36	40	31	43	36
United States of America	49	44	38	19	33
Poland	122	91	22	27	11
Rest of the World	2	3	7	42	1
	346	258	178	210	148
Recoveries of provisions against income[1]					
Ireland	(18)	(14)	(15)	(16)	(8)
United Kingdom	(16)	(11)	(21)	(20)	(14)
United States of America	–	(1)	–	(6)	–
Poland	(106)	(64)	(15)	(16)	(5)
Rest of the world	(2)	(3)	(14)	(2)	(1)
	(142)	(93)	(65)	(60)	(28)
Recoveries of provisions previously charged off [1]					
Ireland	(13)	(15)	(14)	(15)	(16)
United Kingdom	(1)	(6)	(4)	(1)	(4)
United States of America	(11)	(10)	(9)	(8)	(7)
Poland	–	(1)	(1)	–	–
Rest of the World	–	–	–	–	–
	(25)	(32)	(28)	(24)	(27)
Total allowance at end of period	1,009	872	771	538	501
Allowance at end of period					
Specific	555	452	401	258	258
General	454	420	370	280	243
Total	1,009	872	771	538	501
Amounts include:					
Loans and advances to banks	2	3	3	–	–
Loans and advances to customers	1,007	869	768	538	501
	1,009	872	771	538	501

[1]The aggregate of these sets of figures represents the total provisions for loan losses charged to income.

The following table reconciles the total provisions for loan losses charged to income as shown in (A), the table on page 79 above relating to "Movements in the allowance for loan losses", with that shown in (B), AIB Group's "Consolidated statement of income".

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
(A)			
Provisions charged against income	346	258	178
Recoveries of provisions charged against income	(142)	(93)	(65)
Recoveries of loans previously charged off	(25)	(32)	(28)
Total charged to income	179	133	85
(B)			
Provisions for loans losses	179	133	85

The following table presents additional information with respect to the provision and allowance for loan losses for the years ended December 31, 2001, 2000, 1999, 1998 and 1997.

	Years ended December 31,				
	2001	2000	1999	1998	1997
Allowance at end of period as a percentage of total loans, less unearned income, at end of period					
Specific Allowance	1.07%	0.97%	1.01%	0.85%	0.95%
General Allowance	0.87%	0.91%	0.93%	0.92%	0.90%
	1.94%	1.88%	1.94%	1.77%	1.85%

	Years ended December 31,				
	2001	2000	1999	1998	1997
Provisions charged to income and net loans charged off as a percentage of average loans					
Total provisions charged to income	0.36%	0.30%	0.24%	0.44%	0.39%
Net loans charged off	0.18%	0.23%	0.22%	0.26%	0.33%

The following table presents an analysis of AIB Group's loans charged off for the years ended December 31, 2001 and 2000.

Analysis of loans charged off

	Years ended December 31,			
	2001		2000	
	Loans charged off	Recoveries of loans previously charged off	Loans charged off	Recoveries of loans previously charged off
	(Euro in millions)			
IRELAND				
Agriculture	2.8	1.0	2.4	1.0
Manufacturing	0.9	0.3	1.7	0.8
Construction and property	2.1	0.8	2.1	0.9
Distribution	5.5	2.2	3.6	1.6
Transport	0.3	0.1	0.8	0.4
Financial	1.9	1.0	0.4	0.2
Services	1.8	0.7	2.0	0.9
Personal - Residential mortgages	0.1	–	0.1	–
- Overdraft/installment	15.1	5.4	16.6	7.4
Lease financing	3.5	1.2	2.9	1.3
	34.0	12.7	32.6	14.5
UNITED KINGDOM				
Agriculture	0.1	–	0.9	–
Manufacturing	2.2	0.5	0.8	0.1
Construction and property	0.1	–	1.0	0.3
Distribution	0.7	–	4.3	1.7
Transport	0.1	–	0.1	-
Financial	0.1	–	0.1	0.1
Services	2.3	0.4	4.4	2.8
Personal - Residential mortgages	0.1	–	0.1	-
- Overdraft/installment	4.8	0.4	5.4	1.1
	10.5	1.3	17.1	6.1
UNITED STATES OF AMERICA				
Commercial	15.6	1.9	17.0	0.9
Real Estate	0.8	0.8	3.1	2.7
Residential mortgages	2.7	1.0	3.1	1.0
Retail	21.9	6.9	17.2	4.7
Bankcard	–	–	0.2	0.1
Leases receivable	0.8	0.4	3.3	0.4
	41.8	11.0	43.9	9.8
POLAND	23.5	–	18.2	1.1
REST OF THE WORLD	2.7	–	20.1	0.2
TOTAL	112.5	25.0	131.9	31.7

The following table presents an analysis of AIB Group's allowance for loan losses at December 31, 2001, 2000 and 1999.

	December 31,		
	2001	2000 (Euro in millions)	1999
IRELAND			
Agriculture	8	9	7
Energy	9	–	–
Manufacturing	13	9	7
Construction and property	4	4	4
Distribution	6	5	7
Transport	1	1	1
Financial	1	1	1
Services	8	7	8
Personal - Residential mortgages	4	3	2
- Overdraft/installment	46	35	36
Lease financing	18	15	11
	118	89	84
UNITED KINGDOM			
Agriculture	3	2	2
Energy	–	1	3
Manufacturing	26	17	7
Construction and property	7	7	5
Distribution	11	11	13
Transport	3	1	1
Financial	–	1	-
Services	14	22	22
Personal - Residential mortgages	1	4	1
- Overdraft/installment	10	4	10
	75	70	64
UNITED STATES OF AMERICA			
Commercial	13	8	4
Real Estate	1	1	2
Residential Mortgages	5	6	4
Retail	15	17	15
	34	32	25
POLAND			
Commercial	279	233	188
Personal	46	23	15
	325	256	203
REST OF THE WORLD	3	5	25
TOTAL SPECIFIC ALLOWANCE	555	452	401
TOTAL GENERAL ALLOWANCE	454	420	370
TOTAL ALLOWANCE	1,009	872	771
Amounts include:			
Loans and advances to banks	2	3	3
Loans and advances to customers	1,007	869	768
	1,009	872	771

Risk elements in lending

AIB Group makes provisions for loan losses in accordance with the method described under "Provision and allowance for loan losses". Outside of the US, its loan control and review procedures generally do not include the classification of loans as non-accrual, accruing past due, restructured and potential problem loans, as defined by the US Securities and Exchange Commission ("SEC"). Management has, however, set out below the amount of loans, without giving effect to available security and before deduction of provisions, which would have been so classified had the SEC's classification been used:

	December 31,				
	2001	**2000**	**1999**	**1998**	**1997**
			(Euro in millions)		
Loans accounted for on a non-accrual basis[1]					
Ireland	195	162	146	141	124
United Kingdom	107	98	101	128	168
United States of America	85	85	44	49	56
Poland[2]	643	523	436	91	91
Rest of the World	3	3	26	27	4
	1,033	871	753	436	443
Accruing loans which are contractually past due 90 days or more as to principal or interest[3]					
Ireland	63	79	57	48	54
United Kingdom	42	38	27	6	11
United States of America	51	36	32	34	21
	156	153	116	88	86
Restructured loans not incuded above[4]	–	–	–	–	3
Other real estate and other assets owned	14	30	29	36	15

[1] Total interest income that would have been recorded during the year ended December 31, 2001 had interest on non-accrual loans been included in income amounted to €13 million for Ireland, €7 million for the United Kingdom, €6 million for the United States of America, €89 million for Poland and zero for rest of the world. Interest on non-accrual loans included in income for the year ended December 31, 2001 totaled €53 million.

[2] The increase in non-accrual loans in Poland in 1999 reflected the impact of the acquisition of Bank Zachodni.

[3] Overdrafts generally have no fixed repayment schedule and consequently are not included in this category.

[4] Outside of the United States, AIB Group does not normally renegotiate doubtful loans at concessionary rates of interest.

AIB Group generally expects that loans where known information about possible credit problems causes management to have serious doubt as to the ability of borrowers to comply with loan repayment terms would be included under its definition of non-performing and would therefore have been reported in the above table. However, management's best estimate of loans, not included above, that are current as to payment of principal and interest but concerning which AIB Group has serious doubts as to the ability of the borrower to comply with loan repayment terms, totaled approximately €186 million at December 31, 2001.

AIB Group's policy is that, whenever doubt exists, interest is not taken into income if it may subsequently have to be reversed. Consequently, interest is accounted for on a cash received basis and loans are designated as "non-accrual" when interest thereon is 90 days or more past due, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from realization of security, refinancing commitment or other sources; (ii) where there is independent evidence that the balance due, including interest, is adequately secured; or (iii) in certain exceptional cases where there is clear evidence from cash flow projections, provided such projections have been independently examined to the satisfaction of AIB Group, that payments will be brought up to date within a reasonable period of time not to exceed six months.

However, the definition of non-accrual in Poland includes loans that are 30 days past due, but accruing, to ensure Polish regulation compliance.

The following table presents an analysis of AIB Group's loans which are accounted for on a non-accrual basis at December 31, 2001, 2000 and 1999.

	December 31,		
	2001	**2000**	**1999**
		(Euro in millions)	
IRELAND			
Agriculture	21	27	18
Energy	14	–	–
Manufacturing	19	16	15
Construction and property	11	10	7
Distribution	14	15	14
Transport	3	2	2
Financial	1	2	2
Services	16	15	13
Personal - Residential mortgages	18	17	17
- Overdraft/installment	62	48	51
Lease financing	16	10	7
	195	162	146
UNITED KINGDOM			
Agriculture	3	3	3
Energy	–	1	1
Manufacturing	19	14	6
Construction and property	13	10	12
Distribution	24	20	20
Transport	3	3	2
Services	30	22	29
Personal - Residential mortgages	9	10	14
- Overdraft/installment	6	15	14
	107	98	101
UNITED STATES OF AMERICA			
Commercial	62	58	13
Real Estate	5	8	10
Residential mortgages	18	19	21
	85	85	44
POLAND[1]			
Agriculture	39		
Energy	8		
Manufacturing	236		
Construction and Property	67		
Distribution	158		
Transport	7		
Financial	38		
Services	21		
Total Commercial	574	493	412
Personal - Residential mortgages	8		
- Overdraft/installment	61		
Total Personal	69	30	24
	643	523	436
REST OF THE WORLD	3	3	26
TOTAL	1,033	871	753

[1] A common standard for sectoral reporting of Poland non-accrual loans was implemented during 2001 and is reflected in the above table for year ended December 2001 only.

Non-performing loans

Group loans accounted for on a non-accrual basis increased by €162 million between December 31, 2000 and December 31, 2001 (€102 million net of currency exchange rate movements) increasing from 1.9% to 2.0% of advances. The increase in non-accrual loans is primarily reflected in Poland with smaller increases in Ireland and the UK.

In the Republic of Ireland, loans accounted for on a non-accrual basis increased by €33 million during the year to December 31, 2001, including a small number of corporate cases. This represents a marginal increase in the amount of loans accounted for on a non-accrual basis as percentage of advances to 0.80%. The increase was influenced by the impact of slower economic activity in the Republic of Ireland.

In the United Kingdom, there was an increase of €9 million in loans accounted for on a non-accrual basis during the year to December 31, 2001. This reflects the addition of a small number of corporate cases in Britain partially offset by recoveries and a small increase in the First Trust portfolio in Northern Ireland.

In the United States of America, non-accrual loans at €85 million, remain unchanged between December 31, 2000 and December 31, 2001. Net of currency exchange rate movements, loans accounted for on a non-accrual basis decreased by €5 million.

In Poland, the increase of €120 million (€67 million net of currency exchange rate movements) in loans accounted for on a non-accrual basis in the year ended December 31, 2001, reflects the ongoing review work undertaken during 2001, problems in certain sectors (e.g. steel and construction) and a general downturn in the economy. The increase in loans accounted for on a non-accrual basis during 2001 from 18% to 18.4% of advances compares with a market range of between 13% and 23% for non-accrual loans in Poland.

The classification of a loan as non-accrual does not necessarily indicate that the principal amount of the loan is uncollectable in whole or in part. As described above under "Provision and allowance for loan losses", the provision made in respect of any particular loan is calculated net of any realizable security value and other identifiable repayment sources, while the full principal amount of the loan is reflected as non-accrual before any deduction for provisions, security values or other elements of loans that may be partially recoverable.

The allowance for loan losses as a percentage of customer loans accounted for on a non-accrual basis decreased from 100% as at December 31, 2000 to 97% as at December 31, 2001.

In accordance with AIB Group's provisioning policy for loan losses, it is considered that appropriate provisions for the above losses have been made. See "Provision and allowance for loan losses" on page 78

Cross-border outstandings

Cross-border outstandings, which exclude finance provided within AIB Group, are based on the country of domicile of the borrower and comprise placings with banks and money at call and short notice, loans to customers, finance lease receivables and installment credit, acceptances and other monetary assets, including non-local currency claims of overseas offices on local residents. AIB Group monitors geographic breakdown based on the country of the borrower and the guarantor of ultimate risk.

Cross-border outstandings exceeding 1% of total assets are shown in the following table.

	As % of total assets[(1)]	Total	Banks and other financial institutions	Government and official institutions	Commercial industrial and other private sector
			(Euro in millions)		
December 31,2001					
United Kingdom..................	6.5%	5,748	2,243	268	3,237
United States........................	2.9%	2,570	250	568	1,752
Germany...............................	2.7%	2,443	1,881	323	239
Italy......................................	1.6%	1,419	464	731	224
Netherlands..........................	1.1%	1,002	346	104	552
Poland..................................	1.1%	952	295	89	568
December 31, 2000					
United Kingdom..................	5.6%	4,465	1,832	388	2,245
Germany..............................	3.2%	2,548	1,754	641	153
United States........................	2.5%	1,968	265	923	780
Italy......................................	1.2%	921	404	506	11
December 31, 1999					
United Kingdom..................	4.6%	3,144	650	946	1,548
United States........................	4.0%	2,731	1,012	1,058	661
Germany...............................	2.2%	1,469	599	824	46

(1) Assets, consisting of total assets as reported in the consolidated balance sheet and acceptances, totaled €88,979 million at December 31, 2001 (2000: €79,871 million; 1999: €67,861 million).

At December 31, 2001 cross-border outstandings to borrowers in Spain amounted to 0.77%. At December 31, 2000 cross-border outstandings to borrowers in Poland, Spain and the Netherlands amounted to 0.91%, 0.77% and 0.75%, respectively. At December 31, 1999 cross-border outstandings to borrowers in Poland and Italy amounted to 0.91% and 0.86%, respectively.

Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to AIB Group's total credit exposure. Although AIB Group's portfolio of financial instruments is broadly diversified along industry, product and geographic lines, material transactions are completed with other financial institutions, particularly in securities trading, derivative, and foreign exchange business.

PART II

Item 13. *Defaults, dividend arrearages and delinquencies*

(a) None

(b) None

Item 14. *Material modifications to the rights of security holders and use of proceeds*

(a) None

(b) None

(c) Not applicable

(d) No changes

(e) Not applicable

Item 15. *Reserved*

Item 16. *Reserved*

PART III

Item 17. *Financial statements*

(Not responded to as Item 18 is complied with)

Item 18 and 19. *Financial statements and exhibits*

(a) Financial statements

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(b) Exhibits

Not Applicable

Accounting policies

The accounts on pages 92 to 169 have been prepared under the historical cost convention, as modified by the revaluation of certain properties and investments, and comply with the requirements of Irish statute comprising the Companies Acts 1963 to 2001 and the European Communities (Credit Institutions: Accounts) Regulations, 1992, and with accounting standards generally accepted in Ireland ("Irish GAAP"), except as described below in respect of the restatement of prior years for the losses arising from fraudulent foreign exchange trading activities at Allfirst Bank related to those years. The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

Losses arising from the fraudulent foreign exchange trading activities at Allfirst bank

In accordance with Irish GAAP the total costs arising from the Fraud were reflected by way of an exceptional charge of €789 million (of which €341 million relates to prior periods - see note 52) in the profit and loss account in the Annual Report and Accounts for the year ended December 31, 2001, distributed to shareholders under Irish Companies Legislation ("Irish Legislation Annual Report and Accounts"). Under Financial Reporting Standard 3 "Reporting Financial Performance" ("FRS 3") prior period financial statements are restated for an error only if the error is a fundamental error. Fundamental errors under FRS 3 are errors that are of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements. In the opinion of the Directors, the exceptional foreign exchange losses, relating to each of the prior years, do not constitute fundamental errors, because they are not of such significance as to destroy the true and fair view and hence the validity of the prior period financial statements. As restatement of errors in accounts under Irish GAAP is limited to fundamental errors, these losses are not reflected in prior periods in the Irish Legislation Annual Report and Accounts.

Under US reporting requirements, the filing of the 2001 financial statements by way of Annual Report on Form 20-F constitutes a reissue of the financial statements for prior years. For the purpose of presenting the Balance Sheet and Statement of Income of the Group in the Form 20-F, the US Securities and Exchange Commission requires all material errors relating to prior periods to be accounted for and reported as prior year adjustments. Accordingly, the financial statements prepared for inclusion in this Annual Report on Form 20-F are restated to reflect the losses arising from the Fraud in the periods in which they occurred.

As a result the financial statements and notes in this Annual Report on Form 20-F for the years 2000 and 1999 are restated to reflect the losses arising from the Fraudulent Activities in the years that they occurred, while the charge in 2001 reflects the losses occurring in 2001 only. The restatements are discussed more fully under note 51 "Subsequent Event: Fraudulent Foreign Exchange Trading Activities" and note 52, "Restatement of Prior Year Financial Statements" in the Notes to the Consolidated Financial Statements.

Accordingly, the Financial Statements prepared for inclusion in this Form 20-F have been prepared in accordance with Irish GAAP except for the restatement of prior years in respect of the losses arising from the fraudulent foreign exchange trading activities.

The following terms are used to describe the losses arising from the fraudulent foreign exchange trading activities and other commonly used descriptions throughout the Financial Statements and notes thereto.

– Fraudulent foreign exchange trading activities	=	"Fraudulent Activities" or "Fraud"
– Losses arising from fraudulent foreign exchange trading activities	=	"Fraud Losses" or "Exceptional Foreign Exchange Dealing Losses"
– Fair value – foreign exchange option purchased	=	"FX Option Asset"
– Fair value – Foreign exchange option written	=	"FX Option Liability"
– Foreign Exchange	=	"FX"

The effect on the Group's consolidated net income, consolidated total assets and consolidated total liabilities and ordinary stockholders' equity had US Generally Accepted Accounting Principles ('US GAAP') been applied in the preparation of these accounts is set out in note 49.

Change in accounting policy and presentation of financial information

(a) Retirement benefits

The Group has adopted Financial Reporting Standard 17 "Retirement benefits" ("FRS 17") in the preparation of its accounts for the year ended December 31, 2001. FRS 17 applies to all types of benefits that an employer provides after employees have completed their service, including pensions and other retirement benefits. Changes to the Group accounting policy for retirement benefits apply to defined benefit plans only. There is no change to the accounting for defined contribution plans arising from the implementation of FRS 17.

FRS 17 requires that plan assets are valued at fair value and plan liabilities are measured using the projected unit method. Net plan assets and liabilities, reduced by deferred tax amounts, are required to be shown on the face of the balance sheet as a pension surplus or deficit as appropriate. Previously, a surplus or deficit within a plan was not recognized on the Group's balance sheet.

Accounting policies - (Continued)

Under FRS 17, the statement of income charge consists of two elements:- the current service cost, recorded in administrative expenses; and the net of the expected return on pension assets and the interest cost of the pension liabilities, recorded in other finance income. Previously, the charge to the statement of income in respect of defined benefit pension plans and other retirement benefits was determined by funding rates recommended by independent qualified actuaries.

Actuarial gains or losses are recognised through the statement of total recognized gains and losses. Previously these gains and losses were spread in the statement of income, as a component of pension expense, over the employees' remaining service lives.

The change in accounting policy arising from the adoption of FRS 17 has resulted in a prior year adjustment and comparative figures have been restated accordingly. This change has resulted in a net credit to stockholders' funds of €648 million as at January 1, 2001. The December 31, 1999 impact on stockholders' funds was a credit of €809 million. Income before taxes for the years ended December 31, 2000 and 1999 has been increased by €23 million and €31 million respectively. The effect on 2001 income before taxes was to increase profits by €39 million.

(b) Divisional restructure

During 2001, a new divisional structure was put in place with the creation of a new AIB Bank GB & NI division incorporating the businesses of Allied Irish Bank (GB) and First Trust Bank. In addition, a new Enterprise Networks and eBusiness division, with responsibility for the development and implementation of AIB Group's IT and eBusiness strategy, was formed. The segmental information has been restated to reflect these changes in the organizational structure.

The principal accounting policies adopted by the Group, are as follows:

(a) Basis of consolidation

The Group accounts include the accounts of Allied Irish Banks, p.l.c. *(the parent company)* and its subsidiary undertakings made up to the end of the financial year. All intercompany balances and transactions are eliminated from the consolidated accounts.

In order to reflect the different nature of the stockholders' and policyholders' interests in the long-term assurance business, the value of long-term assurance business attributable to stockholders and the long-term assurance assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

(b) Interests in associated undertakings

The attributable share of income of associated undertakings, based on accounts made up to the end of the financial year, is included in the consolidated statement of income using the equity method of accounting. Interests in associated undertakings are included in the consolidated balance sheet at the Group's share of the book value of the net assets of the undertakings concerned less provisions for any impairment in value.

(c) Income and expense recognition

Interest income and expense is recognized on an accruals basis. Fees which, in effect, increase the yield on transactions are spread over the lives of the underlying transactions on a level yield basis. Fees and commissions received for services provided are recognized when earned. Expenses are, in general, charged to statement of income as accrued. However, in some cases, expenses incurred in the setting up of transactions are deferred and are charged to statement of income over the lives of the transactions.

(d) Allowance for loan losses

Specific provisions are made as a result of a detailed appraisal of risk assets. In addition general provisions are carried to cover losses which, although not specifically identified, are present in any portfolio of bank advances. The total allowance for loan losses *(note 23)* is deducted in arriving at the balance sheet figures of loans and advances to banks and to customers, as appropriate. Provisions made during the year, less existing provisions no longer required and recoveries of bad debts previously written off, are charged against profits. Interest is not taken to profit where recovery is doubtful.

(e) Debt securities

Premiums and discounts on Government and other debt securities having a fixed redemption date, which are not held for trading purposes, are amortized over the period from date of purchase to redemption and an appropriate proportion is taken to the statement of income each year and included in interest income. Securities held for investment purposes are stated in the balance sheet at amortized cost, less provision for any impairment in value. Securities held for hedging purposes are included in the balance sheet at a valuation, the basis of which is consistent with that being applied to the underlying transactions. Securities held for both investment and hedging purposes are classified as financial fixed assets in the balance sheet. Securities held for trading purposes are included in the balance sheet at market value.

Profits and losses on disposal of securities held for trading and investment purposes are recognized immediately in the statement of income. The realized and unrealized profits and losses on trading securities are included with dealing profits, while the profits and losses on disposal of securities held for investment purposes are included with other operating income. Profits and losses on disposal of securities held for hedging purposes are amortized over the lives of the underlying transactions, and included in net interest income.

(f) Finance leases

Income from leasing transactions is apportioned over the primary leasing period in proportion to the monthly balance of finance outstanding using the investment period method. Government grants in respect of these assets are credited to the statement of income on the same basis.

(g) Hire purchase and instalment finance

Interest and charges on hire purchase and on instalment credit agreements are taken to the statement of income by the sum of the digits method over the period of the agreements after deducting the costs of setting up the transactions.

(h) Securitized assets

Securitized assets are included in the balance sheet at their gross amount less non-returnable proceeds received on securitisation, where the Group has retained significant rights to benefits and exposure to risks, but where the Group's maximum loss is limited to a fixed monetary amount. The contribution from the securitized assets is included in other operating income.

(i) Operating leases

Rentals are charged to statement of income in equal instalments over the terms of the leases.

(j) Depreciation

Up to December 31, 1999, freehold and long leasehold properties were not depreciated. Since January 1, 2000, with the introduction of Financial Reporting Standard 15 "Tangible Fixed Assets", freehold and long leasehold properties are written off over their estimated useful lives of 50 years. The impact of this change was to increase the depreciation charge in 2000 by €9 million.

Leasehold properties with less than 50 years unexpired are written off by equal annual installments over the remaining terms of the leases.

Depreciation on equipment is provided on a straight line basis at rates which will write off these assets over their expected useful lives, which for furnishings are 10 years and for computers, motor vehicles and other equipment are 3 to 10 years.

Expenditure incurred to date amounting to €68 million on the development of computer systems has been capitalized and included under equipment. This expenditure is written off over a maximum period of 5 years and to date €20 million has been charged to the statement of income.

(k) Discounting of future commitments

The Group provided in the year ended December 31, 1993, on a present value basis, for the cost of its future commitments arising under the agreements reached in relation to the funding of Icarom plc *(under Administration)*, formerly The Insurance Corporation of Ireland plc. The future commitments under the agreements were each discounted to their present value by applying an interest rate derived from the weighted average of the yield to maturity of Irish Government securities maturing on the same dates as the future commitments. The Group's policy is not to revise these discount rates for future changes in interest rates. The commitments are deducted from the present value provisions as they mature and interest at the relevant discount rates is charged annually to interest expense and added to the present value provisions. The present value provisions are included in other liabilities *(note 35)*.

(l) Equity shares

Equity shares held as financial fixed assets are included in the balance sheet at cost, less provision for any impairment in value. Profits and losses on disposal of equity shares held as financial fixed assets are recognized immediately in the statement of income. Equity shares held for trading purposes are marked to market with full recognition in the statement of income of changes in market value.

(m) Retirement benefits

AIB Group provides a number of defined benefit and defined contribution retirement benefit plans in various geographic locations.

In relation to the defined benefit plans, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Plan assets are valued at market value. Plan 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. The net pension surplus or deficit is shown net of the deferred tax impact on the balance sheet. Actuarial gains and losses are recognized immediately in the statement of total recognized gains and losses.

The current service cost of the defined benefit plans is charged to operating income and the expected return on assets net of the change in the present value of the plan liabilities arising from the passage of time, is credited to other finance income.

The costs of the Group's defined contribution plans are charged to the statement of income in the period in which they are incurred.

(n) Deferred taxation

Deferred taxation is accounted for in respect of timing differences between the profits as stated in the accounts and as computed for taxation purposes using the liability method where, in the opinion of the directors, there is a reasonable probability that a tax liability or asset will arise in the foreseeable future. The calculation of the deferred taxation asset or liability is based on the taxation rates expected to be applicable when the liabilities or assets are anticipated to crystallize.

(o) Foreign currencies

Assets and liabilities denominated in foreign currencies and commitments for the purchase and sale of foreign currencies are translated at appropriate spot or forward rates of exchange ruling on the balance sheet date. Profits and losses arising from these translations and from trading activities are included as appropriate, having regard to the nature of the transactions, in other operating income or dealing profits.

In the case of net investments in foreign subsidiaries, associated undertakings and branches, exchange adjustments arising from the retranslation of these investments, net of hedging profits and losses, are included as appropriate in the currency translation adjustments on reserves and the profit and loss account reserves.

Profits and losses arising in foreign currencies have been translated at average rates for the year. The adjustment arising on the retranslation of profits and losses to balance sheet rates is included in the currency translation adjustments on the profit and loss account.

(p) Capital instruments

Issue expenses of capital instruments are deducted from the proceeds of issue and, where appropriate, are amortized to the statement of income so that the finance costs are allocated to accounting periods at a constant rate based on the carrying amount of the instruments. The issue expenses amortized to the statement of income are subsequently transferred to the share premium account.

(q) Intangible assets and goodwill

Purchased goodwill is the excess of cost over the fair value of the Group's share of net assets acquired. In accordance with Financial Reporting Standard 10 "Goodwill and Intangible Assets", purchased goodwill and intangible assets arising on acquisition of subsidiary and associated undertakings, occurring after January 1, 1998, are capitalized as assets on the balance sheet and amortized to the statement of income over their estimated useful economic lives subject to a maximum period of 20 years.

Goodwill arising on acquisitions of subsidiary and associated undertakings prior to December 31, 1997 has been written off to the statement of income in the year of acquisition. Purchased goodwill, previously written off, is charged in the statement of income on subsequent disposal of the business to which it relates.

(r) Derivatives

The Group uses derivatives, such as currency and interest rate swaps, options, forward rate agreements and financial futures, for both trading and hedging purposes *(note 43)*. The accounting treatment for these derivative instruments is dependent on whether they are entered into for trading or hedging purposes.

AIB Group maintains trading positions in a variety of financial instruments including derivatives. Most of these positions are 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. Trading instruments are recognized in the accounts at fair value with the adjustment arising included in other assets and other liabilities, as appropriate, in the consolidated balance sheet. Gains and losses arising from trading activities are included in dealing profits in the statement of income using the mark to market method of accounting.

Derivative transactions entered into for hedging purposes are recognized in the accounts in accordance with the accounting treatment of the underlying transaction or transactions being hedged. To qualify for hedge accounting the derivative must be designated as a hedge at its inception and must remain effective as a hedge throughout the hedge period. Derivatives that are not designated as hedges are classified as held for trading purposes. Gains and losses arising from hedging activities are amortized to net interest income over the lives of the underlying transactions. Futures contracts are designated as hedges when they reduce risk and there is high correlation between the futures contract and the item being hedged, both at inception and throughout the hedge period. 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. Upon early termination of these derivative financial instruments, any realized gain or loss is deferred and amortized over the life of the original hedge, as long as the designated assets or liabilities remain. 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 the statement of income immediately.

(s) Long-term assurance business

The value placed on the Group's long-term assurance business attributable to shareholders represents a prudent valuation of the investment in business on policies in force together with the net tangible assets of the business. The value is determined on the advice of a qualified actuary on an after tax basis using a discount rate of 12% and is included separately in the consolidated balance sheet.

Movements in the value placed on the Group's long-term assurance business attributable to shareholders, grossed up for taxation, are included in other operating income.

(t) Fiduciary and trust activities

Allied Irish Banks, p.l.c. and some subsidiary undertakings act as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, investment trusts, pension schemes and unit trusts. These assets are not consolidated in the accounts as they are not assets of Allied Irish Banks, p.l.c. or its subsidiary undertakings. Fees and commissions earned in respect of these activities are included in the statement of income.

Consolidated Statements of Income

	Notes	2001	2000 Restated	1999 Restated
		Years ended December 31, (Euro in millions)		
Interest income:				
Interest income and similar income arising from debt securities and other fixed income securities		1,198	1,140	833
Other interest receivable and similar income	4	4,148	3,987	3,009
Less: interest expense	5	(3,053)	(3,105)	(2,072)
Deposit interest retention tax	6	–	(113)	–
Net interest income		2,293	1,909	1,770
Other finance income	7	67	71	71
Dividend income	8	11	6	2
Fees and commissions receivable		1,258	1,101	909
Less: fees and commissions payable		(128)	(108)	(93)
Dealing profits	9	92	103	74
Exceptional foreign exchange dealing losses	9 & 51	(417)	(228)	(45)
Other operating income	10	193	202	160
Other income		1,009	1,076	1,007
Total operating income		3,369	3,056	2,848
Before exceptional item		3,786	3,397	2,893
Exceptional foreign exchange dealing losses	9 & 51	(417)	(228)	(45)
Deposit interest retention tax	6	–	(113)	–
Administrative expenses:				
Staff and other administrative expenses	11(a)	2,045	1,826	1,531
Integration costs in continuing businesses	11(b)	38	–	–
Administrative expenses		2,083	1,826	1,531
Depreciation and amortization	12	195	171	127
Total operating expenses		2,278	1,997	1,658
Group operating income before provisions		1,091	1,059	1,190
Before exceptional item		1,508	1,400	1,235
Exceptional foreign exchange dealing losses	9 & 51	(417)	(228)	(45)
Deposit interest retention tax	6	–	(113)	–
Provisions for loan losses		179	133	85
Provisions for contingent liabilities and commitments		19	2	2
Amounts written off/(written back) fixed asset investments	13	6	(1)	5
		204	134	92
Group operating income - continuing operations		887	925	1,098
Before exceptional item		1,304	1,266	1,143
Exceptional foreign exchange dealing losses	9 & 51	(417)	(228)	(45)
Deposit interest retention tax	6	–	(113)	–
Income from associated undertakings		4	3	3
Income on disposal of property		6	5	2
Income on disposal of businesses	15	93	–	15
Income before taxes *(carried forward)*		990	933	1,118
Before exceptional item		1,407	1,274	1,163
Exceptional foreign exchange dealing losses	9 & 51	(417)	(228)	(45)
Deposit interest retention tax	6	–	(113)	–

Consolidated Statements of Income - (Continued)

	Notes	2001	2000 Restated	1999 Restated
		Years ended December 31, (Euro in millions)		
Income before taxes *(brought forward)*		990	933	1,118
Applicable taxes	16	187	239	317
Income after taxes		803	694	801
Equity and non-equity minority interests in subsidiaries	17	23	38	28
Dividends on non-equity shares	18	50	20	16
		73	58	44
Net income applicable to ordinary stockholders		730	636	757
Earnings per € 0.32 ordinary share – basic	20(a)	84.8c	74.3c	89.1c
Earnings per € 0.32 ordinary share – adjusted	20(b)	119.9c	106.7c	93.5c
Earnings per € 0.32 ordinary share – diluted	20(c)	84.2c	73.8c	88.1c
Net income in accordance with accounting principles generally accepted in the United States	49	665	571	663

The accompanying notes are integral part of these consolidated financial statements.

ALLIED IRISH BANKS, p.l.c.

Consolidated Balance Sheets

	Notes	2001	2000 Restated	1999 Restated
		December 31, (Euro in millions)		
ASSETS				
Cash and balances at central banks		1,175	938	1,119
Items in course of collection		1,536	1,116	916
Central government bills and other eligible bills	21	49	297	718
Loans and advances to banks	22	6,047	4,193	3,831
Gross loans and advances to customers		52,106	46,423	39,804
Allowance for loan losses		(1,007)	(869)	(768)
Unearned interest		(115)	(103)	(78)
Loans and advances to customers net		50,984	45,451	38,958
Money market funds		232	429	213
	23	51,216	45,880	39,171
Securitized assets		1,099	933	598
Less: non-returnable proceeds		(917)	(767)	(473)
	24	182	166	125
Debt securities (market value of €20,251 million, €19,002 million and €14,900 million)	25	20,082	18,986	15,108
Equity shares	26	332	412	297
Interests in associated undertakings	27	10	8	22
Intangible fixed assets	28	495	466	468
Property and equipment	29	1,305	1,127	1,039
Own shares	30	245	177	123
Other assets		1,260	1,119	923
Prepayments and accrued income		2,080	1,835	1,195
Pension asset	14	255	625	796
Long-term assurance business attributable to shareholders	31	304	238	166
		86,573	77,583	66,017
Long-term assurance assets attributable to policyholders	31	2,264	2,141	1,701
		88,837	79,724	67,718
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits by banks	32	13,223	12,478	8,608
Customer accounts	33	54,557	48,437	42,335
Debt securities in issue	34	5,033	4,295	4,298
Other liabilities	35	3,252	2,806	2,362
Accruals and deferred income		2,148	1,684	1,306
Provisions for liabilities and charges	36	71	43	34
Deferred taxation	37	311	321	216
Subordinated liabilities	38	2,020	2,249	1,984
Memorandum items: contingent liabilities and commitments	42			
Equity and non-equity minority interests in consolidated subsidiaries	39	312	272	227
Stockholders' equity				
Ordinary shares of €0.32 each: 1,160 million authorized (2000 and 1999: 1,160 million), 886.7 million, 879.2 million and 866.0 million issued and outstanding as at December 31, 2001, 2000 and 1999, respectively and non-cumulative preference shares of US$25 each: 20.0 million authorized and 0.25 million issued and outstanding at December, 31, 2001, 2000 and 1999	40	291	288	284
Share premium account		1,926	1,877	1,832
Reserves		959	401	330
Profit and loss account		2,470	2,432	2,201
Total stockholders' funds including non-equity interests		5,646	4,998	4,647
		86,573	77,583	66,017
Long-term assurance liabilities to policyholders	31	2,264	2,141	1,701
		88,837	79,724	67,718

See note 49 for ordinary stockholders' equity in accordance with accounting principles generally accepted in the United States.

The accompanying notes are integral part of these consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
PREFERENCE SHARE CAPITAL			
Balance, January 1	7	6	5
Currency translation and other adjustments	–	1	2
Balance, December 31	7	7	7
ORDINARY SHARE CAPITAL			
Balance, January 1	281	277	273
Capitalization of reserves on renominalization of share capital	–	–	2
Issued under:			
Dividend reinvestment plan *(note 40)*	1	3	1
Other *(note 40)*	2	1	1
Balance, December 31	284	281	277
SHARE PREMIUM ACCOUNT			
Balance, January 1	1,877	1,833	1,771
Premium arising on shares issued under:			
Employees' profit sharing plans	18	17	19
Executive share option plan	13	7	4
Allfirst Financial, Inc. stock option plans	4	2	4
Profit and loss account	(1)	–	–
Currency translation adjustments	15	18	34
Balance, December 31	1,926	1,877	1,832
RESERVES			
Balance, January 1	401	330	279
Profit and loss account	63	70	45
Issue of reserve capital instrument	496	–	–
Currency translation and other adjustments	(1)	1	6
Balance, December 31	959	401	330
PROFIT AND LOSS ACCOUNT RESERVES			
Balance, January 1	2,432	2,201	710
Prior year adjustment	–	–	201
Balance, January 1 after prior year adjustment	2,432	2,201	911
Actuarial (loss)/gain recognized in retirement benefit schemes *(note 14)*	(402)	(201)	551
Net income	730	636	757
Dividends on equity shares *(note 19)*	(380)	(335)	(288)
Dividend reinvestment plan	22	75	38
Reserves capitalized	(63)	(70)	(45)
Capitalization of reserves on renominalization of share capital	–	–	(2)
Share premium account	1	–	–
Currency translation adjustments	130	126	278
Goodwill written back	–	–	1
Balance, December 31[1]	2,470	2,432	2,201
TOTAL STOCKHOLDERS' FUNDS INCLUDING NON-EQUITY INTERESTS	5,646	4,998	4,647
Analysed as to:			
Equity	4,871	4,734	4,402
Non-equity	775	264	245
	5,646	4,998	4,647

[1] The cumulative goodwill arising on acquisitions of subsidiary and associated undertakings which are still part of the Group, and charged against profit and loss account reserves of the Group, amounted to €1,754 million at December 31, 2001 (2000: €1,670 million). Included within the profit and loss account reserve for the Group at December 31, 2001 is €255 million relating to the pension asset *(note 14)*.

The accompanying notes are integral part of these consolidated financial statements.

Consolidated Cash Flow Statements

	Notes	2001	2000 Restated	1999 Restated
		Years ended December 31, (Euro in millions)		
Net cash inflow from operating activities		231	2,433	3,191
Dividends received from associated undertakings		4	–	2
Returns on investments and servicing of finance	41(a)	(131)	(184)	(108)
Equity dividends paid		(334)	(228)	(215)
Taxation	41(b)	(242)	(199)	(237)
Capital expenditure and financial investment	41(c)	700	(3,004)	(1,405)
Acquisitions and disposals	41(d)	(59)	2	(391)
Financing	41(e)	208	164	640
Increase/(decrease) in cash	41(f)	377	(1,016)	1,477
Reconciliation of Group operating income to net cash inflow from operating activities				
Group operating income		887	925	1,098
Increase in prepayments and accrued income		(199)	(607)	(20)
Increase in accruals and deferred income		418	355	351
Provisions for loan losses		179	133	85
Provisions for contingent liabilities and commitments		19	2	2
Amounts written off/(written back) fixed asset investments		6	(1)	5
Increase in other provisions		19	11	1
Depreciation and amortization		202	171	127
Amortization of own shares		2	1	–
Income on disposal of business		93	_	15
Interest on subordinated liabilities		133	155	95
Income on disposal of debt securities and equity shares		(21)	(23)	(31)
Averaged gains on debt securities held for hedging purposes		(24)	(16)	(18)
Income on disposal of associated undertakings		(1)	(5)	(3)
Amortization of (discounts)/premiums on debt securities held as financial fixed assets		(7)	(2)	13
Increase in long-term assurance business		(66)	(72)	(47)
Net cash inflow from trading activities		1,640	1,027	1,673
Net increase in deposits by banks		452	3,621	479
Net increase in customer accounts		4,647	4,854	2,545
Net increase in loans and advances to customers		(4,281)	(5,812)	(5,398)
Net (increase)/decrease in loans and advances to banks		(1,588)	(1,015)	2,748
Decrease/(increase) in central government bills		274	445	(414)
Net increase in debt securities and equity shares held for trading purposes		(1,394)	(710)	(542)
Net (increase)/decrease in items in course of collection		(374)	(160)	192
Net increase/(decrease) in debt securities in issue		533	(266)	1,912
Net increase in notes in circulation		44	23	16
Decrease/(increase) in other assets		(74)	(158)	(236)
Increase in other liabilities		460	471	126
Effect of currency translation and other adjustments		(108)	113	90
		(1,409)	1,406	1,518
Net cash inflow from operating activities		231	2,433	3,191

The accompanying notes are integral part of these consolidated financial statements.

Statements of Total Recognized Gains and Losses

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Net income	730	636	757
Currency translation differences on foreign currency net investments	165	138	291
Actuarial (loss)/gain recognized in retirement benefit plans *(note 14)*	(402)	(201)	551
Total recognized gains relating to the year	493	573	1,599
Prior year adjustment			
Prior to January 1, 1999	201		
Year ended December 31, 1999	550		
Year ended December 31, 2000	(313)		
	438		
Total recognized gains/(losses) since last annual report on Form 20-F	931		

Note of Historical Cost Profits and Losses

Reported profits on ordinary activities before taxation would not be materially different if presented on an unmodified historical cost basis.

The accompanying notes are integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. NOTES IN CIRCULATION

AIB Group (UK) p.l.c. (formerly AIB Group Northern Ireland plc) is authorized to issue bank notes in Northern Ireland under the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Allied Irish Banks Act (Northern Ireland) 1971, the Allied Irish Banks Act 1981 and the Allied Irish Banks Act 1993 *(note 35)*.

2. OPERATIONS BY GEOGRAPHICAL SEGMENT

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Interest income			
Ireland	2,089	1,951	1,581
United States	1,254	1,359	1,082
United Kingdom	1,000	1,059	820
Poland	1,001	756	349
Rest of the World	2	2	10
	5,346	5,127	3,842
Other finance income			
Ireland	60	62	62
United States	2	4	3
United Kingdom	5	5	6
Poland	–	–	–
Rest of the World	–	–	–
	67	71	71
Dividend income			
Ireland	4	1	1
United States	5	–	–
United Kingdom	–	–	–
Poland	1	4	1
Rest of the World	1	1	–
	11	6	2
Fees and commissions receivable			
Ireland	457	428	407
United States	433	355	282
United Kingdom	225	207	162
Poland	142	109	56
Rest of the World	1	2	2
	1,258	1,101	909
Dealing profits/(losses)			
Ireland	62	25	29
United States	16	2	7
United Kingdom	12	44	36
Poland	2	32	1
Rest of the World	–	–	1
	92	103	74
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
	(325)	(125)	29
Other operating income			
Ireland	110	121	79
United States	13	37	39
United Kingdom	30	20	7
Poland	44	24	36
Rest of the World	(4)	–	(1)
	193	202	160

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Gross income			
Ireland	2,782	2,588	2,159
United States	1,723	1,757	1,413
United Kingdom	1,272	1,335	1,031
Poland	1,190	925	443
Rest of the World	–	5	12
	6,967	6,610	5,058
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
	6,550	6,382	5,013
Total operating expenses			
Ireland	885	801	726
United States	647	569	470
United Kingdom	350	332	298
Poland	393	292	154
Rest of the World	3	3	10
	2,278	1,997	1,658
Provisions			
Ireland	132	51	48
United States	44	38	22
United Kingdom	19	23	10
Poland	9	23	9
Rest of the World	–	(1)	3
	204	134	92
Income before taxes, minority interests and preference dividends			
Ireland	549	571	525
United States	364	301	324
United Kingdom	340	285	230
Poland	52	105	72
Rest of the World	(1)	4	(8)
	1,304	1,266	1,143
Income from associated undertakings	4	3	3
Income on disposals	99	5	17
Deposit interest retention tax	–	(113)	–
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
	990	933	1,118

	December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Total assets			
Ireland	42,089	36,889	31,676
United States	22,729	20,365	18,036
United Kingdom	16,772	16,170	12,764
Poland	7,235	6,052	5,000
Rest of the World	12	248	242
	88,837	79,724	67,718
Ordinary stockholders' equity			
Ireland	2,245	2,009	1,821
United States	1,277	1,490	1,486
United Kingdom	1,029	914	816
Poland	320	300	257
Rest of the World	–	21	22
	4,871	4,734	4,402

With the exception of ordinary stockholders' equity, the geographical distribution is based on the location of the office recording the transaction.

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

Turnover is not shown as it resulted in the main from the business of banking.

3. OPERATIONS BY BUSINESS SEGMENT[1]

	Years ended December 31,		
	2001	2000	1999
	(Euro in millions)		
Net interest income			
AIB Bank ROI	843	738	655
AIB Bank GB & NI	336	318	277
USA division	584	537	506
Capital Markets division	210	127	141
Poland division	275	252	139
Group/ENeB	45	50	52
	2,293	2,022	1,770
Deposit interest retention tax	–	(113)	–
	2,293	1,909	1,770

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
	(Euro in millions)		
Other income			
AIB Bank ROI	359	357	300
AIB Bank GB & NI	161	151	122
USA division	446	381	296
Capital Markets division	305	304	270
Poland division	163	153	87
Group/ENeB	(8)	(42)	(23)
	1,426	1,304	1,052
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
	1,009	1,076	1,007

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
	(Euro in millions)		
Total operating income			
AIB Bank ROI	1,245	1,141	991
AIB Bank GB & NI	500	473	403
USA division	1,032	922	805
Capital Markets division	523	439	417
Poland division	438	406	227
Group/ENeB	48	16	50
	3,786	3,397	2,893
Deposit interest retention tax	–	(113)	–
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
	3,369	3,056	2,848

	Years ended December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions)	
Total operating expenses			
AIB Bank ROI	641	593	526
AIB Bank GB & NI	259	248	229
USA division	632	554	460
Capital Markets division	296	265	244
Poland division	396	296	155
Group/ENeB	54	41	44
	2,278	1,997	1,658

	Years ended December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions)	
Provisions			
AIB Bank ROI	44	36	30
AIB Bank GB & NI	19	20	15
USA division	39	38	33
Capital Markets division	38	18	23
Poland division	9	23	9
Group/ENeB	55	(1)	(18)
	204	134	92

	Years ended December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions)	
Income before taxes, minority interests and preference dividends			
AIB Bank ROI	560	512	435
AIB Bank GB & NI	222	205	159
USA division	361	330	312
Capital Markets division	189	156	150
Poland division	33	87	63
Group/ENeB	(61)	(24)	24
	1,304	1,266	1,143
Income from associated undertakings	4	3	3
Income on disposals	99	5	17
Deposit interest retention tax	–	(113)	–
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
	990	933	1,118

	December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions)	
Total loans			
AIB Bank ROI	17,797	15,669	12,862
AIB Bank GB & NI	7,784	7,443	6,444
USA division	14,586	12,995	11,769
Capital Markets division	12,535	10,386	9,013
Poland division	4,646	3,645	2,754
Group/ENeB	97	101	285
	57,445	50,239	43,127

	December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions)	
Total deposits			
AIB Bank ROI	21,016	18,609	16,465
AIB Bank GB & NI	7,015	6,410	5,491
USA division	17,226	15,941	14,357
Capital Markets division	21,472	19,271	14,758
Poland division	5,968	4,897	3,993
Group/ENeB	116	82	177
	72,813	65,210	55,241

	December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions)	
Total assets			
AIB Bank ROI	23,588	21,184	17,615
AIB Bank GB & NI	8,892	8,487	7,596
USA division	22,007	19,889	17,733
Capital Markets division	26,939	23,720	19,172
Poland division	7,238	6,060	4,997
Group/ENeB	173	384	605
	88,837	79,724	67,718
Total risk weighted assets			
AIB Bank ROI	15,987	14,302	11,892
AIB Bank GB & NI	7,542	6,789	5,987
USA division	22,403	20,309	16,885
Capital Markets division	18,821	14,879	11,415
Poland division	4,105	3,655	2,838
Group/ENeB	–	279	245
	68,858	60,213	49,262
Ordinary stockholders' equity			
AIB Bank ROI	1,126	1,174	1,076
AIB Bank GB & NI	532	557	542
USA division	1,598	1,458	1,472
Capital Markets division	1,326	1,222	1,033
Poland division	289	300	257
Group/ENeB	–	23	22
	4,871	4,734	4,402

[1] 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, the funding cost of the Bank Zachodni acquisition and central services expenses is reported in Group.

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

4. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Interest on loans and advances to banks	255	238	157
Interest on loans and advances to customers	3,684	3,544	2,683
Finance leasing and installment credit income	209	205	169
Total other interest receivable and similar income	4,148	3,987	3,009

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Income from leasing and installment credit agreements has been accounted for as follows:			
Investment period method (leasing)	134	135	113
Sum of the digits method (installment credit)	75	70	56
	209	205	169

5. INTEREST EXPENSE

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Interest on deposits by banks and customer accounts	2,744	2,701	1,818
Interest on debt securities in issue	176	249	159
Interest on subordinated liabilities	133	155	95
Total interest expense	3,053	3,105	2,072

6. DEPOSIT INTEREST RETENTION TAX ('DIRT')

On October 3, 2000, AIB announced that it had reached a full and final settlement with the Irish Revenue Commissioners of €114.33 million in relation to DIRT, interest and penalties in Ireland for the period April 1986 to April 1999. The settlement included €1.37 million paid in prior years. Although AIB believe that it had an agreement with the Revenue Commissioners in 1991 in relation to DIRT, the Board considered that concluding this settlement was in the best interests of stockholders, customers and staff. As a result an exceptional charge of €112.96 million was reflected in the accounts for the year ended December 31, 2000.

7. OTHER FINANCE INCOME

Under FRS 17 'Retirement benefits', the net of the interest cost on liabilities and the expected return on assets is to be recorded as other finance income adjacent to interest. The interest cost represents the unwinding of the discount on the plan liabilities. The expected return on assets is based on long-term expectations at the beginning of the period.

A description of the retirement benefit plans operated by the Group is provided in note 14.

8. DIVIDEND INCOME

The dividend income relates to income from equity shares.

9. DEALING PROFITS/(LOSSES)

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Foreign currency contracts	75	69	30
Profits less losses from securities held for trading purposes	2	42	28
Interest rate contracts	15	(8)	16
	92	103	74
Exceptional foreign exchange dealing losses *(note 51 & 52)*	(417)	(228)	(45)
	(325)	(125)	29

Dealing profits is a term prescribed by the European Communities (Credit Institutions: Accounts) Regulations, 1992. "Dealing profits" reflects trading income and excludes interest payable and receivable arising from these activities. Staff and other administrative expenses arising from trading activities are not included here but are included under the appropriate headings within operating expenses *(note 11(a))*.

10. OTHER OPERATING INCOME

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Profit/(loss) on disposal of debt securities held for investment purposes	24	(1)	16
Profit on disposal of investments in associated undertakings	1	5	3
(Loss)/profit on disposal of equity shares	(3)	24	15
Contribution of life assurance company *(note 31)*	84	95	64
Contribution from securitized assets *(note 24)*	5	4	3
Mortgage origination and servicing income	10	3	3
Miscellaneous operating income	72	72	56
Total operating income	193	202	160

11. OPERATING EXPENSES

(a) Staff and other administrative expenses

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Staff costs:			
Wages and salaries	1,060	934	785
Social security costs	104	85	68
Pension costs and other costs in respect of post-retirement benefits *(note 14)*	106	113	107
Other staff costs	72	60	50
	1,342	1,192	1,010
Other administrative expenses:			
Auditors' remuneration (including VAT):[1]			
Audit services: Statutory audit	2	2	1
Audit related services	1	1	1
	3	3	2
Non - audit services: IT consultancy	–	4	–
Taxation services	1	1	1
Other consultancy	1	1	–
	2	6	1
Operating lease rentals:			
Property	47	46	40
Equipment	4	4	3
	51	50	43
Other administrative expenses	647	575	475
Staff and other administrative expenses	2,045	1,826	1,531

[1] Audit services include fees for the statutory audits of the Group and 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 December 31, 2001, 73% of the total audit services fees (2000: 70%; 1999: 67%) and 64% of the non-audit services fees (2000: 56%; 1999: 100%) were paid to overseas offices of the auditors.

Included in non-audit services for 2001 are fees for work associated with the merger of Bank Zachodni and Wielkopolski Bank Kredytowy. The level of non-audit services fees for 2000 is primarily due to fees for a number of significant IT assignments. 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.

(b) Integration costs in continuing businesses

On 13 June 2001, Bank Zachodni S.A. (Group interest 83.01%) merged with Wielkopolski Bank Kredytowy S.A. (Group interest 60.14%) through a share for share offering. The enlarged company, now called Bank Zachodni WBK S.A. (Group interest 70.47%), is listed on the Warsaw stock exchange. These costs relate to the integration of the two businesses.

12. DEPRECIATION AND AMORTIZATION

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Depreciation of property and equipment:			
Property depreciation	37	32	20
Equipment depreciation	127	113	99
	164	145	119
Amortization of goodwill *(note 28)*	31	26	8
	195	171	127

13. AMOUNTS WRITTEN OFF/(WRITTEN BACK) FIXED ASSET INVESTMENTS

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Debt securities	6	(1)	2
Equity shares	(1)	–	3
Interests in associated undertakings	1	–	–
	6	(1)	5

14. RETIREMENT BENEFITS

The Group provides pension benefits for employees in Ireland, the UK, and the US, the majority of which are funded. Certain post-retirement benefits are also provided for retired employees, primarily healthcare and life insurance benefits in the US.

The Group operates a number of defined benefit plans. The majority of staff in the Republic of Ireland are members of the AIB Group Irish Pension Plan (the Irish plan) while the majority of staff in the UK are members of the AIB Group UK Pension Plan (the UK plan). Allfirst sponsors a number of defined benefit plans, the largest of which (the US plan) covers substantially all employees of Allfirst and its subsidiaries. Retirement benefits for the defined benefit plans are calculated by reference to service and pensionable salary at normal retirement date.

Independent actuarial valuations, for the main Irish and UK plans, are carried out on a triennial basis. The last such valuation was carried out on January 1, 2001 using the Projected Unit Method. The plans are funded and contribution rates of 10.0% and 22.6% have been set for the Irish and UK plans respectively. As both these plans 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 plans approach retirement. Independent actuarial valuations of the US plans are carried out annually. The last such valuation was carried out on December 31, 2001 using the Projected Unit Method. No contributions will be made in 2002 in respect of the main US plan. The actuarial valuations are available for inspection only to the members of the plans.

The following table summarizes the financial assumptions adopted in respect of the main plans.

	Years ended December 31,		
	2001	2000	1999
Financial assumptions	%	%	%
Irish plan			
Rate of increase in salaries	4.0	4.0	4.0
Rate of increase of pensions in payment	2.5	2.5	2.5
Discount rate	5.75	5.75	5.75
Inflation assumptions	2.5	2.5	2.5
UK plan			
Rate of increase in salaries	4.0	4.0	4.0
Rate of increase of pensions in payment	2.5	2.5	2.5
Discount rate	6.0	6.0	6.0
Inflation assumptions	2.5	2.5	2.5
US plan			
Rate of increase in salaries	4.5	4.0	4.0
Rate of increase of pensions in payment	–	–	–
Discount rate	6.94	7.47	7.93
Inflation assumptions	3.0	3.0	3.0

14. RETIREMENT BENEFITS (continued)

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

	December 31, 2001		December 31, 2000		December 31, 1999	
	Long term rate of return expected %	Value € m	Long term rate of return expected %	Value € m	Long term rate of return expected %	Value € m
Equities	8.6	2,138	7.4	2,280	7.1	2,405
Bonds	5.6	391	5.9	443	5.3	374
Other	4.9	373	5.1	407	5.1	313
Total market value of assets		2,902		3,130		3,092
Actuarial value of liabilities		(2,645)		(2,403)		(2,146)
Surplus in the plans		257		727		946
Related deferred tax liability		2		102		150
Net pension asset		255		625		796

Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to €102,936 in aggregate to a number of former directors.

The following table sets out the components of the defined benefit cost for each of the three years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	2000 (Euros in millions)	1999
Other finance income			
Expected return on pension plan assets	213	203	189
Interest on pension plan liabilities	(146)	(132)	(118)
	67	71	71
Included within administrative expenses			
Current service cost	79	75	90
Past service cost	5	21	5
	84	96	95
Cost of providing defined retirement benefits	17	25	24

Analysis of the amount recognized in statement of total recognized gains and losses	Years ended December 31,		
	2001	2000 (Euros in millions)	1999
Actual return less expected return on pension plan assets	(438)	(158)	324
Experience gains and losses on plan liabilities	(32)	(72)	(16)
Changes in demographic and financial assumptions	(32)	(18)	354
Actuarial (loss)/gain recognized	(502)	(248)	662
Deferred tax	100	47	(111)
Recognized in STRGL	(402)	(201)	551

14. RETIREMENT BENEFITS (continued)

Movement in surplus during the year	Years ended December 31, 2001	2000	1999
	(Euro in millions)		
Surplus in plan at beginning of year	727	946	245
Movement in year:			
Current service cost	(79)	(75)	(90)
Past service costs	(5)	(21)	(5)
Contributions	50	47	54
Other finance income	67	71	71
Actuarial (loss)/gain	(502)	(248)	662
Translation adjustment	(1)	7	9
Surplus in plan at end of year	257	727	946

History of experience gains and losses	Years ended December 31, 2001	2000	1999
	(Euro in millions)		
Difference between expected and actual return on plan assets:			
Amount	(438)	(158)	324
Percentage of plan assets	15%	5%	10%
Experience gains and losses on plan liabilities:			
Amount	(32)	(72)	(16)
Percentage of plan liabilities	1%	3%	1%
Total amount recognized in STRGL:			
Amount	(502)	(248)	662
Percentage of plan liabilities	19%	10%	31%

The Group operates a number of defined contribution plans. The defined benefit plans 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 10%. The standard contribution rate in the UK is 5% and these members are also accruing benefits under SERP (the State Earnings Related Pension Plan). Allfirst provides a defined contribution plan whereby eligible employees can contribute, subject to certain limitations, varying percentages of their annual compensation. Allfirst matches 100% of the first 3% and 50% of the next 3% of an employee's contribution. The total cost in respect of defined contribution plans for 2001 was €22 million (2000: €17 million; 1999: €12 million).

15. INCOME ON DISPOSAL OF BUSINESSES

In August 2001, AIB's interests in Keppel Capital Holdings Ltd. were sold to Oversea-Chinese Banking Corporation Limited, giving rise to a profit before taxation on disposal of €93 million (tax charge €nil).

In October 1999, AIB's private banking and treasury operations in Singapore were sold to Keppel TatLee Bank Limited, giving rise to a profit before taxation on disposal of €15 million (tax charge €4 million).

16. APPLICABLE TAXES

	Years ended December 31,		
	2001	**2000 Restated**	**1999 Restated**
		(Euro in millions)	
Allied Irish Banks, p.l.c. and subsidiaries:			
Corporation tax in Republic of Ireland			
Current tax on income for the period	88	69	107
Adjustments in respect of prior periods	(6)	(1)	–
	82	68	107
Double taxation relief	(17)	(15)	(14)
	65	53	93
Foreign tax			
Current tax on income for the period	118	101	112
Adjustments in respect of prior periods	(8)	(5)	1
	110	96	113
Stamp duty on Section 84 interest	–	–	1
	175	149	207
Deferred taxation			
On ordinary activities	12	90	110
	187	239	317
Effective tax rate – adjusted[1]	23.6%	25.8%	28.6%

[1] The adjusted effective tax rate has been presented to eliminate the effect of the exceptional foreign exchange dealing losses in 2001, 2000 and 1999 *(note 9)* and the deposit interest retention tax settlement in 2000 *(note 6)*.

The reconciliation of the statutory corporation tax rate on ordinary activities is as follows:

	Years ended December 31,		
	2001	**2000 Restated**	**1999 Restated**
	%	**%**	**%**
Statutory corporation tax rate	20.0	24.0	28.0
Tax on foreign income	6.9	3.2	2.1
Tax exempted income and income at reduced rate	(2.5)	(1.6)	(2.2)
Others – net	(0.8)	0.2	0.7
Effective tax rate - adjusted	23.6	25.8	28.6
Impact of deposit interest retention tax settlement	–	1.7	–
Impact of exceptional foreign exchange dealing losses	(4.7)	(1.9)	(0.2)
Effective tax rate	18.9	25.6	28.4

The deferred taxation charge arises from the following sources:

	Years ended December 31,		
	2001	**2000 Restated**	**1999 Restated**
		(Euro in millions)	
Ordinary activities			
Leasing transactions	51	40	74
Short-term timing differences	(39)	50	36
	12	90	110

17. EQUITY AND NON-EQUITY MINORITY INTERESTS IN SUBSIDIARIES

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
The profit attributable to minority interests is analyzed as follows:			
Equity interest in subsidiaries	15	28	18
Non-equity interest in subsidiaries	8	10	10
	23	38	28

18. DIVIDENDS ON NON-EQUITY SHARES

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Non-cumulative preference shares of US$25 each			
Dividends paid and accrued[1]	15	20	16
Amortization of issue costs	–	–	–
Reserve capital instruments[2]	15	20	16
Interest cost	34	–	–
Amortization of issue costs	1	–	–
	35	–	–
	50	20	16

[1] The charge in respect of preference dividends for the year ended December 31, 2001 includes an amount of €2 million which has been accrued (2000: €4 million; 1999: €4 million).

[2] In February 2001, Reserve capital instruments (RCIs) of €500 million 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 Central Bank of Ireland (i) upon the occurence of certain events, or (ii) on or after February 28, 2011, an authorized 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) February 5, 2001 to (but excluding) February 28, 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.

The holders of the US Dollar preference shares are entitled, in preference to the holders of any other shares of AIB, 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.

19. DIVIDENDS ON EQUITY SHARES

Holders of Ordinary shares are entitled to receive such dividends out of the profits of AIB as are available by law for distribution and as may be declared by the stockholders at general meeting, but no dividends may be declared in excess of an amount recommended by AIB's Board of Directors. The Board may, without obtaining prior stockholder approval, pay to the stockholders such interim dividends as appear to the Board to be justified by the net income of AIB.

No dividend can be declared or interim dividend paid unless the dividend on any outstanding preference shares most recently payable shall have been paid in cash.

19. DIVIDENDS ON EQUITY SHARES (continued)

	Years ended December 31,			Years ended December 31,		
	2001	2000	1999	2001	2000	1999
	(cent per €0.32 share)			(Euro in millions)		
Ordinary Shares						
Interim dividend	15.40	13.50	11.85	136	117	102
Second interim dividend	28.40	–	–	250	–	–
Final dividend	–	25.25	21.85	–	221	188
	43.80	38.75	33.70	386	338	290
Employee share trusts[(1)]				(6)	(3)	(2)
				380	335	288

[(1)] In accordance with Financial Reporting Standard 14 "Earnings per Share", dividends of €5.8 million (2000: €3.4 million; 1999: €2.0 million) arising on the shares held by certain employee share trusts *(note 30)* are excluded in arriving at income before taxes and deducted from the aggregate of dividends paid and proposed.

20. EARNINGS PER €0.32 ORDINARY SHARE

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
(a) Basic			
Net income attributable to the ordinary shareholders[(1)]	730m	636m	757m
Weighted average number of shares in issue during the year[(1)]	861.4m	856.1m	850.3m
Earnings per share	84.8c	74.3c	89.1c

[(1)] In accordance with FRS 14 – 'Earnings per share', dividends arising on the shares held by the employee share trusts *(note 30)* are excluded in arriving at income before taxes and deducted from the aggregate of dividends paid and proposed. The shares held by the trusts are excluded from the calculation of weighted average number of shares in issue.

	Earnings per share €0.32		
	2001	2000 Restated	1999 Restated
(b) Adjusted	(cent per €0.32 share)		
As reported	84.8	74.3	89.1
Adjustment			
Exceptional foreign exchange dealing losses *(note 9)*	31.5	17.3	3.4
Deposit interest retention tax *(note 6)*	–	12.0	–
Goodwill amortization *(note 28)*	3.6	3.1	1.0
	119.9	106.7	93.5

The adjusted earnings per share figure has been presented to eliminate the effect of goodwill amortization and the exceptional foreign exchange dealing losses in 2001, 2000 and 1999 and the deposit interest retention tax settlement in 2000.

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
(c) Diluted	(Number of shares in millions)		
Weighted average number of shares in issue during period	861.4	856.1	850.3
Dilutive effect of options outstanding	5.7	5.8	8.9
Diluted	867.1	861.9	859.2

The weighted average number of ordinary shares reflects the dilutive effect of options outstanding under the employee share trusts *(note 30)*, the Share Option Plan *(note 40)* and the Allfirst Stock Option Plan *(note 40)*.

21. CENTRAL GOVERNMENT BILLS AND OTHER ELIGIBLE BILLS

	December 31, 2001 Book Amount	December 31, 2001 Market Value	December 31, 2000 Book Amount	December 31, 2000 Market Value	December 31, 1999 Book Amount	December 31, 1999 Market Value
	(Euro in millions)					
Held as financial fixed assets						
Treasury bills and similar securities......	45	45	282	284	648	647
Held for trading purposes						
Treasury bills......................................	4		15		70	
	49		297		718	

Analysis of movements in central government bills and other eligible bills held as financial fixed assets:	December 31, 2001	December 31, 2000
	(Euro in millions)	
At January 1..	282	648
Currency translation adjustments..	15	18
Purchases...	4,938	6,740
Disposals/(maturities)...	(5,243)	(7,173)
Amortization of discounts..	53	49
At December 31...	45	282

22. LOANS AND ADVANCES TO BANKS

	December 31, 2001	December 31, 2000	December 31, 1999
		(Euro in millions)	
Funds placed with the Central Bank of Ireland......................................	399	304	425
Funds placed with other central banks..	34	385	383
Funds placed with other banks[1]..	5,614	3,504	3,023
	6,047	4,193	3,831

	December 31, 2001	December 31, 2000	December 31, 1999
		(Euro in millions)	
Analyzed by remaining maturity:			
Repayable on demand..	1,477	1,284	2,011
Other loans and advances by remaining maturity:			
Over 5 years...	230	206	185
5 years or less but over 1 year...	219	25	78
1 year or less but over 3 months..	722	183	211
3 months or less but not repayable on demand............................	3,401	2,498	1,349
	6,049	4,196	3,834
Allowance for loan losses *(note 23)*..	(2)	(3)	(3)
	6,047	4,193	3,831

[1] At December 31, 2001 securities purchased under agreements to resell amounted to €1,047 million (2000: €73 million; 1999: €146 million). All securities were delivered either directly to the Group or to an agent for safekeeping.

23. LOANS AND ADVANCES TO CUSTOMERS LESS ALLOWANCE FOR LOAN LOSSES

	Years ended December 31,		
	2001	2000 (Euro in millions)	1999
Loans and advances to customers[1]	48,679	43,017	36,779
Finance lease receivables and installment credit	3,427	3,406	3,025
Money market funds[2]	232	429	213
	52,338	46,852	40,017
Allowance for loan losses	(1,007)	(869)	(768)
Unearned interest	(115)	(103)	(78)
	51,216	45,880	39,171
Analyzed by remaining maturity:			
Over 5 years	17,502	15,577	12,370
5 years or less but over 1 year	17,032	15,902	13,204
1 year or less but over 3 months	8,247	6,629	5,686
3 months or less	9,442	8,641	8,679
	52,223	46,749	39,939
Allowance for loan losses	(1,007)	(869)	(768)
	51,216	45,880	39,171
Of which repayable on demand or at short notice	10,889	9,108	8,105
Amounts include:			
Due from associated undertakings	–	–	–

[1] Includes an amount of €958 million and €923 million (2000: €765 million and €823 million; 1999: €nil and €nil) of loans pledged as collateral with the Central Bank of Ireland and The Federal Reserve Bank, respectively.
[2] At December 31, 2001, 2000, and 1999, there were no securities purchased under agreements to resell.

The cost of assets acquired in the period for leasing to customers under finance leases and installment credit amounted to €1,406 million (2000: €1,703 million; 1999: €1,882 million).

Allowance for loan losses

	December 31, 2001		
	Specific	General (Euro in millions)	Total
Allowance at beginning of year	452	420	872
Currency translation adjustments	32	14	46
Acquisition of Group undertakings	–	–	–
Charge against income	–	179	179
Transfer to specific	159	(159)	–
Amounts charged off	(113)	–	(113)
Recoveries of amounts previously charged off	25	–	25
Allowance at end of year	555	454	1,009
Analysed as to:			
Loans and advances to banks *(note 22)*	2	–	2
Loans and advances to customers	553	454	1,007
	555	454	1,009

Allowance for loan losses (continued)

	December 31, 2000		
	Specific	General (Euro in millions)	Total
Allowance at beginning of year	401	370	771
Currency translation adjustments	17	16	33
Acquisition of Group undertakings	28	7	35
Charge against income	–	133	133
Transfer to specific	106	(106)	–
Amounts charged off	(132)	–	(132)
Recoveries of amounts previously charged off	32	–	32
Allowance at end of year	452	420	872
Analysed as to:			
Loans and advances to banks *(note 22)*	3	–	3
Loans and advances to customers	449	420	869
	452	420	872

	December 31, 1999		
	Specific	General (Euro in millions)	Total
Allowance at beginning of year	258	280	538
Currency translation adjustments	17	26	43
Acquisition of Group undertakings	139	45	184
Charge against income	–	85	85
Transfer to specific	66	(66)	–
Amounts charged off	(107)	–	(107)
Recoveries of amounts previously charged off	28	–	28
Allowance at end of year	401	370	771
Analysed as to:			
Loans and advances to banks *(note 22)*	3	–	3
Loans and advances to customers	398	370	768
	401	370	771

24. SECURITIZED ASSETS

	December 31, 2001		
	Manufactured Housing	Asset Backed Securities (Euro in millions)	Total
Securitized assets	–	1,099	1,099
Non-returnable proceeds	–	(917)	(917)
	–	182	182

	December 31, 2000		
	Manufactured Housing	Asset Backed Securities (Euro in millions)	Total
Securitized assets	16	917	933
Non-returnable proceeds	–	(767)	(767)
	16	150	166

	December 31, 1999		
	Manufactured Housing	Asset Backed Securities	Total
	(Euro in millions)		
Securitized assets	21	577	598
Non-returnable proceeds	–	(473)	(473)
	21	104	125

In September 1991 and July 1992, First Manufactured Housing Credit Corporation, a subsidiary of Allfirst, securitised and sold manufactured housing receivables amounting to US$133 million. In December 2000, the manufactured housing receivables were serviced by outside parties for a fixed fee under subservicing arrangements. Credit recourse is generally limited to future servicing income and certain balances maintained in trust for the benefit of the investors.

In July 1999 and December 2000, a subsidiary company securitized and sold part of its Asset Backed Securities portfolio to a third party. Under the terms of the agreement AIB has the option to transfer additional assets to the third party. AIB is not obliged, nor does it intend, to support any losses in this portfolio in excess of the net amount recognized as an asset on the balance sheet.

The contribution from securitized assets, included in other operating income *(note 10)*, is analyzed below.

	Years ended December 31,		
	2001	2000	1999
	(Euro in millions)		
Net interest income	5	5	4
Other income	–	–	1
Total operating income	5	5	5
Total operating expenses	–	1	1
	5	4	4
Provisions for loan losses	–	–	1
Contribution from securitized assets	5	4	3

25. DEBT SECURITIES

	December 31, 2001			
	Book amount	Gross unrealized gains	Gross unrealized losses	Market value
	(Euro in millions)			
Held as financial fixed assets				
Issued by public bodies:				
Government securities	5,014	87	(19)	5,082
Other public sector securities	4,012	48	(7)	4,053
Issued by other issuers:				
Bank and building society certificates of deposit	518	1	–	519
Other debt securities	6,755	87	(28)	6,814
	16,299	223	(54)	16,468
Held for trading purposes				
Issued by public bodies:				
Government securities	511	–	–	511
Other public sector securities	1,401	–	–	1,401
Issued by other issuers:				
Bank and building society certificates of deposit	48	–	–	48
Other debt securities	1,823	–	–	1,823
	3,783	–	–	3,783
	20,082	223	(54)	20,251

	December 31, 2000			
	Book amount	Gross unrealized gains	Gross unrealized losses	Market value
		(Euro in millions)		
Held as financial fixed assets				
Issued by public bodies:				
Government securities	6,113	40	(51)	6,102
Other public sector securities	4,001	18	(24)	3,995
Issued by other issuers:				
Bank and building society certificates of deposit	395	1	–	396
Other debt securities	6,136	46	(14)	6,168
	16,645	105	(89)	16,661
Held for trading purposes				
Issued by public bodies:				
Government securities	431	–	–	431
Other public sector securities	904	–	–	904
Issued by other issuers:		–	–	
Bank and building society certificates of deposit	46	–	–	46
Other debt securities	960	–	–	960
	2,341	–	–	2,341
	18,986	105	(89)	19,002

	December 31, 1999			
	Book amount	Gross unrealized gains	Gross unrealized losses	Market value
		(Euro in millions)		
Held as financial fixed assets				
Issued by public bodies:				
Government securities	6,674	34	(119)	6,589
Other public sector securities	3,833	3	(115)	3,721
Issued by other issuers:				
Bank and building society certificates of deposit	192	–	–	192
Other debt securities	2,827	8	(19)	2,816
	13,526	45	(253)	13,318
Held for trading purposes				
Issued by public bodies:				
Government securities	210	–	–	210
Other public sector securities	571	–	–	571
Issued by other issuers:				
Bank and building society certificates of deposit	80	–	–	80
Other debt securities	721	–	–	721
	1,582	–	–	1,582
	15,108	45	(253)	14,900

Market value is market price for quoted securities and directors' estimate for unquoted securities.

	December 31, 2001	December 31, 2000	December 31, 1999
	(Euro in millions)		
Analyzed by remaining maturity			
Due within one year	4,596	3,874	2,377
Due one year and over	15,486	15,112	12,731
	20,082	18,986	15,108

	December 31, 2001		December 31, 2000		December 31, 1999	
	Book amount	Market value	Book amount	Market value	Book amount	Market value
			(Euro in millions)			
Analyzed by listing status						
Held as financial fixed assets						
Listed on a recognized stock exchange	10,133	10,255	10,848	10,876	8,383	8,317
Quoted elsewhere	4,826	4,877	4,797	4,785	4,308	4,166
Unquoted	1,340	1,336	1,000	1,000	835	835
	16,299	16,468	16,645	16,661	13,526	13,318
Held for trading purposes						
Listed on a recognized stock exchange	3,525		2,251		1,457	
Quoted elsewhere	170		7		26	
Unquoted	88		83		99	
	3,783		2,341		1,582	
	20,082		18,986		15,108	

Debt securities with a book amount of €1,033 million, €1,106 million and €1,690 million at December 31, 2001, 2000, and 1999, respectively, were pledged to secure public funds, trust deposits, funds transactions and other purposes required by law. Debt securities subject to repurchase agreements amounted to €1,956 million (2000: €1,761 million; 1999: €1,461 million).

Subordinated debt securities included as financial fixed assets amounted to €5 million at December 31, 2001 (2000: €5 million; 1999: €6 million).

The amount of unamortized discounts net of premiums on debt securities held as financial fixed assets amounted to €98 million at December 31, 2001 (2000: €86 million; 1999: €21 million).

The cost of debt securities held for trading purposes at December 31, 2001, 2000 and 1999 amounted to €3,801 million, €2,346 million and €1,580 million, respectively.

Analysis of movements in debt securities held as financial fixed assets	Cost	Discounts and premiums	Amounts written off	Book amount
		(Euro in millions)		
At January 1, 2000	13,536	(8)	(2)	13,526
Currency translation adjustments	362	1	–	363
Purchases	10,889	–	–	10,889
Realizations/maturities	(8,355)	4	2	(8,349)
Transfers	213	–	–	213
Charge against statement of income *(note 13)*	–	–	1	1
Amortization of discounts net of (premiums)	–	2	–	2
At January 1, 2001	16,645	(1)	1	16,645
Currency translation adjustments	513	5	–	518
Purchases	8,321	–	–	8,321
Realizations/maturities	(9,240)	40	–	(9,200)
Transfer from trading debt securities	12	2	–	14
Charge against statement of income *(note 13)*	–	–	(6)	(6)
Amortization of discounts net of (premiums)	–	7	–	7
At December 31, 2001	16,251	53	(5)	16,299

26. EQUITY SHARES

	December 31, 2001			
	Book amount	Gross unrealized gains	Gross unrealized losses	Market value
	(Euro in millions)			
Held as financial fixed assets				
Listed on a recognized stock exchange	127	20	(23)	124
Unquoted	156	15	(12)	159
	283	35	(35)	283
Held for trading purposes				
Listed on a recognized stock exchange	49	–	–	49
	332	35	(35)	332

	December 31, 2000			
	Book amount	Gross unrealized gains	Gross unrealized losses	Market value
	(Euro in millions)			
Held as financial fixed assets				
Listed on a recognized stock exchange	175	7	(17)	165
Unquoted	189	6	(2)	193
	364	13	(19)	358
Held for trading purposes				
Listed on a recognized stock exchange	48	–	–	48
	412	13	(19)	406

	December 31, 1999			
	Book amount	Gross unrealized gains	Gross unrealized losses	Market value
	(Euro in millions)			
Held as financial fixed assets				
Listed on a recognized stock exchange	149	5	(3)	151
Unquoted	86	8	–	94
	235	13	(3)	245
Held for trading purposes				
Listed on a recognized stock exchange	62	–	–	62
	297	13	(3)	307

Market value is market price for quoted securities and directors' estimate for unquoted securities.

Analysis of movements in equity securities held as financial fixed assets	**Cost**	**Amounts written off**	**Book amount**
		(Euro in millions)	
At January 1, 2000	256	(21)	235
Currency translation adjustments	16	(1)	15
Transfer to associated undertakings *(note 27)*	23	–	23
Purchases	162	–	162
Disposals	(71)	–	(71)
At January 1, 2001	386	(22)	364
Currency translation adjustments	18	2	20
Transfer to associated undertakings *(note 27)*	(3)	–	(3)
Transfer to trading equity securities	(3)	–	(3)
Purchases	129	–	129
Disposals	(227)	2	(225)
Charge against statement of income *(note 13)*	–	1	1
At December 31, 2001	300	(17)	283

27. INTERESTS IN ASSOCIATED UNDERTAKINGS

	Years ended December 31,		
	2001	**2000**	**1999**
		(Euro in millions)	
At January 1	8	22	23
Currency translation adjustments	–	2	3
Transfer from/(to) equity shares *(note 26)*	3	(23)	–
Purchases	1	4	1
Disposals	–	–	(5)
Provisions for write-down charged to statement of income *(note 13)*	(1)	–	–
Profit retained	(1)	3	–
At December 31	10	8	22

The Group's interests in associated undertakings are shown after accumulated provisions for write-down of €1 million (2000 and 1999: nil). The movements in the provisions are as follows:

	Years ended December 31,		
	2001	**2000**	**1999**
		(Euro in millions)	
At January 1	–	–	7
Disposals	1	–	(7)
At December 31	1	–	–

The Group's interests in associated undertakings, all of which are non-credit institutions, are unlisted and are held by 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 associate undertakings to its annual return to the companies registration office.

28. INTANGIBLE FIXED ASSETS

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Goodwill:			
Cost at January 1	500	476	–
Arising on acquisitions during the year	59	24	475
Currency translation adjustments	1	–	1
At December 31	560	500	476
Accumulated amortization at January 1	34	8	–
Charge for the year *(note 12)*	31	26	8
At December 31	65	34	8
Net book value:			
At December 31	495	466	468

Intangible fixed assets comprise purchased goodwill arising on acquisition of subsidiary and associated undertakings. Prior to January 1, 1998 goodwill arising on acquisition of subsidiary and associated undertakings was taken directly to profit and loss account reserves.The goodwill arising on acquisitions during 2001, 2000 and 1999 is set out in the following table:

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Community Counselling Service Co., Inc.	51	–	–
Bank Zachodni WBK S.A.	4	24	465
Other	4	–	10
	59	24	475

29. PROPERTY AND EQUIPMENT

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
			(Euro in millions)		
Cost or valuation:					
At January 1, 2001	657	127	157	1,084	2,025
Additions	42	4	19	263	328
Acquisition of Group undertaking	–	–	–	2	2
Disposals	(12)	(1)	(3)	(39)	(55)
Transfers	11	–	(10)	(1)	–
Currency translation adjustments	27	–	5	40	72
At December 31, 2001	725	130	168	1,349	2,372
Accumulated depreciation:					
At January 1, 2001	66	6	80	746	898
Depreciation charge for the year	23	3	12	133	171
Disposals	(1)	–	(2)	(28)	(31)
Transfers	3	–	(3)	–	–
Currency translation adjustments	5	–	3	21	29
At December 31, 2001	96	9	90	872	1,067
Net book value:					
At December 31, 2001	629	121	78	477	1,305
At December 31, 2000	591	121	77	338	1,127
Cost or valuation:					
At January 1, 2000	589	122	134	980	1,825
Additions	45	6	24	162	237
Acquisition of Group undertaking	20	–	–	–	20
Disposals	(19)	(1)	(6)	(89)	(115)
Currency translation adjustments	22	–	5	31	58
At December 31, 2000	657	127	157	1,084	2,025
Accumulated depreciation:					
At January 1, 2000	46	2	71	667	786
Depreciation charge for the year	18	4	10	113	145
Disposals	(2)	–	(3)	(51)	(56)
Currency translation adjustments	4	–	2	17	23
At December 31, 2000	66	6	80	746	898
Net book value:					
At December 31, 2000	591	121	77	338	1,127
At December 31, 1999	543	120	63	313	1,039

29. PROPERTY AND EQUIPMENT *(continued)*

The net book value of property occupied by the Group for its own activities was €799 million (2000: €751 million; 1999: €692 million).

The Group's freehold and long leasehold property was valued by external valuers, DTZ Sherry Fitzgerald international property advisers, as at December 31, 1998. Properties held as investment, for development and surplus to requirements were valued on the basis of Open Market Value. Owner occupied properties were valued on the basis of Existing Use Value, with a Depreciated Replacement Cost valuation of adaptation works not reflected in the Existing Use Value. Both bases are in accordance with the Appraisal and Valuation Manual issued by the Society of Chartered Surveyors (SCS). The external valuers have provided an additional valuation for a number of Group properties on the basis of Open Market Value for an alternative use, which if recorded, would have resulted in a valuation of €27 million greater than the Existing Use Value provided. The Directors have adopted the transitional provisions of FRS 15 and therefore the valuation has not been updated.

The valuation exercise gave rise to a property revaluation surplus of €141 million.

30. OWN SHARES

Allfirst Financial, Inc. sponsors the Allfirst Stock Option Plan, for the benefit of key employees of Allfirst. Allfirst has lent US$201 million (2000: US$151 million; 1999: US$106 million) to a trust to enable it to purchase AIB 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. Allfirst will provide funds as necessary to cover expenses net of dividend revenue. At December 31, 2001 18.1 million ordinary shares (2000: 13.5 million; 1999: 8.6 million) were held by the trust with a cost of €228 million (2000: €162 million; 1999: €108 million) and a market value of €238 million (2000: €170 million; 1999: €90 million).

In 1999, the Group sponsored a Save As You Earn Share Option Scheme, the AIB Group 1999 Sharesave Plan for eligible employees in the UK. In 2001, a similar plan was set up for employees in the Isle of Man and Channel Islands. The trustees of the plan 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 plan. The trustees receive dividends on the shares which are used to meet the expenses of the plan. The cost of providing these shares is charged to the statement of income on a systematic basis over the period that the employees are expected to benefit. At December 31, 2001 1.5 million shares (2000 and 1999: 1.4 million shares) were held by the trustees with a book value of €15 million (2000: €15 million; 1999: €17 million) and a market value of €19 million, €17 million and €16 million in 2001, 2000 and 1999, respectively.

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 Bank p.l.c. ordinary shares in the market. The cost of meeting the commitments under the LTIP are charged to the statement of income over the period that the employees are expected to benefit. The trustees have waived their entitlement to dividends. At December 31, 2001, 0.2 million shares (2000 and 1999: nil) were held by the trustees with a book value of €1.5 million and a market value of €2.6 million.

In accordance with the requirements of UITF Abstract 13 the shares held by the above employees share plans have been recognized on the balance sheet of the Group and the dividend income received by the plans of €5.8 million (2000: €3.4 million; 1999: € 2.0 million) has been excluded in arriving at income before taxes.

In accordance with FRS 14 - Earnings per Share, the shares held by the Trusts are excluded from the earnings per share calculation. The accounting treatment is not intended to affect the legal characterization of the transaction or to change the situation at law achieved by the parties to it. Thus, the inclusion of the shares on the Group balance sheet does not imply that they have been purchased by the company as a matter of law.

31. LONG-TERM ASSURANCE BUSINESS

The assets and liabilities of Ark Life Assurance Company Limited ("Ark Life") representing the value of the assurance business together with the policyholders' funds are:

	December 31, 2001	2000 (Euro in millions)	1999
Investments:			
Cash and short-term placings with banks	1,019	954	779
Debt securities	256	179	153
Equity shares	1,034	974	709
Property	43	43	30
	2,352	2,150	1,671
Value of investment in business	190	138	75
Other assets – net	26	91	121
	2,568	2,379	1,867
Long-term assurance liabilities to policyholders	(2,264)	(2,141)	(1,701)
Long-term assurance business attributable to stockholders	304	238	166
Represented by:			
Shares at cost	19	19	19
Reserves	281	218	149
Profit and loss account reserves	4	1	(2)
	304	238	166

The increase in the value to the Group of Ark Life's long-term assurance and pensions business in force credited to the consolidated statement of income and included in other operating income for the years ended December 31, 2001, 2000 and 1999, amounted to €84 million, €95 million and €64 million respectively, after grossing-up for taxation.

Ark Life Assurance Company Limited is a wholly-owned subsidiary of Allied Irish Banks, p.l.c.

32. DEPOSITS BY BANKS

	December 31, 2001	2000 (Euro in millions)	1999
Federal funds purchased	546	544	291
Securities sold under agreements to repurchase	1,742	1,484	514
Other borrowings from banks	10,935	10,450	7,803
	13,223	12,478	8,608
Of which:			
Domestic offices	7,899	7,396	5,893
Foreign offices	5,324	5,082	2,715
	13,223	12,478	8,608
With agreed maturity dates or periods of notice, by remaining maturity:			
Over 5 years	428	429	260
5 years or less but over 1 year	289	260	385
1 year or less but over 3 months	2,781	792	1,195
3 months or less but not repayable on demand	8,871	9,806	5,691
	12,369	11,287	7,531
Repayable on demand	854	1,191	1,077
	13,223	12,478	8,608

Federal funds generally represent one-day transactions, a large portion of which arise because of Allfirst's market activity in federal funds for correspondent banks and other customers.

33. CUSTOMER ACCOUNTS

	December 31, 2001	2000	1999
		(Euro in millions)	
Current accounts	16,300	12,701	9,609
Demand deposits	11,165	10,297	10,360
Time deposits	22,896	21,094	19,718
	50,361	44,092	39,687
Securities sold under agreements to repurchase	726	889	1,090
Other short-term borrowings	3,470	3,456	1,558
	4,196	4,345	2,648
	54,557	48,437	42,335
Of which:			
Non-interest bearing current accounts			
Domestic offices	5,857	4,655	3,987
Foreign offices	6,140	4,515	3,787
Interest bearing deposits, current accounts and short-term borrowings			
Domestic offices	18,074	16,552	14,657
Foreign offices	24,486	22,715	19,904
	54,557	48,437	42,335
Analyzed by remaining maturity:			
Over 5 years	654	601	640
5 years or less but over 1 year	2,688	2,005	1,557
1 year or less but over 3 months	3,150	3,679	2,701
3 months or less but not repayable on demand	19,743	19,161	17,701
	26,235	25,446	22,599
Repayable on demand	28,322	22,991	19,736
	54,557	48,437	42,335
Amounts include:			
Due to associated undertakings	2	2	2

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.

34. DEBT SECURITIES IN ISSUE

	December 31, 2001	2000	1999
	(Euro in millions)		
Bonds and medium term notes:			
European Medium Term Note Programme	84	114	221
Allfirst adjustable rate federal home loan bank advances:			
due December 4, 2000	–	–	199
due August 23, 2011	227	215	199
	311	329	619
Other debt securities in issue:			
Master demand notes of Allfirst	301	323	330
Commercial paper	133	338	298
Commercial certificates of deposit	4,288	3,305	3,051
	4,722	3,966	3,679
	5,033	4,295	4,298
Maturity analysis			
Bonds and medium term notes, by remaining maturity:			
Over 5 years	233	–	42
5 years or less but over 1 year	–	114	333
1 year or less but over 3 months	72	215	237
3 months or less	6	–	7
	311	329	619
Other debt securities in issue, by remaining maturity:			
Over 5 years	–	–	–
5 years or less but over 1 year	89	200	9
1 year or less but over 3 months	2,176	2,136	1,533
3 months or less	2,457	1,630	2,137
	4,722	3,966	3,679
	5,033	4,295	4,298

During the year ended December 31, 2001, the weighted average interest rates applicable to the European medium term notes, the master demand notes of Allfirst and the medium term Allfirst bank notes were 5.0%, 3.7% and 4.9% respectively.

Allied Irish Banks, p.l.c. has power to issue unsubordinated and subordinated notes up to a maximum principal amount of €2,500 million (or its equivalent in other currencies as set out in the Agreement) under its European Medium Term Note Programme.

35. OTHER LIABILITIES

	December 31, 2001	December 31, 2000 Restated	December 31, 1999 Restated
		(Euro in millions)	
Notes in circulation *(note 1)*	441	386	365
Current taxation	–	51	168
Dividend *(note 19)*	250	221	188
Provisions for future commitments in relation to the funding of Icarom[1]	91	94	104
Short positions in securities	205	379	65
Other	2,265	1,675	1,472
	3,252	2,806	2,362

[1]The provision represents the present value of the cost of the future commitments arising under the 1992 agreement in relation to the funding of Icarom (See Accounting Policies - note (K), Discounting of future commitments). A discount rate of 6.35% was applied in the year ended December 31, 1993 in discounting the cost of the future commitments arising under this agreement. As at December 31, 2001 the undiscounted amount of the cost of the future commitments relating to these agreements amounted to €122.6 million (2000: €134.1 million; 1999: €150.5 million). Of the €122.6 million, €11.5 million is payable for the years December 31, 2002 and 2003, with the remaining €99.6 million payable thereafter.

36. PROVISIONS FOR LIABILITIES AND CHARGES

	Contingent liabilities and commitments	Other	Total
		(Euro in millions)	
At January 1, 2000	13	21	34
Currency translation adjustments	1	2	3
Acquisition of Group undertakings	3	–	3
Charge against statement of income	2	11	13
Provisions utilized	(3)	(7)	(10)
At January 1, 2001	16	27	43
Currency translation adjustments	1	1	2
Charge against statement of income	19	19	38
Provisions utilized	(4)	(8)	(12)
At December 31, 2001	32	39	71

37. DEFERRED TAXATION

The tax effects of temporary timing differences that give rise to significant elements of the deferred tax assets and deferred tax liabilities at December 31, 2001, 2000 and 1999 are presented below.

	December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Deferred tax assets:			
Allowance for loan losses	(183)	(158)	(144)
Amortized income	(47)	(23)	(10)
Deferred compensation	(12)	(12)	(10)
Timing differences on provisions for future Commitments in relation to the funding of Icarom plc (under Administration)	(11)	(11)	(14)
Exceptional foreign exchange dealing losses	(114)	(43)	(33)
Other	(12)	(11)	(12)
Total gross deferred tax assets	(379)	(258)	(223)
Deferred tax liabilities:			
Assets leased to customers	541	465	397
Assets used in the business	22	19	18
Debt securities	55	27	12
Other	72	68	12
Total gross deferred tax liabilities	690	579	439
Net deferred tax liabilities	311	321	216

For the years ended December 31, 2001, 2000 and 1999 full provision has been made for capital allowances and other timing differences.

Due to the availability of roll-over relief and the expectation that the greater portion of land and buildings will be retained by the Group, no provision is made for taxation which might arise on disposal of properties at their revalued amounts.

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Analysis of movements in deferred taxation:			
At January 1	321	216	151
Currency translation and other adjustments	(22)	23	(4)
Acquisition of Group undertakings	–	(8)	(41)
Taxation (credit)/charge against statement of income			
Ordinary activities	(66)	125	118
Exceptional foreign exchange dealing losses	78	(35)	(8)
At December 31	311	321	216

38. SUBORDINATED LIABILITIES

	December 31, 2001	2000 (Euro in millions)	1999
Allied Irish Banks, p.l.c.			
Undated capital notes	426	413	397
Dated capital notes	804	1,088	897
	1,230	1,501	1,294
Allfirst Financial Inc.			
Dated capital notes	787	745	688
Bank Zachodni WBK S.A.			
Dated capital notes	3	3	2
	2,020	2,249	1,984
Undated capital notes			
US$100 million Floating Rate Notes, Undated	113	107	99
US$100 million Floating Rate Primary Capital Perpetual Notes, Undated	114	108	100
€200 million Fixed Rate Perpetual Subordinated Notes	199	198	198
	426	413	397
Dated capital notes			
Allied Irish Banks, p.l.c.			
European Medium Term Note Programme:			
US$130 million Floating Rate Notes due September 2006	–	140	129
US$150 million Floating Rate Notes due October 2006	–	161	149
US$250 million Floating Rate Notes due January 2010	283	268	248
€45.1 million Floating Rate Notes due February 2007	45	45	45
€37.6 million 7.25% Fixed Rate Notes due October 2007	38	38	38
Stg£35 million 8% Fixed Rate Notes due October 2007	57	56	57
€32.2 million 6.7% Fixed Rate Notes due August 2009	32	32	32
€250 million Floating Rate Notes due January 2010	249	248	199
€100 million Floating Rate Notes due August 2010	100	100	–
	804	1,088	897
Allfirst Financial Inc.			
US$100 million 8.375% Fixed Rate Subordinated Notes due May 2002	113	107	99
US$200 million 7.2% Fixed Rate Subordinated Notes due July 2007	226	214	198
US$100 million 6.875% Fixed Rate Subordinated Notes due June 2009	113	106	98
US$150 million Floating Rate Subordinated Capital Income Securities due January 2027	167	159	147
US$150 million Floating Rate Subordinated Capital Income Securities due February 2027	168	159	146
Bank Zachodni WBK S.A.			
PLN 10 million Fixed Rate Loan due July 2002	3	3	2
	1,594	1,836	1,587

The loan capital of the Bank is unsecured and is subordinated in right of payment to the ordinary creditors, including depositors, of the Bank. There is no provision in any of the notes for a sinking fund.

The US$ Undated Floating Rate Loan Capital Notes have no final maturity but may be redeemed at par at the option of the Bank, after the approval of the Central Bank of Ireland, in or after November 1990 and July 1998, respectively. Interest is payable semi-annually on the US$100 million Undated Floating Rate Notes and the weighted average interest rate applicable for the year ended December 31, 2001 was 5.5%. Interest is payable quarterly on the US$100 million Floating Rate Primary Capital Perpetual Notes and the weighted average interest rate applicable for the year ended December 31, 2001 was 4.9%. The €200 million Fixed Rate Perpetual Subordinated Notes, with interest payable annually, have no final maturity but may be redeemed at the option of the Bank, after the approval of the Central Bank of Ireland, on each coupon payment date on or after August 3, 2009.

The European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of Allied Irish Banks, p.l.c. The US$250 million 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 January 2005. The €45.1 million Floating Rate Notes will be redeemed in February 2002. The €37.6 million Fixed Rate Notes and the Stg£35 million Fixed Rate Notes, with interest payable semi-annually, are redeemable, in whole but not in part, on October 1, 2002 and October 31, 2002, respectively. The €32.2 million Fixed Rate Notes, with interest payable annually, may be redeemed, in whole but not in part, on August 20, 2004. The €250 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, in or after January 2005. The €100 million Floating Rate Notes, with interest payable quarterly, may be redeemed, in whole but not in part, on the interest payment date falling in August 2005. In all cases, redemption prior to maturity is subject to the necessary prior approval of the Central Bank of Ireland.

The 8.375% and 7.2% Fixed Rate Subordinated Notes and the Floating Rate Subordinated Capital Income Securities of Allfirst are subordinated in right of payment to the ordinary creditors of Allfirst. The 8.375% Fixed Rate Subordinated Notes, with interest payable semi-annually, are not redeemable prior to maturity. The 7.2% Fixed Rate Subordinated Notes, with interest payable semi-annually, may not be redeemed prior to maturity and are not subject to any sinking fund. The 6.875% Fixed Rate Subordinated Notes mature on June 1, 2009, with interest payable semi-annually and are not redeemable prior to maturity.

The US$150 million Floating Rate Subordinated Capital Income Securities due January 2027, with interest payable quarterly, are redeemable in whole or in part on or after January 15, 2007, or at any time, in whole but not in part, upon the occurrence of a special event. The US$150 million Floating Rate Subordinated Capital Income Securities due February 2027, with interest payable quarterly, are redeemable in whole or in part on or after February 1, 2007, or at any time, in whole but not in part, upon the occurrence of a special event. In either case such redemption is subject to the necessary prior approval of the Federal Reserve and the Central Bank of Ireland. Interest is paid quarterly and the weighted average interest rates applicable to these Capital Income Securities for the year ended December 31, 2001 was 5.63%.

The subordinated floating rate notes pay a rate of interest related to the London Inter - Bank Offered Rate (LIBOR) or the European Inter - Bank Offered Rate (EURIBOR) of the currency of denomination, as appropriate.

There is no exchange exposure as the proceeds of these notes are retained in their respective currencies.

The maturity profile of the dated capital notes outstanding at December 31, 2001 is as follows:

Maturity during the year ended December 31,	(Euro in millions)
2002	161
2003	–
2004	–
2005	–
2006	–
	161
Thereafter	1,433
	1,594

39. EQUITY AND NON-EQUITY MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES

	December 31,		
	2001	2000 (Euro in millions)	1999
Equity interest in subsidiaries	191	158	122
Non-equity interest in subsidiaries:			
Allfirst Financial Inc:			
Cumulative preferred stock[1]	10	9	8
Floating rate non-cumulative subordinated capital trust enhanced securities[2]	111	105	97
	121	114	105
	312	272	227

[1] Allfirst issued 90,000 cumulative preference shares of US$5 par value each on June 28, 1997. These shares have a liquidation preference of US$100 each and the holders are subject to dividend entitlements at a rate of 4.5% on the liquidation preference amount. The preference shares are redeemable at the option of the issuer and the holder during the period commencing July 1, 2002 and ending on June 30, 2003 and are subordinated in right of payment to the ordinary creditors of Allfirst.

[2] Allfirst issued 100,000 floating rate non-cumulative subordinated capital trust enhanced securities through a subsidiary on July 13, 1999. The distribution rate on the securities is three month LIBOR plus 1.5% of the stated liquidation amount of US$1,000 per security, reset quarterly.

40. SHARE CAPITAL

	December 31,		
	2001	2000 (Euro in millions except share amounts)	1999
Ordinary shares of €0.32 each			
Number of shares authorized (millions)	1,160.0	1,160.0	1,160.0
Number of shares issued (millions)	886.7	879.2	866.0
Issued and fully paid	284	281	277
Non-cumulative preference shares of €1.27 each			
Number of shares authorized (millions)	200.0	200.0	200.0
Number of shares issued (millions)	–	–	–
Non-cumulative preference shares of US$25 each			
Number of shares authorized (millions)	20.0	20.0	20.0
Number of shares issued (millions)	0.25	0.25	0.25
Issued and fully paid	7	7	7
Non-cumulative preference shares of Stg£1 each			
Number of shares authorized (millions)	200.0	200.0	200.0
Number of shares issued (millions)	–	–	–
Non-cumulative preference shares of Yen 175 each			
Number of shares authorized (millions)	200.0	200.0	200.0
Number of shares issued (millions)	–	–	–

During the year ended December 31, 2001 the issued ordinary share capital was increased from 879,207,610 to 886,690,015 ordinary shares as follows:

(a) under the dividend reinvestment plan, 1,920,148 shares were allotted to shareholders, at €11.76 per share, in respect of the final dividend for the year ended December 31, 2000. These allotments were made in lieu of dividends amounting to €22.6 million;
(b) by the issue of 1,625,197 shares to the trustees of the employees' profit sharing plans at €11.58 per share; the consideration received for these shares was €18.8 million;
(c) by the issue of 3,482,228 shares to participants in the share option plan at prices of €3.32, €3.36, €3.38,€4.19, €5.80, €6.25 and €11.90 per share; the consideration received for these shares was €14.3 million;
(d) by the issue of 454,832 shares to holders of Dauphin Deposit Corporation (now "Allfirst") stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €3.9 million.

During the year ended December 31, 2000 the issued ordinary share capital was increased from 865,997,596 to 879,207,610 ordinary shares as follows:

(a) under the dividend reinvestment plan, 6,163,129 shares were allotted to shareholders, at €8.60 per share, in respect of the final dividend for the year ended December 31, 1999 and 2,625,046 shares were allotted to shareholders at €9.40 per share, in respect of the interim dividend for the year ended December 31, 2000. These allotments were made in lieu of dividends amounting to €77.7 million;
(b) by the issue of 2,266,171 shares to the trustees of the employees' profit sharing plans at €7.85 per share; the consideration received for these shares was €17.8 million;
(c) by the issue of 1,951,248 shares to participants in the share option plan at prices of €2.64, €3.36, €3.38,€3.68, €4.19, €5.80 and €6.25 per share; the consideration received for these shares was €7.7 million;
(d) by the issue of 204,420 shares to holders of Dauphin Deposit Corporation (now "Allfirst") stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €1.7 million.

During the year ended December 31, 1999 the issued ordinary share capital was increased from 859,881,145 to 865,997,596 ordinary shares as follows:

(a) under the dividend reinvestment plan, 1,633,779 shares were allotted to shareholders, at €15.49 per share, in respect of the second interim dividend for the year ended December 31, 1998 and 1,180,162 shares were allotted to shareholders at €11.84 per share, in respect of the interim dividend for the year ending December 31, 1999. These allotments were made in lieu of dividends amounting to €39.3 million;
(b) by the issue of 1,303,312 shares to the trustees of the employees' profit sharing plans at €15.10 per share; the consideration received for these shares was €19.7 million;
(c) by the issue of 1,438,500 shares to participants in the executive share option plan at prices of €1.98, €2.64, €3.36,€3.38 and €4.19 per share; the consideration received for these shares was €4.9 million;
(d) by the issue of 560,698 shares to holders of Dauphin Deposit Corporation (now "Allfirst") stock options, which were converted, on the acquisition of Dauphin, into options to purchase AIB American Depositary Shares. The consideration received for these shares was €3.9 million.

Employee Share Plans and Share Option Plan

These plans are detailed in Item 6 - Directors, senior management and employees - "Share ownership" on pages 54 to 57 of this Report.

Dividend reinvestment plan

At the 1999 Annual General Meeting, the Directors were given authority for a five year period to offer shareholders the right to elect to receive additional ordinary shares in lieu of cash dividends. The price at which such shares are offered is the average of the middle market quotations of the Bank's shares on the Irish Stock Exchange for the five business days commencing on the first date on which the shares are quoted 'ex-dividend'.

Allfirst Financial Inc. stock option plan

Under the terms of the Agreement and Plan of Merger between the Company, First Maryland Bancorp (now "Allfirst") and Dauphin Deposit Corporation ("Dauphin", now "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. At December 31, 2001, options so converted were outstanding over 813,342 ordinary shares.

AIB Long Term Incentive Plan

Under the terms of the AIB Long Term Incentive Plan, approved by shareholders at the 2000 Annual General Meeting, conditional grants of awards of ordinary shares were made during 2001 in respect of 813,900 ordinary shares, in aggregate, to 206 employees. These awards will not vest in the award holders unless (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 EPS, being below that level, is such as to position the Company in the top 45% of that Index. 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.

Non-cumulative preference shares of US$25 each

On May 5, 1998, 250,000 non-cumulative preference shares of US$25 each were issued at a price of US$995.16 per share raising US$248.8 million 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. The preference shares are redeemable at the option of the Bank, and with the agreement of the Central Bank of Ireland on or after July 15, 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.

Repurchase of ordinary shares

In September 1997, a subsidiary undertaking purchased 5.6 million ordinary shares of €0.32 each of Allied Irish Banks, p.l.c. on the open market at a price of €7.30 per share. The purchase was undertaken at foot of a resolution approved by shareholders at the Annual General Meeting held on May 21, 1997. In accordance with the Companies Act, 1990 the cost of the purchase of these shares, €42 million including related expenses of €0.8 million, has been deducted from distributable reserves. The issued ordinary share capital of Allied Irish Banks, p.l.c. continues to include these shares (nominal value €1.8 million) as they have not been cancelled. The shares do not rank for dividend as the related dividend entitlements have been waived. The weighted average number of shares in the earnings per share calculation has been reduced to reflect the purchase of these shares.

41. CASH FLOW STATEMENT

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
(a) Returns on investments and servicing of finance			
Interest paid on subordinated liabilities	(108)	(150)	(84)
Dividends paid on non-equity shares	(17)	(20)	(14)
Dividends paid to non-equity minority interests in subsidiaries	(6)	(14)	(10)
Net cash outflows from returns on investments and servicing of finance	(131)	(184)	(108)

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
(b) Taxation			
Tax paid, Republic of Ireland	(72)	(82)	(101)
Foreign tax paid	(170)	(117)	(136)
Net cash outflow from taxation	(242)	(199)	(237)

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
(c) Capital expenditure and financial investment			
Net decrease/(increase) in debt securities	904	(2,763)	(1,231)
Net decrease/(increase) in equity shares	94	(67)	(17)
Additions to property and equipment	(328)	(237)	(177)
Disposals of property and equipment	30	63	20
Net inflow/(outflow) from capital expenditure	700	(3,004)	(1,405)

	2001	2000	1999
	Years ended December 31, (Euro in millions)		
(d) Acquisitions and disposals			
Acquisition of Group undertakings	(59)	–	(602)
Net cash acquired with Group undertakings	–	–	205
Investments in associated undertakings	(1)	(4)	(2)
Disposals of investments in associated undertakings	1	6	8
Net cash (outflow)/inflow from acquisitions and disposals	(59)	2	(391)

	2001	2000	1999
	Years ended December 31, (Euro in millions)		
(e) Financing			
Issue of ordinary share capital	23	15	14
Redemption of subordinated liabilities	(311)	–	(57)
Issue of subordinated liabilities	–	149	733
Issue proceeds net of redemption of non-equity minority interests in subsidiaries	–	–	(50)
Issue of reserve capital instrument	496	–	–
Net cash inflow from financing	208	164	640

(f) Analysis of changes in cash

AIB Group defines cash for the purposes of the cash flow statements as cash in hand and deposits repayable on demand with any bank or other financial institution.

	2001	2000	1999
	Years ended December 31, (Euro in millions)		
At beginning of year	2,222	3,130	1,523
Net cash inflow/(outflow) before the effect of currency translation adjustments	377	(1,016)	1,477
Effect of currency translation adjustments	53	108	130
At end of year	2,652	2,222	3,130

	2001	2000	1999
	Years ended December 31, (Euro in millions)		
(g) Analysis of cash			
Cash and balances at central banks	1,175	938	1,119
Loans and advances to banks (repayable on demand)	1,477	1,284	2,011
	2,652	2,222	3,130

The Group is required to maintain balances with the Central Bank of Ireland which, at December 31, 2001 amounted to €399 million (2000: €304 million; 1999: €336 million). The Group is also required by law to maintain reserve balances with the Federal Reserve Bank in the United States of America, the Bank of England and with the National Bank of Poland. Such reserve balances amounted to €34 million at December 31, 2001 (2000: €385 million; 1999: €383 million).

	Share capital[(1)] Years ended December 31,		
	2001	2000 (Euro in millions)	1999
(h) Analysis of changes in financing			
At beginning of year	2,165	2,116	2,050
Effect of currency translation adjustments	15	19	35
Cash inflow from financing	519	15	14
Other movements	14	15	17
At end of year	2,713	2,165	2,116

[(1)] Includes share capital, share premium and reserve capital instruments.

The above table does not include a further €41.6 million paid in respect of the repurchase of 5.6 million ordinary shares in September 1997.

AIB believes that future normal cashflows from operating and financing activities, primarily deposit-taking, will be more than adequate to satisfy short-term and long-term future cash requirements, including estimated future capital expenditure requirements.

	Subordinated liabilities Years ended December 31,		
	2001	2000 (Euro in millions)	1999
At beginning of year	2,249	1,984	1,140
Effect of currency translation adjustments	80	115	168
Cash (outflow)/inflow from financing	(311)	149	676
Amortization of issue costs	2	1	–
At end of year	2,020	2,249	1,984

	Non - equity minority interests Years ended December 31,		
	2001	2000 (Euro in millions)	1999
At beginning of year	114	105	137
Effect of currency translation adjustments	7	8	18
Cash outflow from financing	–	–	(50)
Other movements	–	1	–
At end of year	121	114	105

42. 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 counterparty 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 counterparty 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 Central Bank of Ireland's 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.

At December 31, 2001, 2000 and 1999, the nominal or contract amounts and the risk weighted credit equivalent of contingent liabilities and commitments were:

	December 31, 2001		December 31, 2000		December 31, 1999	
	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
			(Euro in millions)			
Contingent liabilities						
Acceptances and endorsements	142	109	147	137	143	132
Guarantees and assets pledged as collateral security:						
Guarantees and irrevocable letters of credit	5,222	4,852	3,995	3,554	2,798	2,566
Assets pledged as collateral security	23	2	32	3	37	4
	5,245	4,854	4,027	3,557	2,835	2,570
Other contingent liabilities	1,125	570	1,089	546	933	476
	6,512	5,533	5,263	4,240	3,911	3,178
Commitments						
Sale and option to resell transactions	402	402	257	257	188	188
Other commitments:						
Documentary credits and short-term trade-related transactions	235	76	179	42	169	29
Forward asset purchases and forward deposits placed	5	2	83	82	–	–
Undrawn note issuance and revolving underwriting facilities	100	12	36	9	116	25
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	8,905	4,308	7,532	3,615	6,639	3,172
Less than 1 year[1]	9,352	–	8,025	–	7,194	–
	18,597	4,398	15,855	3,748	14,118	3,226
	18,999	4,800	16,112	4,005	14,306	3,414
	25,511	10,333	21,375	8,245	18,217	6,592

[1] Undrawn loan commitments which are unconditionally cancelable 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.

Charges in respect of the exchange of euro-zone currencies

On June 28, 2000, the Commission of the European Communities served a Statement of Objections and initiated proceedings under Article 81 of the Treaty establishing the European Community against AIB and other named banks and organizations. On June 6, 2001, AIB announced new eurozone currency charges for customers. As a result of these initiatives the European Commission ended its competition proceedings against AIB.

Class action

On March 6, 2002, AIB was informed of the filing of a class action in the United States District Court for the Southern District of New York against AIB, Allfirst and serving and past officers of Allfirst, seeking remedies under the Securities Exchange Act of 1934 of the United States relating to alleged misrepresentations in filings of AIB and Allfirst. On April 24, 2002, a second, similar proceeding was filed in the same court on behalf of a holder of 100 ADRs.

By letters dated March 6, and April 5, 2002, a law firm purporting to represent a holder of ADRs, demanded that AIB and Allfirst promptly institute legal action against all persons who were members of the boards of these companies during the period from 1997 to February 2002 and against senior officers to recover the exceptional foreign exchange dealing losses. The law firm threatened a derivative action on behalf of AIB and its subsidiaries if its demand was not acted upon. Management believes that the threatened action, if instituted, will not have a material effect on AIB. These matters are at an extremely preliminary stage but on the basis of the Complaints the Directors have been advised that the actions appear to be without merit.

43. DERIVATIVES

The Group's 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 on pages 66 to 75.

The Group uses derivatives to service customer requirements, to manage the Group's interest, 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.

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 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.

For derivatives, credit risk is calculated as the positive mark to market value for each contract plus an estimate of the additional credit risk that may arise over the contract's remaining life from an adverse movement in the value of the underlying asset or index. Any breach of credit risk limits on derivative contracts is reported to line management and reviewed by the appropriate credit authority. The counterparty credit exposure on derivatives is amalgamated with all other exposures to the counterparty to provide a comprehensive statement of individual counterparty risk.

The following tables present the notional principal amount and the gross replacement cost of interest rate, exchange rate and equity contracts at December 31, 2001, 2000 and 1999.

	December 31, 2001		December 31, 2000		December 31, 1999	
	Notional amount	Gross replacement cost	Notional amount Restated	Gross replacement cost Restated	Notional amount Restated	Gross replacement cost Restated
			(Euro in millions)			
Interest rate contracts						
Trading	46,015	586	37,271	199	56,844	190
Non-trading	70,136	846	93,674	676	72,727	649
	116,151	1,432	130,945	875	129,571	839
Exchange rate contracts						
Trading	18,766	217	18,844	447	6,524	58
Non-trading	7,739	63	5,797	131	17,407	618
	26,505	280	24,641	578	23,931	676
Equity contracts						
Trading	23	1	40	–	48	–
Non-trading	2,870	194	2,898	297	1,874	313
	2,893	195	2,938	297	1,922	313

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, 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.

Trading activities

AIB Group maintains trading positions in a variety of financial instruments including derivatives. These financial instruments include foreign exchange, interest rate, 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 the risk limits approved by the board of directors. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitors these risks.

Nature and terms of trading instruments

The following table presents the notional amounts and fair values of the classes of derivative trading instruments at December 31, 2001, 2000 and 1999 as well as the average fair values during 2001, 2000 and 1999.

	Notional amounts[1]			Fair values					
				At December 31,			Average		
	2001	2000 Restated	1999 Restated	2001	2000 Restated	1999 Restated	2001	2000 Restated	1999 Restated
				(Euro in millions)					
Interest rate contracts:									
Interest rate swaps.............	34,817	21,525	18,042				234	5	(55)
In a receivable position...				538	195	159			
In a payable position.......				(444)	(180)	(220)			
Interest rate caps, floors and options.......................	5,293	5,364	5,420				(1)	(4)	(11)
Held..............................				20	6	10			
Written..........................				(21)	(6)	(15)			
Forward rate agreements	5,092	8,449	29,932				–	–	(10)
In a favorable position....				5	10	27			
In an unfavorable position				(6)	(10)	(35)			
Financial futures................	776	1,880	3,406				–	–	1
In a favorable position....				22	1	5			
In an unfavorable position				(19)	(2)	(3)			
Other interest rate derivatives	37	53	44	–	–	–	–	–	–
Foreign exchange contracts:									
Currency options...............	2,391	3,763	3,884	(460)	(64)	(107)	(92)	(55)	(75)
Forward FX contracts........	16,375	15,015	2,640	4	(38)	3	1	(24)	2
Currency swaps................	–	66	–	–	–	–	–	–	–
Equity derivatives.....................	23	40	48	1	–	(2)	–	–	1

[1]The notional amounts shown for the contracts represent the underlying amounts that the instruments are based upon and do not represent the amounts exchanged by the parties to the instruments. In addition, these amounts do not measure the Group's exposure to credit or market risks.

Details of debt securities held for trading purposes are outlined in note 25 to the financial statements.

The Group's credit exposure at December 31, 2001, 2000 and 1999 from derivatives held for trading purposes is represented by the fair value of instruments with a positive fair value as set out above. 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 minimized by dealing with counterparties of good credit standing. All trading instruments are subject to market risk. As the traded instruments are recognized 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 of directors 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.

Net trading income

The following table summarizes the Group's dealing profits by category of instrument.

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Foreign currency contracts	75	69	30
Profits less losses from securities held for trading purposes	2	42	28
Interest rate contracts	15	(8)	16
	92	103	74
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
Total[1]	(325)	(125)	29

[1] Included as the caption of dealing profits in the Consolidated Statement of Income.

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 and equity 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 are used to hedge the nature of the Group's exposure to foreign exchange and equity risk, as required.

Derivatives fluctuate in value as interest rates rise or fall just as on balance sheet assets and liabilities fluctuate in value. If the derivatives are purchased or sold as hedges of balance sheet items, the appreciation or depreciation of the derivatives, as interest rates change, will generally be offset by the unrealized 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 pages 139 to 141 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 December 31, 2001, 2000 and 1999.

Notes to Consolidated Financial Statements - (Continued)

	December 31, 2001				
	Notional amount	Weighted average maturity in years	Weighted average rate Receive	Weighted average rate Pay	Estimated fair value
	(Euro in millions)		%	%	(Euro in millions)
Interest rate swaps:					
Receive fixed					
1 year or less...........................	9,216	0.48	4.78		205
1 - 5 years...............................	18,023	2.25	5.14		373
5 - 10 years.............................	2,574	7.43	6.05		84
	29,813	2.15	5.11	3.95	662
Pay fixed					
1 year or less...........................	7,991	0.58		4.82	(134)
1 - 5 years...............................	15,784	2.22		5.16	(385)
5 - 10 years.............................	1,823	9.27		5.78	(50)
	25,598	2.21	3.54	5.10	(569)
Pay/receive floating					
1 - 5 years...............................	99	2.00	2.46		–
5 - 10 years.............................	15	9.33	4.43		–
	114	2.96	2.72	3.26	–
Forward rate agreements:					
Loans					
1 year or less...........................	1,582	0.44	4.57		5
Deposits					
1 year or less...........................	2,807	0.52		4.50	(2)
1 - 5 years...............................	740	1.33		5.46	1
	3,547	0.69		4.70	(1)
Interest rate options:					
Purchased					
1 year or less...........................	1,491	0.67	4.19		1
1 - 5 years...............................	818	2.02	3.56		23
5 - 10 years.............................	27	8.00	4.45		–
	2,336	1.23	3.97		24
Written					
1 year or less...........................	303	0.66	4.75		(1)
1 - 5 years...............................	756	1.90	3.52		(20)
	1,059	1.54	3.87		(21)
Financial futures:					
1 year or less...........................	4,303	0.58	2.85		1
1 - 5 years...............................	994	1.49	5.02		(1)
	5,297	0.74	3.26		–
Other interest rate derivatives:					
1 year or less...........................	294	0.73	5.76		1
1 - 5 years...............................	380	2.53	4.54		12
5 - 10 years.............................	116	6.92	7.38		(10)
	790	2.51	5.42	5.61	3
Equity derivatives:					
1 year or less...........................	849	0.50			(1)
1 - 5 years...............................	1,941	2.70			(2)
5 - 10 years.............................	80	5.25			–
	2,870	2.12			(3)

Notes to Consolidated Financial Statements - (Continued)

	December 31, 2000				
	Notional amount	Weighted average maturity in years	Weighted average rate Receive	Weighted average rate Pay	Estimated fair value
	(Euro in millions)		%	%	(Euro in millions)
Interest rate swaps:					
Receive fixed					
1 year or less..........................	14,692	0.42	5.31		207
1 - 5 years..............................	12,263	2.37	5.51		155
5 - 10 years............................	1,647	7.30	4.95		35
	28,602	1.65	5.37	5.39	397
Pay fixed					
1 year or less..........................	7,458	0.39		5.49	(48)
1 - 5 years..............................	12,115	2.45		5.66	(144)
5 - 10 years............................	2,432	8.36		6.12	(39)
	22,005	2.40	5.61	5.66	(231)
Pay/receive floating					
1 year or less..........................	11	0.26	7.77		–
1 - 5 years..............................	13	2.18	6.56		–
	24	1.33	7.09	6.72	–
Forward rate agreements:					
Loans					
1 year or less..........................	1,763	0.72	6.12		3
1 - 5 years..............................	424	1.32	7.01		2
	2,187	0.84	6.29		5
Deposits					
1 year or less..........................	2,385	0.70		5.64	(4)
1 - 5 years..............................	140	1.40		6.96	(2)
	2,525	0.74		5.72	(6)
Interest rate options:					
Purchased					
1 year or less..........................	9,012	0.40	6.32		1
1 - 5 years..............................	2,660	2.06	5.11		5
5 - 10 years............................	25	9.10	6.53		1
	11,697	0.80	6.04		7
Written					
1 year or less..........................	2,399	0.24	5.35		–
1 - 5 years..............................	1,022	2.35	5.38		(2)
5 - 10 years............................	56	5.16	5.99		–
	3,477	0.94	5.37		(2)
Financial futures:					
1 year or less..........................	18,845	0.47	5.59		(17)
1 - 5 years..............................	3,107	1.54	5.75		2
	21,952	0.62	5.62		(15)
Other interest rate derivatives:					
1 year or less..........................	519	0.46	9.36		4
1 - 5 years..............................	686	1.60	8.51		5
	1,205	1.11	8.88	9.63	9
Equity derivatives:					
1 year or less..........................	1,174	0.46			–
1 - 5 years..............................	1,655	2.58			(1)
5 - 10 years............................	69	5.22			–
	2,898	1.78			(1)

	December 31, 1999				
	Notional amount	Weighted average maturity in years	Weighted average rate Receive	Weighted average rate Pay	Estimated fair value
	(Euro in millions)		%	%	(Euro in millions)
Interest rate swaps:					
Receive fixed					
1 year or less...........................	8,535	0.50	5.16		88
1 - 5 years..............................	12,833	2.63	5.02		(71)
5 - 10 years............................	1,705	7.59	6.02		(38)
	23,073	2.21	5.15	4.66	(21)
Pay fixed					
1 year or less...........................	5,824	0.53		5.16	(70)
1 - 5 years..............................	11,661	2.63		5.01	20
5 - 10 years............................	1,828	9.39		6.24	3
	19,313	2.64	5.33	5.17	(47)
Pay/receive floating					
1 year or less...........................	25	0.50	5.53		–
1 - 5 years..............................	23	2.81	6.10		–
	48	1.61	5.80	5.79	–
Forward rate agreements:					
Loans					
1 year or less...........................	3,663	0.67	4.49		(7)
1 - 5 years..............................	900	1.67	6.06		(2)
	4,563	0.87	4.80		(9)
Deposits					
1 year or less...........................	3,655	0.67		4.76	5
1 - 5 years..............................	255	1.50		5.76	–
	3,910	0.72		4.82	5
Interest rate options:					
Purchased					
1 year or less...........................	1,685	0.33	5.91		1
1 - 5 years..............................	2,009	2.54	5.10		3
5 - 10 years............................	20	5.33	6.75		1
	3,714	1.55	5.48		5
Written					
1 year or less...........................	2,619	0.25	5.64		–
1 - 5 years..............................	943	3.76	4.79		(2)
5 - 10 years............................	97	6.17	4.36		–
	3,659	1.31	5.39		(2)
Financial futures:					
1 year or less...........................	7,165	0.58	5.39		1
1 - 5 years..............................	5,298	1.88	6.32		1
	12,463	1.13	5.79		2
Other interest rate derivatives:					
1 year or less...........................	903	0.42	10.12		(10)
1 - 5 years..............................	982	2.47	10.82		(11)
5 - 10 years............................	99	5.75	6.06		(1)
	1,984	1.70	10.26	11.30	(22)
Equity derivatives:					
1 year or less...........................	156	0.42			(1)
1 - 5 years..............................	1,594	2.21			2
5 - 10 years............................	124	5.33			(1)
	1,874	2.27			–

The carrying value of the interest rate derivative financial instruments held for risk management purposes at December 31, 2001 was €94 million (2000: €162 million; 1999: €57 million).

Reconciliation of movements in notional amounts of interest rate instruments held for risk management purposes

	Interest rate swaps	FRA Deposits	FRA Loans
	(Euro in millions)		
At December 31, 1998	32,402	7,054	5,921
Additions	26,195	14,623	14,408
Maturities/amortizations	(15,380)	(18,043)	(16,166)
Cancellations	(1,176)	–	–
Exchange adjustments	393	276	400
At December 31, 1999	42,434	3,910	4,563
Additions	22,740	2,555	2,028
Maturities/amortizations	(14,068)	(3,933)	(4,415)
Cancellations	(815)	–	–
Exchange adjustments	340	(7)	11
At December 31, 2000	50,631	2,525	2,187
Additions	40,361	7,849	4,498
Maturities/amortizations	(34,315)	(6,851)	(5,095)
Cancellations	(1,767)	(50)	(51)
Exchange adjustments	615	74	43
At December 31, 2001	55,525	3,547	1,582

Non-trading derivative deferred balances

Set out hereunder are deferred balances relating to settled transactions. These balances will be released to the Consolidated Statement of Income in the same periods as the income and expense flows from the underlying transactions.

At December 31, 2001 the Group had deferred income of €65 million (2000: €73 million; 1999: €84 million) and deferred expense of €89 million (2000: €88 million; 1999: €80 million) relating to non-trading derivatives. €38 million (2000: €38 million; 1999: €41 million) of deferred income and € 51 million (2000: €41 million; 1999: €40 million) of deferred expense is expected to be released to the Statement of Income in 2002. During the year ended 31 December 2001, net deferred expense in relation to previous years of €3 million was released to the Statement of Income.

	2002	2003	2004	2005	2006	After 2006	Total
	(Euro in thousands)						
Interest rate swaps							
Deferred income	5,484	3,814	3,173	2,696	2,686	2,360	20,213
Deferred expense	(5,200)	(4,698)	(3,127)	(2,060)	(1,471)	(2,818)	(19,374)
Forward rate agreements							
Deferred income	3,063	–	–	–	–	–	3,063
Deferred expense	(1,001)	–	–	–	–	–	(1,001)
Interest rate options							
Deferred income	6,090	3,214	204	109	28	–	9,645
Deferred expense	(5,543)	(3,484)	(935)	(666)	(107)	(120)	(10,855)
Financial futures							
Deferred income	23,514	4,403	1,419	530	501	1,568	31,935
Deferred expense	(39,875)	(8,563)	(3,205)	(2,173)	(1,643)	(2,768)	(58,227)
	(13,468)	(5,314)	(2,471)	(1,564)	(6)	(1,778)	(24,601)

The above deferred balances have related unrealized gains or losses on transactions which are on balance sheet. The matching of the income and expense flows from the related transactions will be effected through the deferral process. At December 31, 2001 the Group had deferred expense of €1 million (2000: deferred income €26 million; 1999: deferred income €50 million) relating to debt securities held for hedging purposes. Deferred income of €3 million (2000: €15 million; 1999: €12 million) is expected to be released to the profit and loss account in 2002. During the year ended December 31, 2001, deferred expense in relation to previous years of €15 million was released to the Statement of Income.

Unrecognized gains and losses on derivatives hedges

Gains and losses on instruments used for hedging are recognized in line with the underlying items which are being hedged. The unrecognized net gain on instruments used for hedging as at December 31, 2001 was €25 million (2000: €138 million; 1999: net loss of €2 million).

The net gain expected to be recognized in 2002 is €20 million (2000: €52 million; 1999: net loss of €6 million) and thereafter a net gain of €5 million (2000: €86 million; 1999: €4 million) is expected.

The net gain recognized in 2001 in respect of previous years was €52 million (2000: net loss of €6 million; 1999: net loss of €32 million) and the net loss arising in 2001 which was not recognized in 2001 was €61 million (2000: net gain of €134 million; 1999: net gain of €61 million).

The disclosure of the fair value of financial instruments as required by FRS 13 is provided in note 50 on pages 164 to 166.

44. COMMITMENTS

Capital expenditure

Estimated outstanding commitments for capital expenditure not provided for in the accounts amounted to €69 million (2000: €69 million; 1999: €46 million). Capital expenditure authorized, but not yet contracted for, amounted to €152 million (2000: €190 million; 1999: €27 million).

Operating lease rentals

The Group occupies various properties under lease arrangements, virtually all of which are operating leases. Rental expense in respect of property and equipment held under non-cancelable operating leases is outlined in note 11 to the financial statements.

At December 31, 2001 the Group had annual commitments under non-cancelable operating leases as set out below.

	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
				(Euro in millions)			
Property	3	5	2	3	8	33	54
Equipment	–	1	–	–	–	–	1
	3	6	2	3	8	33	55

The operating lease rentals in respect of property are subject to rent reviews.

Obligations under finance leases

At December 31, 2001, 2000 and 1999 the Group had total commitments under finance leases amounting to €2 million, €2 million and €3 million respectively.

45. REPORT ON DIRECTORS' REMUNERATION AND INTERESTS

Information relating to Directors' remuneration and interests is included in Items 6 and 7 of this Report on pages xx to xx.

46. CURRENCY INFORMATION

	Assets			Liabilities		
	2001	2000 Restated	1999 Restated	2001	2000 Restated	1999 Restated
	(Euro in millions)			(Euro in millions)		
Euro	35,906	32,995	26,122	35,288	32,889	26,618
Other	52,931	46,729	41,596	53,549	46,835	41,100
	88,837	79,724	67,718	88,837	79,724	67,718

47. REPORTING CURRENCY

The currency used in these accounts is the euro which is denoted by 'EUR' or the symbol €. The euro was introduced on January 1, 1999. The countries participating in the European Single Currency are: Austria, Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain and Ireland. The national currency units of these participating currencies co-existed with the euro, as denominations of the new single currency until December 31, 2001. Euro notes and coin were introduced on January 1, 2002. Ireland joined the European Single Currency at the fixed translation rate of EUR 1=IR £0.787564. Each euro is made up of one hundred cent, denoted by the symbol 'c' in these accounts.

48. CAPITAL ADEQUACY INFORMATION

	December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Risk weighted assets			
Banking book:			
On balance sheet	54,839	49,396	40,623
Off-balance sheet	10,854	8,779	7,184
	65,693	58,175	47,807
Trading book:			
Market risks	2,897	1,956	1,401
Counterparty and settlement risks	268	82	54
	3,165	2,038	1,455
	68,858	60,213	49,262
Capital			
Tier 1	4,499	3,604	3,110
Tier 2	2,742	2,926	2,551
	7,241	6,530	5,661
Supervisory deductions	294	214	149
Total	6,947	6,316	5,512

49. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN IRISH AND UNITED STATES ACCOUNTING PRINCIPLES

The following is a description of the significant differences between Irish generally accepted accounting principles (Irish GAAP) and those applicable in the United States of America (US GAAP).

Debt securities and equity securities

In preparing its US GAAP information, the Group has applied SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

Under Irish GAAP, debt securities held for investment purposes are stated in the balance sheet at amortized cost less provision for any impairment in value. Securities held for hedging purposes are included in the balance sheet at a valuation, the basis of which is consistent with that being applied to the underlying transactions. These are classified as financial fixed assets.

Under US GAAP, debt securities held to maturity are recorded at amortized cost. Because AIB periodically sells and buys long-term debt securities in response to identified market conditions, including fluctuations in interest rates, debt securities classified as financial fixed assets in the Group balance sheet in the amount of €16,299 million at December 31, 2001 would be classified for US GAAP purposes as "available-for-sale". The purpose of these securities transactions is to minimize the risk associated with the AIB investment portfolio. At December 31, 2001 the market value of such securities was €16,468 million. The excess of market value over amortized cost of the debt securities of €169 million gave rise to an after tax reconciling item of €125 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 2000 debt securities in the amount of €16,645 million would be classified as "available-for-sale". The Group uses these securities to minimize the risk associated with the AIB investment portfolio. At December 31, 2000, the market value of such securities was €16,661 million. At December 31, 2000 the book amount of derivative financial instruments held to hedge the debt securities within the "available-for-sale" portfolio exceeded the fair value of these instruments by €63 million. The excess of market value over amortized cost of the debt securities of €16 million, offset by the excess of the book amount over fair value of the derivative financial instruments of €63 million, gave rise to an after tax reconciling item of €37 million negative in the consolidated ordinary stockholders' equity for US GAAP purposes.

Under US GAAP, at December 31, 1999 debt securities in the amount of €13,526 million would be classified as "available-for-sale". The market value of such securities was €13,318 million. At December 31, 1999 the book amount of derivative financial instruments held to hedge the debt securities within the "available-for-sale" portfolio exceeded the fair value of these instruments by €17 million. The excess of amortized cost over market value of the debt securities of €208 million, along with the excess of the book amount over fair value of the derivative financial instruments of €17 million, gave rise to an after tax reconciling item of €148 million negative in the consolidated ordinary stockholders' equity for US GAAP purposes. Gross unrealized gains were €45 million and gross unrealized losses were €253 million at December 31, 1999.

The following table sets forth the amortized cost and market value of the available-for-sale investment portfolio owned by the Group at December 31, 2001, 2000 and 1999.

	Available-for-sale investment portfolio					
	December 31, 2001		December 31, 2000		December 31, 1999	
	Amortized cost	Market value[1]	Amortized cost	Market value[1]	Amortized cost	Market value[1]
	(Euro in millions)					
Irish Government	1,044	1,028	1,279	1,246	1,792	1,724
Other European Government	3,349	3,424	3,367	3,399	3,797	3,811
US Treasury & US Government agencies	235	236	183	185	361	354
Mortgage-backed obligations of federal agencies	2,768	2,797	2,201	2,179	1,991	1,887
Collateralized mortgage obligations[2]	1,307	1,318	2,297	2,294	1,928	1,911
US State & Municipal bonds	559	570	538	551	470	459
Other asset backed securities	806	814	724	722	503	496
Other securities	6,231	6,281	6,056	6,085	2,684	2,676
Total	16,299	16,468	16,645	16,661	13,526	13,318

[1] Under US GAAP the book value of debt securities classified as available-for-sale equates to market value.

[2] At December 31, 2001, €1,241 million of CMO's, were issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association (2000: €1,903 million; 1999: €1,904 million).

The following table shows the maturity distribution of the available-for-sale investment portfolio of the Group at December 31, 2001 based upon amortized cost.

Maturity distribution of available-for-sale investment portfolio December 31, 2001

	Maturing				
	In one year or less	After one year through 5 years	After five years through 10 years	After 10 years	Total
	(Euro in millions)				
Irish Government	277	440	255	72	1,044
Other European Government	1,086	1,866	225	172	3,349
US Treasury and US Government agencies	27	148	–	60	235
Mortgage-backed obligations of federal agencies[1]	290	811	754	913	2,768
Collateralized mortgage obligations[1]	472	393	57	385	1,307
US State & Municipal bonds	37	89	37	396	559
Other asset backed securities	661	125	17	3	806
Other securities	1,201	3,932	781	317	6,231
Total	4,051	7,804	2,126	2,318	16,299

[1] The maturity distribution is based upon long-term cash flow estimates for each security type and coupon rate.

The following table shows the book value of AIB Group's debt securities at December 31, 2001, 2000 and 1999.

	December 31,		
	2001	2000	1999
	(Euro in millions)		
Irish Government	1,176	1,538	1,842
Other European Government	3,962	4,147	3,956
US Treasury and US Government agencies	175	77	362
Mortgage - backed obligations of federal agencies	2,253	2,195	1,991
Collateralized mortgage obligations[1]	3,497	2,938	2,497
US State & Muncipal bonds	634	538	470
Other asset backed securities	132	1,145	522
Other securities[2]	8,253	6,408	3,468
Total	20,082	18,986	15,108

[1] At December 31, 2001, €1,241 million of CMO's were issues of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Government National Mortgage Association (2000: €2,091 million; 1999: €1,950 million).
[2] Other securities included certificates of deposit issued by financial institutions totaling €565 million at December 31, 2001 (2000: €378 million; 1999: €273 million), and quoted securities comprising Eurobonds issued by banks and large corporations totaling €6,686 million at December 31, 2001 (2000: €5,174 million; 1999: €2,596 million).

The market value of AIB Group's Irish Government securities at December 31, 2001 was €1,160 million (2000: €1,506 million; 1999: €1,775 million).

The following table categorizes AIB Group's debt securities (excluding €3,783 million of trading securities) by maturity and weighted average yield at December 31, 2001.

	December 31, 2001							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	Euros	Yield %	Euros	Yield %	Euros	Yield %	Euros	Yield %
	(Euro in millions)							
Irish Government	277	3.7	440	7.1	255	5.0	72	4.7
Other European Government	1,086	4.5	1,866	4.9	225	4.0	172	5.8
US Treasury and US Government agencies	27	6.5	148	3.7	–	–	60	2.4
Mortgage-backed obligations of federal agencies	290	6.2	811	6.3	754	6.2	913	4.4
Collateralized mortgage obligations	472	5.4	393	5.2	57	5.1	385	3.9
US State and Municipal bonds	37	5.3	89	4.7	37	5.2	396	5.2
Other asset backed securities	661	5.2	125	6.8	17	6.9	3	6.9
Other securities	1,201	5.4	3,932	4.7	781	2.3	317	1.3
Total book value	4,051	5.1	7,804	5.1	2,126	4.5	2,318	4.1
Total market value	4,087		7,917		2,131		2,333	

The weighted average yield for each range of maturities is calculated by dividing the annual interest prevailing at the balance sheet date by the book value of securities held at that date.

Investment securities sales

In the available-for-sale portfolio, proceeds from sales of debt securities during the years ended December 31, 2001, 2000 and 1999 amounted to €5 billion, €7 billion and €16 billion, respectively. Gross realized gains and losses arising on the sale of these debt securities were as follows:

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Gross realized gains	33	4	79
Gross realized losses	(15)	(14)	(11)
	18	(10)	68

There were no investment securities classified as held-to-maturity during the years ended December 31, 2001, 2000 and 1999. The cost of securities sold by the Group is determined using both the portfolio method of average cost and the specific identification method.

Equity securities

Under US GAAP, at December 31, 2001 equity securities classified as financial fixed assets in the Group balance sheet in the amount of €283 million would be classified as "available-for-sale". At December 31, 2001, the market value of these securities was €283 million. There is no adjustment to the consolidated ordinary stockholders' equity for US GAAP purposes as the book amount equals the market value of these securities. Gross unrealized gains were €35 million and gross unrealized losses were €35 million at December 31, 2001.

Under US GAAP, at December 31, 2000 equity securities classified as financial fixed assets in the Group Balance sheet in the amount of €364 million would be classified as "available-for-sale". At December 31, 2000, the market value of these securities was €358 million. The excess of book amount of these securities over market value was €6 million giving rise to an after tax reconciling item of €4 million negative in the consolidated ordinary stockholders' equity for US GAAP purposes. Gross unrealized gains were €13 million and gross unrealized losses were €19 million at December 31, 2000.

Under US GAAP, at December 31, 1999 equity securities classified as financial fixed assets in the Group balance sheet in the amount of €235 million would be classified as "available-for-sale". At December 31, 1999 the market value of such securities was €245 million. The excess of market value of such securities over book amount was €10 million giving rise to an after tax reconciling item of €7 million positive in the consolidated ordinary stockholders' equity for US GAAP purposes. Gross unrealized gains were €13 million and gross unrealized losses were €3 million at December 31, 1999.

Equity securities sales

In the "available-for-sale" portfolio, proceeds from sales of equity securities during the years ended December 31, 2001, 2000 and 1999 amounted to €182 million, €72 million and €71 million, respectively. Gross realized gains arising on the sale of these equity securities were €110 million in 2001, €23 million in 2000 and €8 million in 1999. Gross realized losses arising on the sale of these equity securities were €19 million in 2001 and €2 million in 2000. There were no realized losses on sale of "available-for-sale" equity securities in December 1999.

Debt securities held for hedging purposes

Under Irish GAAP, certain debt securities held as financial fixed assets are held to hedge the Group's sensitivity to movements in market interest rates. Profits and losses on disposal of these debt securities are deferred and amortized to the statement of income over the lives of the underlying transactions.

Under US GAAP, profits and losses on disposal of debt securities are recognized immediately in the Statement of Income.

Internal derivative trades

Under Irish GAAP, where underlying Group subsidiaries and business units undertake internal derivative trades with the Group central treasury to transfer risk from the banking book to the trading book, the Group central treasury is allowed to aggregate and/or offset trades with similar characteristics for the purposes of establishing an effective hedge position against the underlying risk.

Under Irish GAAP, where positions established with external counterparties offset the net risk, hedge accounting is to be applied to internal derivative trades. The accounting policy for derivatives under Irish GAAP is described more fully on pages 90 and 91.

Under US GAAP, contemporaneous offset with external counterparties is required if hedge accounting is to be applied to internal derivative trades. As a consequence, trades not satisfying this requirement have been accounted for at fair value with gains or losses being recognized in the consolidated net income statement. From January 1, 2001 the adjustment for internal derivative trades is included with the derivatives FAS 133 adjustment.

FAS 133 - Derivatives and hedging activities

Under Irish GAAP, the Group uses derivatives, for both trading and hedging purposes. The accounting treatment for these derivative instruments is dependent on whether they are entered into for trading or hedging purposes.

Trading instruments are recognized in the accounts at fair value with the adjustment arising included in other assets and other liabilities, as appropriate, in the consolidated balance sheet. Gains and losses arising from trading activities are included in dealing profits in the Statement of Income using the mark to market method of accounting.

Derivative transactions entered into for hedging purposes are recognized in the accounts in accordance with the accounting treatment of the underlying transactions being hedged. Gains and losses arising from hedging activities are amortized to net interest income over the lives of the underlying transactions.

Under US GAAP, all derivatives are recognized as either assets or liabilities in the statement of financial position and measured at fair value. The recognition of the changes in the fair value of a derivative depends upon its intended use. Derivatives that do not qualify for hedging treatment must be adjusted to fair value through earnings. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign currency denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivatives and the resulting designations.

In adopting Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") in its US GAAP reconciliation from January 1, 2001, AIB Group designated its derivative instruments anew for US reporting purposes on that date. The transition adjustment arising from this action is reflected in net income and other comprehensive income.

Revaluation of property

Under Irish GAAP, property may be carried at either original cost or subsequent valuation less related depreciation, calculated where applicable on the revalued amount.

Under US GAAP, revaluations are not permitted to be reflected in the financial statements.

Deferred taxation

Under Irish GAAP, deferred taxation is accounted for using the liability method in respect of timing differences between the income as stated in the accounts and as computed for taxation purposes where, in the opinion of the directors, there is a reasonable probability that a tax liability or asset will arise in the foreseeable future.

Under US GAAP, the liability method is also used but deferred tax assets and liabilities are calculated for all temporary differences. A valuation allowance is raised against a deferred tax asset where it is more likely than not that some portion of the deferred tax asset will not be realized.

Under Irish GAAP, deferred taxation of €55 million arising from the phased reduction in Irish corporation tax rates announced in 1998 was charged to the statement of income in December 31, 1998.

Under US GAAP, the impact of the phased reduction in tax rates is not recognized until the enactment of the appropriate legislation.

Depreciation

Under Irish GAAP, until December 31, 1999, depreciation was generally not charged by AIB Group on freehold and long leasehold properties as their estimated useful economic lives and residual values made it insignificant. Since January 1, 2000 AIB has adopted a policy of depreciating its freehold and long leasehold property over a period not exceeding 50 years.

Under US GAAP, freehold and long leasehold property must be depreciated. In AIB's case, a period of 50 years is used in preparing its US GAAP information.

Goodwill

Goodwill arising on acquisition of subsidiary and associated undertakings prior to December 31, 1997 has been written off to reserves in the year of acquisition and written back in the year of disposal. Goodwill arising after January 1, 1998 is capitalized and written off over its useful life, up to a maximum of 20 years.

In the US, goodwill is capitalized and amortized through income over the estimated useful life. In AIB's case, a period of 20 years has been used in preparing its US GAAP information.

Core deposit intangibles

Under US GAAP, a component of goodwill arising on acquisition of bank subsidiary undertakings which relates to retail depositors is termed core deposit intangibles. Under Irish GAAP, core deposit intangibles arising prior to December 31, 1997 have been written off to reserves in the year of acquisition, as a component of goodwill.

Under US GAAP, capitalized core deposit intangibles are amortized through income over the estimated average life of the retail depositor relationship. In AIB's case a period of 10 years has been used in preparing its US GAAP information.

Long-term assurance policies

Under Irish GAAP, the shareholders' interest in the long-term assurance fund is valued as the discounted value of the cash flows expected to be generated from in-force policies together with the net assets in excess of the statutory liabilities.

Under US GAAP, premiums are recognized as revenue when due from policyholders. The costs of claims are recognized when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognized. Acquisition costs are capitalized and charged to expense in proportion to premium revenue recognized. For unit-linked business, acquisition costs are amortized over the life of the contracts at a constant rate based on the present value of estimated gross profits. Initial income in respect of future services is not earned in the period assessed but recognized as income over the same amortization period and using the same amortization schedule as for acquisition costs.

Dividends payable on ordinary shares

Under Irish GAAP, AIB records proposed dividends on ordinary shares, which are declared after period end, in the period to which they relate.

Under US GAAP, dividends are recorded in the period in which they are declared.

Dividends on non-equity shares

Under Irish GAAP, AIB records dividends on non-equity shares in the statement of income on an accruals basis.

Under US GAAP, dividends are recorded as a charge against ordinary stockholders' equity in the period in which they are declared.

Acceptances

Under Irish GAAP, the Group presents acceptances as a contingent liability in a footnote to the financial statements.

Under US GAAP, acceptances outstanding are presented as a liability, with an equal amount presented as an asset, "customers' acceptance liability".

Own shares purchased

Under Irish GAAP, own shares purchased are recorded at cost and reflected as fixed asset investments in the consolidated Balance Sheet.

Under US GAAP, own shares purchased are recorded at cost and reflected as a reduction to the consolidated ordinary stockholders' equity.

Internal use computer software

Under Irish GAAP, certain specific costs incurred in respect of software for internal use can be capitalized and amortized. All other costs are expensed.

Under US GAAP, the same treatment applies, however there are additional specific costs that are capitalized which would be expensed under Irish GAAP. These costs are being depreciated on a straight line basis over five years.

Transfer and servicing of financial assets

Under Irish GAAP, where a transaction involving a previously recognized asset transfers to others (a) all significant rights or other access to benefits relating to that asset and (b) all significant exposure to the risks inherent in those benefits, the entire asset should cease to be recognized.

Under US GAAP, an entity de-recognizes financial assets where control has been surrendered and de-recognizes liabilities where they are extinguished. Control passes where the following criteria have been met: (a) the assets are isolated from the transferor (the seller) i.e. the assets are beyond the reach of the transferor, even in bankruptcy or other receivership, (b) the transferee (the buyer) has the right - free of any conditions that constrain it from taking advantage of the right - to pledge or exchange the assets, and (c) the transferor does not maintain effective control over the transferred assets.

Special purpose vehicles

Under Irish GAAP, special purpose vehicles are consolidated as quasi-subsidiaries where risks and rewards from operations are similar to those which would be obtained for subsidiaries.

Under US GAAP, consolidation of an entity by its sponsor, the party at whose initiative the entity is activated, is required if the entity's powers and activities are not strictly limited, and the entity does not have sufficient legal equity in form held by parties other than the sponsor or its affiliates. Sufficient legal equity has been defined as at least 3% of capital at risk. Interest earned on the assets held in the special purpose vehicles has been entirely offset by the interest expense and management fees of the special purpose vehicles.

Retirement benefits

Under Irish GAAP, the expected return on pension assets, net of the interest cost on pension liabilities, is credited to other finance income while the service cost is charged to other administrative expenses. Actuarial gains and losses are recognized through the Statement of Total Recognized Gains and Losses. Plan assets are valued at fair value and plan liabilities are measured using the projected unit method. The net plan assets, reduced by deferred tax amounts are shown on the face of the balance sheet.

Under US GAAP, certain assumptions primarily in relation to the recognition of actuarial gains and losses and amortization methods are used that are different when compared with Irish GAAP.

Pension accounting in the US has to apply the provisions of SFAS No. 87 "Employers' Accounting for Pensions". The disclosure requirements of SFAS No. 87 have been amended by SFAS No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits". The Group has applied SFAS No. 87 and SFAS No.132 in preparing its US GAAP information.

The impact of these pronouncements has been included in the US GAAP reconciliation in respect of the main AIB pension plans. These plans make up approximately 90% of AIB Group's plans in terms of assets and actuarial liabilities.

Notes to Consolidated Financial Statements - (Continued)

The components of total pension expense for the main AIB pension plan which arise under SFAS No. 87 are estimated to be as follows:

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Service cost	66.4	56.3	53.7
Interest cost	120.3	114.1	103.5
Actual return on plan assets	201.9	(16.7)	(501.8)
Other components	(430.2)	(219.8)	310.3
	(41.6)	(66.1)	(34.3)

An expected rate of return of 7.5% on plan assets was used in determining the net periodic pension cost for the year ended December 31, 2001 (2000 and 1999: 7.5%).

Actuarial assumptions used in determining the projected benefit obligation at December 31, 2001 included a discount rate of 5.8% (2000 and 1999: 6%), and an increase in future compensation expense of 4.0% (2000 and 1999: 3.5%).

The following is a reconciliation of the beginning and ending balances of the benefit obligation, the fair value of the plan assets and an analysis of the funded status of the plans for the years ended December 31, 2001, 2000 and 1999.

	December 31,		
	2001	2000	1999
Change in benefit obligation		(Euro in millions)	
Benefit obligation at beginning of year	1,660.8	1,546.3	1,402.7
Service cost	66.4	56.3	53.7
Interest cost	120.3	114.1	103.5
Actuarial gain/(loss)	421.0	(0.9)	37.8
Currency translation adjustments	16.3	–	–
Benefits paid	(57.5)	(55.0)	(51.4)
Benefit obligation at end of year	2,227.3	1,660.8	1,546.3
Change in plan assets			
Fair value of plan assets at beginning of year	2,716.1	2,710.3	2,206.5
Employers contributions	43.9	46.5	53.4
Actual return on plan assets	(201.9)	14.3	501.8
Currency translation adjustments	54.2	–	–
Benefit payments	(57.5)	(55.0)	(51.4)
Fair value of plan assets at end of year	2,554.8	2,716.1	2,710.3

	December 31,		
	2001	2000	1999
		(Euro in millions)	
Funded status	327.5	1,054.7	1,164.0
Unrecognized transition obligation	76.4	83.9	91.4
Unrecognized net gain	(7.2)	(819.8)	(1,041.7)
Unrecognized prior service credit	(85.0)	(92.6)	(100.1)
Prepaid pension cost	311.7	226.2	113.6

The unrecognized prior service credit arose during the nine months ended December 31, 1992 mainly as a result of changes in the terms of the plans, following the restructure of the main Irish and UK plans during 1991.

Post-retirement benefits

Post-retirement benefit liabilities are assessed actuarially on a similar basis to pension liabilities and are discounted at a long-term interest cost. Variations from regular cost are expressed as a percentage of payroll and are spread over the average remaining service lives of current eligible employees.

Under SFAS No. 106 "Employers' Accounting for Post-Retirement Benefits other than Pensions", there are certain differences in the actuarial method used and variations in the computation of regular cost as compared with Irish GAAP. The disclosure requirements of SFAS No. 106 have been amended by SFAS No. 132 "Employers Disclosures about Pensions and Other Post-Retirement Benefits".

The Group has applied SFAS No. 106 and SFAS No. 132 in preparing its US GAAP information.

The following table shows the components of the net periodic post-retirement benefit cost for the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Service cost	1.7	2.2	2.2
Interest cost	4.0	3.5	2.9
Amortization of unrecognized transition obligation	1.1	1.4	1.3
Amortization of prior service cost	(0.4)	(0.4)	(0.4)
Recognized net actuarial losses	–	(0.2)	–
	6.4	6.5	6.0

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 8.5% for 2001 and is assumed to decrease gradually to 5.0% in the year 2008 and will remain at that level thereafter. Increasing or decreasing the assumed health care cost trend rates by one percentage point in each future year would have an immaterial impact on post-retirement benefits costs.

The following is a reconciliation of the beginning and ending balances of the benefit obligation and an analysis of the funded status and the amounts recognized in the Groups consolidated statement of condition.

	December 31,		
	2001	2000	1999
Change in benefit obligation		(Euro in millions)	
Benefit obligation at beginning of year	53.8	48.1	45.4
Service cost	1.7	2.2	2.2
Interest cost	4.0	3.5	2.9
Amendments	–	(1.6)	0.1
Actuarial loss/(gain)	9.2	3.2	(4.0)
Benefits paid	(5.4)	(4.2)	(3.5)
Currency translation adjustments	2.3	2.6	5.0
Benefit obligation at end of year	65.6	53.8	48.1
Plan assets at fair value	–	–	–
Funded status	(65.6)	(53.8)	(48.1)
Unrecognized transition obligation	12.4	19.1	19.2
Unrecognized prior service cost	(3.9)	(4.1)	(4.2)
Unrecognized net loss/(gain)	5.9	(3.5)	(4.7)
Accrued post-retirement benefit cost	(51.2)	(42.3)	(37.8)

The assumptions used in developing the present value of the post-retirement benefit obligation are as follows:

	Years ended December 31,		
	2001	2000	1999
		(Euro in millions)	
Weighted average discount rate	7.25%	7.75%	8.25%
Rate of increase in health care costs – initial	8.50%	6.50%	7.50%
Rate of increase in health care costs – ultimate	5.00%	4.50%	4.50%

Stock Compensation Plans

At December 31, 2001 the Group had four stock based compensation plans as outlined below. AIB has accounted for its stock based compensation plan under the provisions of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations. Statement of Financial Accounting Standards 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), allows a company to recognize stock-based compensation using a fair-value based method of accounting if it so elects. AIB has elected not to adopt the recognition provisions of SFAS 123. The compensation cost charged against income for the Group's performance based plans for the years ended December 31, 2001, 2000 and 1999 was €21 million, €16 million and €19 million respectively.

For the purposes of providing the pro forma disclosures required under SFAS 123, the fair values of stock options granted were estimated at the date of the grants using a Black-Scholes option pricing model. The pro forma net income of AIB Group that would have been recognized in the consolidated statements of income if the fair value method of accounting for stock options had been used is €635 million, €546 million and €649 million, respectively for the years ended December 31, 2001, 2000 and 1999.

Share option plan

The Company operates a share option plan on terms approved by the shareholders. Officials may participate in the plan at the discretion of the directors. Options are granted at the market price, being the middle market quotation of AIB's shares on the Irish Stock Exchange on the day on which the option is granted. The exercise of options granted between January 1, 1996 and December 31, 2000 is conditional on the achievement of earnings per share ("EPS") growth of at least 2% per annum, compound, above the increase in the Irish Consumer Price Index ("CPI") over a period of not less than three and not more than five years from date of grant. The exercise of options granted since January 1, 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 exercised only between the third and seventh anniversaries of their grant in the case of options granted up to December 31, 2000, and between the third and tenth anniversaries of grant date in the case of options granted subsequent to that date.

The following table summarizes the number of options outstanding and weighted average exercise prices at December 31, 2001, 2000 and 1999.

	December 31,		
	2001	**2000**	**1999**
Number of options outstanding	29,808,629	29,379,228	19,973,976
Weighted average exercise price	€ 10.92	€ 9.95	€ 9.37

The following table summarizes the number of options outstanding at December 31, 2001.

Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price
€ 3.38 - € 7.61	4,637,000	1.9 years	€ 5.23
€10.02 - €12.40	18,739,629	5.9 years	€ 10.78
€14.05 - €15.46	6,432,000	4.4 years	€ 15.45
	29,808,629		

The following table summarizes the number of exercisable options outstanding at December 31, 2001.

	December 31, 2001
Number of options exercisable[(1)]	7,761,500
Weighted average price	€ 7.92

[(1)] At prices ranging from €3.38 to €12.20

The following table summarizes option activity during 2001, 2000 and 1999.

	December 31, 2001		December 31, 2000		December 31,1999	
	Number outstanding '000	Weighted average exercise price (Euro)	Number outstanding '000	Weighted average exercise price (Euro)	Number outstanding '000	Weighted average exercise price (Euro)
Outstanding at beginning of year..........	29,379.2	9.95	19,974.0	9.37	14,778.5	6.05
Granted...	4,246.9	11.98	11,668.7	10.02	6,634.0	15.45
Exercised...	(3,482.2)	4.11	(1,951.3)	4.84	(1,438.5)	3.40
Forfeited..	(335.3)	10.12	(312.2)	12.55	–	–
Outstanding at end of year...................	29,808.6	10.92	29,379.2	9.95	19,974.0	9.37

During the year ended December 31, 2001, 4,246,929 options were granted at a price of €11.98 per ordinary share, and 35,000 options were granted at a price of €12.40 per ordinary share, the market prices on the days preceding the date on which the options were granted. They are exercisable between April 26, 2004 and April 26, 2011 and September 4, 2004 and September 4, 2011 respectively. The fair value of these options was estimated using the Black-Scholes option pricing model to be €3.65 per option. No options were forfeited or expired during the year. Options were exercised during the year at a weighted average exercise price of €4.11 per option.

Employee share plans

AIB operates employee profit sharing plans on terms approved by the shareholders. All employees, including executive directors, of the Bank and certain subsidiaries are eligible to participate, subject to a minimum of one year's continuous service at the end of the relevant financial period and subject also to their being in employment on the date on which the invitation to participate is issued. Under the plans, the directors at their discretion, may set aside each year, for allocation to the trustees of the Republic of Ireland Plan, a sum not exceeding 5% of eligible income before taxes, of participating companies in the Republic of Ireland and, in the case of the UK Plan, 4% of such income in the UK.

Employees may elect to receive their profit sharing allocations either in shares or in cash. Such shares are held by the Trustees for a minimum period of two years and are required to be held for a total period of three years for the employee to obtain the maximum tax benefit. Costs relating to the purchase of shares under the employee profit sharing plans are charged to the Statement of Income when incurred.

Employees in the Republic of Ireland may elect to forego an amount of salary, subject to certain limitations, towards the acquisition of additional shares. The maximum market value of shares that may be appropriated to an employee in a year, may not exceed €12,697 in the Republic of Ireland and Stg£8,000 in the UK.

A Save As You Earn share option plan is operated for eligible employees in the UK. Under that plan 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, and to utilize amounts so saved in the acquisition of market-purchased shares in the Company.

Allfirst 1989 Long-Term Incentive Plan and Trust

Allfirst's 1989 Long-Term Incentive Plan and Trust (the "1989 Plan") provides for the award to key employees who contribute to the continued growth, development and financial success of Allfirst of up to 7 million €0.32c Ordinary Shares of AIB and 200,000 Non-Cumulative Preference Share ADSs of AIB ("Preferred Stock") (together the "Restricted Stock"). Awards are made to participants, without payment of consideration by the participant, in the form of Restricted Stock purchased by Allfirst in the open market and are held in trust under the 1989 Plan until the expiration of the relevant restriction period. Awards aggregating the equivalent of 68,000 common stock were made during 2001. Costs relating to this plan are charged to statement of income over the period under which the shares will vest. Expenses relative to this plan totaled US$791,000, US$702,000 and US$827,000 in 2001, 2000 and 1999, respectively. The awards are subject to a restriction period of at least three years.

Allfirst 1997 and 1999 Stock Option Plans

Allfirst's 1997 and 1999 Stock Option Plans provide for the grant to key employees of options to acquire AIB ADSs. The options are granted at no less than the fair market value of the ADSs at the date of the grant. Options granted in 1998 through 2001, with the exception of options granted under the Allfirst Shares Plan, vest one half in 24 months and one half in 36 months from the grant date and must be exercised within 10 years of the grant date or they will expire. Options granted on December 29, 1997 vested six months from the grant date and must be exercised within seven years of the grant date or they will expire. During 1999, Allfirst implemented an all employee stock option program called Allfirst Shares which is part of the 1997 Stock Option Plan. Each full and part-time employee who was eligible for employee benefits and was employed by the Company as of May 4, 1999 received an option to purchase up to 100 AIB ADSs. The options may be exercised: (i) any time after May 4, 2002 and before May 4, 2004, as long as the closing price of AIB ADSs has equaled or exceeded 150% of the exercise price for five consecutive days at any time after the grant date; or (ii) any time after May 4, 2004, regardless of the price of the ADSs. The options must be exercised within 10 years or they will expire. Options under the 1999 Stock Option Plan vest based on certain performance criteria. During 2001, 2000 and 1999, options were granted under the 1997 and 1999 Stock Option Plans.

Allfirst and an independent Trustee created a trust, for the purpose of acquiring AIB ADSs in the open market with the proceeds of a loan from Allfirst. Generally, the Trust will acquire AIB ADSs in an amount equal to the number of stock options granted at or about each grant date. Proceeds from option exercises and any dividends and other earnings on the trust assets will be used to repay the loan to the trust. Option holders have no preferential rights with respect to the trust assets, and the trust assets are subject to the claims of Allfirst's general creditors in the event of insolvency. AIB will not issue any securities in connection with the 1997 or 1999 Stock Option Plan, will not receive any proceeds from the exercise of the options, and otherwise has no rights or obligations with respect to the Stock Option Plans.

The following summarizes option activity during 2001, 2000 and 1999.

	December 31, 2001		December 31, 2000		December 31,1999	
	Number outstanding[1] '000	Weighted average exercise price (Dollars)	Number outstanding[1] '000	Weighted average exercise price (Dollars)	Number outstanding[1] '000	Weighted average exercise price (Dollars)
Outstanding at beginning of year	6,448.2	22.69	4,281.7	25.23	2,979.3	22.31
Granted	2,165.1	21.64	2,391.7	18.56	2,174.3	28.05
Exercised	(8.4)	18.67	(19.5)	18.67	(519.5)	18.67
Forfeited	(172.9)	24.93	(205.7)	27.76	(352.4)	27.68
Outstanding at end of year	8,432.0	22.38	6,448.2	22.69	4,281.7	25.23

[1] Represent number of AIB ADSs.

The following table summarizes information about fixed options outstanding at December 31, 2001:

	Options outstanding			Options exercisable	
	Number outstanding at 12/31/2001 '000	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 12/31/2001 '000	Weighted average exercise price
	1,033.6	3.0 years	$18.67	1,033.6	$18.67
	1,083.1	6.8 years	26.62	1,083.2	26.62
	76.2	7.1 years	34.04	38.1	34.04
	435.3	7.3 years	31.67	21.0	31.67
	1,311.3	7.6 years	26.05	655.6	26.05
	1,584.4	8.6 years	17.72	–	–
	120.0	8.7 years	18.55	–	–
	534.4	8.8 years	20.50	–	–
	90.0	8.9 years	21.75	–	–
	2,163.7	9.0 - 9.8 years	21.64	–	–
Total	8,432.0	7.76 years	$22.38	2,831.5	$23.72

For purposes of providing the pro-forma disclosures required under SFAS No. 123, the fair values of stock options granted in 2001 and 2000, were estimated at the date of the grants using a Black-Scholes option pricing model.

The Black-Scholes option pricing model was originally developed for use in estimating the fair value of traded options which have different characteristics from the Allfirst's employee stock options. The model is also sensitive to changes in the subjective assumptions which can materially affect the fair value estimate. As a result, management believes that the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of employee stock options.

The following table details the weighted average assumptions used and the resulting fair values provided by the option pricing model:

Grant date	Expected future dividend yield	Volatility factor	Risk free interest rate	Expected life	Fair value per share of options granted
12/29/97	4.53%	0.2200	5.77%	7 years	$3.52
10/9/98 & 10/22/98	4.03%	0.2600	4.70%	10 years	$5.89
2/9/99	3.06%	0.2950	5.01%	10 years	$10.47
5/4/99	2.96%	0.3036	5.38%	5.5 years	$8.73
8/10/99	2.67%	0.3254	5.87%	5.5 years	$8.03
8/14/00	2.61%	0.3399	6.24%	5.5 years	$5.81
9/20/00	2.81%	0.3869	5.94%	5.5 years	$6.44
11/3/00	2.84%	0.3874	5.78%	5.5 years	$7.06
11/24/00	2.85%	0.3866	5.41%	5.5 years	$7.35
2001 Grants	3.02%	0.3704	5.29%	7 years	$7.47

Impaired loans

SFAS 114 and 118 applies only to impaired loans, the measurement of which is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market value, or the fair value of the collateral dependent.

Smaller balance homogeneous consumer loans that are collectively evaluated for impairment are outside the scope of SFAS 114, as are debt securities and leases.

Reserves for probable credit losses related to these loans are included in the allowance for credit losses applicable to other than impaired loans. The Group's charge off policy for impaired loans is consistent with its policy for loan charge offs to the allowance. Impaired loans are charged off when an impaired loan, or portion thereof, is considered uncollectible. Interest income received on impaired loans is recorded on a cash basis, which is consistent with the Group's method of interest recognition on non-accrual loans.

At December 31, 2001, 2000 and 1999, the Group estimated that the difference between the carrying value of its loan portfolio on the basis of SFAS No. 114 and 118 and its value in the Group's accounts was such that no adjustment to net income or consolidated ordinary stockholders' equity was required.

At December 31, 2001, the Group's net investment in impaired loans amounts to €972 million (2000: €772 million; 1999: €662 million). €886 million (2000: €680 million; 1999: €593 million) of this net investment included specific provisions of €516 million (2000: €408 million; 1999: €342 million). The average level of such impaired lendings during 2001 was approximately €916 million (2000: €717 million; 1999: €653 million). Interest income recognized on impaired loans during the year ended December 31, 2001 amounted to €55 million (2000: €32 million; 1999: €11 million).

Cash flow statements

The consolidated cash flow statements on page xx have been completed in accordance with the revised Financial Reporting Standard 1 (FRS 1) which was issued by the United Kingdom Accounting Standards Board in October 1996. FRS 1 is similar to SFAS No. 95, statement of cash flows, in some respects. The principal differences between the standards relate both to the definition of cash and the classification of certain transactions.

Definition of cash under FRS 1

FRS 1 defines "cash" as cash in hand and deposits repayable on demand with any bank or other financial institution.

Definition of cash under SFAS No. 95

Under SFAS No. 95, "cash" includes cash and cash equivalents and is defined as cash in hand and deposits repayable on demand with any bank or financial institution, together with short-term liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired.

	Classification under	
	FRS 1	SFAS 95
Non-equity dividends paid	Returns on investments and servicing of finance	Financing activities
Equity dividends paid	Equity dividends paid	Financing activities
Taxation paid	Taxation	Operating activities
Net movement in lendings to customers	Operating activities	Investing activities
Net change in finance lease balances receivable	Operating activities	Investing activities
Net increase in deposits	Operating activities	Financing activities
Net movement in current and deposit accounts and other short-term liabilities	Operating activities	Financing activities

Future developments

The impact of recently issued accounting pronouncements is detailed on pages 60 and 61 under "Prospective accounting changes".

Consolidated net income

		Year ended December 31,		
		2001	2000 Restated	1999 Restated
		(Euro in millions except per share amounts)		
Net income (Group profit attributable to the stockholders of AIB) as in the consolidated statement of income		730	636	757
Adjustments in respect of:				
Depreciation of freehold and long leasehold property		5	–	(5)
Long-term assurance policies		(48)	(70)	(43)
Goodwill		(110)	(78)	(73)
Premium on core deposit intangibles		(7)	(9)	(11)
Retirement benefits		53	94	54
Dividends on non-equity shares		50	20	16
Securities held for hedging purposes		(24)	(25)	34
Derivatives hedging available-for-sale securities		–	(9)	–
Internal derivative trades		–	(6)	(3)
Internal use computer software		6	11	–
Derivatives FAS 133 transition adjustment(1)		122	–	–
Derivatives FAS 133 adjustment		(107)	–	–
Deferred tax effect of the above adjustments		(5)	7	(8)
Impact of phased reduction in Irish corporation tax rates		–	–	(55)
Net income in accordance with US GAAP		665	571	663
Net income applicable to ordinary stockholders of AIB in accordance with US GAAP	€	615	551	647
Equivalent to	US$	542		
Income per American Depositary Share (ADS*) in accordance with US GAAP	€	1.43	1.29	1.52
Equivalent to	US$	1.26		
Diluted income per American Depositary Share (ADS*) in accordance with US GAAP	€	1.42	1.28	1.51
Equivalent to	US$	1.25		
Year end exchange rate €/US$		0.8813		

*An American Depositary Share represents two ordinary shares of €0.32 each.

Comprehensive income

	Year ended December 31,		
	2001	2000 Restated	1999 Restated
	(Euro in millions)		
Net income in accordance with US GAAP	665	571	663
Net movement in unrealized holding gains/(losses) on debt and equity securities arising during the period	120	110	(237)
Derivatives FAS 133 transition adjustment(1)	41	–	–
Currency translation adjustments	214	233	492
Comprehensive income	1,040	914	918

(1) Cumulative effect of the change in accounting principle for derivatives and hedging activities.

Consolidated ordinary stockholders' equity

		December 31, 2001	2000 Restated	1999 Restated
		(Euro in millions except per share amounts)		
Ordinary stockholders' equity as in the consolidated balance sheet		4,871	4,734	4,402
Revaluation of property		(204)	(210)	(211)
Depreciation of freehold and long leasehold property		(27)	(27)	(27)
Goodwill		1,070	1,097	1,074
Core deposit intangibles		19	26	33
Dividends payable on ordinary shares		250	221	188
Dividends on non-equity shares		1	-	(1)
Long-term assurance policies		(236)	(188)	(97)
Unrealized gains/(losses) not yet recognized on:				
Available-for-sale debt securities		169	16	(208)
Available-for-sale equity securities		–	(6)	10
Derivatives hedging available-for-sale securities		–	(63)	(17)
Securities held for hedging purposes		(1)	26	51
Internal derivative trades		–	(10)	(3)
Derivatives FAS 133 adjustment		5	–	–
Retirement benefits		77	(476)	(812)
Internal use computer software		17	11	–
Own shares		(245)	(177)	(123)
Deferred tax effect of the above adjustments		(50)	76	161
Ordinary stockholders' equity in accordance with US GAAP	€	5,716	5,050	4,420
Equivalent to	US$	5,038		
Ordinary stockholders' equity per ADS in accordance with US GAAP	€	12.98	11.56	10.27
Equivalent to	US$	11.44		
Ordinary stockholders' equity per ADS in accordance with IR GAAP	€	11.06	10.84	10.23
Equivalent to	US$	9.74		

Statement of changes in stockholders' equity

	December 31, 2001	2000 Restated	1999 Restated
	(Euro in millions)		
Opening balance	5,050	4,420	3,761
Net income for year	665	571	663
Dividends on equity shares	(351)	(302)	(252)
Dividends on non-equity shares	(50)	(20)	(14)
Issue of shares	60	105	67
Unrealized gains/(losses) on debt securities and equity shares held as available-for-sale	120	110	(237)
FAS 133 transition adjustment	41	–	–
Own shares	(68)	(55)	(66)
Currency translation adjustments	214	233	492
Other movements	35	(12)	6
Closing balance	5,716	5,050	4,420

Consolidated total assets

		December 31,		
		2001	**2000 Restated**	**1999 Restated**
			(Euro in millions)	
Total assets as in the consolidated balance sheet		88,837	79,724	67,718
Revaluation of property		(204)	(210)	(211)
Depreciation of freehold and long leasehold property		(27)	(27)	(27)
Goodwill		1,070	1,097	1,074
Core deposit intangibles		19	26	33
Available-for-sale debt securities		169	16	(208)
Available-for-sale equity securities		–	(6)	10
Derivative hedging available-for-sale securities		–	(63)	(17)
Internal derivative trades		–	(10)	(3)
Derivatives FAS 133 adjustment		5	–	–
Retirement benefits		77	(476)	(812)
Internal use computer software		17	11	–
Own shares		(245)	(177)	(123)
Special purpose vehicles		667	–	–
Long-term assurance policies		(236)	(188)	(97)
Long-term assurance assets attributable to policyholders		(2,264)	(2,141)	(1,701)
Securitized assets		–	(3)	(1)
Acceptances		142	147	143
Total assets in accordance with US GAAP	€	88,027	77,720	65,778
Equivalent to	US$	77,579		

Consolidated total liabilities and ordinary stockholders' equity

		December 31,		
		2001	**2000 Restated**	**1999 Restated**
			(Euro in millions)	
Total liabilities and ordinary stockholders' equity as in the consolidated balance sheet		88,837	79,724	67,718
Ordinary stockholders' equity		845	316	18
Dividends payable on ordinary shares		(250)	(221)	(188)
Dividends on non-equity shares		(1)	–	1
Acceptances		142	147	143
Securities held for hedging purposes		1	(26)	(51)
Securitized assets		–	(3)	(1)
Debt securities in issue re special purpose vehicles		667	–	–
Deferred taxation		50	(76)	(161)
Long-term assurance liabilities to policyholders		(2,264)	(2,141)	(1,701)
Total liabilities and ordinary stockholders' equity in accordance with US GAAP	€	88,027	77,720	65,778
Equivalent to	US$	77,579		

Alternative presentation of consolidated statement of income

The Group's share of profits of Ark Life Assurance Company Limited (Ark Life) has been included under other operating income in the consolidated statements of income on page 92 and in note 10 on page 104. Under US GAAP, the income statement of Ark Life would be consolidated within the Group figures on a line by line basis.

This presentation is illustrated in the summary consolidated statement of income below.

As outlined above, under US GAAP the losses arising from the Allfirst fraud would be reflected in the Group figures in the years in which the losses arose. This approach is also illustrated in the summary consolidated statement of income below.

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Net interest income before exceptional item	2,298	2,026	1,771
Deposit interest retention tax	–	(113)	–
Net interest income after exceptional item	2,298	1,913	1,771
Other finance income	67	71	71
Other income before exceptional item	1,421	1,300	1,051
Exceptional foreign exchange dealing losses	(417)	(228)	(45)
Total operating income	3,369	3,056	2,848
Total expenses	2,482	2,131	1,750
Group operating income - continuing operations	887	925	1,098
Income from associated undertakings	4	3	3
Profit on disposal of property	6	5	2
Income on disposal of businesses	93	–	15
Income before taxes, preference dividends and minority interests	990	933	1,118
Applicable taxes	187	239	317
	803	694	801
Equity and non-equity minority interests	23	38	28
Preference dividends	50	20	16
	73	58	44
Net income	730	636	757

Alternative presentation of consolidated balance sheet

The long-term assurance assets and liabilities of Ark Life have been classified under separate headings in the consolidated balance sheet (see basis of consolidation on page 88 and long-term assurance business, note 31 on page 122). Under US GAAP, the balance sheet of Ark Life would be consolidated with Group figures.

The following consolidated balance sheet illustrates this presentation.

	December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
ASSETS			
Cash and balances at central banks	1,175	938	1,119
Items in course of collection	1,536	1,116	916
Central government bills and other eligible bills	49	297	718
Loans and advances to banks	7,067	5,147	4,610
Loans and advances to customers less allowance for loan losses	51,216	45,880	39,171
Securitized assets	182	166	125
Debt securities	20,338	19,165	15,261
Equity shares	1,366	1,386	1,006
Interests in associated undertakings	10	8	22
Intangible assets	495	466	468
Property and equipment	1,348	1,171	1,069
Own shares	245	177	123
Other assets	1,475	1,347	1,119
Prepayments and accrued income	2,080	1,835	1,195
Pension asset	255	625	796
TOTAL ASSETS	88,837	79,724	67,718
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits by banks	13,223	12,478	8,608
Customer accounts	54,557	48,437	42,335
Debt securities in issue	5,033	4,295	4,298
Other liabilities	5,516	4,947	4,063
Accruals and deferred income	2,148	1,684	1,306
Provisions for liabilities and charges	71	43	34
Deferred taxation	311	321	216
Subordinated liabilities	2,020	2,249	1,984
Minority equity and non-equity interests in consolidated subsidiaries	312	272	227
Stockholders' funds-non-equity	775	264	245
Stockholders' funds-equity	4,871	4,734	4,402
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	88,837	79,724	67,718

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" (SFAS No. 107), requires disclosure of the fair value of financial instruments (both on and off-balance sheet) for which it is practicable to estimate such value.

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 securities 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 judgment, and, therefore, cannot be determined with precision. There have been no changes in the estimation techniques underlying the calculations or the methodology used compared with December 2000. Changes in assumptions could significantly affect estimates. Readers of these financial statements are advised to use caution when using this data to evaluate the Group's financial position or to make comparisons with other institutions.

Intangible assets, such as the value of AIB Group's branch network and long-term relationships with its depositors and other customers are not considered by the FASB to constitute financial instruments for the purposes of SFAS No. 107. The Group, however, believes the value of such assets to be significant. Certain other assets and liabilities are likewise excluded from the scope of SFAS No. 107. Furthermore, the concept of fair value assumes realization of financial instruments by way of a sale. However in many cases a sale is unlikely, and the assets and liabilities will be held to maturity. Accordingly, the fair values calculated for the purposes of reporting under SFAS No. 107 do not represent the value of the Group as a going concern at December 31, 2001, 2000 and 1999.

The following table gives details of the carrying amounts and fair values of financial instruments at December 31, 2001, 2000 and 1999.

	December 31, 2001		December 31, 2000		December 31, 1999	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
			(Euro in millions)			
Assets						
Trading financial instruments[1]						
Debt securities	3,783	3,783	2,341	2,341	1,582	1,582
Equity shares	49	49	48	48	62	62
Central government bills and other eligible bills	4	4	15	15	70	70
Non-trading financial instruments						
Cash and balances at central banks[1]	1,175	1,175	938	938	1,119	1,119
Items in course of collection[1]	1,536	1,536	1,116	1,116	916	916
Central government bills and other eligible bills	45	45	282	284	648	647
Loans and advances to banks[2]	6,047	6,060	4,193	4,197	3,831	3,805
Loans and advances to customers[2]	48,768	49,026	43,434	43,745	36,945	37,118
Securitized assets[1]	182	182	166	166	125	125
Debt securities	16,299	16,468	16,645	16,661	13,526	13,318
Equity shares	283	283	364	358	235	237
Long-term assurance assets attributable to policyholders[1]	2,264	2,264	2,141	2,141	1,701	1,701

	December 31, 2001		December 31, 2000		December 31, 1999	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
			(Euro in millions)			
Liabilities						
Trading financial instruments[1]						
Short positions in securities	205	205	379	379	65	65
Non-trading financial instruments						
Deposits by banks	13,223	13,261	12,478	12,507	8,608	8,638
Customer accounts	54,557	54,615	48,437	48,527	42,335	42,330
Debt securities in issue	5,033	5,041	4,295	4,310	4,298	4,312
Subordinated liabilities	2,020	2,016	2,249	2,235	1,984	1,975
Stockholders' funds: non-equity interests	775	790	264	267	245	248
Long-term assurance liabilities attributable to policyholders[1]	2,264	2,264	2,141	2,141	1,701	1,701

	December 31, 2001		December 31, 2000		December 31, 1999	
	Carrying amount	Fair value	Carrying amount Restated	Fair value Restated	Carrying amount Restated	Fair value Restated
Off - balance sheet assets/(liabilities)			(Euro in millions)			
Trading financial instruments[1]						
Interest rate contracts	95	95	14	14	(72)	(72)
Foreign currency contracts	(456)	(456)	(102)	(102)	(104)	(104)
Equity contracts	1	1	–	–	(2)	(2)
Non-Trading financial instruments						
Interest rate contracts	94	103	162	164	57	(89)
Foreign currency contracts	9	28	21	158	16	160
Equity contracts	–	(3)	–	(1)	–	–

[1]Within the scope of SFAS No. 107, the fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value, or have minimal credit losses and are either short-term in nature or reprice frequently.
[2]As required by SFAS No. 107, finance leases with carrying amount totaling €2,448 million, €2,446 million and €2,226 million at December 31, 2001, 2000 and 1999, respectively, are excluded. The fair values of the finance leases were €2,472 million, €2,522 million and €2,207 million at December 31, 2001, 2000 and 1999, respectively. The carrying values are net of the allowances for loan losses and related unearned income.

The following methods and assumptions were used by the Corporation in estimating the fair value for its financial instruments as defined by SFAS No. 107.

Central government bills and other eligible bills

The fair value of central government bills and other eligible bills is based on quoted market prices.

Loans and advances to banks and loans and advances 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.

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

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 42 of the notes to the accounts. 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.

Derivatives

The Group uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest and exchange 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 are detailed in note 43 of the accounts and include the fair value of these instruments.

Derivatives used for trading purposes are marked to market using independent prices and are included in other assets/other liabilities on the consolidated Balance Sheet at December 31, 2001, 2000 and 1999. The carrying values of derivatives are included in other assets/other liabilities on the consolidated balance sheet as appropriate.

Stockholders' funds: non-equity interests

The fair value of these instruments is based on quoted market prices.

51. SUBSEQUENT EVENTS: FRAUDULENT FOREIGN EXCHANGE TRADING ACTIVITIES

Fraudulent FX Trading

On February 6, 2002, Allied Irish Banks, p.l.c. ("AIB") announced that it was undertaking a full investigation into fraudulent foreign exchange ("FX") trading operations at its US subsidiary Allfirst Bank. The board appointed Mr. Eugene A Ludwig, Managing Partner, Promontory Financial Group, and a former U.S. Comptroller of the Currency, to report on these matters to the board of directors. The board also appointed Mr. Edward D Herlihy and his law firm Wachtell, Lipton, Rosen and Katz to report to the board and provide legal advice on the basis of the investigation. The losses arising from the fraudulent FX trading activities were publicly disclosed by AIB in its preliminary announcement of results on February 20, 2002. Such losses amounted to US$691.2 million before taxation and related to years from 1997 to 2002. As of February 20, 2002, all open FX trading positions were either closed or hedged and no further significant income statement exposure is expected.

Under US reporting purposes, US$17.2 million of the Fraud Losses, including the costs of closing out the transactions, will be accounted for in the Consolidated Statement of Income in AIB's Form 20-F for the year ended December 31, 2002. In addition, AIB anticipates that the total costs in 2002 arising from the investigation and the consequent measures taken to strengthen the controls, will amount to US$10 million approximately.

AIB provided €789 million by way of an exceptional charge in the profit and loss account charge in its Irish Legislation Annual Report and Accounts for the year ended December 31, 2001, to cover the total costs arising from the Fraud.

The Fraud Losses resulted from two types of transactions that appeared to offset realized losses on authentic FX spot and forward transactions at Allfirst Bank. The first type consisted of the recording of fictitious FX Option Assets. Assets were recorded through a series of fictitious transactions that effectively recognized a FX Option Asset with an offsetting credit to FX trading income. These fictitious options also tended to give the appearance that the real FX spot and forward positions were hedged. The second type consisted of actual FX Option Liabilities that were initially recorded as liabilities and then, through a series of fictitious transactions, effectively were recognized as closed transactions. The closing of these transactions through a reduction of the FX Option Liability resulted in unrecorded liabilities with an offsetting credit to FX trading income.

The report to the boards of Allied Irish Banks, p.l.c., Allfirst Financial Inc and Allfirst Bank concerning currency trading losses (the "Investigation Report") was submitted by Promontory Financial Group and Wachtall, Lipton, Rosen & Katz on March 12, 2002 and released to the public on March 14, 2002. There was no change in the amount of the losses as a result of the investigation. The main findings of the Investigation Report included:

– The fraud was carefully planned and meticulously implemented by one foreign currency trader (the "Trader"), extended over a lengthy period of time, and involved falsification of key bank records and documents.
– The Trader circumvented controls that were intended to prevent any such fraud by manipulating the weak control environment in Allfirst's treasury. The treasurer and the Trader's direct supervisor failed to monitor his trading.
– At both the AIB Group and Allfirst levels, the Asset & Liability Management Committees, risk managers, senior management and Allfirst internal auditors all did not appreciate the risks associated with the Trader's hedge-fund style of FX trading.
– Allfirst and AIB senior management heavily relied upon the Allfirst treasurer, given the treasurer's extensive experience with treasury functions and FX in particular.

As a result of the investigation, the AIB and Allfirst Boards announced a number of actions to address the issues raised by the Fraudulent Activities. These actions included:

– Recognition of primary responsibility for the losses with the Trader, who had already been dismissed for the Fraudulent Activities that he perpetrated against Allfirst.
– Recognition that Allfirst Treasury and Internal Audit failed to detect the situation over a long period. To address this failure, the Boards decided to dismiss the six individuals who were directly responsible for oversight of the Trader's activities, or should have been aware of them.

52. RESTATEMENT OF PRIOR YEARS FINANCIAL STATEMENTS

As a result of the Fraudulent Activities as described in note 51 and the change in accounting policy in respect of retirement benefits, AIB Group has restated the financial statements for 2000 and 1999 attached hereto. Amounts affected are presented on the following table.

	Year ended December 31, 2000				
	As previously reported in Form 20-F	Fraud Losses restatement adjustments	As adjusted for Fraud Losses (Euro in millions)	FRS 17 restatement adjustments[1]	As restated
Consolidated balance sheet:					
Other assets[2]	3,543	(526)	3,017	562	3,579
Other liabilities[3]	5,256	(316)	4,940	(86)	4,854
Profit and loss account	1,994	(210)	1,784	648	2,432
Total assets	79,688	(526)	79,162	562	79,724
Consolidated statement of income:					
Dealing profits/(losses)	103	(228)	(125)	–	(125)
Total non-interest income	1,304	(228)	1,076	71	1,147
Income before taxes	1,138	(228)	910	23	933
Income taxes/(benefit)	318	(80)	238	1	239
Net income/(loss)	820	(148)	672	22	694

	Year ended December 31, 1999				
	As previously reported in Form 20-F	Fraud Losses restatement adjustments	As adjusted for Fraud Losses (Euro in millions)	FRS 17 restatement adjustments[1]	As restated
Consolidated balance sheet:					
Other assets[2]	2,266	(89)	2,177	737	2,914
Other liabilities[3]	4,021	(31)	3,990	(72)	3,918
Profit and loss account	1,450	(58)	1,392	809	2,201
Total assets	67,070	(89)	66,981	737	67,718
Consolidated statement of income:					
Dealing profits/(losses)	74	(45)	29	–	29
Total non-interest income	1,052	(45)	1,007	71	1,078
Income before taxes	1,132	(45)	1,087	31	1,118
Income taxes/(benefit)	327	(16)	311	6	317
Net income/(loss)	805	(29)	776	25	801

The profit and loss account adjustment for the years ended December 31, 2000 and 1999 includes the cumulative effect of restatements attributable to years 1998 and 1997 of €23 million.

[1] See accounting policies on pages 87 and 88 and note 14 of the notes to consolidated financial statements for details of the FRS 17 restatement adjustments.

[2] Includes other assets, prepayments and accrued income and pension asset.

[3] Includes other liabilities, accruals and deferred income, provisions for liabilities and charges, and deferred taxation.

53. RECONCILIATION OF FINANCIAL STATEMENTS EXTRACTS FROM THE ANNUAL REPORT ON FORM 20-F TO THE IRISH LEGISLATION ANNUAL REPORT AND ACCOUNTS

The euro amount of the losses reported under US reporting requirements in the years 1997 to 2001 will not equate to the charge of €789 million under Irish GAAP. This arises for a number of reasons. In the Irish GAAP accounts the total fraud losses, US$691.2 million, and costs estimated at US$10 million less the reversal of an incentive accrual of US$6 million were charged as an exceptional item in 2001 at the exchange rate prevailing on December 31, 2001.

Under US reporting requirements the Fraud Losses were charged in each of the years they arose, translated at the average rates of exchange used in the preparation of the accounts for those years. In addition the Fraud Losses arising in 2002, including the costs of closing out the transactions, of US$17.2 million and estimated costs of US$10 million will be reflected in the Annual Report on Form 20-F for 2002. The Fraud Losses include the costs of closing out the transactions. The additional costs of US$10 million are those arising from the investigation and the consequent measures taken to strengthen controls.

The following tables reflect the reconciliation of the net income attributable to ordinary stockholders, consolidated total assets, and consolidated total liabilities and ordinary stockholders' equity as reported in the Annual Report on Form 20-F to the amounts in the Irish Legislation Annual Report and Accounts, for each of the years ended December 31, 2001, 2000 and 1999.

	Years ended December 31,		
	2001	2000 Restated	1999 Restated
		(Euro in millions)	
Net income attributable to the ordinary stockholders			
Per Irish Legislation Annual Report and Accounts	484	784	786
Adjustments			
Exceptional losses	372	(228)	(45)
Administration expenses	6	–	–
Taxation	(132)	80	16
Per Annual Report on Form 20-F	730	636	757
Consolidated total assets			
Per Irish Legislation Annual Report and Accounts	88,837	80,250	67,807
Adjustments			
Other assets	–	(526)	(89)
Per Annual Report on Form 20-F	88,837	79,724	67,718
Consolidated total liabilities and ordinary stockholders' equity			
Per Irish Legislation Annual Report and Accounts	88,837	80,250	67,807
Adjustments			
Other liabilities	(20)	(273)	2
Accruals and deferred income	(11)	–	–
Deferred taxation	11	(43)	(33)
Ordinary stockholders' equity	20	(210)	(58)
Per Annual Report on Form 20-F	88,837	79,724	67,718

CORPORATE GOVERNANCE STATEMENT

The Board is committed to the highest standards of corporate governance. This Statement explains how the Company has applied the Principles set out in *"The Combined Code: Principles of Good Governance and Code of Best Practice"* (the "Code"), adopted by the Irish Stock Exchange and the London Stock Exchange, and reports on compliance with its Provisions.

The Directors

The Board

The importance of the Company being headed by an effective Board to lead and control the Company and the Group is fully recognized. To that end, there is a comprehensive range of matters specifically reserved for decision by the Board; at a high level this includes:

(i) determining the Company's strategic objectives and policies;
(ii) appointing the Chairman and Group Chief Executive;
(iii) monitoring progress towards achievement of the Company's objectives and compliance with its policies;
(iv) approving annual operating and capital budgets, major acquisitions and disposals, and risk management policies.

A scheduled Board meeting is held each month, except August. Additional meetings are held as required. The Directors are provided in advance of each Board meeting with relevant documentation and information to enable them to discharge their duties. Any additional information requested by Directors is readily provided.

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

At December 31, 2001, the Board comprised 10 Non-Executive Directors and 3 Executive Directors. All Directors bring independent judgement to bear on issues of strategy, performance, resources, and standards of conduct. All Non-Executive Directors are considered to be independent of Management and free from any business or other relationship that could materially interfere with the exercize of their independent judgement. In these circumstances, it is not considered necessary to identify one senior Non-Executive Director to whom concerns can be conveyed, as suggested by the Code. Shareholders who wish to raise issues are free to contact any of the Non-Executive Directors.

The role of the Chairman is separate from the role of the Group Chief Executive, with clearly defined responsibilities attaching to each.

It is the policy of the Board that a significant majority of the Directors (i.e. up to two-thirds) should be Non-Executive. Accordingly, Non-Executive Directors are appointed so as to maintain an appropriate balance and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control for the Group.

The names of the Directors, and their biographical notes, appear on pages 50 and 51.

Non-Executive Directors appointed since 1990 are appointed for an initial period of six years, which may be extended for a further period of three years. Following co-option, Directors must retire at the next Annual General Meeting and may go before the shareholders for re-election.

Not more than one-third of the Directors are required by the Articles of Association to retire from office at each Annual General Meeting. This means that, in effect, Directors are re-elected every three years. The Code recommends that all Directors should submit themselves for re-election at regular intervals and at least every three years. As the Articles' provision in this regard could lead, in certain circumstances, to an interval of four years between a Director's appointment and re-appointment, an amendment to the Articles will be proposed at the 2002 Annual General Meeting, to bring the relevant provision fully into line with the Code's recommendation.

There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors; in respect of the latter, the induction is designed to familiarize Non-Executive Directors with the Group and its operations, and comprises principally a program of meetings with the Heads of Divisions and the senior management of businesses and support functions, and briefings on the Company's strategic and operational plans. All Directors on appointment are furnished with a booklet entitled *"Responsibilities, Functions and Operations of the Board and Code of Conduct for Directors"*.

Board Committees

The Board is assisted in the discharge of its duties by Board Committees, whose purpose is to consider, in greater depth than is practicable at Board Meetings, matters for which the full Board retains responsibility. The composition of Board Committees is reviewed annually by the Board. A description of these Committees, each of which operates under terms of reference or guidelines 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 to seek additional information or to comment and express views on issues being addressed at Committee level.

Audit Committee

Members: Mr Adrian Burke, Chairman (from June 1, 2001), Mr Don Godson, Chairman (to May 31, 2001), Mr Derek A Higgs (from June 1, 2001), Mr Michael J Sullivan (from November 1, 2001), Mr Dermot Gleeson.

The Audit Committee holds five/six scheduled meetings each year. The auditors are invited to attend these meetings, along with the Group Chief Executive, the Group Director, Finance, Risk and Enterprise Networks and eBusiness, the Chief Risk Officer and the Group Internal Auditor. The Audit Committee reviews the Group's annual and interim accounts; the scope of the audit and the findings, conclusions and recommendations of the auditors; the nature and extent of non-audit services provided by the auditors; and the effectiveness of internal controls. The Committee is responsible for ensuring the cost-effectiveness of the audit and for confirming the independence of the auditors and the Group Internal Auditor, each of whom it meets separately at least once each year, in confidential session, in the absence of Management. Both the auditors and the Group Internal Auditor have 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.

Nomination and Remuneration Committee

Members: Mr Lochlann Quinn, Chairman, Mr Adrian Burke (to May 31, 2001), Mr Derek A Higgs (from June 1, 2001), Mr John B McGuckian.

The Nomination and Remuneration Committee meets five/six times each year. The Committee is responsible for recommending candidates to the Board for appointment as Directors. Its remit also includes, inter alia, recommending to the Board appropriate remuneration policies, and determining, under advice to the Board, the specific remuneration packages of the Executive Directors.

Social Affairs Committee

Members: Ms Carol Moffett, Chairman, Mr Michael Buckley (to May 31, 2001), Mr Padraic M Fallon, Mr Don Godson (from June 1, 2001).

The Social Affairs Committee met on seven occasions in 2001. Its role, as defined in guidelines approved by the Board, is to assist the Company in discharging its social responsibilities. This includes developing corporate-giving and sponsorship policies and reviewing responses to a range of social responsibility issues.

Directors' Remuneration

The Report on Directors' Remuneration and Interests appears on pages 51 to 57.

Relations with Shareholders

The Company recognizes the importance of communicating with its shareholders. To that end, the Company circulates each year, along with the statutory Report and Accounts, a short-form, user-friendly booklet explaining features of the Company's performance in the previous year. This focuses on how the profit was utilized, profit and dividend growth over the previous five years, the need for strong capital resource; running cost; risk management, and other issues. As a further step in enhancing the communication process, interim trading statements are issued to the Stock Exchanges twice yearly.

The Company also uses its internet website **(www.aibgroup.com)** to communicate with investors. The Investor Relations home page is updated with the Company's Stock Exchange releases and formal presentations to analysts and investors, as they are made. The site also contains the Company's most recent Annual and Interim Reports, together with the Annual Report on Form 20-F when filed with the US Securities and Exchange Commission. In August 2001, shareholders were invited to consent to the use of electronic communication, as facilitated by the Electronic Commerce Act 2000, and further invitations to do so will be sent to shareholders during 2002.

All shareholders are encouraged to attend the Annual General Meeting ('AGM') and to participate in the proceedings. It is practice to give shareholders an update on the Group's performance, and developments of interest, by way of video presentation. Separate resolutions are proposed on each substantially separate issue. The Chairman of the Audit Committee is available to answer questions at the AGM. The proportion of proxy votes lodged for and against each resolution is indicated; this demonstrates what the voting position would be if all the votes cast, including the votes cast by shareholders not in attendance at the AGM, were taken into account.

It is usual for all Directors to attend the AGM and to be available to meet shareholders, both before and after the Meeting. A Shareholders' Help Desk facility is available to shareholders attending.

In accordance with company law, the Notice of the AGM and related papers are required to be sent to shareholders not less than 21 days before the Meeting. The Code suggests that these papers should be sent to shareholders "at least 20 working days before the meeting". In respect of the 2002 AGM, the Notice and related papers will be dispatched 26 calendar days and 17 working days before the Meeting.

The Company holds regular meetings with its principal institutional shareholders and with financial analysts and brokers. These meetings involve the Group Chief Executive, the Group Director, Finance, Risk and Enterprise Networks and eBusiness, the Chief Financial Officer and the Head of Investor Relations, and are governed by prescribed procedures to ensure that price-sensitive information is not divulged.

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 173.

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 2002.

Internal Control

The Directors acknowledge that the Board is 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 Guidance provides that, in applying the Code, the Board should disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts. On February 6, 2002, the Company announced that, following the uncovering of suspected fraudulent activities, it was undertaking a full investigation into foreign exchange trading operations at the Baltimore Headquarters of its US subsidiary, Allfirst *(see Note 51 to the Accounts).* On February 7, 2002, the Company announced that the Board had approved comprehensive terms of reference for that investigation, which was charged with ascertaining the facts concerning the foreign exchange activities in question; describing the policies and controls which applied to those operations during the period in which these activities took place; reporting on the manner in which such policies and controls operated (or may have failed to operate) in relation to these activities; and making recommendations on any improvements which appear necessary or desirable to the policies and controls. The Board appointed Mr Eugene A Ludwig, Managing Partner, Promontory Financial Group, and a former Comptroller of the US Currency, to report on these matters to the Board. The Board also appointed Mr Edward D Herlihy and his firm, Wachtell, Lipton, Rosen and Katz, to report to the Board and provide legal advice on the basis of the investigation. Their findings, and the Board's decisions in the light of these findings, are set out on pages 27 and 28 of this report.

The Group's system of internal control includes:

(i) a clearly defined management structure, with defined lines of authority and accountability;

(ii) 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 authorization limits; capital expenditure and investment procedures; physical and computer security; and business continuity planning;

(iii) 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 function. The Audit Committee reports to the Board on these matters, compliance with relevant laws and regulations, and related matters;

(iv) appropriate policies and procedures relating to capital management, asset and liability management (including interest rate, exchange rate risk and liquidity management), credit risk management, and operational risk management;

(v) regular review by the Board of overall strategy, business plans, variances against operating and capital budgets and other performance data;

(vi) an internal audit function.

The above-mentioned Guidance provides that the Board should summarize the process it (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control. 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 66 to 75. That structure and those processes, which include comprehensive half-yearly reports to the Audit Committee and Board, have been in place for the year under review and up to the date of the approval of the Annual Report and Accounts. Those processes are regularly reviewed by the Board, and accord with the above-mentioned Guidance.

The Code provides that the Directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to the shareholders that they have done so. 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 December 31, 2001.

Compliance Statement

Except as indicated above, the Company has complied throughout the year ended December 31, 2001 with the Provisions of the Code.

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 required by the Companies Acts to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

Following discussions with the auditors, the directors consider that in preparing the accounts on pages 87 to 169, which have been prepared on a going concern basis, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable have been followed (subject to any explanations and any material departures disclosed in the notes to the accounts).

The directors have responsibility for taking all reasonable steps to secure that the Company causes to be kept proper books of account, whether in the form of documents or otherwise, that correctly record and explain the transactions of the Company, that will at any time enable the financial position of the Company to be readily and properly audited, and that will enable the directors to ensure that the accounts comply with the requirements of the Companies Acts.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

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.

REPORT OF INDEPENDENT AUDITORS

To the Members and Board of Directors of Allied Irish Banks, p.l.c.

We have audited the accompanying consolidated balance sheets of Allied Irish Banks, p.l.c. and its subsidiaries as of December 31, 2001, 2000 and 1999 and the related consolidated profit and loss account, cash flows and total recognized gains and losses for each of the three years ended December 31, 2001 as set out on pages 87 to 169, all expressed in euros. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

These financial statements have been prepared in accordance with accounting principles generally accepted in Ireland, except for the following matter. As described in the Accounting Policies on page 87 in order to comply with the requirements of the United States Securities and Exchange Commission, prior years have been restated to reflect the exceptional foreign exchange dealing losses in the years the losses occurred. Net income has been reduced by €148 million and €29 million for the years ended December 31, 2000 and 1999, respectively. Under generally accepted accounting principles in Ireland prior years are restated for an error only if the error is a fundamental error as explained in Financial Reporting Standard No 3 "Reporting Financial Performance". As the losses in respect of prior years are not considered to be fundamental in respect of those years, the financial statements may not be restated under generally accepted accounting principles in Ireland.

In our opinion, except for the effects of the restatement described in the previous paragraph, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Allied Irish Banks, p.l.c. at December 31, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in Ireland.

As discussed in the Accounting Policies on pages 87 and 88 the Company changed its method of accounting for Retirement Benefits in 2001.

Accounting principles used to prepare these financial statements vary in certain material respects from accounting principles generally accepted in the United States. The application of the latter, after the restatement referred to in Note 52, would have affected the determination of consolidated net income expressed in euros for each of the three years in the period ended December 31, 2001 and the determination of consolidated ordinary stockholders' equity and statements of consolidated total assets and consolidated total liabilities and ordinary stockholders' equity also expressed in euros at December 31, 2001, 2000 and 1999 to the extent summarized in note 49 to the consolidated financial statements.

PricewaterhouseCoopers
Chartered Accountants
Dublin, Ireland.

April 30, 2002

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant, Allied Irish Banks, p.l.c., certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 7th day of May, 2002.

ALLIED IRISH BANKS, p.l.c.
(Registrant)

By: GARY KENNEDY
Name: Gary Kennedy
Title: Group Director, Finance, Risk, Enterprise Networks & eBusiness